Ontario Ministry of Finance

Guide to the 2001 CT23 Corporations Tax and Annual Return

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General Information

Corporations Tax Enquires

The **Canada Revenue Agency (CRA)** administers the *Ontario Corporations Tax Act* and the *Corporations Information Act* Annual Return.

Please have the following account numbers available:

- Ontario Corporations Tax Account Number (MOF)
- Ontario Corporation Number (MGS)
- Canada Revenue Agency Business Number (CRA)

For Ontario corporate tax enquiries, please contact the CRA at:

English 1-800-959-5525
French 1-800-959-7775
Teletypewriter (TTY) 1-800-665-0354
Website **www.cra.gc.ca**

For Charities enquiries including the Annual Information Return, please contact the CRA at:

English 1-800-267-2384
French 1-800-892-5667
Teletypewriter (TTY) 1-800-665-0354
Website **www.cra.gc.ca**

Forms and Publications

All forms and publications can be obtained by contacting the **Ministry of Finance** at:

Toll free 1-866-ONT-TAXS (1-866-668-8297)
Teletypewriter (TTY) 1-800-263-7776
Website **www.ontario.ca/finance**

Ministry of Finance Hours of Service

Monday to Friday 8:30 am to 5:00 pm

Returns and Payments

CT23 returns and payments can be mailed to the **Ministry of Finance** at the following address:

Ministry of Finance
33 King Street West
PO Box 620
Oshawa ON L1H 8E9

Overview

Format for 2001 Return

To streamline the collection of corporate information, corporations are now able to file a combined CT23 Corporations Tax and Annual Return for the 2000 and subsequent taxation years. The CT23 Corporations Tax Return collects the information required by the *Corporations Tax Act*. The Annual Return collects the information required by the Ministry of Government Services (MGS) under the authority of the *Corporations Information Act*. For information on the Annual Return please refer to page 23 of this guide.

Also more corporations will have the option of filing a CT23 Short-Form Corporations Tax and Annual Return. Please refer to page 5 of this guide for further information on who may file a CT23 Short-Form Corporations Tax and Annual Return.

This guide is to be used to complete the 2001 CT23 Acronyms used in this guide are as follows:

- CT23 - refers to the CT23 Corporations Tax Return.
- Annual Return - refers to the MGS Annual Return.
- CT23 and Annual Return - refers to the combined CT23 Corporations Tax and Annual Return.
- References to the *Corporations Tax Act* are noted as - s.5 (meaning refer to section 5).
- References to the Ontario Ministry of Finance Information Bulletins or Interpretation Bulletins are noted - Information Bulletin 2739 or Interpretation Bulletin 2619. Copies of these bulletins may be obtained by calling the ministry at the numbers shown on page 3.
- References to the federal *Income Tax Act*, Canada are noted as " fed".

CT23 and Annual Return Format

The CT23 Corporations Tax and Annual Return consists of 24 pages, including the following 6 pages of schedules:

- 3 pages related solely to corporations subject to the Corporate Minimum Tax (CMT) (Schedules A to E);
- 1 page related to the Co-operative Education Tax Credit (CETC) (Schedule F); and the Graduate Transitions Tax Credit (GTTC) (Schedule G) ; and
- 2 pages relating solely to the MGS Annual Return (MGS Schedules A and K).

The *Corporations Tax Act*

This guide is provided for convenience only. For legislative accuracy refer to the *Corporations Tax Act*, R.S.O. 1990, Chapter 40, as amended ("Act"). Failure to comply with the provisions of the Act may result in loss of your Ontario Charter and dissolution and forfeiture of the corporation's property to the Crown.

Highlights of the 2000 Ontario Budget & other legislative changes

Changes to the following items were proposed in the 2000 Ontario Budget. Most of these items were introduced in Bill 72 which received Royal Assent on June 23, 2000 or Bill 152 which received Royal Assent on December 21, 2000.

Tax Rate

- Reduction of the general corporate income tax rate

Tax Credits and Incentives

- Extension and enhancement of the small business deduction
- Education Technology Tax Incentive (ETTI)
- Enhancement and simplification of the Ontario Film and Television Tax Credit (OFTTC) and the Ontario Production Services Tax Credit (OPSTC)
- Expansion of the Ontario Sound Recording Tax Credit
- Enhancement of the Ontario Book Publishing Tax Credit

Other Initiative

- Reduction of the capital gains inclusion rate
- Extension of the Manufacturing and Processing Tax Credit to corporations that produce and sell steam for uses other than the generation of electricity

Do you have to file an Ontario Corporations Tax Return?

Exempt from Filing (EFF)

- You may be exempt from filing a CT23 for the current taxation year, if your corporation meets all of the criteria listed below:

- files a federal income tax return (T2) with Canada Revenue Agency;
- has no Ontario taxable income;
- has no Ontario Corporations Tax payable;
- is a Canadian-controlled private corporation (CCPC)throughout the taxation year (i.e., generally, a private corporation with 50% or more shares owned by Canadian residents as defined in subsection 125(7) of the *Income Tax Act*, (Canada);
- has provided its Canada Revenue Agency Business Number to the Ontario Ministry of Finance; **and**
- is not subject to the Corporate Minimum Tax (i.e., alone or as part of an associated group whose assets exceed $5 million or whose total revenues exceed $10 million).

Corporations are required to file an EFF Corporations Tax Return declaration form for every taxation year for which the status is claimed (effective for taxation years ending on or after January 1, 2000).

Corporations who are claiming EFF status may still be required by the Ministry of Government Services to file an Annual Return; please refer to page 23 of this guide.

A Notice of Assessment will not be issued for any CT23 filed by a corporation which is EFF.

Financial Institutions (banks, credit unions, mortgage investment corporations, registered securities dealers, bank mortgage subsidiaries, loan and trust corporations and trustees to the public) and insurance corporations, do not qualify for the exemption from filing a CT23 for a taxation year.

EFF corporations filing losses to be carried back and applied to prior years or applied to future years **must file** a CT23 complete with all the related schedules for the taxation year of the loss and for the taxation year to which the loss is being applied.

Failure to file a CT23 for a loss year may result in your CT23 being processed without the loss being applied.

A CT23 for an EFF period may be required, if requested by the Ministry of Finance.

Ontario Corporations Tax Account No. (MOF)

In order to file a CT23 or an EFF declaration you will require an Ontario Corporations Tax Account No. (MOF). This account number will be assigned to you shortly after you register with the Ministry of Government Services (MGS). If you have already registered with MGS and are still unaware of your Ontario Corporations Tax Account No. (MOF), please contact the Canada Revenue Agency (see page 3).

Can You File a CT23 Short-Form Corporations Tax and Annual Return?

A corporation that has a permanent establishment only in Ontario may file a CT23 Short-Form Corporations Tax and Annual Return if it meets all of the following criteria:

- The corporation is a Canadian-controlled private corporation (CCPC) throughout the taxation year.
- The corporation's taxation year ends on or after January 1, 2000, its gross revenue and total assets are each $1,000,000 or less and the corporation is not a financial institution OR the corporation's taxation year ends on or after January 1, 2001, its gross revenue and total assets are each $1,500,000 or less and the corporation is not a financial institution.
- The corporation's taxable income for the taxation year is $200,000 or less. For a taxation year with less than 51 weeks, taxable income must be grossed-up. The gross-up equals the corporation's taxable income multiplied by 365 days and divided by the number of days in its taxation year.
- The corporation is not a member of a partnership/ joint venture or a member of an associated group of corporations during the taxation year.
- The only tax credits the corporation is claiming are the Incentive Deduction for Small Business (IDSBC), the Cooperative Education Tax Credit (CETC), or the Graduate Transitions Tax Credit (GTTC).
- A Family Farm or Fishing Corporation which is not subject to the Corporate Minimum Tax (CMT) may also use the CT23 Short-Form Corporations Tax and Annual Return for a taxation year ending on or after January 1,2000, if it meets all of the above criteria excluding the total asset and gross revenue test.

Both the CT23 Short-Form Corporations Tax and Annual Return and related guide may be obtained by contacting the ministry, at the address shown on page 3 of this guide.

Serving You

For corporate tax enquiries, contact the Canada Revenue Agency at the numbers listed on page 3 of this guide.

Anyone wishing to electronically view or purchase Government of Ontario Publications, including Ontario Statutes and Regulations such as the *Corporations Tax Act*, *Business Corporations Act* or *Corporations Information Act* may do so by visiting our website ontario.ca/finance.

What if you need help to complete this return?

If you need more help after reading this guide, please contact the Canada Revenue Agency at the numbers listed on page 3 of this guide.

Authorizing a representative

You can authorize a representative to obtain information on your tax matters by sending, or including with your return, a letter on your corporate letterhead indicating the individual or organization that you authorize to represent your interests. This letter must be signed by an authorized signing officer of the company.

Filing Your CT23 and Annual Return

Who must file?

Generally, every corporation carrying on a business in Ontario through a permanent establishment (as defined in s.4) **other than corporations exempt from filing** (as outlined on page 5 of this guide) must submit a Regular or Short-Form CT23 Corporations Tax and Annual Return signed by an officer of the corporation. For specific information on who must file an Annual Return, please see page 23 of this guide.

How can you file?

The following methods are available to file a CT23 and Annual Return:

- Complete and submit the pre-printed paper return received with this guide;
- Submit a plain paper return produced with certified computer software purchased from any one of many companies available from certified vendors; or
- Submit a return on diskette (DFILE) produced with certified software available from certified vendors.

Your corporation's CT23 and Annual Return will be imaged. Please ensure that the document is neat, legible and suitable for imaging. Please type or print all information in block capital letters using dark ink .

For corporations subject to the Corporate Minimum Tax (CMT), see page 16 of this guide.

Previous versions of the CT23 including ministry pre-printed and computer generated returns may not be used by corporations required to file a CT23 and Annual Return for the 2000 and subsequent taxation years. Please ensure that any software used is Y2K compliant.

What is DFILE?

DFILE is a method of filing that consists of a **computer disk** and **paper documents**:

- The disk contains the CT23, Annual Return, and certain Ontario tax schedules.
- The paper component consists of an original DFILE certification form, federal T2, federal schedules, financial statements and any other required schedules not included on the floppy disk.

Who can DFILE?

All taxpayers filing CT23 Corporations Tax and Annual Returns are invited to DFILE. Insurance corporations cannot DFILE their Corporations Tax Return (CT8).

What software should be used to DFILE?

Most tax preparation software packages provide a DFILE feature. Only software certified by the ministry may be used for DFILE.

Where can a corporation obtain more information about DFILE?

Information Bulletin 2749 provides the filing requirements to DFILE of the CT23. If you are interested in DFILE, copies of this bulletin may be obtained by contacting the numbers listed on page 3 of this guide, or you may refer to the MOF website at ontario.ca/finance.

When must you file?

A completed CT23, Annual Return (if applicable) and supporting documents must be received within 6 months after the end of the corporation' s taxation year. The Minister considers the CT23 delivered on the date it is received by the Ministry of Finance.

What are the penalties if you file your CT23 return late and have not made sufficient payments for the year?

Rules for Calculating Penalty

The following penalties may be imposed for filing incomplete or late CT23s that are required to be filed on or after December 18, 1998. A taxpayer having 1 late filed CT23 may be subject to a penalty of 5% of the deficiency in the tax account for the taxation year, plus an additional 1% for each full month that the CT23 is late, to a maximum of 12 months.

The following penalties may be imposed for filing incomplete or late CT23s that are required to be filed on or after December 18, 1998. A taxpayer having 1 late filed CT23 may be subject to a penalty of 5% of the deficiency in the tax account for the taxation year, plus an additional 1% for each full month that the CT23 is late, to a maximum of 12 months. A taxpayer having 2 late filed CT23s within 4 taxation years may be subject to a penalty on the latter return of 10% plus 2% for each full month that the CT23 is late to a maximum of 20 months.

When will we pay or charge interest?

Rules for Calculating Daily Compound Interest for any day that is on or after August 1, 1995 (Information Bulletin 2743-R1)

Notice of (Re)Assessment

1. **Debit Interest** at the rate provided in the Regulations, is calculated and charged daily for every day that there is a deficiency in your account (includes unpaid taxes, interest, penalties and other unpaid amounts). A corporation's account is divided for interest purposes, by period of time, into an instalment account for the instalment period and a tax account for the period after the instalment period. The instalment period is the period from the first day of your taxation year to the day before the balance of tax due date or the day before the most recent (re)assessment for the taxation year, whichever is earlier.
2. **Instalment credit** interest at the rate provided in the Regulations, is calculated daily for each day that there is a surplus in your instalment account, from the last day of the first month in the instalment period, to the end of the instalment period.
3. **Credit interest on overpayments** at the rate provided in the Regulations, is calculated and allowed daily for each day there is a surplus in your tax account after the end of your instalment period, for the taxation year. If a return is not filed on time, no credit interest will be allowed for the period from the day your return was required to be filed, to the day after your return is filed.

Application of Payments

Any amount paid, applied or credited (on or after August 1, 1995) in respect of amounts payable, will be applied firstly against any tax owing, secondly against any penalty owing, thirdly against any interest owing and fourthly against any other amounts owing by the corporation.

Revised Instalments

Instalment debit and credit interest will be re-calculated to reflect revised instalments resulting from the reassessment of the tax payable on which the instalments are based, except in the case of loss carry-backs.

Effects of Loss Carry-backs

Loss carry-backs for losses incurred in taxation years that end on or after August 1, 1995, do not affect the calculation of interest for the instalment account, the tax account or for the purposes of determining the amount of the late-filing penalty (if the CT23 due date is on or after August 1, 1995), until the date that is the later of the following:

1. The first day of the taxation year after the loss year;
2. The day on which the corporation's CT23 for the loss year is delivered to the Minister; or
3. The day on which the Minister receives a request in writing from the corporation to reassess the particular taxation year to take into account the deduction of the loss.

Interest off-set

Debit and credit interest is netted for a particular taxation year. Netting between different taxation periods is not permitted.

What should you include with your CT23 and what records should you keep?

With the CT23, attach completed copies of:

- The corporation' s financial statements for the taxation year, completed in accordance with Generally Accepted Accounting Principles (Refer to Inf. B. 2747 dated May 1994);
- The federal T2 Corporate Income Tax Return, including all schedules and any other information filed with the T2 return (T2 RSI is not acceptable);
- Financial statements of all partnerships and/or joint ventures of the corporation;
- Copy of federal T2 SCH 5 form showing allocation of gross revenues, salaries and wages, including the percentages applicable to other jurisdictions; and
- Federal schedule T2 SCH 49 for associated corporations and federal schedules T2057, T2058 and T2059.

Send your tax payment(s) (payable to the Minister of Finance) and completed CT23 by the appropriate due dates to:

Ministry of Finance
Corporations Tax
33 King Street West
PO Box 620
Oshawa ON L1H 8E9

For information on what should be included with your Annual Return, please see page 24 of this guide.

After You File

What happens to your CT23 after we receive it?

When we receive your CT23, we review it based on the information you provided and send you a Notice of Assessment based on that review.

In some cases, your CT23 may be selected for a more detailed review and additional information may be requested.

If you move, or wish to have correspondence sent to a different address, what should you do?

If you would prefer that your CT23, statements, (re)assessments and/or refunds be directed to an address other than your general mailing address, please contact the Canada Revenue Agency (see page 3 of this guide).

Is the monthly payment of instalments always required?

No. Monthly installments are not required under the following circumstances:

- **First Year Filing** - all taxes must be paid on or before the balance of tax due date which is either 2 or 3 months after the end of the taxation year (refer to **"Balance of Tax"**)
- **Tax payable for either the current or previous taxation year is less than $2,000** - all taxes must be paid on or before the balance of tax due date which is either 2 or 3 months after the end of the taxation year (refer to **"Balance of Tax"**)

Tax must be paid by monthly instalments if your tax payable for the current taxation year and for the previous taxation year are each $2,000 or more.

Each installment, usually due on the last day of the month, should be calculated according to one of the following methods:

- 1/12 of the tax payable for the current taxation year; or
- 1/12 of the tax payable in the previous taxation year; or
- for the first two months, 1/12th of the tax payable two years ago; and for the next ten months, 1/10th of the difference between last year's tax payable and the amount paid for the first two months.

Where instalment calculations are based on a prior short taxation year, the tax payable figure used for that year must be grossed-up to reflect the amount that would have been payable for a full year.

A corporation that is the continuing corporation of amalgamated corporations must use the predecessor corporation's tax liability in the computation of instalments.

Balance of Tax

The difference between the current year tax liability and the amounts paid by installments represents the balance of tax due.

The balance of tax due must be paid within three months after the end of your taxation year, if your corporation was a Canadian-controlled private corporation throughout the taxation year and had taxable income of not more than the corporation's business limit for Ontario purposes (for additional information regarding changes to the business limit for Ontario purposes introduced in the 2000 Ontario Budget refer to page 10) for the previous taxation year.

In all other cases, the balance of tax is due within two months after the end of your taxation year.

If the previous taxation year was less than 51 weeks, the corporation's business limit for Ontario purposes must be prorated (i.e., $220,000 × the number of days in taxation year / 365). The taxable income must not be more than this prorated limit.

For Accounts or Payment enquiries, please call the Canada Revenue Agency at the numbers listed on page 3.

Voluntary Disclosure

It is the policy of the Ontario Ministry of Finance that any corporation or individual, who voluntarily discloses a violation of a statute administered by the Ministry of Finance, be allowed to settle any related debt by making full payment including interest.

If the above condition is met, the ministry will not prosecute or impose civil penalties for gross negligence, willful evasion, or late-filing. The identity of an individual or corporation making a voluntary disclosure will be held in strict confidence as are all matters between the ministry and its clients.

For more information on voluntary disclosure, please call the Canada Revenue Agency at the numbers listed on page 3.

Identification (Page 1)

Page 1 is a common page to both the CT23 and the Annual Return. **In order to avoid delays in the processing of the returns, it is essential that page 1 of the return contain all of the following:**

- Answer to the question: MGS Annual Return Required? (see page 23 of this guide for further information)
- Corporation's Legal Name and Mailing Address
- Ontario Corporations Tax Account No. (MOF)

- Taxation Year Start Date
- Taxation Year End Date
- Answer to the question: Has address changed since last filed CT23 Return? If yes, please indicate the date of change.
- Date of Corporation's Incorporation or Amalgamation
- Ontario Corporation No. (MGS - refer to the articles of incorporation)
- Canada Revenue Agency Business Number
- Jurisdiction Incorporated (in full, no abbreviations)
- If the corporation was not incorporated in Ontario, the date business activity commenced and ceased (if applicable) in Ontario

Note: If there has been a taxation year end change approved by Canada Revenue Agency, please attach a copy of the approval to the return.

Name and Address

The **"Corporation's Legal Name"**, for filing purposes, is the legal name of the corporation as stated in the articles of incorporation or subsequent amendment document. Please enter the full name, including all punctuation.

The **"Mailing Address"** is the corporation's **current** address for the purpose of receiving correspondence from Ministry of Finance, i.e., CT23 Corporations Tax and Annual Return form; Notice of (Re)Assessment; Statement of Account; and refund cheques (if applicable).

The **"Registered/Head Office"** Address and the **"Location of Books and Records"** Address must consist of a street name and number, or a rural route and number or a lot and concession number. **Post office box is not an acceptable address**. Please do not abbreviate City/Town/Village names.

The **"Name of person to contact"** refers to an individual whom the ministry may contact for further information/ clarification regarding the return.

MGS Information

Page 1 also includes information required by MGS collected under the authority of the Corporations Information Act. If the corporation has answered "Yes" to the question "MGS Annual Return Required?", please complete the following additional information:

- The corporation's **"Ontario Corporation No. (MGS)"**. This is the number assigned to the corporation by the MGS.
- If the corporation is an Extra-Provincial Corporation as defined by the *Corporations Information Act* please complete the **"Address of Principal Office in Ontario"** and, if applicable the **"Former Corporation Name"**.
- If more than one MGS Schedule A is being submitted, please indicate the number in the box provided.
- Please tick the "No Change" box if there has not been any change in the Directors/Officers/ Administrators information previously submitted to MGS.

Certification (MGS) (Page 1)

If the corporation has answered "Yes" to the question "MGS Annual Return Required?" please complete the certification section on page 1. The authorized person must be an Officer, Director or other person having knowledge of the affairs of the corporation.

Identification (Page 3)

Type of Corporation

If the “Type of corporation is 5 (other)”, enter a description of the corporation in the space provided. If the corporation is one of the 20 speciality types, enter a check mark in the appropriate box.

Amended CT23

If a CT23 was previously filed for this taxation year, enter a check mark in the "Amended Return" indicator field. Although an amended return is an acceptable method for making adjustments to tax return(s) previously filed, the preferred method is to send a letter to the attention of:

Ministry of Finance
Corporations Tax
33 King Street West
PO Box 622
Oshawa ON L1H 8H6

The letter should identify the taxpayer by indicating the corporation's legal name and seven-digit Ontario Corporations Tax Account No. (MOF). The letter should clearly describe the adjustment(s) requested and should include supporting documentation, e.g., amended schedules.
Corporations may not file an "Amended Annual Return". If filing an amended CT23, please ensure the answer to the question "MGS Annual Return Required?" is "No".

Other Information

Indicate whether or not the corporation is requesting a refund due to the carry-back of a loss to prior year(s), an overpayment and/or a specified refundable tax credit by entering check marks in the appropriate boxes (see page 23 of this guide for details).

If the corporation has transferred assets to, or received assets from another corporation having a permanent establishment outside Ontario, enter a check mark in the appropriate box and attach copies of the related election and details of the transactions to the return. Ontario has enacted technical changes to the Act which adopt the elective rules under fed s.85 and 97 in a more rigid fashion. Generally, these rules tie Ontario into the federal elected amounts and apply to elections in respect of dispositions made on or after May 6, 1997.

Income Tax (Page 4)

The 2000 Ontario Budget introduced a two step reduction to the Ontario corporate income tax rate. Effective May 2, 2000 the rate is reduced from 15.5% to 14.5% and a further reduction from 14.5% to 14.0% took effect on January 1, 2001. For a taxation year that straddles an effective date, the rates will be prorated.This measure received legislative authority through Bill 72 which received Royal Assent on June 23, 2000.

On page 4, line [40] enter the amount of the corporation's Income Tax that you determine. Enter NIL if reporting a non-capital loss.

The 2000 Ontario Budget introduced a series of measures to enhance and extend, **for Ontario purposes only**, the incentive deduction for small business corporations (IDSBC). To enhance the IDSBC the pre-budget Ontario business limit of $200,000 will be increased beginning January 1, 2001 by annual increments of $40,000 on January 1 of each year until it reaches $400,000 on January 1, 2005. In addition, during the same period the IDBSC will be extended to more corporations by increasing the phase-out limit of $500,000 by $100,000 each year until it reaches $1,000,000 on January 1, 2005. The above increases will be prorated for a taxation year that straddles an effective date based on the days in a specific rate period over the total days in the taxation year. The following chart provides the details of the business limit and phase-out limit changes. Legislation enacting these measures was included in Bill 72 which received Royal Assent on June 23, 2000.

Ont Bus Limit	IDSBC Phase-out Range	Applicable Period
$200,000	$200,000 to $500,000	Prior to January 1, 2001
$240,000	$240,000 to $600,000	2001 calendar year
$280,000	$280,000 to $700,000	2002 calendar year
$320,000	$320,000 to $800,000	2003 calendar year
$360,000	$360,000 to $900,000	2004 calendar year
$400,000	$400,000 to $1,000,000	2005 calendar year and thereafter

If applicable, please complete:

- The federal business limit determined prior to the application of fed.s.125(5.1) as used in calculating the Incentive Deduction for Small Business Corporations (IDSBC) on page 4, line [55];
- If claiming an IDSBC, check the YES box and complete lines [50], [54], [55] on page 4.

The 2000 Budget introduced proposals to enhance and accelerate the series of rate reductions to the IDSBC initiated in the 1998 Ontario Budget. The 8 year period to fully implement the rate reductions announced in 1998 has been reduced to 7 years and these measures will now be fully implemented effective January 1, 2005. The schedule below outlines the IDSBC rates, the corresponding surtax rates and the applicable periods to which the rates apply. This 2000 Budget measure obtained legislative authority through Bill 72 which received Royal Assent on June 23, 2000.

For taxation years straddling more than one rate period, each applicable rate must be prorated based on the ratio that the number of days in the particular period of the taxation year is to the total days in the taxation year.

IDSBC Rate	Surtax Rate*	Applicable Period
6%	4.00%	Prior to May 5, 1998
6.50%	4.33%	After May 4, 1998 and before January 1, 1999
7.00%	4.67%	1999 calendar year
7.50%	5.00%	2000 and 2001 calendar years
8.00%	5.33%	2002 calendar year
8.50%	5.67%	2003 calendar year
9.00%	6.00%	2004 calendar year
10.00%	6.67%	January 1, 2005 and thereafter

* applies to corporations where its taxable income and all associated corporations' taxable income exceeds the Ontario business limit.

Capital Gains - The 2000 Ontario Budget announced that Ontario would reduce the inclusion rate for capital gains from 75% to 66 2/3% effective for capital gains realized after February 27, 2000. In addition as announced by the Minister of Finance in a News Release "Province Forecasts $1.4 Billion Surplus" dated December 4, 2000, Ontario will further reduce the capital gains inclusion rate from 66 2/3% to 50% effective retroactively to capital gains realized after October 17, 2000. These changes and effective dates coincide with the federal treatment regarding capital gains inclusion rate reductions.

- Additional Deduction for Credit Unions on page 6, line [110] (attach schedule of calculation)

The 2000 Ontario Budget announced the harmonization of the credit for the additional deduction for credit unions and IDSBC. The following schedule provides the details of the new rates and the effective period for each. If a taxation year straddles more than one rate period, a proration of each applicable rate will be required based on the days in the taxation year that fall within a specific rate period is to the total days in the taxation year. This measure has received legislative authority through Bill 72 which received Royal Assent on June 23, 2000.

Rate for Additional Deduction for Credit Unions	Applicable Period
5.5%	Prior to May 2, 2000
7.5%	After May 1, 2000 and before January 1, 2002
8.0%	2002 calendar year
8.5%	2003 calendar year
9.0%	2004 calendar year
10.0%	After December 31, 2004

- Attach federal schedule T2 SCH 27 showing changes for Ontario purposes, for the Manufacturing and Processing Profits Credit on page 6, line [160]; and
- Attach a schedule of computations of the Credit for Foreign Taxes Paid on page 6, line [170].

Extension of the M&P Tax Credit to the Electricity Generating Sector (On Page 6 line [161])

Consistent with a similar proposal announced in the 1999 federal budget, the 1999 Ontario Budget proposed that corporations which produce electrical energy or steam for sale will be eligible for an M&P tax credit of 2% to be phased in over four years. The rate will be 0.5% commencing January 1, 1999; 1.0% on January 1, 2000; 1.5% on January 1, 2001; and 2.0% when fully phased-in on January 1, 2002.

The M&P tax credit will be prorated for taxation years straddling a calendar year-end during the phase-in period to 2002.

Legislation to implement this proposal was included in Bill 152 which received Royal Assent on December 21, 2000.

Extension of the M&P Tax Credit to Corporations that Produce and Sell Steam for uses other than the Generation of Electricity (On Page 6 line [162])

As announced in the 2000 Ontario Budget, Ontario has proposed to harmonize with the federal 2000 Budget measure to extend the M&P credit to corporations that produce and sell steam for uses other than the generation of electricity. The Ontario credit will be phased in, providing for a 1% credit for the 2001 calendar year, 1.5% for the 2002 calendar year and 2.0% thereafter. The credit will be prorated for taxation years straddling effective rate dates based on the number of days in the taxation year in a specific rate period are to the total number of days in the taxation year.

The legislation to implement this proposal had not been enacted at the time of printing.

Qualifying Environmental Trust Tax Credit (QET) (Page 18)

Ontario parallels the federal income tax treatment regarding qualifying environmental trusts. The tax credit is treated as a deemed payment on account of taxes payable. If you are claiming the QET, enter the total amount of the QET credit on page 18, line [985].

Specified Tax Credits (Page 7)

The following 10 tax credits are specified refundable tax credits. These tax credits must first be applied individually to reduce taxes payable (income, premium and capital) and any unused portion of the tax credit will be treated as a deemed payment on account of taxes payable. For administrative ease, the sum of all the credits should be entered on page 6, line [220].

Enter the amount of the specified tax credit applied:

- To reduce income tax on page 7, line [225];
- To reduce capital tax on page 13, line [546]; and
- To reduce premium tax on page 14 line [589].

Enter any unused portion to be used as a deemed payment on the summary on page 18, line [955].

Ontario Innovation Tax Credit (OITC)

If claiming the OITC, complete and attach the OITC Claim form and enter the total amount on page 7, line [191]. Claim forms may be obtained from the Ministry of Finance by calling the numbers shown on page 3 of this guide.

The OITC is a 10% refundable tax credit for qualifying public and private corporations (prior to May 5, 1999 only qualifying Canadian-controlled private corporations were eligible) having a permanent establishment in Ontario.

The OITC is calculated on qualifying expenditures (annual maximum of $2,000,000) made in the taxation year for Scientific Research and Experimental Development (SR&ED) carried on in Ontario that are eligible for the federal enhanced and refundable SR&ED investment tax credit for small CCPCs under fed.s.127.

Corporations are eligible to claim the full OITC where their Ontario taxable paid-up capital and federal taxable income in the preceding taxation year do not exceed

$25 million and $200,000 respectively. The annual qualifying expenditure limit of $2,000,000 is progressively reduced for those corporations:

- whose taxable paid-up capital or "adjusted taxable paid-up capital" in the preceding taxation year, is greater than $25 million but less than $50 million, and
- whose federal taxable income is more than $200,000 but less than $400,000 in the preceding taxation year.

If the corporation is part of an associated group, the taxable paid-up capital and federal taxable income of those corporations must also be included in the determination of the annual qualifying expenditure limit.

Credit unions and insurance corporations are required to use taxable paid-up capital employed in Canada as determined for the federal large corporations tax instead of "taxable paid-up capital" or "adjusted taxable paid-up capital".

Co-operative Education Tax Credit (CETC)

If claiming the CETC, enter the total tax credit claimed on page 7, line [192].

The CETC is a refundable 10%(15%) tax credit available to taxpayers hiring eligible university or college students enrolled in a recognized post-secondary education program. Ontario corporations with a permanent establishment in Ontario subject to Ontario corporate income tax are eligible for the credit.

There are two types of work placements: co-operative work placements which commence after July 31, 1996 and leading edge technology (LET) work placements which commence after December 31, 1997.

The 10% rate applies to corporations whose prior years salaries and wages paid are equal to $600,000 or more. An enhanced credit of 15% is available to businesses whose previous year's payroll was $400,000 or less. The enhanced credit is phased out for payroll between $400,000 and $600,000. The enhanced credit applies to work placements commencing after December 31, 1997.

The maximum credit is $1,000 for each work placement, regardless of the rate claimed in calculating the credit.

A **qualifying co-operative work placement** must be a minimum of 10 weeks while a **qualifying leading edge technology work placement** must be a minimum of 10 weeks with an average of 24 hours of employment per week. For all work placements, the maximum employment period is four months.

The maximum number of work placements that an employer can have for a student, with two exceptions, are 4 (i.e. 16 months). The first exception is for a qualifying co-op work placement that is not an internship; there is no limit to the number of placements. The second exception is for a qualifying apprenticeship whose employment commences after May 4, 1999, the maximum number of placements is 6 (i.e. 24 months).

Eligibility for the CETC requires:

- A letter of certification from the Ontario college, university or other post-secondary institution, containing information as prescribed by the Minister, stating that the student is enrolled in a qualifying education program; or
- A voucher for LET programs (other than an apprenticeship) stating that the educational program meets the definition of a qualifying program in leading-edge technology and that the work performed by that student during the work placement is in a related field.

For an LET work placement commencing before March 1, 1999 refer to the important notice section of the Ontario Jobs Opportunity Voucher for special instructions.

Leading-edge technology programs include such fields as computer science, telecommunications technology, sciences (microbiology), mathematics and engineering.

For additional information on the CETC refer to Tax Legislation Bulletin, Number 96-2R, dated June 2000.

Complete Schedule F on page 22. Retain the letter of certification or voucher - do not include it with your CT23.

Ontario Film and Television Tax Credit (OFTTC)

If claiming the OFTTC, enter the total tax credit claimed on page 7, line [193] of the CT23 and attach the certificate of eligibility received from the Ontario Film Development Corporation.

For information, please call the Ontario Film Development Corporation at 416 314-6858.

The OFTTC, introduced in the 1996 Ontario Budget, is a 15% refundable tax credit available to Ontario film and television productions based on qualifying Ontario labour costs incurred before May 7, 1997 and 20% for those labour costs incurred after May 6, 1997.

Annual tax credit limit for a corporation or an associated group is:

- $2,000,000 for productions commencing in 1996; and,
- $2,666,667 for productions commencing before November 1, 1997;
- The annual tax credit limit has been eliminated for productions commencing after October 31, 1997.

Qualifying Ontario labour expenditures incurred in the taxation year, are those expenditures incurred after June 30, 1996, in respect of a production where the principal photography or key animation commenced after May 7, 1996.

The 2000 Budget proposed to enhance and simplify the OFTTC effective May 2, 2000 as follows:

- OFTTC to be based only on Ontario labour expenditures, net of certain government assistance related to those expenditures; and
- Equity investments by government agencies to be treated as government assistance with any reduction in Ontario labour expenditures calculated on a pro-rata basis.
- New regional bonuses for productions that have at least five location days in Ontario and at least 85% of location days in Ontario outside the Greater Toronto area (GTA). The OFTTC would provide a 10% bonus on labour expenditures incurred after May 2, 2000.

These changes were introduced in Bill 152 which received Royal Assent on December 21, 2000.

Graduate Transitions Tax Credit (GTTC)

If claiming this credit, complete Schedule G on page 22 and enter the total tax credit claimed on page 7, line [195].

Enter the total number of graduates hired on page 7, line [194].The GTTC, introduced in the 1997 Ontario Budget, is a refundable tax credit that applies to qualifying expenditures incurred after May 6, 1997 in hiring unemployed postsecondary graduates for positions in Ontario.

If the qualifying employment commenced after May 6, 1997, but before January 1, 1998, the GTTC rate is 10%. If the qualifying employment commenced after December 31, 1997, the following rates apply:

- For corporations whose salaries and wages in the previous taxation year were $400,000 or less, the GTTC rate is 15%.
- The GTTC rate will be progressively reduced for corporations whose salaries and wages paid in the previous taxation year are over $400,000, but less than $600,000.
- For corporations whose salaries and wages in the previous taxation year were $600,000 or greater, the GTTC rate is 10%.

The maximum credit for each qualifying placement is $4,000, regardless of the rate claimed in calculating the credit.

- Qualifying employment is considered to be working an average of more than 24 hours per week during the employment period.
- The tax credit may only be claimed by the corporation based on qualified expenditures paid during the first twelve month period of qualified employment. The credit must be claimed in the taxation year in which the last day of the twelve-month period of employment falls. The minimum employment period to qualify for the GTTC is six consecutive months.
- Consecutive periods of employment by two or more associated corporations is considered to be one continuous period of employment.
- Qualifying post-secondary graduates must have graduated from a prescribed program of study, as prescribed by the regulations, within the past three years and **cannot be related** to the qualifying employer.
- Qualifying graduates must have been unemployed or have not been employed by any person for more than 15 hours per week for at least 16 of the last 32 weeks immediately preceding the first day of qualifying employment.
- A person who is considered to be a full-time student by the educational institution, is deemed to be employed while enrolled in a prescribed program of study.
- Qualifying expenditures are salaries and wages, including taxable benefits, paid or payable to the employee during the first twelve-month period of employment, less any related government assistance received, including assistance received by associated corporations in respect of the qualifying employment (including grants, subsidies and forgivable loans).

For additional information on the GTTC, refer to Tax Legislation Bulletin, Number 98-2R1, dated June 2000.

Ontario Book Publishing Tax Credit (OBPTC)

If claiming the OBPTC enter the total amount of the tax credit on page 7, line [196]. The corporation must include with the CT23 the Ontario Book Publishing Tax Credit Claim form and retain the Certificate Form which has been signed by an authorized officer of the Ontario Media Development Corporation (OMDC).

The OBPTC Application form may be obtained from OMDC by calling 416 314-6858.

The taxpayer must complete and sign the OMDC OBPTC application form and forward it and a copy of the book on which the request for the tax credit is being made to OMDC.

If the publisher and book satisfy all the conditions for eligibility, an authorized officer of OMDC will complete and sign the certificate of eligibility and return it to the corporation. The corporation must then complete the OBPTC Claim form and include this form with the corporation's CT23. Do not include the certification form with the CT23 tax return.

A corporation must complete and submit a separate claim form for each book for which a tax credit is requested.

The OBPTC, introduced in the 1997 Ontario Budget, is a 30% refundable tax credit based on qualifying expenditures made after May 6, 1997 and attributable to an eligible literary work. The OBPTC is limited to a **maximum of $10,000 per eligible literary work before May 3, 2000 (the 2000 Ontario Budget change increased the maximum to $30,000 after May 2, 2000**).

Qualifying Corporations:

- Must be a Canadian-controlled corporation in accordance with s.26 to 28 of the *Investment Canada Act* (Canada) throughout the taxation year; and
- Corporation's principal business activity is the selecting, editing and publishing of books in Ontario.

Publishing Corporations:

- must offer the literary work for sale to the retail market;
- must own its own inventory;
- must bear the financial risks associated with carrying on the business of publishing;
- must enter into contractual agreements with authors and copyright holders for the production of literary works in print;
- cannot claim the tax credit if the literary work was published on consignment; and
- cannot have an agreement with the author or related person to guarantee the payment of the cost of publishing or marketing the literary work.

Eligible Literary Work:

- must be certified by the OMDC;
- must be published after May 7, 1997;
- must be assigned an International Standard Book Number;
- must belong to an eligible category of writing such as fiction or poetry and contain at least 90%, or more, of new material not previously published;
- must be written by a first-time Canadian author; (refer to the 2000 Ontario Budget change below)
- must be at least 48 pages in length (except a children's book) and be bound as a paperback or a hardcover; and
- must be at least 65 percent text to pictures, unless it is a children's book.

Qualifying Expenditures are:

- pre-press costs;
- promotional costs; and
- one half of production costs incurred for printing, assembling and binding activities carried out primarily in Ontario.

The 2000 Ontario Budget proposed to further support the publishing and development of first-time Canadian authors by expanding the maximum tax credit from $10,000 to $30,000 per eligible literary work on the first 3 works by a Canadian author, effective for qualifying expenditures made after May 2, 2000. These changes were introduced in Bill 152 which received Royal Assent on December 21, 2000.

For additional information on the OBPTC, refer to Tax Legislation Bulletin, Number 98-3, dated June 1998.

Ontario Computer Animation and Special Effects Tax Credit (OCASE)

The Ontario Computer Animation and Special Effects (OCASE) tax credit is a 20% refundable tax credit for corporations for activities carried out in Ontario to create digital animation and digital visual effects for use in film and television productions.

If claiming the OCASE tax credit enter the total tax credit claimed on page 7, line [197]. Retain the certificate of eligibility obtained from the Ontario Media Development Corporation (OMDC).

Contact the OMDC for the certificate of eligibility by calling 416-314-6858.

OCASE, introduced in the 1997 Ontario Budget, is a refundable tax credit equal to the sum of:

a. the lesser of:

   i. 20% of the corporation's qualifying labour expenditures for the taxation year, incurred prior to May 6, 1998, in respect of eligible computer animation and special effects activities (ECA and SEA); and

   ii. the amount of the corporation's Ontario computer animation and special effects tax credit limit as certified by the OMDC for all eligible productions for the taxation year; and b. 20% of the corporation's qualifying labour expenditures for the taxation year, incurred after May 5, 1998, in respect of ECA and SEA.

b. 20% of the corporation's qualifying labour expenditures for the taxation year, incurred after May 5, 1998, in respect of ECA and SEA.

- Effective for expenditures incurred after May 4, 1999, the OCASE tax credit includes 50% of amounts paid to individuals in Ontario who are not employees of the qualifying corporation with respect to the qualifying activities performed in Ontario.
- The tax credit limit of a qualifying corporation and all corporations associated with it, is $333,000 for the 1997 calendar year, and $500,000 in respect of eligible labour expenditures incurred after

December 31, 1997 and before May 6, 1998. There is no limit on otherwise qualifying expenditures incurred after May 5, 1998.

- A qualifying corporation is a Canadian corporation that performs ECA and SEA at its permanent establishment in Ontario, for an eligible production undertaken, or for a production under contract with the producer of the production; and
  - i. is not a Labour Sponsored Venture Capital Corporation; and
  - ii. cannot be controlled by one or more income tax exempt corporations.
- Qualifying labour expenditure is the total of all amounts each of which is the eligible labour expenditure of the corporation in respect of an eligible production for the taxation year.
- Eligible labour expenditures for a taxation year equal the lesser of:

a. the salaries or wages that are directly attributable to ECA and SEA, that are paid by the corporation after June 30, 1997 (but, no later than 60 days after the end of the corporation's taxation year) to certain individuals that report to the corporation's Ontario permanent establishment; and

b. the amount by which 48% of the prescribed cost of the ECA and SEA incurred by the corporation in respect of the eligible production exceeds government assistance, in respect of ECA and SEA, the cost of which is included in the cost or capital cost of the eligible production.

Ontario Business-Research Institute Tax Credit (OBRITC)

If claiming the OBRITC, complete the schedule and enter the tax credit on page 7, line [198].

The OBRITC, introduced in the 1997 Ontario Budget, is a 20% refundable tax credit on all qualified research and development expenditures incurred in respect of an eligible research contract entered into, between a corporation operating in Ontario and an eligible research institute, during the taxation year after May 6, 1997; to the extent that no tax credit was claimed for a prior taxation year on these expenditures.

An advance ruling is required from the Minister with respect to the contract, prior to the corporation incurring any expenditures. If the corporation incurs an expenditure under more than one contract, an advance ruling must be obtained for each of the contracts. When expenditures are incurred prior to the advance ruling being obtained, the expenditures will be considered made after the ruling, provided:

- the corporation subsequently obtains a favourable ruling;
- the ruling was applied for within 90 days of the later of, the day the contract was made and December 18, 1997; or
- the ruling was made within 3 years after the contract was made, if the Minister is satisfied that the corporation could not apply earlier because of factors beyond its control.

An eligible contract is:

- one entered into by a corporation or a partnership with an eligible research institute if the eligible research institute agrees to directly perform in Ontario scientific research and experimental development related to a business carried on in Canada by the corporation or partnership; and
- the contract is entered into after May 6, 1997 or, if entered into prior to May 7, 1997, the terms of the contract are such that the research institute will continue to carry out scientific research under contract until after May 6, 1999.

An eligible research institute means a provincially (Ontario) assisted post-secondary institute such as:

- a university or college of applied arts and technology in Ontario;
- an Ontario Centre of Excellence;
- a non-profit organization that is prescribed by the regulations; and
- a hospital research institute.

For additional information on the OBRITC, refer to Tax Legislation Bulletin, Number 00-2, dated January 2000.

Ontario Production Services Tax Credit (OPSTC)

If claiming the OPSTC, enter the total amount of the tax credit on page 7, line [199]. Retain the original certificate of eligibility or a certified copy of the certificate obtained from the Ontario Media Development Corporation.

For additional information, please contact the Ontario Media Development Corporation at 416-314-6858.

The OPSTC, is an 11% refundable tax credit based on qualifying Ontario labour expenditures incurred in the taxation year and after October 31, 1997 attributable to an eligible production.

A qualifying corporation is a corporation that has a permanent establishment in Ontario and produces the eligible production in Ontario. The credit is available only to those corporations that have not claimed or are not allowed to claim an OFTTC under s.43.5.

The OPSTC is a specified tax credit that may be applied to reduce taxes payable (income, premium and capital) and any unused portion may be treated as a deemed payment on account of taxes payable.

The 2000 Ontario Budget proposed new regional bonuses for productions that have at least five location days in Ontario and at least 85% of location days in Ontario outside the Greater Toronto Area (GTA). The OPSTC provides for a 3% bonus on Ontario labour expenditures incurred after May 2, 2000. These changes were introduced in Bill 152 which received Royal Assent on December 21, 2000.

Ontario Interactive Digital Media Tax Credit (OIDMTC)

If claiming the OIDMTC, enter the total amount of the tax credit claimed on page 7, line [200].

The OIDMTC, introduced in the 1998 Ontario Budget, is a 20% refundable tax credit available to qualifying corporations on qualifying expenditures incurred after June 30, 1998 to create interactive digital media products in Ontario.

Qualifying expenditures of a qualifying corporation for a taxation year is the total of its eligible labour expenditures and eligible marketing and distribution expenditure for eligible products for the taxation year.

A qualifying corporation:

- is a Canadian corporation that has a permanent establishment in Ontario;
- on an associated company basis, has neither annual total revenues in excess of $20 million nor total assets in excess of $10 million for the immediately preceding taxation year; and
- is not exempt from taxation under the *Corporations Tax Act.*

The 2000 Ontario Budget proposed expanding the OIDMTC to include up to $100,000 of qualifying marketing and distribution expenses incurred after May 2, 2000 directly related to an eligible interactive digital media product. The qualifying marketing and distribution expenses are limited to those incurred in the 24-month period prior to the completion of the eligible interactive digital media product or in the 12 months after, the month in which the eligible product is completed. These changes were introduced in Bill 152 which received Royal Assent on December 21, 2000.

Retain the certificate issued by the Ontario Film Development Corporation for the taxation year or a certified copy of the certificate.

For additional information please call the Ontario Media Development Corporation at 416 314-6858.

Ontario Sound Recording Tax Credit (OSRTC)

If claiming the OSRTC, enter the total amount of the tax credit on page 7, line [201]. The corporation must complete and include with its CT23 the OSRTC claim form. Retain the original certificate or a certified copy of the certificate obtained from a person designated by the Ontario Media Development Corporation.

For additional information, please contact the Ontario Media Corporation at 416 314-6858.

The 2000 Ontario Budget proposed that effective for expenditures incurred after January 1, 1999 the credit will be available to all Ontario-based, Canadian-controlled sound recording companies. An eligible sound recording company must carry on its sound recording business for at least 24 months preceding the taxation year and allocate, in the current taxation year, more than 50% of its taxable income to Ontario. The budget also proposed to expand the 24-month test to include time spent as a sole proprietorship and in the case of a corporate reorganization, time spent by a predecessor corporation. These measures were introduced in Bill 152 which received Royal Assent on December 21, 2000.

An eligible sound recording must be produced by an emerging Canadian artist or group.

For additional information on the OSRTC, please refer to Tax Legislation Bulletin, Number 00-1 dated, January 2000.

Corporate Minimum Tax (CMT)

Complete if your Total Assets exceeds $5,000,000 or Total Revenue exceeds $10,000,000. These amounts include the aggregate of the total assets and total revenue of any associated corporation. These amounts also include the corporation' s and/or any associated corporation's share of any partnership/joint venture total assets and total revenue.

Corporations that are subject to CMT are required to file financial statements in accordance with GAAP (Refer to Inf. B. 2747 dated May 1994). Your corporation is exempt from CMT if it is:

- an investment corporation as referred to in s.47;
- a mutual fund corporation, or non-resident-owned investment corporation as referred to in s.49; or
- a communal organization, a corporation exempt from income tax or a non-resident corporation that is subject to Ontario income tax only because it disposed of taxable Canadian property situated in Ontario.

Corporations subject to the CMT should DFILE (Refer to Inf. B.2749 dated March 1995). Corporations which are not able to obtain the necessary software package to DFILE, may file their tax return using the Ministry of Finance's pre-printed CT23. Complete Schedules A to E only if the corporation is subject to the CMT. (See page 19 of the 2001 CT23 tax return.)

Corporations that are exempt from CMT, or are not subject to CMT in the year and are not applying a CMT credit, do not need to submit pages 20 and 21 of the 2001 CT23 tax return (CMT Schedules, B,C,D, and E).

Capital Tax (Pages 8, 9, 10, 11, 12 & 13)

On page 13, line [543] , enter the total amount of the corporation's Capital Tax as calculated.

Attach the following, if applicable:

- Schedules showing the calculations of your share of paid-up capital, eligible investments, total assets and gross revenue of all partnerships and joint ventures.
- Supporting computations for any additions or deductions from Total Paid-up Capital page 9, lines [361] and [371], and Total Assets page 10, line [443]
- List all corporate names, amounts and types of investments claimed as Eligible Investments, page 9, lines [400] to [406].

Exemption from Capital Tax

Corporations that have total assets and gross revenue of $1 million or less and that are not part of an associated group of corporations or a partnership are exempt from capital tax and from the requirement to calculate taxable paid-up capital. For taxation years ending after December 31, 2000 this threshold was increased to $1.5 million or less.

Family farm corporations, family fishing corporations, credit unions that are prescribed not to be financial institutions and certain mutual insurance corporations are exempt from capital tax effective for taxation years ending after May 4, 1999 (Please refer to page 20 of this guide for details of the capital tax exemption for credit unions that are financial institutions).

Corporations or groups of associated corporations that have aggregate taxable paid-up capital of $2 million or less are exempt from capital tax effective May 5, 1999. For taxation years straddling May 4, 1999, the amount of capital tax payable is the capital tax determined using the rules as they read on May 4, 1999 multiplied by the ratio of the number of days in the taxation year that are before May 5, 1999 to the total number of days in the taxation year.

To assist corporations in correctly completing their capital tax calculation, a general step-by-step approach and 2 examples illustrating the application of this approach have been provided in appendix A (page 27) of this guide.

Capital Tax Rate

- The flat rates of capital tax (ie. $100, $200, $500) will be eliminated effective May 5, 1999.

Effective May 5, 1999, the general capital tax rate of 0.3% is phased in for corporations or groups of associated corporations with taxable paid-up capital in excess of $2 million and less than $2.4 million. The threshold of $2.4 million will be increased by $400,000 annually commencing January 1, 2000 and ending January 1, 2003. The phase-in is accomplished by a reduction to the capital tax payable at the general rate. In these situations capital tax will be calculated according to the following formula:

$$(\text{TPUC} \times 0.3\%) - \textbf{REDUCTION}$$

Where, the REDUCTION for a corporation that is not a member of an associated group or a partnership is:

$$(\text{Threshold} - \text{TPUC}) \times \text{Reduction Rate OR}$$

OR

Where, the REDUCTION for a corporation that is a member of an associated group and/or a partnership is:

$$\frac{(\text{Threshold} - \text{GTPUC}) \times \text{Reduction Rate} \times \text{TPUC}}{\text{GTPUC}}$$

Notes:

(1) TPUC is the taxable paid-up capital of the corporation.

(2) GTPUC is the aggregate of taxable paid-up capital of each member of the associated group of corporations, including their share of the taxable paid-up capital of partnerships.

(3) TPUC or GTPUC cannot exceed the applicable threshold.

The following schedule outlines the reduction rate, threshold and applicable phase-in period. For taxation years straddling more than one phase-in period, a REDUCTION amount must be computed for each applicable period and prorated based on the ratio that the number of days in the taxation year that are in the period is to the total number of days in the taxation year.

Reduction Rate	Threshold	Applicable Phase-in Period
1.5%	$2,400,000	after May 4, 1999 and before January 1, 2000
0.75%	$2,800,000	2000 calendar year
0.5%	$3,200,000	2001 calendar year
0.375%	$3,600,000	2002 calendar year
0.3%	$4,000,000	January 1, 2003 and thereafter

- For taxation years that straddle May 4, 1999, the capital tax payable by a corporation will be the aggregate of **A** and **B**, where

A = capital tax based on the rates as they read on May 4,1999 multiplied by the ratio of the number of days in the taxation year that are before May 5, 1999 to the total number of days in the taxation year; and

B = capital tax based on the rates as they read after May 4, 1999 multiplied by the ratio of the number of days in the taxation year that are after May 4, 1999 to the total number of days in the taxation year.

Notes:

1) Connected Partnerships

Corporations that are members of a connected partnership may be required to make an adjustment when determining the REDUCTION to which they are entitled. Generally speaking, two partnerships are connected when 50% of the income of one of the partnerships is allocated to a particular person or particular group of persons and 50% of the income of the other partnership is also allocated to the particular person, particular group of persons or a corporation that is associated with the particular person or any member of the particular group of persons. Corporations should contact the Canada Revenue Agency (see page 3 of this guide) for instructions on calculating the adjustment.

2) Short Taxation Year

Capital tax payable is prorated for corporations that have taxation years of less than 365 days (366, if a leap year). The proration is accomplished by multiplying the capital tax otherwise payable by the ratio of the total number of days in the taxation year to 365.

3) Floating Taxation Year

A floating taxation year refers to corporations whose taxation year does not end on the same date each year. For example a corporation with a floating taxation year may end on the last Saturday in December each year. As a result, in 2000 the number of days in such a corporation's taxation year would be 371 days and in 2001 would be 364 days. These situations, and in similar situations are considered to be full taxation years. In cases where the taxation year is less than 365 days, solely as a result of a floating taxation year, it is not considered to be a short taxation year and capital tax would not be reduced. If a corporation, which normally has a floating taxation year, has a short taxation year the corporation would use 365 days (no adjustment for a leap year).

Corporations with a floating taxation year where more than one capital tax rate is applicable and a proration calculation based on the number of days in a period is required must use the actual number of days in the floating taxation year and not 365 to compute the proration.

Recent changes to paid-up capital and investment allowance, introduced in the 1997, 1998, and 1999 Ontario Budgets are listed below:

1999

Investment Allowance

The following investments issued by a corporation that would be considered to be a financial institution if it carried on business in Canada and had been incorporated in Canada (referred to as a foreign financial institution) are eligible for the investment allowance:

a. shares;

b. long-term debt;

c. bankers' acceptances that are issued for a term of at least 120 days and are held by the corporation for at least 120 days before the end of its taxation year.

Investments in deposits, term deposits, investment certificates, loans and advances, and other short/ medium term obligations of foreign financial institutions are no longer eligible. This measure is effective for taxation years ending after December 14, 1999.

1998

Paid-up Capital

Deferred revenue is included in paid-up capital where it would also be included in paid-up capital for the purposes of the federal large corporations tax. Deferred revenue representing a deposit paid for future delivery of goods or services on income account of the payer, is no longer excluded from paid-up capital, effective for taxation years ending after October 30, 1998.

Investment Allowance

Any deposit paid for delivery of goods or services is an eligible investment if the deposit is an eligible investment for the purposes of the federal large corporations tax, effective for taxation years ending after October 30, 1998. Previously, only deposits for delivery of goods or services on account of capital were allowed as eligible investments.

The following investments issued by Canadian financial institutions are eligible for the investment allowance:

a. shares of the financial institution;

b. long-term debt;

c. bankers' acceptances that are issued for a term of at least 120 days and are held by the corporation for at least 120 days before the end of its taxation year.

Investments in deposits, term deposits, investment certificates, loans and advances, and other short/ medium term obligations of Canadian financial institutions are no longer eligible. Effective for taxation years ending after October 30, 1998.

Investments in a stripped interest coupon is an eligible investment where the underlying bond is an eligible investment. Effective for taxation years ending after October 30, 1998.

Shares, bonds and lien notes issued to a related corporation (with a different taxation year end) less than 120 days before the end of the corporation' s taxation year as part of a series of investments and repayments or redemptions, do not qualify as eligible investments for investment allowance purposes, for taxation years ending after October 30, 1998. This rule is an extension of the 1997 amendment for loans and advances to related corporations.

1997

Investment Allowance

Loans and advances to any government and bonds, debentures, treasury bills or other securities of any government, of a crown corporation that is exempt from Ontario capital tax, of a municipal or school corporation, do not qualify as eligible investments for investment allowance purposes, effective for taxation years ending after December 31, 1997.

Deposits of cash with any corporation authorized to accept deposits from the public are not considered loans and advances to other corporations and do not qualify as an eligible investment for investment allowance purposes. Effective for taxation years ending after May 6, 1997. Previously, only deposits with a corporation doing the business of a bank did not qualify as an eligible investment.

Loans and advances issued for a term of less than 120 days or held for less than 120 days before the end of the taxation year, are not considered to be loans and advances to other corporations if the other corporation is a Canadian or foreign financial institution. Effective for taxation years ending after May 6, 1997. Previously, the restriction generally applied only to corporations carrying on the business of a bank.

Loans and advances issued for a term of less than 120 days or held for less than 120 days before the end of the taxation year, are not considered to be loans and advances to other corporations if the other corporation does not deal at arm' s length with a corporation that;

1. is a foreign financial institution, or
2. is a Canadian financial institution, and either corporation described in 1 or 2 guarantees the amount of loan or advance or provides security for the repayment of the loan or advance. Effective for taxation years ending after October 30, 1997.

Loans and advances made to a related corporation (with a different taxation year end) less than 120 days before the end of the corporation's taxation year as part of a series of loans and advances, do not qualify as eligible investments for investment allowance purposes, for taxation years ending after October 30, 1997.

Deductions from paid-up capital of any balance deferred for tax purposes pertaining to R & D or the Ontario New Technology Tax Incentive (ONTTI), if not already deducted for accounting purposes are now permitted for taxation years ending after May 6, 1997.

Capital Tax: Financial Institutions
(Page 14)

Financial institutions are required to complete the capital tax calculation for financial institutions on page 14. These financial institutions are required to calculate capital tax in accordance with Division B.1. Schedules detailing the calculations for the amounts used on page 14, lines [565] and [570] should be retained by the financial institution.

A financial institution is defined to include:

- banks;
- registered securities dealers;
- mortgage investment corporations;
- credit unions (other than a central credit union or league prescribed by regulation);
- corporations authorized under the laws of Canada or a province to accept deposits from the public and carry on the business of lending money;
- corporations that are authorized under the laws of Canada or a province to carry on the business of offering their services as a trustee to the public; and
- any other corporation which is prescribed by regulation to be a financial institution.

Investment Allowance

The 1999 Ontario budget announced a change in the computation of a financial institution's investment allowance for certain corporations. Effective on or after May 7, 1997, a financial institution is allowed to claim a full investment allowance for investments in shares and long-term debt of related financial institutions and insurance corporations in Canada, whether or not they have a permanent establishment in Ontario, provided that the financial institution claiming the investment allowance allocates all its capital to Ontario and is not controlled directly or indirectly by another financial institution.

Capital Tax Rates - Financial Institutions

The rates of capital tax payable by financial institutions (excluding credit unions) are:

Deposit-taking Institutions and Related Corporate Financial Institutions (other than a credit union)

- 0.6 % of the lesser of its adjusted taxable paid-up capital (ATPUC) in accordance with Division B.1 and its Basic Capital Amount multiplied by the corporation's Ontario allocation factor; and
- 0.9 % of its ATPUC in excess of the Basic Capital Amount multiplied by the corporation's Ontario allocation factor.

Non Deposit-taking Institutions (other than credit unions) that are not related to a deposit-taking institution in the taxation year.

- 0.6 % of the lesser of its ATPUC and the Basic Capital Amount, multiplied by the corporation's Ontario allocation factor; and
- 0.72 % of its ATPUC in excess of the Basic Capital Amount multiplied by the corporation's Ontario allocation factor.

Credit Unions that are Financial Institutions

The 1999 Ontario Budget announced that effective May 5, 1999, credit unions that are financial institutions are exempt from capital tax. For taxation years straddling May 4, 1999, the amount of capital tax payable will be the tax determined using the rules and rates as they read on May 4, 1999 multiplied by the ratio of the number of days in the taxation year that are before May 5, 1999 to the total number of days in the taxation year.

The rates of capital tax payable by credit unions that are financial institutions for taxation years commencing before May 5, 1999 are:

- 0.05% of taxable paid-up capital for the ratio that the number of days in the taxation year after December 31, 1997 and before January 1, 1999 are to the total number of days in the taxation year multiplied by the corporation's Ontario allocation factor; and
- 0.1% of taxable paid-up capital for the ratio that the number of days in the taxation year after December 31, 1998 and before May 5, 1999 are to the total number of days in the taxation year multiplied by the corporation's Ontario allocation factor.

Small Business Investment Tax Credit (SBITC) for Financial Institutions

The SBITC allows certain financial institutions and credit unions to reduce their capital tax liability by making eligible investments to qualifying small businesses. The credit includes a 30% tax credit for investments in the equity capital of Community Small Business Investment Fund Corporations (CSBIFCs) that are made after May 6, 1997 and before January 1, 2000.

An additional 30% tax credit may be claimed by a financial institution when the CSBIFC reinvests the capital in eligible investments under the *Community Small Business Investment Funds Act* in the taxation year. In order to claim the tax credit, in respect of investments made in CSBIFCs, a financial institution must obtain an approval letter by applying in writing to:

Ministry of Finance
Corporations Tax
PO Box 624
33 King Street West
Oshawa ON L1H 8H5

The approval letter must be attached to the CT23 for the year in which the tax credit is claimed.

Premium Tax (Page 14)

1) Uninsured Benefit Arrangements

Complete this section if you administer Ontario-related Uninsured Benefit Arrangements (UBA) and are liable to collect and remit premium tax related to the UBA. This provision applies to corporations and to unincorporated entities.

If reporting UBA premiums, enter the amount of UBA premiums on page 14, line [587] and the related amount of premium tax on page 14, line [588]. Insurance corporations should use the CT8 tax return to calculate this tax.

If an UBA plan has more than one administrator at the same time, an administrator may file an election in a letter form with its CT23 to account for all tax owing for the plan. The letter must include the name of the plan, names and addresses of all administrators of the plan, and a certification that all tax has been accounted for during the period covered by the election.

If partners of a partnership are each administrators of the same plan, the partners may wish to account for their UBA liability for the taxation year by filing a joint CT23 for their UBA tax only. A letter signed by each partner, must be filed with each joint return certifying that the partners' UBA liability has been reported in full for the taxation year.

2) Insurance Placed With Unlicenced Insurer

Complete this section if you are:

a. an Insurance Broker who currently files a CT23 and who has placed an insurance contract with an unlicenced insurer; or

b. a corporation that has purchased insurance directly from an unlicenced insurer.

Enter the total premium tax on premiums paid in the taxation year on page 14, line [588]. Attach a schedule to the CT23, showing the calculation of the premium tax.

Premium tax on insurance placed with unlicenced insurers is collected under the *Corporations Tax Act* for premiums paid to a broker during its taxation year commencing after 1997, and for premiums paid directly by a corporation after 1997.

Reconciliation of Net Income (Loss) for Federal Tax Purposes to Ontario (if different) (Page 15)

Reconcile net income (loss) for federal tax purposes with net income (loss) for Ontario purposes if amounts differ.

Transfer the net income (loss) determined on page 16, line [690] to page 4 of the CT23.

The following changes were introduced in the 1997, 1998 and 1999 Ontario Budgets.

Royalties (Page 15 of the CT23)

As announced in the 1999 Ontario Budget, the following royalties will no longer be subject to the 5/15.5 add-back rule: Amounts paid or payable to a non-arm's length non-resident person or a non-arm's length non-resident owned investment corporation:

- for the use or right to use computer software in Canada; or
- for the use or right to use patents or information concerning industrial, commercial or scientific experience (know-how), including designs, models, plans, formulas and processes in Canada.

This is regardless of whether a tax treaty exempts the royalty from federal withholding taxes under the *Income Tax Act* (Canada).

This change is effective for amounts which are deducted and are payable by a corporation for a taxation year ending after May 4, 1999.

The 1997 Ontario Budget introduced the following amendment re: Management fees, rent, royalties and similar payments:

- Where a corporation has made payments to a related non-resident person for the use of, or the right to use, in Canada, computer software, or a patent or information concerning industrial, commercial or scientific experience, or a design or model, plan, secret formula or process such payments will not be included in Ontario' s 5/15.5 add-back rule if the payment is exempt from tax under Part XIII of the *Income Tax Act* (Canada) by virtue of a tax treaty or convention between Canada and another country. This change is applicable in respect of amounts paid or payable and deducted in computing taxable income after December 31, 1997 but before May 5, 1999.

Ontario New Technology Tax Incentive (ONTTI) (Page 16, line [663])

The ONTTI, introduced in the 1997 Ontario Budget, is a 100% capital cost allowance on the eligible capital cost of an arm's length acquisition of prescribed intellectual property such as patents, know-how, licences, etc. (excluding trade-marks and copyrights) if used to implement a process, an innovation or an invention in Ontario.

The eligible costs of qualifying intellectual properties are included in a class 12 capital cost allowance pool and allowed as a 100% deduction from income in the year of acquisition.

Multi-jurisdictional firms that use the technology in Ontario and in other parts of the country are entitled to a share of the capital cost allowance in proportion to the level of activity in Ontario. If the technology is used exclusively in Ontario, the corporation is entitled to a "gross-up" deduction under s.13.1 similar to the R&D Super Allowance. The "gross-up" deduction is entered on page 16, line [663].

The maximum eligible expenditures allowed in a year is $20 million for a corporation, or if associated, $20 million for the associated group of corporations.

Both the capital cost allowance and the gross-up deductions may be subject to recapture (add back to income) when the property is disposed.

For additional information on the ONTTI refer to Tax Legislation Bulletin, Number 98-12, dated October 1998.

Workplace Child Care Tax Incentive (WCCTI) (Page 16, line [666])

The WCCTI, introduced in the 1998 Ontario Budget, is a 30% deduction of qualifying capital cost expenditures, incurred by a corporation to construct new on-site licensed child care facilities in Ontario, to renovate existing facilities in Ontario or for contributions made to an unrelated party for these types of expenditures.

The corporation must obtain from the child care operator written confirmation that the money or qualified contributions are used for the purposes of constructing or renovating a child care facility or for the acquisition of playground equipment.

The child care operator must provide the corporation with its licence number under the *Day Nurseries Act*.
Corporations which allocate part of their taxable income to other jurisdictions are entitled to "gross-up" the WCCTI deduction to ensure that the full benefit of the deduction is realized.

For additional information on the WCCTI refer to Tax Legislation Bulletin, Number 99-2, dated August 1999.

Workplace Accessibility Tax Incentive (WATI) (Page 15, line [668])

The Workplace Accessibility Tax Incentive (WATI), introduced in the 1998 Ontario Budget, provides a deduction in respect of qualifying expenditures incurred after July 1, 1998. The WATI can only be claimed once on a particular qualifying expenditure and is in addition to other deductions available for income tax purposes in respect of the qualifying expenditures.

The amount of the WATI for a corporation or partnership of which the corporation is a member, during a particular taxation year is the total of:

1. The expenditures incurred to provide the support services of a sign language interpreter, an intervenor, a note-taker, a reader or an attendant, during a job interview in Ontario.
2. Qualifying expenditures up to a maximum of $50,000 per qualifying employee, other than the qualified expenditures included in the amount determined under paragraph 1 above. The maximum of $50,000 per qualified employee is reduced by any qualified expenditures incurred in a prior taxation year, in respect of the qualifying employee which were included in determining a WATI deduction in that prior year. Corporations with allocation to other jurisdictions are entitled to "gross-up" the WATI to ensure that the full benefit of the deduction is realized.

A corporation or partnership making a WATI deduction must keep as part of their books and records a copy of the certificate or relevant documentation on which the corporation is relying in claiming that the employee is a qualifying individual.

For additional information on the WATI refer to Tax Legislation Bulletin, Number 99-1, dated August 1999.

Ontario School Bus Safety Tax Incentive (OSBSTI) (Page 16, line [671])

The Ontario School Bus Safety Tax Incentive (OSBSTI), introduced in the 1999 Ontario Budget, is a 30% deduction of the capital cost of acquiring a new school bus. The school bus must be included in class 10 of Schedule II of the regulations for purposes of the *Income Tax Act* (Canada). The OSBSTI can only be claimed once in respect of the acquisition and is in addition to the deduction available for income tax purposes with respect to the capital cost allowance. For a multi-jurisdictional corporation the incentive is grossed up by the corporation's Ontario allocation factor. A new school bus eligible for the incentive is one defined under subsection 175(1) of the *Highway Traffic Act* that conforms to the CSA standard D250-1998. The school bus must be used primarily to transport students to and from school in Ontario. It must be acquired after May 4, 1999 and before May 5, 2002.

Educational Technology Tax Incentive (ETTI) (Page 16, line [673])

The Educational Technology Tax Incentive (ETTI), introduced in the 2000 Ontario Budget, is a 15% deduction calculated on the amount of a price discount given or a donation made after May 2, 2000 to an eligible Ontario community college or eligible Ontario university with respect to new eligible teaching equipment and new eligible learning technologies.

The ETTI is available to corporations and to a corporation that is a general partner in a partnership where the partnership has made the price discount or donation.

In order to claim this incentive the corporation must obtain a certificate issued by the eligible educational institution which received the donation or price discount stating that the equipment or technology meets the conditions of eligibility for the ETTI. The certification form must be retained by the corporation in order to claim this incentive. The certificate should not be submitted with the corporation's tax return.

Donations and price discounts in line [672] on page 16 of the CT23 return. The amount of ETTI claim should be entered in line [673] and will be 15% of the amount in line [672] for corporations operating only in Ontario (100% allocation to Ontario). For multi-jurisdictional corporations (less than 100% allocation to Ontario) the amount in line [672] must be grossed up by dividing it by the corporation's Ontario allocation factor. The 15% incentive is then taken on the grossed up figure and entered in line [673].

For additional information on the ETTI, refer to Tax Legislation Bulletin on the Educational Technology Tax Incentive.

Continuity of Losses Carried Forward - Analysis of Balance by Year of Origin (if different) (Page 17)

Complete these schedules whenever losses are incurred or losses are carried forward.

Note: Commencing with the 2001 CT23 tax return capital losses are now shown at 100% of losses (before applying the inclusion rate).

Request for Loss Carry-back (Page 18)

Complete this schedule if the corporation is carrying back a non-capital, net-capital, farm or restricted farm loss. The onus is on the taxpayer to substantiate any loss being carried back to a prior year.

Summary of Taxes Payable (Page 18)

In the summary section, bring forward the amounts of Income Tax, Corporate Minimum Tax, Capital Tax and Premium Tax and enter the total on page 18, line [950]. Enter payments made on page 18, line [960]. Mutual fund corporations may enter their Ontario Capital Gains Refund amount on page 18, line [965]. Corporations may enter their QET on page 18, line [985]. If claiming the Specified Tax Credits, enter the unapplied amount (see Specified Tax Credits section) on page 18, line [955].

If you are requesting a refund:

- for the full overpayment, complete line [975] - any related credit interest will also be refunded.
- if you want the total overpayment, including any related credit interest, to be applied to a particular taxation year, complete the "Apply to" field but leave line [975] blank.
- if you want to apply a specific amount to a taxation year, complete the "Apply to" field and put the amount in line [980] -any remaining balance will be refunded.

Certification (CT23) (Page 18)

Complete the "Certification" section by providing the name, address, and title of the authorized signing officer of the corporation. Be sure to sign and date the CT23.

The Annual Return (MSGS)

The Annual Return is comprised of page 1 of the combined CT23 Corporations Tax and Annual Return and either of MGS Schedule A or MGS Schedule K (page 23 or 24). The information provided on these pages is collected under the authority of the *Corporations Information Act* for the purpose of maintaining a public database of corporate information. The Ministry of Finance (MOF) is collecting this information on behalf of the Ministry of Government Services (MGS). This collection process applies to corporations that have a taxation year ending on or after January 1, 2000. If you answer "Yes" to the question below, most of the information on page 1 of the combined return and where applicable, MGS Schedule A or MGS Schedule K, will be provided to MGS by the MOF. Authority for providing this information is given pursuant to subsection 98(4) of the *Corporations Tax Act*.

Is an MGS Annual Return Required?

Every corporation that is incorporated, amalgamated or continued in Ontario under the *Business Corporations Act*, Ontario must file an Annual Return. This type of corporation is referred to as an "Ontario Corporation".

Every foreign corporation which has a licence endorsed under the *Extra-Provincial Corporations Act* to carry on business in Ontario must file an Annual Return. Foreign extra-provincial corporations are those corporations that are incorporated, amalgamated or continued outside Canada. This type of corporation is referred to as a "Foreign Business Corporation".

If neither of the above applies to the corporation then please answer "No" to the question "MGS Annual Return Required?".

If one of the above conditions does apply but the corporation has filed the Annual Return electronically to MGS, then the corporation's response to the question will be "No".

Note: A corporation that is incorporated, continued, or amalgamated in a Canadian jurisdiction other than Ontario is not required to file an Annual Return.

How can you file?

The following methods are available to file the Annual Return:

- Complete and submit the preprinted paper CT23 and Annual Return or the Annual Return and EFF Declaration to the Minister of Finance at the address indicated on the top of page 1 of these documents.
- Complete the electronic filing version of the Annual Return directly with the Ministry of Government Services. For information on this filing option, refer to the ServiceOntario website at **serviceontario.ca/business.** If applicable, the corporation would submit its CT23 to the Minister of Finance separately.

When Must You File?

A corporation with share capital that is required to deliver a CT23 (or is EFF) and an Annual Return is required to file the Annual Return within six months after the end of its taxation year. This applies whether the Annual Return is delivered to the MOF or electronically to MGS.

A corporation is only required to file one Annual Return in a calendar year. This return is due at the time the first CT23 is required to be delivered to the MOF during the calendar year. A corporation's CT23 is required to be delivered on or before the last day of the sixth month after the end of the taxation year.

The Annual Return will be considered delivered on the date it is received by the Ministry of Finance. The effective date of filing for the Annual Return is the date the information is updated in the Ontario Business Information System (ONBIS). The effective date of filing for the CT23 is the date the Minister of Finance receives it.

If the Annual Return is filed electronically during MGS business hours, the date of receipt will be considered to be that day. Otherwise, the date of receipt will be the next business day of MGS.

An Annual Return is considered filed if it is complete and has been recorded in the ONBIS.

Incomplete Annual Returns are considered to be deficient. MGS will contact corporations regarding Annual Return deficiencies. The Annual Return will not be considered filed until the deficiency is corrected.

What Must You File?

Ontario Corporations must complete all of the information on page 1 of the combined CT23 Corporations Tax and Annual Return. MGS Schedule A will only be required if there has been a change in the information previously submitted to MGS with regard to the Directors, Officers, or Administrators of the corporation.

Foreign Business Corporations must complete all of the information on page 1 of the combined CT23 Corporations Tax and Annual Return and MGS Schedule K. MGS Schedule K will only be required if there has been a change in the information previously submitted to MGS with regard to Chief Officer/Manager or Agent for Service.

All information in the Annual Return must be current as of the **date of delivery** to the Ministry of Finance or to the MGS.

Each corporation must keep an up-to-date paper or electronic record of the prescribed information set out in the return available for examination at its registered office or principal place of business in Ontario.

Note: If you are filing a CT23 or are claiming an exempt from filing (EFF) status, please refer to the beginning of this guide for information on completion and filing requirements.

Completion of Page 1

Page 1 is a common page to both the CT23 and the Annual Return. **In order to avoid delays in the processing of the return, it is essential that page 1 of the return contain all of the following:**

- Answer to the question: MGS Annual Return Required? (see above to determine whether the corporation is required to file)
- Corporation's Legal Name and Mailing Address
- Ontario Corporations Tax Account No. (MOF)
- Taxation Year Start Date
- Taxation Year End Date
- Answer to the question: Has address changed since last filed CT23 Return? If yes, please indicate the date of change.
- Date of Corporation's Incorporation or Amalgamation
- Ontario Corporation No. (MGS)
- Canada Revenue Agency Business Number
- Jurisdiction Incorporated

Note: If there has been a taxation year end change approved by Canada Revenue Agency, please attach a copy of the approval to the return.

What If You Need Help to Complete this Annual Return?

If you need more help after reading this section, please contact the Canada Revenue Agency at the numbers listed on page 3 of this guide.

Fines and Penalties

Sections 13 and 14 of the *Corporations Information Act* provide penalties for failure to file an Annual Return and the appropriate MGS Schedule(s) A or K.

A person, other than a corporation, is liable to a fine of not more than $2,000. A corporation is liable to a fine of not more than $25,000.

MGS Schedule A

MGS Schedule A **must** report current information on all directors and the five most senior officers of the corporation. All changes that have taken place since the last filing of the Annual Return, Initial Return or Notice of Change **must** also be included. Schedule A is not required where there has not been any change in the information reported on the last filing. Senior officers include the following positions or their equivalent: president, general manager, treasurer and secretary.

- A minimum of one director is required in a non-offering business corporation and a minimum of three directors is required for all others.
- The MGS Schedule A provides space for information on two Director/Officer positions.
- **Please photocopy the blank MGS Schedule A if you require additional space.** Please state the number of MGS Schedule A's being submitted in the box on page 1 of the Annual Return.
- Please complete all of the applicable fields on the schedule, ensuring that the Corporation's name includes all punctuation and that the Ontario Corporation No. (MGS) is the number assigned by MGS.
- If the box "Other (specify)" is applicable, in order to cease or change an officer previously reported under "Other Titles", cease the officer, then use a blank schedule "A" to add (if applicable) the new information.

Instructions for completing MGS Schedule A

Field Name	Items to include
Corporation's Legal Name	include all punctuation
Ontario Corporation No. (MGS)	enter your **Ontario Corporation** No.
Date of Incorporation or Amalgamation	enter your incorporation or amalgamation date in the box provided
Director/Officer Information Full Name and Address for Service: • Last Name • First Name • Middle Name(s) • Street Number and Name • Suite • City/Town/Village • Province/State • Country • Postal/Zip Code	**complete all fields where applicable**
Director • Resident Canadian Yes or No • Date Elected • Date Ceased	**complete all fields where applicable** • check applicable box (applies for directors of business corporations only) • insert the date the individual became a director • insert the date the director ceased to hold their position
Officer • Date Appointed • Other (specify) • Date Ceased • Other (specify)	**complete all fields where applicable** • indicate the position currently held by the individual and complete the date appointed as an officer to their current position(s) • insert the date the officer was appointed and check the appropriate box under other titles • insert the date the officer ceased to hold their position(s) • please specify if other titles apply • to cease or change an officer previously reported under Other Titles cease the officer, then use a blank schedule "A" to add (if applicable) the new information.

MGS Schedule K

Schedule K is for reporting current information on the Chief Officer/Manager and the Agent for Service for foreign business corporations which have a licence endorsed under the *Extra-Provincial Corporations Act* to carry on business in Ontario.

Only one Schedule K may be submitted. Please do not photocopy.

Please complete all of the applicable fields and boxes on the schedule, ensuring that the Corporation's name includes all punctuation and that the Ontario Corporation No. (MGS) is the number assigned by MGS.

Instructions for completing MGS Schedule K

Field Name	Items to include
Corporation's Legal Name	include all punctuation
Ontario Corporation No. (MGS)	enter your **Ontario Corporation** No.
Date of Incorporation or Amalgamation	enter your incorporation or amalgamation date in the box provided
Chief Officer/Manager Information **Full Name and Office Address of the Chief Officer/Manager in Ontario:** • Last Name • First Name • Middle Name(s) • Street Number and Name • Suite • City/Town/Village • Province/State • Country • Postal/Zip Code	**complete all fields where applicable**
Indicate the Appointment Period for the Position of Chief Officer/Manager: • Date Appointed • Date Ceased	**complete all fields where applicable** • insert the date the Chief Officer/Manager was appointed • insert the date the Chief Officer/Manager ceased their appointment
Indicate if the Agent for Service is an Individual or a Corporation: • Individual • Agent's Last Name • Agent's First Name • Middle Name(s) • Street Number and Name • Suite • City/Town/Village • Province • Country • Postal Code • Corporation • Corporation Name • Corporation No. • Care Of • Street Number and Name • Suite • City/Town/Village • Province • Country • Postal Code	**complete all fields where applicable** • enter a check mark if applicable

APPENDIX A

A Step-by-Step Approach to Completing the Capital Tax Calculations

The 1999 Ontario Budget introduced a series of changes to capital tax for small business which impact the capital tax calculation of certain corporations for taxation years from 1999 to 2004 (refer to pages 17 and 18 of this guide). Corporations may use the following general STEP-BY-STEP approach to assist them in calculating capital tax.

STEP 1 **Determine which of the three paragraphs,** under the section titled "Calculation of Capital Tax for all corporations except Financial Institutions" on page 10 of the CT23, applies to your corporation. Note, the paragraphs should be reviewed in sequence. Go to the SECTION(S) as identified in the applicable paragraph. If you are required to complete SECTION C, you must then determine whether SECTION D or SECTION E applies.

STEP 2 **Select the first subsection that applies directly to the corporation's situation.** Each subsection should be reviewed in sequence.

STEP 3 **Complete the required calculations in each applicable part of the subsection.** The calculations in each subsection account for Ontario allocation and short taxation years, therefore, no further adjustments will be required for these items. Corporations with floating taxation years should replace 365 (366 if leap year) with the actual total number of days in its taxation year.

The following examples illustrate the application of the step-by-step approach.

Example #1

ABC is a manufacturing corporation with the following financial information:

- gross revenue is $4,000,000
- taxation year end is June 30, 2001
- total assets (as adjusted) are $3,600,000
- # of days in the taxation year are 365
- taxable capital is $3,000,000
- Ontario allocation is 72.0%.

ABC is not associated with any other corporations.

Solution for Example #1

STEP 1 ABC reviews the three paragraphs on page 10 of the CT23 in sequence. ABC determines that paragraph 2 applies since it is not a farm corporation (etc.) and it is not a member of an associated group. ABC will then go to SECTION B on page 10 of the CT23.

STEP 2 ABC reviews subsections B1 to B5 commencing with B1. ABC determines that subsection B4 is the first subsection to apply since its taxable capital is more than $2,000,000, but less than or equal to $3,600,000. ABC's taxable capital is $3,000,000. ABC is not required to go to another subsection of SECTION B.

STEP 3 ABC now computes the capital tax payable for its taxation year. ABC's taxation year commenced on July 1, 2000, since no part of the taxation year was before January 1, 2000, ABC would disregard the calculation under B4(a). A portion of ABC's taxation year falls between December 31, 1999 and January 1, 2001, so ABC would complete the calculation under B4(b). ABC would calculate capital tax at .3% on its $3,000,000, however since its taxable capital of $3,000,000 is greater than the threshold of $2,800,000 for a reduced capital rate for this time period, ABC would enter NIL in line [493] and complete the remainder of B4(b), by multiplying the $9,000 capital tax by the Ontario allocation percentage (72.0%) and finally prorating this amount by multiplying it by the number of days in this period (184) and dividing by the total days in the taxation year (365). Since a portion of ABC's taxation year is during the 2001 calendar year, ABC would have to complete B4(c) too. However, in the B4(c) calculation, unlike in the previous calculation, ABC's taxable capital of $3,000,000 is less than $3,200,000 threshold, and ABC will be allowed a reduction from the .3% capital tax rate for that portion of its taxation year that is in the 2001 calendar year. Finally, when ABC looks at B4(d), since no part of its taxation year falls during the 2002 calendar year, ABC would enter NIL in line [525]. ABC would now total the amounts calculated for [505], [507], [522] and [525] and enter the total in [508]. This amount is then transferred to [543] on page 13.

Solution for Example #1 con't.

B4. If taxable capital, [470] on page 10, exceeds $2,000,000 but is $3,600,000 or less, complete the following calculations and transfer the total From [508] to [543] on page 13 and complete the return from that point.

▼ Calculation: Portion of Capital Tax relating to the days in the taxation year after May 4, 1999 and before January 1, 2000

(a) From [470] ______ X 0.3% = + [490] ______

Deduct:

$2,400,000 – From [470] ______ X 1.5% = – [492] ______ *If 2,400,000 – [470] is negative, enter NIL in [492]*

([504] = [490] – [492]) = [504] ______ X From [30] ___ % Ontario Allocation X [552] 0 (Days in taxation year after May 4, 1999 and before Jan 1, 2000) / **365 (366 if leap year) = + [505] 0

▼ Calculation: Portion of Capital Tax relating to the days in the taxation year after December 31, 1999 and before January 1, 2001

(b) From [470] 3,000,000 X 0.3% = + [490] 9,000

Deduct:

$2,800,000 – From [470] 3,000,000 X 0.75% = – [493] 0 *If 2,800,000 – [470] is negative, enter NIL in [493]*

([506] = [490] – [493]) = [506] 9,000 X From [30] 72.0 % Ontario Allocation X [553] 184 (Days in taxation year after Dec 31, 1999 and before Jan 1, 2001) / **365 (366 if leap year) = + [507] 3,267

▼ Calculation: Portion of Capital Tax relating to the days in the taxation year after December 31, 2000 and before January 1, 2002

(c) From [470] 3,000,000 X 0.3% = + [490] 9,000

Deduct:

$3,200,000 – From [470] 3,000,000 X 0.5% = – [495] 1,000 *If 3,200,000 – [470] is negative, enter NIL in [495]*

([509] = [490] – [495]) = [509] 8,000 X From [30] 72.0 % Ontario Allocation X [554] 181 (Days in taxation year after Dec. 31, 2000 and before Jan 1, 2002) / **365 (366 if leap year) = + [522] 2,856

▼ Calculation: Portion of Capital Tax relating to the days in the taxation year after December 31, 2001 and before January 1, 2003

(d) From [470] ______ X 0.3% = + [490] ______

Deduct:

$3,600,000 – From [470] ______ X 0.375% = – [496] ______ *If 3,600,000 – [470] is negative, enter NIL in [496]*

([515] = [490] – [496]) = [515] ______ X From [30] ___ % Ontario Allocation X [556] 0 (Days in taxation year after Dec 31, 2001 and before Jan 1, 2003) / **365 (366 if leap year) = + [525] 0

Total Capital Tax for the taxation year [505] + [507] + [522] + [525] = [508] 6,123

Transfer to [543] on page 13 and complete the return from that point

*** If floating taxation year, refer to Guide.*

Example #2

XYZ is a manufacturing corporation with the following financial information:

- gross revenue is $1,200,000.
- total assets (as adjusted) are $1,300,000.
- taxable capital is $2,300,000.
- taxation year end is June 30, 2000.
- # of days in the taxation year are 366.
- Ontario allocation is 100%.

XYZ is associated with AAA corporation and the aggregate taxable capital of XYZ and AAA is $2,600,000.

Solution for Example #2

STEP 1 XYZ reviews the three paragraphs on page 10 of the CT23 in sequence. XYZ determines that paragraph 3 applies since it is associated with AAA. XYZ will then go to SECTION C on page 12 of the CT23. XYZ computes the aggregate taxable capital of XYZ and AAA and enters the total amount on line [520]. XYZ would also calculate the ratio (line [521]) in SECTION C because XYZ's taxation year ends after December 31, 1999 and before January 1, 2001 and the aggregate taxable capital of XYZ and AAA is greater than $2,000,000 and less than $2,800,000. XYZ must now go to SECTION E since the aggregate taxable capital is greater than $2,000,000.

STEP 2 XYZ reviews subsection E1 and determines that subsection E1 applies since the aggregate taxable capital is greater than $2,000,000 and less than or equal to $3,600,000. The aggregate taxable capital of XYZ and AAA is $2,200,000. XYZ is not required to go to another subsection of SECTION E.

STEP 3 XYZ now computes the capital tax payable for its taxation year. Since XYZ's taxation year commenced before January 1, 2000 XYZ must complete the calculations in part E1(a). XYZ would calculate capital tax at .3% on its $2,300,000 taxable capital and enter the amount in line [490].

Now XYZ would review the next calculation to determine if it was eligible for a capital tax reduction for this period. Since the aggregate taxable capital of the associated group in which XYZ is a member is $2,600,000 which is greater than the $2,400,000 threshold for a reduced capital tax rate for this time period, XYZ is not eligible for a reduction during this period and would enter NIL in line [492] and complete the remainder of the calculations for E1(a).

XYZ would now look at E1(b) and since a part of its taxation year falls within the 2000 calendar year, XYZ must complete section E1(b). However, when completing E1(b), XYZ will be allowed a reduction from the .3% capital tax rate for the portion of XYZ's taxation year that falls in 2000, since its aggregate taxable capital of $2,600,000 is less than the $2,800,000 reduction threshold for the 2000 calendar year.

XYZ would now review E1(c) and E1(d) which deal with the 2001 and 2002 calendar years. No part of XYZ's taxation year is in the 2001 or 2002 calendar years, so XYZ would enter nil for E1(c) and E1(d). XYZ would now total the amounts calculated for [505], [507], [522] and [525] and enter the total in [508]. This amount is then transferred to [543] on page 13.

Solution for Example #2 con't.

SECTION C

If the corporation is a member of an associated group and/or partnership, complete the following, and (√) 510 √ (Yes)

Taxable Capital + From 470: **2,300,000**

Names of associated corporations or related partners (Canadian & foreign) (if insufficient space, attach schedule)	Ontario Corporations Tax Account No. (MOF) (if applicable)	Taxation Year End		Taxable Capital
AAA Corporation	9999999	June 30, 2000	+ 511	300,000
			+ 512	
			+ 513	

Aggregate Taxable Capital 470 + 511 + 512 + 513, etc. = 520: **2,600,000**

If 520 is greater than $2,000,000

If 520 is greater than $2,000,000 and the taxation year ends,
- prior to January 1, 2000 and 520 is less than $2,400,000;

OR • after December 31, 1999 and before January 1, 2001 and 520 is less than $2,800,000;
OR • after December 31, 2000 and before January 1, 2002 and 520 is less than $3,200,000;
OR • after December 31, 2001 and before January 1, 2003 and 520 is less than $3,600,000;

the corporation must compute the following ratio before calculating its Capital Tax in Section E.

From 470: 2,300,000 ÷ From 520: 2,600,000 = 521: 0.88462

Note: 521 *cannot exceed 1.00000*

E1. If aggregate taxable capital 520 exceeds $2,000,000 but is $3,600,000 or less, complete the following calculations and transfer the total From 508 to 543 and complete the return from that point.

▼ Calculation: Portion of Capital Tax relating to the days in the taxation year after May 4, 1999 and before January 1, 2000

(a) From 470: 2,300,000 X 0.3% = 490: 6,900

Deduct: [$2,400,000 – From 520: 2,600,000] X 1.5% X From 521: ____ = – 492: 0 (*If 2,400,000 – 520 is negative, enter NIL in 492*)

(504 = 490 – 492) = 504: 6,900 X From 30: 100.0000 % (Ontario Allocation) X 552: 184 (Days in taxation year after May 4, 1999 and before Jan 1, 2000) / **365 (366 if leap year) 366 = + 505: 3,469

▼ Calculation: Portion of Capital Tax relating to the days in the taxation year after December 31, 1999 and before January 1, 2001

(b) From 470: 2,300,000 X 0.3% = + 490: 6,900

Deduct: [$2,800,000 – From 520: 2,600,000] X 0.75% X From 521: 0.88462 = – 493: 1,327 (*If 2,800,000 – 520 is negative, enter NIL in 493*)

(506 = 490 – 493) = 506: 5,573 X From 30: 100.0000 % (Ontario Allocation) X 553: 182 (Days in taxation year after Dec 31, 1999 and before Jan 1, 2001) / **365 (366 if leap year) 366 = + 507: 2,771

▼ Calculation: Portion of Capital Tax relating to the days in the taxation year after December 31, 2000 and before January 1, 2002

(c) From 470: ____ X 0.3% = + 490: ____

Deduct: [$3,200,000 – From 520: ____] X 0.5% X From 521: ____ = – 495: ____ (*If 3,200,000 – 520 is negative, enter NIL in 495*)

(509 = 490 – 495) = 509: ____ X From 30: ____ % (Ontario Allocation) X 557: 0 (Days in taxation year after Dec. 31, 2000 and before Jan 1, 2002) / **365 (366 if leap year) = + 522: 0

▼ Calculation: Portion of Capital Tax relating to the days in the taxation year after December 31, 2001 and before January 1, 2003

(d) From 470: ____ X 0.3% = + 490: ____

Deduct: [$3,600,000 – From 520: ____] X 0.375% X From 521: ____ = – 496: ____ (*If 3,600,000 – 520 is negative, enter NIL in 496*)

(515 = 490 – 496) = 515: ____ X From 30: ____ % (Ontario Allocation) X 556: 0 (Days in taxation year after Dec 31, 2001 and before Jan 1, 2003) / **365 (366 if leap year) = + 525: 0

Total Capital Tax for the taxation year 505 + 507 + 522 + 525 = 508: **6,240**

Transfer to 543 and complete the return from that point

The Canada Revenue Agency administers Ontario's corporate tax. If you need more information after reading this publication, please contact the Canada Revenue Agency at 1-800-959-5525.