Canada Revenue Agency | Agence du revenu du Canada

Business and Professional Income

2016

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Canada

Is this guide for you?

Use this guide if you are a sole proprietor, an unincorporated individual or a partner in a partnership, who is a business person, or a professional. It will help you calculate the business or professional income to report on your 2016 tax return. Self-employed commission salespersons should also use this guide to determine the income to report for 2016.

You are considered to be self-employed if you have a business relationship with a payer and you have the right to determine where, when, and how your work is done. For more information, see Guide RC4110, *Employee or Self-Employed?*.

Throughout this guide, we refer to other guides, forms, interpretation bulletins, and information circulars. If you need any of these publications, go to **cra.gc.ca/forms**. You may want to bookmark this address for easier access to our website in the future.

The term income tax return used in this guide has the same meaning as income tax and benefit return.

If you are blind or partially sighted, you can get our publications in braille, large print, etext, or MP3 by going to **cra.gc.ca/alternate**. You can also get our publications and your personalized correspondence in these formats by calling **1-800-959-5525**.

Unless otherwise noted, all legislative references are to the *Income Tax Act* and the *Income Tax Regulations*.

La version française de cette publication est intitulée *Revenus d'entreprise ou de profession libérale.*

What's new for 2016?

Accelerated capital cost allowance

Budget 2015 provides an accelerated capital cost allowance (CCA) rate of 50% on a declining-balance basis for eligible machinery and equipment acquired by a taxpayer after 2015 and before 2026 for use in Canada primarily for the manufacturing and processing of goods for sale or lease. These assets will be included in the new CCA Class 53.

The "half-year-rule", which allows half the CCA deduction otherwise available in the taxation year in which an asset is first available for use by a taxpayer, will apply to machinery and equipment eligible for this measure. These assets will be considered "qualified property" for the purpose of the Atlantic Investment Tax Credit.

Eligible Capital Property

On January 1, 2017 the budget proposes to cancel the eligible capital property system. It will be replaced with a new capital cost allowance (CCA) class 14.1 with transitional rules. Under the old system, eligible capital expenditures are added to the cumulative eligible capital pool at a 75% inclusion rate, and the rate of depreciation of those expenditures is 7% on a declining-balance basis. Under the new system, newly-acquired eligible properties will be included in class 14.1 at a 100% inclusion rate with a 5% capital cost allowance rate on a declining-balance basis.

For each taxation year that ends before 2027, additional deductions for CCA will be allowed for property included in class 14.1 that was eligible capital property acquired before January 1, 2017. Also, a separate business deduction will be provided for incorporation expenses made after 2016. The first $3,000 of incorporation expenses will be treated as a current expense rather than being added to class 14.1.

Expanding tax support for clean energy

Capital cost allowance class 43.1 and 43.2

The March 22, 2016 federal budget proposes to allow accelerated capital cost allowance (CCA) for electric vehicle charging stations that meet certain power thresholds. This is for property acquired for use after March 21, 2016 that has not been used or acquired for use before March 22, 2016. The budget proposes to expand the range of electrical energy storage property that is eligible for accelerated CCA.

Electrical vehicle charging stations (EVCSs) set up to supply more than 10 kilowatts, but less than 90 kilowatts of continuous power, will be included in class 43.1 at capital cost allowance rate of 30%.

Electrical vehicle charging stations (EVCSs) set up to supply 90 kilowatts and more of continuous power will be included in class 43.2 at capital cost allowance rate of 50%.

Submit additional documents online

Do you need to send supporting documents to the CRA after you file your income tax and benefit return? You can now submit documents online through one of the following secure online service portals:

- My Business Account at **cra.gc.ca/mybusinessaccount**, if you are a business owner; or
- Represent a Client at **cra.gc.ca/representatives**, if you are an authorized representative or employee.

Self-employment income guide

In 2018, Guide T4003, *Fishing and Farming Income*, will no longer be published. It will be replaced by Guide T4002, *Self-employed Business, Professional, Commission, Farming, and Fishing Income*. The 2017 version of Guide T4002 will include tax information for all types of self-employment income.

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Definitions

Arm's length – refers to a relationship or a transaction between persons who act in their separate interests. An arm's length transaction is generally a transaction that reflects ordinary commercial dealings between parties acting in their separate interests.

"Related persons" are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, common-law partnership or adoption (legal or in fact). A corporation and another person or two corporations may also be related persons.

"Unrelated persons" may not be dealing with each other at arm's length at a particular time. Each case will depend upon its own facts. The following criteria will be considered to determine whether parties to a transaction are not dealing at arm's length:

- whether there is a common mind which directs the bargaining for the parties to a transaction;
- whether the parties to a transaction act in concert without separate interests; "acting in concert" means, for example, that parties act with considerable interdependence on a transaction of common interest; or
- whether there is actually control of one party by the other because of, for example, advantage, authority or influence.

For more information, see Income Tax Folio S1-F5-C1, *Related persons and dealing at arm's length*.

Available for use – generally, an asset is considered to become available for use and eligible for capital cost allowance (CCA) and investment tax credit at the earliest of:

- the time when the property is first used by the claimant for the purpose of earning income; and
- the time the property is delivered or is made available to the claimant and is capable of producing a commercially saleable product or service, or of performing the function for which it was acquired.

Capital cost – the amount on which you first claim capital cost allowance. The capital cost of a property is usually the total of:

- the purchase price. Do not include the cost of land, which is not depreciable;
- the part of your legal, accounting, engineering, installation, and other fees related to the purchase or the construction of the property. Do not include the part that applies to land;
- the cost of any additions or improvements you made to the property after you acquired it (such as modifications to accommodate persons with disabilities);
- for a building, soft costs (such as interest, legal and accounting fees, and property taxes) related to the period when constructing, renovating, or altering the building, to the extent that such expenses have not been deducted as current expenses.

Capital cost allowance (CCA) – the deduction you can claim over a period of several years for the cost of a depreciable property. This kind of property wears out or becomes obsolete over time such as a building, furniture or equipment that you use in your business or professional activities.

Depreciable property – is usually capital property used to earn income from a business or property. You can claim a CCA on depreciable property. The capital cost can be written off as CCA over a number of years. Depreciable properties are grouped into classes. For example, diggers, drills, and tools acquired that cost $500 or more belong in Class 8. You have to base your CCA claim on the specific rate assigned to each CCA class of property.

Fair market value (FMV) – generally, the highest dollar value you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length with each other.

Motor vehicle – an automotive vehicle designed or adapted for use on highways and streets. A motor vehicle does not include a trolley bus or a vehicle designed or adapted to be operated only on rails.

Non–arm's length – generally refers to a relationship or deal between persons who are related to each other.

A non-arm's length relationship might also exist between unrelated individuals, partnerships or corporations, depending on the facts. For more information, see the definition of "arm's length."

Passenger vehicle – a motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers. Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA rates, interest, and leasing.

A passenger vehicle does **not** include:

- an ambulance;
- a marked vehicle for police or fire emergency-response;
- except for the purposes of section 6 of the ITA (amounts to be included as income from office or employment), a clearly marked emergency medical service vehicle used to carry paramedics and their emergency medical equipment;
- a motor vehicle you acquired to use more than 50% of the time as a taxi, a bus used in the business of transporting passengers, or a hearse in a funeral business;
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers;
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business;
- a van, pick-up truck, or similar vehicle that seats no more than the driver and two passengers and that, in the tax year you acquired or leased the vehicle, was used more

than 50% to transport goods and equipment to earn income;

- a van, pick-up truck, or similar vehicle that, in the tax year you acquired or leased the vehicle, was used 90% of the time or more to transport goods, equipment, or passengers to earn income; and
- except for the purposes of section 6 of the Income Tax Act (ITA) (amounts to be included as income from office or employment), a pick-up truck that, in the tax year you acquired or leased it, was used more than 50% of the time to transport goods, equipment, or passengers while earning income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community with a population of at least 40,000.

Proceeds of disposition – generally, the amount you received or will receive for your property. In most cases, it refers to the sale price of the property. It could also include compensation you received for property that has been destroyed, expropriated, or stolen.

Undepreciated capital cost (UCC) – generally, it is the balance of the capital cost left for further depreciation at any given time. The amount of CCA you claim each year will lower the UCC of the property.

Chapter 1 – General information

This chapter has general information for all businesses, professional activities, self-employed commission sales and partnerships.

Business and business income

A business is an activity that you intend to carry on for profit and there is evidence to support that intention.

A business includes:

- a profession;
- a calling;
- a trade;
- a manufacture;
- an undertaking of any kind; and
- an adventure or concern in the nature of trade.

For more information, see Interpretation Bulletin IT-459, *Adventure or Concern in the Nature of Trade*.

In this guide and for other reporting purposes, we treat professional activities as a separate business category.

If any of your income earning business activities takes place on a reserve, some of your business income might be exempt from tax. For more information, go to **cra.gc.ca/brgnls/stts-eng.html#hdng5**.

Business income includes income from any activity you do for profit. For example, the income from a service business is business income. Include all your income when you calculate it for tax purposes. If you do not report it all, you may have to pay a 10% penalty on the amount you did not report after your first omission.

A different penalty may apply if you knowingly or under circumstances amounting to gross negligence participate in making a false statement or an omission on your income tax return. This penalty is 50% of the tax attributable to the omission or the false statement (minimum $100).

For more information about penalties, go to **cra.gc.ca/penaltyinformationreturns**.

Gift cards or certificates

Gift cards or certificates could be cards, vouchers, receipts, tickets that have a monetary value. They are an alternative to paying cash for goods and services.

When you sell a gift card or certificate:

- you must report the amounts you receive from the sale on the day they were sold as business income;
- you may choose to calculate what we call a "reserve" as a deduction against this income;

  Note
  A reserve is the amount of gift cards or certificates that you predict will be redeemed after the end of your fiscal year. When it's deducted against the business income it must be added back to the next year's business income. You can choose to calculate it or not.

- do not collect the GST/HST when you sell a gift card or certificate;
- calculate the GST/HST when a customer uses their gift card or certificate as a payment method for a product or service they buy;
- calculate the GST/HST on the total price of the item or service;
- deduct the amount that is on the gift card or certificate from the amount of the purchase.

For more information on gift certificates, see the Publication P-202, *Gift Certificates*, or call **1-800-959-5525**.

If you filed your return and did not report the income from gift cards or certificates, you can still change the information on your return. To find out how to change your return, go to **cra.gc.ca/changereturn.** To change the information on your return online go to My Account at **cra.gc.ca/myaccount**.

For more information about the Voluntary Disclosure Program, go to **cra.gc.ca/voluntarydisclosures**.

> **Note**
> When does a business start?
>
> We look at each case on its own merits. Generally, we consider your business to have started when you begin some significant activity that is a regular part of the business or that is necessary to get the business going.
>
> For example, suppose you decide to start a merchandising business and you buy enough goods for resale to start the business. At this point, we would consider the business to have started. Usually you can deduct the expenses you incur for the business from that date. You could still deduct the expenses even if, despite all your efforts, the business ended.

On the other hand, assume you review several different business prospects in the hope of going into a business of some kind. In this case, we would not consider your business to have started, and you could not deduct any of the costs you incur.

Statistics Canada is allowed by law to get business information collected by the Canada Revenue Agency (CRA). Statistics Canada can share the data with provincial statistical agencies to use for research and analysis purposes only. The data is related to business activities carried on in their respective province.

How to report your business income

Fiscal period

You report your business income based on a fiscal period. A fiscal period is the period between the day your business starts its business year to the day it ends. For an existing business, the fiscal period is usually 12 months. A fiscal period cannot be longer than 12 months. In some cases it can be shorter.

Self-employed individuals have to use a December 31 year-end.

Eligible individuals may use another method of reporting their income. Their fiscal period may end on a day that is not December 31.

If your fiscal year-end is not December 31, you will need Guide RC4015, *Reconciliation of Business Income for Tax Purposes*, to help you calculate the amount of business income to report on your 2016 income tax return. The RC4015 provides information on how to fill out Form T1139, *Reconciliation of 2016 Business Income for Tax Purposes*.

If you filed Form T1139 with your 2015 tax return, generally you have to file it again for 2016.

Accrual method

In most cases, self-employed individuals report their business income using the accrual method of accounting. With this method, you:

- report your income in the fiscal period you earn it, regardless of when you receive the income; and
- deduct expenses in the fiscal period you incur them, whether you paid them in that period or not.

Incur usually means you either paid or will have to pay the expense.

Income from professional activities is business income. Therefore, you report it using the accrual method.

Cash method

If you are a self-employed commission salesperson, you can use the cash method to report your income and expenses.

With this method, you:

- report income in the fiscal period you receive it; and
- deduct expenses in the fiscal period you pay them.

Changing your method of reporting income

If you are a self-employed commission sales agent and decide to change your method of reporting income from the accrual method to the cash method, use the cash method when you file your next tax return. Include a statement that shows each change made to your income and expenses.

If you decide to change from the cash method to the accrual method:

- get consent from your tax services office;
- make a request for this reporting change in writing before the date you have to file your tax return; and
- explain why you want to change methods.

The cash and accrual methods are different. The first time you file your tax return using the accrual method include a statement showing each change made to your income and expenses.

Business records

You are required by law to keep records of all your transactions to back up your income and expenses.

If you do not keep the required information and do not have supporting documents or proof:

- we may determine your income using other methods; and
- we might not allow the expenses you deducted.

There are penalties for not keeping proper records and not providing CRA information or access to your records when asked.

> **Note**
> Do not send your transaction records with your tax return. Keep them in case we ask to see them later.

Income records

Keep track of the gross income your business earns. Gross income is your total income before you deduct any expenses, including those related to the goods sold. Your income records must include:

- the date;
- amount; and
- source of the income.

Record the income whether you received cash, property, or services. Support all income entries with original documents. Original documents include:

- sales invoices;
- cash register tapes;
- receipts;
- bank deposit slips;
- patient cards;
- fee statements; and
- contracts.

Example
The following sales journal is an example of how to record your income for one month. The Provincial Sales Tax (PST) rate for Manitoba is 8% and the Goods and Services Tax (GST) rate is 5%:

	Date	Particulars	Cash sales (1) *	Credit sales (2) *	Sales returns (3) *	Total sales (4) *	GST (5%) (5) **	PST (8%) (6) **	Payment on account (7)
1	July 1	Daily sales	146.00	27.00		173.00	8.65	13.84	10.00
2	July 2	Daily sales	167.00	36.25	26.00	177.25	8.86	14.18	
3	July 3	Daily sales	155.02	19.95	10.01	164.96	8.25	13.20	32.40
4	July 4	Daily sales	147.00	29.95		176.95	8.85	14.16	

* GST and provincial sales tax (PST) or HST is not included.
** If you sell to a resident in one of the participating provinces, the HST replaces the GST and the PST.

In this example on July 1, you add up the sales invoices and cash register tapes. You find that you had cash sales of $146 and sales on account of $27. In your sales journal, you record the cash sales in column 1 and the credit sales in column 2.

No merchandise was returned on July 1, so you leave column 3 blank.

In column 4 enter the total of your cash sales and your credit sales, minus merchandise returned for that day.

In columns 5 and 6, enter the total of GST and PST you charged on your sales.

In column 7, keep track of cash payments received for previous credit sales. Do not include these payments in the daily sales figures.

Expense records

Always get receipts or other vouchers when you buy something for your business. The receipts have to show:

- the date of the purchase;
- the name and address of the seller or supplier;
- the name and address of the buyer;
- a full description of the goods or services; and
- the vendor's business number if they are a GST/HST registrant.

Example
The following expense journal is an example of how to record your expenses for one month:

Date	Particulars	Cheque No.	Bank	GST (5%)	Purchases	Legal & Acct.	Adv.	Fees	Repairs	Capital items
July 1	XYZ Radio	407	367.50	17.50			350.00			
July 1	Smith Hardware	408	26.95	1.28					25.67	
July 2	City of Ottawa	409	157.50	7.50				150.00		
July 3	Andy's Accounting	410	262.50	12.50		250.00				
July 5	Wholesale Supply Inc.	411	1,836.60	87.46	1,749.14					
July 5	Ed's Used Cars	412	1,575.00	75.00						1,500.00

For more information on how to keep your business records, the time limits, and to learn more about the benefits of keeping them complete and organized go to **cra.gc.ca/records**.

> **Note**
> When you buy something, make sure the receipt has a description of the item or service you purchased. Sometimes it is impossible to get that with a cash register tape. In this case write details on the receipt or add a note to your expense journal.

Suppliers who are GST/HST registrants usually provide their customers with receipts. If the supplier does not provide you with written documentation for your purchase and you need it to support a claim for a GST/HST rebate or input tax credit, then the supplier must provide you with such written documentation upon your request.

You have to get documents to support the transactions you enter in your books and records. Your business-related transactions may be denied if you do not have the supporting document for your purchases.

Make sure to keep records of the properties you buy and sell. They must include who sold you the property, how much you paid for it, and the date you bought it. This information will help you calculate your claim for capital cost allowance and other amounts.

Instalment payments

As a self-employed individual, you may have to make instalment payments for 2016. Your 2016 instalment payments are due on March 15, June 15, September 15, and December 15. In most cases, we will send you reminders showing the instalment amount we have calculated for you. You can view your instalment reminders online in My Account at **cra.gc.ca/myaccount**. There are different methods for calculating instalment payments.

For more information about instalment payments and instalment interest charges, go to **cra.gc.ca/instalments**.

You may have to pay interest and a penalty if you do not pay the full instalment amount you owe on time.

Dates to remember

February 28, 2017 – If you have employees, file your 2016 T4 and T4A information returns by this date. Give your employees their T4 and T4A slips by this date.

March 15, 2017 – Make your first 2017 instalment payment.

March 31, 2017 – Most partnerships with individuals as partners have to file a partnership information return by March 31, 2017. For more information, see Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

April 30, 2017 – Pay any balance owing for 2016 by this date to avoid paying interest charges. Also, file your 2016 income tax return if the expenditures of the business are mainly the cost or the capital cost of tax shelter investments.

June 15, 2017 – Make your second 2017 instalment payment by this date. Also, file your 2016 tax return by this date if you have self-employment income or if you are the spouse or common-law partner of someone who does.

June 30, 2017 or the period end date plus 6 months – If your business is in the construction industry and hires subcontractors, you may have to file a 2016 T5018 information return, that consists of Form T5018SUM, *Summary of Contract Payments*, and the related T5018 slips, to report your payments. For more information, go to **cra.gc.ca/contract** and choose the topic entitled "Construction industry (T5018)".

September 15, 2017 – Make your third 2017 instalment payment by this date.

December 15, 2017 – Make your fourth 2017 instalment payment by this date.

Employment insurance (EI) premiums on self-employed income

Self-employed individuals:

- can choose to pay EI premiums to register to qualify to receive EI benefits.
- may include EI premiums in the instalment payments.
- when registered for EI premiums, they pay EI premiums based on their self-employment income for the entire year for 2016.

EI premiums are payable:

- on earnings from self-employment;
- up to an annual maximum amount.

The annual maximum insurable amount for 2016 is $50,800.

Claim your provincial or territorial non-refundable tax credit for the employment insurance premiums on the provincial or territorial Form 428 at line 5829**.**

For more information, visit **servicecanada.gc.ca**.

GST/HST registration

You must register for the GST/HST if your total gross revenue from your worldwide taxable supplies of property and services is more than $30,000 in a single calendar quarter or over four consecutive calendar quarters. If you operate a taxi or limousine service, you have to register for the GST/HST regardless of your income.

If your gross revenue is equal to or less than $30,000, you do not have to register. If you are making taxable supplies in your business, you can register if you want to. If you are registered, you may be eligible to claim input tax credits.

> **Note**
> Nova Scotia, New Brunswick, Ontario, Newfoundland and Labrador, and Prince Edward Island harmonized the GST with their provincial sales tax to create the HST.

For more information on the GST/HST, go to **cra.gc.ca/gsthst**. For more information on who is required to be registered, see the *GST/HST Memoranda Series*, 2-1 *Required registration*.

The GST/HST Registry

The GST/HST Registry is an online service you can use to confirm the GST/HST number of a business. You can use this registry to check if your suppliers are registered for the GST/HST when you claim for the input tax credit. For more information, go to **cra.gc.ca/gsthstregistry**.

You can check the Quebec Sales Tax (QST) registration number by going to the QST registry on the *Revenu Québec* website at **revenuquebec.ca/en/sepf/services/sgp_validation_tvq/default.aspx**.

What is a partnership?

A partnership is the relationship that exists between persons carrying on a business in common with the view of making a profit. You can have a partnership without a written agreement.

When you form, change, or dissolve a relationship that may be a partnership, consider:

- whether the relationship is a partnership;
- the special rules about capital gains or losses and the recapture of CCA that apply when you transfer properties to a partnership;
- the special rules that apply when you dissolve a partnership; and
- the special rules that apply when you sell or dispose of your interest in a partnership.

For more information about partnerships, see Income Tax Folio S4-F16-C1, *What is a Partnership?*

Limited partnership

A limited partnership is composed of one or more general partners and one or more limited partners.

A general partner has unlimited liability for the debts and obligations of the partnership.

A limited partner generally has limited liability for the debts and obligations of the partnership unless the partner is involved in running the business.

Reporting partnership income

A partnership does not generally pay income tax on its income and does not file an income tax return. Instead, each partner files an income tax return to report their share of the partnership's net income or loss. This requirement is the same whether the share of income is received in cash or as a credit to the partner's capital account.

Partnership losses

If a partnership has a loss from carrying on a business, this loss is divided between the partners. In general, the partner's share of the loss is applied against that partner's income for the year from other sources and any excess is included in that partner's non-capital loss for the year.

The loss carry-forward period is 20 years for non-capital losses, farm losses, restricted farm losses, and life insurer's Canadian life investment losses incurred.

Filing requirements for partnerships

A partnership that carries on a business in Canada, a Canadian partnership with Canadian or foreign operations or investments, or a specified investment flow-through (SIFT) partnership must file a T5013 partnership information return for each of its fiscal periods unless the partnership meets the requirements to be exempt from filing.

For more information about the partnership information return and the filing exemptions, go to **cra.gc.ca/partnership.**

Capital cost allowance (CCA)

A partnership can own depreciable property and claim CCA on it. Individual partners cannot claim CCA on property the partnership owns.

Box 040 of Form T5013 will show the amount of CCA that the partnership claimed on your behalf. This amount has already been deducted from your business income in box 116 or your professional income in box 120 of Form T5013. Do **not** deduct this amount again.

Any recapture of CCA or terminal loss on the sale of a partnership's depreciable property is included in the partnership's income or loss for the year that is allocated to the partners. Any taxable capital gain on the sale of a partnership's depreciable property is also allocated to the partners.

Eligible capital expenditures

In some cases, a partnership can choose to recognize a capital gain on the disposition of eligible capital property as if the property was a non-depreciable capital property.

GST/HST rebate for partners

If you are an individual who is a member of a partnership, you may be able to get a rebate for the GST/HST you paid on certain expenses. You may qualify for the GST/HST partner rebate if:

- the partnership is a GST/HST registrant; and
- you personally paid GST/HST on expenses that:
  - you did not incur on the account of the partnership; and
  - you deducted from your share of the partnership income on your tax return.

Special rules apply if the partnership reimbursed you for those expenses.

Examples of expenses subject to the GST/HST are vehicle costs and certain business-use-of-home expenses. The rebate may also apply to the GST/HST you paid on motor vehicles, musical instruments, and aircraft, for which you deducted CCA.

The eligible part of the CCA is the part that you deduct on your tax return in the tax year that relates to a motor vehicle, musical instrument, or aircraft on which you paid GST/HST and that is eligible for the rebate, to the extent that the partnership used the property to make taxable supplies.

If you deduct CCA on more than one property of the same class, separate the part of the CCA that qualifies for the rebate from the CCA on the other property. If the rebate relates to the CCA deduction for a motor vehicle, a musical instrument or an aircraft you have to reduce the undepreciated capital cost UCC of that property by the amount that is part of the rebate.

Fill out Form GST370, *Employee and Partner GST/HST Rebate Application*, to claim your GST/HST rebate for partners. You have to include this rebate in your income for the tax year in which you receive it.

For example, if in 2016 you receive a GST/HST rebate for the 2015 tax year (you can find this on your 2015 notice of assessment) you have to include the amount of the rebate on your tax return for 2016:

- Report the amount of the GST/HST rebate for partners that relates to eligible expenses other than CCA at Part 6 on line 9974 on Form T2125, *Statement of Business or Professional Activities.*
- Reduce the UCC for the beginning of 2016 by the amount of the rebate that relates to the eligible CCA. Enter this adjusted amount on Form T2125 at Part 11 in column 2.

For more information, see Guide RC4091, *GST/HST Rebate for Partners*.

Example
Patrick is a partner in an Alberta partnership called ABC Contracting. The partnership is registered for GST/HST and has a December 31 year-end. Under the partnership agreement, Patrick is required to personally pay his motor vehicle expenses. Patrick's GST/HST fraction is (5/105).

The following are his 2016 motor vehicle expenses. He did not receive an allowance or reimbursement for these expenses.

Total eligible expenses other than CCA	$ 3,150.84
CCA	5,100.00
Total eligible expenses including CCA................	$ 8,250.84

Patrick calculates the **GST/HST rebate** for partners:

$8,250.84 × (5/105) = $392.90

The amount $392.90 is Patrick's partner GST/HST rebate amount.

He files Form GST370, *Employee and partner GST/HST rebate application,* and includes $392.90 at line 457 on his 2016 tax return.

Patrick calculates the GST/HST rebate for partners related to his eligible expenses other than CCA:

$3,150.84 × (5/105) = $150.04

$150.04 is the GST/HST rebate for partners related to his eligible expenses other than CCA.

When filing his 2017 tax return, he will include $150.04 on Form T2125 in Part 6 at line 9974.

Patrick also calculates the amount of the GST/HST rebate for partners that relates to CCA:

$5,100 × (5/105) = $242.86

On his 2017 tax return, he will reduce the 2017 beginning UCC of his motor vehicle by $242.86 on Form T2125 in Part 11 at column 2.

Investment tax credit

An investment tax credit lets you subtract, from the taxes you owe, part of the cost of some types of property you acquired or expenditures you incurred. You may be able to claim this tax credit in 2016 if you bought qualifying property, incurred qualified expenditures, or were allocated renounced Canadian exploration expenses. You may also be able to claim the credit if you have unused investment tax credits from years before 2016. For more information about investment tax credits, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

You can receive scientific research and experimental development (SR&ED) investment tax credits on qualified expenditures. You can receive them in the form of a cash refund or a reduction of tax payable or both. Unused SR&ED ITCs can be carried back three years or carried forward 20 years.

Apprenticeship job creation tax credit (AJCTC)

The AJCTC is a non-refundable investment tax credit equal to 10% of the eligible salaries and wages payable to eligible apprentices for employment after May 1, 2006. The maximum credit an employer can claim is $2,000 per year for each eligible apprentice.

An "eligible apprentice" is an individual who is employed in Canada in a prescribed trade in the first 24 months of his or her apprenticeship contract. The contract must be registered with a federal, provincial, or territorial government under an apprenticeship program designed to certify or license individuals in the trade.

The amount of the credit is added to the investment tax credit and is available to reduce federal taxes payable for the tax year. Unused amounts can be carried back 3 years and carried forward 20 years. The AJCTC is reported on Form T2038(IND), *Investment Tax Credit (Individuals)*.

Investment tax credit for child care spaces

Employers who run a business in Canada, other than a child care services business can include a non-refundable amount in their investment tax credit calculation for each new child care space they create. The child care space should be in a licensed child care facility that is operated for their employees' children's benefit.

The non-refundable amount is equal to the lesser of the following amounts:

- $10,000 per child care space created; **or**
- 25% of the eligible expenditure incurred after March 18, 2007.

For more information, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

Chapter 2 – Income from a business or a profession

Sole proprietorships

If you are a sole proprietor, fill in all the parts and lines that apply to you on Form T2125, *Statement of Business or Professional Activities*.

Partnerships

If you are a partner in a partnership that has to file a partnership information return, fill out Form T2125 as follows:

- Fill in the "Identification" area.
- Enter in Part 6 at line 56 the income amount from your T5013 slip. On your T5013 you will find "Business income" at box 116, "Professional income" at box 120 and "Commission income" at box 122.
- Fill in Part 7 "Other amounts deductible from your share of net partnership income (loss)". Also, fill in Part 8 – "Calculation of business-use-of-home expenses".
- If there are no adjustments, the amount entered on line 9946 will be the same amount entered at line 56.

If you are a partner in a partnership that does not have to file a partnership information return, fill out Form T2125 as follows:

- Fill in the "Identification" area.
- Calculate the business income for all partners.
- Calculate the business part of expenses for all partners.
- Fill in Part 7 "Other amounts deductible from your share of net partnership income (loss)". Also, fill in Part 8.
- Fill in Part 9 "Details of other partners". Also, fill in Part 10.

How to fill out Form T2125, *Statement of Business or Professional Activities*

Form T2125 helps you calculate your income and expenses for income tax purposes. We encourage you to use it. We will continue to accept other types of financial statements.

If you have both business and professional income, you have to separate the information and fill out Form T2125 for each. You also have to fill out a separate form for each business or professional activity. File each completed Form T2125 with your tax return.

For more information, see Interpretation Bulletin IT-206, *Separate Businesses*.

Identification

In the Identification area fill in the boxes that apply to your business or professional activities.

At Fiscal period, enter the start and end date for your business year.

When you are filing your return electronically, you have to use the industry codes available from your tax preparation software.

If you are filing your income tax return on paper, enter the six-digit industry code that corresponds to your business from the appendix of industry codes listed at the end of this guide.

Use the code that most describes your main business activity. For example, you might have a bookstore that sells postage stamps use industry code 451210 (for books or stationery) and not industry code 491110 (for postal services).

If you have a tax shelter, enter the tax shelter identification number on the proper line. If you are claiming a deduction or losses for 2016, attach to your tax return any applicable T5003 slip, *Statement of Tax Shelter Information*, as well as a completed Form T5004, *Claim for Tax Shelter Loss or Deduction*. For more information on tax shelters, go to **cra.gc.ca/taxshelters**.

If your business or professional activities are the activities of a partnership, enter the first nine digits of the "Partnership account number" from your T5013 slip at box 001.

At "Your percentage of the partnership" enter the "Partner's share percentage of partnership" from your T5013 slip at box 005.

At "Name and address of person preparing this form" enter the name and address of the person who filled out this form for you.

Internet business activities

If you have webpages or websites, you may earn income from them:

- by selling goods and services (you may have a shopping cart and process payment transactions yourself or use a third-party service);
- if your customers call, fill in and submit a form or email you to make a purchase order or booking;
- by selling goods and services on auction, marketplace or similar sites run by others;
- from advertising, income programs or traffic your site generates. This would include:
  - static advertisements you place on your site for other businesses
  - affiliate programs
  - advertising programs, or
  - other types of traffic programs.

Provide the information about the number of webpages and their addresses in the fields provided. Only list the first five pages that generate the most income.

Enter the percentage of income generated from the Internet. If you do not know the exact percentage, give an estimate.

Part 1 – Business income

Fill in Part 1 **only** if you have business income. If you have professional income, leave this part blank and fill in Part 2. If you have both business and professional income, you have to fill out a separate Form T2125 for each.

Sales, commissions, or fees

Your sales include all sales, whether you receive or will receive money, services, or other goods (such as credit units that have a monetary value), or of value from bartering. Bartering is when two people agree to exchange goods or services without using money. For more information, see Interpretation Bulletin IT-490, *Barter Transactions*.

On line 1 enter the gross sales, commissions, or fees (including GST/HST, collected or collectible).

On line 2 enter any GST/HST, provincial sales tax, returns, allowances, discounts and GST/HST adjustments (included on line 1).

Note
For those using the quick method of accounting to calculate your GST/HST remittances, calculate government assistance as follows:

- On line 4, enter GST/HST collected or collectible on sales, commissions and fees;
- For each applicable remittance rate, include the sales, commissions and fees eligible for the quick method **plus** GST/HST collected or collectible. **Multiply** this amount by the quick method remittance rate and enter the result on line 5. This is the amount you enter on line 105 of your GST/HST return (or line 103 if you are filing your GST/HST return on paper);
- The subtotal at line 6 is line 4 **minus** line 5.

For more information on the quick method and examples, see Guide RC4058, *Quick Method of Accounting for GST/HST*.

Line 7 (Adjusted gross sales) is the total of the amounts at line 3 **plus** line 6.

Adjusted gross sales – Line 7

Enter this amount on line 8000 in Part 3 of Form T2125.

Part 2 – Professional income

Fill in Part 2 only if you have professional income. If you have business income, leave this part blank and fill in Part 1. If you have both business and professional income, you have to fill out a separate Form T2125 for each.

As mentioned in Chapter 1, professional activities are business activities. Usually, you calculate your income from professional activities using the same rules as for a business. Some aspects of professional activities are different from other businesses. Some of these differences are discussed in this section.

Professional fees

Your professional income includes all fees you receive for goods or services you provide. These fees include money you receive, something the same as money that has notional monetary value or something from bartering. Bartering means when two people agree to exchange goods or services without using money.

As a professional, your income normally includes the value of your work-in-progress (WIP). WIP is goods or services that you have not yet finished providing at the end of your fiscal period.

Your professional fees for the current year are the total of:

- all amounts you received during the year for professional services, whether you provided the services before or during the current year or after your current year-end;

plus:

- all amounts receivable at the end of the current year for professional services you provided during the current year; and
- the value of your WIP at the end of your current year for which you have not received any amount during the year;

minus:

- all amounts receivable at the end of your previous year-end; and
- the value of your WIP that was included in professional fees at the end of your previous year.

At line 8 enter the gross professional fees including WIP and GST/HST collected or collectible.

At line 9 enter any GST/HST, provincial sales tax, returns, allowances, discounts and GST/HST adjustments (included on line 8) and any WIP at the end of the year you elected to exclude. Line 10 is the subtotal of line 8 **minus** line 9.

Note
If you elected to use the quick method of accounting to calculate your GST/HST remittances, calculate government assistance as follows:

- At line 11 enter GST/HST collected or collectible on professional fees eligible for the quick method;
- For each applicable remittance rate, include (professional fees eligible for quick method **plus** the GST/HST collected or collectible) **multiplied** by the quick method remittance rate (enter this amount at line 12). Enter the amount at line 103 on your GST/HST return.

Add the WIP for the start of the year if you excluded it at the end of last year.

The amount at line 15, Adjusted professional fees, is the total of the amounts from line 10 **plus** line 13 **plus** line 14.

Election to exclude your WIP

You can choose to exclude your WIP when you calculate your income if you are one of the following professionals:

- an accountant;
- a dentist;
- a lawyer (including a notary in Quebec);
- a medical doctor;

- a chiropractor; or
- a veterinarian.

If you did not choose to exclude your WIP in any previous year, you can do so in 2016. You do not need a special form to do this. Attach a letter to your tax return to tell us that you want to exclude your WIP.

You can also exclude your WIP by doing the following:

- In Part 2 at line 9 "WIP, end of the year, per election to exclude WIP", enter the amount you included as WIP at the end of the year in your professional fees at line 8.
- In Part 2 at line 14, enter the amount of your WIP at the start of the year, if you excluded it at the end of last year.

Make this election when you file the original tax return to which it relates. If you are filing an amended return, you cannot make this election.

For partnerships, an authorized partner must choose to exclude the partnership's WIP on behalf of all partners.

The choice to exclude WIP stays in effect for each following year, unless you file an application and we let you make the change.

For more information about excluding WIP, see Interpretation Bulletin IT-457, *Election by Professionals to Exclude Work in Progress from Income*.

Adjusted professional fees – Line 15

Enter the amount from line 15 in Part 3 at line 8000.

Part 3 – Gross business or professional income

Line 8000 – Adjusted gross sales or adjusted professional fees

If you are completing Form T2125 for a business activity, enter your adjusted gross sales from line 7 in Part 1.

For a professional activity, enter your adjusted professional fees from line 15 in Part 2.

Line 8290 – Reserves deducted last year

Include any reserves you deducted for 2015. For more information, see "Allowable reserves".

Line 8230 – Other income

At line 8230 enter the total income you received from other sources. Some examples of other income are:

- a recovered amount you wrote off as a bad debt in a previous year;
- the value of prizes or vacation trips awarded to you because of your business or professional activities;
- payments you received for land you leased for petroleum or natural gas exploration. For more information, see Interpretation Bulletin IT-200, *Surface Rentals and Farming Operations*; and
- grants, subsidies, incentives, or assistance you get from a government, government agency, or non-government agency. Input tax credits are considered government assistance. Include the amount you claimed on line 108 of your GST/HST return only if you cannot apply the rebate, grant, or assistance you received to reduce a particular expense or an asset's capital cost. For more information, see "Grants, subsidies, and rebates".

If you used the quick method to calculate your GST/HST remittances, report the 1% credit (maximum $300) that you claimed on line 108 of your GST/HST return (or on line 107 if you filed on paper). For more information, see Interpretation Bulletin IT-273, *Government Assistance – General Comments*.

> **Note**
> Enter at line 9974 in Part 6, the amount of GST/HST rebate for partners you received in the year that relates to eligible capital expenses other than CCA.

Do not include in income any other rebate, grant, or assistance you receive. Subtract that amount from the proper expense or the cost of capital property it relates to. If the rebate, grant, or assistance is for a depreciable asset, subtract the amount you received from the asset's capital cost. This will affect the amount of CCA you can claim for that asset. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim for the investment tax credit. For more information, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

Line 8299 – Gross business or professional income

The amount at line 8299 is your gross business or professional income. This amount is your adjusted gross sales or adjusted professional fees at line 8000, **plus** any reserves deducted last year at line 8290, **plus** any other income at line 8230.

Enter the amount at line 8299 on your tax return. If it is business income, enter this amount on your tax return at line 162. If it is professional income, enter this amount on your tax return at line 164.

Part 4 – Cost of goods sold and gross profit

Fill in this part if you have a business and your business buys goods for resale or makes goods for sale.

Claim the cost of the goods you buy or make for sale in the fiscal period in which you sell them. Enter only the business part of the costs on the form.

To calculate your cost of goods sold, you need to know the following:

- the value of your inventory at the start of your fiscal period;
- the value of your inventory at the end of your fiscal period; and
- the cost of your purchases (net of discounts) for the fiscal period.

Line 8300 – Opening inventory and Line 8500 – Closing inventory

Enter your opening inventory amount at line 8300 and your closing inventory amount at line 8500. These amounts must include raw materials, goods in process, and finished goods. The way you value your inventory is important in determining your income. For income tax purposes, choose one of the following two methods:

- value your entire inventory at its fair market value (FMV) (see "Definitions"). Use the price you would pay to replace the item or the amount you would get if you sold the item; or
- value individual items in your inventory at either their FMV or their cost, whichever is less. Cost is the price you incur for an item. Cost also includes any expenses you incur to bring the item to the business location and put it in a condition so that you can use it in the business. When you cannot easily tell one item from another, you can value the items as a group.

Once you have chosen a method for valuing your inventory, you have to use that method consistently.

If this is your first year of reporting business income, you can choose either method to value your inventory. In your first year of business, you will not have an opening inventory amount to enter on line 8300. If this is not your first year of business, continue to use the same method you used in past years. The value of your inventory at the start of a fiscal period has to be the same as the value of your inventory at the end of the preceding fiscal period.

Do an actual stock count at the end of each fiscal period, unless you use a perpetual inventory system. Under this system, you do periodic stock counts and keep a written record of each count. Remember to keep your inventory records with your other records.

Businesses that are adventures or concerns in the nature of trade must value their inventory at cost.

For more information about valuing inventory, see Interpretation Bulletin IT–473, *Inventory Valuation*.

Inventory value of an artistic endeavour

An artistic endeavour occurs when you are in the business of creating paintings, murals, original prints, etchings, drawings, sculptures, or similar works of art. An artistic endeavour does not include reproducing works of art.

When you calculate your income from an artistic endeavour, you can elect to value your closing inventory at zero. To do this, enter zero at line 8500. Your election of zero closing inventory stays in effect for each following year, unless you request a change and we allow the change.

You cannot use this election if you reproduced the works of art.

For more information, see Interpretation Bulletin IT-504R2-CONSOLID, *Visual Artists and Writers*.

Gifts of inventory by an artist

If you donate a work of art you created, you may not have to report a profit on your donation for income tax purposes. To benefit from this tax treatment, your gift must fall under the definition of gifts of certified cultural property. For more information about gifts and donations, see Pamphlet P113, *Gifts and Income Tax*.

Line 8320 – Purchases during the year (net of returns, allowances, and discounts)

The cost of goods you buy to resell or use in manufacturing other goods includes costs such as delivery, freight, and express charges. Enter the amount of your net purchases during the year (your total purchases **minus** any discounts you received).

Sometimes you might purchase goods for your business that you put to personal use. When this happens, you have to subtract the cost of these goods from your total purchases for the year.

Line 8340 – Direct wage costs

Include the remuneration you paid to employees who work directly in the manufacture of your goods. Do not include:

- indirect wages;
- a salary paid to yourself or a partner (see "Details of equity"); and
- withdrawals you may have made from the business (see "Details of equity").

Line 8360 – Subcontracts

Enter all the costs to hire outside help to perform tasks related to the goods you sell.

Line 8519 – Gross profit

Enter your gross profit. This is your gross business income **minus** your cost of goods sold.

The rules for calculating business and professional income are similar.

Chapter 3 – Expenses

This chapter discusses the more common expenses you might incur to earn income from your business (including self-employed commission sales) or professional activities. Incur means that you paid or will have to pay the expense.

Current or capital expenses?

Renovations and expenses that extend the useful life of your property or improve it beyond its original condition are usually capital expenses. An increase in a property's market value because of an expense is not a major factor in deciding whether the expense is capital or current. To decide if an amount is a current expense or a capital expense, consider the answers to the questions in the following chart.

Criteria	Capital expenses	Current expenses
Does the expense provide a lasting benefit?	A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.	A current expense is one that usually recurs after a short period. For example, the cost of painting the exterior of a wooden house is a current expense.
Does the expense maintain or improve the property?	The cost of a repair that improves a property beyond its original condition is probably a capital expense. If you replace wooden steps with concrete steps, the cost is a capital expense.	An expense that simply restores a property to its original condition is usually a current expense. For example, the cost of repairing wooden steps is a current expense.
Is the expense for a part of a property or for a separate asset?	The cost of replacing a separate asset within a property is a capital expense. For example, the cost of buying a compressor to use in your business operation is a capital expense. The reason is that a compressor is a separate asset and is not part of the building.	The cost of repairing a property by replacing one of its parts is usually a current expense. For instance, electrical wiring is part of a building. Therefore an amount you spend to rewire is usually a current expense, as long as the rewiring does not improve the property beyond its original condition.
What is the value of the expense? (Use this test only if you cannot determine whether an expense is capital or current by considering the three previous tests.)	Compare the cost of the expense to the value of the property. Generally, if the cost is considerable in relation to the value of the property, it is a capital expense.	This test is not a determining factor by itself. You might spend a large amount of money for maintenance and repairs to your property all at once. If this cost was for ordinary maintenance that was not done when it was necessary, it is a maintenance expense, and you can deduct it as a current expense.
Is the expense for repairs to the used property that you acquired made to put it in suitable condition for use?	The cost of repairing used property that you acquired to put it in a suitable condition to use in your business is considered a capital expense even though in other circumstances it would be treated as a current operating expense.	When the repairs are for ordinary maintenance of a property that you already had in your business, the expense is usually current.
Is the expense for repairs made to an asset in order to sell it?	The cost of repairs made in anticipation of selling a property or as a condition of sale is regarded as a capital expense.	When the repairs would have been made anyway, but a sale was negotiated during the course of the repairs or after their completion, the expense is considered current.

For more information, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

You cannot claim expenses you incur to buy capital property.

As a rule, you can deduct any reasonable current expense you incur to earn business or professional income. The deductible expenses include any GST/HST you incur on these expenses minus the amount of any input tax credit claimed. You cannot deduct personal expenses, enter only the business part of expenses.

Note
When you claim the GST/HST you paid on your business expenses as an input tax credit, reduce the amounts of the business expenses by the amount of the input tax credit. Do this when the GST/HST for which you are claiming the input tax credit was paid or became payable. Similarly, subtract any other rebate, grant, or assistance from the expense to which it applies. Enter the net figure on the proper line of Form T2125. Assistance you claim for the purchase of depreciable property used in your business will affect your claim for CCA. If you cannot apply the rebate, grant, or assistance you received to reduce a particular expense, or to reduce an asset's capital cost, include the total in Part 3 at line 8230, "Other income".

For more information, see "Grants, subsidies, and rebates".

The following is a list of items that are not included in your expenses:

- salary or wages (including draws) paid to self, partner(s), or both;
- cost of saleable goods or services that you, your family, or your partners and their families used (including items such as food, home maintenance, and business properties);
- charitable donations and political contributions;
- interest and penalties you paid on your income tax;
- most life insurance premiums;
- the part of expenses that can be attributed to the non-business use of business property; and
- most fines and penalties imposed after March 22, 2004, under the law of Canada, a province, or a foreign country.

Prepaid expenses

A prepaid expense is an expense you pay for ahead of time. Under the accrual method of accounting, claim any expense you prepay in the year or years in which you get the related benefit. For an example, your fiscal year-end is December 31, 2016. On June 30, 2016, you prepay the rent on your store for a full year (July 1, 2016, to June 30, 2017). You can only deduct one-half of this rent as an expense in 2016. You deduct the other half as an expense in 2017.

For more information, see Interpretation Bulletin IT-417, *Prepaid Expenses and Deferred Charges*.

Part 5 – Net income (loss) before adjustments

Line 8521 – Advertising

You can deduct expenses for advertising, including advertising in Canadian newspapers and on Canadian television and radio stations. You can also include any amount you paid as a finder's fee.

Restrictions apply to the amount of the expense you can deduct for advertising in a periodical. You can deduct all the expense if your advertising is directed at a Canadian market and the original editorial content in the issue is 80% or more of the issue's total non-advertising content.

You can deduct 50% of the expense if your advertising in a periodical is directed at a Canadian market and the original editorial content in the issue is less than 80% of the issue's total non-advertising content.

You cannot deduct expenses for advertising directed mainly at a Canadian market when you advertise with a foreign broadcaster.

Line 8523 – Meals and entertainment

The maximum amount you can claim for food, beverages, and entertainment expenses is 50% of the least of the following amounts:

- the amount incurred for these expenses; or
- an amount that is reasonable in the circumstances.

These limits also apply to the cost of your meals when you travel or go to a convention, conference, or similar event. Special rules can affect your claim for meals in these cases. For more information, see "Convention expenses".

These limits do not apply if:

- your business regularly provides food, beverages, or entertainment to customers for compensation (for example, a restaurant, hotel, or motel);
- you bill your client or customer for the meal and entertainment costs, and you show these costs on the bill;
- you include the amount of meal and entertainment expenses in an employee's income or would include them if the employee did not work at a remote or special work location. In addition, the amount cannot be paid or payable for a conference, convention, seminar, or similar event and the special work location must be at least 30 kilometres from the closest urban centre with a population of 40,000 or more, visit **statcan.gc.ca**;
- you incur meal and entertainment expenses for an office party or similar event, and you invite all your employees from a particular location. The limit is six such events per year;
- the meal and entertainment expenses you incur are for a fund-raising event that was mainly for the benefit of a registered charity; or
- you provide meals to an employee housed at a temporary work camp constructed or installed specifically to provide meals and accommodation to employees working at a construction site (note that the employee cannot be expected to return home daily).

Entertainment expenses include tickets and entrance fees to an entertainment or sporting event, gratuities, cover charges, and room rentals such as for hospitality suites.

For more information, see Interpretation Bulletin IT-518, *Food, Beverages, and Entertainment Expenses*.

Expenses for food and beverages consumed by a long-haul truck driver during an eligible travel period are deductible at 80%.

An eligible travel period is a period of at least 24 continuous hours throughout which the driver is away from the municipality and metropolitan area that he or she resides and is driving a long-haul truck that transports goods to, or from a location that is beyond a radius of at least 160 kilometres from the residential location.

Self-employed foot and bicycle couriers and rickshaw drivers can deduct the cost of extra food and beverages they must consume in a normal working day (8 hours) because of the nature of their work. The daily flat rate that can be claimed is $17.50.

If you are claiming this deduction you should be prepared to provide logbooks showing the days worked and the hours worked on each of these days during the tax year. The CRA may also ask for dispatch slips or other documents to support the days worked during the tax year.

If you want to claim more than the flat-rate amount, the CRA will also need:

- supporting receipts for all food and beverages claimed; and
- something that clearly shows the extra amount of food and beverages required because of the nature of your work. Also, how this amount exceeds what the average person would consume in terms of both cost and quantity.

Line 8590 – Bad debts

You can deduct an amount for a bad debt if:

- you had already included the receivable in income; and
- you had determined that an account receivable is a bad debt in the year.

For more information, see Interpretation Bulletin IT-442, *Bad Debts and Reserves for Doubtful Debts*.

Line 8690 – Insurance

You can deduct commercial insurance premiums that you pay for insurance on any buildings, machinery, and equipment you use in your business.

Motor vehicle insurance costs are listed at line 9281.

The insurance costs related to business use of workspace in your home have to be claimed on line 9945.

In most cases, you cannot deduct your life insurance premiums. If you use your life insurance policy as collateral for a loan related to your business, you might be able to deduct a limited part of the premiums you paid. For more information, see Interpretation Bulletin IT-309, *Premiums on Life Insurance Used as Collateral*.

Line 8710 – Interest

You can deduct interest you incurred on money borrowed for business purposes or to acquire property for business purposes.

There are limits on:

- the interest you can deduct on money you borrow to buy a passenger vehicle.
- the amount of interest you can deduct for vacant land. Usually, you can only deduct interest up to the amount of income from the land that remains after you deduct all other expenses. You cannot use any remaining amounts of interest to create or increase a loss, and you cannot deduct them from other sources of income.

Fees, penalties, or bonuses paid for a loan

You can deduct the fee you pay to reduce the interest rate on your loan. You can also deduct any penalty or bonus a financial institution charges you to pay off your loan before it is due. Treat the fee, penalty, or bonus as prepaid interest and deduct it over the remaining original term of your loan.

For example, if the term of your loan is five years and in the third year you pay a fee to reduce your interest rate, treat this fee as a prepaid expense and deduct it over the remaining term of the loan. For more information, see "Prepaid expenses".

Fees deductible over five years

You can deduct certain fees you incur when you get a loan to buy or improve your business property. These fees include:

- application, appraisal, processing, and insurance fees;
- loan guarantee fees;
- loan brokerage and finder's fees; and
- legal fees related to financing.

You deduct these fees over a period of five years, regardless of the term of your loan. Deduct 20% in 2016 and 20% in each of the next four years. The 20% limit is reduced proportionally for fiscal periods of less than 12 months.

If you repay the loan before the end of the five-year period, you can deduct the remaining financing fees then. The number of years for which you can deduct these fees is not related to the term of your loan.

Fees deductible in the year incurred

If you incur standby charges, guarantee fees, service fees, or any other similar fees, you may be able to deduct them in full in the year you incur them. For more information, see Interpretation Bulletin IT-341, *Expenses of Issuing or Selling Shares, Units in a Trust, Interests in a Partnership or Syndicate, and Expenses of Borrowing Money*.

Interest deductible on property no longer used for business purposes

You may be able to deduct interest expenses for a property you used for business purposes, even if you have stopped using the property for business activities because you are no longer in business. For more information, see Income Tax Folio S3-F6-C1, *Interest Deductibility and Related Issues*.

Interest on loans made against insurance policies

You can deduct interest you paid on a loan made against an insurance policy, as long as the insurer didn't add the interest you paid to the adjusted cost base of the insurance policy. To claim the interest you paid for 2016, have the insurer verify the interest before June 16, 2017, on Form T2210, *Verification of Policy Loan Interest by the Insurer*.

Capitalizing interest

You can choose to capitalize interest on money you borrow:

- to buy depreciable property;
- to buy a resource property; or
- for exploration and development.

When you choose to capitalize interest, add the interest to the cost of the property or exploration and development costs instead of deducting the interest as an expense.

Interest related to workspace in your home

The interest related to business use of workspace in your home is at line 9945.

Line 8760 – Business tax, fees, licences, dues, memberships, and subscriptions

You can deduct all annual licence fees and business taxes you incur to run your business. You can also deduct annual dues or fees to keep your membership in a trade or commercial association. You cannot deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities.

Line 8810 – Office expenses

You can deduct the cost of office expenses. These include small items such as pens, pencils, paper clips, stationery, and stamps. Office expenses do not include capital expenditures to acquire capital property such as calculators, filing cabinets, chairs, and a desk. These are capital items.

Line 8811 – Supplies

You can deduct the cost of items the business used to provide goods or services for example, drugs and medication used by a veterinarian or cleaning supplies used by a plumber.

Line 8860 – Legal, accounting, and other professional fees

You can deduct the fees you incurred for external professional advice, services, and consulting fees.

You can deduct accounting and legal fees for advice and help with keeping your records. You can also deduct expenses for preparing and filing your income tax and GST/HST returns.

You can deduct accounting or legal fees you paid to have an objection or appeal prepared against an assessment for income tax, Canada Pension Plan or Quebec Pension Plan contributions, or employment insurance premiums. However, the full amount of these deductible fees must first be reduced by any reimbursement of these fees that you have received. Report the difference on line 232 of your tax return. If you received a refund in 2016 for the types of fees that you deducted in a previous year, report the amount you received at line130 of your 2016 tax return.

You cannot deduct legal expenses and other fees you incur to buy a capital property. Instead, add these fees to the cost of the property.

For more information, see Interpretation Bulletin IT-99R5-CONSOLID, *Legal and Accounting Fees*.

Line 8871 – Management and administration fees

You can deduct management and administration fees including bank charges incurred to run your business.

Line 8910 – Rent

You can deduct rent incurred for property used in your business. For example, you can deduct rent for the land and building where your business is situated. The rent expense related to the business use of your home has to be claimed on line 9945, "Business-use-of-home expenses."

Line 8960 – Maintenance and repairs

You can deduct the cost of labour and materials for any minor repairs or maintenance done to property you use to earn income. You cannot deduct the value of your own labour.

You cannot deduct costs you incur for repairs that are capital in nature. You can claim capital cost allowance. The maintenance and repairs related to business use of workspace in your home are claimed at line 9945, "Business-use-of-home expenses."

Line 9060 – Salaries, wages, and benefits

You can deduct gross salaries and other benefits you pay to employees.

The Canada Pension Plan (CPP) is for all workers, including the self-employed. Employers, employees, and most self-employed individuals have to contribute to the CPP. The CPP can provide basic benefits when you retire or if you become disabled. When you die, the CPP can provide benefits to your surviving spouse or common-law partner and your dependent children under the age of 25.

Quebec workers including the self-employed are covered under the Quebec Pension Plan (QPP).

As the employer, you can deduct your part of CPP or QPP contributions, employment insurance premiums, provincial parental insurance plan (PPIP) premiums (the PPIP is an income replacement plan for residents of Quebec—for details, contact Revenu Québec), and workers' compensation amounts payable on employees' remuneration. For information on making payroll deductions, go to **cra.gc.ca/payroll**.

You can also deduct any insurance premiums you pay for an employee for a sickness, an accident, a disability, or an income insurance plan.

You can deduct the salary you pay to your child, as long as you meet all these conditions:

- you pay the salary;
- the work your child does is necessary for earning business or professional income; and
- the salary is reasonable when you consider your child's age, and the amount you pay is what you would pay someone else.

Keep documents to support the salary you pay your child. If you pay your child by cheque, keep the cancelled cheque. If you pay cash, have the child sign a receipt.

Instead of cash, you can pay your child with a product from your business. When you do this, claim the value of the product as an expense and add to your gross sales an amount equal to the value of the product. Your child has to include the value of the product in his or her income.

You can also deduct the salary you pay to your spouse or common-law partner. When you pay your spouse or common-law partner a salary, use the same rules that apply to paying your child.

Report the salaries you pay to your children and spouse or common-law partner on T4 slips, the same as you would for other employees. You cannot claim as an expense the value of board and lodging you provide to your dependent children and your spouse or common-law partner.

Line 9180 – Property taxes

You can deduct property taxes you incurred for property used in your business. For example, you can deduct property taxes for the land and building where your business is situated. The property tax related to the business use of workspace in your home has to be claimed on line 9945, "Business-use-of-home expenses."

Line 9200 – Travel

You can deduct travel expenses you incur to earn business and professional income. Travel expenses include public transportation fares, hotel accommodation, and meals.

In most cases, the 50% limit applies to the cost of meals, beverages, and entertainment when you travel. We discuss this limit in "Line 8523 – Meals and entertainment".

Line 9220 – Telephone and utilities

You can deduct expenses for telephone and utilities, such as gas, oil, electricity, and water, if you incurred the expenses to earn income. The expenses for utilities that are related to the business use of workspace in your home have to be claimed on line 9945, "Business-use-of-home expenses."

Line 9224 – Fuel costs (except for motor vehicles)

You can deduct the cost of fuel (including gasoline, diesel, and propane), motor oil, and lubricants used in your business. For information about claiming the fuel used in your motor vehicle, see "Line 9281 – Motor vehicle expenses".

The cost of fuel related to the business use of workspace in your home has to be claimed on line 9945, "Business-use-of-home expenses."

Line 9275 – Delivery, freight, and express

You can deduct the cost incurred in the year of delivery, freight, and express that relates to your business.

Line 9281 – Motor vehicle expenses

You can deduct expenses you incur to run a motor vehicle you use to earn business income. Fill in Part 17 – "Motor vehicle expenses". The chart will help you calculate the amount of motor vehicle expenses you can deduct. If you are a partner in a partnership and you incur motor vehicle expenses for the business through the use of your personal vehicle, you can claim those expenses related to the business at line 9943, "Other amounts deductible from your share of net partnership income (loss)," in Part 6.

Keeping records

You can deduct motor vehicle expenses only when they are reasonable and you have receipts to support them. To receive the full benefit of your claim for each vehicle, keep a record of the total kilometres you drive and the kilometres you drive to earn business income. For each business trip, list the date, destination, purpose, and number of kilometres you drive. Record the odometer reading of each vehicle at the start and end of the fiscal period.

If you change motor vehicles during the fiscal period, record the dates of the changes and the odometer readings when you buy, sell, or trade the vehicles.

Simple logbook for motor vehicle expenses

To reduce the paper burden on businesses, you can choose to maintain a full logbook for one complete year. This initial year would be used as a base year to follow for the business use of a vehicle.

After one complete year of keeping a logbook to establish the base year, you can use a three-month sample logbook to foresee business use for the entire year, as long as the usage is within the same range (within 10%) of the results of the base year. Businesses will have to show that the use of the vehicle in the base year remains representative of its normal use.

For more information on the sample logbook policy, go to **cra.gc.ca/autolog**.

What type of vehicle do you own?

The kind of vehicle you own can affect the expenses you deduct. For income tax purposes, there are two types of vehicles:

- motor vehicles; and
- passenger vehicles.

If you own or lease a passenger vehicle, there may be a limit on the amounts you can deduct for CCA, interest, and leasing costs. For more information, see "How much CCA you can claim", "Interest", and "Leasing costs".

To help you determine what type of vehicle you have, see the "Vehicle definitions" chart. The chart doesn't cover every situation, but it gives some of the main definitions to help you determine the type of vehicle you own.

Deductible expenses

The types of expenses you can claim at line 9281 include:

- licence and registration fees;
- fuel and oil costs;
- insurance;
- interest on money borrowed to buy a motor vehicle;
- maintenance and repairs; and
- leasing costs.

You can also claim CCA, enter this amount at line 9936.

Business use of a motor vehicle

If you use a motor vehicle for business and personal use, you can deduct only the part of the expenses that you paid to earn income. You can deduct the full amount of parking fees related to your business activities and supplementary business insurance for your motor vehicle. To support the amount you can deduct, keep a record of the total kilometres you drive and the kilometres you drive to earn income.

Example

Paul owns a hardware store that has a December 31 year-end. He has a van that he uses for the business. Paul noted the following for 2016:

Kilometres driven to earn business income	27,000
Total kilometres driven	30,000

Expenses:

Licence and registration fees	$	100
Gas and oil	$	2,400
Insurance	$	1,900
Interest	$	800
Maintenance and repairs	$	200
Total expenses for the van	$	5,400

Paul calculates the expenses he can deduct for his van for 2016 as follows:

$$\frac{27{,}000 \text{ (business kilometres)}}{30{,}000 \text{ (total kilometres)}} \times \$5{,}400 = \$4{,}860$$

The deductible **business** part of Paul's van expenses is $4,860. He also has business parking fees of $40 and a supplementary business insurance cost of $100. As such, he can claim $5,000 in Part 5 at line 9281.

Joint ownership

If you and another person own or lease a passenger vehicle, the limits on CCA, interest, and leasing still apply. As a joint owner, the total amount you and any other owners deduct cannot be more than the amount one person owning or leasing the vehicle could deduct.

More than one vehicle

If you use more than one motor vehicle for your business, keep a separate record for each vehicle that shows the total and business kilometres you drive, as well as the cost to run and maintain the vehicle. Calculate each vehicle's expenses separately.

For more information, see Interpretation Bulletin IT-521, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

Vehicle definitions

Type of vehicle	Seating (includes driver)	Business use in year bought or leased	Vehicle definition
Coupe, sedan, station wagon, sports car, or luxury car	1 to 9	1% to 100%	passenger
Pickup truck used to transport goods or equipment	1 to 3	more than 50%	motor
Pickup truck (other than above)*	1 to 3	1% to 100%	passenger
Pickup truck with extended cab used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Pickup truck with extended cab (other than above)*	4 to 9	1% to 100%	passenger
Sport utility used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Sport utility (other than above)	4 to 9	1% to 100%	passenger
Van or minivan used to transport goods or equipment	1 to 3	more than 50%	motor
Van or minivan (other than above)	1 to 3	1% to 100%	passenger
Van or minivan used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Van or minivan (other than above)	4 to 9	1% to 100%	passenger

*A vehicle in this category that is used more than 50% to transport goods, equipment, or passengers while earning or producing income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community with a population of 40,000 is considered a motor vehicle.

Interest

You can deduct interest on money you borrow to buy a motor vehicle or passenger vehicle you use to earn income. Include the interest as an expense when you calculate your allowable motor vehicle expenses.

When you use a passenger vehicle to earn income, there is a limit on the interest you can deduct. To calculate the amount of interest you can deduct, fill in Part 18 – "Available interest expense for passenger vehicles".

Example

On May 1, 2016, Julie bought a car that she uses to earn business income. Julie's fiscal year ends on December 31. The car is a passenger vehicle. Julie borrowed money to buy her car, and the interest payable in 2016 was $1,500. Her available interest expense is the lesser of the following two amounts:

- the total interest payable in 2016 ($1,500); or
- $10 multiplied by the number of days in the fiscal period that interest was payable ($10 × 245 days = $2,450).

Julie can claim an interest expense of $1,500.

She also recorded the following information for 2016:

Kilometres driven to earn business income		25,000
Total kilometres driven		30,000
Expenses:		
Gasoline and oil	$	1,330
Interest expense	$	1,500
Insurance	$	750
Licence and registration fees	$	70
Repairs and maintenance	$	100
Total car expenses	$	3,750

Julie calculates the expenses she can deduct for her car for 2016 as follows:

$$\frac{25{,}000 \text{ (business kilometres)}}{30{,}000 \text{ (total kilometres)}} \times \$3{,}750 = \$3{,}125$$

Leasing costs

You can deduct amounts you incur to lease a motor vehicle you use to earn income. Include these amounts at line 9281.

When you use a passenger vehicle to earn income, there is a limit on the amount of the leasing costs you can deduct. To calculate your eligible leasing costs, fill in Part 19 – "Eligible leasing costs for passenger vehicles".

If the lease agreement for your passenger vehicle includes items such as insurance, maintenance, and taxes, add them to the total lease charges entered in Part 19 at line 1.

> **Note**
> Leases include taxes (GST/HST or PST), but they do not include insurance and maintenance. You have to pay these amounts separately. Include the taxes in Part 19 at line 1 and list the items such as insurance and maintenance on the proper lines in Part 17 – "Motor vehicle expenses."

The GST/HST rate that you should use to fill in Part 19 – "Eligible leasing costs for passenger vehicles" is the rate that was in effect at the start of each lease period.

For your 2016 fiscal period, use the GST rate of 5% or the HST rate of your specific province to fill in Part 19.

To help you calculate your eligible leasing for Part 17 line 8 "Leasing" see the following example using Part 19 - "Eligible leasing costs for passenger vehicles".

Example

Kim owns a pet store. Her business has a July 31 fiscal year-end. On February 1, 2016, she started leasing a car that is a passenger vehicle. The PST rate for Manitoba is 8% and the GST rate is 5%. For a leasing contract concluded after 2000, add sales taxes to $35,294. The sales taxes (GST/HST or any other provincial sales tax) must be calculated at the rate applicable at the time the contract was concluded. Kim entered the following for 2016:

Monthly lease payment	$	500
Lease payments for 2016	$	3,000
Manufacturer's suggested list price	$	33,000
Number of days in 2016 she leased the car		181
GST and PST on $30,000 ($30,000 x 13%)	$	3,900
GST and PST on $35,294 ($35,294 x 13%)	$	4,588
GST and PST on $800 ($800 x 13%)	$	104

Total lease charges incurred in Kim's 2016 fiscal period for the vehicle	$	3,000	**1**
Total lease payments deducted in her fiscal periods before 2016 for the vehicle	$	0	**2**
Total number of days the vehicle was leased in 2016 and previous fiscal periods		181	**3**
Manufacturer's list price	$	33,000	**4**
The amount on line 4 or $35,294 + $4588 = $39,882 whichever is more			
multiply x 85% ($39,882 x 85%)	$	33,900	**5**
$800 + $104 x 181 = 163,624 divide by 30	$	5,454	**6**
$30,000+$3900 x 3,000 divide by $ 33,900$	$	3,000	**7**

Kim's eligible leasing cost is the least of line 6 or line 7. In this case, her allowable claim is $3,000.

Repayments and imputed interest

When you lease a passenger vehicle, you may have a repayment owing to you, or you may have imputed interest. If so, you will not be able to use Part 19 – "Eligible leasing costs for passenger vehicles".

Imputed interest is interest that would be owing to you if interest were paid on money deposited to lease a passenger vehicle. You calculate imputed interest for leasing costs on a passenger vehicle only if all the following apply:

- one or more deposits were made for the leased passenger vehicle;
- the deposits are refundable; and
- the total of the deposits is more than $1,000.

For more information, see Interpretation Bulletin IT-521, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

Line 9935 – Allowance on eligible capital property

If you buy a property such as goodwill or a franchise for your business, you may be able to claim an annual allowance.

Line 9936 – Capital cost allowance (CCA)

If you use a property you own such as a building, a motor vehicle, or equipment in your business, you might be able to claim CCA.

Line 9270 – Other expenses

There are expenses you can incur to earn income, other than those listed on Form T2125. We cover some of them in the following sections. Enter at this line the total of all other expenses you incurred to earn income, as long as you did not include them in an amount you entered on a previous line.

Disability-related modifications

You can deduct expenses you incur for eligible disability-related modifications made to a building in the year you paid them. You can do this instead of adding them to the capital cost of your building. Eligible disability-related modifications include changes you make to accommodate wheelchairs, such as:

- installing hand-activated power door openers;
- installing interior and exterior ramps; and
- modifying a bathroom, an elevator, or a doorway.

You can also deduct expenses paid to install or get the following disability-related devices and equipment:

- elevator car-position indicators (such as braille panels and audio indicators);
- visual fire alarm indicators;
- telephone devices to help people that have a hearing impairment; and
- listening devices for group meetings.

In addition, you may be able to deduct expenses for disability-specific computer software and hardware attachments.

Computer and other equipment leasing costs

If you lease computers, cellular telephones, fax machines, and other equipment, you can deduct the percentage of the lease costs that reasonably relates to earning your business income. You can also deduct the percentage of airtime expenses for a cellular telephone that reasonably relates to earning your business income.

If you buy items such as a computer, cellular telephone, fax machine or other such equipment you cannot deduct the cost of these items as an expense.

You can deduct CCA and the interest you incurred on money borrowed to acquire this kind of equipment that relates to, and is reasonable to earning your business income.

Leasing costs

Deduct the lease payments you incurred in the year for property used in your business. If you lease a passenger vehicle, see Line 9281,"Motor vehicle expenses".

If you entered into a lease agreement after April 26, 1989, you can choose to treat your lease payments as combined payments of principal and interest. You and the person you are leasing from have to agree to treat the payments this way. In this case, we consider that you:

- bought the property rather than leased it; and
- borrowed an amount equal to the FMV of the leased property.

You can deduct as an expense the interest part of the payments. You can also claim CCA on the property.

You can make this choice as long as the property qualifies and the total FMV of all the property included in the lease is more than $25,000. Digging equipment with a FMV of $35,000 that you lease is an example of property that qualifies. However, office furniture and passenger vehicles often do not qualify.

To treat your lease this way, file one of these election forms with your tax return for the year you make the lease agreement:

- Form T2145, *Election in Respect of the Leasing of Property*; or
- Form T2146, *Election in Respect of Assigned Leases or Subleased Property*.

Convention expenses

You can deduct the cost of attending up to two conventions a year. The conventions have to:

- relate to your business or professional activity; and
- be held by a business or professional organization within the geographical area where the organization normally conducts its business.

This second limit may not apply if an organization from another country sponsors the convention and the convention relates to your business or professional activity.

Sometimes convention fees include the cost of food, beverages, or entertainment. The convention organizer may not show these amounts separately on your bill. In this case, subtract $50 from the total convention fee for each day the organizer provides food, beverages, or entertainment.

You can deduct this daily $50 amount as a meal and entertainment expense. The 50% limit applies to the daily $50 amount.

Example
Cathy attended a two-day convention in May 2016 that cost her $600. The organizer did not indicate what part of the $600 fee was for food and entertainment. Her convention expense is $600 minus the two days at $50 each $600 - ($50 x 2) = $500.

Cathy can also claim the $50 for meal and entertainment expense for two days at the 50% limit.

Food, beverages, or entertainment do not include incidental items such as coffee and doughnuts available at convention meetings or receptions.

For more information, see Interpretation Bulletin IT-131, *Convention Expenses*.

Allowable reserves

You can deduct an amount for a reserve, contingent account, or a sinking fund as long as the *Income Tax Act* allows it and the amount is reasonable. You can find more information about allowable reserves in the following publications:

- Interpretation Bulletin IT-154, *Special Reserves*;
- Interpretation Bulletin IT-442, *Bad Debts and Reserves for Doubtful Debts*;
- Guide T4037, *Capital Gains*, and Form T2017, *Summary of Reserves on Dispositions of Capital Property*; and
- Guide T4011, *Preparing Returns for Deceased Persons*.

Private health services plan (PHSP) premiums

You can deduct premiums paid or payable to a private health services plan if you meet the following conditions:

- your net income from self-employment (excluding losses and PHSP deductions) for the current or previous year is more than 50% of your total income***;** or
- your income from sources other than self-employment** is $10,000 or less for the current or previous year;
- you are actively engaged in your business on a regular and continuous basis, individually or as a partner; and
- the premiums are paid or payable to insure yourself, your spouse or common-law partner, or any member of your household.

Notes

* To make this claim, calculate your total income as follows:

- the amount from line 150 of your 2015 or 2016 tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**
- the amounts you enter on lines 207, 212, 217, 221, 229, 231, and 232 of your 2015 or 2016 tax return, whichever applies.

** To make this claim, calculate your income from sources other than self-employment as follows**:**

- the amount from line 150 of your 2015 or 2016 tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**
- the amounts you enter on lines 135, 137, 139, 141, 143 (excluding business losses that reduced the net amount reported on those lines), 207, 212, 217, 221, 229, 231, and 232 of your 2015 or 2016 tax return, whichever applies.

You cannot claim a deduction for PHSP premiums if another person deducted the amount, or if you or anyone else claimed the premiums as a medical expense. For your premiums to be deductible, your PHSP coverage has to be paid or payable under a contract with one of the following:

- an insurance company;
- a trust company;
- a person or partnership in the business of administering PHSPs;
- a tax-exempt trade union of which you or the majority of your employees are members; or
- a tax-exempt business organization or tax-exempt professional organization of which you are a member.

For more information on PHSPs, see Interpretation Bulletin IT-339, *Meaning of "Private Health Services Plan" (1988 and subsequent taxation years).*

For this claim, the following terms apply:

- **Arm's length** (see "Definitions") employees are, generally, those who are not related to you and not carrying on your business with you, for example, as your partners.
- **Qualified employees** are arm's length, full-time employees who have three months' service since they last became employed with a business carried on by you, a business in which you are a majority interest partner, or a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.
- **Insurable persons** are people to whom coverage is extended and who are either:
  - qualified employees;
  - people who would be qualified employees if they had worked for you for three months; or
  - people carrying on your business (including yourself and your partners).

How to calculate your maximum deduction for PHSPs

The following sections explain how to calculate your maximum PHSP deduction based on whether you had employees and whether you insured them throughout the year or for part of the year. Find the section that describes your situation.

Note
All PHSP deduction limits and calculated limits must include applicable taxes in the total.

If you did not have any employees in 2016

Your PHSP deduction is restricted by an annual dollar limit. The limit is a maximum of:

- $1,500 for yourself;
- $1,500 for your spouse or common-law partner and each household member that is 18 years of age or older at the start of the period that they were insured; and
- $750 for each household member under the age of 18 at the start of the period.

The maximum deduction is also limited by the number of days the person was insured. Calculate your allowable maximum for the year by using the following formula:

$\frac{A}{365} \times (B + C)$, where:

A is the number of days during the period of the year that you insured yourself and your household members, if applicable, but insured less than 50% of your employees;

B equals $1,500 × the number of people covered under the plan that includes you, your spouse or common-law partner, and your household members that are 18 years of age or older; and

C equals $750 × the number of household members under the age of 18 that were insured during the period.

Example 1

Edwin was a sole proprietor who ran his business alone in 2016. He had no employees and did not insure any of his household members. Edwin paid $2,000 for PHSP coverage in 2016. The coverage lasted from July 1 to December 31, 2016, a total of 184 days. Edwin's maximum allowable PHSP deduction is calculated as follows:

$\frac{184}{365} \times \$1,500 = \$756$

Even though Edwin paid $2,000 in premiums in 2016, he can only deduct $756 because the annual limit is $1,500 and he was only insured for about half of the year. If he had been insured for the entire year, his deduction limit would have been $1,500.

Example 2

Tony was a sole proprietor who ran his business alone in 2016. He had no employees. From January 1 to December 31, he insured himself, his wife, and his two sons. Tony paid $1,800 to insure himself, $1,800 to insure his wife, and $1,000 for each of his sons. One of his sons was 15 years old and the other turned 18 on September 1. Tony's PHSP deduction is limited to the following amounts:

- $1,500 for himself;
- $1,500 for his wife;
- $750 for his 15-year-old son; and
- $750 for the son who turned 18. The $750 limit applies because he didn't turn 18 until after the insured periods.

If you had employees throughout 2016

If you had at least one qualified employee throughout all of 2016, and at least 50% of the insurable persons in your business were qualified employees, your claim for PHSP premiums is limited in a different way. Your limit is based on the lowest cost of equivalent coverage for each of your qualified employees.

Use the following steps to calculate your maximum allowable claim for the PHSP premiums paid or payable for yourself, your spouse or common-law partner, and your household members.

For each of your qualified employees, do the following calculation:

X × Y = Z, where:

X equals the amount you would pay to provide yourself, your spouse or common-law partner, and your household members with coverage equal to that provided to a particular employee and his or her spouse or common-law partner and household members;

Y equals the percentage of the premium you pay for that particular employee; and

Z equals your limit based on that particular employee.

If you had more than one qualified employee, you have to do the X × Y = Z calculation for each employee. Your limit is the least of the amounts you calculate for each employee.

Example 1

You have one qualified employee. To provide yourself with coverage equivalent to his, you pay a premium of $1,800. You pay 60% of your employee's premium. Your deduction limit for yourself is $1,080, calculated as follows:

$1,800 (amount X) × 60% (amount Y) = $1,080 (amount Z).

The maximum you can claim is $1,080 if you had only one qualified employee.

Example 2

You have three qualified employees—Jack, Jill and Sue. The following table shows how much you would pay for coverage equivalent to each of theirs and the percentage of each employee's premium that you pay.

Name of employee	Cost of equivalent coverage for yourself (X)	% of the employee's premium you pay (Y)
Jack	$1,500	20%
Jill	$1,800	50%
Sue	$1,400	40%

You have to do X × Y = Z calculation three times:

For Jack: $1,500 × 20% = $300
For Jill: $1,800 × 50% = $900
For Sue: $1,400 × 40% = $560

Your limit is $300, the least of the amounts calculated for the three employees.

Note
If you have a qualified employee with no coverage, you cannot claim your PHSP premiums as a deduction from self-employment income. You may be able to claim them as medical expenses.

If you had employees throughout 2016, but the number of insurable arm's length employees was less than 50% of all the insurable persons in your business, your maximum allowable deduction is the lesser of the following two amounts:

Amount 1
Determine this amount by using the following formula:

$\frac{A}{365} \times (B + C)$, where:

A is the number of days during the period of the year that you insured yourself and your household members, if applicable, but insured less than 50% of your employees;

B equals $1,500 × the number of people covered under the plan that includes you, your spouse or common-law partner, and your household members that are 18 years of age or older; and

C equals $750 × the number of household members under the age of 18 that were insured during the period.

Amount 2
If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the X × Y = Z formula. If you did not have at least one qualified employee, the limit in Amount 1 will apply.

If you had employees for part of the year

For the part of the year that you had at least one qualified employee and your insurable arm's length employees represented at least 50% of all the insurable persons in your business, calculate your limit for that period by using the X × Y = Z formula, "If you had employees throughout 2016."

For the rest of the year that you had no employees or that your insurable arm's length employees represented less than 50% of all of the insurable persons in your business, your deduction limit for that remaining period is the lesser of Amount 1 and Amount 2, calculated the same way as in the previous section.

Undeducted premiums

If you deduct only part of your PHSP premium in the amount at line 9270, and you paid the premium in the year, you can include the undeducted balance when you calculate your non-refundable medical expense tax credit. For more information, see Line 330 in your *General Income Tax and Benefit Guide – 2016.*

Line 9369 – Net income (loss) before adjustments

Enter at this line the gross income **minus** the deductible expenses. If you are a partner in a partnership, this amount is the net business income of all partners.

Part 6 – Your net income (loss)

In Part 6 at line 56, enter your share of the amount at line 9369, "Net income (loss) before adjustments". This is the amount left after you subtract the amounts the other partners are responsible for reporting as specified in the partnership agreement.

Line 9974 – GST/HST rebate for partners received in the year

If you received a GST/HST rebate for partners, report the amount of the rebate that relates to eligible expenses other than CCA at line 9974 in the year you receive it.

In Part 9 "Details of other partners" on Form T2125, show the full names and addresses of the other partners, as well as each partner's share of the net income or loss from line 9369 and each partner's percentage of ownership in the partnership.

Line 9943 – Other amounts deductible from your share of net partnership income (loss)

If you are a partner in a partnership and you incur motor vehicle expenses for the business using your personal vehicle, you can claim those expenses at line 9943. The expenses can only be claimed once on the form.

Claim this amount only if the partnership did not repay you for these expenses.

Fill in Part 7 "Other amounts deductible from your share of net partnership income (loss)" to list the other amounts you can deduct from your share of the partnership's net income or loss.

Line 9945 – Business-use-of-home expenses

You can deduct expenses for the business use of a workspace in your home, as long as you meet **one** of the following conditions:

- it is your principal place of business; or
- you use the space only to earn your business income, and you use it on a regular and ongoing basis to meet your clients, customers, or patients.

You can deduct part of your maintenance costs such as heat, home insurance, electricity, and cleaning materials. You can also deduct part of your property taxes, mortgage interest, and CCA. To calculate the part you can deduct, use a reasonable basis such as the area of the work space divided by the total area of your home.

If you use part of your home for both your business and personal living, calculate how many hours in the day you use the rooms for your business, and then divide that amount by 24 hours. Multiply the result by your total home expenses to find the business part of your expenses. This will give you the household cost you can deduct. If you run the business for only part of the week or year, you need to reduce your claim.

For more information, see Income Tax Folio S4-F2-C2, *Business Use of Home Expenses*.

Example
Monique runs a business in her home weekdays from 7:00 a.m. to 5:00 p.m. (10 hours out of a 24-hour day). The business uses an area of 35 square metres. The house is 100 square metres, and the annual household expenses are $5,800.

The calculation is as follows:

10/24 hours × 35/100 metres × $5,800 expenses = $845.83

The business operates 5 days a week, so Monique has to do another calculation:

$845.83 × 5/7 days = $604.16

Monique can deduct a total of $604.16 for household expenses.

The capital gain and recapture rules will apply if you deduct CCA on the business-use part of your home and you later sell your home. For more information about these rules, see Chapter 4.

If you rent your home, you can deduct the part of the rent and any expenses you incur that relate to the workspace.

The amount you can deduct for business-use-of-home expenses cannot be more than your net income from the business. In other words, you cannot use these expenses to increase or create a business loss. You can deduct the **lesser of** the following amounts:

- any amount you carried forward from 2015, plus the business-use-of-home expenses you incur in 2016; or
- the amount at line 60.

In your next fiscal period, you can use any expense you could not deduct in 2016, as long as you meet one of the two conditions above.

You can use the chart in Part 8 – "Calculation of business-use-of-home expenses" to calculate your allowable claim for business-use-of-home expenses. Enter in Part 6 at line 9945 your share of the amount in Part 8 on line 78.

Line 9946 – Your net income (loss)

Get your total gross income from Form T2125 on line 8299 and total net income from line 9946. Enter these amounts on your income tax return at Total Income under self-employment income at the relevant line.

If you have a business or professional loss that is more than all your other sources of income, you may have a non-capital loss for the year. To apply this loss against income from previous years, fill in Form T1A, *Request for Loss Carryback*, and submit a copy with your tax return. For more information about loss carrybacks, see Interpretation Bulletin IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*.

Note
You may have to adjust the figure from line 9946 before entering it on your tax return. You may have filed Form T1139, *Reconciliation of 2015 Business Income for Tax Purposes*, with your 2015 tax return. If this is the case, you will probably have to file one for 2016. To find out if you have to file Form T1139, and calculate the amount of income to report on your 2016 tax return, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*.

Details of other partners

If you are a partner in a partnership that does not have to file a partnership information return fill in Part 9, "Details of other partners" on Form T2125.

If you are a partner in a partnership that must file a partnership information return, do not fill in this chart.

Details of equity

If you are a partner in a partnership that must file a partnership information return, do not fill in Part 10, "Details of equity" on Form T2125.

Line 9931 – Total business liabilities

Total business liabilities are the total of all amounts your business or professional activity owes at the end of its fiscal period.

Total business liabilities include:

- accounts payable;
- notes payable;
- taxes payable;
- unpaid salaries, wages, and benefits;
- interest payable;
- deferred or unearned revenues;
- loans payable;
- mortgages payable; and
- any other outstanding balances related to the business.

Line 9932 – Drawings in 2016

A drawing is any withdrawal of cash (including salaries), other assets, or services of a business by the proprietor or partners. This includes transactions by the proprietor or partners (or family members) such as cash withdrawals for non-business use. This includes using business assets or services for personal use.

Line 9933 – Capital contributions in 2016

A capital contribution is cash or other assets you added to the business during its fiscal period. This includes personal funds, business debts you paid with personal funds, and personal assets you transferred to the business.

Chapter 4 – Capital cost allowance

What is Capital cost allowance?

You might acquire a depreciable property, such as a building, furniture, or equipment, to use in your business or professional activities. You cannot deduct the cost of the property when you calculate your net business or professional income for the year.

Since these properties wear out or become obsolete over time, you can deduct their cost over a period of several years. The deduction for this is called capital cost allowance (CCA).

You can usually claim CCA on a property when it becomes available for use.

Available for use rules

Property other than a building usually becomes available for use on the earlier of:

- the date you first use it to earn income;
- the second tax year after the year you acquire the property;
- the time just before you dispose of the property; or
- the time the property is delivered or made available to you and is capable of producing a saleable product or service.

A building or part of a building usually becomes available for use on the earlier of:

- the date you start using 90% or more of the building in your business;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.

A building that you are constructing, renovating, or altering usually becomes available for use on the earlier of:

- the date you complete the construction, renovation, or alteration;
- the date you start using 90% or more of the building in your business;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.

How much CCA you can claim

The CCA you can claim depends on the type of property you own and the date you acquired it. Group the depreciable property you own into the specified CCA classes. A CCA rate generally applies to each class.

We explain the most common classes of property in "Classes of depreciable property". We list most of the classes and their rates in the "CCA classes of commonly used business assets" chart.

Base your CCA claim on your fiscal period ending in 2016, and not on the calendar year.

Basic information about CCA

To decide whether an amount is a current expense or a capital expense, see the chart in "Chapter 3 – Expenses".

- Generally, use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost (see "Definitions") of the property minus the CCA you claimed in previous years, if any. As you claim CCA over the years, the balance declines.

Example
Last year Sue bought a building for $60,000 to use in her business. On her tax return for last year, she claimed CCA of $1,200 on the building. This year, Sue bases her CCA claim on her balance of $58,800 ($60,000 – $1,200).

- You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the balance of the property in the class by the amount of CCA claimed. As a result, the balance of CCA available for future years will be reduced.
- In the year you acquire a property you can usually claim CCA only on one-half of your net additions to a class. We explain this half-year rule in Column 6 – "Adjustment for current-year additions". The available-for-use rules discussed earlier in this chapter may also affect the amount of CCA you can claim.
- You cannot claim CCA on most land or on living things such as trees, shrubs, or animals but you can claim CCA on timber limits, cutting rights, and wood assets. For more information, see Interpretation Bulletin IT-481, *Timber Resource Property and Timber Limits*, and Interpretation Bulletin IT-501, *Capital Cost Allowance – Logging Assets*, and its Special Release.
- If you claim CCA and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Or, you may have to deduct an additional amount from your income as a terminal loss. For more information, see Column 5 – "Undepreciated capital cost UCC after additions and dispositions".
- If you receive income from a quarry, a sand pit, a gravel pit or a woodlot, you can claim a type of allowance known as a depletion allowance. For more information, see Interpretation Bulletin IT-373-CONSOLID, *Woodlots,* and Interpretation Bulletin IT-492, *Capital Cost Allowance – Industrial Mineral Mines*.
- If you are a partner in a partnership, you cannot claim CCA for depreciable property owned by the partnership. Instead, the partnership can deduct CCA when calculating its net income or loss for the year. The partnership's net income or loss is then allocated between the partners and each partner's share is shown on their respective T5013 slip, *Statement of partnership income*.

If a partnership does not have to file a partnership information return, you will not receive a T5013 slip. In such cases, you will have to fill out Part 11 of Form T2125 to report the CCA claim for the partnership.

Note
If your fiscal period is less than 365 days, you have to prorate the amounts for your CCA claim. Calculate your claim using the rules we discuss in this chapter. Base your CCA claim on a proration rate calculated by the number of days in your fiscal period divided by 365 days.

If you start a business and your first fiscal period is from June 1, 2016, to December 31, 2016, your fiscal period is 214 days. If you calculate your CCA to be $3,500, the amount of CCA you can claim is
$2,052 = ($3,500 × 214/365).

How to calculate your CCA

To calculate your 2016 deduction for CCA, and any recaptured CCA and terminal losses, use Part 11 of Form T2125. You may have acquired or disposed of buildings or equipment during your fiscal period. If so, fill in Parts 12, 13, 14, or 15, whichever applies, before completing Part 11.

Note
Even if you are not claiming a deduction for CCA for 2016, fill in the proper parts of the form to show any additions and dispositions during the year.

Column 1 – Class number

Enter in this column the class numbers of your properties. If this is the first year you are claiming CCA, before completing column 1, see "Column 3 – Cost of additions in the year".

We discuss the more common types of depreciable properties in "Classes of depreciable property" and we list most of the classes and their rates in the "CCA classes of commonly used business assets" chart.

Column 2 – Undepreciated capital cost (UCC) at the start of the year

Enter in this column the remaining UCC of each class at the end of last year. You will find these amounts in column 10 of Part A on the Form T2125 that was filled in for you last year.

If this is the first year you have had an item for which you can claim CCA, skip this column.

From your UCC at the start of 2016, subtract any investment tax credit you claimed or were refunded in 2015. Also, subtract any 2015 investment tax credit you carried back to a year before 2015.

In 2015, you may have received a GST/HST input tax credit for a passenger vehicle that was used by the business less than 90%. If so, subtract the amount of that input tax credit from your opening UCC for 2016.

Note
In 2016, you may be claiming, carrying back, or getting a refund of an investment tax credit. If you still have depreciable property listed in the class, you have to adjust in 2017 the UCC of the class to which the property belongs. To do this, subtract the amount of the credit from the UCC at the start of 2017. When there is no property left listed in the class, report the amount of the investment tax credit as income in 2017.

Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we consider these to be additions to the class in which the property belongs. You should:

- fill in Part 12 and Part 13 of Form T2125; and
- enter in Part 11 in column 3 for each class, the figure from column 5 of each class in Part 12 and Part 13.

If a chart requires information for "personal portion" of the use of a property, this refers to the part that you use personally, separate from the part you use for business. For example, if you use 25% of the building you live in for business, your personal part is the other 75%.

Do not include the value of your labour in the cost of a property you build or improve. Include the cost of surveying or valuing a property you acquire. Remember that a property usually has to be available for use before you can claim CCA.

If you received insurance proceeds for the loss or destruction of depreciable property, enter the amount you spent to replace the property in Part 11 in column 3 , as well as in Part 12 or Part 13, whichever applies. Include the amount of insurance proceeds considered as proceeds of disposition in Part 11 in column 4, as well as in Part 14 or Part 15, whichever applies.

If you replace a lost or destroyed property, special rules for replacement property may apply. The replacement property must be acquired within two years of the end of the tax year in which it was lost or destroyed. For more information, see Interpretation Bulletin IT-259, *Exchange of Property*, and Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release.

Part 12 – Equipment additions in the year

List the details of all equipment (including motor vehicles) you acquired or improved in 2016. Group the equipment into the proper CCA classes, and enter each class on a separate line.

Equipment includes items you acquire to use in your business or professional activities to earn income or for maintenance. Examples include a cement mixer, a snow blower, and a lawn mower.

Calculate the total of column 5. This is the total of the business part of the cost of equipment additions. Enter this amount at line 9925.

Part 13 – Building additions in the year

List the details of all buildings you acquired or improved in 2016. Group the buildings into the applicable classes, and enter each class on a separate line.

The cost includes the purchase price of the building and any related expenses you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees.

Calculate the total of column 5. This is the total of the business part of the cost of building additions. Enter this amount at line 9927.

Land

Land is not a depreciable property. Generally, you cannot claim CCA on the cost of land. If you acquire a property that includes both land and a building, enter in Part 13 in column 3 only the cost that relates to the building. To calculate the building's capital cost, you have to split any fees that relate to buying the property between the land and the building. Related fees may include legal and accounting fees.

Calculate the part of the related fees you can include in the capital cost of the building as follows:

$$\frac{\text{Building value}}{\text{total purchase price}} \times \text{legal, accounting, or other fees} = \text{the part of the fees you can include in the building's cost}$$

You do not have to split a fee if it relates only to the land, or only to the building. In this case, you would add the amount of the fee to the cost to which it relates; either the land or the building.

Part 16 – Land additions and dispositions in the year

Enter at line 9923 the total cost of acquiring land in 2016. The cost includes the purchase price of the land plus any related expenses you should add to the capital cost of the land. These fees could include legal fees, land transfer taxes, and mortgage fees.

Column 4 – Proceeds of dispositions in the year

If you disposed of a depreciable property during your 2016 fiscal period, calculate the appropriate disposition amount in Part 14 or Part 15. Enter in column 3 of Part 14 or Part 15 one of the following amounts, whichever is less:

- your proceeds of disposition minus any related expenses; or
- the capital cost of the property.

Note
Separate the personal part of a property from the part you use for business. For example, if you use 25% of the building you live in for business, your personal part is the other part which is 75%.

For each class take the amounts from Part 14 or Part 15 in column 5 and enter these amounts in Part 11 in column 4.

If you received insurance proceeds for the loss or destruction of depreciable property, enter the amount you paid to replace the property in Part 11 in column 3 , as well as in Part 12 or Part 13, whichever applies. Include the amount of insurance proceeds considered as proceeds of disposition in Part 11 in column 4, as well as in Part 14 or Part 15, whichever applies. This could include compensation you receive for property that someone destroys, expropriates, steals, or damages.

If you dispose of a property for proceeds that are more than it cost you to acquire it (or you receive insurance proceeds for a property that was lost or destroyed that exceed the cost of the property), you will have a capital gain and possibly a recapture of CCA. You may be able to postpone or defer recognition of a capital gain or recapture of CCA in computing income if, among other things, the property disposed of is replaced within certain specified time limits.

For more information, see Interpretation Bulletins IT-259R4, *Exchange of Property*, and IT-491, *Former business property*, and its Special Release. For more information about proceeds of disposition, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Part 14 – Equipment dispositions in the year

List the details of all equipment (including motor vehicles) you disposed of in 2016. Group the equipment into the proper classes, and enter each class on a separate line. Calculate the total of column 5. This is the total of equipment dispositions. Enter this amount at line 9926.

Part 15 – Building dispositions in the year

List the details of all buildings you disposed of in 2016. Group the buildings into the proper classes, and enter each class on a separate line. Calculate the total of column 5. This is the total of the business part of the building dispositions. Enter this amount at line 9928.

Part 16 – Land additions and dispositions in the year

Enter at line 9924 the total of all amounts you received or will receive for disposing of land in the fiscal period.

Column 5 – Undepreciated capital cost UCC after additions and dispositions

The UCC amount for column 5 is the initial UCC amount at the start of the year **plus** the cost of additions **minus** the proceeds of dispositions.

Recapture of CCA

If the result in column 5 is negative, you have a recapture of CCA. Include this recapture in your income on Form T2125 in Part 3 at line 8230. A recapture of CCA can happen if the proceeds from the sale of depreciable property are more than the total of:

- the UCC of the class at the start of the period; and
- the capital cost of any new additions during the period.

A recapture of CCA can also occur, for example, when you get a government grant or claim an investment tax credit.

In some cases, you may be able to delay a recapture of CCA. For example, you may sell a property or someone may expropriate your property and you replace it with a similar one, or you may transfer property to a corporation or a partnership.

Terminal loss

If the result in column 5 is positive and you no longer own any property in that CCA class, you may have a terminal loss. You have a terminal loss when, at the end of a fiscal period, you have no more property listed in the CCA class but still have an amount you have not deducted as CCA. You usually have to subtract this terminal loss from your gross business or professional income in the year you disposed of the depreciable property. Enter your terminal loss on Form T2125 in Part 5 at line 9270.

For more information on recapture of CCA and terminal loss, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

> **Note**
> The rules for recapture of CCA and terminal loss do not apply to passenger vehicles in Class 10.1. To calculate your CCA claim, see the comments in "Column 7 – Base amount for Capital cost allowance".

Column 6 – Adjustment for current-year additions

In the year you acquire or make additions to a property, you can usually claim CCA on half of your net additions (the amount in column 3 **minus** the amount in column 4). We call this the half-year rule.

Calculate your CCA claim only on the net adjusted amount. Do not reduce the cost of the additions in column 3 or the CCA rate in column 8. For example, if you acquired a property for $30,000 in your 2016 fiscal period, you would base your CCA claim on $15,000 ($30,000 ÷ 2).

If you acquired and disposed of depreciable property of the same class in your 2016 fiscal period, the calculation in column 6 restricts your CCA claim. Calculate the CCA you can claim as follows:

- Determine which of the following amounts is less:
  - the proceeds of disposition of the property sold, **minus** any related costs or expenses; or
  - the capital cost.
- Subtract the above amount from the capital cost of your addition.
- Enter the result **divided** by 2 in column 6. If the result is negative, enter "0."

In some cases, you do not make a change in column 6. For example, in a non-arm's length (see "Definitions") transaction, you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2016 fiscal period to the day the property was purchased. However, if you transfer personal property, for example, a car or a personal computer, into your business, the half-year rule applies to the particular property transferred.

Also, some properties do not follow the half-year rule. Some examples are those in classes 13, 14, 23, 24, 27, and 34, as well as some of those in Class 12, such as small tools. The half-year rule does not apply when the available-for-use rules deny a CCA claim until the second tax year after the year you acquire the property.

For more information on the special rules that apply to Class 13, see Interpretation Bulletin IT-464, *Capital Cost Allowance – Leasehold Interests*.

For more information on the half-year rule, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Column 7 – Base amount for Capital cost allowance (CCA)

Base your CCA claim on this amount.

For a Class 10.1 vehicle you disposed of in your 2016 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of your 2016 fiscal period. This is known as the half-year rule on sale.

You can use the half-year rule on sale if, at the end of your 2015 fiscal period, you owned the Class 10.1 vehicle you disposed of in 2016. If this applies to you, enter 50% of the amount from column 2 in column 7.

Column 8 – CCA rate (%)

In this column, enter the CCA class rate for each class of property. For a complete list of classes and rates, see the "CCA classes of commonly used business assets" chart.

Column 9 – CCA for the year

In column 9, enter the CCA you want to deduct for 2016. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See the note under "Basic information about CCA".

Add up all the amounts in column 9. Enter the total in Part 5 at line 9936, "Capital cost allowance (CCA)". To find out how to calculate your CCA claim if you are using the property for business and personal use, see "Personal use of property".

Column 10 – Undepreciated capital cost at the end of the year

The undepreciated capital cost (UCC) is calculated by deducting the calculated CCA for the year from the UCC after additions and dispositions. Column 5 **minus** column 9.

This result is the UCC at the end of your 2016 fiscal period. Next year you will enter these amounts in column 2 to calculate your CCA claim.

Enter "0" in column 10 if you have a terminal loss or a recapture of CCA. There will not be an amount in column 10 for a Class 10.1 passenger vehicle you dispose of in the year.

Classes of depreciable property

In this part, we discuss the more common classes of depreciable property. We also list most of the classes and their rates in the "CCA classes of commonly used business assets" chart.

Class 1 (4%)

A building may belong to class 1, 3, or 6, depending on what it is made of and the date you acquired it. You also include in these classes the parts that make up the building, such as:

- electrical wiring;
- lighting fixtures;
- plumbing;
- sprinkler systems;
- heating equipment;
- air-conditioning equipment (other than window units);
- elevators; and
- escalators.

Note
Most land is not depreciable property. When you acquire a property, only include the cost that relates to the building in Part 11 and Part 13. Enter in Part 16 at line 9923 the cost of all land additions in 2016. For more information, see Part 16 – Land additions and dispositions in the year" and Column 3 – Cost of additions in the year".

For more information, see Interpretation Bulletin IT-79, *Capital Cost Allowance – Buildings or Other Structures*.

Class 1 includes most buildings acquired after 1987, unless they specifically belong to another class. Class 1 also includes the cost of certain additions or alterations you made to a Class 1 building or certain buildings of another class after 1987.

The CCA rate for eligible non-residential buildings acquired by a taxpayer after March 18, 2007, and used in Canada to manufacture or process goods for sale or lease includes an additional allowance of 6% for a total rate of 10%. The CCA rate for other eligible non-residential buildings includes an additional allowance of 2% for a total rate of 6%.

To be eligible for one of the additional allowances, you must elect to put a building in a separate class. To make the election, submit a letter with your tax return for the tax year you acquired the building. If you do not make the election to put it in a separate class, the 4% rate will apply.

The additional allowance applies to buildings acquired after March 18, 2007 (including new buildings, if any part of the building is acquired after March 18, 2007, when the building was under construction on March 19, 2007) that have not been used or acquired for use before March 19, 2007.

To be eligible for the 6% additional allowance, at least 90% of a building (measured by square footage) must be used in Canada for the designated purpose at the end of the tax year. Manufacturing and processing buildings that do not meet the 90% use test will be eligible for the additional 2% allowance if at least 90% of the building is used in Canada for non-residential purposes at the end of the tax year.

Class 3 (5%)

Most buildings acquired before 1988 are included in Class 3 or Class 6.

If you acquired a building before 1990 that does not fall within Class 6, you can include it in Class 3 with a CCA rate of 5% if one of the following applies:

- you acquired the building under the terms of a written agreement entered into before June 18, 1987; or
- the building was under construction by you or for you on June 18, 1987.

Include in Class 3 the cost of any additions or alterations made after 1987 to a Class 3 building that does not exceed the **lesser of** the following two amounts:

- $500,000; and
- 25% of the building's capital cost (including the cost of any additions or alterations to the building included in Class 3, Class 6, or Class 20 before 1988).

Any amount that is more than the least amount above is included in Class 1.

Class 6 (10%)

Include in Class 6 with a CCA rate of 10%, buildings that are made of frame, log, stucco on frame, galvanized iron, or corrugated metal. In addition, **one** of the following conditions has to apply:

- you acquired the building before 1979;
- the building is used to gain or produce income from farming or fishing; or
- the building has no footings or other base supports below ground level.

If any of the above conditions apply, you also add the full cost of all additions and alterations to the building to Class 6.

If none of the conditions above applies include the building in Class 6 if **one** of the following conditions below applies:

- you entered into a written agreement before 1979 to acquire the building, and the footings or other base supports of the building were started before 1979; or
- you started the construction of the building before 1979 (or it was started under the terms of a written agreement you entered into before 1979), and the footings or other base supports of the building were started before 1979.

Also, include in Class 6 certain greenhouses and fences.

For additions or alterations to such a building:

- Add to Class 6:
  - the first $100,000 of additions or alterations made after 1978.

- Add to Class 3:
  – the part of the cost of all additions or alterations over $100,000 made after 1978 and before 1988; and
  – the part of the cost of additions or alterations over $100,000 made after 1987, but only up to $500,000 or 25% of the building's capital cost, whichever is less.
- Add to Class 1 any additions or alterations above these limits.

Class 8 (20%)

Class 8 with a CCA rate of 20% includes property that is not included in another class. Examples are furniture, appliances, and a tool costing $500 or more, some fixtures, machinery, outdoor advertising signs, refrigeration equipment, and other equipment you use in the business.

Photocopiers and electronic communications equipment, such as fax machines and telephone equipment are also included in Class 8.

> **Note**
> If this equipment costs $1,000 or more, you can elect to have it included in a separate class. The CCA rate will not change but a separate CCA deduction can now be calculated for a five-year period. When all the property in the class are disposed of, the UCC is fully deductible as a terminal loss. Any UCC balance remaining in the separate class at the end of the fifth year has to be transferred back to the general class in which it would otherwise belong. To make an election, submit a letter with your tax return for the tax year in which you acquired the property.

Include in Class 8 data network infrastructure equipment and systems software for that equipment acquired before March 23, 2004. If acquired after March 22, 2004, include it in Class 46. See "Class 46" (30%).

Include buildings that you use to store fresh fruit or vegetables at a controlled temperature, by or for the person or persons by whom they were grown in Class 8 instead of Class 1, 3, or 6. Also include in Class 8 any buildings that you use to store silage.

Class 10 (30%)

Include in Class 10 with a CCA rate of 30% general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment, if you acquired them:

- before March 23, 2004, **or**
- after March 22, 2004, and before 2005, and you made an election. See "Election".

Also include in Class 10 motor vehicles, as well as some passenger vehicles.

Include passenger vehicles in Class 10 unless they meet a Class 10.1 condition.

Class 10.1 (30%)

Your passenger vehicle can belong to either Class 10 or Class 10.1.

To determine the class your passenger vehicle belongs to, you have to use the cost of the vehicle before you add the GST/HST or the PST.

Include your passenger vehicle in Class 10.1 if you bought it in your 2016 fiscal period and it cost more than $30,000. List each Class 10.1 vehicle separately.

We consider the capital cost of a Class 10.1 vehicle to be $30,000 plus the related GST/HST or PST. The $30,000 amount is the capital cost limit for a passenger vehicle.

> **Note**
> Use the GST rate of 5% and the appropriate PST rate for your province or territory. If your province is a participating province, use the applicable HST rate.

Example
Karim owns a sporting goods retail business. On July 21, 2016, he bought two passenger vehicles to use them in his business. The PST rate for his province, Manitoba is 8%. Karim noted these details for 2016:

	Cost	GST	PST	Total
Vehicle 1	$33,000	$1,650	$2,640	$37,290
Vehicle 2	$28,000	$1,400	$2,240	$31,640

Karim puts Vehicle 1 in Class 10.1, since he bought it in 2016 and it cost him more than $30,000.

Before he enters an amount in Part 12 in column 3, he needs to calculate the GST and PST that he would have paid on $30,000. He does this as follows:

- GST at 5% of $30,000 = $1,500
- PST at 8% of $30,000 = $2,400

Karim's capital cost for Vehicle 1 is $33,900 ($30,000 + $1,500 + $2,400). He enters this amount in Part 12 in column 3.

Karim puts Vehicle 2 in Class 10, since he bought it in 2016 and it did not cost him more than $30,000.

Karim's capital cost for Vehicle 2 is $31,640 ($28,000 + $1,400 + $2,240). He enters this amount in Part 12 in column 3.

Class 12 (100%)

Class 12 includes china, cutlery, linen, uniforms, dies, jigs, moulds, cutting or shaping parts of a machine, tools, and computer software (except systems software).

Also included in this class are video-cassettes, video-laser discs, and digital video disks that you rent and do not expect to rent to any person for more than seven days in a 30-day period.

The cost limit for the Class 12 (100%) treatment is $500 for the following property acquired on or after May 2, 2006:

- tools;
- medical or dental instruments; and
- kitchen utensils.

If the cost of the tool, medical or dental instrument or kitchen utensil is $500 or more, include the cost in the Class 8.

Tools eligible to belong to this class specifically exclude electronic communication devices and electronic data processing equipment.

Class 14.1 (5%)

Starting January 1, 2017, include in the Class 14.1 property that:

- is goodwill;
- was eligible capital property (ECP) immediately before January 1, 2017 and is owned at the beginning of that day;
- is acquired after 2016, other than:
  - property that is tangible or corporeal property;
  - property that is not acquired for the purpose of gaining or producing income from business;
  - property in respect of which any amount is deductible (otherwise than as a result of being included in class 14.1) in computing the income from the business;
  - an interest in a trust;
  - an interest in a partnership;
  - a share, bond, debenture, mortgage, hypothecary claim, note, bill or other similar property; or
  - property that is an interest in, or for civil law a right in, or a right to acquire, a property described in any of the above sub-bullets.

For tax years that end prior to 2027, properties included in class 14.1 that were acquired before January 1, 2017 will be allowed an additional CCA. Transitional rules will apply.

Properties that are included in class 14.1 and acquired after 2016 will be included in this class at a 100% inclusion rate with a 5% CCA rate on a declining-balance basis and the existing CCA rules will normally apply.

For more information about the new class 14.1 and the transitional rules, see "Explanatory Notes - Eligible Capital Property" at **budget.gc.ca/2016/docs/tm-mf/notes-en.html**.

> **Note**
> Property in this new class 14.1 is excluded from the definition of capital property for GST/HST purposes.

Class 29

Include in Class 29 eligible machinery and equipment used in Canada primarily to manufacture and process goods for sale or lease acquired after March 18, 2007 and before 2016, that would otherwise be included in Class 43. Calculate the CCA for Class 29 using the straight-line method as follows: in the first year claim up to 25%, in the second year claim 50%, and in the third year the remaining 25%. Any amount that is not claimed in a year can be claimed in a later year.

Class 43 (30%)

Include in Class 43 with a CCA rate of 30% eligible machinery and equipment used in Canada primarily to manufacture and process goods for sale or lease that are not included in Class 29 or 53.

You can list this property in a separate class if you file an election by submitting a letter when you file your tax return for the year in which you acquired the property. For information on separate class elections, see" Class 8 (20%)".

Class 43.1 (30%)

Include in Class 43.1 with a CCA rate of 30% electrical vehicle charging stations (EVCSs) set up to supply more than 10 kilowatts but less than 90 kilowatts of continuous power. This is for property acquired for use after March 21, 2016, that has not been used or acquired for use before March 22, 2016.

Class 43.2 (50%)

Include in Class 43.2 with a CCA rate of 50% electrical vehicle charging stations (EVCSs) set up to supply 90 kilowatts and more of continuous power. This is for property acquired for use after March 21, 2016, that has not been used or acquired for use before March 22, 2016.

Class 46 (30%)

Include in Class 46 with a CCA rate of 30% data network infrastructure equipment and systems software for that equipment if they were acquired after March 22, 2004. If they were acquired before March 23, 2004, include them in Class 8.

Class 50 (55%)

Include in Class 50 with a CCA rate of 55% property acquired after March 18, 2007, that is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment. Do not include property that is included in Class 52 or that is mainly or is used mainly as:

a) electronic process control or monitor equipment;

b) electronic communications control equipment;

c) systems software for equipment referred to in a) or b); or

d) data handling equipment (other than data handling equipment that is ancillary to general-purpose electronic data processing equipment).

Class 53 (50%)

Include in Class 53 with a CCA rate of 50% eligible machinery and equipment that is acquired after 2015 and before 2026 (that would generally otherwise be included in Class 29) to be used in Canada primarily in the manufacturing or processing of goods for sale or lease.

Special situations

Personal use of property

If you buy property for your business and for personal use, you can show the business part of the property in Part 12 or Part 13 in one of two ways:

- If your business use stays the same from year to year, enter in Part 12 or Part 13 the total cost of the property in column 3, the personal part in column 4, and the result of the cost of the property **minus** the amount for the personal part in column 5. To help calculate the CCA you can claim, enter in Part 11 in column 3 the amount from Part 12 or Part 13 in column 5.
- If your business use changes from year to year, enter in Part 12 or Part 13 the total cost of the property in column 3 and column 5, and enter "0" in column 4. Enter in Part 11 in column 3 the amount from Part 12 or Part 13 in column 5 and calculate the CCA amount for the year.

Example
Nadir owns a financial consulting business. He bought a car in 2016 for personal and business use. The car cost $20,000, including all charges and taxes. He includes the car in Class 10. His business use this year was 12,000 kilometres of the total 18,000 kilometres driven. He calculates his CCA on the car for 2016 as follows:

He enters $20,000 in column 3 and column 5 of Part 12. Nadir also enters $20,000 in column 3 of Part 11. By completing the other columns in the chart, he calculates CCA for the year of $3,000. Because Nadir used his car partly for personal use, he calculates his CCA claim as follows:

$$\frac{12{,}000\text{ (business kilometres)}}{18{,}000\text{ (total kilometres)}} \times \$3{,}000 = \$2{,}000$$

Nadir enters $2,000 at line 9936.

To claim CCA for business use of a workspace in your home, on the form, use Part 8 – "Calculation of business-use-of-home expenses". Subtract the CCA portion for business-use-of-home expenses from the amount at line G, "Total CCA Claim for the year". Enter the result in Part 5 at line 9936. In part 8, enter at line 73 the amount of CCA you are claiming for business-use-of-home.

Note
The capital cost limits on a Class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use.

Claiming CCA for a work space in the home can have a negative effect for purposes of the principal residence exemption. For more information, see the Income Tax Folio S1-F3-C2, *Principal Residence*.

Restrictions apply on the deduction of the expenses related to the work space, for more information, see Income Tax Folio S4-F2-C2, *Business Use of Home Expenses*.

Changing from personal to business use

If you bought a property for personal use and started using it in your business in your 2016 fiscal period, there is a change in use. You need to determine the capital cost for business purposes.

If the fair market value of a depreciable property is less than its original cost when you change its use, the amount you enter in Part 12 or Part 13 in column 3 is the fair market value of the property (excluding the land value if the property is land and a building). If the fair market value is more than the original cost of the property (excluding the land value if the property is land and a building) when you change its use, use the capital cost calculation template to find the amount to enter in Part 12 or Part 13 in column 3.

When you start using your property for business use, you are considered to have disposed of it. If the fair market value of the property is more than its cost, you may have a capital gain. For more information on capital gains, see Guide T4037, *Capital Gains*.

Capital cost calculation

Actual cost of the property			$________	1
FMV of the property	$ ________	2		
Amount from line 1	$ ________	3		
Line 2 **minus** line 3 (if negative, enter "0")	$ ________	4		
Enter any capital gains deduction claimed for the amount on line 4* $______ × 2 =	$ ________	5		
Line 4 **minus** line 5 (if negative, enter "0")	$ ________ × 1/2 =		$________	6
Capital cost: line 1 **plus** line 6			$________	7

*Enter the amount that relates to the depreciable property only.

Note
We consider you to acquire the land for an amount equal to its fair market value when you change its use. Enter this amount in Part 16 "Land additions and dispositions in the year" at line 9923.

Grants, subsidies, and rebates

You may get a grant or subsidy from a government or a government agency to buy depreciable property. When this happens, subtract the amount of the grant, subsidy, or rebate from the property's capital cost. Enter this result in Part 12 or Part 13 in column 3.

You may have paid GST/HST on some of the depreciable property you acquired for your business. You may have also received an input tax credit from us. The input tax credit is government assistance. Subtract it from the property's capital cost. Enter the result at Part 12 or Part 13 in column 3.

If you get an input tax credit for a passenger vehicle you use in your business, use one of the following methods:

- For a passenger vehicle you used 90% or more for your business, subtract the amount of the credit from the vehicle's cost before you enter its capital cost in Part 12 in column 3.

- For a passenger vehicle you used less than 90% for your business, do not make an adjustment in 2016. Instead, subtract the amount of the credit from your beginning UCC in 2017.

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can either include the amount in income or subtract the amount from the capital cost of the property. If the amount of the incentive is more than the remaining UCC in the particular class, add the extra amount to income on Form T2125 in Part 3 at line 8230.

Non-arm's length transactions

When you acquire depreciable property in a non-arm's length transaction, there are special rules for determining the property's capital cost. These special rules do not apply if you acquire the property because of someone's death.

You can acquire depreciable property in a non-arm's length transaction from:

- an individual resident in Canada;
- a partnership with at least one partner who is an individual resident in Canada; or
- a partnership with at least one partner that is another partnership.

If you pay more for the property than the seller paid for it, calculate the capital cost as follows using the template below:

Capital cost calculation
Non-arm's length transaction – Resident of Canada

The seller's cost or capital cost		$_________	1
The seller's proceeds of disposition	$ _________ 2		
Amount from line 1	$ _________ 3		
Line 2 **minus** line 3 (if negative, enter "0")	$ _________ 4		
Enter any capital gains deduction claimed for the amount on line 4 $_____ × 2	$ _________ 5		
Line 4 **minus** line 5 (if negative, enter "0")	$ _________ × 1/2 =	$_________	6
Capital cost: line 1 **plus** line 6		$_________	7

Enter this amount in Part 12 or Part 13 in column 3, whichever applies. Do not include the cost of the related land. Enter the cost of the related land on Form T2125 in Part 16 at line 9923.

You can also acquire depreciable property in a non-arm's length transaction from:

- a corporation;
- an individual who is not resident in Canada;
- a partnership with no partners who are individuals resident in Canada; or
- a partnership with no partners that are other partnerships.

If you pay more for a depreciable property than the seller paid for it, calculate the capital cost as follows using the template below:

Capital cost calculation
Non-arm's length transaction – Non-resident of Canada

The seller's cost or capital cost		$________	1
The seller's proceeds of disposition	$ _________ 2		
Amount from line 1	$ _________ 3		
Line 2 **minus** line 3 (if negative, enter "0")	$ _________ × 1/2 =	$________	4
Capital cost line 1 **plus** line 4		$________	5

Enter this amount in column 3 of either Part 12 or 13, whichever applies. Do not include the cost of the related land. Include the cost of the related land on Form T2125 in Part 16 at line 9923.

If you acquire depreciable property in a non-arm's length transaction and pay less for it than the seller paid, your capital cost is the same amount as the seller paid. We consider you to have deducted as CCA the difference between what you paid and what the seller paid.

Example
Rachel bought a pickup truck for $4,000 from her father, Marcus, in her 2016 fiscal period. Marcus paid $10,000 for the truck in 2008. Since the amount Rachel paid is less than the amount Marcus paid, we consider Rachel's cost to be $10,000. We also consider Rachel to have deducted CCA of $6,000 in the past ($10,000 – $4,000).

Rachel fills in the CCA chart as follows:

- In Part 12, she enters $10,000 in column 3, "Total cost."
- In Part 11, she enters $4,000 in column 3, "Cost of additions in the year," as the addition for her 2016 fiscal period.

There is a limit on the capital cost of a passenger vehicle you buy in a non-arm's length transaction. The cost is the **least of** the following three amounts:

- the FMV when you buy it;
- $30,000 plus the GST/HST or PST you would pay on $30,000, if you bought it in your 2016 fiscal period; or
- the seller's cost amount of the vehicle when you buy it.

The seller's cost amount can vary, depending on what the seller used the vehicle for before you bought it. If the seller used the vehicle to earn income, the cost amount will be the UCC of the vehicle when you buy it. If the seller did not use the vehicle to earn income, the cost amount will usually be the original cost of the vehicle.

Capital gains

If you sell a property for more than it cost, you may have a capital gain. List the dispositions of all your properties on Schedule 3, *Capital Gains (or Losses) in 2016*.

You may be a partner in a partnership that gives you a T5013 slip, *Statement of Partnership Income*. If the partnership has a capital gain, it will allocate part of that gain to you. The gain will show on the partnership's financial statements or on your T5013 slip.

> **Note**
> You cannot have a capital loss when you sell depreciable property but you can have a terminal loss. For an explanation of terminal losses, see "Column 5 – Undepreciated capital cost UCC after additions and dispositions".

Special rules for disposing of a building in the year

If you disposed of a building in the year, special rules may apply that make the proceeds of disposition an amount other than the actual proceeds of disposition. This happens when you meet **both** of the following conditions:

- you disposed of the building for an amount less than both its cost amount, as calculated below, and its capital cost to you; and
- you, or a person with whom you do not deal at arm's length, owned the land that the building is on, or the land next to it, which was necessary for the building's use.

To calculate the cost amount:

- If the building was the only property in the class, the cost amount is the UCC of the class before you disposed of the building.
- If more than one property is in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{capital cost of the building}}{\text{capital cost of all property in the class not previously disposed of}} \times \text{UCC of the class} = \text{cost amount of the building}$$

> **Note**
> If any property in the class of the building that was acquired at non-arm's length was previously used for a purpose other than gaining or producing income, or if the part of a property used to gain or produce income has changed, the capital cost of the property has to be recalculated to determine the cost amount of the property.

For more information about proceeds of disposition, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

If you disposed of a building under these conditions, and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A.

If you, or a person with whom you do not deal at arm's length, didn't dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B.

Calculation A
Land and building disposed of in the same year

Fair market value of the building when you disposed of it			$______	1
Fair market value of the land just before you disposed of it			$______	2
Line 1 **plus** line 2			$______	3
Seller's adjusted cost base of the land	$______	4		
Total capital gains (without reserves) from any disposition of the land (such as a change in use) in the three-year period before you disposed of the building (by you, or by a person not dealing at arm's length with you, to you or to another person not dealing at arm's length with you)	$______	5		
Line 4 **minus** line 5 (if negative, enter "0")	$______	6		
Line 2 or line 6, whichever amount is less			$______	7
Line 3 **minus** line 7 (if negative, enter "0")			$______	8
Cost amount of the building just before you disposed of it	$______	9		
Capital cost of the building just before you disposed of it	$______	10		
Line 9 or line 10, whichever amount is less	$______	11		
Line 1 or line 11, whichever amount is more			$______	12
Deemed proceeds of disposition for the building				
Line 8 or line 12, whichever amount is less (enter this amount on Form T2125 in Part 15 in column 3 and in Part 11 in column 4)			$______	13
Deemed proceeds of disposition for the land				
Proceeds of disposition of the land and building			$______	14
Amount from line 13			$______	15
Line 14 **minus** line 15 (enter this amount on Form T2125 in Part 16 at line 9924)			$______	16

If you have a terminal loss on the building, include it on Form T2125 in Part 5 at line 9270.

Calculation B
Land and building disposed of in different years

Cost amount of the building just before you disposed of it	$______	1		
Fair market value of the building just before you disposed of it	$______	2		
Line 1 or line 2, whichever amount is more			$______	3
Actual proceeds of disposition, if any			$______	4
Line 3 **minus** line 4			$______	5
Line 5 $______ × 1/2 =			$______	6
Amount from line 4			$______	7
Deemed proceeds of disposition for the building: line 6 **plus** line 7				
Enter this amount in Part 11 column 4 and in Part 15 in column 3.			$______	8

If you have a terminal loss on the building, include it on Form T2125 in Part 5 at line 9270.

Ordinarily, you can deduct 100% of a terminal loss but only 50% of a capital loss. Calculation B ensures that you use the same percentage to calculate a terminal loss on a building as you use to calculate a capital loss on land.

As a result of this calculation, add 50% of the amount on line 5 to the actual proceeds of disposition from the building. If you have a terminal loss, see "Terminal loss".

Replacement property

In some cases, you can postpone or defer recognizing a capital gain or recapture of CCA in computing income. You might sell a business property and replace it with a similar one, or your property might be stolen, destroyed, or expropriated, and you replace it with a similar one. To defer reporting the gain or recapture of CCA, you (or a person related to you) must acquire the replacement property within the specified time limits and use the new property for the same or similar purpose as the one you are replacing.

For more information, see the interpretation bulletins IT-259R4, *Exchange of Property*, and IT-491, *Former business property*, and its Special Release.

You can also defer a capital gain or recapture of CCA when you transfer property to a corporation or a partnership.

For more information on transfers to a corporation or a partnership, see the latest version of:

- Information Circular IC76-19R3, *Transfer of Property to a Corporation Under Section 85*;
- Interpretation Bulletin IT-291R3, *Transfer of Property to a Corporation Under Subsection 85(1)*;
- Interpretation Bulletin IT-378R, *Winding-up of a Partnership*; and
- Interpretation Bulletin IT-413R, *Election by Members of a Partnership Under Subsection 97(2)*.

CCA classes of commonly used business assets		
Class	**Rate %**	**Description**
1	4	Most buildings you bought after 1987 and the cost of certain additions or alterations made after 1987. The rate for eligible non-residential buildings acquired after March 18, 2007, and used in Canada to manufacture and process goods for sale or lease includes an additional allowance of 6% (total 10%). For all other eligible non-residential buildings in this class, the rate includes an additional allowance of 2% (total 6%). To be eligible for the additional allowances, elections have to be filed. For more information, see “Class 1 (4%)”.
3	5	Most buildings acquired before 1988 (or 1990, under certain conditions). Also, include the cost of additions or alterations made after 1987. For more information, see “Class 3 (5%)”.
6	10	Frame, log, stucco on frame, galvanized iron, or corrugated metal buildings that meet certain conditions. Class 6 also includes certain fences and greenhouses. For more information, see “Class 6 (10%)”.
8	20	Property that you use in your business that is not included in another class. Also included is data network infrastructure equipment and systems software for that equipment acquired before March 23, 2004. Also, see Class 46. For more information, see “Class 8 (20%)”.
10	30	General-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment acquired before March 23, 2004, or after March 22, 2004, and before 2005 if you made an election. Motor vehicles and some passenger vehicles. Also see Class 10.1. For more information, see “Class 10 (30%).
10.1	30	A passenger vehicle not included in Class 10. For more information, see “Class 10.1 (30%)”.
12	100	The cost limit for access to Class 12 (100 %) treatment is $500 for tools acquired on or after May 2, 2006, and medical and dental instruments and kitchen utensils acquired on or after May 2, 2006. For more information, see “Class 12 (100%)”.
13		Leasehold interest – You can claim CCA on a leasehold interest, but the maximum rate depends on the type of leasehold interest and the terms of the lease.
14		Patents, franchises, concessions, or licences for a limited period. Your CCA is whichever of the following amounts is less: ■ the total of the capital cost of each property spread out over the life of the property; or ■ the undepreciated capital cost to the taxpayer as of the end of the tax year of property of that class.
16	40	Taxis, vehicles you use in a daily car-rental business, coin-operated video games or pinball machines acquired after February 15, 1984, and freight trucks acquired after December 6, 1991, that are rated above 11,788 kg.
17	8	Roads, parking lots, sidewalks, airplane runways, storage areas, or similar surface construction.
29	50	Eligible machinery and equipment used in Canada to manufacture and process goods for sale or lease acquired after March 18, 2007 and before 2016, that would otherwise be included in Class 43.
43	30	Eligible machinery and equipment used in Canada to manufacture and process goods for sale or lease that are not included in Class 29 or 53. For more information, see “Class 43 (30%)”.
43.1	30	Electrical vehicle charging stations (EVCSs) set up to supply more than 10 kilowatts but less than 90 kilowatts of continuous power. For property acquired for use after March 21, 2016 that has not been used or acquired for use before March 22, 2016.
43.2	50	Electrical vehicle charging stations (EVCSs) set up to supply 90 kilowatts and more of continuous power. For property acquired for use after March 21, 2016 that has not been used or acquired for use before March 22, 2016.
46	30	Data network infrastructure equipment and systems software for that equipment acquired after March 22, 2004, (if acquired before March 23, 2004 include them in Class 8).
50	55	General-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment acquired after March 18, 2007, and not included in Class 29. For more information, see “Class 50 (55%)”.
53	50	Machinery and equipment acquired after 2015 and before 2026 that is used in Canada mainly to manufacture and process goods for sale or lease.

Chapter 5 – Eligible capital expenditures

What is an eligible capital expenditure?

You may buy property that does not physically exist but gives you a lasting economic benefit. Some examples are goodwill, franchises, concessions, and licences for an unlimited period. We call this kind of property eligible capital property. The price you pay to buy this type of property is an eligible capital expenditure.

Franchises, concessions, and licences with a limited period are considered depreciable properties, not eligible capital properties. For more information about depreciable properties, see Chapter 4.

What is an annual allowance?

You cannot fully deduct an eligible capital expenditure because the expenditure is considered to be capital and provides a lasting economic benefit. You can deduct part of its cost each year. We call the amount you can deduct your **annual allowance**.

What is a cumulative eligible capital account?

This is the bookkeeping record you create to determine your annual allowance. You also use your cumulative eligible capital (CEC) account to keep track of the property you buy and sell. We call the property in your CEC account your eligible capital property. You base your annual allowance on the balance in your account at the end of your fiscal period. Keep a separate account for each business. Include all eligible capital property for the one business in the same CEC account.

How to calculate your annual allowance

CEC account

Use the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 2016 fiscal period.

Calculating your annual allowance and CEC account balance at the end of your 2016 fiscal period

Balance in the account at the start of your 2016 fiscal period		$_______ **1**
Eligible capital expenditures you made or incurred in your 2016 fiscal period _________ × 75%		$_______ **2**
Line 1 **plus** line 2		$_______ **3**
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2016 fiscal period	$_________ **4**	
All the amounts that became receivable in your 2016 fiscal period from the sale of eligible capital properties before June 18, 1987	$_________ **5**	
Line 4 **plus** line 5	$_________ **6**	
Line 6 × 75%		$_________ **7**
CEC account balance Line 3 **minus** line 7		$_________ **8**
Annual allowance 7% × line 8		$_________ **9**
CEC account balance at the end of your 2016 fiscal period Line 8 **minus** line 9		$_________ **10**

Note
An eligible capital expenditure is reduced by the amount of any government assistance received or receivable for the expenditure. An amount forgiven (or entitled to be forgiven) on government debt reduces your CEC account. Special conditions may apply to non-arm's length transactions.

You can deduct an annual allowance if there is a positive balance in your CEC account at the end of your 2016 fiscal period. You do not have to claim the full amount of the maximum annual allowance for a given year. You can deduct any amount you want, up to the maximum allowable of 7%. If your fiscal period is less than 365 days, you have to prorate your claim. Base your claim on the prorated rate calculated by number of days in your fiscal period divided by 365 days.

If there is a negative balance in your CEC you may have to include part of the negative amount in your business income. For more information, see "Sole proprietor – Sale of eligible capital property in the 2016 fiscal period" and "Partnership – Sale of eligible capital property in the 2016 fiscal period".

The following is an example of how to calculate the maximum annual allowance and account balance.

Example
Carlo started a business on January 1, 2016. His business has a December 31 year-end. During 2016, he bought a franchise with an unlimited life for $16,000. He calculates his maximum annual allowance of $840 for 2016 as follows:

Carlo's CEC account

Balance at the start of 2016 fiscal period		$ 0	**1**
Carlo's eligible capital expenditure: franchise cost for the 2016 fiscal period	$ 16,000 × 75%	$12,000	**2**
Line 1 **plus** line 2		$12,000	**3**

Carlo has not sold any eligible capital property during his 2016 fiscal period. Therefore, he will not have any amounts on lines 4 to 7.

Carlo's maximum annual allowance on eligible capital property is 7% × line 3	$ 840	**9**
Balance at the end of 2016 (line 3 **minus** line 9)	$ 11,160	**10**

Sole proprietor – Sale of eligible capital property in the 2016 fiscal period

When you sell eligible capital property, you have to subtract part of the proceeds of disposition from your CEC account.

You have to do this calculation if you sold eligible capital property:

- in your 2016 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2016 fiscal period.

For 2016, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property you sell in your 2016 fiscal period; and
- the amount of any proceeds that become due to you in your 2016 fiscal period from eligible capital property you sold before June 18, 1987.

There may be a negative amount (excess) in your CEC account after you subtract the calculated amount. In this case, you have to include part of the negative amount in your business income.

Multiply by 2/3 the amount that is part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, add whichever is less:

- the excess; or
- the total of all annual allowances deducted in prior fiscal periods.

This is the amount to include in your business income. The following example shows how to calculate the amount to include in your business income.

Example
Lisa started her business on January 1, 2010, with a December 31 year-end. In 2010, she bought a client list for $10,000. She sold her business on September 1, 2016. She sold her client list for $15,000 and doesn't have any other eligible capital property in her business. She deducted annual allowances each year as follows:

2010	$ 525
2011	488
2012	454
2013	422
2014	393
2015	365
Total	$ 2,647

The amount that Lisa has to include in her business income is calculated as follows:

Calculation of Line 1:		
Proceeds of disposition × 75%		
$15,000 × 75%	$ 11,250	
Plus:		
Total annual allowances deducted	2,647	**2**
	$ 13,897	
Minus:		
Eligible capital expenditures × 75%		
$10,000 × 75%	7,500	
Excess amount	$ 6,397	**4**
The **lesser of** Line 2 or Line 4	$ 2,647	**1**
Calculation of Line 3:		
Excess amount	$ 6,397	
Minus:		
Total annual deductions taken	2,647	
	$ 3,750	**3**
Calculation of Line 7:		
Line 3 × 2/3	$ 2,500	**7**
Taxable amount from the sale of client list:		
Line 1 **plus** line 7	$ 5,147	

Lisa includes $5,147 on line 8230, "Other income," in Part 3 of Form T2125.

Partnership – Sale of eligible capital property in the 2016 fiscal period

When the partnership sells eligible capital property, it has to subtract part of the proceeds of disposition from its CEC account.

The partnership has to do this calculation if it sold eligible capital property:

- in its 2016 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due in its 2016 fiscal period.

For 2016, the amount the partnership has to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property the partnership sells in its 2016 fiscal period. The total proceeds of disposition have to be included even if the partnership will not receive the entire amount in 2016; and
- the amount of any proceeds that become due in the partnership's 2016 fiscal period from eligible capital property it sold before June 18, 1987.

The partnership's CEC account may have a negative amount (excess) after it subtracts the required amount. If so, the partnership will have to include part of the negative amount in its business income.

Multiply by 2/3 the part of the negative amount in the partnership's CEC account that exceeds the annual allowances deducted. To that result, add whichever is **less**:

- the excess, or
- the total of all annual allowances deducted from the partnership's CEC account in prior fiscal periods.

This is the amount to include in the partnership's business income. The next example shows how to calculate the amount to include in your business income.

The partnership has to include the business income that results from the sale of the eligible capital property on Form T2125 in Part 3 at line 8230.

If you, as a partner in the partnership, had made the capital gains election by filing Form T664, *Election to Report a Capital Gain on Property Owned at the end of February 22, 1994,* with your 1994 tax return for your partnership interest, you would have reported the capital gain accrued to February 22, 1994. In this case, the adjusted cost base of your partnership interest has not changed as a result of the election. Instead, you have created a special account called your exempt capital gains balance (ECGB). Your ECGB expired after 2004. If you did not use all of your ECGB by the end of 2004, you can add the unused balance to the adjusted cost base of your shares of, or interest in, the flow-through entity.

Example
You and your partner have operated a telephone sales business since January 1, 1994. Your partnership agreement states that you and your partner will share the business profits equally. The business has a December 31 year-end. You and your partner paid $10,000 for a client list when you started the business.

The business has no other eligible capital property. You and your partner sell the business on September 1, 2016. The proceeds of disposition of the client list are $15,000. As a partner of the partnership, you made the capital gains election in 1994 on your partnership interest and your current exempt capital gains balance (ECGB) is nil. In previous years, the partnership claimed $2,647 as annual allowances on eligible capital property.

Calculation of amount to include in business income – Sale of client list on September 1, 2016
The amount to include in the partnership's business income is calculated as follows:

Calculation of Line 1:
The lesser of line 2 and line 4:

Actual proceeds of disposition × 75%		
$15,000 × 75%..	$ 11,250	
Plus:		
Total annual allowances deducted	2,647	**2**
....	$ 13,897	
Minus:		
(Eligible capital expenditures + ECGB*) × 75%		
$10,000 × 75%..	7,500	
Excess amount	$ 6,397	**4**
The **lesser of** line 2 and line 4..........................	$ 2,647	**1**

Calculation of Line 3:

Excess amount	$ 6,397	
Minus:		
Total annual allowances deducted	2,647	
....	$ 3,750	**3**

Calculation of Line 7:

Line 3 × 2/3..	$ 2,500	**7**

Taxable amount from sale of client list:

Line 1 **plus** line 7	$ 5,147

According to this example, you should include $5,147 on Form T2125 in Part 3 at line 8230.

* The amount of ECGB used in this calculation refers to any balance still in this account after December 31, 2004.

Election

Under certain conditions, you can elect to treat the disposition of an eligible capital property (other than goodwill) as a regular capital gain. For example, properties such as a franchise, concession, or licence that has an unlimited life may qualify for this election. By electing, you deem to remove the property from your CEC account for proceeds equal to its original cost.

You can then report a capital gain equal to your actual proceeds of disposition minus the cost of acquisition. Report the details on the line labelled "Real estate, depreciable property and other properties" of Schedule 3, *Capital Gains (or Losses) in 2016*. This election will benefit you if you have unused capital losses to apply against the capital gain.

The election is available if you meet the following conditions:

- you disposed of an eligible capital property other than goodwill;
- the cost of the eligible capital property can be determined;
- the proceeds of disposition exceed the cost; and
- you do not have an exempt gains balance.

File your election by submitting a letter with your tax return.

When you file electronically, you can send your election online through one of the following secure online service portals: My Business Account at **cra.gc.ca/mybusinessaccount**, and if you are an authorized representative or employee with Represent a Client at **cra.gc.ca/representatives**.

Replacement property

If you dispose of an eligible capital property and replace it with another one for the same or similar use, you can elect to postpone all or part of any gain on the disposition. This happens if you acquire a replacement eligible capital property within a certain period of time. To do this, you have to replace the property no later than one year after the end of the tax year in which you dispose of the original property. For more information, see the latest archived Interpretation Bulletin IT-259R4, *Exchange of Property*.

For more information about eligible capital expenditures, see the latest archived Interpretation Bulletin IT-143R3, *Meaning of Eligible Capital Expenditure*.

Appendix – Industry codes

These codes are for paper filers only.

Professions

Offices of lawyers	541110
Offices of notaries	541120
Other legal services	541190
Offices of accountants	541212
Tax preparation services	541213
Bookkeeping, payroll and related services	541215
Financial and investment advice – Online	523990
Architectural services	541310
Landscape architectural services	541320
Engineering services	541330
Drafting services	541340
Building inspection services	541350
Geophysical surveying and mapping services	541360
Surveying and mapping (except geophysical) services	541370
Testing laboratories	541380
Specialized design services	541400
Scientific research and development services	541700
Other advice and counselling – Online	541990
Other professional, scientific and technical services	541900
Veterinary services (including animal hospitals)	541940
Offices of physicians	621110
Offices of mental health practitioners – (except physicians)	621330
Offices of dentists	621210
Offices of other health practitioners (incl. chiropractors, optometrists, speech therapists, psychologists)	621300
Out-patient care centres	621400
Medical and diagnostic laboratories	621500
Home health care services	621600
Other ambulatory health care services	621900

Services

Agricultural or animal services

Support activities for crop production	115110
Support activities for animal production	115210

Transportation or storage

Postal service	491110
Couriers	492110
Local messengers and local delivery	492200
Warehousing and storage	493100
Air transportation	481000
Rail transportation	482100
Deep sea, coastal and Great Lakes water transportation	483100
Inland water transportation	483200
General freight trucking	484100
Specialized freight trucking	484200
Urban transit systems	485110
Interurban and rural bus transportation	485210
Taxi service	485310
Limousine service	485320
School and employee bus transportation	485410
Charter bus industry	485510
Other transit and ground passenger transportation	485990
Scenic and sightseeing transportation, land	487110
Scenic and sightseeing transportation, water	487210
Scenic and sightseeing transportation, other	487990
Support activities for air transportation	488100
Support activities for rail transportation	488210
Support activities for water transportation	488300
Support activities for road transportation	488400
Freight transportation arrangement	488500
Other support activities for transportation	488990

Communications or utilities

Newspaper, periodical, book and directory publishers	511100
Software publishers (except video game)	511211
Video game publishers	511212
Radio and television broadcasting	515100
Pay and specialty television	515210
Wired telecommunications carriers (incl. internet service providers)	517100
Wireless telecommunications carriers (except satellite)	517210
Satellite telecommunications	517410
Other telecommunications	517910
Other information services	519100
Advertising material distribution services	541870

Finance, insurance, or real estate

Credit intermediation and related activities	522000
Securities, commodity contracts, and other financial investment and related activities	523000
Insurance agencies and brokerages	524210
Claims adjusters	524291
All other insurance related activities	524299
Lessors of social housing projects	531112
Lessors of non-residential buildings (except mini-warehouses)	531120
Self-storage mini-warehouses	531130
Lessors of other real estate property	531190
Real estate agents	531211
Offices of real estate brokers	531212
Real estate property managers	531310
Offices of real estate appraisers	531320
Other activities related to real estate	531390
Lessors of non-financial intangible assets (except copyrighted works)	533110

Business services

Data processing, hosting, and related services	518210
Internet publishing and broadcasting, and Web search portals	519130
Computer systems design and related services (including programmers, analysts)	541514
Video game developers	541515
Administrative management and general management consulting services	541611
Human resources consulting services	541612
Other management consulting services	541619
Environmental consulting services	541620

Other scientific and technical consulting services	541690
Advertising, public relations, and related services	541800
Management of companies and enterprises	551100
Office administrative services	561110
Facilities support services	561210
Employment services	561300
Business support services	561400
Travel arrangement and reservation services	561500
Investigation and security services	561600
Other business support services (incl. Online)	561900
Waste collection	562110
Waste treatment and disposal	562210
Remediation and other waste management services	562900

Education, health or social services

Schools including business, technical, trade, colleges and universities	611000
Fine arts, athletic instruction and language schools	611600
All other schools and instruction (including tutors)	611690
Non-instructional education services	611710
Nursing and residential care facilities	623000
Individual and family services	624100
Community food and housing, and emergency and other relief services	624200
Vocational rehabilitation services	624310
Child daycare services	624410

Entertainment or recreation

Motion picture and video production	512110
Motion picture and video distribution	512120
Motion picture and video exhibition	512130
Post-production and other motion picture and video industries	512190
Sound recording industries	512200
Performing arts companies	711100
Sports teams and clubs	711211
Horse race tracks	711213
Other spectator sports	711218
Promoters (presenters) of performing arts, sports and similar events	711300
Sports stadiums and other presenters with facilities	711319
Agents and managers for artists, athletes, entertainers and other public figures	711410
Independent artists, writers and performers	711500
Heritage institutions	712100
Amusement parks and arcades	713100
Gambling industries	713200
Other amusement and recreation industries	713990
Internet publishing and broadcasting, and Web search portals (including online gambling and pornography)	519130
Other personal services (including Online psychic, escorts, dating, party planning, personal shopping)	812900

Accommodation, food or beverage services

Traveller accommodation	721100
RV (recreational vehicle) parks and recreational camps	721200
Rooming and boarding houses	721310
Food service contractors	722310
Caterers	722320
Mobile food services	722330
Drinking places (alcoholic beverages)	722410
Full-service restaurants	722511
Limited-service eating places	722512

Repairs and maintenance

General automotive repair	811111
Automotive exhaust system repair	811112
Other automotive mechanical and electrical repair and maintenance	811119
Automotive body, paint and interior repair and maintenance	811121
Automotive glass replacement shops	811122
Car washes	811192
All other automotive repair and maintenance	811199
Electronic and precision equipment repair and maintenance (incl. TV, radio, stereo, computer, camera)	811210
Commercial and industrial machinery and equipment (except automotive and electronic) repair and maintenance	811310
Home and garden equipment repair and maintenance	811411
Appliance repair and maintenance	811412
Reupholstery and furniture repair	811420
Footwear and leather goods repair	811430
Other personal and household goods repair and maintenance	811490

Personal or household services

Carpet and upholstery cleaning services	561740
Services for the elderly and persons with disabilities	624120
Personal care services (e.g. hair, tanning salons, diet centers – non medical)	812100
Funeral services	812200
Dry cleaning and laundry services	812300

Other services

Automotive equipment rental and leasing	532100
Consumer goods rental	532200
General rental centres	532310
Commercial and industrial machinery and equipment rental and leasing	532400
Photographic services	541920
Travel agencies	561510
Services to buildings and dwellings (incl. exterminators, chimney and window cleaners)	561700
Janitorial services (except window cleaning)	561722
Religious, grant-making, civic, and professional and similar organizations	813000
Private households	814110

Sales – Retailers

Household goods stores	
Furniture stores	442110
Home furnishing stores	442200
Electronics and appliance stores (incl. TV, stereo, computers)	443100
Food or beverage stores	
Supermarkets and other grocery (except convenience) stores	445110
Convenience stores	445120
Specialty food stores	445200
Beer, wine and liquor stores	445310
Automotive	
Automobile dealers	441100
Other motor vehicle dealers	441200
Automotive parts, accessories and tire stores	441300
Gasoline stations with convenience stores	447110
Other gasoline stations	447190
Other retail stores	
Camera and photographic supplies stores	443145
Audio and video recording stores	443146
Home centres	444110
Paint and wallpaper stores	444120
Hardware stores	444130
Other building material dealers	444190
Lawn and garden equipment and supplies stores	444200
Health and personal care stores	446100
Pharmacies and drug stores	446110
Clothing stores	448100
Shoe stores	448210
Jewellery, luggage and leather goods stores	448300
Sporting goods stores (Golf, Ski, Cycling and other)	451110
Hobby, toy and game stores	451120
Sewing, needlework and piece goods stores	451130
Musical instrument and supplies stores	451140
Book stores and news dealers	451310
Pre-recorded tape, compact disc and record stores	451220
Department stores	452110
Other general merchandise stores	452900
Florists	453110
Office supplies and stationery stores	453210
Gift, novelty and souvenir stores	453220
Used merchandise stores	453310
Other miscellaneous store retailers	453900
Direct sales	
Electronic shopping and mail-order houses	454110
Vending machine operators	454210
Direct selling establishments including cosmetics, food or beverages, fuel, household goods and newspaper delivery	454300

Wholesalers – Distributors

Farm product	411100
Petroleum product	412110
Food	413100
Beverage	413200
Cigarette and tobacco product	413310
Textile, clothing and footwear	414100
Home entertainment equipment and household appliance	414200
Home furnishings	414300
Personal goods	414400
Pharmaceuticals, toiletries, cosmetics and sundries	414500
Motor vehicle	415100
New motor vehicle parts and accessories	415200
Used motor vehicle parts and accessories	415310
Electrical, plumbing, heating and air-conditioning equipment and supplies	416100
Metal service centres	416210
Lumber, millwork, hardware and other building supplies	416300
Farm, lawn and garden machinery and equipment	417110
Construction, forestry, mining, and industrial machinery, equipment and supplies	417200
Computer and communications equipment and supplies	417300
Other machinery, equipment and supplies	417900
Recyclable material	418100
Paper, paper product and disposable plastic product	418200
Agricultural supplies	418300
Chemical (except agricultural) and allied product	418410
Business-to-business electronic markets (Online)	419110
Wholesale trade agents and brokers (not Online)	419120
Other miscellaneous (including Online)	418900

Construction

Residential building construction	236110
Non-residential building construction	236200
Utility system construction	237100
Land subdivision	237210
Highway, street and bridge construction	237310
Other heavy and civil engineering construction	237990
Poured concrete foundation and structure contractors	238110
Structural steel and precast concrete contractors	238120
Framing contractors	238130
Masonry contractors	238140
Glass and glazing contractors	238150
Roofing contractors	238160
Siding contractors	238170
Other foundation, structure and building exterior contractors	238190
Electrical contractors and other wiring installation contractors	238210
Plumbing, heating and air-conditioning contractors	238220
Elevator and escalator installation contractors	238291
All other building equipment contractors	238299
Drywall and insulation contractors	238310
Painting and wall covering contractors	238320
Flooring contractors	238330
Tile and terrazzo contractors	238340
Finish carpentry contractors	238350
Other building finishing contractors	238390
Site preparation contractors	238910
All other specialty trade contractors	238990

Manufacturing

Food	311000
Beverage and tobacco product	312000
Textile mills	313000
Textile product mills	314000
Clothing	315000
Leather and allied product	316000
Wood product	321000
Paper	322000
Printing and related support activities	323000
Petroleum and coal product	324000
Chemical	325000
Plastics and rubber products	326000
Non-metallic mineral product	327000
Primary metal	331000
Fabricated metal product	332000
Machinery	333000
Computer and electronic product	334000
Electrical equipment, appliance and component	335000
Transportation equipment	336000
Furniture and related product	337000
Miscellaneous	339000

Natural resource industries

Timber tract operations	113110
Forest nurseries and gathering of forest products	113210
Logging (except contract)	113311
Contract logging	113312
Hunting and trapping	114210
Support activities for forestry	115310
Oil and gas extraction	211100
Coal mining	212100
Metal ore mining	212200
Non-metallic mineral mining and quarrying	212300
Support activities for mining and oil and gas extraction	213100
Electric power generation, transmission and distribution	221100
Natural gas distribution	221200
Water, sewage and other systems	221300

Online services

My Account

Using the CRA's My Account service is a fast, easy, and secure way to access and manage your tax and benefit information online, seven days a week.

To register for My Account, go to **cra.gc.ca/myaccount**. Registration is a two-step process. You will be asked to enter some personal information and create a user ID and password or use a Sign-in Partner. Be sure to have your current and previous year's personal tax returns on hand. To register, a return for one of these two years must have been assessed. After you complete step one, you will have instant access to some of your tax and benefit information. Step two includes the mailing of the CRA security code. We will mail it to the address we have on file for you. The separate mailing of the security code is a measure used to protect you from identity theft and to ensure the security of your personal information. You will have access to the full suite of services available in My Account once you enter your code.

An authorized representative can access most of these online services through Represent a Client at **cra.gc.ca/representatives**.

Handling business taxes online

Save time using the CRA's online services for businesses. You can:

- authorize a representative, an employee, or a group of employees, who has registered with Represent a Client, for online access to your business accounts;
- request or delete authorization online through Represent a Client, if you are a representative;
- change mailing and physical addresses, as well as the address where you keep your books and records;
- file a return electronically without a web access code;
- register for online mail, get email notifications, and view your mail online;
- enrol for direct deposit, update banking information, and view direct deposit transactions;
- authorize the withdrawal of a pre-determined amount from your bank account;
- request additional remittance vouchers;
- transfer payments and immediately view updated balances, without having to calculate interest;
- stop or restart the mailing of the GST/HST return for registrants package;
- add another business to your profile;
- view answers to common enquiries, and if needed, submit account-related enquiries;
- view the account balance and instalment balance, including the corresponding transactions (for example, payments); and
- do much more.

To register or log in to our online services, go to:

- My Business Account at **cra.gc.ca/mybusinessaccount**, if you are a business owner; or
- Represent a client at **cra.gc.ca/representatives**, if you are an authorized representative or employee.

For more information, go to **cra.gc.ca/businessonline**.

Receiving your CRA mail online

You, or your representative (authorized at a level 2), can choose to receive most of your CRA mail for your business online.

When you or your representative registers for online mail, an email notification will be sent to the email address(es) provided when there is new mail available to view in My Business Account. Correspondence available through online mail will no longer be printed and mailed. To register, select the "Manage online mail" service and follow the steps.

Using our online mail service is faster and easier than managing paper correspondence.

Authorizing the withdrawal of a pre-determined amount from your bank account

Pre-authorized debit (PAD) is an online, self-service, payment option. Through this option, you agree to authorize the CRA to withdraw a pre-determined amount from your bank account to pay tax on a specific date or dates. You can set up a PAD agreement using the CRA's secure My Business Account service at **cra.gc.ca/mybusinessaccount**. PADs are flexible and managed by you. You can view historical records, modify, cancel, or skip a payment. For more information, go to **canada.ca/payments** and select "Pre-authorized debit."

MyCRA – Mobile app

Getting ready to file? Use MyCRA to:

- check your RRSP deduction limit;
- look up a local tax preparer; and
- see what tax filing software the CRA has certified.

Done filing? Use MyCRA to:

- check the status of your tax return; and
- view your notice of assessment.

Use MyCRA throughout the year to:

- view your personalized benefit and credit payment amounts;
- check your TFSA contribution room;
- update your contact details;
- manage your direct deposit and online mail information; and
- request your proof of income (option C).

To get more details on what you can do with MyCRA and to access the CRA's web-based mobile app, go to **cra.gc.ca/mobileapps**.

Electronic payments

Make your payment using:

- your financial institution's online or telephone banking services;
- the CRA's My Payment service at **cra.gc.ca/mypayment**; or
- pre-authorized debit at **cra.gc.ca/mybusinessaccount**.

For more information on all payment options, go to **canada.ca/payments**.

For more information

What if you need help?

If you need more information after reading this guide, visit **cra.gc.ca** or call **1-800-959-5525**.

Direct deposit

Direct deposit is a fast, convenient, reliable, and secure way to get your CRA payments directly into your account at a financial institution in Canada.

You can view your direct deposit information and online transactions at **cra.gc.ca/mybusinessaccount**.

To enrol for direct deposit or to update your banking information, go to **cra.gc.ca/directdeposit**.

Forms and publications

To get our forms and publications, go to **cra.gc.ca/forms** or call **1-800-959-5525**.

Electronic mailing lists

We can notify you by email when new information on a subject of interest to you is available on our website. To subscribe to our electronic mailing lists, go to **cra.gc.ca/lists**.

Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling **1-800-267-6999**.

Teletypewriter (TTY) users

If you have a hearing or speech impairment and use a TTY call **1-800-665-0354** during regular business hours.

Service complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the Canada Revenue Agency (CRA); see the *Taxpayer Bill of Rights*.

If you are not satisfied with the service you received, try to resolve the matter with the CRA employee you have been dealing with or call the telephone number provided in the CRA's correspondence. If you do not have contact information, go to **cra.gc.ca/contact**.

If you still disagree with the way your concerns were addressed, you can ask to discuss the matter with the employee's supervisor.

If you are still not satisfied, you can file a service complaint by filling out Form RC193, *Service-Related Complaint*. For more information, go to **cra.gc.ca/complaints**.

If the CRA has not resolved your service-related complaint, you can submit a complaint with the Office of the Taxpayers' Ombudsman.

Reprisal complaint

If you believe that you have experienced reprisal, fill out Form RC459, *Reprisal Complaint*.

For more information about reprisal complaints, go to **cra.gc.ca/reprisalcomplaints**.

Tax information videos

We have a tax information video series for new small businesses that provides an introduction to topics such as registering a business, GST/HST, and payroll. To watch our videos, go to **cra.gc.ca/videogallery**.

Due dates

When the due date falls on a Saturday, a Sunday, or a public holiday recognized by the CRA, we consider your payment to be on time if we receive it on the next business day. Your return is considered on time if we receive it or if it is postmarked on or before the next business day.

For more information, go to **cra.gc.ca/importantdates**.

Cancel or waive penalties or interest

The CRA administers legislation, commonly called the taxpayer relief provisions, that gives the CRA discretion to cancel or waive penalties or interest when taxpayers are unable to meet their tax obligations due to circumstances beyond their control.

The CRA's discretion to grant relief is limited to any period that ended within 10 calendar years before the year in which a request is made.

For penalties, the CRA will consider your request only if it relates to a tax year or fiscal period ending in any of the 10 calendar years before the year in which you make your request. For example, your request made in 2017 must relate to a penalty for a tax year or fiscal period ending in 2007 or later.

For interest on a balance owing for any tax year or fiscal period, the CRA will consider only the amounts that accrued during the 10 calendar years before the year in which you make your request. For example, your request made in 2017 must relate to interest that accrued in 2007 or later.

To make a request, fill out Form RC4288, *Request for Taxpayer Relief – Cancel or Waive Penalties or Interest*. For more information about relief from penalties or interest and how to submit your request, go to **cra.gc.ca/taxpayerrelief**.

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