

FREQUENTLY ASKED QUESTIONS



Versions 10.2.3xx.126

April 2011

New Item – Week of April 3, 2011

Newfoundland and Labrador – Calculation of the Newfoundland and Labrador tax at the lower rate when the taxation year straddles April 1, 2010

QUESTION

Why are the *Cantax* calculations for the Newfoundland and Labrador tax at the lower rate different from the CRA calculations when the taxation year straddles April 1, 2010?

ANSWER

The CRA calculations relating to the Newfoundland and Labrador tax at the lower rate when the taxation year straddles April 1, 2010, are incorrect and should be modified shortly. Presently, the CRA is calculating the lower tax rate as follow:

5% X Number of days in the taxation year before April 1, 2010 / Number of days in the taxation year

+

4% X Number of days in the taxation year after March 31, 2010 / Number of days in the taxation year

Instead, the Newfoundland and Labrador tax at the lower rate should be determined based on a single tax rate of:

- 5%, if the taxation year begins before April 1, 2010;
- 4% if the taxation year begins after March 31, 2010.

Cantax correctly calculates the Newfoundland and Labrador tax at the lower rate when the taxation year straddles April 1, 2010. If you receive a notice of assessment concerning this calculation, please contact the CRA to make the necessary arrangements.

Federal

Schedule 32, Scientific Research and Experimental Development (SR&ED) Expenditures Claim (S32) – Calculations of line 429

QUESTION

How can I ensure to correctly calculate the amount at line 429 of Schedule 32 if the corporation is eligible for the Ontario innovation tax credit and the Ontario research and development tax credit?

ANSWER

Here are the steps to follow to ensure to correctly calculate the amount at line 429 of Schedule 32:

Step 1: Complete Schedule 32.

Step 2: Complete Schedule 508, *Ontario Research and Development Tax Credit (S508)*, but don't enter any amount at line 105 of the schedule.

Step 3: Complete Schedule 566, *Ontario Innovation Tax Credit (S566)*, 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 for the Ontario Research and Development Tax Credit which are considered government assistance.

Step 5: Enter, at line 513 of Schedule 32, the government assistance attributable to the current expenditures and, at line 514, the government assistance attributable to the capital expenditures. For more details on the calculation that has to be done, please consult 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 for the Ontario Innovation Tax Credit, the Ontario Research and Development Tax Credit and the Ontario Business-Research Institute Tax Credit.

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 (S32) – Part 2 – Project information (S60P2#01)*

QUESTION

Why doesn't *Cantax* respect the maximum word limitation for the 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.

GIFI Notes Checklist – Parts 1 and 4 (GIFI 141)

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 109).

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 109). Furthermore, he must answer on line 110 **only** if he has a professional designation.

Schedule 53 - General Rate Income Pool (GRIP) Calculation

QUESTION

When should the deductible dividends, under subsection 112(1), received from a related corporation be included in the GRIP addition for 2006 calculated in Part 5 of Schedule 53, *General Rate Income Pool (GRIP) Calculation*?

ANSWER

Generally, the calculation of this addition includes, based on our interpretation, the inclusion of taxable dividends that meet the following criteria:

- are deductible under subsection 112(1) in computing the reporting corporation's taxable income for a taxation year of the corporation that ended after 2000 and before 2006;
- are received from a related "payer" corporation;
- are attributable to the "payer" corporation's full rate taxable income.

Actually, it is specified in paragraph c) of subsection 89(7) that one of the items of this addition's calculation is the total taxable dividends received from the related "payer" corporation "to the extent that it is reasonable to consider, having

regard to all the circumstances (including but not limited to other shareholders having received dividends from the payer corporation), that the dividend was attributable to an amount that is, or if this subsection applied to the payer corporation would be, described in [paragraph c)] or in paragraph a) or b) (...)." Paragraphs a) and b) discuss the reporting corporation's inclusion to the full rate income pool.

Schedule 54 - Low Rate Income Pool (LRIP) Calculation

QUESTION

When should the deductible dividends, under subsection 112(1), received by the corporation be included in column 210 in Part 2 or on line 510 in Part 3 of Schedule 54, *Low Rate Income Pool (LRIP) Calculation*?

ANSWER

The taxable dividends that must be entered in column 210 in Part 2 of Schedule 54, *Low Rate Income Pool (LRIP) Calculation* must be received after December 31, 2005.

If the corporation meets the following conditions:

- it is a corporation that is neither a CCPC nor a DIC;
- its taxation year ends in 2006, but contains days in 2005;
- it received deductible taxable dividends under subsection 112 other than eligible dividends before 2006.

Ensure that the dividends received before 2005 that are not eligible dividends are subtracted from the amount entered in column 210 in Part 2 or on line 510 in Part 3 of Schedule 54, *Low Rate Income Pool (LRIP) Calculation*.

Ontario

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 (**S4**). 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.

Schedules 546-547, *Corporations Information Act Annual Return for Ontario Corporations (S546 and S547) – Diagnostics Error 5460003 and Error 5470002*

QUESTION

How can I remove diagnostics Error 5460003 and Error 5470002?

ANSWER

The CRA requires that software developers issue diagnostics when certain lines that should contain information are not completed. The diagnostics Error 5460003 and Error 5470002 are part of these diagnostics.

To remove the diagnostic Error 5460003, complete lines 220, 250 and 270 in Part 2 of Schedule 546 and if the country name on line 270 is Canada or United States of America, complete lines 260 and 280.

To remove the diagnostic Error 5470002, complete lines 700, 705, 730, 760 and 780 in Part 7 of Schedule 547 and if the country name on line 780 is Canada or United States of America, complete lines 770 and 790. Furthermore, if they are applicable, complete lines 795 and 796; otherwise complete one of lines 801 to 912.

Liability disclaimer: The preceding information is for general information purposes only and is not intended to be a substitute for legal and other professional advice. Our company is not engaged in rendering legal, accounting or other professional services. Legal or professional advice is recommended to determine whether a specific law or practice is applicable to the particular circumstances. While every effort is made to ensure that the information provided is current and accurate, neither the authors, the company nor any other person involved in the making of this information accepts any liability, tortious or otherwise, with respect to the information contained herein.