



Canada Revenue
Agency

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du Canada

Self-employed Business, Professional, Commission, Farming, and Fishing Income 2017

This guide is only available in electronic format.

Is this guide for you?

Use this guide if you earned income as a:

- sole proprietor (unincorporated, self-employed individual) who is any of the following:
 - business person
 - professional
 - commission sales person (this is different from an employee who earns commission)
 - farmer
 - fisher
- partner of a:
 - partnership who is a business person
 - partnership who is a professional
 - farming or fishing partnership


It will help you calculate your self-employment income to report on your 2017 income tax return.


Though a trust may be considered an individual, this guide is not for trusts. Do not use this guide if you are a trust or a corporation.


If you are a trust, use Guide T4013, *T3 – Trust Guide*.

If your business is incorporated, use Guide T4012, *T2 Corporation – Income Tax Guide*.

This guide contains tax information for all types of self-employment business income. However, some tax rules are not the same for all types of business. In this document, you will find icons.

 The briefcase icon means the information is specific to business and professional income and Form T2125, *Statement of Business or Professional Activities*.

 The tractor icon means the information is specific to farming and Form T2042, *Statement of Farming Activities*.

 The fish icon means the information is specific to fishing and Form T2121, *Statement of Fishing Activities*.

For farmers

If you are participating in the AgriStability and AgriInvest programs, you have to use the applicable guide:

- If you are an AgriStability and AgriInvest participant in Quebec, use this guide for your income tax return and contact La Financière agricole du Québec at **1-800-749-3646** about AgriStability and AgriInvest participation.

- If you are an AgriStability and AgriInvest participant in Alberta, Ontario, Saskatchewan, or Prince Edward Island, use Guide RC4060, *Farming Income and the AgriStability and AgriInvest Programs*.
- If you are an AgriStability and AgriInvest participant in the rest of Canada, use Guide RC4408, *Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide*.

For fishers

You can be a self-employed fisher and also a partner of one or more fishing partnerships. For instance, you may have fished for groundfish by yourself and also have been in a lobster-fishing partnership with your child.

Generally, we consider you to be a self-employed fisher if all of the following applies to you:

- you participate in making a catch;
- you are not fishing for your own or another person's sport; and
- you meet at least **one** of the following conditions:
 - you own or lease the boat that is used to make the catch
 - you own or lease specialized fishing gear used to make the catch (not including hand tools or clothing)
 - you hold a species licence issued by Fisheries and Oceans Canada, which is necessary to make the catch
 - you have a right of ownership to all or part of the proceeds from the sale of the catch, and you are responsible for all or part of the expenses incurred in making the catch. This means you have to pay a predetermined amount or percentage of the expenses, such as fuel, had by the crew in making the catch, regardless of the value of the catch.

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 publications such as guides and forms. Generally, if you need any of these, go to canada.ca/cra-forms. You may want to bookmark this address for easier access to our website in the future. For more information on archived content of interpretation bulletins, go to canada.ca/en/revenue-agency/services/forms-publications/what-archived-content-notice-means-interpretation-bulletins.html.

What's new for 2017?

Billed-basis accounting for professionals

For taxation years that begin after March 21, 2017, a taxpayer carrying on a designated professional business cannot use billed-basis accounting. Using billed-basis accounting means you exclude amounts for work in progress at the end of a tax year from your business income for that year.

A designated professional business means a business that is the professional practice of an accountant, dentist, lawyer (including a notary in the province of Quebec), medical doctor, veterinarian, or chiropractor. The taxpayer carrying on the designated professional business may be a corporation or an individual practising alone or as a member of a partnership.

If you elected to use billed-basis accounting in your last taxation year that begins before March 22, 2017, the inclusion of work in progress into your income is phased in as follows:

- for your first taxation year that begins after March 21, 2017, 20% of the lesser of the cost and the fair market value of work in progress will be taken into account for the purposes of determining the value of inventory held by the business under the *Income Tax Act*
- for your second taxation year that begins after March 21, 2017, 40% of the lesser of the cost and the fair market value of work in progress will be taken into account for the purposes of determining the value of that inventory
- for your third taxation year that begins after March 21, 2017, 60% of the lesser of the cost and the fair market value of work in progress will be taken into account for the purposes of determining the value of that inventory
- for your fourth taxation year that begins after March 21, 2017, 80% of the lesser of the cost and the fair market value of work in progress will be taken into account for the purposes of determining the value of that inventory

- for each subsequent taxation year, the full amount of the lesser of the cost and the fair market value of work-in-progress will be taken into account for the purposes of valuing that inventory

Guide T4003, *Farming and Fishing Income*

Guide T4003, *Farming and Fishing Income*, is no longer published. It was replaced by this guide. This guide now includes tax information for farmers, fishers, and all other types of self-employment income.

Eligible capital property

On January 1, 2017, the eligible capital property system was replaced with the 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 acquired before January 1, 2017. This property will be included in class 14.1.

Investment tax credit for child care spaces

Budget 2017 has eliminated the investment tax credit for child care spaces. This measure will apply to expenditures incurred on or after March 21, 2017. For more information, see page 14.

If you are blind or partially sighted, you can get our publications in braille, large print, etext, or MP3 by going to canada.ca/cra-multiple-formats. 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*.

This guide uses plain language to explain the most common tax situations. It is provided for information only and does not replace the law. If you need help after you read this guide, call our Business Enquiries line at **1-800-959-5525**.

La version française de ce guide est intitulée *Revenus d'un travail indépendant d'entreprise, de profession libérale, de commissions, d'agriculture et de pêche*.

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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 de facto 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, the **earlier of**:

- the time the property is first used by the claimant to earn income
- the time the property is delivered or is made available to the claimant and is capable of producing a saleable product or service

For more information, see “Available-for-use rules” on page 49.

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

- the purchase price (not including the cost of land, which is not depreciable)
- the part of your legal, accounting, engineering, installation, and other fees that relate to buying or constructing the property (not including the part that applies to land)
- the cost of any additions or improvements you made to the property after you acquired it, if you did not claim these costs as a current expense (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 you are constructing, renovating, or altering the building, if these expenses have not been deducted as current expenses

Capital cost allowance (CCA) – you may have acquired depreciable property like a building, furniture, or equipment to use in your business. You cannot deduct the initial cost of these properties in the calculation of the net income of the business or professional activities of the year. However, since these properties wear out or become obsolete over time, you can deduct the cost over a period of several years. This deduction is called CCA.

Depreciable property – the property on which you can claim CCA. It is usually capital property from a business or property. The capital cost can be written off as CCA over a number of years. You usually group depreciable properties into classes. Diggers, drills, and tools that cost \$500 or more belong in Class 8. You have to base your CCA claim on the rate assigned to each 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 transaction between persons who are related to each other.

However, a non-arm's length relationship might also exist between unrelated individuals, partnerships or corporations, depending on the circumstances. 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, interest, and leasing. A passenger vehicle does **not** include:

- an ambulance
- a clearly marked police or fire emergency response vehicle
- a motor vehicle you bought to use more than 50% as a taxi, a bus used in the business of transporting passengers, or a hearse used in a funeral business
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers
- 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 bought or leased it, 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 bought or leased it, was used 90% or more to transport goods, equipment, or passengers to earn income
- a pick-up truck that, in the tax year you bought or leased it, was used more than 50% to transport goods,

equipment, or passengers to earn or produce 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

- a clearly marked emergency medical service vehicle used to carry paramedics and their emergency medical equipment

Proceeds of disposition – the amounts you receive, or that we consider you to have received, when you dispose of your property (usually the selling price of the property). Proceeds of disposition is also defined to include, amongst other things, compensation received for property that has been expropriated, destroyed, or stolen.

Undepreciated capital cost (UCC) – generally, the amount left after you deduct CCA from the capital cost of a depreciable property. Each year, the CCA you claim reduces the UCC of the property.

Chapter 1 – General information

A 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
- 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 canada.ca/en/revenue-agency/services/aboriginal-peoples/information-indians.html#hdng5.

Business income includes income from any activity you do for profit. For example, the income from a service business is business income.

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 canada.ca/change-tax-return.

To change the information on your return online, go to My Account at canada.ca/my-cra-account.

For more information about the Voluntary Disclosure Program, go to canada.ca/taxes-voluntary-disclosures.

Farming and fishing income

You can earn farming or fishing income as a self-employed farmer, fisher, or both, or as a partner of a farm or fishing partnership, or both. Most of the rules that apply to self-employed farmers or fishers also apply to partners. However, if you are a partner, you should see “Reporting partnership income” on page 13.

Farming income

Farming income includes income you earned from the following activities:

- soil tilling
- livestock raising or showing
- racehorse maintenance
- poultry raising
- dairy farming
- fur farming
- tree farming
- fruit growing
- beekeeping
- cultivating crops in water or hydroponics
- Christmas tree growing
- operating a wild-game reserve

- operating a chicken hatchery
- operating a feedlot

In certain circumstances, you may also earn farming income from:

- raising fish
- market gardening
- operating a nursery or greenhouse
- operating a maple sugar bush (includes the activity of maple sap transformation into maple products if this activity is considered incidental to the basic activities of a maple sugar bush, such as the extraction and the collection of maple sap, which are farming activities)

Generally, livestock are domestic animals bred, raised, or kept on a farm or ranch, normally in an agricultural setting, for commercial profit. They may also be used in the production of commodities such as food, fiber, and labour. For more information, see Interpretation Bulletin IT-427R, *Livestock of Farmers*.

The raising or breeding of animals, fish, insects or any other living thing, to be sold as pets is **not** a farming activity. It is considered a business activity and must be reported as business income on Form T2125, *Statement of Business or Professional Activities*.

Generally, farming income does **not** include income you earned from working as an employee in a farming business, from trapping or from sharecropping. For more information on sharecropping arrangements, see Income Tax Folio S4-F11-C1, *Meaning of Farming and Farming Business*. For partnerships or joint ventures, see Income Tax Folio S4-F16-C1, *What is a partnership?*

Fishing income

Fishing income includes income you earned, whether it was payable in cash, property, or services from fishing for or catching:

- shellfish
- crustaceans
- marine animals

Fishing income does **not** include income you earned from working as an employee in a fishing business.

Reporting income and penalties

Include all your income when you calculate it for tax purposes. If you fail to report all your income, you may pay a penalty of 10% of the amount you failed to report after your first omission.

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

For more information about penalties, go to canada.ca/penalty-information-returns.

When you must start reporting income and can start deducting expenses

You must start reporting your income and can start deducting your expenses when your business starts. We look at each case on its own merits. Generally, we consider your business to have started whenever you begin some significant activity that is a regular part of the business, or that is necessary to get the business going.

Suppose you do research on how to start a business in the hope of going into a business of some kind. We would not consider that as a significant activity that is a regular part of the business. So we would not consider your business to have begun at the time you started doing research. In that case, you cannot deduct any of the costs you have incurred for research.

Suppose you decide to buy enough goods for resale or equipment to start your business. We would consider this to be the starting point of your business. You can usually deduct all the expenses you incur for the business from that point on to earn income. You could still deduct the expenses even if, despite all your efforts, your business ended.

For more information about the start of a business, see Interpretation Bulletin IT-364, *Commencement of Business Operations*.

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 self-employment income

Fiscal period

Report your income based on a fiscal period. A **fiscal period** is the time between the day your business starts its business year and the day it ends its business year. For an existing business, the fiscal period is usually 12 months. A fiscal period cannot be longer than 12 months. However, it can be shorter than 12 months in some cases, such as when a new business starts or when a business stops.

Self-employed individuals generally have to use a December 31 year-end. If you are an eligible individual, you may be able to use another method of reporting business income that allows you to have a fiscal period that does not end on December 31. If your fiscal year-end is not December 31, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*, to calculate the amount of business income to report on your 2017 income tax return. The RC4015 will help you fill in Form T1139, *Reconciliation of 2017 Business Income for Tax Purposes*.

If you filed Form T1139 with your 2016 income tax return, generally you have to file one again for 2017.

Reporting methods

Farmers, fishers, and self-employed commission agents can use the cash method or the accrual method to report income. All other self-employment income must be reported using the accrual method.

Note for professionals

If you currently carry on a designated professional business and use billed-basis accounting, the billed-basis accounting method has changed. For more information, see “Billed-basis accounting for professionals” on page 3 and changes to the “Election to exclude your WIP” on page 18.

Cash method

When you use the cash method you must:

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

For special rules, see “Prepaid expenses” on page 27.

If you use the cash method and receive a post-dated cheque as security for a debt, include the amount in income when the cheque is payable.

If you receive a post-dated cheque as an absolute payment for a debt and the cheque is payable before the debt is due, include the amount in your income on one of the following dates, whichever is earlier:

- the date the debt is payable
- the date you cash or deposit the cheque

Note

The post-dated cheque rules apply to income-producing transactions, such as the sale of grain or fish. They do not apply to transactions involving capital property, such as the sale of a tractor or boat.

When you use the cash method, do not include inventory when you calculate your income. There are, however, two exceptions to this rule.

For more information on the cash method for farming or fishing income and the exceptions, see Income Tax Folio S4-F11-C1, *Meaning of Farming and Farming Business*.

Note for farmers

For more information, see “Line 9941 – Optional inventory adjustment included in 2017” on page 44 and “Line 9942 – Mandatory inventory adjustment included in 2017” on page 44.

Accrual method

When you use the accrual method you must:

- report income in the fiscal period you earn it, no matter when you receive it
- deduct expenses in the fiscal period you incur them, whether or not you pay them in that period

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

For special rules, see “Prepaid expenses” on page 27.

When you calculate your income using the accrual method, the value of all inventories, such as livestock, crops, feed, fertilizer, fish, fish by-products, supplies, and so on will form part of the calculation. Make a list of your inventory and count it at the end of your fiscal period. Keep this list as part of your business records.

You can use **one** of the following methods to value your inventory:

- Value all inventory at its **fair market value** (FMV) (see “Definitions” on page 5). Use either the price you would pay to replace an item or the amount you would get if you sold an item.
- Value individual items at cost or FMV, whichever is less. You can value items by group when you cannot easily tell one item from another. Cost is the price you incur for an item, plus any expenses to get it to your business location and put in a condition of use for your business.
- For farmers, value livestock according to the unit price base. For this method, fill in Form T2034, *Election to Establish Inventory Unit Prices for Animals*.

Use the same method you used in past years to value your inventory. The value of your inventory at the start of your 2017 fiscal period is the same as the value at the end of your 2016 fiscal period. In your first year of operating a business, you will not have an opening inventory at the start of your fiscal period.

For more information on inventories, see Interpretation Bulletin IT-473R, *Inventory Valuation*.

Note for farmers and fishers

If you use the accrual method to calculate your farming or fishing income, calculate your cost of goods sold on a separate piece of paper. Form T2042 or Form T2121 does not have a line to calculate this amount.

Changing your method of reporting income

If you 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 income tax return. Make sure you include a statement that shows each adjustment made to your income and expenses because of the difference in methods.

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

- get permission from your tax services office
- ask for this change in writing before the date you have to file your income tax return
- explain why you want to change methods in your letter

The cash and accrual methods are different. The first time you file your income tax return using the accrual method, make sure you include a statement that shows each adjustment made to your income and expenses.

Business records

You are required by law to keep records of all your transactions to be able to support your income and expense claims. A record is defined to include an account,

an agreement, a book, a chart or table, a diagram, a form, an image, an invoice, a letter, a map, a memorandum, a plan, a return, a statement, a telegram, a voucher, and any other proof containing information, whether in writing or in any other form.

Keep a record of your daily income and expenses. We do not issue record books nor suggest any type of book or set of books. There are many record books and bookkeeping systems available; you can use a book that has columns and separate pages for income and expenses.

Keep your duplicate deposit slips, bank statements, and cancelled cheques. Keep separate records for each business you run. If you want to keep computerized records, make sure they are clear and easy to read.

Note

Do not send your records with your income tax return. However, do keep them in case we ask to see them at a later date.

Benefits of keeping complete and organized records

You can benefit from keeping complete and organized records. For example:

- When you earn income from many places, good records help you identify the source of income. If you keep proper records, you may be able to prove that some income is not from your business, or that it is not taxable.
- Keeping good records will remind you of expenses you can deduct when it is time to do your income tax return.
- Good records will keep you better informed about the past and present financial position of your business.
- Good records can help you budget, spot trends in your business, and get loans from banks and other lenders.
- Good records can prevent problems you may run into if we audit your income tax returns.

Consequences of not keeping adequate records

If you do not keep the necessary information and you do not have any other proof, we may have to determine your income using other methods.

We may also disallow expenses you deducted if you are unable to support them.


There are penalties for not keeping adequate records, for not giving the CRA access to your records when requested, and for not giving information to CRA officials when asked.


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
- fee statements
- contracts

 Original documents for farming include sales invoices, cash register tapes, receipts, cash purchase tickets from the sale of grain, and cheque stubs from marketing boards.

 Original documents for fishing include sales slips for each landing, trip settlement sheets, and slips or records of sale to the public, retailers, and restaurants.

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 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 following:

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

You were asking?

Q. What should I do if there is no description on a receipt?

- A.** When you buy something, make sure the seller describes the item. However, sometimes there is no description on the receipt, as with a cash register tape. In this case, you should write what the item is on the receipt or in your expense records.

Q. What should I do if a supplier does not want to give me a receipt?

- A.** When you buy something, make sure you get a receipt. Suppliers who are GST/HST registrants are required to provide receipts. Farmers or fishers must obtain documentation to support the transactions they enter in their books and records. Your transactions may be denied if you do not have the proper documentation to support your purchases. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

Keep a record of the properties you bought and sold. This record should show who sold you the property, the cost, and the date you bought it. This information will help you calculate your CCA and other amounts. Chapter 4 explains how to calculate CCA.

If you sell or trade a property, show the date you sold or traded it and the amount of the payment or credit from the sale or trade-in.

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.	Permit	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

Example of how to record fishing expenses

Summary Sheet for a Fishing Boat – Fishing on a Share Basis

Date	Gross stock	Boat share	Oil	Bait	Ice	Food	Captain's commission	Crewman No.1	Crewman No.2	Crewman No.3	Crewman No.4	Totals
February 14	\$10,000	\$4,000	\$300	\$400	\$200	\$300	\$200	\$1,150	\$1,150	\$1,150	\$1,150	\$10,000
March 10	30,000	12,000	300	400	200	300	600	4,050	4,050	4,050	4,050	30,000
March 19	20,000	8,000	300	400	200	300	400	2,600	2,600	2,600	2,600	20,000
Totals												

Summary Sheet for Boat and Other Expenses

Date	To whom paid	Boat repairs	Engine repairs	Electrical equipment repairs	Radar rental	Insurance	Interest on loan	Nets, traps, twine	Wages	Other	
										Description	Amount
January 19	Shipyard	\$1,500	\$900								
February 3	X Suppliers Ltd.							\$600			
March 31	Rental services				\$800						
March 31	Fishermen's loan					\$2,250	\$945				
April 4	L. Electronics			\$85							
April 12	B. Garage										Car repairs \$75
May 2	J.G. Smith								\$120		
May 16	L. Electronics										Sounder 3,000
Totals											

Summary Sheet for Sales Other Than From Fishing on a Share Basis

Date	To whom sold	Gross landings	Deducted from sales proceeds			Net cash received
			Gas	Bait	Other	
January 16	Fish Packers	\$1,000	\$36.50	\$74.90	\$20	\$868.60
20	Fish Packers	800	20.00	36.00	10	734.00
21	J. Restaurant – no fish slip	100				100.00
25	Fish Packers	940	32.00	56.00	12	840.00
Totals						

Summary Sheet for Expenses (other than those deducted on fish slips)

Date	To whom paid	Boat repairs	Engine repairs	Wages paid	Bait	Gas for boat	Rope	Motor vehicle expenses	Materials, traps, nets	Other	
										Description	Amount
January 4	X Suppliers						\$25		\$85		
5	Shipyard	\$300									
7	Provincial gov.									Fishing Licence	\$7
7	B. Insurance							\$280			
9	X. Service Station							16			
12	F. Jones			\$85							
31	Fishermen's loan									Interest	175
Totals											

Use the totals to fill in Form T2121, *Statement of Fishing Activities*.


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 canada.ca/taxes-records.


Instalment payment

As a self-employed individual, you may have to pay an instalment payment. In most cases, we will send you an instalment reminder showing an instalment amount we have calculated for you.

You can view your instalment reminders using one of the following:

- My Account at canada.ca/my-cra-account
- My Business Account at canada.ca/my-cra-business-account

 If you earn farming and fishing income, instalment payments are due December 31.

 If you earn business, professional, or commission income, instalment payments are due March 15, June 15, September 15, and December 15.

There are different methods you can use to calculate instalment payments. For example, you can use the Instalment payment calculator service at My Business Account to calculate them and view their due dates.

Go to one of the following:

- canada.ca/my-cra-business-account, if you are a business owner
- canada.ca/taxes-representatives, if you are an authorized representative or employee

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


For more information on instalment payments and instalment interest charges, go to canada.ca/taxes-instalments.

Note

If any of the dates mentioned above fall on a Saturday, a Sunday, or a statutory holiday, you have until the next business day to make your instalment payments.

Dates to remember


February 28, 2018 – If you have employees, file your 2017 T4 *Summary* and T4A *Summary*. Also, give your employees their copies of the T4 and T4A slips.


 **March 15, 2018** – Make your first 2018 instalment payment if you earn business, professional, or commission income.

March 31, 2018 – Most partnerships with individuals as partners file a partnership information return. However, there are exceptions, see Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.


April 30, 2018 – Pay any balance owing for 2017. Also, file your 2017 income tax return if the expenditures of your business are mainly the cost or the **capital cost** (see “Definitions” on page 5) of tax shelter investments.


June 15, 2018 – File your 2017 income tax return if you have self-employment income, or if you are the spouse or common-law partner of someone who does, unless your business expenditures are mainly the cost or the capital cost of tax shelter investments. Remember to pay any balance owing due by April 30, 2018, to avoid interest charges.


 **June 15, 2018** – Make your second 2018 instalment payment by this date if you earn business, professional, or commission income.

 **June 30, 2018 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 2017 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 canada.ca/contract-payment-reporting-system and choose the topic entitled "Construction industry (T5018)."

 **September 15, 2018** – Make your third 2018 instalment payment by this date if you earn business, professional, or commission income.

 **December 15, 2018** – Make your fourth 2018 instalment payment by this date if you earn business, professional, or commission income.

 **December 31, 2018** – Pay your instalment payment if you meet the following conditions:

- your main source of income in 2018 is self-employment income from farming or fishing
- your net tax owing is more than \$3,000 in each of 2016, 2017, and 2018 (\$1,800 if you live in Quebec on December 31 for any of those years)

For more information on paying your income tax by instalments, go to canada.ca/taxes-instalments.

Note

If any of the dates mentioned above fall on a Saturday, Sunday, or a statutory holiday, you have until the next business day to file your return or make your payment.

Employment insurance (EI) premiums

As a self-employed individual you may be eligible to contribute to Employment insurance (EI) for yourself. You may register to participate if you meet the eligibility criteria defined by Service Canada.

Beginning in the year you register, your EI premiums will be calculated on your income tax return for that year. If you register in 2017 to participate in this program, premiums for 2017 will be calculated on your 2017 income tax return and will be payable by April 30, 2018.

Subsequently, if you pay your income tax by instalments, EI premiums may be included in your instalment payments.

When you register for the EI program, EI premiums will be payable on your self-employment income for the entire year, regardless of the date you register. For example, whether you register in April 2017 or December 2017, you will pay EI premiums on your self-employment income for the entire 2017 year.

EI premiums are payable on the amount of your self-employment earnings up to an annual maximum amount. The annual maximum amount for 2017 is \$51,300.

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.


Goods and services tax/harmonized sales tax (GST/HST)

Generally, you must register for the GST/HST if your worldwide gross revenues from your taxable supplies of

property and services (including those taxable at 0%) and those of your associates are more than \$30,000 in a single calendar quarter or over four consecutive calendar quarters. Taxable supplies of property and services include those that are subject to GST/HST at the applicable rate, those that are taxed at 0% (zero-rated), and those from all your associates.

Do not include in your calculation any revenues from sales of capital property, supplies of financial services, and goodwill from the sale of a business.

 If you provide care and supervision in your home to children 14 years of age or under for periods of usually less than 24 hours per day, your daycare service is exempt from GST/HST. If this is the case, you cannot add this tax to the amount you charge customers for these services. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

 For more information about GST/HST taxable farm or fishing goods and services, zero-rated farm or fishing products, and zero-rated farm or fishing purchases, see page 74.

For more general information on GST/HST, go to canada.ca/gst-hst or 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 an input tax credit. For more information, go to canada.ca/gst-hst-registry.

You can check the Quebec Sales Tax (QST) registration number at revenuquebec.ca/en/sepff/services/sgp_validation_tvq/default.aspx.

What is a partnership?

A partnership is defined as the relationship that exists between persons carrying on a business in common with a view to profit. You can have a partnership without a written agreement. To help you decide if you are a partner in a certain business, determine the type and extent of your involvement in the business and check your province or territory's laws.

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
- the special rules that apply when you dispose of your interest in a partnership

For more information about partnerships, see Income tax Folio S4-F16-C1, *What is a Partnership?* or Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

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 file an income tax return, and is not taxed at the partnership level. All income and losses of a partnership flow through to the partners. They report their share on their income tax returns such as their T1, T2, or T3. This requirement is the same whether their share of income was received in cash or as a credit to the partner's capital account. For more information, see Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

Partnership losses

If a partnership has a loss from carrying on business in a taxation year, this loss is allocated to the partners. In general, the amount of business loss allocated to a particular partner is either netted against the partner's income from other sources to arrive at net income for the year or is included in determining the partner's non-capital loss for the year, as the case may be.

Note

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

Filing requirements for partnerships

Under subsection 229(1) of the Regulations, all partnerships that carry on business in Canada or are Canadian partnerships or specified investment flow-through (SIFT) partnerships must file a partnership return. However, under CRA administrative policy, certain partnerships that carry on business in Canada or are Canadian partnerships are not required to file a partnership return.

For more information about the partnership information return and any other filing exemptions, see Guide T4068, *Guide for the Partnership Information Return (T5013 Forms)*.

Capital cost allowance (CCA)

A partnership can own **depreciable property** (see "Definitions" on page 5) and claim CCA on it. However, individual partners cannot claim CCA on property the partnership owns.

From the capital cost of depreciable property, subtract any investment tax credit allocated to the individual partners. We consider this allocation to be made at the end of the partnership's fiscal period. You must also reduce the capital cost by any type of government assistance received. Box 040 of your T5013 slip, *Statement of Partnership Income* shows the amount of CCA the partnership claimed on your behalf. This amount has already been deducted

from your business income in box 116 of the T5013 slip. Do not deduct this amount again.

For more information on CCA and the adjustments to capital cost, see Chapter 4.

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.

For more information about capital gains and losses, as well as recapture and terminal losses, see Chapter 4.

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. The rebate is based on the GST/HST you paid on expenses you deducted from your share of the partnership income on your income tax return. However, special rules apply if your partnership paid you an allowance for those expenses.

As an individual who is a member of a partnership, you may qualify for the GST/HST partner rebate if you meet the following conditions:

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

However, special rules apply if the partnership reimbursed you these costs.

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.

You can also get a GST/HST rebate calculated on the CCA you claimed on certain types of property. For example, you can claim CCA for a vehicle you bought to earn partnership income if you paid GST/HST when you bought it.

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 in 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.

Use the “Other amounts deductible from your share of net partnership income (loss)” chart of Form T2125, *Statement of Business or Professional Activities*, Form T2042, *Statement of Farming Activities*, or Form T2121, *Statement of Fishing Activities*, to claim expenses for which the partnership did not reimburse you or any other deductible amounts.

For more information, see “Line 9943 – Other amounts deductible from your share of net partnership income (loss)” on page 47.

Note

Enter the amount of the GST/HST rebate for partners that relates to eligible expenses other than CCA at line 9974 of Form T2125, Form T2042, or Form T2121.

Reduce the UCC for the beginning of 2018 by the portion of the rebate that relates to the eligible CCA in Area A of the appropriate form.

For more information about the GST/HST rebate, go to our webpage “GST/HST rebate for employees and 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 2017 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:

$$\$8,250.84 \times (5/105) = \$392.90$$

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 2017 tax return.

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

$$\$3,150.84 \times (5/105) = \$150.04$$

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

When filing his 2018 tax return, he will include this amount on line 9974 of Part 5 of his Form T2125, Form T2042, or Form T2121. Patrick also calculates the amount of the GST/HST rebate for partners that relates to CCA:

$$\$5,100 \times (5/105) = \$242.86$$

On his 2018 tax return, he will reduce the 2018 beginning UCC of his motor vehicle by \$242.86 in column 2 of Area A.

Investment tax credit (ITC)

An investment tax credit (ITC) lets you subtract part of the cost of some types of property you acquired or expenditures you incurred from the taxes you owe. You may be able to claim this tax credit in 2017 if you:

- acquired qualifying property
- incurred qualifying expenditures
- were allocated renounced Canadian exploration expenses
- for farmers, acquired monies paid to agricultural organizations through check-offs, levies or cash assistance

You may also be able to claim this tax credit in 2017 if you have unused ITCs from previous years.

Atlantic Investment Tax Credit

The Atlantic Investment Tax Credit is based on specified percentages available for certain investments in new buildings, and new machinery and equipment used in the Atlantic Canada and Atlantic Region.

Scientific research and experimental development (SR&ED)

You can receive scientific research and experimental development (SR&ED) ITCs 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.

Note for farmers

Agricultural producers can access ITCs earned on contributions made to agricultural organizations that fund SR&ED. For more information, see Chapter 8 of the *Third-Party Payments Policy* on the CRA website.

Mineral exploration tax credit (METC)

Certain renounced Canadian exploration expenses qualify for this ITC. You must subtract the amount of any allowable provincial tax credit.

Apprenticeship job creation tax credit (AJCTC)

The apprenticeship job creation tax credit (AJCTC) is a non-refundable ITC. The amount of the credit is added to the ITC and is available to reduce federal taxes payable for the tax year.

Investment tax credit for child care spaces

As of March 22, 2017, you can no longer claim an investment tax credit for the creation of child care spaces. However, the investment tax credit will be available for eligible expenses incurred before 2020 if you entered a written agreement before March 22, 2017.

For more information about ITCs and to claim them, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

Chapter 2 – Income

Sole proprietorships

If you are a sole proprietor, fill in all of the applicable areas and lines of:

- business or professional income on Form T2125, *Statement of Business or Professional Activities*
- farming income on Form T2042, *Statement of Farming Activities*
- fishing income on Form T2121, *Statement of Fishing Activities*

Partnerships

The details of your farming or fishing activities you have to give us depend on the type of partnership you are in. If you are a partner in a partnership that **has** to file a partnership information return, fill in Form T2125, Form T2042, or Form T2121, whichever applies, as follows:

- Fill in the “Identification” section.
- For business and professional income, enter in Part 5 at amount c the income amount from your T5013 slip. On your T5013 slip, you will find “Business income” at box 116, “Professional income” at box 120 and “Commission income” at box 122.
- For farming income, enter the amount from box 125 of your T5013 slip at line 168 of your income tax return. Enter the amount from box 124 (or box 101 if a limited partnership) of your T5013 slip at amount d of Form T2042.
- For fishing income, enter the amount from box 126 (or box 103 if a limited partnership) of your T5013 slip at amount c of Form T2121.
- Fill in the “Other amounts deductible from your share of net partnership income (loss)” chart to claim any expenses for which the partnership did not reimburse you, or other amounts you may be able to deduct. Also, fill in the “Calculating business-use-of-home expenses” chart if it applies to you. For more information, see “Line 9945 – Business-use-of-home expenses” on page 47.
- Enter your share of the net income or loss from the business at Line 9946 – Your net income (loss). If you did not make any adjustments to the amount in:
 - box 116 for business, box 120 for professional, or box 122 for commission of your T5013 slip, the amount you enter at line 9946 will be the same as the amount you entered at amount c of Form T2125.
 - box 124 for farming (or box 101 if a limited partnership) of your T5013 slip, the amount you enter at line 9946 will be the same as the amount you entered at amount d of Form T2042.
 - box 126 for fishing (or box 103 if a limited partnership) of your T5013 slip, the amount you enter at line 9946 will be the same as the amount you entered at amount c of Form T2121.

If you are a partner in a partnership that does **not** have to file a partnership information return, fill in Form T2125, Form T2042, or Form T2121 as follows:

- Fill in the “Identification” section.
- Fill in the “Income” section to report the partnership’s income.
- Fill in the “Net income (loss) before adjustments” section.
- Fill in the “Other amounts deductible from your share of net partnership income (loss)” chart to claim any expenses for which the partnership did not reimburse you or any other amounts you may be able to deduct. Also, fill in the “Calculating business-use-of-home expenses” chart if it applies to you. For more information, see page 47.
- Fill in the “Details of other partners” chart.

To see if your partnership has to file a partnership information return, see “Filing requirements for partnerships” on page 13.

How to fill in Form T2125, Form T2042, or Form T2121

These forms can help you calculate your income and expenses for income tax purposes. To get these forms, go to canada.ca/cra-forms.

We encourage you to use them; however, we will continue to accept other types of financial statements.

You have to fill in a separate form for **each** business you operate. For more information about the tax consequences of operating more than one business, see Interpretation Bulletin IT-206R, *Separate Businesses*.

File your completed Form T2125, Form T2042, or Form T2121 with your income tax return.

Note for farmers

If you are participating in the AgriStability and AgriInvest do not use Form T2042. Instead, use one of the following:

- Form T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*
- Form T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*
- Form T1273, *Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*
- Form T1274, *Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*

If you are participating in AgriStability and AgriInvest and want to calculate your CCA and business-use-of-home expenses, use Form T1175, *Farming – Calculation of Capital Cost Allowance (CCA) and Business-use-of-home Expenses*.

The forms are included in the applicable AgriStability and AgriInvest Programs guides. If you need one of the AgriStability and AgriInvest Programs guides, go to canada.ca/cra-forms or call 1-800-959-5525.

Part 1 – Identification

Fill in all the lines that apply to your business.

Enter your program account number (15 characters), assigned by the CRA, in the appropriate area.

Indicate the period your business year covered, which is your fiscal period. For an explanation of fiscal period, see page 7.

Note for fishers

Enter the name and the vessel registration number (VRN) given by Fisheries and Oceans Canada of your boat. If your boat has no formal name, enter the VRN only.

Indicate the main species you caught or fished for in your fishing business.

Industry codes

Enter the **industry code** that best describes your activity.

If more than 50% of your business involved one specific activity, choose the code that identifies that main activity. However, if your business is involved in more than one type of economic activity, and none of the codes make up more than 50% of your business, choose the appropriate level of code from the list.

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. For example, if you run a daycare business in your home, use code 624410.

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).

The industry codes listed in this guide are from the 2017 version of the North American Industry Classification System (NAICS) Canada.

There are thousands of NAICS codes. This guide only includes a few hundred examples of the most common codes. You will find them in Appendix A on page 77.

Codes with more than one zero are more general. For more information on NAICS codes and a more detailed list of codes and their descriptions, visit statcan.gc.ca and search for NAICS.

Tax shelter identification number

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 2017, attach to your income tax return any applicable slip T5003, *Statement of Tax Shelter Information*, and a completed Form T5004, *Claim for Tax Shelter Loss or Deduction*.

Note

The identification number issued for this tax shelter must be included in any income tax return filed by the investor. Issuance of the identification number is for administrative purposes only and does not, in any way, confirm the entitlement of an investor to claim any tax benefits associated with the tax shelter. For more information on tax shelters, go to canada.ca/cra-tax-shelters.

Tax tip

For more information about protecting yourself against tax schemes, go to canada.ca/tax-alert.

Partnership business number

For a partnership, identify your percentage of the partnership and enter the 9-digit partnership business number from the T5013 slip you received, if applicable.

Enter the name and address of the person or firm that prepared your form.

Part 2 – Internet business activities

You may earn income from your webpages or websites:

- by selling goods and services on your own page(s) or site(s). You may have a shopping cart and process payment transactions yourself or using a third party service.
- if your site does not support transactions but your customers call, fill in and submit a form, or email you for things like making a purchase, ordering or booking.
- by selling goods and services on auction, marketplace or similar sites operated by others.
- if earning income from advertising, income programs or traffic your site generates. This would include:
 - static advertisements placed on your site for other businesses;
 - affiliate programs;
 - advertising programs such as GoogleAdSense or Microsoft adCentre; or
 - other types of traffic programs.


Enter the number of webpages and websites your business earns income from.


Enter the address(es) of your page(s) and site(s) in the fields provided. If you have more than five sites, enter the addresses of those generating the most Internet income.


If you don't have a website but you have created a profile or other page describing your business on blogs, auction, market place or any other portal or directory site(s), then enter the address(es) of the page(s) if they generate income.

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

Part 3 – Income

 For business, professional, and commission income, see below. Use Form T2125.

 For farming income, see page 20. Use Form T2042.

 For fishing income, see page 24. Use Form T2121.

Each line number we refer to is a standardized financial statement item. For more information on standardized financial statements and items, see Appendix A in Guide RC4088, *General Index Financial Information (GIFI)*.

Business and professional income

Part 3A – Business income

Fill in this part **only** if you have business income. If you have professional income, leave this part blank and fill in Part 3B. If you have both business and professional income, you have to fill in a separate Form T2125 for each.

If you have self-employed commission income, we treat it as part of your business income. Include your commission income in amount 1 of Part 3A. Make a note for yourself for how much commission income you include in amount 1. You will need to know the gross and net commission income to enter in your income tax return.

Sales, commissions, or fees

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

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

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

Note

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

- At amount 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 amount 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 amount 6 is amount 4 **minus** amount 5.

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

Amount 7 (Adjusted gross sales) is the total of amount 3 **plus** amount 6.

Adjusted gross sales – Amount 7

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

Part 3B – Professional income

Fill in this part **only** if you have professional income. If you have business income, leave this part blank and fill in Part 3A. If you have both business and professional income, you have to fill in 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 or other goods that have bartering or monetary value (such as credit units). 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
- 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
- the value of your WIP that was included in professional fees at the end of your previous year

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

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

Amount 10 is the subtotal of amount 8 **minus** amount 9.

Note

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

- At amount 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 amount 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.

Amount 15, Adjusted professional fees, is the total of the amount 10 **plus** amount 13 **plus** amount 14.

Election to exclude your WIP

For tax years that began before March 22, 2017, 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
- a veterinarian

You do not need a special form to make this election. 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 3B at amount 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 amount 8.
- In Part 3B at amount 14, enter the amount of your WIP at the start of the year, if you excluded it at the end of last year.

If you have a tax year that begins after March 21, 2017, you can no longer elect to exclude amounts for WIP. If you elected to use billed-basis accounting for the last tax year that started before March 22, 2017, the transitional rules allow you to include your WIP into income progressively.

Generally, for the first tax year that starts after March 21, 2017, you must include 20% of the lesser of the cost and the fair market value of WIP. The inclusion rate increases to 40% in the second tax year that starts after March 21, 2017, 60% in the third year, 80% in the fourth year, and 100% in the fifth and all subsequent tax years.

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 – Amount 15

Enter amount 15 in Part 3C at line 8000.

Part 3C – 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 at line 8000 your adjusted gross sales from amount 7 in Part 3A.

For a professional activity, enter your adjusted professional fees from amount 15 in Part 3B.

Line 8290 – Reserves deducted last year

Include any reserves you deducted for 2016. For more information, see “Allowable reserves” on page 41.

Line 8230 – Other income

On 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*.
- 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” on page 58.

If you use 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-273R2, *Government Assistance – General Comments*.

Note

Enter on line 9974 in Part 5, 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 form. If it is business income, enter this amount on your tax return on line 162. If it is professional income, enter this amount on your tax return on line 164.

Keep track of how much of your business income was commission income. Enter your gross commission income on line 166 of your income tax return.

Part 3D – 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
- 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
- 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-473R, *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 “Part 9 – Details of equity” on page 48)
- withdrawals you may have made from the business (see “Part 9 – Details of equity” on page 48)

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.

Farming income

Lines 9370 to 9378 (inclusive)

Enter the income from the sale of your grains and oilseeds, whether sold directly or through an agency, on the appropriate lines 9371 to 9378. If you have other income from grains and oilseeds not listed at lines 9371 to 9378, enter the amount at line 9370.

If you sold grain directly or through an agency, include in income all the amounts you received from these sales. For example, include any Canadian Wheat Board payments from the sale of wheat, durum wheat, and barley.

When you delivered grain to a licensed public elevator or process elevator, you received a storage ticket, a cash purchase ticket, or a deferred cash purchase ticket.

If you received a **storage ticket**, a sale did **not** take place. Therefore, you do not have to include that amount in income.

However, if you received a **cash purchase ticket**, a sale **did** take place. Because you received a payment at the time you received the ticket, you have to include this amount in income.

If you received a **deferred cash purchase ticket**, you may be able to defer the income until the following tax year. You can do this if the ticket indicated payment after the end of the tax year in which you delivered the grain. This carryover of income is only allowable in specific situations. For more information, see Interpretation Bulletin IT-184R, *Deferred cash purchase tickets issued for grain*.

Cash advances

Under the *Agricultural Marketing Programs Act*, you may be able to get advances for crops that someone stores in your name. We consider these advances to be loans. Do not include these payments in your income if you have not sold the crops. Include the full amount from the sale of your

crops in your income for the tax year in which the sale occurs.

Lines 9421 to 9424 (inclusive)

Enter the total income from the sale of the identified produce on the applicable line. Whether you sold produce directly or through an agency, include in income all the amounts you received from these sales.

Do not include amounts received from the sale of greenhouse vegetables. For more information, see line 9425.

Line 9420 – Other crops

Enter the total income from the sale of pulse crops, sugar beets, hops, or any other crops you have not identified on another line.

Line 9425 – Greenhouse and nursery products

Enter the total income from the sale of such things as ornamental plants, shrubs, trees, cut and field-grown flowers, rooted cuttings, seeds and bulbs, sod and turf, and greenhouse vegetables.

Line 9426 – Forage crops or seeds

Enter the total income from the sale of hay, alfalfa, clover and clover seed, alsike, timothy, fescue, grass seed, or any other forage crops or seeds.

Lines 9471 to 9474 (inclusive) – Livestock sold

Enter the total income from the sale of the identified livestock on the applicable line. In some cases, you can defer including some amounts in income, as explained below. These deferrals do not apply if you were a non-resident and were not carrying on a farming business through a fixed place of business in Canada at the end of the tax year. Also they do not apply in the year of the farmer's death.

Line 9470 – Livestock and animal products revenue

Enter on this line the total income from the sale of any other livestock not specifically identified on another line (for example, the sale of horses, ponies, goats or llamas). Include amounts from the sale of fur-bearing animals you raised in captivity, such as fox, chinchilla, mink, or rabbit, as well as income from an apiary operation.

Prescribed drought region (PDR)

In some cases, you may be able to defer the applicable income received from the sale of breeding animals in your 2017 fiscal period to a later fiscal period. To be able to do this, you must meet the following **two** conditions:

- your farming business was located in a PDR at some time during your 2017 fiscal period
- you reduced, by sale or other means, the number of breeding animals in your breeding herds by at least 15%

For a list of PDRs, contact us at 1-800-959-5525 or Agriculture and Agri-Food Canada (AAFC). For a list of the prescribed regions of drought, flood or excessive moisture, see "Designations" at agr.gc.ca/eng/?id=1463574780220.

Prescribed flood region (PFR)

Eligible farmers who dispose of breeding livestock in a tax year because of flood or excessive moisture will be permitted to exclude a portion of the sale proceeds from their incomes until the following tax year or a later tax year if the condition persists. You may want to file your return based on the legislation in the same manner as you would for a prescribed drought region.

For a list of the prescribed regions of flood or excessive moisture, see "Designations" at agr.gc.ca/eng/?id=1463574780220.

Income deferral

The following animals kept for breeding that are over 12 months of age are considered breeding animals eligible for the income deferral:

- bovine cattle
- bison
- goats
- sheep
- deer, elk, and other similar grazing ungulates
- horses you breed to produce pregnant mare's urine that you sell

Eligibility for the income deferral includes:

- all horses over 12 months of age kept for breeding
- breeding bees not used mainly to pollinate plants in greenhouses and larvae of such bees. For the purposes of the income deferral rule, breeding bee stock is defined as follows:
 - at any time, a reasonable estimate of the quantity of your breeding bees held at that time in the course of carrying on a farming business using a unit of measurement that is accepted as an industry standard.

The unit of measurement at the end of the year is the same as that used for the beginning of the year. A formula is used to calculate what you can defer for breeding bees.

To determine the size of your breeding herd at the end of your 2017 fiscal period, fill in the following chart:

Breeding herd chart	
Part 1	
How many of your female bovine cattle over 12 months of age (held at the end of your 2017 fiscal year) have given birth?	_____ 1
How many of your female bovine cattle over 12 months of age (held at the end of your 2017 fiscal year) have never given birth?	_____ 2
Enter one half of the amount from line 1	_____ 3
Enter either the amount from line 2 or line 3, whichever is less	_____ 4
Part 2	
How many breeding animals did you have at the end of your 2017 fiscal period?	_____ 5
Enter the amount from line 2	_____ 6
Enter the amount from line 4	_____ 7
Line 6 minus line 7	_____ 8
Number of breeding animals in your breeding herd at the end of your 2017 fiscal period: line 5 minus line 8	===== 9
If the amount from line 9 is not more than 85% of the total number of animals in your breeding herd at the end of your 2016 fiscal year, you can defer part of the income received in 2017 from the sale of breeding animals.	

Before you determine how much you can defer, you need to calculate a few amounts. First, determine your sales of breeding animals for your 2017 fiscal period **minus** any reserves you claimed for these sales.

A **reserve** is created when you sell property and do not receive the full proceeds at the time of the sale. Instead, the amount of proceeds is spread over a number of years, which allows you to defer reporting these proceeds to the year in which you receive them. For more information on reserves, see Interpretation Bulletin IT-154R, *Special reserves*.

When you have determined your sales of breeding animals, **subtract** from this amount the cost of breeding animals you bought in your 2017 fiscal period. The result is your net sales amount.

You then determine how much you can defer as follows:

- if the amount at line 9 is more than 70% and not more than 85% of your breeding herd at the end of your 2016 fiscal period, you can defer up to 30% of your net sales amount
- if the amount at line 9 is between 0% and 70% of your breeding herd at the end of your 2016 fiscal period, you can defer up to 90% of your net sales amount

You do not have to defer all of this income. You can include any part of it in your 2017 income. However, the deferred income must be reported in the fiscal period that ends in either:

- the year beginning after the period or periods when the region stops being a PDR or PFR
- the year when the farmer dies
- the first year when, at the end of that year, the farmer is a non-resident and has ceased to carry on business through a fixed place of business in Canada

If you want, you can elect to report the deferred income in the year after you deferred it.

However, as long as your farming business was in a PDR/PFR at any time in your 2017 fiscal period, you do not have to include income you deferred in earlier years.

Line 9476 – Milk and cream (not including dairy subsidies) and Line 9477 – Eggs for consumption

On the applicable line, enter the total income from selling eggs, milk, and cream. Do not include any amount you received as dairy subsidies. Include these in your 2017 fiscal period, on line 9541.

Line 9520 – Other commodities

On this line, enter the total income from selling any other commodity not specifically identified on another line. Other commodities include the sale of semen, stud services, embryo transplants, artificial insemination, and pregnant mares' urine. Also include amounts from the sale of maple products, mushrooms, and ginseng.

Program payments

You should receive an AGR-1 slip, *Statement of Farm Support Payments*, to identify your 2017 taxable farm-support payments for all farm-support programs from which you received payments of more than \$100. These include farm-support programs administered by the federal, provincial, territorial, and municipal governments, and by producer associations.

You have to include in income all taxable farm-support payments you received in your 2017 fiscal period, including amounts of \$100 or less.

If your farm is operated as a partnership, only one partner should attach the AGR-1 slip to his or her income tax return. However, if your partnership has to file a partnership information return, you should file the slip with that return.

If the annual period of the AGR-1 slip is not the same as the fiscal period of your farming operation, report only the part of the farm-support payments you earned during your normal fiscal period. For example, if your farming business has a fiscal period ending on June 30, 2017, and your AGR-1 slip shows income of \$10,000 in box 14, but you earned only \$6,000 of that income by June 30, 2017, include only \$6,000 in your income for your 2017 fiscal period. Include the remaining \$4,000 in your next fiscal period. However, include the AGR-1 slip issued for the 2017 calendar year with your 2017 income tax return or partnership information return.

The back of the AGR-1 slip contains information about how to report amounts that appear in the various boxes.

Line 9541 – Dairy subsidies

Enter the dairy or milk subsidies you received.

Line 9542 – Crop insurance

Enter any insurance proceeds you received from federal, provincial, or joint federal/provincial programs for loss of crops.

Line 9540 – Other payments

Include the total income you received from all other stabilization and farm-subsidy programs made to farm producers under federal, provincial, municipal, territorial or joint programs.

Disaster assistance program payments

Enter any payments you received from federal or provincial disaster assistance programs. These include the following:

- the Agricultural Income Disaster Assistance (AIDA) Program in Saskatchewan, Manitoba, Nova Scotia, Newfoundland and Labrador, New Brunswick, Prince Edward Island, and Quebec
- the Canadian Farm Income Program (CFIP) in Saskatchewan, Manitoba, Nova Scotia, Newfoundland and Labrador, New Brunswick, Prince Edward Island, and Quebec
- the Whole Farm Insurance Pilot (WFIP) Program in British Columbia
- the Farm Income Disaster Program (FIDP) in Alberta
- the Ontario Whole Farm Relief Program (OWFRP) and the Ontario Farm Income Disaster Program (OFIDP) in Ontario

Destroying livestock

You have to include in income any payments you received under the *Health of Animals Act* for destroying animals. You can choose to deduct all or part of the payment as an expense in the year. However, if you choose to do this, you have to include in your income for your next fiscal period the amount you deduct in your 2017 fiscal period. If you deferred payments in your 2016 fiscal period, you have to include the deferred amounts as income in 2017.

Line 9570 – Rebates

Enter the amount of the rebate, grant, or assistance you received on this line. Before doing so, reduce any related expense or the capital cost of a related depreciable asset by the amount of the rebate, grant, or assistance you received. For more information, see “Grants, subsidies, and rebates” on page 58.

You may be able to claim the GST/HST you paid on your farming business expenses as an input tax credit on line 9570. For more information, see GST/HST input tax credits on page 37.

For more information about GST/HST rebates, go to canada.ca/gst-hst.

Line 9601 – Custom or contract work (includes machine rentals)

Enter the total of your incidental farming income from such things as custom or contract work, hauling, custom trucking, harvesting, combining, crop dusting or spraying, seeding, drying, packing, cleaning, treating seeds, and renting farm machinery.

Line 9604 – Insurance proceeds

Enter the amount of any insurance proceeds you received as compensation for loss or damage to certain types of property. For example, you may have received insurance proceeds for damage to a building due to fire, or for the loss of livestock to disease.

Enter the total insurance proceeds on this line if you are being reimbursed for:

- the cost of non-depreciable property you previously deducted as a current expense; or
- the cost of property that was a saleable item, such as livestock.

If the insurance proceeds compensated you for **damages** to depreciable property, and you used all of them to **repair** the property within a reasonable period of time, include the proceeds as income on this line. Claim a deduction for the same amount in the “Other expenses” area of Form T2042. Claim repairs to depreciable property that is machinery on line 9760 and repairs to motor vehicles on line 9819. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, we consider the amounts you did not spend to be proceeds of disposition. Report these amounts in column 4 of Area A of Form T2042. For more information, see “Column 4 – Proceeds of dispositions in the year” on page 51.

Insurance proceeds that compensate you for **replacement of lost** or **destroyed** depreciable property are considered to be proceeds of disposition for that depreciable property. Do not include this type of insurance proceeds on this line. For more information, see Chapter 4. For information on how insurance affects the adjusted cost base of capital property, see Chapter 7.

Do not include insurance proceeds from federal, provincial, or municipal government programs. For information on government insurance programs, see lines 9540 and 9542 on page 22.

Line 9605 – Patronage dividends

Report patronage dividends (other than those for consumer goods or services) that are received by eligible members of agricultural co-operatives on line 9605.

If you receive a patronage dividend in the form of “tax deferred co-operative shares” there is no need to immediately include it in income. Tax may be deferred to the year in which the shares are disposed of or deemed to be disposed of. The balance of the shares could then be carried forward and sheltered until actual or deemed disposition.

The temporary deferral of tax on patronage dividends paid by an agricultural cooperative corporation in the form of eligible shares is extended in respect of eligible shares issued before 2021.

Line 9600 – Other income

Enter the total of any other farming income you have not specifically identified on another line. The following paragraphs identify some of these income items.

Wood sales (including stumpage)

If you operated or regularly harvested a woodlot, include in your income the amounts from the sale of trees, lumber, logs, poles, or firewood.

From this income, you can deduct a type of capital cost allowance known as a depletion allowance. For more information, see Interpretation Bulletin IT-481-CONSOLID, *Timber Resource Property and Timber Limits*.

If you earned the income by letting other people remove standing timber from your woodlot, the proceeds may be a capital receipt. A taxable capital gain or an allowable capital loss may result. For more information on capital gains and losses, see Chapter 7 of this guide and Guide T4037, *Capital Gains*.

For more information on the sale of wood, see Income Tax Folio S4-F11-C1, *Meaning of Farming and Farming Business*.

Gifts

In your income, include the FMV (see “Definitions” on page 5) of livestock or other items you gave away you would normally have sold.

Once you give the livestock or other items away, you cannot deduct any more costs for raising or maintaining them.

Payment in kind

A payment in kind occurs when you receive or give goods or services instead of money. For instance, to pay someone for a business expense, you may give him or her something you produced on your farm instead of money. When you do this, include the FMV of the goods or services in income. Deduct the same amount as an expense.

If you received a payment in kind for a product you would normally have sold, include the FMV of the product in income.

If you were a landlord renting out land involved in sharecropping, we consider any payment in kind you received to be rental income.

Surface rental for petroleum or natural gas exploration

If you received payments for leasing your farmland for petroleum or natural gas exploration, these payments will be either income or a capital receipt. Include in your income the yearly amounts for rental, severance, or inconvenience from a surface rental agreement.

The first payment from these agreements is often larger than the rest of the annual payments. However, the agreement may not specify how much of the first payment is for such things as damage to land, land improvements, severance, inconvenience, or the first year's rent. When this happens, in the year you received the first payment, include in income an amount that is equal to the annual payment you will receive in the following years. The rest of the payment will be considered as payment for property for income tax purposes. This may result in either a capital gain or loss. For information about capital gains, see Chapter 7.

Rental income

Except for the surface rental previously explained, you do not usually include rental income in your farming income. To determine your rental income, use Form T776, *Statement of Real Estate Rentals*. You will find this form in Guide T4036, *Rental Income*.

If you were a landlord renting out land involved in sharecropping, we consider the payments you received, whether in kind or cash, to be rental income for tax purposes.

Recapture of capital cost allowance (CCA)

Include in your income the amount of any recapture of CCA you have from selling depreciable property such as tools and equipment.

To find out if you have any recapture of CCA, fill in the applicable areas on Form T2042. For more information, see Chapter 4.

Miscellaneous

Include in your income amounts you receive from the sale of soil, sand, gravel, or stone. For some of these items, you can claim a depletion allowance.

You can deduct 100% of the cost of property such as small tools if they cost less than \$500. If you bought the property and you later sold that property, you have to include this amount as income you received from the sale.

Include in your income prizes you won from fairs or farming exhibitions. For more information, see Income Tax Folio S3-F9-C1, *Lottery Winnings, Miscellaneous Receipts, and Income (and Losses) from Crime*.

Line 9659 – Gross income

Gross farming income is your total farming income before you deduct expenses. Enter your gross farming income on line 168 of your income tax return.

Fishing income

This section explains how to fill in the “Income” area of Form T2121.

T4 slip, Statement of Remuneration Paid

An employed fisher's income must be reported on a T4 slip. If you employ fishers, see the RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

As a fisher, you may have received a T4 slip that shows your fishing income. Since your T4 slip may not show all of your fishing income for the year, you should keep a detailed record of all your fishing income. Enter on Form T2121 the income you received in your 2017 fiscal period.

Your T4 slip also shows the amount of income tax that has been deducted from your fishing income for the calendar year.

However, if your fiscal period ended on a date other than December 31, enter on line 437 of your income tax return **one** of these amounts:

- the total tax deducted for the year, as shown on your T4 slip
- the part of the tax deducted for your 2017 fiscal period (in 2018, you claim the amount that remains)

In either case, include your T4 slip with your 2017 income tax return.

If you are claiming income tax that was deducted from a 2016 T4 slip, attach a note to your 2017 income tax return telling us you are doing this.

You can choose to have tax deducted at the rate of 20% on an amount you will receive from a catch. To do this, fill in Form TD3F, *Fisher's Election to Have Tax Deducted at Source*, which you and the buyer of the catch or the designated employer have to sign.

You can view your T4 and other tax information slips using My Account at canada.ca/my-cra-account.

Fish products

Include all amounts you received from the sale of fish, lobster, scallops, and so on. If you sell on the high seas, report the amount you received in Canadian dollars. Use the exchange rate in effect at the time you sold the fish. If you sell at various times in the year, use an average rate.

Other marine products

Include all amounts you received from the sale of Irish moss, herring scales, herring roe, seal meat and flippers, seaweed, kelp, roe on kelp, and so on.

Grants, credits, and rebates

You should subtract from the applicable expense any grant, credit, or rebate you received, and enter the net figure on the appropriate line on Form T2121. For more information, see “Grants, credits, and rebates” on page 35.

Subsidies

Include the income you received during your 2017 fiscal period from all fishing subsidy programs made to fishers under federal, provincial, territorial, municipal, or joint programs.

Compensation for loss of fishing income or property

You may have received insurance proceeds for property that was lost or destroyed. If you previously deducted the cost of the property as an expense, include the amount of the proceeds in your fishing income. This also includes any amounts you may have received for lost or destroyed nets and traps you included in inventory. Also include on this line compensation you received for loss of income, such as payments from the Fisheries Restructuring and Adjustment Program.

Compensation for lost or destroyed capital property, such as a fishing boat, equipment, or nets and traps you capitalize, are proceeds of disposition for the property. Therefore, you have to deduct the proceeds from the UCC of the class to which the property belongs. For more information, see Chapter 4.

Other income

You may have other types of fishing income that are not listed on Form T2121. In this case, enter this income on the "Other income" line. Below, we have listed some of the more common types of other income.

Paying debts with part of a catch

You may have bought property or paid off a debt with fish or other catch instead of money. In this case, include in your income the FMV (see "Definitions" on page 5) of the fish or other catch.

You may have paid off a business expense with fish or other catch. If you did this, include in income the FMV of the fish or other catch. Then you can deduct as an expense the FMV of that fish or other catch.

Sale of property

The tax treatment of the proceeds of disposition from a sale depends on the type of property you sold.

For instance, if you sold capital property, you may have to include in your income a capital gain and a recapture of CCA, or you may be able to deduct a terminal loss.

For more information, see Chapter 4.

On the other hand, you may have sold an item you deducted as an expense, such as a small tool. In this case, include the proceeds of disposition for the tool in your income.

However, if you sold a fishing boat and the sale price includes other items such as a fishing licence, nets, or traps, you have to divide the proceeds of disposition among the items. You and the buyer should try to reach an agreement on the price for each item.

Note

It has become a standard industry practice to pay amounts to existing licenceholders to relinquish their fishing licence if the licenceholder recommends to Fisheries and Oceans Canada (FOC) that a replacement licence be issued to a specific individual and that particular individual is granted a new licence. It is common industry terminology to refer to this exercise as "selling" or "buying" a licence.

Example

Richard sold his fishing boat, licences, and other equipment to Stacey for \$32,500. Richard and Stacey agree on how to divide the proceeds of disposition. To determine how to treat each item, they set up this calculation:

Item: Fishing boat **Amount:** \$20,000

Tax treatment: Richard deducts whichever is less: the proceeds of disposition (net of disposition costs) or the capital cost from the class. Richard may also have a capital gain as well as a recapture of CCA, or a terminal loss. See Chapter 4. Stacey adds the amount to the class. See Chapter 4 for details on CCA.

Item: Nets and traps **Amount:** 7,000

Tax treatment: Richard includes the amount in his income if he inventories his nets and traps, or he includes the amount as proceeds of disposition if he capitalizes his nets and traps. He may also have a capital gain as well as a recapture of CCA, or a terminal loss. See Chapter 4. Stacey sees "Line 9137 – Nets and traps" on page 36.

Item: Fishing licences **Amount:** 5,000

Tax treatment: Richard and Stacey see Chapter 4 for information on CCA Class 14.1.

Item: Hooks and lines **Amount:** 500

Tax treatment: Richard includes this amount in his income. Stacey deducts this amount as an expense.

Total **Amount:** \$32,500

Income from related activities

Report other income you received that is not on your T4 slip or elsewhere on Form T2121. Some examples of other income are incomes you received working as a captain, engineer, first mate, or cook.

An owner may have paid you wages and let you keep part of a catch. In this case, include the wages on the appropriate line of your income tax return and the balance received as "Other income" on Form T2121.

If you are a resident of Canada and fish on a foreign vessel, include in your income any amount you received as wages or as your share of the catch. Report the amount you received in Canadian dollars.

Sharesperson income

Report the income you received as a sharesperson. Also, write down the name of the fishing boat and captain.

Line 8299 – Gross income

Gross fishing income is your total fishing income before you deduct expenses. Enter your gross fishing income on line 170 of your income tax return.

Chapter 3 – Expenses

This chapter discusses the more common expenses you might incur to earn income from your activities. Incur means you paid or will 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. However, an increase in a property's market value because of an expense is not a major factor in determining whether the expense is capital or current. To determine whether an amount is a current expense or a capital expense, consider your answers to the questions in the following chart.

Current or capital expenses

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 that property is a capital expense. For example, the cost of buying a compressor for use in your business operation is a capital expense. This is the case because a compressor is a separate asset, and is not a 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 of considerable value in relation to 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 deduct it as a current expense.
Is the expense for repairs made to used property you acquired intended to put it in suitable condition for use?	The cost of repairing used property you acquired to put it in a suitable condition for use in your business is considered a capital expense even though in other circumstances it would be treated as a current operating expense.	Where the repairs were for ordinary maintenance of a property 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.	Where 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 “Chapter 4 – Capital cost allowance” and Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

You cannot claim expenses you incur to buy capital property. However, as a rule, you can deduct any reasonable current expense you incur to earn income. The

deductible expenses include any GST/HST you incur on these expenses less the amount of any input tax credit claimed.

Also, since you cannot deduct personal expenses, enter only the business part of expenses on Form T2125, Form T2042, or Form T2121.

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 rebate, grant, or assistance from the expense to which it applies. Enter the net figure on the proper line. Any such assistance you claim for the purchase of depreciable property used in your business will affect your claim for CCA.

Note for farmers

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 on line 9570, "Rebates," on Form T2042. For more information, see "Grants, subsidies, and rebates" on page 58.

Note for business and professional

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 3C at line 8230, "Other income." For more information, see "Grants, subsidies, and rebates" on page 58.

Do not include any of the following in your expenses:

- salary, wages (including drawings) paid to self, partner(s), or both
- the cost of saleable goods or services you, your family, or your partners and their families used or consumed (including items such as food, home maintenance, and business properties)
 - for farmers, this includes items such as dairy products, eggs, fruit, vegetables, poultry, and meat
- donations to charities and political contributions
- interest and penalties you paid on your income tax
- most life insurance premiums; for more information on a limited exception:
 - for farming, see line 9804 on page 33
 - for fishing, see line 8690 on page 35
- the part of any expenses that can be attributed to non-business use of business property
- most fines and penalties imposed, under the law of Canada or a province or a foreign country

Prepaid expenses

A prepaid expense is an expense you paid for ahead of time. Under the **accrual method** of accounting, claim the expense you prepay in the year or years in which you get the related benefit. Suppose your fiscal year-end is December 31, 2017. On June 30, 2017, you prepay the rent on your building for a full year (July 1, 2017, to June 30, 2018). You can only deduct one-half of this rent as an expense in 2017. You can deduct the other half as an expense in 2018.

Under the **cash method** of accounting, you cannot deduct a prepaid expense amount (other than for inventory) relating

to a tax year that is two or more years after the year the expense is paid. However, you can deduct the part of an amount you paid in a previous year for benefits received in the current tax year. These amounts are deductible as long as you have not previously deducted them.

If you paid \$600 for a three-year service contract for office equipment in 2017, you can deduct \$400 in 2017. This represents the part of the expense that applies to 2017 and 2018. On your 2019 income tax return, you could then deduct the balance of \$200 for the part of the prepaid lease that applies to 2019.

For more information, see Interpretation Bulletin IT-417R2, *Prepaid Expenses and Deferred Charges*.

Part 4 – Net income (loss) before adjustments

If you are self-employed, you can deduct certain amounts you spent to earn business, professional, commission, farming, and fishing income. For the definition of self-employed fisher, see "Is this guide for you?" on page 2. If you use the cash method of reporting income and expenses, you can only deduct expenses you paid in the year. If you are using the accrual method, you can deduct expenses you had during the year, whether you paid them or not. There are special rules for deducting prepaid expenses. For more information, see "Prepaid expenses" on page 27.

Note

When you claim the GST/HST you paid on your fishing expenses as an input tax credit, reduce the amounts of the expenses to which the credit relates 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.

 For business and professional expenses, see below.

 For farming expenses, see page 31.

 For fishing expenses, see page 34.

Each line number we refer to is a standardized financial statement item. For more information on standardized financial statements and items, see Appendix A in Guide RC4088, *General Index Financial Information (GIFI)*.

Business and professional expenses

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.

To claim the expenses, you must meet certain Canadian content or Canadian ownership requirements. These requirements do not apply if you advertise on foreign websites.

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
- an amount that is reasonable in the circumstances

When you claim expenses on this line, you will have to calculate the allowable part you can claim for business use.

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 for business and professional" on page 41.

These limits do not apply in any of these cases:

- 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.
- 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 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 all following items:

- supporting receipts for all food and beverages claimed
- a document that clearly shows the extra amount of food and beverages required because of the nature of your work, and 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 meet the following conditions:

- you had already included the account receivable in income
- 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 and bank charges

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” on page 27.

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
- 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 2017 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*.

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 2017, have the

insurer verify the interest before June 16, 2018, on Form T2210, *Verification of Policy Loan Interest by the Insurer*.

Capitalizing interest

You can choose to capitalize interest on money you borrow for one of the following reasons:

- to buy depreciable property
- to buy a resource property
- 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 taxes, licences, and memberships

You can deduct all annual licence fees and some business taxes you incur to run your business. Some examples of licence fees are: beverage licenses; business charges; trade licences; motor vehicle licenses; and motor vehicle registration permits. Some examples of business taxes that may be deductible are: municipal taxes; land transfer taxes; gross receipt tax; health and education tax; and hospital tax.

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 – Office stationery and 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. If you run a daycare, these include household supplies that children use and food you buy to feed the children.

Line 8860 – Professional fees (includes legal and accounting 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 2017 for the types of fees that you deducted in a previous year, report the amount you received at line 130 of your 2017 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 in Part 5.

Line 8960 – Repairs and maintenance

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 in Part 5.

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 must deduct your part of CPP or QPP contributions and employment insurance premiums. You can also deduct workers' compensation amounts payable on employees' remuneration and Provincial Parental Insurance Plan (PPIP) premiums. The PPIP is an income replacement plan for residents of Quebec. For details, contact Revenue Québec. For more information on making payroll deductions, go to canada.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
- 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 in Part 5.

Line 9200 – Travel expenses

You can deduct travel expenses you incur to earn business and professional income. Travel expenses include public transportation fares, hotel accommodation, and meals. If you run a daycare, you can also deduct on this line the cost of tickets you may have bought for field trips.

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" on page 28.

Line 9220 – Utilities

You can deduct expenses for telephone and utilities, such as gas, oil, electricity, and water, if you incurred the expenses to earn income.

Do not deduct the basic monthly rate of your home telephone. However, you can deduct any long distance telephone calls you made on your home telephone for your business. If you have a separate telephone for business calls only, you can deduct its basic monthly rate.

The expenses for utilities that are related to the business use of workspace in your home have to be claimed on line 9945 in Part 5.

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 in Part 5.

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 Chart A – “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 on line 9943 in Part 5.

If you use your vehicle **occasionally** for business purposes, you can claim motor vehicle expenses on a per-trip basis. For example, taking the children to a park or on an excursion may involve paying for fuel and parking.

If you **regularly** use your vehicle for business and personal trips, you can claim part of the total operating expenses for your vehicle as a business expense. You must keep accurate records that show the part of the total kilometres that you drove for your business.

Farming expenses

Line 9661 – Containers and twine

Enter the total amount you paid for materials to package, contain, or ship your farm produce or products. If you operated a nursery or greenhouse, deduct the cost of your containers and pots for the plants you sold.

Line 9662 – Fertilizers and lime

Enter the total amount you paid for fertilizers and lime you used in your farming business.

Line 9663 – Pesticides (herbicides, insecticides, fungicides)

Enter the total amount you paid for herbicides, insecticides, and fungicides.

Line 9664 – Seeds and plants

Enter the total amount you paid for seeds and plants. Do not include the cost of seeds and plants you used in your personal vegetable or flower garden.

Line 9711 – Feed, supplements, straw, and bedding

Enter the total amount you paid for feed, supplements, straw, and bedding you purchased for your farming business. You cannot deduct the value of the feed, straw, or bedding you grew.

Line 9712 – Livestock purchased

Enter the amount you paid for all livestock you purchased.

Line 9713 – Veterinary fees, medicine, and breeding fees

Enter the total amount you paid for medicine for your animals, and for veterinary and breeding fees. Examples of such fees include the cost of artificial insemination, stud service and semen, embryo transplants, disease testing, and neutering or spaying.

Machinery expenses

The expense of operating and maintaining your machinery is the total of line 9760 and line 9764 below.

Line 9760 – Repairs, licences, and insurance

Enter the total amount of repair, licence fee, and insurance premium expenses you incurred for your machinery. If you received insurance proceeds to help pay for repairs, see “Line 9604 – Insurance proceeds” on page 23.

Line 9764 – Gasoline, diesel fuel, and oil

Enter the total amount you paid for fuel and lubricants for your machinery.

Line 9795 – Building repairs and maintenance (includes fence repairs)

Deduct repairs to fences and all buildings you used for farming, except your farmhouse. Do not include the value of your own labour. If the expenditure improved a fence or building beyond its original condition, the costs are capital expenditures. Add the expenditure to the cost of the asset on your CCA charts on Form T2042. CCA charts are explained in Chapter 4.

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

If you used your farmhouse for business reasons, see “Line 9945 – Business-use-of-home expenses” on page 47.

Note

You may have received insurance proceeds to pay for the cost of repairs. If the insurance proceeds compensated you for damages to depreciable property such as buildings or fences, and you used all of them to repair the property within a reasonable period of time, you can claim a deduction for the amount spent on

repairs on line 9795. However, you have to include the insurance proceeds as income on line 9604. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition in column 4 of “Area A – Calculation of capital cost allowance (CCA)” on Form T2042. For more information, see “Column 4 – Proceeds of dispositions in the year” on page 51.

Line 9796 – Clearing, levelling, and draining land

Enter the total of the expenses listed below. In most cases, you can deduct the costs for:

- clearing the land of brush, trees, roots, and stones
- first plowing of the land for farm use
- building an unpaved road
- installing land drainage

You do not have to deduct all of the costs in the year you paid them. If you paid all of the costs, you can deduct any part of them in the year you paid them. You can carry forward any part of the costs you did not deduct to another year. However, if you rented land to someone else, you cannot deduct the costs mentioned above. Instead, you may be able to do one of the following:

- Add these costs to the cost of the land.
- Add these costs to the cost of the building if you plan to build on the land right away.
- Include these costs under Class 8 in the CCA charts on Form T776, *Statement of Real Estate Rentals*, if you installed a tile, plastic, or concrete land drainage system. In this case, you also need to add the costs for a tile, plastic or concrete land drainage system to Class 8 on your CCA charts on Form T2042. For more information, see Chapter 4.

For more information, see Interpretation Bulletin IT-485, *Cost of clearing or levelling land*.

Improving land

You cannot deduct the cost of a paved road. Instead, you have to add this cost to Class 17 of your CCA charts on Form T2042. For more information, see Chapter 4.

You can deduct most of the cost to drill or dig water wells in the year you did the work. However, you have to add some of the costs to Class 8 on your CCA charts. The costs you add to Class 8 are those you incurred to purchase and install:

- the casing and cribwork for the well
- the system that distributes water, including the pump and pipes

You can deduct amounts you paid to have public utilities brought to your farm, as long as the installations remain the property of the utility.

You can deduct amounts you paid under the *Canada Cooperatives Act* to build a distribution system under a gas service contract.

Line 9797 – Crop insurance, Revenue Protection Program, and stabilization premiums

Enter the amount of deductible premiums to the Crop Insurance Program. Do not include any premiums for private, business-related, or motor vehicle insurance. For information on other types of insurance, see line 9760 on page 31, line 9804 on page 33, and line 9819 on page 34.

Line 9798 – Custom or contract work (includes machine rentals)

Enter the expenses you incurred for custom and contract work, and machinery rental. For example, you may have had a contract with someone who cleaned, sorted, graded, and sprayed the eggs your hens produced, or someone who had facilities to age the cheese you produced. You may have also contracted someone to do your harvesting, combining, crop dusting, or seed cleaning.

Line 9799 – Electricity

Only the part of your electricity costs that relates to your farming business is deductible. To determine the part you can deduct, keep a separate record of the amounts that apply to the farmhouse and other farm properties.

The business part of your electricity expense will depend on how much electricity is used for the barns and shops. Because the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions explained at “Line 9945 – Business-use-of-home expenses” on page 47.

Do not include on Form T2042 the electricity expense for a house you rented to someone else. This is a rental expense, which you enter on Form T776, *Statement of Real Estate Rentals*. You can get Form T776 in Guide T4036, *Rental Income*.

Line 9802 – Heating fuel and curing fuel

Enter the total amount you paid for natural gas, coal, and oil to heat farm buildings. Also enter your expenses for fuel used for curing tobacco, crop drying, or greenhouses.

You can deduct only the part of these costs that relate to your farming business. To determine the part you can deduct, keep a separate record of the amounts you paid for the farmhouse and other farm properties.

The business part of your heating fuel expense will depend on how much heating fuel is used for the barns and shops. Because the heating fuel for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions explained at “Line 9945 – Business-use-of-home expenses” on page 47.

Do not include on Form T2042 the heating fuel expenses for a house you rented to someone else. This is a rental expense, which you enter on Form T776. You can get Form T776 in Guide T4036.

Line 9803 – Insurance program overpayment recapture

Enter the amount of any insurance program overpayment recapture you incurred. You should receive an AGR-1 slip, *Statement of Farm-Support Payments*, identifying the amount of the recapture in box 17.

Line 9804 – Insurance

Enter the amount of business-related insurance premiums you paid to insure your farm buildings, farm equipment (excluding machinery and motor vehicles), livestock, and business interruption.

In most cases, you cannot deduct your life insurance premiums. However, if you use your life insurance policy as collateral for a loan related to your farming business, you may be able to deduct a limited part of the premiums you paid. For more information, see Interpretation Bulletin IT-309R2, *Premiums on Life Insurance Used as Collateral*.

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the personal property for your farming business, you can deduct the business part of these costs. For more information, see “Line 9945 – Business-use-of-home expenses” on page 47 and “Line 9819 – Motor vehicle expenses” on page 34.

Line 9805 – Interest and bank charges

You can deduct interest you incurred on money borrowed for farming business purposes or to acquire property for farming business purposes. However, there are limits on:

- The interest you can deduct on money you borrowed to buy a passenger vehicle. For more information, see “Line 9819 – Motor vehicle expenses” on page 34.
- 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.

You can deduct interest you paid on any real estate mortgage you incurred to earn farming income, but you cannot deduct the principal part of loan or mortgage payments. Do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes.

You may be able to deduct interest expenses for a property you used for farming business purposes, even if you have stopped using the property for such purposes because you are no longer in the farming business. For more information, call 1-800-959-5525.

Line 9808 – 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 items such as calculators, filing cabinets, chairs, and desks. These are capital items. For more information on capital property, see Chapter 5.

Line 9809 – Professional fees (includes legal and accounting fees)

Deduct the fees you incurred for external professional advice or services, including consulting fees.

You can deduct accounting and legal fees you incur to get advice and help in keeping your records. You can also deduct fees you incur 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 you have received. Report the difference on line 232 of your income tax return. If you received a reimbursement in 2017 for the types of fees you deducted in a previous year, report the amount you received on line 130 of your 2017 income tax return.

You cannot deduct legal and other fees you incur to buy capital property. Instead, add these fees to the cost of the property. For more information on capital property, see Chapter 5.

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

Line 9810 – Property taxes

Enter the amount of land, municipal, and realty taxes you paid for property used in your farming business. Since the municipal tax for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions explained at “Line 9945 – Business-use-of-home expenses” on page 47.

If you are repaying a loan for land drainage through your property tax payments to your township, you cannot include the amount you repaid as part of your property tax expense.

Line 9811 – Rent (land, buildings, and pasture)

You can deduct rent incurred for land, buildings, and pasture used in your farming business.

If you farmed on a sharecrop basis and paid your landlord a share of the crop, you can do **one** of the following:

- Add to your income the FMV (see “Definitions” on page 5) of the crops given to your landlord. Deduct the same amount as a rent expense.
- Do not include the FMV in income and do not deduct the amount as a rent expense.

Line 9814 – Salaries, wages, and benefits (including employer’s contributions)

You can deduct employees’ gross salaries and other benefits you incurred. Do not deduct salaries or drawings paid or payable to yourself or a partner. For more information, see “Part 9 – Details of equity” on page 48.

As the employer, you must deduct your part of CPP or QPP contributions and employment insurance premiums. You can also deduct workers' compensation amounts payable on employees' remuneration and Provincial Parental Insurance Plan (PPIP) premiums. The PPIP is an income replacement plan for residents of Quebec. For details, contact Revenue Québec. For more information on making payroll deductions, go to canada.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 farming income
- 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 may 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 by using 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. However, you cannot claim the value of board and lodging you provide to your dependent children and spouse or common-law partner as an expense.

For more information, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

Line 9819 – Motor vehicle expenses (not including CCA)

You can deduct expenses you incur to run a motor vehicle you use to earn farming income. Fill in "Chart A – Motor vehicle expenses" of Form T2042. The chart will help you calculate the amount of motor vehicle expenses you can deduct. If you are a partner in a business partnership and you incur motor vehicle expenses for the business through the use of your personal vehicle, you can claim those business related expenses on "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" of Form T2042. For more information, see page 47.

Line 9820 – Small tools

If a tool costs you less than \$500, you can deduct its full cost. If it costs you \$500 or more, add the cost to your CCA schedule as Class 8 property.

Small tools that cost less than \$500 are fully deductible in the year of purchase. You may claim them as an expense at

line 9820 or claim CCA by including them in Class 12 (with a CCA rate of 100%). Either method is acceptable, but do not claim the amount twice. For more information on CCA, see Chapter 4.

Line 9937 – Mandatory inventory adjustment included in 2016

If you included an amount for the mandatory inventory adjustment (MIA) on line 9942 in your 2016 fiscal period, deduct the amount as an expense in your 2017 fiscal period. Do not include the valuation of inventories if you are using the accrual method of accounting. For more information about the accrual method, see "Reporting methods" on page 8.

For more information on MIA, see line 9942 on page 44.

Line 9938 – Optional inventory adjustment included in 2016

If you included an amount for the optional inventory adjustment (OIA) on line 9941 in your 2016 fiscal period, deduct the amount as an expense in your 2017 fiscal period. Do not include the valuation of inventories if you are using the accrual method of accounting. For more information about the accrual method, see "Reporting methods" on page 8.

For more information on OIA, see line 9941 on page 44.

Fishing expenses

Fishing boat owners

As a fishing boat owner, you can deduct all the expenses you had for each trip. This includes the expenses to calculate the crewshares.

You may be able to deduct expenses when you used your home for business purposes. You may also be able to deduct the cost to travel between your home and the fishing boat. However, to deduct either of these expenses, you have to meet certain conditions. We explain these conditions on "Line 9945 – Business-use-of-home expenses" on page 47 and "Line 9281 – Motor vehicle expenses" on page 36.

You can also deduct other expenses you paid to earn fishing income, as well as CCA on property you owned and used to earn fishing income. We explain CCA in Chapter 4.

Captains of fishing boats

As the captain of a fishing boat, you can deduct expenses for which the owner did not pay or reimburse you. These expenses include the cost of personal navigation aids and rubber gear. You can also deduct motor vehicle expenses you paid to transport crew members and to get supplies and parts to use on the boat. You may be able to deduct business-use-of-home expenses and the cost of travel between your home and the fishing boat if you meet certain conditions. For more information, see "Line 9281 – Motor vehicle expenses" on page 36 and "Line 9945 – Business-use-of-home expenses" on page 47.

Sharespeople

As a sharesperson who receives a share of the catch, your income is the amount you received after you deducted all trip expenses from the sale of the catch. Therefore, you can only deduct the expenses you paid for rubber gear, gloves, and knives you used on the fishing boat. You cannot deduct the cost to travel between your home and the fishing boat since we consider these expenses to be personal.

Note

Fishing boat owners, captains, and sharespeople cannot duplicate expenses. For example, if the owner deducted expenses for fuel, food, and ice, a captain cannot deduct the same expenses.

Use of a fishing boat mainly for personal use

You may have used a fishing boat mainly for personal use, but sometimes caught a small amount of fish to sell. In this case, you can deduct expenses and CCA. However, the amount you deduct cannot be more than your income from the catch.

Grants, credits, and rebates

Subtract, from the applicable expense, any grant, credit, or rebate you received. Enter the net figure on the appropriate line of Form T2121.

If you cannot apply the grant, credit, or rebate you received to reduce a particular expense or to reduce an asset's capital cost, include the total on the line "Grants, credits, and rebates" in the income area on Form T2121.

You may be able to claim the GST/HST you paid on your fishing business expenses as an input tax credit on this line as well. For more information, see "GST/HST input tax credits" on page 37.

Line 9138 – Salt, bait, ice

Enter the amount you paid for bait, ice, and salt used for your fishing business.

Line 9062 – Crew shares

Enter the total amount of each crew member's share of the catch. You will find these amounts on the trip settlement sheets.

Line 9224 – Fuel and oil costs (except for motor vehicles)

Enter the amounts you paid for fuel and oil for your fishing boat and equipment. If you used a car or truck for your fishing business, see "Line 9281 – Motor vehicle expenses" on page 36. The cost of fuel related to business use of work space in your home has to be claimed at "Line 9945 – Business-use-of-home expenses." For more information, see page 47.

Line 9136 – Fishing gear

Enter the amount you paid for gear. This includes knives, small assorted supplies, gloves, and rubber or oilskin clothing you used in your fishing business.

Line 8690 – Insurance

Enter the premiums you paid to insure your fishing boat and equipment.

In most cases, you cannot deduct your life insurance premiums. However, if you use your life insurance policy as collateral for a loan related to your fishing business, you may be able to deduct a limited part of the premiums you paid. For more information, see Interpretation Bulletin IT-309R2, *Premiums on Life Insurance Used as Collateral*.

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the property for personal use and for your fishing business, you can deduct the business part of these costs. For more information, see "Line 9281 – Motor vehicle expenses" on page 36 and "Line 9945 – Business-use-of-home expenses" on page 47.

Line 8710 – Interest and bank charges

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

However, there are limits on the interest you can deduct on money you borrow to buy a passenger vehicle. For more information, see "Line 9281 – Motor vehicle expenses" on page 36.

You can deduct interest you paid on any real estate mortgage you had to earn fishing income, but you cannot deduct the principal part of loan or mortgage payments. Do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes.

You may be able to deduct interest expenses for a property you used for fishing business purposes, even if you have stopped using the property for such purposes because you are no longer in the fishing business. For more information, call 1-800-959-5525.

Line 8523 – Meals and entertainment

The maximum amount you can claim for food, beverages, and entertainment expenses is 50% of either the amount paid or payable, or an amount that is reasonable in the circumstances, whichever is less. However, special rules can affect your claim for meals.

When you claim expenses on this line, you will have to calculate the allowable part you can claim for business use.

Claim the total amount you paid for food you stocked on your boat to feed your crew when you fished offshore.

Often, inshore fishers do not stock food. Instead, they bring meals from home for their crew because the trips are short (leave home early in the morning and come back late in the afternoon). You can deduct the cost of these meals as long as the meals were a taxable benefit to your crew.

In some cases, you can deduct the cost of meals even though they were not taxable benefits. You can do this if your boat was at sea for 36 hours or more and the meals you provided for your crew were not taxable benefits. Also, if you gave meals to your sharespeople, generally the meals you provided for them are not

taxable benefits because we do not consider sharespeople to be employees. The 50% rule applies to all self-employed sharespeople. However, they may be limited by the restriction noted above.

For more information about taxable benefits, see the T4130, *Employers' Guide – Taxable Benefits and Allowances*. Also see Interpretation Bulletin IT-91R4, *Employment at Special Work Sites or Remote Work Locations*.

Line 8760 – Licences (business taxes and memberships)

You can deduct all annual licence fees and some business taxes you incur to run your business. Some examples of licence fees are: beverage licenses; business charges; trade licences; motor vehicle licenses; and motor vehicle registration permits. Some examples of business taxes that may be deductible are: municipal taxes; land transfer taxes; gross receipt tax; health and education tax; and hospital tax.

You can also deduct annual dues or fees to keep your membership in a trade or commercial association, as well as subscriptions to publications. You cannot deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities.

Enter the total cost to renew your annual licences. If you bought a licence from another fisher, you can only deduct part of the cost each year. For details on depreciable property, see Chapter 4.

If you bought a fishing boat and the price included the cost of a licence, you need to know what part of the price was for the licence and what part was for the boat. Try to agree on these amounts with the seller. See the example on page 25.

Line 9281 – Motor vehicle expenses (not including CCA)

You can deduct expenses you incur to run a motor vehicle you use to earn fishing income. Fill in “Chart A – Motor vehicle expenses” of Form T2121. The chart will help you calculate the amount of motor vehicle expenses you can deduct. If you are a partner in a business 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 on “Line 9943 – Other amounts deductible from your share of net partnership income (loss)” of Form T2121. For more information, see page 47.

Line 8810 – Office stationery and supplies

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 items such as calculators, filing cabinets, chairs, and desks. These are capital items.

Line 9137 – Nets and traps

Nets and traps include lines, hooks, buoys, anchors, and radar reflectors. Generally, you cannot deduct the

entire cost of nets and traps you bought in the year. Instead, there are two methods you can use to deduct these costs.

Method 1 – Capital cost allowance (CCA) method

Capitalize the cost of nets and traps and claim CCA. See Chapter 4 for details on CCA.

Method 2 – Inventory method

Include in inventory the cost of nets and traps and deduct the loss in value, as shown in the following example:

Example

Value of nets, traps, and twine, on hand at the end of your 2016 fiscal period	\$ 750
Add: Cost of nets and traps you bought in your 2017 fiscal periods.....	\$200
Cost of twine and other net and trap materials you bought in your 2017 fiscal period (do not include the value of your own labour).....	\$125 \$ 325*
Subtotal	\$1,075
Minus: Value of nets, traps, and twine, on hand at the end of your 2017 fiscal period	\$700**
Proceeds from the sale of nets, traps, and twine.....	\$150 \$ 850
Loss on nets and traps.....	\$ 225

* If you use the inventory method, do not deduct this amount as an expense.

** The value of nets and traps on hand is the amount you would receive if you sold them to another fisher who was not related to you.

If you just started your fishing business, choose one of the two methods. If you have been running your fishing business for several years and each year you claim the cost of replacing nets and traps, you can keep on doing so. However, you can choose to change to either the CCA or the inventory method. If you choose to do this in 2017, the value of nets and traps on hand at the end of 2016 will be zero since you have deducted their value in previous years.

You can change from the inventory method to the CCA method. However, you cannot change from the CCA method to the inventory method.

Line 8860 – Professional fees (includes legal and accounting fees)

Deduct the fees you had for external professional advice or services, including consulting fees.

You can deduct accounting and legal fees you have paid to get advice and help in keeping your records. You can also deduct fees you have 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 (CPP) or Quebec Pension Plan (QPP) contributions, or employment

insurance (EI) premiums. However the full amount of these deductible fees must first be reduced by any reimbursement of these fees you have received. Report the difference on line 232 of your income tax return.

If you received a reimbursement in 2017 for the types of fees you deducted in a previous year, report the amount you received on line 130 of your 2017 income tax return.

You cannot deduct legal and other fees you have paid to buy capital property, such as a boat or fishing material. Instead, add these fees to the cost of the property. For more information on capital property, see Chapter 5.

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

Line 9060 – Salaries, wages, and benefits (including employer’s contributions)

You can deduct employees’ gross salaries and other benefits you incurred. For more information, see Guide T4005, *Fishers and Employment Insurance*. Do not deduct salaries or drawings paid or payable to yourself or to a partner. For more information, see “Part 9 – Details of equity” on page 48.

As the employer, you must deduct your part of CPP or QPP contributions and employment insurance premiums. You can also deduct workers’ compensation amounts payable on employees’ remuneration and Provincial Parental Insurance Plan (PPIP) premiums. The PPIP is an income replacement plan for residents of Quebec. For details, contact Revenue Québec. For more information on making payroll deductions, go to canada.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 wages you paid to your child, as long as you meet **all** of these conditions:

- you pay the salary
- the work your child does is necessary for earning fishing income
- 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 may 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. 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. However, you cannot claim as an expense the value of board and lodging you provide to your dependent children and spouse or common-law partner.

For more information, see Guide RC4120, *Employers’ Guide – Filing the T4 Slip and Summary*.

Line 8963 – Repairs

Fishing boat

Enter the total amount you paid for the general repairs you needed to keep your fishing boat seaworthy. The structural improvements and additions you make to your fishing boat are capital expenditures. You have to add these expenditures to the cost of the boat. This will affect your CCA claim on the boat. For details on CCA, see Chapter 4.

If you need more details about capital expenditures, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Engine

Enter the total amount you paid for all general engine repairs. You can also deduct the cost of an overhaul. However, if you replaced an engine, it is a capital expenditure. Therefore, add the expenditure to the cost of the boat. This will affect the CCA on the boat. For more information on CCA, see Chapter 4.

Electrical equipment

Deduct the amount you pay for repairs to a LORAN, sounder, radar, ship-to-shore radio, fish finder, and so on.

GST/HST input tax credits

If you claim the GST/HST you paid on your expenses as an input tax credit, reduce the amounts of the business expenses you show on Form T2125, Form T2042, or Form T2121 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. Enter the net expense figure on the proper line on the form.

Input tax credits you claim for the purchase of depreciable property used in your business will affect your claim for CCA. If you cannot apply the credit you received to reduce a particular expense, or to reduce an asset’s capital cost, include the amount as income on line 8230, “Other income” of Form T2125, line 9570, “Rebates” of Form T2042, or line “Grants, credits and rebates” of Form T2121.

For more information on how the input tax credit for registrants will affect your CCA claim, see “Column 2 – Undepreciated capital cost (UCC) at the start of the year” on page 50.

Keeping motor vehicle records

You can deduct motor vehicle expenses only when they are reasonable and you have receipts to support them. To get 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 income. For each 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.

Simplified logbook for motor vehicle expense provisions

Following a Federal initiative to reduce the paper burden on businesses, you can choose to maintain a full logbook for one complete year to establish a base year's 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

extrapolate 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.

What type of vehicle do you own?

The kind of vehicle you own can affect the expenses you can deduct. For income tax purposes, you should know the definitions of motor vehicles and passenger vehicles (see "Definitions" on page 5).

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. We explain the CCA limits in Chapter 4. You will find the limits on interest and leasing costs later in this section.

The following chart will help you to determine if you have a motor vehicle or a passenger vehicle. The chart does not cover every situation, but it gives some of the main definitions for vehicles bought or leased and used to earn self-employment income.

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
Pick-up truck used to transport goods or equipment	1 to 3	more than 50%	motor
Pick-up truck (other than above)	1 to 3	1% to 100%	passenger
Pick-up truck with extended cab used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Pick-up truck with extended cab (other than above)	4 to 9	1% to 100%	passenger
Sport utility vehicle used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Sport utility vehicle (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

Deductible expenses

The types of expenses you may be able to claim on line 9281 of Form T2125 or Form T2121, or line 9819 of Form T2042 include:


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


You can also claim CCA, but you enter this amount on line 9936. For more information about CCA, see Chapter 4.

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 you paid to earn income. However, 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.

 Farming business use includes trips to pick up parts or farm supplies, and to deliver grain. If you did not live on your farm, the travel between the farm and your home is not considered business travel.

 Fishing business use includes trips to pick up parts or boat supplies, and to deliver fish to markets. It also includes driving to and from the fishing boat if your home is your main place of business.

Example

Murray's business has a December 31 year-end. He owns a truck that is not a passenger vehicle. He uses the truck to pick up supplies and equipment. Murray kept the following records for his 2017 fiscal period:


Business kilometres.....	27,000 km
Total kilometres	30,000 km


Expenses:


Gasoline and oil	\$ 3,500
Repairs and maintenance	\$ 500
Insurance.....	\$ 1,000
Interest (on loan to buy truck).....	\$ 1,900
Licence and registration fees	\$ <u>100</u>
Total expenses for the truck.....	\$ <u>7,000</u>

This is how Murray determines the motor vehicle expenses he can deduct in his 2017 fiscal period:

$\frac{27,000 \text{ (business kilometres)}}{30,000 \text{ (total kilometres)}} \times \$7,000 = \$6,300$

 If Murray has business or professional income, he can deduct that amount on line 9281 of Form T2125.

 If he has a farming business, he can deduct that amount on line 9819 of Form T2042.

 If he has a fishing business, he can deduct that amount on line 9281 of Form T2121.

Note for farmers

If you received insurance proceeds to help pay for repairs, see "Line 9604 – Insurance proceeds" on page 23.

Joint ownership of a passenger vehicle

If you and another person own or lease a passenger vehicle, the limits on CCA, interest, and leasing costs still apply.

The total amount you (as a joint owner) or 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, for each vehicle keep a separate record that shows the total personal-use kilometres and business kilometres you drive, as well as the cost to run and maintain each vehicle. Calculate each vehicle's expenses separately.

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

Interest

You can deduct interest on the money you borrow to buy a motor vehicle or passenger vehicle you use to earn farming or fishing 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 amount of interest you can deduct. To calculate the interest you can deduct, fill in "Chart B – Available interest expense for passenger vehicles" of your form.

Example

Heather's business has a December 31 year-end. On January 1, 2017, she bought a new passenger vehicle that she uses for both personal and business use. She borrowed money to buy the vehicle, and the interest she paid in her 2017 fiscal period was \$2,200. Since the car that Heather bought is a passenger vehicle, there is a limit on the interest she can deduct.

Heather's available interest is the lesser of the following amounts:

- \$2,200 (the total interest she paid in her 2017 fiscal period)
- \$3,650 (\$10 × 365 days)

Heather's records for her 2017 fiscal period:

Business kilometres	20,000 km
Total kilometres.....	25,000 km

Expenses:

Gasoline and oil.....	\$2,000
Repairs and maintenance	\$1,000
Insurance	\$1,900
Interest (on loan to buy vehicle).....	\$2,200
Licence and registration.....	\$ <u>60</u>
Total vehicle expenses.....	\$ <u>7,160</u>

Heather determines the motor vehicle expenses she can deduct in her 2017 fiscal period:

$\frac{20,000 \text{ (business kilometres)}}{25,000 \text{ (total kilometres)}} \times \$7,160 = \$5,728$

Heather can deduct \$5,728 as motor vehicle expenses for her 2017 fiscal period.

Leasing costs for a passenger vehicle

You can deduct costs you incur to lease a motor vehicle you use to earn income. Include these amounts on:

- line 9281 for business and professional expenses
- line 9819 for farming expenses
- line 9281 for fishing expenses

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

If the lease agreement for your passenger vehicle includes such items as insurance, maintenance, and taxes, include them as part of the lease charges on amount 19 of Chart C.

Note

Generally, leases include taxes (GST/HST or PST), but not items such as insurance and maintenance. You have to pay these amounts separately. Include the taxes on amount 19 of Chart C, and list the items like insurance and maintenance on the appropriate lines of “Chart A – Motor vehicle expenses.”

For your 2017 fiscal period, use the GST rate of 5% or the applicable HST rate of your specific province to fill in Chart C.

The following example shows how to calculate the eligible leasing costs. Use Chart C of your form to help you understand the following example. In this chart, we use prescribed amounts. Prescribed means it is written in the law.

Example

On July 1, 2017, Meadow started leasing a car that is a passenger vehicle. She used the car to earn business income. Her business has a December 31 fiscal year-end. The PST rate for her province is 8% and GST is 5%. Meadow entered the following for 2017:

Monthly lease payment.....	\$	500	
Lease payments for 2017	\$	3,000	
Manufacturer’s suggested list price	\$	33,000	
Number of days in 2017 she leased the car.....		184	
Prescribed CCA capital cost limit.....	\$	30,000	
Prescribed CCA capital cost limit × Prescribed limit rate: 30,000 × (100/85)	\$	35,294	
Prescribed deductible leasing costs limit	\$	800	
GST and PST on \$30,000.....	\$	3,900	
GST and PST on \$35,294.....	\$	4,588	
GST and PST on \$800.....	\$	104	
Total lease charges incurred in 2017 fiscal period for the vehicle.....	\$	3,000	1
Total lease payments deducted in fiscal periods before 2017 for the vehicle.....	\$	0	2
Total number of days the vehicle was leased in 2017 and previous fiscal periods.....		184	3
Manufacturer’s list price	\$	33,000	4
The amount on line 4 or \$39,882 (\$35,294 + \$4,588), whichever is more \$39,882 × 85%	\$	33,900	5
(\$904 × 184) ÷ 30	\$	5,545	6
(\$33,900 × \$3,000) ÷ \$33,900	\$	3,000	7

Meadow’s eligible leasing cost is either amount 6 or 7, whichever amount is less. 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 the chart.


Imputed interest is interest that would be owing to you if interest were paid on the money you deposited to lease a passenger vehicle. Calculate imputed interest


for leasing costs on a passenger vehicle only if all of the following apply:


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

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

Line 9790 or 9270 – Other expenses

 For business and professional expenses, use line 9270 on Form T2125.

 For farming expenses, use line 9790 on Form T2042.

 For fishing expenses, use line 9270 on Form T2121.

There are expenses you can incur to earn income other than those listed on Form T2125, Form T2042, or Form T2121. We cover some of them in the following sections. Enter on this line the total of other expenses you incurred to earn income, as long as you did not include them on a previous line. You have to list these expenses on the form.

 **Note for farmers**

You can pay some of your expenses by having them deducted from your cash grain tickets or grain stabilization payments. These expenses include seed, feed, sprays, or fertilizers. You can deduct these expenses if you include in your income the gross amount of the grain sale or stabilization payment.

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
- 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
- listening devices for group meetings

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


Payment in kind


If you received a payment in kind for a product or service you would normally have sold, include the fair market value (FMV) of the product or service in income.


If you made a payment in kind for a business expense, include the FMV of the good or service in income. Deduct the same amount as an expense.

Leasing costs

Deduct the lease payments you incurred in the year for property used in your business.

 If you are a business person or a professional and lease a passenger vehicle, see “Line 9281 – Motor vehicle expenses” on page 31.

 If you are a farmer and lease a passenger vehicle, see “Line 9819 – Motor vehicle expenses” on page 34.

 If you are a fisher and lease a passenger vehicle, see “Line 9281 – Motor vehicle expenses” on page 36.

If you entered into a lease agreement, you can elect to treat your lease payments as combined payments of principal and interest. However, you and the person from whom you are leasing have to agree to treat the payments this way. In this case, we consider you:

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

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

You can make this choice as long as the property qualified and the total FMV of all the property leased is more than \$25,000. For example, a combine or fishing boat, leased with a FMV of \$35,000 qualifies. However, office furniture and vehicles often do not qualify.

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

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

Convention expenses for business and professional

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

- relate to your business or professional activity
- 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 2017 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 $\$600 - (\$50 \times 2) = \$500$.

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*.

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 air-time expenses for a cellular telephone that reasonably relates to earning your self-employment income.

If you buy a computer, cellular telephone, fax machine, or other such equipment, you cannot deduct the cost. You can deduct CCA and interest you paid on money you borrowed to buy this equipment that reasonably relates to earning your business income. For more information on CCA, see Chapter 4.

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*
- Guide T4011, *Preparing Returns for Deceased Persons*

Premiums to a private health services plan (PHSP)

You can deduct premiums paid to a private health services plan (PHSP) 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 in a partnership; and
- the premiums are paid to insure yourself, your spouse or common-law partner, or any member of your household.

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

- the amount from line 150 of your 2016 or 2017 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**
- the amount you entered on lines 207, 212, 217, 221, 229, 231, and 232 on your 2016 or 2017 income 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 2016 or 2017 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**
- the amount you entered 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 2016 or 2017 income 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 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
- a tax-exempt business organization or a tax-exempt professional organization of which you are a member

For more information on PHSPs, see Interpretation Bulletin IT-339R2, *Meaning of 'private health services plan' (1988 and subsequent taxation years)* or go to canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/private-health-services-plan-premiums.

For the purposes of this claim, the following terms apply:

- **Arm's length employees** are, generally, employees who are not related to you and who are 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
- 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 all applicable taxes as part of the total dollar amount.

If you did not have any employees throughout 2017

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 they were insured
- \$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 that 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 you insured yourself and your household members, if applicable, but insured less than 50% of your employees
- B equals $\$1,500 \times$ the number of household members 18 and over insured during that period
- C equals $\$750 \times$ the number of household members under the age of 18 insured during that period

Example 1

Edwin was a sole proprietor who ran his business alone in 2017. He had no employees and did not insure any of his household members. Edwin paid \$2,000 for PHSP coverage in 2017. His coverage lasted from July 1 to December 31, 2017 (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 2017, he can only deduct \$756 because the annual limit is \$1,500 and he was only insured for half of the year. If he had been

insured for the entire year, his deduction limit would be \$1,500.

Example 2

Bruce was a sole proprietor who ran his business alone in 2017. He had no employees. From January 1 to December 31, he insured himself, his wife, and his two sons. Bruce 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. Bruce'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
- \$750 for the son who turned 18. This limit applies because he did not turn 18 until after the insured period began

If you had employees throughout 2017

If you had at least one **qualified employee** (see the definition on page 42) throughout all of 2017, 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 for yourself, your spouse or common-law partner, and your household members.

For each of your qualified employees, calculate the following:

$X \times Y = Z$, 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, his or her spouse or common-law partner, and household members

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

Z equals your limit based on that particular employee

If you had more than one qualified employee, you have to do the $X \times Y = Z$ calculation for each employee. Your limit is then the least amount you calculate for each employee.

Example 1

You have one qualified employee. To provide yourself with coverage equivalent to his or hers, 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:

$\$1,800 \text{ (amount X)} \times 60\% \text{ (amount Y)} = \$1,080 \text{ (amount Z)}$

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 you pay.

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

You have to do the following three calculations:

Jack: $\$1,500 \text{ (X)} \times 20\% \text{ (Y)} = \300 (Z)

Jill: $\$1,800 \text{ (X)} \times 50\% \text{ (Y)} = \900 (Z)

Sue: $\$1,400 \text{ (X)} \times 40\% \text{ (Y)} = \560 (Z)

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. However, you may be able to claim them as medical expenses.

If you had employees throughout 2017 but the number of **arm's length** employees you insured 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 you insured yourself and your household members, if applicable, but insured less than 50% of your employees

B equals $\$1,500 \times$ the number of household members 18 years of age or older insured during that period

C equals $\$750 \times$ the number of household members under the age of 18 insured during that 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 $X \times Y = Z$ formula in the previous example. 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

If you had at least one qualified employee for part of the year 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 $X \times Y = Z$ formula of "If you had employees throughout 2017."

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

Undeducted premiums

If you deduct only part of your PHSP premium at line 9804 for farming or line 9270 for fishing, 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*.

Line 9935 – Allowance on eligible capital property

As of January 1 2017, you can no longer claim this allowance. Property that formerly would have been eligible capital property is now considered depreciable property under capital cost allowance class 14.1.

Line 9936 – Capital cost allowance (CCA)


If you use a property you own such as a building, a motor vehicle, furniture, or equipment in your business, you might be able to claim CCA. Enter the amount of CCA you calculated on the charts found on your form. For more information on how to fill in these charts, see Chapter 4.


Line 9898 – Total farm expenses

Enter the total of lines 9790, 9935, and 9936. Enter the business part only.

Line 9899 or 9369 – Net income (loss) before adjustments

 For business and professional income, use line 9369 on Form T2125.

 For farming income, use line 9899 on Form T2042.

 For fishing income, use line 9369 on Form T2121.

Enter the gross income minus the total expenses. If you have a loss, enter the amount in brackets. If you are a partner in a partnership, this amount is the net income (or loss) of all partners.

Inventory adjustments included in 2017 for farmers

Line 9941 – Optional inventory adjustment included in 2017

If you want to include an inventory amount in income, read this section.

By making the optional inventory adjustment (OIA), you can include in your income an amount up to the FMV of your inventory minus the mandatory inventory adjustment (MIA). You can only make the OIA if you use the cash method. For the meaning of inventory and FMV, see "Line 9942" below.

For the OIA, unlike for the MIA, the inventory does **not** have to be purchased inventory. It is the entire inventory you still have at the end of your 2017 fiscal period.

Enter the amount of your OIA on line 9941. You must deduct this amount as an expense in your next fiscal period.

Line 9942 – Mandatory inventory adjustment included in 2017

The mandatory inventory adjustment (MIA) decreases your net loss if you held inventory at the end of your fiscal period. Read this section, even if you do not have to make the MIA. This section will show you how to determine the value of the farm inventory you bought and still have at the end of your 2017 fiscal period. You will need to know this value if you have to make the MIA this year or in the future.

You have to make the MIA if **all** of the following apply:

- You use the cash method to report your income.
- You have a net loss on line 9899 of Form T2042.
- You bought inventory and still have it at the end of your 2017 fiscal period. This does not refer only to inventory you bought in 2017. It includes inventory you had previously bought and still owned at the end of your 2017 fiscal period.

Your MIA is the **lesser** of these amounts:

- the net loss before adjustments on line 9899
- the value of the purchased inventory you still have at the end of your 2017 fiscal period

To calculate your MIA, fill in charts 1, 2, 3, and 4 on page 73. Once you have completed chart 4, enter the amount on line 9942. For more information, see Interpretation Bulletin IT-526, *Farming – Cash method inventory adjustments*.

In your 2018 fiscal period, deduct the MIA you added to your net loss in your 2017 fiscal period.

Note

If you bought a specified animal (as defined below) in a **non-arm's length transaction** (see "Definitions" on page 5), we consider you bought the animal in the same year and at the same price for which the seller bought it. A non-arm's length transaction is, for example, a transaction between members of a family, such as a husband and wife, or a parent and child.

To value your inventory, you need to know the meaning of the following terms.

Inventory is a group of items that a business holds and intends to consume or sell to its customers.

Farm inventory is tangible property that is either:

- held for sale, such as harvested grain
- used in the production of saleable goods, such as seed and feed
- in the process of being produced, such as standing crops, or feeder livestock

Seed you have already planted and fertilizer or chemicals you have already applied are no longer part of your inventory items, but are included in the value of the standing crop that may be included in the Optional Inventory Adjustment (OIA).

Purchased inventory is inventory you have bought and paid for.

Specified animals are horses. You may also elect to designate cattle you registered under the *Animal Pedigree Act* as specified animals. To make this choice, put a note on your income tax return saying you want to designate the animal this way. If you indicate on your return that it is a specified animal, we will continue to consider it as such until you sell it.

Cash cost is the amount you paid to buy your inventory.

Fair market value (FMV) is 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.

Value of your purchased inventory

To value your purchased inventory, read the text that follows and the example of how to fill in the MIA charts. There are blank charts for you to use on page 73 of this guide. Keep these charts as part of your records.

Except for specified animals, you have to value any purchased inventory you acquired before or during your 2017 fiscal period at the lesser of these amounts:

- the cash cost
- the FMV

To determine which amount is less, compare each item or group of items separately in the inventory.

Value the specified animals you acquired **in** your 2017 fiscal period and still have at the end of this period at **one** of the following amounts:

- the cash cost
- 70% of the cash cost
- any amount between these two amounts

Value the specified animals you acquired **before** your 2017 fiscal period and still have at the end of this period at **one** of the following amounts:

- the cash cost
- 70% of:
 - the value of the specified animals for MIA purposes as determined at the end of your 2016 fiscal period; **plus**
 - any amounts you paid in your 2017 fiscal period toward the purchase price
- any amount between these two amounts

Example

Doug started his farming business in 2014 and uses the cash method to report his income. His year-end is December 31. Doug shows a net loss of \$55,000 in 2017 on line 9899. Doug has purchased inventory at the end of his 2017 fiscal period. This means he has to decrease his net loss by the MIA. Doug made a chart for the cash cost of his livestock that is purchased inventory at the end of his 2017 fiscal period.

Livestock

Year of purchase	Cost of purchase	Amount paid by end of 2017 fiscal period
2017	\$30,000	\$25,000
2016	\$26,000	\$26,000*
2015	\$22,000	\$22,000
2014	\$20,000	\$20,000

* For livestock bought in his 2016 fiscal period, Doug paid \$19,000 in 2016 and \$7,000 in 2017.

Doug's other inventory is fertilizer, seed, and fuel. The cash cost is the same as the FMV value for this inventory. Its value is as follows:

- bought in his 2017 fiscal period: \$15,000
- bought in his 2016 fiscal period: \$6,000
- bought in his 2015 fiscal period: \$5,000

At the end of his 2017 fiscal period, Doug did not have any other inventory that he bought before his 2014 fiscal period.

Doug has registered his livestock under the *Animal Pedigree Act*. He wants to designate these animals as specified animals. Doug completes chart 1 as follows:

Chart 1 Cash cost of purchased inventory	
Doug enters the amount he paid by the end of his 2017 fiscal period for the specified animals he bought:	
Fiscal period	Cash cost
■ in his 2017 fiscal period	<u>\$25,000</u> 1
■ in his 2016 fiscal period	<u>\$26,000</u> 2
■ in his 2015 fiscal period	<u>\$22,000</u> 3
■ in his 2014 fiscal period	<u>\$20,000</u> 4
■ before his 2014 fiscal period	<u>\$ 0</u> 5
Doug enters the amount he paid by the end of his 2017 fiscal period for all other inventory he bought:	
■ in his 2017 fiscal period	<u>\$15,000</u> 6
■ in his 2016 fiscal period	<u>\$ 6,000</u> 7
■ in his 2015 fiscal period	<u>\$ 5,000</u> 8
■ in his 2014 fiscal period	<u>\$ 0</u> 9
■ before his 2014 fiscal period	<u>\$ 0</u> 10

Doug now knows the cash cost of his purchased inventory, including his specified animals. He uses these amounts to calculate the value of his purchased inventory at the end of his 2017 fiscal period. To do this, he completes charts 2, 3, and 4 as follows:

Chart 2	
Value of purchased inventory for specified animals	
The small letters in front of each line match the paragraphs at the end of this chart. These paragraphs explain how Doug calculates the number on each line.	
Inventory bought in his 2017 fiscal period Doug enters an amount that is not more than the amount on line 1, but not less than 70% of this amount.	a) \$ <u>20,000</u> 11
Inventory bought in his 2016 fiscal period Doug enters an amount that is not more than the amount on line 2, but not less than 70% of the total of the value at the end of his 2016 fiscal period, plus any amounts he paid in his 2017 fiscal period toward the purchase price.	b) \$ <u>14,210</u> 12
Inventory bought in his 2015 fiscal period Doug enters an amount that is not more than the amount on line 3, but not less than 70% of the total of the value at the end of his 2016 fiscal period, plus any amounts he paid in his 2017 fiscal period toward the purchase price.	c) \$ <u>7,546</u> 13
Inventory bought in his 2014 fiscal period Doug enters an amount that is not more than the amount on line 4, but not less than 70% of the total of the value at the end of his 2016 fiscal period, plus any amounts he paid in his 2017 fiscal period toward the purchase price.	d) \$ <u>4,802</u> 14
Inventory bought before his 2014 fiscal period	e) \$ <u>0</u> 15

- a) Doug chose \$20,000, which is between the cash cost of \$25,000 and \$17,500 (70% of the cash cost).
- b) Doug chose to value the inventory he bought in his 2016 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2016 fiscal period was \$13,300 ($\$19,000 \times 70\%$). Remember, Doug paid \$19,000 for these specified animals in 2016. He paid \$7,000 in 2017.

For his 2017 fiscal period, Doug chose to value the inventory that he bought in his 2016 fiscal period at 70% of the total of the value at the end of the 2016 fiscal period plus any amounts that he paid in his 2017 fiscal period toward the purchase price. Therefore, the amount that he enters on line 12 is \$14,210 [$70\% \times (\$13,300 + \$7,000)$]. He could choose any amount between the cash cost of \$26,000 and the lowest acceptable inventory value of \$14,210.
- c) Doug chose to value the inventory that he bought in his 2015 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2015 fiscal period was \$15,400 ($\$22,000 \times 70\%$).

For his 2016 fiscal period, Doug chose to value the inventory that he bought in his 2015 fiscal period at 70% of the total of the value at the end of his 2015 fiscal period. Therefore, the value of this inventory at the end of his 2016 fiscal period was \$10,780 ($\$15,400 \times 70\%$).

For his 2017 fiscal period, Doug chose to value the inventory that he bought in his 2015 fiscal period at 70% of the total of the value at the end of his 2016 fiscal period. Therefore, the amount he enters on line 13 is \$7,546 ($\$10,780 \times 70\%$). He could choose any amount between the cash cost of \$22,000 and the lowest acceptable inventory value of \$7,546.

- d) Doug chose to value the inventory that he bought in his 2014 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2014 fiscal period was \$14,000 ($\$20,000 \times 70\%$).

For his 2015 fiscal period, Doug chose to value the inventory that he bought in his 2014 fiscal period at 70% of the total of the value at the end of his 2014 fiscal period. Therefore, the value of this inventory at the end of his 2015 fiscal period was \$9,800 ($\$14,000 \times 70\%$).

For his 2016 fiscal period, Doug chose to value the inventory that he bought in his 2014 fiscal period at 70% of the total of the value at the end of his 2015 fiscal period. Therefore, the value of this inventory at the end of his 2016 fiscal period was \$6,860 ($\$9,800 \times 70\%$).

For his 2017 fiscal period, Doug chose to value the inventory that he bought in his 2014 fiscal period at 70% of the total of the value at the end of his 2016 fiscal period. Therefore, the amount he enters on line 14 is \$4,802 ($\$6,860 \times 70\%$). He could choose any amount between the cash cost of \$20,000 and the lowest acceptable inventory value of \$4,802.

- e) Doug had not purchased any specified animals before his 2014 fiscal period.

Chart 3	
Value of purchased inventory for all other inventory	
Inventory bought in his 2017 fiscal period: Doug enters the amount from line 6 or the fair market value, whichever is less.	<u>\$15,000</u> 16
Inventory bought in his 2016 fiscal period: Doug enters the amount from line 7 or the fair market value, whichever is less.	<u>\$6,000</u> 17
Inventory bought in his 2015 fiscal period: Doug enters the amount from line 8 or the fair market value, whichever is less.	<u>\$5,000</u> 18
Inventory bought in his 2014 fiscal period: Doug enters the amount from line 9 or the fair market value, whichever is less.	<u>\$0</u> 19
Inventory bought before his 2014 fiscal period: Doug enters the amount from line 10 or the fair market value, whichever is less.	<u>\$0</u> 20

**Chart 4
Calculation of MIA**


Doug enters the amount of his net loss from line 9899 of Form T2042.	\$	<u>55,000</u>	21
Doug enters the value of his inventory from charts 2 and 3:			
■ the amount on line 11	\$	<u>20,000</u>	
■ the amount on line 12		<u>14,210</u>	
■ the amount on line 13		<u>7,546</u>	
■ the amount on line 14		<u>4,802</u>	
■ the amount on line 15		<u>0</u>	
■ the amount on line 16		<u>15,000</u>	
■ the amount on line 17		<u>6,000</u>	
■ the amount on line 18		<u>5,000</u>	
■ the amount on line 19		<u>0</u>	
■ the amount on line 20		<u>0</u>	
Total value of inventory	\$	<u>72,558</u>	22
MIA – Doug enters the amount on line 21 or line 22, whichever is less.	\$	<u>55,000</u>	23


The MIA that Doug uses for his 2017 fiscal period will be the same amount that he deducts from his farming income when he calculates his income for his next fiscal period.


Enter the figure from line 23 of chart 4 on line 9942 of Form T2042.

Part 5 – Your net income (loss)

Your share of net income (loss) before adjustments

 On Form T2125 for business and professional income, enter your share of line 9369 on amount c.


 On Form T2042 for farming income, enter your share of amount c on amount d.


 On Form T2121 for fishing income, enter your share of line 9369 on amount c.


This is the amount left after you subtract the amounts that the other partners are responsible for reporting. On the “Details of other partners” chart, indicate the full names and addresses of the other partners, as well as a breakdown of their shares of the income and their percentages of the partnership. You can also get this amount from your T5013 slip.

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 on line 9974 of your form in the year you receive the rebate.

 For business and professional income, enter the total of amount c and line 9974 at amount d.

 For farming income, enter the total of amount d and line 9974 at amount e.

 For fishing income, enter the total of amount c and line 9974 at amount d.

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 on this line. The expenses must not have been claimed anywhere else on the form.

Claim this amount only if the partnership did not repay you for these expenses. The limits discussed earlier in this chapter also apply to these expenses.

Fill in the “Other amounts deductible from your share of net partnership income (loss)” chart of your form. 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 work space in your home, if you meet **one** of the following conditions:

- it is your principal place of business
- 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 heating, 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 workspace 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 the business part of your total home expenses. This will give you the household cost you can deduct. If you run the business for only part of the week or year, reduce your claim accordingly.

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

Example

Monique runs a business from her home weekdays from 7 a.m. to 5 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.

Monique calculates as follows:

$$10/24 \text{ hours} \times 35/100 \text{ metres} \times \$5,800 \text{ expenses} = \$845.83$$

The business operates five days a week, so she must do another calculation:

$$\$845.83 \times 5/7 \text{ days} = \$604.16$$

Monique can deduct \$604.16 for her 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 chapters 4 and 7 as well as Guide T4037, *Capital Gains*.

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

The amount you can deduct for business-use-of-home expenses cannot be more than your net income from the business before you deduct these expenses. 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 carry forward from your 2016 fiscal period **plus** the business-use-of-home expenses you incur in 2017
- the net income (loss) at:
 - amount e of Form T2125 for business and professional
 - amount f of Form T2042 for farming
 - amount e of Form T2121 for fishing

Note

If the net income (loss) after adjustments is negative, you must enter “0” at amount 14 when calculating your business-use-of-home expenses.

In your next fiscal period you can use any expense you could not deduct in 2017, as long as you meet one of the previous two conditions. The same rules apply.

You can use the “Calculating business-use-of-home expenses” chart of your form to calculate your allowable claim for business-use-of-home expenses. Enter on line 9945 your share of amount 16 of the chart. The expenses you claim on line 9945 cannot be claimed anywhere else on the form.

Line 9946 – Your net income (loss)

Enter your net income or loss on this line of your form. Enter it also on the appropriate lines of your T1 return:

- line 135, Business income
- line 137, Professional income
- line 139, Commission income
- line 141, Farming income
- line 143, Fishing income

If you have a loss, enter the amount in brackets. For more information about losses, see Chapter 6.

Note

You may have to adjust the figure from line 9946 before entering it on your income tax return. You may have filed Form T1139, *Reconciliation of 2016 Business Income for Tax Purposes*, with your 2016 income tax return. If so, you may have to fill in the same form for 2017. To find out if you have to file Form T1139, and calculate the amount of income to report on your 2017 income tax return, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*.

Part 8 – Details of other partners

If you are a partner in a partnership that does **not** have to file a partnership information return (see Chapter 1 for these requirements), fill in the “Details of other partners” chart of your form. If you are a partner in a partnership that **must** file a partnership information return, you do not need to fill in the chart.

Part 9 – Details of equity

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

Line 9931 – Total business liabilities

A liability is a debt or an obligation of a business. Total business liabilities are the total of all amounts your business owes at the end of its fiscal period.

Total business liabilities include:

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

Line 9932 – Drawings in 2017

A drawing is any withdrawal of cash (including salaries) or other assets, or services of a business by the proprietor or partners. This includes transactions by the proprietor or partners (or family members), like withdrawing cash for non-business use and using business assets and services for personal use. Include the cost or value of the personal use of business assets or services in your drawings for the year.

Line 9933 – Capital contributions in 2017

A capital contribution is cash or other assets you added to the business during its fiscal period. This includes personal funds you added to the business account, 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 self-employment activities.



You cannot deduct the cost of the property when you calculate your net farming or fishing income for the year.

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

You can usually claim CCA on a property when it becomes **available for use** (see “Definitions” on page 5).

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
- the time the property is delivered or made available to you and is capable of producing a saleable product or service
-   the time the property is delivered and is capable of performing the function for which it was acquired only in respect of property acquired by you in the course of carrying on your farming or fishing business

Note for fishers

In the case of a vessel, available for use means the date when all permits, certificates, or licences needed by law are obtained.

Example for fishers

If you buy an electric motor for your fishing boat and the seller delivers it to you in your 2017 fiscal period, but it was not in working order until your 2018 fiscal period, you cannot claim CCA on it until 2018. However, if you buy an electric motor and the seller delivers it to you in working order in your 2017 fiscal period, but you did not use it until your 2018 fiscal period; you can still claim CCA in 2017 because it was available for use.

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

- 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
- the time just before you dispose of the building

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

- 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
- 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 classes. A specific rate of CCA generally applies to each class.

We explain the most common classes of property in “Classes of depreciable property” on page 53. We list most of the classes and their rates in the “Capital cost allowance (CCA) rates” chart on page 72.

Base your CCA claim on your fiscal period ending in 2017, and not the calendar year.

Basic information about CCA

To decide whether an amount is a current expense or a capital expense, see the “Current or capital expenses” chart on page 26.

Generally, use the declining balance method to calculate your CCA. This means you claim CCA on the **capital cost** (see “Definitions” on page 5) of the property minus the CCA you claimed in previous years, if any. The balance declines over the years as you claim CCA.

Example

Last year Alfie bought a building for \$60,000 to use in his business. On his income tax return for last year, he claimed CCA of \$1,200 on the building. This year, Alfie bases his CCA claim on his 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. 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 class by the amount of CCA claimed. As a result, the available CCA for future years will be reduced.

In the year you acquire a depreciable 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” on page 52. 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 land or on living things such as trees, shrubs, or animals. However, you can claim CCA on timber limits, cutting rights, and wood assets. For more information, see interpretation bulletins IT-481-CONSOLID, *Timber Resource Property and*

Timber Limits, and 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. Alternatively, you may be able 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” on page 52.

If you receive income from a quarry, sand, or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance. For more information, see Income Tax Folio S4-F11-C1, *Meaning of Farming and Farming Business*, and interpretation bulletin IT-492, *Capital cost allowance – Industrial mineral mines*.

Note for farmers

If you used depreciable property in 2017 you used in your farming business before January 1, 1972, fill in “Area A – Part XVII properties” on Form T2042.

If you are a partner in a partnership, you cannot separately 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 to the partners and the partner’s share is shown on the partner’s T5013 slip, *Statement of Partnership Income*. If the partnership does not need to file a partnership information return, you will not get a T5013. If this is the case, complete Area A of your form to report the CCA claim for the partnership.

You were asking?

Q. How do I calculate my CCA claim if I start a business and my first fiscal period is from June 1, 2017, to December 31, 2017?

A. Since your fiscal period is less than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules discussed in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In this case, your fiscal period is 214 days. Suppose you calculate your CCA to be \$3,500. The amount of CCA you can claim is \$2,052 ($\$3,500 \times 214/365$).

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

How to calculate your CCA

To calculate your 2017 deduction for CCA, and any recaptured CCA and terminal losses, use Area A of your form. Include only the business part.

You may have acquired or disposed of buildings or equipment during your fiscal period. If so, fill in the applicable Area B, C, D, or E, whichever applies, before completing Area A.

Note

Even if you are not claiming a deduction for CCA for 2017, fill in the appropriate areas of the form to show any additions or disposals during the year. For more

information on how to fill in all these areas, see the following section.

Column 1 – Class number

Enter in this column the class numbers of your properties. If this is the first year you are claiming CCA, see “Column 3 – Cost of additions in the year” on this page before completing column 1. If you claimed CCA last year, you can get the class numbers of your properties from last year’s form.

We discuss the more common types of depreciable properties in “Classes of depreciable property” on page 53, and we list most of the classes and their rates in the “Capital cost allowance (CCA) rates” chart on page 72.

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

If this is the first year you are claiming CCA, skip this column. Otherwise, enter in this column the UCC for each class at the end of last year. Enter these amounts from column 10 of your 2016 form.

From your UCC at the start of 2017, subtract any investment tax credit (ITC) you claimed or were refunded in 2016. Also, subtract any 2016 ITC you carried back to a year before 2016.

In 2016, you may have received a GST/HST input tax credit for a passenger vehicle you used less than 90% of the time for your business. In this case, subtract the amount of the credit you got from your 2017 opening UCC. See “Grants, subsidies, and rebates” on page 58.

Note

In 2017, you may be claiming, carrying back, or getting a refund of an ITC. If you still have depreciable property in the class, you have to adjust, in 2018, 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 2018. When there is no property left in the class, report the amount of the ITC as income in 2018.

Column 3 – Cost of additions in the year

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

- fill in Area B and Area C of your form; as explained below
- enter in column 3 of Area A for each class, the figure from column 5 of each class in Area B and Area C

If a chart asks for the personal part of a property, this refers to the part you use personally, separate from the part you use for business. For example, if you use 25% of the building you live in for your business, your personal part is the remaining 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** (see “Definitions” on page 5) before you can claim CCA.

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you spent to **replace** the property in column 3 of Area A, as well as in Area B or C, whichever applies.

Include the amount of insurance proceeds considered as **proceeds of disposition** (see “Definitions” on page 5) in column 4 of Area A, as well as in Area D or E, whichever applies.

Note for farmers

For more information, see “Line 9604 – Insurance proceeds” on page 23.

If you replaced 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-259R4, *Exchange of Property*, and Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release.

To find out if any of these special situations apply, see “Special situations” on page 57.

Area B – Details of equipment additions in the year

List the details of all equipment (including motor vehicles) you acquired or improved in 2017. Group the equipment into the applicable classes and put each class on a separate line.

Equipment you acquire to use in your business to earn income can include:

- cement mixer, snow blower and lawn mower, machinery, motor vehicles
- material for fishing

Enter on line 9925 the total business part of the cost of the equipment.

Area C – Details of building additions in the year

List the details of all buildings you acquired or improved in 2017. Group the buildings into the applicable classes and put each class on a separate line.

Enter on line 9927 the total business part of the cost of the buildings. 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.

Land

Generally, land is not a depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a property that includes both land and a building, enter in column 3 of Area C 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:

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

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.

Area F – Details of land additions and dispositions in the year

Enter on line 9923 the total cost of acquiring land in 2017. The cost includes the purchase price of the land plus any related expenses you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees.

You cannot claim CCA on land. Do **not** enter this amount in column 3 of Area A.

Area G – Details of quota additions and dispositions in the year for farmers

Enter on line 9929 the total cost of acquiring quotas in 2017.

Column 4 – Proceeds of dispositions in the year

Enter the details of your 2017 dispositions on your form, as explained below.

If you disposed of a depreciable property during your 2017 fiscal period, calculate the appropriate disposition amount in Area D or Area E. Enter in column 3 of Area D or Area E one of the following amounts, whichever is less:

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

Note

If a chart asks for the personal part of a property, this refers to the part 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%.

Enter in column 4 of Area A for each class, the amount from column 5 of Area D and Area E for the class.

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you paid to **replace** the property in column 4 of Area A, as well as in Area B or C, whichever applies.

Include the amount of insurance proceeds considered as **proceeds of disposition** in column 4 of Area A, as well as in Area D or E, whichever applies. This could include compensation you receive for property that someone destroys, expropriates, steals, or damages.

Note for farmers

For more information, see “Line 9604 – Insurance proceeds” on page 23.

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 “Replacement property” on page 61, Interpretation Bulletin IT-259R4, *Exchange of Property*, and Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release.

Special rules may apply if you dispose of a building for less than both its UCC and your capital cost. If this is the case, see “Special rules for disposing of a building in the year” on page 60. If you dispose of a depreciable property for more than its cost, you will have a capital gain. For more information on capital gains, see Chapter 7. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. For an explanation of terminal losses, see “Column 5 – Undepreciated capital cost (UCC) after additions and dispositions” below.

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

Area D – Details of equipment dispositions in the year

List the details of all equipment (including motor vehicles) you disposed of in your 2017 fiscal period. Group the equipment into the applicable classes and put each class on a separate line. Enter on line 9926 the total business part of the proceeds of disposition of the equipment.

Area E – Details of building dispositions in the year

List the details of all buildings you disposed of in your 2017 fiscal period. Group the buildings into the applicable classes and put each class on a separate line. Enter on line 9928 the total business part of the proceeds of disposition of the buildings.

Area F – Details of land additions and dispositions in the year

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

Area G – Details of quota additions and dispositions in the year for farmers

Enter on line 9930 the total of all amounts you received or will receive for disposing of quotas in the fiscal period.

Column 5 – Undepreciated capital cost (UCC) after additions and dispositions

The undepreciated capital cost (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.

You cannot claim CCA when the amount in column 5 is:

- negative (see “Recapture of CCA” on this page)
- positive and you do not have any property left in that class at the end of your 2017 fiscal period (see “Terminal loss” on this page)

In either case, enter “0” in column 10.

Recapture of CCA

If the amount in column 5 is negative, you have a recapture of CCA. Enter your recapture on:

- line 8230 for business or professional income
- line 9600 for farming income
- line 9600 for fishing income

A recapture of CCA can happen if the proceeds from the sale of depreciable property are more than the total of the following amounts:

- the UCC of the class at the start of the period
- 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 postpone a recapture of CCA. For example, you may sell a property and replace it with a similar one, someone may expropriate your property, or you may transfer property to a corporation, a partnership, or your child.

Terminal loss

If the amount in column 5 is positive and you no longer own any property in that class, you may have a terminal loss. More precisely, you may have a terminal loss when, at the end of a fiscal period, you have no more property in the class but still have an amount you have not deducted as CCA. You can usually subtract this terminal loss from your gross income in the year you disposed of the depreciable property. Enter your terminal loss on:

- line 9270 for business or professional expenses
- line 9790 for farming expenses
- line 9270 for fishing expenses

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 CCA.”

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 in your 2017 fiscal period for \$30,000, you would base your CCA claim on \$15,000 ($\$30,000 \times 50\%$).

If you acquired and disposed of depreciable property of the same class in your 2017 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 50% of the result in column 6. If the result is negative, enter “0.”

In some cases, you do not make an adjustment in column 6. For example, in a **non-arm’s length** transaction (see “Definitions” on page 5) you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2017 fiscal period to the day the property was acquired. However, if you transfer personal property, such as a car or a personal computer, into your business, the half-year rule applies to the particular property transferred.

Also, some properties are not subject to the half-year rule. Some examples are those in Classes 13, 14, 23, 24, 27, 34, and 52, 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 discussed on page 49, denies a CCA claim until the second tax year after you acquire the property.

For more information on the special rules that apply to Class 13, see Interpretation Bulletin IT-464R, *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 CCA

To calculate your base amount for CCA, take the amount you entered in Column 5 and subtract the amount you entered in Column 6.

For a Class 10.1 vehicle you disposed of in your 2017 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 2017 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 2016 fiscal period, you owned the Class 10.1 vehicle you disposed of in 2017. If this applies to you, enter 50% of the amount from column 2 in column 7.

Column 8 – Rate (%)

In this column, enter the rate for each class of property in Area A. For more information on certain kinds of property, see “Classes of depreciable property” on this

page. For a list of rates, see “Capital cost allowance (CCA) rates” on page 72.

Column 9 – CCA for the year

In column 9, enter the CCA you want to deduct for 2017. 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.

In your first year of business, you may have to prorate your CCA claim. See “You were asking?” on page 50.

Add up all of the amounts in column 9. Enter the total on line 9936, “Capital cost allowance (CCA).” To find out how to calculate your CCA claim if you are using the property for both business and personal use, see “Personal use of property” on page 57.

Column 10 – UCC at the end of the year

This is the UCC at the end of your 2017 fiscal period. This is the amount you will enter in column 2 when you calculate your CCA claim next year.

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.

The example at the end of this chapter sums up CCA.

Classes of depreciable property

In this part, we discuss the more common classes of depreciable property. We list most of the classes and their rates in the “Capital cost allowance (CCA) rates” chart on page 72.

Class 1 (4%)

A **building** may belong to Class 1, 3, or 6, depending on what the building 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
- escalators

Note

Land is not depreciable property. Therefore, when you acquire property, only include the cost related to the building in Area A and Area C. Enter on line 9923 in Area F the cost of all land additions in 2017. For more information, see “Area F – Details of land additions and dispositions in the year” on page 51 and “Column 3 – Cost of additions in the year” on page 50.

For more information, see Interpretation Bulletin IT-79R3, *Capital Cost Allowance – Buildings or Other Structures*.

Class 1 includes most buildings acquired after 1987, unless they specifically belong in 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, attach a letter to your return for the tax year in which you acquired the building. If you do not file an 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 a new building, if any part of it 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 into 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
- 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
- 25% of the building's capital cost (including the cost of additions or alterations to the building included in Class 3, Class 6, or Class 20 before 1988)

Any amount that exceeds the lesser amount above is included in Class 1.

Class 6 (10%)

Include a building in Class 6 with a CCA rate of 10% if it is 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
- 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 above conditions apply, include the building in Class 6 if **one** of the following conditions 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
- you started 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
 - 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 cost of the building, whichever is less
- add to Class 1 any additions or alterations over these limits

For more information, see Interpretation Bulletin IT-79R3, *Capital Cost Allowance – Buildings or Other Structures*.

Class 8 (20%)

Class 8 with a CCA rate of 20% includes certain property that is not included in another class. Examples are furniture, appliances, and tools costing \$500 or more per tool, 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 electronic 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 is 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, attach a letter to your income tax return for the tax year in which you acquired the property.

Include data network infrastructure equipment and systems software for that equipment acquired before March 23, 2004 in Class 8. If acquired after March 22, 2004, include it in Class 46. See “Class 46 (30%)” on page 56.

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

Class 10 (30%)

Class 10 with a CCA rate of 30% includes 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 either:

- before March 23, 2004
- after March 22, 2004, and before 2005, and you made an election

Class 10 also includes motor vehicles, as well as some passenger vehicles. We define **motor vehicle** and **passenger vehicle** on page 5.

Include passenger vehicles in Class 10 unless they meet the Class 10.1 conditions.

Class 10.1 (30%)

Your **passenger vehicle** (see “Definitions” on page 5) can belong in either Class 10 or Class 10.1.

To determine the class your passenger vehicle belongs in, 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 2017 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 appropriate HST rate. For more information on the GST and the HST, see Guide RC4022, *General Information for GST/HST Registrants*.

Example

Vivienne owns a business. On June 21, 2017, she bought two passenger vehicles to use in her business. The PST rate for her province is 8%. Vivienne kept the following records for 2017:

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

Vivienne puts vehicle 1 in Class 10.1, since she bought it in 2017 and it cost her more than \$30,000. Before Vivienne enters an amount in column 3 of Area B, she has to calculate the GST and PST on \$30,000. She does this as follows:

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

Therefore, Vivienne’s capital cost is \$33,900 (\$30,000 + \$1,500 + \$2,400). She enters this amount in column 3 of Area B.

Vivienne puts vehicle 2 into Class 10, since she bought it in 2017 and it did not cost her more than \$30,000. Vivienne’s capital cost is \$31,640 (\$28,000 + \$1,400 + \$2,240). She enters this amount in column 3 of Area B.

Class 12 (100%)

Class 12 includes property such as tools, medical or dental instruments, and kitchen utensils that cost less than \$500 and were acquired on or after May 2, 2006.

Class 12 includes china, cutlery, linen, and uniforms. It also includes video cassettes, video laser discs, and digital video disks that you rent and do not expect to rent to any one person for more than seven days in a 30-day period.

Most small tools in Class 12 are not subject to the half-year rule. They are fully deductible in the year of purchase. If the tool costs \$500 or more, include it in Class 8 with a CCA rate of 20%.

Class 12 tools that **are** subject to the half-year rule include dies, jigs, patterns, moulds or lasts, and the cutting or shaping part of a machine. For more information, see Income Tax Folio S3-F4-C1, *General Discussion of Capital Cost Allowance*.

Include in Class 12 with a CCA rate of 100% computer software that is not systems software. Software in Class 12 **is** subject to the half-year rule.

Class 12 specifically excludes electronic communication devices and electronic data processing equipment.

Class 14


Class 14 includes 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
- the undepreciated capital cost to the taxpayer as of the end of the tax year of property of that class

Class 14.1 (5%)

Starting January 1, 2017, include in 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
 - 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

 Examples for farming are milk and egg quotas.

  Examples for business, professional, and fishing are franchises, concessions, or licences for an unlimited period.

For tax years that end prior to 2027, properties included in Class 14.1 that were acquired before January 1, 2017 will be depreciable at a CCA rate of 7% instead of 5%. 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 16 (40%)

Class 16 includes 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.

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%)” on page 54.

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 45 (45%)

Include general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment, in Class 45 with a CCA rate of 45% if you acquired them after March 22, 2004, and before March 19, 2007.

Note

If you acquired the equipment or software before 2005 and made the separate Class 8 election, as discussed in the Class 8 note, the property does not qualify for the 45% rate.

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. See “Class 8 (20%)” on page 54.

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 29 or 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)

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

Class 52 (100%)

Include in Class 52 with a CCA rate of 100% (with no half-year rule) general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment if they were acquired after January 27, 2009, and before February 2011.

Do not include property that is mainly or is used mainly as:

- electronic process control or monitor equipment
- electronic communications control equipment
- systems software for equipment referred to in a) or b) or
- data handling equipment (other than equipment that is ancillary to general-purpose electronic data processing equipment).

To qualify for this rate, the asset must also meet the following conditions:

- be located in Canada
- have not been used, or acquired for use, for any purpose before it is acquired by the taxpayer and
- be acquired by the taxpayer either:
 - for use in a business carried on by the taxpayer in Canada or to earn income from property located in Canada
 - for lease by the taxpayer to a lessee for the lessee to use in a business the lessee carried on in Canada or to earn income from property located in Canada

Class 53 (50%)

Include in Class 53 with a CCA rate of 50% eligible machinery and equipment that is acquired after 2016 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 rates for certain fishing boats

In most cases, a fishing boat belongs to Class 7. Therefore, you can claim CCA at a maximum rate of 15%. However, there are some exceptions to this rule.

A fishing boat, or the cost to convert it, is eligible for a special rate of CCA as follows:

- If you bought the boat between November 13, 1981, and December 31, 1982, you can claim CCA at a yearly rate of 33 1/3%. You can do this only in certain cases.
- If you bought the boat after December 31, 1982, you can claim CCA at a rate of 16 2/3% for the year you bought the boat. You can claim 33 1/3% for the years after you bought the boat.

You can claim this special rate on the following:

- a boat that was built and registered in Canada and was not used for any purpose before you bought it
- the cost to convert or alter a boat in Canada
- a boat, or the cost to convert it, established as a separate prescribed class under the now repealed *Canadian Vessel Construction Assistance Act*

Special situations

Personal use of property

If you buy property for business and personal use, you can show the business part of the property in Area B or C in one of two ways:

- If your business use stays the same from year to year, enter the total cost of the property in column 3, the personal part in column 4, and the business part in column 5. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A.
- If your business use changes from year to year, enter the total cost of the property in column 3 and column 5, and enter “0” in column 4.

Enter in column 3 of Area A the amount from column 5 of Area B or Area C and calculate the CCA amount (business and personal) in column 9. The amount in column 10 (UCC at the end of the year) of Area A is equal to the amount in column 5 minus the amount in column 9.

The CCA calculated for the business use of a work space in your home in Area A of your form must be reported on the chart “Calculating business-use-of-home expenses” of the form. This CCA must be subtracted from the total amount of the CCA for the year calculated in Area A and must not be included on line 9936, “Capital cost allowance” of the form.

When you claim CCA, you will have to calculate the allowable part you can claim for business use.

Example

Jennifer owns a business. She bought a car in 2017 that she uses for both personal and business use. The car cost \$20,000, including all charges and taxes. Therefore, she includes the car in Class 10. Her business use this year was 12,000 kilometres of the total 18,000 kilometres driven. She calculates her CCA on the car for 2017 as follows:

She enters \$20,000 in column 3 and column 5 of Area B. She also enters \$20,000 in column 3 of Area A. By completing the other columns in the chart, she calculates a CCA claim of \$3,000. Because Jennifer used her car partly for personal use, she calculates her CCA claim as follows:

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

Jennifer enters \$2,000 on 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 amount i, “Total CCA Claim for the year.” Enter the result in Part 5 at line 9936. In Part 8, enter at amount 11 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. For more information, see “Class 10.1 (30%)” on page 55.

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 2017 fiscal period, there is a change in use. You need to determine the capital cost for business purposes.

If the fair market value (FMV) of a depreciable property is less than its original cost when you change its use, the amount you enter in column 3 of Area B or C, is the FMV of the property (excluding the land value if the property is land and a building). If the FMV 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 following chart to determine the amount to enter in column 3 of Area B or Area C.

Enter the FMV of the property in column 3 of Area B or C, whichever applies, if, at the time of change in use, the FMV of the depreciable property is less than its original cost.

When you start using your property for business use, you are considered to have disposed of it. If the FMV of the property is more than its cost, you may have a capital gain unless you file an election. For more information on capital gains, see Chapter 7 or see Guide T4037, *Capital Gains*. Use the following chart to determine the amount to enter in column 3 when the FMV is more than its original cost.

Capital cost calculation	
Actual cost of the property	\$ _____ 1
FMV of the property	\$ _____ 2
Amount on line 1	\$ _____ 3
Line 2 minus line 3 (if negative, enter “0”)	\$ _____ 4
Enter all capital gains deductions claimed for the amount on line 4*	\$ _____ 5
\$ _____ × 2 =	\$ _____ 5
Line 4 minus line 5 (if negative, enter “0”)	\$ _____ 6
\$ _____ × 1/2 =	\$ _____ 6
Capital cost (line 1 plus line 6)	<u>\$ _____ 7</u>
* Enter the amount that relates only to the depreciable property.	
Enter the capital cost of the property from line 7 in column 3 of Area B or C.	

Note

We consider you to acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923, “Total cost of all land additions in the year” in Area F.

Grants, subsidies, and rebates

You should subtract from the applicable expense any rebate, grant, or assistance you received. Enter the net expense on the appropriate line of your form.

When you get a grant, subsidy, or rebate from a government or a government agency to buy depreciable property, subtract the amount of the grant, subsidy, or rebate from the property’s capital cost. Do this before you enter the capital cost in column 3 of Area B or C.

You may have paid GST or HST on some of the depreciable property you acquired for your business. If so, you may have also received an input tax credit from us. Subtract the input tax credit from the property’s capital cost. Do this before you enter the capital cost in column 3 of Area B or C, whichever applies. If you get an input tax credit for a passenger vehicle you use in your business, use **one** of these methods:

- For a passenger vehicle you used **90% or more** of the time for your business, subtract the amount of the credit from the vehicle’s cost before you enter its capital cost in column 3 of Area B.
- For a passenger vehicle you used **less than 90%** of the time for your business, do not make an adjustment in 2017. Instead, subtract the amount of the credit from your beginning UCC in 2018.

You may get an incentive from a non-government agency to buy depreciable property. For example, you may receive a tax credit that you can use to reduce your income tax payable.

You can include the amount in income or you can subtract the amount from the capital cost of the property. If the incentive is more than the remaining UCC in the particular class, add the excess to income:

- on line 8230 of Form T2125 for business and professional
- on line 9570 of Form T2042 for farming
- on line “Grants, credits, and rebates” of Form T2121 for fishing

For more information about government assistance, see Interpretation Bulletin IT-273R2, *Government Assistance – General Comments*.

Non-arm’s length transactions

When you acquire depreciable property in a **non-arm’s length** transaction (see “Definitions” on page 5), there are special rules for determining the property’s 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
- a partnership with at least one partner who is another partnership

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

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 column 3 of either Area B or C, whichever applies. Do not include the cost of the related land. Include the cost of the related land on line 9923, “Total cost of all land additions in the year” in Area F of your form.	

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

- a corporation
- an individual who is not a resident of Canada

- a partnership with no partners who are individuals resident in Canada or with no partners that are other partnerships

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

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 Area B or C, whichever applies. Do not include the cost of the related land. Include the cost of the related land on line 9923, “Total cost of all land additions in the year” in Area F of your form.	

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. Enter the amount you paid in column 3 of Area A. Enter the same amount in Area B or C, whichever applies.

Example

Rachel bought a pickup truck for \$4,000 from her father, Marcus, in her 2017 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 Area B, she enters \$10,000 in column 3, “Total cost.”
- In Area A, she enters \$4,000 in column 3, “Cost of additions in the year,” as the addition for her 2017 fiscal period.

There is a limit on the cost of a passenger vehicle you buy in a non-arm’s length transaction. The cost is the **lesser of**:

- the FMV when you buy it
- \$30,000 **plus** any GST/HST or PST you would pay on \$30,000 if you bought it in your 2017 fiscal period
- the seller’s cost amount of the vehicle when you buy it

The 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 would 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.

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

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 2017*. For information on how to calculate your taxable capital gain, see Chapter 7 or Guide T4037, *Capital Gains*.

You may be in a partnership and receive 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. However, you can have a terminal loss; see "Column 5 – Undepreciated capital cost (UCC) after additions and dispositions" on page 52.

Special rules for disposing of a building in the year

If you disposed of a building in the year, special rules may apply, making 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
- you, or a person with whom you do not deal at arm's length (see "Definitions" on page 5), 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:

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

Note

You may have property in the class of the building acquired at non-arm's length that was previously used for a purpose other than gaining or producing income, or the part of the property used to gain or produce income may have changed. If this is the case, the capital cost of the property has to be recalculated to determine the cost amount of the property.

For more information on 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 on this page.

If you or a person with whom you do not deal at arm's length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B on page 61.

Calculation A	
Land and building disposed of in the same year	
FMV of the building at the time you disposed of it	\$ _____ 1
FMV 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 or a person not dealing at arm's length with you disposed of the building either to you or 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 of the building	
Line 8 or line 12, whichever amount is less (enter this amount in column 3 of Area E, and include it in column 4 of Area A)	\$ _____ 13
Deemed proceeds of disposition of the land	
Proceeds of disposition of the land and building	\$ _____ 14
Amount from line 13	\$ _____ 15
Line 14 minus line 15 (include this amount on line 9924 of Area F)	\$ _____ 16
If you have a terminal loss on the building, include it on line 9270 of Form T2125 for business and professional, line 9790 of Form T2042 for farming, or line 9270 of Form T2121 for fishing.	

Calculation B	
Land and building disposed of in different years	
Cost amount of the building just before you disposed of it	\$ _____ 1
FMV 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 column 3 of Area E and include it in column 4 of Area A)	\$ _____ 8
If you have a terminal loss on the building, include it on line 9270 of Form T2125 for business and professional, line 9790 of Form T2042 for farming, or line 9270 of Form T2121 for fishing.	

Ordinarily, you can deduct 100% of a terminal loss, but only 50% of a capital loss. Calculation B makes sure 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. For information, see “Terminal loss” on page 52.

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.

For more information, see Interpretation Bulletin IT-259R4, *Exchange of Property*, and Interpretation Bulletin 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, a partnership, or your child. For more information on transferring property to your child, see page 69.

For more information on transfers to a corporation or a partnership, see:

- 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*
- Interpretation Bulletin IT-413R, *Election by Members of a Partnership Under Subsection 97(2)*

The following example summarizes this chapter on CCA.

Example

In 2017, D’Arcy bought a building to use for his business. The total cost was \$95,000 (the sum of the \$90,000 total purchase price and the \$5,000 total expenses connected with the purchase) as follows:

Building value	\$ 75,000
Land value.....	\$ 15,000
Total purchase price	\$ 90,000

Expenses connected with the purchase:

Legal fees	\$ 3,000
Land transfer taxes	\$ 2,000
Total fees.....	\$ 5,000

D’Arcy’s business has a December 31 year-end. In 2017, D’Arcy’s income was \$6,000 and his expenses were \$4,900. Therefore, his net income before deducting CCA was \$1,100 (\$6,000 – \$4,900).

Before D’Arcy can fill in his CCA schedule, he has to calculate the capital cost of the building. Since land is not depreciable property, he has to calculate the part of the expenses connected with the purchase that relates only to the building. To do this, he has to use the following formula, explained under the heading “Land” on page 51.

$$\frac{\$75,000}{\$90,000} \times \$5,000 = \$4,166.67$$

This \$4,166.67 represents the part of the \$5,000 in legal fees and land transfer taxes that relates to the purchase of the building. The remaining \$833.33 relates to the purchase of the land. Therefore, the capital cost of the building is:

Building value	\$ 75,000.00
Related expenses	\$ 4,166.67
Capital cost of the building	\$ 79,166.67

D’Arcy enters \$79,166.67 in column 3 of Area C and \$15,833.33 (\$15,000 + \$833.33) on line 9923 of Area F as the capital cost of the land.

Note

D’Arcy did not own property before 2017. Therefore, he has no UCC to enter in column 2 of Area A.

D’Arcy acquired his property in 2017. Therefore, he is subject to the half-year rule that we explain under the heading “Column 6 – Adjustment for current-year additions” on page 52.

Chapter 5 – Eligible capital expenditures

As of January 1, 2017, the eligible capital property (ECP) system was replaced with the 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.

Property that was ECP will be depreciable property and expenditures and receipts that were accounted for under the ECP rules will be accounted for under the rules for depreciable property and capital property included in class 14.1.

What is an eligible capital expenditure?

You may buy property that does not physically exist but gives you a lasting economic benefit.

This kind of property is **eligible capital property**. The price you pay to buy this type of property is an **eligible capital expenditure**.

We consider franchises, concessions, or licences with a limited period to be depreciable properties, not eligible capital properties. For details on 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. However, 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 (CEC) account?

This is the bookkeeping record you establish 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.

Transitional rules – Undepreciated capital cost balance

Generally, the undepreciated capital cost (UCC) of the new class in respect of a business at the beginning of January 1, 2017 is equal to the amount that would have been the cumulative eligible capital (CEC) balance in respect of the business at the beginning of January 1, 2017.

Generally, the total capital cost of all property in Class 14.1 at the beginning of that day is deemed to be 4/3 of the total

of the amount that would have been the CEC balance at the beginning of that day and past depreciation claimed that has not been recaptured before that day.

There are also rules for allocating total capital cost between goodwill property and each identifiable property in the new class that was an eligible capital property.

An amount is deemed to have been allowed as capital cost allowance before January 1, 2017, such that the UCC balance at the beginning of January 1, 2017 is equal to the amount that would have been the CEC balance at the beginning of January 1, 2017.

The determination of the total capital cost and the allocation of the capital cost of each property that was an eligible capital property before January 1, 2017 is relevant to the calculation of recaptured capital cost allowance and capital gain in respect of the disposition of such a property on or after January 1, 2017. It is not necessary to determine the total capital cost, or to allocate a capital cost to each property, to determine the amount that may be deducted.

Transitional rules – Deemed gain immediately before January 1, 2017

You may be able to include an amount in your income in a tax year that straddles January 1, 2017. The amount of the income inclusion, if any, is relevant to the calculation of the final CEC balance for the purpose of determining the total capital cost of the class. An income inclusion may be required if you receive proceeds in that tax year and prior to January 1, 2017, such that there would have been an income inclusion if the tax year had instead ended immediately before January 1, 2017. You may choose to have the income inclusion reported as business income or as a taxable capital gain.

An election to defer this income inclusion is available in a manner that is similar to the manner in which income inclusions could be deferred under the ECP rules. Where, on or after January 1, 2017 and in that tax year you acquired a property of the new class or you are deemed to have acquired goodwill, you may elect to reduce the income inclusion by up to half of the capital cost of the new property. In this case, the capital cost of the new property is then reduced by twice the amount by which the income inclusion is reduced.

Transitional rules – Dispositions of former ECP

Receipts related to expenditures incurred before January 1, 2017 cannot result in excess recapture when applied to reduce the balance of the new CCA class. Certain qualifying receipts reduce the UCC of the new CCA class at a 75% rate (the rate at which eligible capital expenditures were added to CEC). Receipts that qualify for the 75% rate are generally receipts from the disposition of a property that was an ECP and receipts that do not represent the proceeds of disposition of property. This is achieved by increasing the UCC of the new class by, generally, 25% of the lesser of the proceeds of disposition and the cost of the property disposed of.

Transitional rules – Non-arm’s length dispositions of former ECP

Although changes to the rules increases the UCC balance of the new class for, generally, 25% of the proceeds of disposition of property that was ECP before January 1, 2017, the new rules also prevent the use of non-arm’s length transfers to increase the amount that can be depreciated in respect of the new class. Generally, when you acquire a property of the new class, only 3/4 of the capital cost of the property is included in the UCC in respect of the class if the following conditions apply:

- the property or a similar property was previously an eligible capital property of yourself or a person or partnership not dealing at arm’s length with the taxpayer
- the UCC was increased in respect of an earlier disposition of the property or similar property by yourself or the non-arm’s length person or partnership

This effect is achieved by deeming you to have claimed CCA in respect of the new class equal to the lesser of 1/4 of the cost of the property acquired and the amount that was deemed to have been added to the UCC of the new class of yourself or another person or partnership.

For more information about the old ECP rules, see the 2016 version of this guide.

For more information on changes to the ECP system, go to budget.gc.ca/2016/docs/tm-mf/notes-en.html.

Chapter 6 – Losses

 For farm losses, see below.

 For fishing losses, see page 65.

Farm losses

When your farming business expenses are more than the farming business income in a year, you have a net loss. However, before you can calculate your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments explained in “Line 9941 – Optional inventory adjustment included in 2017” on page 44 and “Line 9942 – Mandatory inventory adjustment included in 2017” on page 44.

If you show a net farm loss for the year, read this chapter for information on how to treat your loss. For more information on farm losses, see Income Tax Folio S4-F11-C1, *Meaning of Farming and Farming Business*.

The amount of the net farm loss you can deduct depends on the nature and extent of your business. Your farm loss may be one of the following:

- fully deductible
- restricted (partly deductible)
- non-deductible

Non-deductible farm losses

If you did not run your farm as a business, you cannot deduct any part of your net farm loss.

The size and scope of your farm may make it impossible for the farm to make a profit, either now or in the near future. In this case, you cannot deduct your farm loss. We consider this kind of farm to be personal. Therefore, any farm expenses are personal expenses.

Fully deductible farm losses

If you made your living from farming, we consider farming to be your main source of income. As long as farming was your main source of income, you can deduct the full amount of your net farm loss from other income. Farming can still be your main source of income even if your farm did not show a profit. Other income could come from investments, part-time employment, and so on.

To determine if farming was your main source of income, you need to consider such factors as:

- gross income
- net income
- capital invested
- cash flow
- personal involvement
- your farm’s ability to make a profit (both actual and potential)
- plans to maintain or develop your farm and how you carried them out

Although you may have been a partner in a farming business, you still have to determine if farming was your own main source of income.

When farming is your main source of income and you show a net farm loss in 2017, you may have to reduce the loss when you have other income in 2017. Any loss that is left is your farm loss for 2017.

Example

Rick’s farming business, which is his main source of income, has a December 31 fiscal year-end. His farm loss before adjustments is \$50,000. He wants to reduce his loss by the optional inventory adjustment (OIA). Rick kept the following records for 2017:

Net farm loss before adjustments.....	\$50,000
Optional inventory adjustment	\$15,000
Other income	\$ 2,000
To reduce the loss amount, Rick adds back his OIA. He determines his farm loss for 2017 as follows:	
Farm loss before adjustments	(\$50,000)
Add optional inventory adjustment	\$15,000
Farm loss after adjustments	(\$35,000)
Add other income	\$ 2,000
Farm loss for 2017	(\$33,000)

Applying your 2017 farm loss

You may have a farming loss in 2017. If you do, you can carry it back for up to 3 years or carry it forward for up to 20 years for all non-capital losses incurred after 2005. In both cases, you can deduct it from all your sources of income in those years.

If you choose to carry back your 2017 farm loss to your 2014, 2015, or 2016 income tax returns, fill in Form T1A, *Request for Loss Carryback*. Attach the completed form to your 2017 income tax and benefit return (T1 General) or to your request for an adjustment and send it to your tax centre. You can also send the form on its own. Do not file an amended return for the year to which you apply the loss.

Applying your farm losses from years before 2017

You may be able to apply farm losses you had in any year from 2007 to 2016 on your 2017 income tax return. You can apply these losses if you did not already deduct them, and you have net income in 2017. To apply these losses to 2017, you have to apply the loss from the earliest year first. Enter the amount you wish to deduct on line 252 on your income tax return.

Restricted farm losses (partly deductible)

You may have run your farm as a business. For your farm to be considered a business, you must have carried on activities with the intention of making a profit and there must be evidence to support that intention.

However, if farming was neither your main source of income (for example, you did not rely on farming alone to make your living) nor was it your main source of income in addition to some other subordinate source of income (for example, where the other source of income was a side-line employment or business) you may only be able to deduct a part of your net farm loss.

Each year you have a farm loss, review your situation carefully to see if farming was either your main source of income or it was your main source of income in addition to some other subordinate source of income. It is important to do this, since a farming loss may be restricted in one year, but not in another year.

How to calculate your restricted farm loss

If farming was neither your main source of income nor your main source of income in addition to some other subordinate source of income and you had a net farm loss, the loss you can deduct depends on the amount of your net farm loss.

For tax years that end after March 20, 2013, the annual maximum deduction used in the calculation for restricted farm losses is \$17,500.

When your net farm loss is \$32,500 or more, you can deduct \$17,500 from your other income. The rest of your net farm loss is your restricted farm loss.

When your net farm loss is less than \$32,500, the amount you can deduct from your other income is the **lesser of**:

- A) your net farm loss for the year; and
- B) \$2,500 **plus** 50% × (your net farm loss **minus** \$2,500).

The amount remaining is your restricted farm loss.

Note

When the farm loss you deduct is different from your actual farm loss because of the restricted farm loss calculation, you should indicate this on your income tax return on line 168, "Farming Income." For example, you can do this by noting "restricted farm loss," "RFL," or "Section 31" to the left of line 168.

Example

Sharon ran a cattle farm with the intention of making a profit. However, farming was neither her main source of income, nor her main source of income in addition to some other subordinate source of income in 2017. In 2017, she had employment income and a net farm loss of \$9,200, which she calculated on line 9946 of Form T2042.

The part of Sharon's net farm loss that she can deduct from her other income in 2017 is either amount A or B, whichever is **less**:

- A) \$9,200
- B) \$2,500 **plus** 50% × (\$9,200 – \$2,500)
\$2,500 **plus** 50% × \$6,700

Therefore, B = (\$2,500 + \$3,350) = \$5,850.

Because Sharon can only deduct either A or B, whichever amount is **less**, she enters \$5,850 on line 141 of her income tax return and deducts this amount from her other income in 2017. Her restricted farm loss is the amount that remains, which is \$3,350 (\$9,200 **minus** \$5,850). Sharon prints "Section 31" to the left of line 168 on her income tax return to show that the loss she is deducting is the result of a restricted farm loss calculation.

Applying your 2017 restricted farm loss

You can carry back your 2017 restricted farm loss up to 3 years. You can also carry it forward up to 20 years.

The amount you deduct in any year cannot be more than your net farming income for that year. If you have no net farming income in any of those years, you cannot deduct any restricted farm loss.

To carry back your 2017 restricted farm loss to your 2014, 2015, or 2016 income tax returns, use Form T1A, *Request for Loss Carryback*. Attach the completed form to your 2017 income tax and benefit return (T1 General) or to your request for an adjustment and send it to your tax centre. You can also send the form on its own. Do not file an amended return for the year to which you would like the loss applied.

Applying your restricted farm losses from years before 2017

You may have net farming income in 2017. If so, you may be able to apply to your 2017 income tax return restricted farm losses you had in any year from 2007 to 2016. You can apply these losses as long as you did not already deduct them from your farming income. Also, you can only apply them up to the amount of your net farming income in 2017. You have to apply the loss from the earliest year before you

apply the losses from other years. Claim this amount on line 252 of your income tax return.

You may have sold farmland at a time when you had restricted farm losses you did not claim. When this happens, you may be able to reduce the amount of your capital gain from the sale. In this case, see “Restricted farm losses (partly deductible)” on page 64.

Fishing losses

When your fishing business expenses are more than the fishing business income in a year, you have a net loss. If your net loss from fishing is higher than your other income in the current year, you will be able to carry back or carry forward the balance to reduce your taxes in other years. For example, in 2017 your fishing income was \$18,000 and your total fishing expenses were \$25,000. Therefore, your net loss from fishing was \$7,000 [$\$18,000 - \$25,000 = (\$7,000)$]. Also, you had employment income of \$2,000. To check if you are able to carry back or carry forward part of this loss, you subtract your other income from your net loss from fishing ($\$7,000 - \$2,000 = \$5,000$). In this example, you would be able to carry back or carry forward a loss of \$5,000.

You may have net fishing income in 2017 instead of a fishing loss. If so, you may be able to apply to your 2017 income tax return fishing losses you had from 2007 to 2016. You can apply these losses as long as you did not already deduct them. You have to apply the loss from the earliest year first before you apply the losses from later years. Enter the amount on line 252 of your income tax return.

You may have a fishing loss in 2017. If you do, you can carry back this loss for 3 years or carry it forward for up to 20 years. To carry back a 2017 loss, fill in Form T1A, *Request for Loss Carryback*. Attach the completed form to your 2017 income tax and benefit return (T1 General) or to your request for an adjustment and send it to your tax centre. You can also send the form on its own. Do not file an amended return for the year to which you want to apply the loss.

Non-capital losses

You may have incurred a loss in 2017 from a business other than farming or fishing. If this loss is more than your other income for the year, you may have a non-capital loss. Use Form T1A, *Request for Loss Carryback* to calculate your 2017 non-capital loss.

You can carry back your non-capital loss up to 3 years. You can carry forward non-capital losses incurred before March 23, 2004, up to 7 years. Non-capital losses incurred after March 22, 2004, and before 2006 can be carried forward 10 years. Non-capital losses incurred after 2005 can be carried forward up to 20 years.

If you choose to carry back your 2017 non-capital loss to your 2014, 2015, or 2016 income tax returns, fill in Form T1A. Attach the completed form to your 2017 income tax and benefit return (T1 General) or to your request for an adjustment and send it to your tax centre. You can also

send the form on its own. Do not file an amended return for the year to which you apply the loss.

For more information about non-capital losses, see Interpretation Bulletin IT-232R3, *Losses – Their Deductibility in the Loss Year or in Other Years*. You can view carryover amounts using My Account at canada.ca/my-cra-account or Represent a Client at canada.ca/taxes-representatives.

Chapter 7 – Capital gains

This chapter explains the capital gains rules for people who farm or fish. General capital gains rules are covered in Guide T4037, *Capital Gains*.

Throughout this chapter, we use the terms **sell**, **sold**, **buy**, or **bought**. These words describe most capital transactions. However, the information in this chapter also applies to deemed dispositions or acquisitions. When reading this chapter, you can use the terms **sold** instead of **disposed of**, and **bought** instead of **acquired**, if they more clearly describe your situation.

Did you sell in 2017 capital property you owned before 1972?

If you did, you have to apply a special set of rules when you calculate your capital gain or loss because you did not have to pay tax on capital gains before 1972. To help you calculate your gain or loss from the sale of property you owned before 1972, use Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972*.

Capital gains for farmers

Disposing of farmland that includes your principal residence

Your home is usually your principal residence. If your home was your principal residence for every year you owned it, you generally do not pay tax on any capital gains when you dispose of it. Therefore, if you sold farmland that included your home in 2017, only part of the gain is taxable.

The sale must be reported, along with any principal residence designation, on Schedule 3, *Capital Gains (or Losses) in 2017*, under “Qualified farm or fishing property” or “Real estate, depreciable properties, and other property.” Under proposed changes, the CRA will be able to accept a late designation in certain circumstances, but a penalty may apply. For more information, see Guide T4037, *Capital Gains*.

You can choose one of two methods to determine your taxable capital gain. Try both methods to see which one is best for you.

We usually consider approximately one acre of land on which your residence is located to be part of your principal residence. We will allow you more if you can prove you needed more land to use and enjoy your principal residence.

Method 1

Separately calculate the capital gain on your principal residence and each of your farm properties. To do this, apportion the proceeds of disposition, the adjusted cost base (ACB), and any selling expenses between:

- your principal residence
- each of your farm properties

Then, calculate the **taxable** capital gain on your principal residence, if any, and each of the farm properties.

Value the land that is part of your principal residence at one of the following two amounts, whichever is **more**:

- the FMV of the land
- the FMV of a comparable residential building site in the area

Note

If your home was **not** your principal residence for every year you owned it, there could be a capital gain on it you have to include in your income. Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, will help you calculate the number of years you are entitled to designate your home as your principal residence and calculate the part of your gain, if any, that is taxable.

Example

On February 1, 2017, Helena sold her 32-acre farm, which included her principal residence. One acre of land is part of her principal residence. Helena has these details:

Value of land when she purchased her farm

FMV of similar farmland per acre	\$ 3,750
FMV of a typical residential building site in the area	\$ 15,000

Value of land when she sold her farm

FMV of similar farmland per acre	\$ 6,250
FMV of a typical residential building site in the area	\$ 25,000

Adjusted cost base (ACB) – actual purchase price

Land	\$ 120,000
House	60,000
Barn	16,000
Silo	<u>4,000</u>
Total	\$ <u>200,000</u>

Proceeds of disposition – actual sale price

Land	\$ 200,000
House	75,000
Barn	20,000
Silo	<u>5,000</u>
Total	\$ <u>300,000</u>

Proceeds of disposition	Principal residence	Farm properties	Total
Land	\$ 25,000*	\$175,000	\$200,000
House	75,000		75,000
Barn		20,000	20,000
Silo		<u>5,000</u>	<u>5,000</u>
	<u>\$100,000</u>	<u>\$200,000</u>	<u>\$300,000</u>

Minus ACB:

Land	\$ 15,000*	\$105,000	\$120,000
House	60,000		60,000
Barn		16,000	16,000
Silo		<u>4,000</u>	<u>4,000</u>
	<u>\$ 75,000</u>	<u>\$125,000</u>	<u>\$200,000</u>

Gain on sale	\$ 25,000	\$ 75,000	\$100,000
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Minus:

Gain on principal residence**	\$ <u>25,000</u>		\$ <u>25,000</u>
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Capital gain	\$ <u>0</u>	\$ <u>75,000</u>	\$ <u>75,000</u>
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Taxable capital gain	(1/2 × \$75,000)		\$ <u>37,500</u>
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* Helena uses the value of a typical residential building site for the land that is part of her principal residence, because the FMV of a typical site in the area is more than the FMV of one acre of farmland.

** Because Helena's home was her principal residence during all the years she owned it, the capital gain is not taxable.

Method 2

Determine the capital gain on your land and your principal residence. Then subtract \$1,000 from the gain. Subtract an additional \$1,000 for each year after 1971 that the property was your principal residence and you were a resident of Canada. Using Method 2, you can reduce a gain to nil, but you cannot create a loss.

To calculate your capital gain, use the following formula:

Proceeds of disposition	\$ _____	A
Adjusted cost base	\$ _____	B
Line A minus line B	\$ _____	C
Outlays and expenses	\$ _____	D
Capital gain before reduction (Line C minus line D)	\$ _____	E
Method 2 reduction	\$ _____	F
Capital gain after reduction (Line E minus line F)	\$ _____	G

Note

Transfer the entries on lines A, B, D, and G to the relevant columns on Schedule 3, *Capital Gains (or Losses) in 2017*, under "Qualified farm or fishing property" or "Real estate, depreciable properties, and other property."

If you choose this method, attach a letter to your income tax return that includes the following information:

- a statement by you that you sold your farm and are electing under subparagraph 40(2)(c)(ii) of the *Income Tax Act*
- a description of the property you sold
- the number of years after 1971 that the farmhouse was your principal residence during which you were a resident of Canada (if you purchased your farm after 1971, give the date you purchased it)

As proof of the value of your property, regardless of the method you choose, keep documents that have the following information:

- a description of the farm, including the size of the buildings and construction type
- the cost of the property and the date of purchase
- the cost of any additions or improvements you made to the property
- the assessment for property tax purposes
- any insurance coverage
- the type of land (arable, bush, or scrub)
- the type of farm operation

For more information, see Income Tax Folio S1-F3-C2, *Principle Residence*.

Restricted farm losses

You may have a capital gain from farmland you sell in 2017. You may also have restricted farm losses from previous years you have not yet used. In this case, you can deduct part of these losses from the gain. The part you can deduct is the property taxes and the interest on money you borrowed to buy the land, if you included these amounts in the calculation of the restricted farm loss in question.

You cannot use the restricted farm loss to create or increase a capital loss on the sale of your farmland.

How to calculate your capital gain or loss

To calculate your capital gain or loss, use the following:

Proceeds of disposition	\$ _____	1
Adjusted cost base	\$ _____	2
Line 1 minus line 2	\$ _____	3
Outlays and expenses	\$ _____	4
Line 3 minus line 4 = Capital gain (loss)	\$ _____	5

Note

You have to calculate the capital gain or loss on each property separately.

Qualified farm or fishing property and cumulative capital gains deduction

The following is a list of updated definitions effective January 1, 2014:

- the new definition **qualified farm or fishing property** (QFFP) replaced the two previous definitions:
 - qualified farm property (QFP)
 - qualified fishing property (QXP)
- the new definition **interest in family-farm or family-fishing partnership** replaced the two previous definitions:
 - interest in family-farm partnership
 - interest in family-fishing partnership
- the new definition **share of the capital stock of a family-farm or family-fishing corporation** replaced the two previous definitions:
 - share of the capital stock of a family-farm corporation
 - share of the capital stock of a family-fishing corporation

What is qualified farm or fishing property?

Qualified farm or fishing property (QFFP) is certain property you or your spouse or common-law partner own. It is also certain property owned by a family-farm or family-fishing partnership in which you or your spouse or common-law partner holds an interest. We define spouse and common-law partner in the *General Income Tax and Benefit Guide*.

Qualified farm or fishing property includes:

- a real property, such as land and buildings
- a fishing vessel that was used in the course of carrying on a fishing business
- a share of the capital stock of a family-farm or family-fishing corporation you or your spouse or common-law partner own
- an interest in a family-farm or family-fishing partnership you or your spouse or common-law partner own
- a property included in Class 14.1 used in the course of carrying on a farming or fishing business in Canada, such as:
 - milk and egg quotas for farmers
 - fishing permits or licenses with an unlimited period

Cumulative capital gains deduction

If you have a taxable capital gain from the sale of qualified farm or fishing property (QFFP), you may be able to claim a capital gains deduction.

For dispositions in 2017 of QFFP, the lifetime capital gains exemption is \$835,716.

The lifetime capital gains exemption (LCGE) for QFFP sold after April 20, 2015 increased to \$1,000,000. The additional deduction is the difference between \$500,000 (50% of \$1,000,000) and the amount of the existing maximum base capital gains deduction for qualifying properties (\$417,858 for 2017). The value of this new deduction will phase out as the maximum base capital gains deduction for qualifying properties increases through indexation.

This additional deduction for taxable capital gains from the disposition of QFFP can only be used after the existing maximum base capital gains deduction that applies to both QFFP and qualified small business corporation shares (\$417,858 for 2017) is used.

Existing rules on the base capital gains deduction also apply to the additional deduction for taxable capital gains from the disposition of QFFP.

Where a trust determines and designates an amount as a beneficiary's taxable capital gain from the disposition of QFFP after April 20, 2015, the beneficiary is deemed to have a taxable capital gain of that amount from the disposition of QFFP after April 20, 2015. Therefore the additional deduction for taxable capital gains from the disposition of QFFP is available to the beneficiary.

For more information on how to calculate your capital gains deduction, see Form T657, *Calculation of Capital Gains Deduction for 2017*, and Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2017*.

You may be a partner in a partnership that sold capital property. In this case, the partnership would allocate any taxable capital gains or allowable capital losses to the partners. If you are allocated a share of a taxable capital gain on QFFP, you may be entitled to claim a capital gains deduction.

The LCGE rules on certain farming or fishing property, shares or interests include taxpayers involved in a combination of farming and fishing businesses.

- Property held directly or through a partnership:
 - Where an individual carries on a farming or fishing business as a sole proprietor, or through a partnership, in order to be eligible for the LCGE, the qualifying property must be used mainly in a farming business or a fishing business. Eligibility for the LCGE extends to property of an individual used mainly in a combination of farming and fishing.
- Shares or partnership interests:
 - In order for an individual's shares in a family corporation or interest in a family partnership to qualify for the LCGE, all or substantially all (generally interpreted as 90% or more) of the fair market value of the property of the entity must be property used mainly in a farming business or a fishing business. A property held by a family-farm corporation or partnership that is used in a combination of farming and fishing must be used mainly in farming in order to count towards the "all or substantially all" test. A similar rule applies for a property held by a family-fishing corporation or partnership.

Eligibility for the LCGE extends to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used mainly in either business, or is used mainly in a combination of farming and fishing, the property will count towards the "all or substantially all" test.

- Also, throughout any 24-month period ending before that time, more than 50% of the FMV of the property of the entity was attributable to property. That property must have been used principally in the course of carrying on a farming or fishing business in Canada in which a qualified user was actively engaged on a regular and continuous basis by any of the following:
 - you, your spouse or common-law partner, or any of your parents or children (we define children on page 69)
 - the beneficiary of a personal trust, or the spouse or common-law partner, parent, or child of such a beneficiary
 - a family-farm or family-fishing corporation where any of the above persons owns a share of the corporation
 - a family-farm or family-fishing partnership where any of the above persons (except a family-farm or family-fishing corporation) owns an interest in the partnership

Real property or property included in Class 14.1

Real property or property included in Class 14.1 is qualified farm or fishing property only if it is used to carry on a farming or fishing business in Canada by any of the following:

- you, your spouse or common-law partner, or any of your parents or children (we define children on page 69)
- the beneficiary of a personal trust, or the spouse or common-law partner, parent, or child of such a beneficiary
- a family-farm or family-fishing corporation where any of the above persons owns a share of the corporation
- a family-farm or family-fishing partnership where any of the above persons (except a family-farm or family-fishing corporation) owns an interest in the partnership

We will consider real property or property included in Class 14.1 to be used to carry on a farming or fishing business in Canada if you meet the following conditions:

- throughout the 24 months before the sale, you, your spouse or common-law partner, any of your children or parents, a personal trust from which one of these persons acquired the property, or a family-farm or family-fishing partnership (in which any of these persons has an interest) must have owned the property
- you meet **one** of the following two conditions:
 - While the property was owned by any of the above persons in at least two years; the property or the

property it replaced was mainly used in a farming or fishing business in Canada in which any of the above persons was actively engaged on a regular and ongoing basis. Also, while the property was owned by any of the above persons in at least two years; the person's gross income from the business was larger than the person's income from all other sources in the year.

- A family-farm or a family-fishing partnership or corporation used the property for at least 24 months, to carry on a farming or fishing business in Canada. Also, during this time, you, your spouse or common-law partner, any of your children, or your parents must have been actively engaged on a regular and ongoing basis in the business.

Property included in Class 14.1 bought before June 18, 1987 for farmers

You may have bought or entered into an agreement to buy real property or property included in Class 14.1 before June 18, 1987. We consider you to have used this property in carrying on a farming business in Canada if you meet **one** of the following conditions:

- in the year you disposed of it, the property or the one it replaced was used in a farming business in Canada by any of the above persons, a family-farm partnership, a corporation, or by a personal trust from which one of the above individuals acquired the property
- the property, or the property it replaced, was used in a farming business in Canada for at least five years by any of the above persons, a family-farm partnership, or corporation, or by a personal trust from which one of the above individuals acquired the property. During this time, the property was owned by any of the above persons or a family-farm partnership or corporation.

Transfer of farm or fishing property to a child

You may be able to transfer Canadian farm or fishing property to your child. When you do this, you can postpone tax on any taxable capital gain and any recapture of capital cost allowance until the child sells the property. To do this, **both** of these conditions have to be met:

- your child was a resident of Canada just before the transfer
- the farm or fishing property was land in Canada, or depreciable property in Canada of a prescribed class, in respect of a farming or fishing business carried on in Canada, and has been used in the business in which you, your spouse or common-law partner, or any of your children were actively engaged on a regular and ongoing basis before the transfer

The rules on intergenerational transfers of certain farming and fishing property from an individual to the individual's child include taxpayers involved in a combination of farming and fishing businesses.

Where an individual carries on farming or fishing business as a sole proprietor, or through a partnership, in order to be eligible for the intergenerational transfer, the qualifying property must be used mainly in a farming business or a fishing business. Eligibility for the intergenerational transfer extends to property of an individual used mainly in a combination of farming and fishing.

Your **children** include:

- your natural child, your adopted child, or your spouse's or common-law partner's child
- your grandchild or great-grandchild
- your child's spouse or common-law partner
- another person who is wholly dependent on you for support and who is, or was immediately before the age of 19, in your custody and under your control

The following types of property qualify for this transfer:

- farmland
- land used in a fishing business
- depreciable property, including buildings

Furthermore, a share of the capital stock of a family-farm or family-fishing corporation and an interest in a family-farm or family-fishing partnership also qualify for this transfer if your child is a resident of Canada just before the transfer.

The rules on intergenerational transfers of certain farming and fishing property from an individual to the individual's child include taxpayers involved in a combination of farming and fishing businesses.

■ Shares or partnership interests:

- In order for an individual's shares in a family corporation or interest in a family partnership to qualify for the intergenerational transfer, all or substantially all (generally interpreted as 90% or more) of the FMV of the property of the entity must be property used mainly in a farming business or a fishing business. Eligibility for the intergenerational transfer extends to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used mainly in either business, or is used mainly in a combination of farming and fishing, the property will count towards the "all or substantially all" test.

For most property, the transfer price can be any amount between the adjusted cost base (ACB) and its FMV. For depreciable property, the transfer price can be any amount between its UCC and its FMV.

Example for farmers

Wade wants to transfer these farm properties to Vicky, his 19-year-old daughter.

Land

ACB	\$ 85,000
FMV at the time of transfer	\$ 100,000

Combine

FMV	\$ 9,000
UCC at the time of transfer	\$ 7,840

Therefore, Wade can transfer the following:

- the land at any amount between \$85,000 (ACB) and \$100,000 (FMV)
- the combine at any amount between \$7,840 (UCC) and \$9,000 (FMV)

If Wade chooses to transfer the land at its ACB and the combine at its UCC, he postpones any taxable capital gain and any recapture of CCA. Also, if he does this, we consider that Vicky acquires the land at \$85,000 and the combine at \$7,840. When Vicky disposes of the land and the combine, she includes in her income any taxable capital gain and recapture that Wade postpones.

Example for fishers

Wade wants to transfer these fishing properties to Vicky, his 19-year-old daughter.

Fishing boat

ACB	\$ 85,000
FMV at the time of transfer	\$ 100,000

Fishing licence

FMV	\$ 9,000
UCC at the time of transfer	\$ 7,840

Therefore, Wade can transfer the following:

- the fishing boat at any amount between \$85,000 (ACB) and \$100,000 (FMV)
- the fishing licence at any amount between \$7,840 (UCC) and \$9,000 (FMV)

If Wade chooses to transfer the fishing boat at its ACB and the fishing licence at its UCC, he postpones any taxable capital gain and any recapture of CCA. Also, if he does this, we consider that Vicky acquires the fishing boat at \$85,000 and the fishing licence at \$7,840. When Vicky disposes of the fishing boat and the fishing licence, she will include in her income any taxable capital gain and recapture that Wade postpones.

Transfer of farm or fishing property to a child if a parent dies in the year

We allow a tax-free transfer of a deceased taxpayer's Canadian farm or fishing property to a child if **all** of these conditions are met:

- the child was resident in Canada just before the parent's death
- the property was used under the current law, mainly in a farming or fishing business on a regular and ongoing basis by the deceased, the deceased's spouse or common-law partner, or any of the children before the parent's death
- the property was transferred to the child no later than 36 months after the parent's death. In some cases, we may allow the transfer even if it took place later than 36 months after the parent's death

Note

The rules under "Transfer of farm or fishing property to a child" also apply in this section.

The following types of farm or fishing property qualify for this transfer:

- land and buildings, or other depreciable property used mainly in a farming or fishing business
- a share of the capital stock of a family-farm or family-fishing corporation, and an interest in a family-farm or family-fishing partnership

For most property, the transfer price can be any amount between the ACB and its FMV.

For depreciable property, the transfer price can be an amount between the property's FMV and a special amount. For more information, see Chapter 4, "Deemed Disposition of Property," in Guide T4011, *Preparing Returns for Deceased Persons*.

The deceased's legal representative will choose the amount in the year of death. We consider the child to acquire these properties at the amount chosen.

Similar rules apply for property that a deceased person leased to the family-farm or family-fishing corporation or partnership.

If a child gets a farm or fishing property from a parent and the child later dies, the property can be transferred to the surviving parent based on the same rules.

Shares or other property of a family-farm or family-fishing holding corporation can also be transferred based on the same rules, from a spouse or common-law partner trust to a child of the settlor. The settlor is the person who sets up a trust, or the person who transfers property to a trust.

Note for farmers

For more information on these transfers, see Interpretation Bulletin IT-349R3, *Intergenerational Transfers of Farm Property on Death*.

Transfer of farm or fishing property to a spouse or common-law partner

A farmer or fisher can transfer property to a spouse or common-law partner or to a spousal or common-law partner trust during the farmer's or fisher's lifetime. At the time of transfer, the farmer or fisher can postpone any taxable capital gain or recapture of CCA.

If the spouse or common-law partner later disposes of the property, the farmer or fisher, not the spouse or common-law partner, generally has to report any taxable capital gain. This rule applies where the farmer or fisher is living at the time the spouse or common-law partner sells the property. However, there are exceptions to this rule. For more information, see Interpretation Bulletin IT-511R, *Interspousal and Certain Other Transfers and Loans of Property*.

A transfer of farm or fishing property can also occur after the farmer or fisher dies. For more information, see Chapter 4, "Deemed Disposition of Property," in Guide T4011.

Note for farmers

The rollover provisions available for farm properties also apply to land and depreciable property used mainly in a woodlot farming business. They will apply where the deceased, the deceased's spouse or common-law partner, or any of the deceased's children was engaged in the woodlot operation as required by a **prescribed forest management plan** in respect of the woodlot.

Other special rules

You may also be able to postpone paying tax on capital gains in the following situations.

Reserves

When you dispose of a capital property, you usually receive full payment at that time. However, sometimes you receive the amount over a number of years. Generally, a reserve allows you to defer reporting part of the capital gain to the year in which you receive the proceeds.

For example, you may sell a capital property for \$50,000 and receive \$10,000 at the time of the sale. You receive the remaining \$40,000 over four years. In this situation, you can claim a reserve. However, there is a limit to the number of years you can do this.

For more information on reserves, see Guide T4037, *Capital Gains*, and Form T2017, *Summary of Reserves on Dispositions of Capital Property*.

Exchanges or expropriations of property

There are special rules that apply when you dispose of a property and replace it with a similar one, or when someone expropriates your property. For more information, see Interpretation Bulletin IT-259R4, *Exchange of Property*, and Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release.

Information reporting of tax avoidance transactions

Taxpayers, advisors and promoters who engage in or who are entitled to certain fees in relation to certain tax avoidance transactions are subject to new reporting requirements.

The measures apply to certain avoidance transactions entered into after 2010, and avoidance transactions that are part of a series of transactions that started before 2011 and were completed after 2010.

A transaction will be reportable if it is an avoidance transaction as defined in subsection 245(3) of the *Income Tax Act* for purposes of the general anti-avoidance rule (GAAR) and has at least two of the following three characteristics:

- the advisor or promoter has or had an entitlement to certain types of fees
- the advisor or promoter has or had confidential protection with respect to the transaction
- the taxpayer or the advisor or promoter (including any non-arm's length parties) has or had contractual protection for the transaction (other than as a result of certain types of fees)

A reportable transaction does not include a transaction that is, or is part of, a series of transactions that includes the acquisition of a tax shelter or issuance of a flow-through share for which an information return has been filed with the minister under subsections 237.1(7) or 66(12.68), respectively.

Information return RC312, *Reportable Transaction Information Return*, must be filed on June 30 of the calendar year following the calendar year in which the transaction first became a reportable transaction for the person. An extended reassessment period is allowed under paragraph 152(4)(b.1) of the *Income Tax Act*.

Failure to report could result in suspension of the tax benefit and a penalty.

File this return separately from your tax return. Before you file it, make a copy for your records. Send the original return, amended return, or any additional information to:

**Other Programs Unit
Validation and Verification Section
Ottawa Technology Centre
875 Heron Road
Ottawa ON K1A 1A2**

Capital cost allowance (CCA) rates

Below you will find the more common depreciable properties that a business may use. The CCA rates appear at the end of the list. For more information on Classes 13, 14, 34, and 43.1, and Part XVII of the *Income Tax Act*, call us at 1-800-959-5525.

Depreciable property	Class No.	Depreciable property	Class No.
Aircraft – Acquired before May 26, 1976.....	16	Self-propelled	10
Aircraft – Acquired after May 25, 1976.....	9	Hay loaders.....	8
Bee equipment	8	Ice machines.....	8
Boats and component parts	7	Incubators.....	8
Breakwaters		Irrigation equipment – Overhead	8
Cement or stone.....	3	Irrigation ponds	6
Wood	6	Leasehold interest.....	13
Brooders.....	8	Manure spreaders.....	8
Buildings and component parts		Milking machines	8
Wood, galvanized, or portable.....	6	Mixers	8
Other:		Mowers.....	8
Acquired after 1978 and before 1988*	3	Nets	8
Acquired after 1987.....	1	Office equipment including photocopiers, fax machines	8
Fruit and vegetable storage (after Feb. 19, 1973).....	8	Outboard motors	10
Casing, cribwork for water wells.....	8	Passenger vehicles (see Chapter 4)	10 or 10.1
Chain-saws	10	Piping – Permanent	2
Cleaners – grain or seed	8	Planters – All types.....	8
Combines		Plows.....	8
Drawn.....	8	Power block – Purse seine.....	7
Self-propelled.....	10	Pumps	8
Computer equipment and systems software		Radar or radio equipment	
Acquired before March 23, 2004	10	Acquired before May 26, 1976	9
Acquired after March 22, 2004	45	Acquired after May 25, 1976	8
Acquired after March 18, 2007	50	Rakes.....	8
Acquired after January 27, 2009 and before February 2011 ..	52	Roads or other surface areas – Paved or concrete.....	17
Computer software (other than systems software)	8	Silo fillers.....	8
Coolers – Milk	8	Silos	8
Cream separators.....	8	Sleighs.....	10
Cultivators	8	Sprayers.....	8
Dams		Stable cleaners	8
Cement, stone, wood, or earth	1	Stalk cutters.....	8
Data network infrastructure equipment – Acquired		Swathers	
after March 22, 2004	46	Drawn	8
Diggers – All types.....	8	Self-propelled	10
Discs	8	Threshers.....	8
Docks	3	Tile or concrete drainage system – Acquired before 1965	13
Drills – All types.....	8	Tillers – All types	8
Dugouts, dikes, and lagoons	6	Tools	
Electric-generating equipment – portable.....	8	Less than \$500.....	12
Electric motors	8	\$500 and more	8
Elevators	8	Tractors.....	10
Engines – Stationary	8	Trailers.....	10
Fences – All types.....	6	Traps	8
Forage harvesters		Trucks	10
Drawn.....	8	Trucks (freight).....	16
Self-propelled.....	10	Wagons	10
Graders – Fruit or vegetable.....	8	Water towers	6
Grain-drying equipment.....	8	Weeders.....	8
Grain loaders	8	Weirs	3
Grain separators	8	Weirs – Fish.....	8
Grain-storage building		Welding equipment.....	8
Wood, galvanized steel	6	Well equipment	8
Other.....	1	Wharves	
Greenhouses (all except as noted below)	6	Cement, steel, or stone.....	3
Greenhouses of rigid frames covered with replaceable		Wood.....	6
flexible plastic	8	Wind chargers.....	8
Grinder	8	Wind-energy conversion equipment	
Harness.....	10	Acquired before February 22, 1994.....	34
Harrows	8	Acquired after February 21, 1994.....	43.1
Hay balers and stokers		(Note: Class 43.1 can be used other than for wind energy.)	
Drawn.....	8		

* You may add to or alter a Class 3 building after 1987. In this case, there is a limit on the amount you can include in Class 3. The most you can include in Class 3 is the lesser of \$500,000 or 25% of the building's cost on December 31, 1987. In Class 1, include any costs you incur that are over this limit.

Class 1	4%	Class 7	15%	Class 10.1	30%	Class 46.....	30%
Class 2	6%	Class 8	20%	Class 12	100%	Class 50.....	55%
Class 3	5%	Class 9	25%	Class 13**		Class 52.....	100%
Class 6	10%	Class 10	30%	Class 45	45%		

**You can claim CCA on leasehold interest, but the maximum rate depends on the type of leasehold interest and the terms of the lease.

How to calculate the mandatory inventory adjustment (MIA)

 For instructions on how to fill in the following charts, see page 44 of Chapter 3.

Chart 1
Cash cost of purchased inventory

Enter the amount you paid by the end of the 2017 fiscal period for the specified animals you bought:

Fiscal period	Cash cost
■ in your 2017 fiscal period	\$ _____ 1
■ in your 2016 fiscal period	\$ _____ 2
■ in your 2015 fiscal period	\$ _____ 3
■ in your 2014 fiscal period	\$ _____ 4
■ before your 2014 fiscal period	\$ _____ 5

Enter the amount you paid by the end of your 2017 fiscal period for all other inventory you bought:

■ in your 2017 fiscal period	\$ _____ 6
■ in your 2016 fiscal period	\$ _____ 7
■ in your 2015 fiscal period	\$ _____ 8
■ in your 2014 fiscal period	\$ _____ 9
■ before your 2014 fiscal period	\$ _____ 10

Chart 3
Value of purchased inventory for all other inventory

Inventory bought in your 2017 fiscal period
Enter the amount from line 6 or the fair market value, whichever is less. \$ _____ 16

Inventory bought in your 2016 fiscal period
Enter the amount from line 7 or the fair market value, whichever is less. \$ _____ 17

Inventory bought in your 2015 fiscal period
Enter the amount from line 8 or the fair market value, whichever is less. \$ _____ 18

Inventory bought in your 2014 fiscal period
Enter the amount from line 9 or the fair market value, whichever is less. \$ _____ 19

Inventory bought before your 2014 fiscal period
Enter the amount from line 10 or the fair market value, whichever is less. \$ _____ 20

Chart 2
Value of purchased inventory for specified animals

Inventory bought in your 2017 fiscal period
Enter an amount that is not more than the amount on line 1, but not less than 70% of this amount. \$ _____ 11

Inventory bought in your 2016 fiscal period
Enter an amount that is not more than the amount on line 2, but not less than 70% of the total of the value at the end of your 2016 fiscal period **plus** any amounts you paid in your 2017 fiscal period toward the purchase price. \$ _____ 12

Inventory bought in your 2015 fiscal period
Enter an amount that is not more than the amount on line 3, but not less than 70% of the total of the value at the end of your 2016 fiscal period **plus** any amounts you paid in your 2017 fiscal period toward the purchase price. \$ _____ 13

Inventory bought in your 2014 fiscal period
Enter an amount that is not more than the amount on line 4, but not less than 70% of the total of the value at the end of your 2016 fiscal period **plus** any amounts you paid in your 2017 fiscal period toward the purchase price. \$ _____ 14

Inventory bought before your 2014 fiscal period
Enter an amount that is not more than the amount on line 5, but not less than 70% of the total of the value at the end of your 2016 fiscal period **plus** any amounts you paid in your 2017 fiscal period toward the purchase price. \$ _____ 15

Chart 4
Calculation of MIA

Enter the amount of your net loss from line 9899 of Form T2042. \$ _____ 21

Enter the value of your inventory from Chart 2 and Chart 3:

■ the amount on line 11	\$ _____	
■ the amount on line 12	\$ _____	
■ the amount on line 13	\$ _____	
■ the amount on line 14	\$ _____	
■ the amount on line 15	\$ _____	
■ the amount on line 16	\$ _____	
■ the amount on line 17	\$ _____	
■ the amount on line 18	\$ _____	
■ the amount on line 19	\$ _____	
■ the amount on line 20	\$ _____	
Total value of inventory	\$ _____	\$ _____ 22

MIA – Enter the amount on line 21 or line 22, whichever is less. \$ _____ 23

GST/HST

Farm goods and services subject to GST or HST include:

- crop dusting
- contract work, including field clearing, tilling, and harvesting done by one farmer on behalf of another
- road-clearing services
- stud or artificial insemination services
- storing goods (for example, storing grain in a grain elevator)
- beeswax
- maple sugar candy
- canary seed, lawn seed, and flower seed
- bedding plants, sod, cut flowers, living trees, and firewood
- furs, animal hides, and dead animals not suitable for human consumption
- fertilizer sold in containers of any size or in bulk when the total quantity is less than 500 kilograms, or any quantities of soil or soil mixture whether or not they contain fertilizer
- gravel, stones, rock, soil, and soil additives
- livestock or poultry not normally raised as food or to produce food for human consumption (for example, horses, mules, and mink)
- feathers, down, and processed wool

Fishing goods and services subject to GST or HST include:

- fish or other marine or freshwater animals sold as bait for recreational fishing
- fish or other marine or freshwater animals not ordinarily used as food for human consumption
- traps, pots, and cages
- fish boxes
- navigation equipment
- repair and maintenance materials
- stationary engines and outboard motors

Many farming or fishing products and purchases are taxable but at 0%. We refer to these as **zero-rated goods**. You do not pay GST/HST when you buy these products and you do not charge GST/HST when you sell them to your customers.

- For zero-rated farm products and purchases, see this page.
- For zero-rated fishing products and purchases, see page 75.

Zero-rated farm products are:

- fruit and vegetables
- grains or seeds in their natural state, treated for seeding purposes or irradiated for storage purposes, and hay or silage, or other fodder crops, when they are sold in quantities larger than ordinarily offered for sale to consumers, except grains and seeds packaged, prepared and sold to use as feed for wild birds or pet food
- feed sold by a feedlot operator, as long as the price is separately identified on the invoice or written agreement
- hops, barley, flaxseed, straw, sugar cane, or sugar beets
- livestock such as cattle, hogs, poultry, bees or sheep that are raised or kept to produce food, or to be used as food, for human consumption, or to produce wool
- poultry or fish eggs that are produced for hatching
- rabbits, except those supplied by a person in the course of a business in the course of which the person regularly supplies animals as pets to consumers
- fertilizer sold in bulk or in a container of at least 25 kg where the total quantity of fertilizer supplied at the time is at least 500 kg
- wool that is not further processed than washed
- tobacco leaves that are not further processed than dried and sorted

Examples of zero-rated farm purchases are:

- tractors designed for farm use that have a rating of at least 44.74 kW at power takeoff (60 PTO horsepower)
- pull and self-propelled combines, swathers, and wind-rowers
- headers for combines, forage harvesters, swathers or wind-rowers
- combine or forage harvester pickups
- forage harvesters, and self-propelled, tractor-mounted, or pull-type mechanical fruit or vegetable pickers or harvesters
- mouldboard and disc plows (3 or more furrows), and chisel plows and subsoil chisels (at least 8 feet or 2.44 metres wide)
- discers, rod weeders, or bean rods (at least 8 feet or 2.44 metres wide)
- field and row crop cultivators (at least 8 feet or 2.44 metres wide)
- combination discer-cultivators (at least 8 feet or 2.44 metres wide)
- rototillers and rotovators (at least 6 feet or 1.83 metres wide)
- harrows sold in complete units and pulverizers (at least 8 feet or 2.44 metres wide)

- land packers, mulchers, and rotary hoes (at least 8 feet or 2.44 metres wide)
 - airflow seeders, grain and seed drills (at least 8 feet or 2.44 metres wide), and farm-type row-crop or toolbar seeders or planters designed to seed two or more rows at a time
 - mower-conditioners, hay balers, hay cubers, hay rakes, hay conditioners, hay crushers, hay crimpers, hay tedders, swath turners, and wind-row turners
 - bale throwers, elevators, or conveyors, silage baggers, and round bale wrapping machines
 - grain bins or tanks with a capacity of 181 cubic metres or less (5,000 bushels)
 - transportable conveyors with belts less than 76.2 cm (30 inches) wide and 0.48 cm (3/16 inch) thick, transportable farm grain augers, transportable utility augers and transportable elevators
 - bin sweep or cleaner attachments for portable grain augers
 - tractor-powered pneumatic grain conveyors
 - feed mills, including roller mills and hammer mills
 - feed mixers, feed grinder mixers, tub grinders and other farm-type feed grinders
 - ensilage mixers and self-propelled feed or ensilage carts
 - grain toasters to use in livestock feed production
 - grain dryers
 - farm-type refrigerated bulk milk coolers
 - assembled and fully operational milking systems or individual components of milking systems that are supplied together, unassembled and then assembled into a fully operational milking system
 - automated and computerized farm livestock or poultry feeding systems, or individual components of these systems when they are supplied together, unassembled and then assembled into a fully operational feeding system
 - self-propelled, tractor-mounted, or pull-type agricultural wagons or trailers designed for off-road handling and transporting of grain, forage, livestock feed, or fertilizer, and for use at speeds not exceeding 40 km per hour
 - mechanical rock or stone pickers, rock or root rakes, and rock or root wind-rowers, forage blowers, silo unloaders, and shredders with an operational width of at least 3.66 m or 12 feet
 - tractor-mounted, self-propelled, or pull-type field sprayers with tank capacities of at least 300 litres or 66 gallons
 - granular fertilizer or pesticide applicators with operational capacity of at least 0.2265 cubic metres or 8 cubic feet
 - liquid box, tank, or flail manure spreaders, and injection systems for liquid manure spreaders
 - leaf-cutter bees
 - complete feeds, supplements, micro-premixes, macro-premixes, or mineral feeds other than trace mineral salt feeds, as defined and labelled in accordance with the Feeds Regulations, 1983 and designed for rabbits or a specific type of farm livestock, fish, or poultry ordinarily raised or kept for human consumption or to produce wool, when sold in bulk quantities of at least 20 kg (44 lbs.) or in bags that contain at least 20 kg (44 lbs.)
 - feed sold in bulk quantities of at least 20 kg (44 lbs.) or bags that contain at least 20 kg (44 lbs.) that is designed for ostriches, rheas, emus, or bees
 - farm refrigerated bulk milk coolers
 - food processing by-products and plant and animal products sold in bulk quantities of at least 20 kg (44 lbs.) or bags that contain at least 20 kg (44 lbs.) used as feed or as ingredients in feed for farm livestock, fish, or poultry that is ordinarily raised or kept for human consumption or to produce wool, or for rabbits, ostriches, rheas, emus, or bees
 - pesticides having a purpose that includes agricultural use and having a product class of other than domestic labelled in accordance with the Pest Control Products Regulations
 - sales of quotas authorized by a government agency or marketing board for zero-rated products for human consumption (including dairy, turkey, chicken, eggs), certain agricultural products (including farm livestock, zero-rated grains or seeds, hops, barley, flaxseed, straw, sugar cane, or sugar beets) and tobacco leaves
 - farmland rented to a registrant under a sharecropping arrangement to the extent that consideration for the supply is a share of the production that is zero-rated is part of the price (any other extra payments are taxable)
- 👉 **Examples of zero-rated fishing products and equipment are:**
- most fish feed and other specified products when sold in quantities of at least 20 kg. For more information, see GST/HST Memoranda Series 4-4, *Agriculture and Fishing*
 - fish or other marine or freshwater animals, such as oysters, clams, and mussels, not further processed than frozen, salted, smoked, dried, scaled, eviscerated, or filleted, provided they are ordinarily used as food for human consumption, and not used as bait for recreational fishing
 - fish eggs that are produced for hatching purposes
 - fishing vessels you buy either inside or outside Canada to use in commercial fishing, if you provide all the following documents to the vendor or the customs office:
 - your GST/HST Account Number
 - a declaration signed by you stating you intend to use the vessel in commercial fishing
 - your valid commercial limited-entry fishing licence number issued by Fisheries and Oceans Canada or a provincial or territorial government (licensing requirements may vary from region to region)

- the following nets and related equipment:
 - gill-nets, seines, and trawl-nets
 - webbing, leadlines, corkline (top rope) for gill-nets, seines, and trawl-nets
 - floats for gill-nets and seines
 - drums for gill-nets, seines, trawl-nets, and long-lines
 - entrapment and predator webbing
 - trawl-net doors
- the following equipment and products:
 - automatic baiters, jiggers, and net-pen feeders
 - manufactured netpens for use in aquaculture
 - mechanical net washers and pescalators

Input tax credits and exempt goods and services

GST/HST registrants may claim an **input tax credit** for the GST/HST they paid or owe for expenses used to provide taxable goods and services at the rates of 0%, 5%, 13%, 14%, or 15%.

For more information on claiming the input tax credits and the percentage of use in commercial activity, see GST/HST Memorandum 8.1, *General Eligibility Rules* and GST/HST Memorandum 8.2, *General Restrictions and Limitations*.

A limited number of goods and services you purchase are exempt from GST/HST. Because you do not pay GST/HST on these goods and services, there is no input tax credit to claim. Examples of **exempt** goods and services include:

- commercial fishing licence fees
- insurance services sold by insurance companies, agents, or brokers
- most services provided by financial institutions, such as arranging loans or mortgages
- most health, medical, and dental services

For more information, see Guide RC4022, *General Information for GST/HST Registrants*, and GST/HST Memorandum 4.4, *Agriculture and Fishing* and GST/HST Information Sheet GI-049, *Fishing Equipment and Products*.

Eligible registrants can file their GST/HST returns online by using GST/HST NETFILE or the “File a return” service in My Business Account at canada.ca/my-cra-business-account. For information about GST/HST, go to canada.ca/gst-hst.

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
All other financial investment activities	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
All other professional, scientific and technical service	541990
Other professional, scientific and technical services	541900
Veterinary services	541940
Offices of physicians	621110
Offices of mental health practitioners (except physicians)	621330
Offices of dentists	621210
Offices of other health practitioners	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 publishers)	511211
Video game publishers	511212
Radio and television broadcasting	515100
Pay and specialty television	515210
Wired and wireless telecommunications carriers (except satellite)	517310
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 (except video game design and development)	541514
Video game design and development services	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	Rooming and boarding houses.....	721310
Office administrative services	561110	Food service contractors	722310
Facilities support services	561210	Caterers.....	722320
Employment services.....	561300	Mobile food services.....	722330
Business support services	561400	Drinking places (alcoholic beverages).....	722410
Travel arrangement and reservation services	561500	Full-service restaurants.....	722511
Investigation and security services	561600	Limited-service eating places.....	722512
Other business support services	561900		
Waste collection	562110	Repairs and maintenance	
Waste treatment and disposal.....	562210	General automotive repair	811111
Remediation and other waste		Automotive exhaust system repair	811112
management services.....	562900	Other automotive mechanical and electrical	
		repair and maintenance	811119
Education, health or social services		Automotive body, paint and interior repair	
Educational services.....	611000	and maintenance	811121
Other schools and instruction	611600	Automotive glass replacement shops.....	811122
All other schools and instruction.....	611690	Car washes	811192
Educational support services	611710	All other automotive repair and maintenance.....	811199
Nursing and residential care facilities	623000	Electronic and precision equipment repair	
Individual and family services.....	624100	and maintenance	811210
Community food and housing, and emergency		Commercial and industrial machinery and	
and other relief services.....	624200	equipment (except automotive and electronic)	
Vocational rehabilitation services.....	624310	repair and maintenance	811310
Child daycare services.....	624410	Home and garden equipment repair	
		and maintenance	811411
Entertainment or recreation		Appliance repair and maintenance.....	811412
Motion picture and video production	512110	Reupholstery and furniture repair.....	811420
Motion picture and video distribution	512120	Footwear and leather goods repair	811430
Motion picture and video exhibition	512130	Other personal and household goods repair	
Post-production and other motion picture		and maintenance	811490
and video industries	512190		
Sound recording industries	512200	Personal or household services	
Performing arts companies.....	711100	Carpet and upholstery cleaning services.....	561740
Horse race tracks	711213	Services for the elderly and persons	
Other racing facilities and related activities	711214	with disabilities	624120
Independent athletes performing before a		Personal care services.....	812100
paying audience.....	711215	Funeral services.....	812200
Sports teams and clubs performing before a		Dry cleaning and laundry services	812300
paying audience.....	711217		
Promoters (presenters) of performing arts,		Other services	
sports and similar events	711300	Automotive equipment rental and leasing.....	532100
Sports stadiums and other presenters		Consumer goods rental.....	532200
with facilities	711319	General rental centres.....	532310
Agents and managers for artists, entertainers and		Commercial and industrial machinery and	
other public figures	711411	equipment rental and leasing	532400
Sports agents and managers.....	711412	Photographic services	541920
Independent artists, writers and performers.....	711500	Travel agencies	561510
Heritage institutions	712100	Services to buildings and dwellings	561700
Amusement parks and arcades.....	713100	Janitorial services (except window cleaning).....	561722
Gambling industries	713200	Religious, grant-making, civic, and professional	
Sports clubs, teams and leagues performing before		and similar organizations	813000
a non-paying audience	713991	Private households	814110
Other sport facilities.....	713992		
All other amusement and recreation industries	713999	Sales – Retailers	
Internet publishing and broadcasting, and		Household goods stores	
Web search portals (including online		Furniture stores	442110
gambling and pornography)	519130	Home furnishings stores.....	442200
Other personal services (including online		Electronics and appliance stores	443100
psychic, escorts, dating, party planning,			
personal shopping).....	812900	Food or beverage stores	
		Supermarkets and other grocery	
Accommodation, food or beverage services		(except convenience) stores	445110
Traveller accommodation	721100	Convenience stores	445120
Recreational vehicle (RV) parks and		Specialty food stores.....	445200
recreational camps.....	721200	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 recordings 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	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
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.....	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
Contract 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

Farming industry codes

Livestock farm

Beef cattle ranching and farming, including feedlots.....	112110
Dairy cattle and milk production	112120
Hog and pig farming	112210
Chicken egg production.....	112310
Broiler and other meat-type chicken production....	112320
Turkey production	112330
Poultry hatcheries.....	112340
Combination poultry and egg production.....	112391
All other poultry production.....	112399
Sheep farming	112410
Goat farming	112420
Aquaculture*	112510
Animal combination farming	112991
Support activities for animal production	115210

Other animal specialties farm

Apiculture.....	112910
Horse and other equine production.....	112920
Fur-bearing animal and rabbit production	112930
All other miscellaneous animal production.....	112999

Field-crop farm

Soybean farming	111110
Oilseed (except soybean) farming.....	111120
Dry pea and bean farming.....	111130
Wheat farming.....	111140
Corn farming	111150
Rice farming.....	111160
Other grain farming.....	111190
Potato farming.....	111211
Other vegetable (except potato) and melon farming	111219
Orange groves	111310
Citrus (except orange) groves	111320
Non-citrus fruit and tree nut farming	111330
Mushroom production.....	111411
Other food crops grown under cover.....	111419
Nursery and tree production	111421
Floriculture production.....	111422
Tobacco farming.....	111910
Cotton farming	111920
Sugar cane farming.....	111930
Hay farming.....	111940
Fruit and vegetable combination farming	111993
Maple syrup and products production	111994
All other miscellaneous crop farming	111999
Support activities for crop production.....	115110

Fishing industry codes

Salt water fishing.....	114113
Freshwater fishing	114114
Aquaculture*	112510

* Generally, aquaculture may be considered to be a farming activity. However, some aquaculture activities may be considered fishing activities. Fishing is defined to include fishing for or catching shell fish, crustaceans and marine animals. Harvesting wild clams or oysters from the seabed, for example, is likely fishing rather than farming. For more information on whether your activity is considered farming or fishing, see Income Tax Folio S4-F11-C1, *Meaning of Farming and Farming Business*.

Online services

My Account

The CRA's My Account service is fast, easy, and secure.

Use My Account to:

- view your benefit and credit payment amounts and dates
- view your notice of assessment
- change your address, direct deposit information, and marital status
- sign up for account alerts
- check your TFSA contribution room and RRSP deduction limit
- check the status of your tax return
- request your proof of income statement (option 'C' print)
- link between your CRA My Account and My Service Canada Account

How to register

For information, go to canada.ca/my-cra-account.

MyCRA – Mobile app

Getting ready to file your income tax and benefit return?

Use MyCRA to:

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

Done filing? Use MyCRA to:

- check the status of your tax return
- view your notice of assessment

Use MyCRA throughout the year to:

- view the amounts and dates of your personal benefit and credit payments
- check your TFSA contribution room
- change your address, direct deposit information, and marital status
- let us know if a child is no longer in your care
- sign up for online mail and account alerts
- request your proof of income statement (option "C" print)

For more information, go to canada.ca/cra-mobile-apps.

Handling business taxes online

Use the CRA's online services for businesses throughout the year to:

- make payments to the CRA by setting up pre-authorized debit agreements in My Business Account or by using the My Payment service
- file a return, view the status of filed returns and amend returns online
- submit documents to the CRA
- authorize a representative for online access to your business accounts
- register for online mail to get mail from the CRA directly in My Business Account
- change addresses
- manage direct deposit information
- view account balance and transactions
- calculate a future balance
- transfer payments and immediately view updated balances
- add another business to your account
- submit account related enquiries and view answers to common enquiries
- submit an enquiry about your audit
- download reports
- much more

To log in to or register for the CRA's online services, go to:

- My Business Account at canada.ca/my-cra-business-account, if you are a business owner
- Represent a Client at canada.ca/taxes-representatives, if you are an authorized representative or employee

For more information, go to canada.ca/taxes-business-online.

Sign up for online mail

Sign up for the CRA's online mail service to get most of your CRA mail, like your notice of assessment, online.

For more information, go to canada.ca/taxes-online-mail.

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

Pre authorized debit (PAD) is a flexible online payment option managed by you. 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 canada.ca/my-cra-business-account. You can view historical records, modify, cancel, or skip a payment. For more information, go to canada.ca/payments and select "Pre authorized debit."

Electronic payments

Make your payment using:

- your financial institution's online or telephone banking services
- the CRA's My Payment service at canada.ca/cra-my-payment
- pre-authorized debit at canada.ca/my-cra-business-account

For more information, go to canada.ca/payments.

For more information

What if you need help?

If you need more information after reading this guide, go to canada.ca/en/revenue-agency 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 canada.ca/my-cra-business-account.

To enrol for direct deposit or to update your banking information, go to canada.ca/cra-direct-deposit.

Forms and publications

To get our forms and publications, go to canada.ca/cra-forms or call 1-800-959-5525.

Electronic mailing lists

The CRA can notify you by email when new information on a subject of interest to you is available on the website. To subscribe to the electronic mailing lists, go to canada.ca/cra-email-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.

If you use an operator-assisted relay service, call our regular telephone numbers instead of the TTY number.

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 canada.ca/cra-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 and how to file a complaint, go to canada.ca/cra-service-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 canada.ca/cra-reprisal-complaints.

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 canada.ca/cra-video-gallery.

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 canada.ca/taxpayer-relief.