



New Item for the Week of February 12

Québec – CO-1136, *Calculation of Paid-Up Capital* (Jump Code: 1136) - Filing of the form

QUESTION

Should Form CO-1136 be filed when the corporation's taxation year begins after December 31, 2010, and the corporation does not have capital tax payable?

ANSWER

Form CO-1136 should be filed when the corporation's taxation year begins after December 31, 2010, even if the corporation does not have capital tax payable.

Form CO-1136 is used to determine the paid-up capital for the purpose of calculating capital tax, but it is also used to determine the paid-up capital for the purpose of establishing the eligibility and calculation of certain deductions, exemptions and credits, and to perform the calculation. Although in most cases, the paid-up capital to be used for those calculations corresponds to the paid-up capital for the preceding year, *Revenu Québec* requires that form CO-1136 be filed with the income tax return each year.

Please note that the same rule applies for corporations that have to complete Form CO-1140, *Calculation of the Paid-Up Capital of a Financial Institution* (Jump Code: 1140).

Federal

North American Industry Classification System (NAICS) - Significance of the CAN, MEX and US symbols at the end of NAICS codes

QUESTION

What is the significance of the CAN, MEX and US symbols that display at the end of NAICS codes?

ANSWER

The CAN, MEX and US symbols are used to signify comparability of similar business activities performed in Canada (Statistics Canada), the United States (Economic Classification Policy Committee (ECPC)) and Mexico (Instituto Nacional de Estadística, Geografía e Informática (INEGI)).

CAN	Canadian industry only
MEX	Canadian and Mexican industries are comparable
US	Canadian and United States industries are comparable
[Blank]	[No symbol] Canadian, Mexican and United States industries are comparable

For example, a NAICS code with the US symbol at the end of its description can be selected by a Canadian corporation, because the commercial activity it designates is comparable between the United States and Canada.

Please note that these symbols are for your reference. Only the NAICS code is transmitted to the CRA; the descriptions are not transmitted.

Electronic Filing and balance payment

QUESTION

How can I pay the balance due when I electronically file a corporate tax return?

ANSWER

We invite you to consult the CRA Web site at the following address to become familiar with the different methods to pay a balance due when a return is electronically filed with the federal government: www.cra.gc.ca/tx/bsnss/tpcs/crprtns/pymnts/mthds/menu-eng.html.

If you electronically file a CO-17 return, we invite you to consult the *Revenu Québec* Web site at the following address to become familiar with the different methods to pay a balance due when a return is electronically filed with the Québec government: www.revenu.gouv.qc.ca/en/entreprise/impot/societes/declaration/prod_ordi/trans_electronique/paiement_remboursement.aspx.

Notes, Notes to the Financial Statements (Jump Code: NOTES) - Diagnostic N11

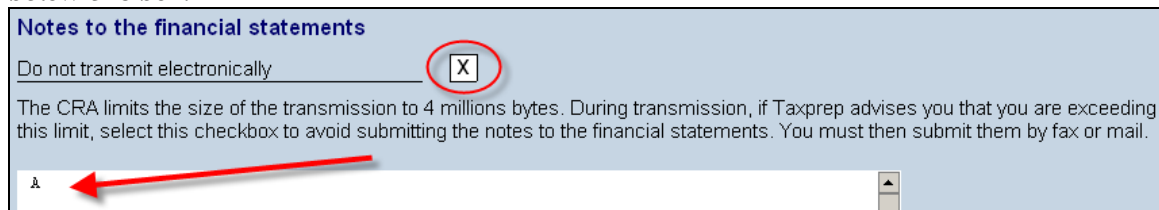
QUESTION

How can I clear the diagnostic N11 when I am not transmitting electronically the notes to the financial statements with the Notes form?

N11 - Schedule 141 - The return has been selected for Corporation Internet Filing and you have answered "Y" to the question on line 141101. However, there are no notes in the GIFL Notes form.

ANSWER

In the Notes form, select the box **Do not transmit electronically** and enter a value in the cell below this box.



Notes to the financial statements

Do not transmit electronically

The CRA limits the size of the transmission to 4 millions bytes. During transmission, if Taxprep advises you that you are exceeding this limit, select this checkbox to avoid submitting the notes to the financial statements. You must then submit them by fax or mail.

A

The value entered will not be transmitted electronically.

T661, Scientific Research and Experimental Development (SR&ED) Expenditures Claim (Jump Code: 661) - Calculations of line 429b and 429b2

QUESTION

How can I ensure that the program is correctly calculating the amounts at lines 429b and 429b2 of Form T661 in respect of the Ontario innovation tax credit and the Ontario research and development tax credit?

ANSWER

Here are the steps to follow to ensure that the program correctly calculates the amounts at lines 429b and 429b2 of Form T661:

Step 1: Complete Form T661.

Step 2: Complete Schedule 508, *Ontario Research and Development Tax Credit* (Jump Code: 508), but don't enter any amount at line 105 of the schedule.

Step 3: Complete Schedule 566, *Ontario Innovation Tax Credit* (Jump Code: **566**), but don't enter any amount at line *Government assistance, non-government assistance or a contract payment in respect of eligible expenditures* of Schedule A located at the bottom of the schedule.

Step 4: Enter, at line 105 of Schedule 508, the government assistance, non-government assistance or a contract payment amount for eligible expenditures, but exclude the amounts calculated at lines 513b2 and 514b2 of Form T661.

Step 5: Enter, at line 514b2 of Form T661, the portion of the Ontario Research and Development Tax Credit (Schedule 508) attributable to the capital expenditures. For more details on the calculation that has to be done, please consult section 38 of the *Taxation Act, 2007* (Ontario) and the SR&ED application policy 2005-02 available on the CRA Web site at the following address: <http://www.cra-arc.gc.ca/txcrdt/sred-rsde/pblctns/p2005-02-eng.html>.

Step 6: Enter, in Schedule A of schedule 566, the government assistance, non-government assistance or a contract payment for eligible expenditures for the current expenditures and capital expenditures, but exclude the amounts calculated at lines 513b, 513b1 and 513b2 of Form T661 for the current expenditures, and the lines 514b, 514b1 and 514b2 for the capital expenditures.

Step 7: Repeat steps 4, 5 and 6.

Step 8: Repeat step 7 until the results stay unchanged to the nearest dollar.

T661, Scientific Research and Experimental Development (SR&ED) Expenditures Claim (Jump Code: 661) Part 2, Project information (Jump Code: 661 PART 2)

QUESTION

Why doesn't *Taxprep* respect the maximum word limitation for fields 240, 242, 244, 250 and 252 as mentioned on the CRA Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*?

ANSWER

A limited number of words for fields 240, 242, 244, 250 and 252 is specified on the CRA Form T661; however, the CRA requires that software developers meet the following requirements instead:

fields 240, 242 and 250 must contain a maximum of 50 lines and fields 244 and 252 must contain a maximum of 100 lines. Note that the CRA also requires that each line contain a maximum of 78 characters.

Schedule 141, Notes Checklist (Jump Code: G141) - Parts 1 and 4

QUESTION

What are the requirements to meet when completing Parts 1 and 4 of the GIFI Schedule 141?

ANSWER

If the person that prepares the tax return is also the person that prepared or reported the financial statements, he must complete Parts 1 and 4 (lines 101 to 108).

If the person that prepares the tax return is **not** the person that prepared or reported the financial statements, he must complete Parts 1 and 4 (lines 101 to 108). Furthermore, he must answer on line 110 **only** if he has a professional designation.

Dividends Received from Foreign Non-Affiliated Corporations

QUESTION

Where do I enter dividends received from foreign *non-affiliated* corporations (i.e. dividends subject to Part I tax) on Schedule 3?

ANSWER

Do not enter these types of dividends on Schedule 3. The CRA has not provided a column on this schedule for these types of dividends. The CRA has stated that since these types of dividends are already included in net income for accounting and tax purposes (entered at the top of Schedule 1) there is no need to enter them on Schedule 3.

We have explained to the CRA officials that an additional column in Schedule 3 to enter these types of dividends would be useful, as Schedule 7 would automatically be updated. They have acknowledged this and may make a change in the next review of their forms.

In the meantime, enter dividends received from foreign non-affiliated corporations on the line *Other Property Income* (much like interest income) in the **Foreign** column of Schedule 7.

Schedule 13, *Continuity of reserves* (Jump Code: 13) - Section “Financial statement reserves (not deductible) (federal)”

QUESTION

How can I take into account my reserves from financial statements if they are negative?

ANSWER

The reserves from financial statements entered on Schedule 13 will be carried forward to Schedule 1 in order to make the necessary adjustments to the net income. However, the CRA specifications do not allow any negative amounts in Schedule 1. Thus, if your reserves from financial statements are negative in Schedule 13, none of the amounts from these reserves will be carried forward to Schedule 1.

If this is the case, you can use the lines in the “Miscellaneous other additions” and “Miscellaneous other deductions” sections from Schedule 1 to readjust your net income with the reserves from financial statements. However, since the lines in these sections do not allow you to enter negative amounts, you will have to proceed by addition.

Financial statement reserves (not deductible) (federal)					
Description	Balance at the beginning of the year	Transfer on amalgamation or wind-up of subsidiary	Add	Deduct	Balance at the end of the year
1	0	0	0	0	0
Reserves from Section 2 below	0	0	0	0	0
Totals	0	0	0	0	0

The total of the amounts at lines “Totals” of the **Balance at the beginning of the year** and **Transfer on amalgamation or wind-up of subsidiary** columns will have to be entered as a positive amount in the “Miscellaneous other additions” section of Schedule 1. The same way, the negative amount calculated on the total line of the **Balance at the end of the year** column will have to be entered as a positive amount in the “Miscellaneous other deductions” section of Schedule 1.

Schedule 24, question 100, type of operation that applies to the corporation

QUESTION

For a new corporation, what “type of operation that applies to the corporation” code should I use when answering question 100 in Schedule 24?

ANSWER

The CRA has recently explained to us that an improper use is being made of the codes for the “type of operation that applies to a corporation” that are found in question 100 of Schedule 24, *First time filer after incorporation, amalgamation, or winding-up of a subsidiary into a parent*.

Many people have been using code 9, “Investment Corporation,” by error instead of using code 99, “Other - if none of the previous descriptions apply.” Code 9 applies to the definition given in subsection 130(3) concerning a corporation that must first of all be a public corporation and that also meets several other conditions.

The CRA has asked us to advise you to pay particular attention to the code that is used when answering this question. Note that most of these codes refer to specific requirements that are defined in the Canadian *Income Tax Act*.

Returns Filed Without a Business Number (BN)

QUESTION

Is it necessary to have a business number to file a corporation income tax return with the Canada Revenue Agency (CRA)?

ANSWER

In order to meet the CRA requirements, *Corporate Taxprep* allows you to print returns only if a business number is entered in the ID form, *Corporate Identification and Other Information* (Jump Code: ID) of the corporations’ returns. The purpose of this requirement is to diminish the processing delay of those returns.

For more information on how to obtain a business number, visit the CRA Web site at the following address: www.cra-arc.gc.ca/tx/bsnss/tpcs/bn-ne/menu-eng.html.

Québec

Electronic Filing and balance payment

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If you electronically file a CO-17 return, we invite you to consult the *Revenu Québec* Web site at the following address to become familiar with the different methods to pay a balance due when a return is electronically filed with the Québec government: www.revenu.gouv.qc.ca/en/entreprise/impot/societes/declaration/prod_ordi/trans_electronique/paiement_remboursement.aspx.

Québec Returns Filed Without an Identification Number

QUESTION

Is it necessary to have an identification number to file a Québec corporation income tax return with *Revenu Québec*?

ANSWER

In order to meet *Revenu Québec's* requirements, *Corporate Taxprep* allows you to print Québec returns only if an identification number (XXXXXXXXXX IC 0001) is entered in the ID form, *Corporate Identification and Other Information* (Jump Code: ID) of the corporations' returns. The purpose of this requirement is to diminish the processing delay of those returns.

For more information on how to obtain an identification number, visit *Revenu Québec's* Web site at the following address:

www.revenu.gouv.qc.ca/eng/entreprise/demarrage/demarches/no_identification.asp.

Ontario

Schedule 1, Net Income (Loss) for Income Tax Purposes (Jump Code: 1) - Ontario tax credits and line 293

QUESTION

Why doesn't *Corporate Taxprep* add the Ontario tax credits on line 293 of Schedule 1 for returns that have a taxation year end after 2008?

ANSWER

Some of our clients have advised us that they were already taking into account, in the financial statements, the Ontario credits that are considered government assistance and that have to be added to the income. When the credits are taken into account, both in the financial statements and in Schedule 1, this results in a double addition. Therefore, we have decided not to include the Ontario credits in Schedule 1 for returns that have a taxation year end after 2008. You have to add to the income the Ontario credits as well as any credit that is considered government assistance and that has to be added to the income if it was not already taken into account in the financial statements. To do this, we suggest that you enter the amount of Ontario credits and of any credit that is considered government assistance on line 603 of Schedule 1.

Ontario loss carry back

QUESTION

How can I request the carry back of Ontario losses from a 2009 and subsequent taxation year end return to a pre 2009 taxation year end return?

ANSWER

For a 2009 and subsequent taxation year return, the carry back of Ontario losses should be requested on Schedule 4 (Jump Code: 4). Enter the carry back amount in Schedule 4 and attach a letter to the return mentioning that you are requesting the carry back of Ontario losses to a pre 2009 taxation year end. The CRA will process the adjustment to the pre 2009 tax return.

Schedule 546, Corporations Information Act Annual Return for Ontario Corporations (Jump Code: 546) - Schedule filing

QUESTION

Does Schedule 546 have to be filed annually?

ANSWER

For tax years ending after December 31, 2008, every corporation that is incorporated, continued, or amalgamated in Ontario and subject to the *Business Corporations Act* or the *Corporations Act*, except for registered charities under the federal *Income Tax Act*, must file Schedule 546 annually.

The form will be applicable when the answer to the question *Is the corporation incorporated in Ontario under the Business Corporations Act or the Corporations Act?*, located above Part 1 of Schedule 546, is “Yes.”

Is the corporation incorporated in Ontario under the <i>Business Corporations Act</i> or the <i>Corporations Act</i> ?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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By default, the answer to this question is “Yes” when it is indicated that the corporation is incorporated under the Ontario laws in Form *Corporate Identification and Other Information* (Jump Code: ID).

If you’ve never answered this question, the jurisdiction will default to “Federal” and Schedule 546 will not be applicable.

Jurisdiction incorporated	
Federal	<input type="checkbox"/>
Province	<input checked="" type="checkbox"/> ON Ontario
Other (please specify):	<input type="text"/>

Please note that a corporation that is incorporated, continued, or amalgamated in a jurisdiction outside Canada with a licence under the *Extra-Provincial Corporations Act* to carry on a business in Ontario must file Schedule 548, *Corporations Information Act Annual Return for Foreign Business Corporations* (Jump Code: 548) and not Schedule 546.

Alberta

Electronic transmission of an income tax return to the Alberta government

QUESTION

Is it possible to electronically file an income tax return to the Alberta government with *Corporate Taxprep*?

ANSWER

It is not yet possible to electronically file a tax return to the Alberta government with *Corporate Taxprep*. This service was recently made available by the Alberta government and is optional at this stage. We anticipate that it will be possible to perform such transmission starting with *Corporate Taxprep* 2012 v.1.0 which is scheduled for release in May 2012.

Please also note that the transmission will only be available with the **Internet Transmission of corporate tax return module**.

General Index of Financial Information (GIFI)

GIFI - Non-resident Corporations

QUESTION

Do non-resident corporations have to use the General Index of Financial Information (GIFI)?

ANSWER

Non-resident corporations can use the GIFI when they are reporting in unconsolidated Canadian funds. Exceptions to this are non-resident corporations that are filing under section 115 of the *Income Tax Act* only because of section 116, and treaty-based exempt corporations.

All corporations, with the exception of insurance companies, must submit their financial statements in GIFI format for taxation years ending in 2000 or later.

Electronic Filing

Electronic Filing and Internet Explorer 8.0

QUESTION

Are versions prior to *Corporate Taxprep 2009 v.1.0* compatible with Internet Explorer version 8.0?

ANSWER

Versions available prior to the *Corporate Taxprep 2009 v.1.0* release (May 2009) are not entirely compatible with this new version of Internet Explorer. Our test results indicate that electronic filing of returns (EFILE) does not work properly. The interaction with Web pages has changed in version IE8: both the name and path of the file are not automatically entered in the Web page by the application, which interrupts the transmission. If you wish to use a version prior to *Corporate Taxprep 2009 v.1.0* to electronically file your return, please wait before proceeding with the update to IE8. If IE8 is already installed, you will not be able to electronically file your return and will have to file it by other means.