Corporation Income Tax

The Income Tax Act levies a tax upon the income from everywhere 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.) Before 1962, corporations could deduct provincial taxes on income derived from logging operations (as defined in the law). However, it was announced in the 1962 Budget Speech that, for 1962 and subsequent taxation years, this deduction from income would be repealed and replaced by a deduction from tax of an amount equal to the lesser of 2/3 of a provincial tax on income from logging operations or 2/3 of 10 percent of the corporation's income from logging operations in the province. (This change has not yet been brought into force by legislation.)

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 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. Since January 1, 1961, accelerated depreciation provisions have been 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 double depreciation (double the normal rates of capital-cost allowance) for one year in respect of capital expenditures incurred for the purpose of producing these new goods. This special incentive, which became operative on January 1, 1961, will remain available until January 1, 1964. Since June 20, 1961, a modernization allowance in the form of a 50 percent increase in the first year in the rates of capital-cost allowance can be claimed by a business for expenditures on new capital assets which 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, 1963.

Expenditures on scientific research by corporations qualify for special tax treatment. Generally speaking, all expenditures on scientific research in Canada may be written off for tax purposes in the year they are incurred. In addition, it was announced in the 1962 Budget Speech that, for 1962 and subsequent taxation years, corporations will be permitted to deduct from income for tax purposes 150 percent of their increased expenditures on industrial research. (This special incentive has not yet been brought into force by legislation.)

Taxpayers operating mines, oil wells and gas wells are allowed a depletion allowance, usually computed as a percentage of profits derived from mineral, oil or gas production, which continues as long as the mine or well is in operation. This allowance is in addition to capital-cost allowances on buildings, machinery and similar depreciable assets used by the taxpayer. Taxpayers operating