

Corporation Income Tax

The Income Tax Act levies a tax upon the income from anywhere in the world of corporations resident in Canada and upon the income attributable to operations in Canada of non-resident corporations carrying on business in Canada. Half of capital gains must be included in income.

In computing their income, corporations may deduct operating expenses, including municipal real-estate taxes, reserves for doubtful debts, and interest on borrowed money. The deduction for interest includes interest on money borrowed to acquire shares in another corporation. There is a limitation on the deduction of interest paid to certain non-residents. Half of capital losses may be deducted from the capital gains included in income.

Corporations may deduct over a period of years the capital cost of all depreciable property. The yearly deductions of normal capital-cost allowances are computed on the diminishing-balance principle. Regulations issued under authority of the Income Tax Act establish a number of classes of property and maximum rates. Typical rates include 5 per cent and 10 per cent for buildings, 20 per cent for machinery and 30 per cent for automobiles. Where property is disposed of for more than the amount to which it has been written down by capital-cost allowances, the excess allowances are "recaptured" through an addition to income or by an adjustment to the undepreciated balance for the class of property.

Accelerated depreciation (full write-off in two years) is allowed in respect of structures and equipment acquired in the period April 27, 1965, to December 31, 1973, to prevent water pollution and in the period March 13, 1970, to December 31, 1973, to prevent air-pollution.

A taxpayer who does not elect to receive a grant under the Training-on-the-Job Program may deduct 60 per cent of approved wage costs incurred in the period after October 1971 and before April 1974. This deduction is in addition to the normal deduction for wages. Expenditures on scientific research related to the business of the taxpayer may be written off for tax purposes in the year when incurred.

A corporation whose principal business is mining, oil-production and allied activities may deduct the costs of exploration and development in Canada against any income in the year the costs were incurred or in subsequent years.

Taxpayers who do not meet the "principal business" test are entitled to deduct exploration and development expenses from mining and petroleum income. Starting in 1972 these expenses will be deductible from other income over a period of time if they exceed mining and petroleum income.

Taxpayers may deduct certain foreign drilling expenses from directly related foreign-sources income. Starting in 1972, all taxpayers may put foreign exploration and development expenses in a separate asset class and deduct them over a period of time if they exceed income from foreign mineral and petroleum properties.