

## FREQUENTLY ASKED QUESTIONS

**Versions 13.2.3xx.126**

**March 2014**

### New Item for the Week of March 23

#### **Schedule 88 – Internet Business Activities – Filing the form**

##### **QUESTION**

Must a corporation that earned income on the Internet enclose Schedule 88 with its T2 return?

##### **ANSWER**

For the 2013 and subsequent taxation years, if a corporation earned income from at least one Web page or Web site, it must provide additional information by completing Schedule 88. This schedule is available on the Canada Revenue Agency (CRA) Web site, but is not included in *Cantax* T2. The CRA has indicated that corporations filing their 2013 return using existing certified software that does not contain Schedule 88 are not required to enclose this schedule with the T2 return (i.e. they do not have to submit the hard copy). In addition, these corporations are not required to file an amended return with an electronic version of the form when the form is included in the program, i.e. starting with version 14.1.3xx.100.

However, the returns for 2013 and subsequent years prepared with *Cantax* T2/T2Plus version 14.1.3xx.100 or a subsequent version will have to include Schedule 88 if the corporation answers “Yes” on line 180 of the T2 return. When Schedule 88 is applicable, data it contains will be included in the *T2 – Bar Codes* return and in the transmission file.

### Federal

#### **T1135 – Foreign Income Verification Statement (T1135) – 2013 transitional reporting method and filing due date**

*(Published in March 2014)*

##### **QUESTION**

What is the new transitional reporting method for 2013 and what is the revised filing due date for Form T1135?

##### **ANSWER**

On February 26, 2014, the Canada Revenue Agency (CRA) issued instructions for the 2013 transitional reporting method for Form T1135. These instructions apply to all corporations with a tax year end after June 30, 2013, and before January 1, 2014.

Specifically, a taxpayer who held specified foreign property in an account with a Canadian registered securities dealer (as defined in subsection 248(1) of the *Income Tax Act* (ITA)) may now report the combined value of all such property at the end of the tax year, rather than reporting the details of each property. This combined value should be included in Category 6, “Other property outside of Canada” of Form T1135. If a taxpayer chooses to use the 2013 transitional reporting method, the taxpayer must use this reporting method for all accounts with Canadian registered securities dealers. Note that the T3/T5 reporting exception cannot be used for an account with a Canadian registered securities dealer if the 2013 transitional reporting method has been used for any other account with a Canadian registered securities dealer.

For a list of registered securities dealers, consult the following page: <http://www.iroc.ca/industry/Pages/Dealers-We-Regulate.aspx>.

Per the revised instructions for Form T1135 (which can be found on the CRA Web site), if the 2013 transitional reporting method is being used, you must provide the following information in **Category 6**:

- "Description of property" – enter the name and account number of each Canadian registered securities dealer account on a separate row;
- "Country code" – enter CAN;
- "Maximum cost amount during the year" – enter "0";
- "Cost amount at year end" – enter the market value of all specified foreign property held in that account at the end of the particular tax year;
- "Income (loss)" – provide the total income earned on all specified foreign property held in that account at any time during the particular tax year;
- "Gain (loss) on disposition" – provide the total gross gain or loss realized on the disposition of all specified foreign properties held in that account at any time during the particular tax year.

If no amounts are entered in the **Maximum funds held during the year** and **Maximum cost amount during the year** columns in Section "Categories of Specified Foreign Property," you will have to override to "Yes" the answer to the question shown below, which appears at the top of the form in order to make the form applicable.

In the tax year did the corporation own more than \$100,000.00 (Canadian) of foreign property? →  Yes  No

Note that even if, for the 2013 transitional reporting method, you are asked to provide the market value at year end for the property held in an account with a Canadian registered securities dealer, to determine if the corporation should file Form T1135 for a given tax year, you should still verify whether or not the maximum cost of such assets was in excess of \$100,000 CAD at any time in the year, as per section 233.3 of the ITA.

In addition, the CRA has extended the filing deadline for Form T1135 to July 31, 2014, for all taxpayers. However, this would not apply to a corporation with a tax year end after 2013.

These corporations cannot use the transitional reporting method either. They will have to provide the information requested on Form T1135 even if the assets in question are held with a Canadian registered securities dealer. However, property with regards to which a T3 or T5 slip has been or will be issued for the tax year may be excluded from the obligation of filing Form T1135 and will not have to be listed.

The CRA has issued a revised version of Form T1135, which includes the instructions for the 2013 transitional reporting method. This revised Form T1135 will be integrated in version 14.1.3xx.100.

For more information on Form T1135, consult the FAQ on the CRA Web site at [www.cra-arc.gc.ca/tx/nrsdnts/cmmn/frgn/1135\\_fq-eng.html](http://www.cra-arc.gc.ca/tx/nrsdnts/cmmn/frgn/1135_fq-eng.html).

### Tracking the transitional relief for joint ventures that made the election to benefit from this relief as result of the elimination of the separate fiscal period.

(Published in June 2013)

#### QUESTION

How do I keep track of the transitional relief for joint ventures that made the election to benefit from this relief?

#### ANSWER

The Canada Revenue Agency (CRA) indicated that the reserve claimed has to be reported on line *Other tax reserves* in Schedule 13, *Continuity of Reserves (S13)*. For more details, consult the CRA Web site at: (<http://www.cra-arc.gc.ca/tx/bsnss/tpcs/crprtns/dfrrl/jntvntn-eng.html>).

Part 2 - Other reserves					
Description	Balance at the beginning of the year \$	Decreases during the year \$	Increases during the year \$	Transfer on amalgamation or wind-up of subsidiary \$	Balance at the end of the year \$
Other tax reserves	260 0	0	0	265 0	240 0

In addition, to calculate this transitional reserve, you must make your calculations on a separate worksheet. Under no circumstances should you file Schedules 71 (**S71#01**), 72 (**S72#01**) or 73 (**S73**) for joint ventures. These schedules are for the sole use of partnerships.

## Schedule 71, Income Inclusion for Corporations that Are Members of Single-Tier Partnerships (S71#01), and Schedule 72, Income Inclusion for Corporations that Are Members of Multi-Tier Partnerships (S72#01) – Current fiscal period of the partnership

(Published in June 2013)

### QUESTION

In the calculation of the Adjusted Stub Period Accrual in Part 3 of Schedule 71 and/or Schedule 72, why is the number of days in the stub period calculated by *Cantax* greater than the number of days in the fiscal period(s) of the partnership that end in the corporation's taxation year?

### ANSWER

As noted in the *Troubleshooting Memo of Cantax T2/T2Plus* version 12.2.3xx.126 issued in January 2013, the CRA has indicated that the current fiscal period of the partnership to be entered in Part 1 of Schedule 71 and/or Schedule 72 should be the fiscal period that **starts** in the corporation's taxation year and that **ends** after the end of the corporation's taxation year. The calculations in Schedules 71 and 72 of *Cantax T2/T2Plus* version 13.1.3xx.100 were adjusted to reflect this requirement.

**Part 1 - Partnership information**

Partnership's name ..... [REDACTED]

Partnership's account number 1 ..... [REDACTED] **RZ** [REDACTED]

1. Partnership's account number must include letters RZ.  
If the partnership does not have an account number, enter "NR" to indicate that the partnership is not registered.

Did the partnership elect to change its fiscal period-end? ..... 1 Yes  2 No

If **yes**, give the dates of both the old and current fiscal periods of the partnership. .... Old fiscal period Fiscal period-start: YYYY/MM/DD Fiscal period-end: YYYY/MM/DD

If **no**, give the start and end dates of the current fiscal period of the partnership. .... Current fiscal period Fiscal period-start: YYYY/MM/DD Fiscal period-end: YYYY/MM/DD

Select the box that corresponds to the first year for which the filing corporation was eligible for transitional relief (transitional reserve). .... 2011  2012  2013

If the current fiscal period of the partnership shown in Part 1 is the fiscal period that ends in the corporation's taxation year, instead of the fiscal period that starts in the corporation's taxation year and that ends after the end of that same taxation year, the number of days in the stub period will be calculated incorrectly. Ensure that the appropriate current fiscal period is entered in Part 1 in order for the correct calculation to be performed in Part 3, which relates to the Adjusted Stub Period Accrual.

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

(Published in July 2009)

### 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/clmng/ssstncndctrctpymnts-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)***

*(Published before 2009)*

#### **QUESTION**

Why doesn't *Cantax* respect the maximum word limitation for the fields 242, 244 and 246 as mentioned on the CRA Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*?

#### **ANSWER**

A limited number of words for fields 242, 244 and 246 is specified on the CRA Form T661; however, the CRA requires that software developers meet the following requirements instead:

fields 242 and 246 must contain a maximum of 50 lines and field 244 must contain a maximum of 100 lines. Note that the CRA also requires that each line contain a maximum of 78 characters.

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

*(Published before 2009)*

#### **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).

## Ontario

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

*(Published in February 2010)*

#### **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.