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.

In computing their income, corporations may deduct operating expenses, including municipal real-estate taxes, reserves for doubtful debts, bad debts, and interest on borrowed money. They may not deduct provincial income taxes other than provincial taxes on income derived from mining operations. (For this purpose "income from mining operations" is specially defined.)

Regulations covering capital-cost allowances (depreciation) permit taxpayers to deduct over a period of years the actual cost of all depreciable property. The yearly deductions of capital-cost allowances are computed on the diminishing-balance principle. (Taxpayers engaged in farming and fishing may choose between this and the straight-line method.) Published regulations establish a number of classes of property and maximum rates. There is provision for recapture of any amount allowed in excess of the ultimate net capital-cost of any asset.

Certain accelerated depreciation provisions are available to taxpayers in certain circumstances and for a limited period. Businesses established in surplus-manpower areas (specific areas officially designed as such) which produce goods new to these areas or businesses engaged in the production of goods that are new to Canada are allowed to claim capital-cost allowances at double the normal rates for one year in respect of depreciable property acquired for the purpose of producing these new goods. This special incentive is available until January 1, 1964. A modernization allowance in the form of a 50 per cent increase in the first year in the rates of capital-cost allowance can also be claimed by a business in respect of expenditures on new capital assets that exceed its expenditures on capital assets in the previous year or its average expenditures on capital assets in the three previous years. This special allowance is available in respect of all depreciable assets eligible for depreciation by the diminishing balance principle which are acquired before April 1, 1964. The 1963 Budget introduced a new incentive measure, which, as of July 1963, had not yet been brought into force by legislation. Straight-line depreciation at a rate not exceeding 50 per cent will be granted in respect of certain new depreciable assets (machinery and equipment that would otherwise fall in Class 8 of the Income Tax Regulations) acquired in a 24-month period commencing on June 14, 1963, for use in manufacturing or processing businesses by individuals resident in Canada or by companies resident in Canada that have a degree of Canadian ownership and control. To have a degree of Canadian ownership and control, a company must (a) be a resident of Canada, (b) have 25 per cent of its voting shares beneficially owned by one or more individuals resident in Canada, one or more corporations controlled in Canada, or a combination thereof or have its voting shares listed on a stock exchange in Canada and have no more than 75 per cent of its voting shares beneficially owned by a non-resident person alone or with associated persons, (c) ensure that at least 25 per cent of its directors are resident in Canada (this requirement will not apply until 1965). For manufacturing or processing businesses in designated areas of slower growth, there is no requirement that they have a degree of Canadian ownership and control to qualify for this 50 per cent straight-line depreciation rate. Capital-cost allowances at the accelerated rate of 20 per cent on a straight-line basis are also proposed in respect of new buildings acquired in designated areas of slower growth in the period of 24 months commencing on the date the legislation proposed in the 1963 Budget is enacted.