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.)

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 or normal 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.

Accelerated depreciation is allowed in respect of property acquired in the period April 27, 1965, to December 31, 1967, to prevent water pollution (full write-off in two years).

Expenditures on scientific research related to the business of the taxpayer may be written off for tax purposes in the year when incurred.

Taxpayers operating mines, oil-wells, gas-wells, and wells for extracting potash by the solution method 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 and the deduction of his exploration and drilling expenses. Taxpayers operating timber limits receive an annual allowance sometimes called a depletion allowance. This is a rateable proportion of the amount invested in the limit and is based on the amount of timber cut in the year. When the amount invested in the limit has been recovered, no further allowance is given.

In computing taxable income, corporations may deduct dividends received from other Canadian taxpaying corporations and also from foreign corporations in which the Canadian corporation has at least 25 percent stock-ownership. Business losses may be carried back one year or forward five years and deducted in computing taxable income. Corporations may also deduct donations to charitable organizations up to a maximum of 10 per cent of their income.

The general rates of tax on corporate taxable income are 18 per cent on the first $35,000 of taxable income and 47 per cent on taxable income in excess of $35,000. Corporations deriving more than a half of their gross revenue from