

2005 GUIDE TO COMPLETION OF

**THE ALBERTA
CORPORATE
INCOME TAX RETURN**

PART 1 - AT1 AND SCHEDULES 1 THROUGH 11

2005

Alberta

FINANCE
Tax and Revenue Administration (TRA)

This Guide contains information for the completion of the 2005 Alberta Corporate Income Tax Return ([form AT1](#)) and related schedules. The 2005 tax package may also be used to complete Alberta Corporate Income Tax Returns for taxation years ending in 1998 to 2004. Part 1 provides instructions for the completion of the AT1 return and Schedules 1 through 11. [Part 2 of the Guide](#) is for use by corporations whose discretionary deductions, carry forward balances of pools, or loss applications differ for Alberta purposes from those claimed federally. Because of Alberta's response to federal resource tax policy changes from 2003 onwards, Part 2 is also for use from 2003 by corporations with crown charges, Alberta royalty tax credit claims or resource allowance.

This Guide does not substitute for the *Alberta Corporate Tax Act* and Regulations. Should a discrepancy occur in interpretation between the Guides and governing legislation, the legislation takes precedence. The Guides cannot cover all circumstances that affect the completion of the AT1 return. To request forms or to obtain additional information or clarification, please telephone, write, or e-mail:

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ALBERTA FINANCE
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TAX AND REVENUE ADMINISTRATION
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1100, 715 – 5th Avenue SW
CALGARY AB T2P 2X6
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Alberta callers outside Edmonton and Calgary may telephone toll free by entering 310-0000, then the applicable general enquiries or fax number shown above.

E-mail: We are also accessible by e-mail at: tra.revenue@gov.ab.ca

NOTE: Tax returns are not processed in the Calgary office. All corporations should file their returns with the Edmonton office.

Unless otherwise stated, all references in this Guide to “the Act” and to section, subsection or paragraph numbers refer to the *Alberta Corporate Tax Act*. References to schedules without the prefix “federal” are references to Alberta schedules. “Federal Act” and “federal regulations” refer to the *Income Tax Act (Canada)* and the regulations under that Act. TRA is Alberta Finance, Tax and Revenue Administration. CRA is Canada Revenue Agency.

Information Circulars, including [CT-2, “Filing Requirements”](#), Interpretation Bulletins and forms mentioned in this guide are available from the TRA offices listed above or on our web site at:

http://www.finance.gov.ab.ca/publications/tax_rebates/corporate/index.html.

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INTRODUCTION

Who Must File an Alberta Return?

Generally, a corporation must file an Alberta Corporate Income Tax Return (AT1) for each taxation year during which it had, at any time, a “permanent establishment” in Alberta. However, many corporations are exempt from filing (see “Who is Exempt From Filing” below). For an explanation of “permanent establishment”, please refer to [Interpretation Bulletin CTIB-1, “Taxability of a Corporation in Alberta on the Basis of Permanent Establishment”](#).

What Must Be Filed for a Return to be Complete?

For taxation years ending in 1998, a complete Alberta return consists of:

- form AT1 and all applicable schedules **or** the Alberta Return and Schedule Information (RSI); i.e., the keying summary that is produced for the AT1 return by certified software;
- a copy of the federal T2 return and applicable schedules **or** the federal T2-RSI; **and**
- the corporation’s financial statements **or** the General Index of Financial Information (GIFI).

For taxation years ending in 1999 and subsequent years, corporations can file their returns using either the:

- Alberta RSI; or
- prescribed form AT1 and all applicable schedules.

Under either of the above options, there is no need for the corporation to submit copies of the federal T2 return, the corporation’s financial statements or GIFI to Alberta Finance, Tax and Revenue Administration (TRA).

When Does the Alberta Return Have to be Filed?

The return must be **received** by TRA within six months from the end of the corporation’s taxation year.

Who Is Exempt from Filing?

A corporation is exempt from filing an Alberta return for a year if it:

1. is a Canadian-controlled private corporation throughout the taxation year;
2. has permanent establishments only in Alberta throughout the taxation year;
3. has filed a federal T2 return with the Canada Revenue Agency (CRA) and is reporting **no taxable income** before applying losses carried back from a subsequent year and before deducting any amount relating to the exercise of an option in a subsequent year;

4. is **not** claiming the Alberta royalty tax credit and has not received royalty tax credit instalments for the taxation year;
5. has **no amounts** to report on Schedule 5, Royalty Tax Deduction;
6. has discretionary tax account balances (e.g., undepreciated capital cost, reserves, losses) that throughout the year were the same for Alberta and federal purposes; i.e., the corporation has historically reported the same taxable incomes or losses for Alberta and federal purposes;
7. has gross revenue for the year that does not exceed \$500,000; **and**
8. is **not** entitled to a refund of tax instalments.

Under section 35 of the Act, certain corporations (e.g., crown, pension and non-profit corporations) are exempt from paying tax on their taxable incomes. They are also exempt from filing an Alberta return if they meet **ALL** the above criteria. However, an Alberta return must be filed if the corporation is claiming the Alberta royalty tax credit.

Any corporation that has remitted funds to TRA should check the statement of account received from TRA to confirm it is not entitled to a refund of tax instalments under paragraph 8 above. Refunds of any funds remitted will be held until an Alberta tax return is filed.

What Happens if a Corporation Did Not File but Should Have?

A corporation that does not file a return on time for any taxation year is subject to a late filing penalty.

A corporation might not file an Alberta return if it reasonably believed it was exempt from filing only to discover later that it had taxable income. In this case, TRA will use the corporation's filing date with CRA to determine whether a late filing penalty should be charged in Alberta. Interest is charged on overdue taxes whether or not an Alberta return was initially filed.

Effective December 9, 1998, a corporation is required to file the Alberta return in the case described above within ninety days from the later of the date of determining it was not exempt from filing or six months after the corporation's tax year-end.

When Does a Corporation Pay its Alberta Income Tax?

There are three payment rules under the Act:

1. **No monthly instalments required - all tax due by the end of the third month following the taxation year.** This rule is applicable to **Canadian-controlled private corporations**:
 - a) claiming the Alberta Small Business Deduction (ASBD) and having taxable income of not greater than \$500,000 in the current year;
 - b) that claimed the ASBD and had taxable income of not greater than \$500,000 in the immediately preceding year; or
 - c) whose tax for the year, or whose first instalment base, is not greater than \$2,000.

2. **No monthly instalments required - all tax due by the end of the second month following the taxation year.** This rule applies to corporations, **other than Canadian-controlled private corporations**, whose tax for the current year or whose first instalment base is not greater than \$2,000.
3. **Monthly instalments required - balance of tax due by end of the second month following the taxation year.** This rule is applicable to any corporation not described above.

For a detailed discussion of instalment requirements and the calculation of instalment bases, see [Information Circular CT-3, "Alberta Corporate Tax Instalments"](#).

What Happens if Tax Is Not Paid on Time?

Interest on late or deficient instalments is calculated for the period beginning when the instalment was due and ending at the balance due date (two or three months after the year-end depending on the payment rule applicable to the corporation).

Interest is also charged on any balance owing after the balance due date until it is paid. If the corporation pays the amount owing **in full** within 35 days of the date the notice of assessment was mailed, no further interest charges accrue. If the assessed balance is not paid in full within the 35 days, additional interest is charged on the account balance outstanding from the date of assessment until it is paid in full.

If the tax is not paid by the balance due date, as noted above, and the AT1 return is filed late, the corporation is also subject to a late filing penalty. The penalty assessed can be minimized or eliminated by ensuring the taxes owing are paid by the filing due date.

All interest is compounded daily at a rate determined quarterly. [Interest rates can be found on our Internet site](#) or by telephoning TRA.

For more information about interest calculations, see [Information Circular CT-4, "Interest and Penalties"](#).

What Happens if Errors Were Made in a Filed Return or if Canada Revenue Agency (CRA) or Another Jurisdiction Reassesses?

Effective December 9, 1998, if an error is found by the corporation within the normal reassessment period, the corporation must notify TRA of the error within ninety days from the later of the date of discovering the error, or six months after the corporation's taxation year-end to which the error pertains. This notification may be done either by providing TRA with the correct information or by filing an amended return.

Also effective December 9, 1998, if there has been an assessment action by CRA or another jurisdiction that changes tax balances as described in the following paragraph, the corporation must notify TRA of the federal or other jurisdictional assessment action within ninety days from the later of:

- the date of the assessment action, or

- six months from the corporation's taxation year-end to which the assessment pertains.

Assessment information must be filed with TRA where, as a result of assessing a return or conducting an audit, CRA or another jurisdiction changes the corporation's income, taxable income, allocation of taxable income, losses or amounts payable or refundable.

If the corporation does not file the above information, the normal reassessment period is extended indefinitely.

What are the Penalties?

Late-filed Return

If a corporation, other than one that reasonably believes it is exempt from filing, files its Alberta return late, a penalty applies. The penalty is the sum of:

- a) five per cent of the tax remaining unpaid at the required filing date and of any excess royalty tax credit instalments not repaid as of the required filing date; plus
- b) one per cent of the base amount described in a) for each complete month that the return is late, up to a maximum of twelve months.

What happens if a corporation finds out that it is not exempt from filing yet does not file an Alberta return, or discovers an error, or CRA or another jurisdiction reassesses but the corporation does not notify TRA?

If a corporation does not file an Alberta return or provide TRA with the amended information as described above within ninety days of the latest of:

- the date of discovery,
- the date of the federal or other jurisdictional assessment action, or
- six months from the corporation's taxation year-end,

TRA may impose a penalty equal to the sum of:

- a) five percent of the total of any increase in tax and reduction in a refundable credit, unpaid at the end of the ninety-day period; plus
- b) one percent of the base amount described in a) for each complete month that the Alberta return is not filed or the amended information not provided, up to a maximum of twelve months.

Late or Deficient Instalments:

A penalty is imposed on corporations making late or inadequate instalments in addition to any interest charged on late or inadequate instalments, as described previously.

The penalty is equal to 50 per cent of the interest payable for such instalments, less the greater of:

- a) \$1,000; or
- b) 25 per cent of the interest that would have been payable had the corporation paid no instalments in the year.

Offences and Fines:

A corporation that fails to file a return or provide information or documents, as and when required, may be liable to a fine, determined by a court, for each day of default.

Other Penalties:

Penalties or fines may be imposed on individuals or corporations that:

- a) make false or deceptive statements;
- b) destroy, alter or dispose of records and books;
- c) make false or deceptive entries;
- d) evade, or attempt to evade, compliance with the Act or payment of taxes; or
- e) conspire with any person to commit any of the above offences.

For more information about penalties and fines, refer to [Information Circular CT-4, "Interest and Penalties"](#).

Objections and Appeals

If a corporation disagrees with an assessment or reassessment, it may file a *Notice of Objection* within 90 days from the date of mailing of the *Notice of Assessment or Reassessment*. [Information Circular CT-8, "Objections and Appeals"](#), provides additional information about filing an objection.

General Anti-Avoidance Rules (GAAR)

If a corporation has entered into an avoidance transaction, TRA may apply GAAR to ultimately deny the tax benefit arising as a result of the transaction or series of transactions.

There are two types of GAAR assessments or determinations that may be issued by TRA:

1. Alberta-initiated GAAR assessments or determinations, and
2. federal GAAR assessments or determinations paralleled by TRA.

If a corporation disagrees with the GAAR assessments or determinations, it may file a provincial *Notice of Objection* within 90 days from the date of mailing of the assessment or determination. Since 2003, the Alberta GAAR Appeal Committee has been disbanded. All objections and appeals pertaining to GAAR are handled through the normal objection and appeals process. [Information Circular CT-16, "Tax Avoidance, General Anti-Avoidance Rules \(GAAR\)"](#), provides information about TRA's GAAR assessments or determinations.

Collection of Disputed Amounts

Legal collection action is not usually taken on unpaid balances that relate to the portion of an assessment or reassessment under objection or first-level appeal to the courts. If an objection has been made to CRA, and the resolution will be paralleled by Alberta, the corporation must also file an Alberta objection to forestall legal collection action by Alberta on the amount in dispute in Alberta.

Records and Books

In general, all records and books, including all supporting documentation, must be kept for at least six years from the end of the taxation year to which they relate. Electronic records and the software required to read them must be kept in an electronically readable format for the same retention period of six years. If a return is filed late, the records and books must be kept for six years from the date the return is filed. Do not destroy the records and books any earlier without written permission from TRA.

Permanent records such as general ledgers, minutes of directors' and shareholders' meetings, share registers, and special contracts must be kept for a period of two years after a corporation is dissolved.

Records and books that relate to an objection or appeal must be kept until the objection or appeal process is concluded and the time for filing any further appeal has expired.

All records and books must be available in Canada unless the corporation receives written permission from TRA to locate them in a designated alternative location.

Requirements regarding the destruction of records and books are explained in [Information Circular CT-13, "Records and Books"](#).

COMPLETING THE ALBERTA CORPORATE INCOME TAX RETURN (AT1)

Filing Requirements – Complete Form AT100

Complete the Filing Requirements area of the form [AT100, “Preparing and Filing the Alberta Corporate Income Tax Return - AT1 and Schedules”](#) to determine if the corporation is exempt from filing an Alberta return for this taxation year. **If all answers to the eight statements are “YES”, then the corporation is exempt from filing the AT1 for the taxation year. If ANY answer to these statements is “NO”, then the corporation must file the AT1 return within six months of its taxation year-end.**

Any corporation that has remitted funds to TRA should check the Statement of Account received from TRA to confirm it is not entitled to a refund of tax instalments under the heading “Who is Exempt from Filing?” Refunds of any funds remitted will be held until an Alberta tax return is filed.

Completion of Page 1 of the [AT1 Return](#)

If you are required to file, be sure to complete lines 010 through 053 as required, so the corporation can be properly identified and the return appropriately processed.

Line 010: Legal Name of Corporation

On this line enter the full legal name of the corporation including any punctuation. This is the registered name of the corporation and may or may not be the same as its operating name.

Line 011: Operating Name of Corporation

On this line enter the operating name of the corporation if different from the legal name.

Lines 012 to 017: Mailing Address of Business

The address to be supplied on lines 012 to 017 is the address to which Statements of Account, Remittance Advices, refunds (if applicable), publications and correspondence are to be mailed. Notices of Assessment will also be mailed to this address if lines 018 to 024 are not completed and a fax number not provided on line 093.

Lines 018 to 024: Alternative Address

Complete these lines if the corporation would like all correspondence relating to an assessment on this Alberta return forwarded to an address other than its normal mailing address on lines 012 to 017. The Notice of Assessment relating to this return will also be forwarded to this address unless line 093 is completed (see below).

Lines 025 to 027: Person to Contact

Provide the name, telephone number and fax number of the person or firm that TRA should contact concerning the contents of the Alberta return. This area can be used in place of a "Letter of Authority" or Alberta Consent form.

Nature of Business

Describe the major business or professional activity of the corporation. If the corporation has several major lines of business, describe each.

Line 028: Standard Industrial Classification (SIC) Code

The SIC code is used to classify the nature of the primary business operations of the corporation. See the list provided in Appendix A at the end of this Guide.

Line 029: Type of Corporation

The type of corporation indicated on the AT1 will normally be the same as the type of corporation indicated on the federal T2 return, line 040. Exceptions are:

1. the AT1 provides a separate category for Alberta professional corporations. An Alberta professional corporation is a Canadian-controlled private corporation representing the incorporated professional practice of an accountant, dentist, lawyer, medical doctor or chiropractor.
2. the AT1 does **not** provide a separate category for corporations controlled by public corporations. If the controlled corporation is itself a public corporation, enter code number 3; if not, enter code number 5 and describe it as a corporation controlled by a public corporation.
3. a corporation that, at the end of the year but not throughout the year, was a Canadian-controlled private corporation should enter code number 5 and describe the change in corporation type that occurred during the year.

Line 030: Special Corporation Status

On line 030 enter the code corresponding to the description if the corporation is described below:

Code Description

1. Investment corporation, described in Section 130 of the federal Act (i.e., a Canadian public corporation meeting the revenue, income, asset and shareholder composition tests of that section);
2. Mutual fund corporation, described in s.131 of the federal Act;
3. Cooperative, described in s.136 of the federal Act;
4. Credit union, described in s. 137 of the federal Act;
5. Corporation exempt from taxation under s. 149 of the federal Act.

Line 031: Windup of Wholly-owned Subsidiary

Check "YES" if there has been a windup of a wholly-owned subsidiary under section 88 of the federal Act during the current taxation year. Otherwise, check "NO".

Line 034: Alberta Corporate Account Number

Each corporation is identified with a corporate account number. This number can be found on any Notice of Assessment or Reassessment or Statement of Account issued by TRA to the corporation. It also appears on the Certificate of Incorporation if the corporation is registered under the Alberta Business Corporations Act. A corporation can also contact TRA to confirm its Alberta corporate account number. This number should be referred to in all correspondence with TRA.

Line 035: Federal Business Number

The Federal Business Number is the fifteen-character identifier assigned to the corporation by CRA. It is found on Notices of Assessment and Reassessment and Statements of Account issued by CRA.

Lines 036 and 037: Taxation Year

Enter the **year**, **month** and **day** for both the first and last days of the relevant taxation year of the corporation. The first day of this taxation year must be the day immediately following the last day of the preceding year. These dates must be the same as the dates given on the corporation's federal tax return.

Lines 038 and 039: Taxation Year-end Change

If the corporation's taxation year-end has changed since the last return was filed in Alberta, check "YES" on line 038; if not, check "NO".

NOTE: Once established, the taxation year-end may not be voluntarily changed without the approval of CRA. However, a corporation is deemed to have a taxation year-end immediately before it is amalgamated with another corporation or immediately before control of the corporation changes. The requirements for filing a return and paying tax apply to years with deemed year-ends in the same way that they apply to other year-ends. If a corporation's taxation year-end has changed, check the applicable reason for the change on line 039.

Line 047: Gross Revenue

"Gross Revenue" is the total of:

- a) gross sales or revenue shown on the corporation's income statement; plus
- b) gross investment, rental and other income not included in gross revenue under a) above.

Enter the total gross revenue figure (to the nearest thousand dollars) on line 047.

Line 048: Total Assets

“Total Assets” is the book value of all assets of the corporation shown on its balance sheet at the end of the taxation year.

Enter the total assets figure (to the nearest thousand dollars) on line 048.

Lines 050 to 053: Final Return

If the corporation will not be required by law to file an Alberta return in any subsequent taxation year, it should indicate that the return is a final return by checking “YES” on line 050. If this is a final return, specify the reason on line 051 (amalgamation, discontinuance of permanent establishment in Alberta, bankruptcy, windup into parent or dissolution of corporation).

If the reason specified is that an amalgamation has occurred, then enter the date of the amalgamation on line 052.

If the reason for the final return is that the corporation has been dissolved, provide the date that operations ceased on line 053.

Line 054: Transfer of Property

If there has been a transfer of property under subsection 85(1), 85(2) or 97(2) of the federal Act during the year, the corporation should indicate so by checking “YES”; otherwise, check “NO”.

Completion of Page 2 of the AT1 Return

All financial information should be reported to the nearest dollar - **do not include cents**. For manually-prepared returns, enter negative amounts in brackets.

Lines 060 and 061:

The Act adopts most of the rules of the federal Act for determining income and taxable income.

Some of the amounts that may be claimed under these rules are discretionary. For example, a corporation may choose to claim none or any portion of the maximum capital cost allowance. It may, but need not, apply losses that are available from other years or claim the same amounts federally and for Alberta purposes from various reserves. Claiming different discretionary amounts for Alberta and federal purposes could result in a difference between Alberta and federal taxable income.

Differences between Alberta and federal taxable income can also arise from 2003 onwards because of differences in the Alberta and federal resource tax regimes.

In past years, some corporations may have claimed different discretionary amounts for Alberta purposes from those for federal purposes. As a result, these corporations have different discretionary tax account balances for Alberta and federally. For example, the undepreciated capital cost balances in one or more classes may differ, or a reserve balance for Alberta purposes at the end of the last taxation year may be greater, or less, than the corresponding reserve balance for federal purposes.

If taxable income for federal purposes is different from taxable income for Alberta purposes, check "YES" on line 060; otherwise, check "NO". Do not check "YES" unless the difference is greater than one dollar.

If the corporation elected to use different discretionary amounts in the current taxation year **or** if the opening balances of the discretionary pools differ for federal and Alberta purposes, check "YES" on line 061; otherwise, check "NO".

If either line 060 or 061 is checked "YES", Schedule 12, "Income/Loss Reconciliation" and supporting schedules must be completed to reconcile federal and Alberta taxable income and/or discretionary pool balances. For information on the completion of Schedule 12 and other supporting schedules see [Part 2 of this Guide](#).

Line 062:

If both lines 060 and 061 are checked "NO", the taxable income reported on line 062 **must** equal federal taxable income (T2 line 360 minus 370). If the amount reported is a loss, it **must** equal the amount from federal Schedule 4, "Loss Continuity and Application", (line 110 plus 310).

If either, or both, lines 060 or 061 are checked "YES" and the corporation is not reporting a non-capital loss, enter the taxable income amount obtained from Schedule 12, "Income/Loss Reconciliation", line 090 minus 092, if applicable. If the amount reported is a loss, the corporation must complete Schedule 21, "Calculation of Current Year Loss and Continuity of Losses", to calculate the non-capital loss for the current year on line 021 of that Schedule.

Regardless of whether lines 060 and 061 are checked "YES" or "NO", a corporation carrying back a loss to a previous taxation year must complete Schedule 10, "Loss Carry-back Application".

Line 064:

A corporation that has paid royalties or made similar payments to any provincial or federal government may be entitled to claim the royalty tax deduction (RTD). Schedule 5, "Royalty Tax Deduction", must be completed to claim the deduction and, if claimed, the amount to be entered on line 064 is the amount shown on line 021 of Schedule 5.

Line 065:

A corporation is not required to complete Schedule 2, "Income Allocation Factor", if it has a permanent establishment only in Alberta. In this case, no entry should be made on line 065.

A corporation with taxable income and a permanent establishment in Alberta and elsewhere should complete Schedule 2 and enter the applicable Alberta Allocation Factor on line 065.

Refer to [Interpretation Bulletin CTIB-1, "Taxability of a Corporation in Alberta on the Basis of Permanent Establishment"](#), for more detail about permanent establishments and [Interpretation Bulletin CTIB-3, "Allocating Income Among Permanent Establishments"](#), for an explanation of the income allocation rules.

Line 066:

If the corporation has a permanent establishment only in Alberta, then the Alberta Allocation Factor is equal to one, and the amount taxable in Alberta on line 066 is equal to line 062 minus 064.

If the corporation has a permanent establishment in Alberta and elsewhere, then the amount taxable in Alberta on line 066 is equal to the amount obtained when line 062 minus 064 is multiplied by the Alberta Allocation Factor on line 065. If line 062 minus 064 results in a negative amount, enter "0" on line 066.

Lines 068 to 080:

The basic Alberta tax rate of 15.5% since 1998 has been reduced as follows:

- April 1, 2001 from 15.5 per cent to 13.5 per cent;
- April 1, 2002 from 13.5 per cent to 13 per cent;
- April 1, 2003 from 13 per cent to 12.5 per cent;
- April 1, 2004 from 12.5 per cent to 11.5 per cent;
- April 1, 2006 from 11.5 per cent to 10.0 per cent.

The calculation on line 068 prorates the corporation's amount taxable in Alberta for taxation years straddling the effective date of the tax rate reduction.

The basic Alberta tax may be reduced by those credits and deductions listed on lines 070 to 075 applicable to the corporation. The credits and deductions must be claimed in the same order they are listed on the AT1 and the applicable schedule is required to support each credit or deduction claimed.

The amount entered on line 080 may not be a negative number. If the total credits on line 079 exceed the tax payable on line 068, enter "0" on line 080.

Line 076:

Line 076 is for future use should new programs be added.

Line 082:

The amount entered on line 082 will include the sum of:

- a) cash instalments made for the taxation year prior to filing the AT1,
- b) royalty tax credit instalments credited to the income tax instalment account for the taxation year,
- c) overpayments of the preceding taxation year applied to the current year's income tax account, and
- d) repayments of excess royalty tax credit instalments under subsection 38(8).

Ensure the amount entered on line 082 reconciles with the instalment balance reported on the latest Statement of Account received from TRA, adjusted for any transactions that occurred after the period end date on the statement.

Line 083:

On line 083 enter the amount of Alberta royalty tax credit from line 010 of Schedule 6, "Alberta Royalty Tax Credit".

Line 084:

On line 084 enter the amount from line 012 of Schedule 6, the amount of Alberta royalty tax credit instalments claimed/processed for the taxation year. This amount will include Alberta royalty tax credit instalments credited to the corporation's tax account, any amounts applied to arrears and any amounts received in cash by the corporation.

Line 086:

The Alberta capital gains refund is available to investment corporations and mutual fund corporations.

The provisions in the federal Act specifically applicable to investment corporations and mutual fund corporations are, with modification, incorporated into the Act. A corporation claiming a federal capital gains refund may also claim an Alberta capital gains refund.

The capital gains refund calculation follows the rules of the federal act, except that the Alberta Tax rate should be used instead of the federal rate. There is no Alberta schedule for this deduction.

The Alberta capital gains refund is prorated if a corporation has permanent establishments outside Alberta. A corporation may, after filing the Alberta return, be requested to provide a schedule showing the calculation of the Alberta capital gains refund claimed.

Line 087:

Line 087 is for future use should new programs be added.

Line 090: Balance Unpaid (Overpayment)

Although the deadline for filing the corporation's Alberta return is six months after its taxation year-end, the balance of tax owing is due two to three months after its taxation year-end as noted in the section "When Does a Corporation Pay its Alberta Income Tax?" of this Guide.

If a balance remains unpaid after the expiration of the payment deadline, it should be remitted to TRA as quickly as possible to minimize non-deductible interest charges. Payments are to be made in Canadian funds to the Minister of Finance accompanied by a Remittance Advice.

An overpayment of tax for the current year will be applied first to any outstanding balance for other assessed years. The balance remaining will be refunded unless the corporation requests it be transferred to the subsequent taxation year or another account.

To reduce processing costs, TRA will not collect or refund assessed amounts of less than \$20, unless specifically requested to do so.

Line 091:

If the amount on line 090 is a balance due (i.e., a positive amount) and the corporation's payment accompanies the return, then enter the payment amount on line 091.

Line 092:

If the amount on line 090 is an overpayment (i.e., a negative amount), then indicate on line 092 whether the corporation prefers a refund of the amount, or the overpayment applied to the following year's tax payments.

Line 093:

If the Notice of Assessment is to be provided to the corporation by fax, enter the fax number on line 093. If the assessment does not result in a balance owing, a copy of the Notice of Assessment will be faxed, but **not mailed** to the corporation. If the corporation owes tax, a copy of the Notice of Assessment and Remittance Advice will be sent by mail.

Lines 097, 098 and 099: Certification

The return must be reviewed, signed and dated by a person authorized by the board of directors or other governing body of the corporation.

SCHEDULES

SCHEDULE 1: Alberta Small Business Deduction

The Alberta Small Business Deduction (ASBD) is available only to corporations that were Canadian-controlled private corporations throughout the taxation year. Changes to the ASBD rates and the Small Business Threshold are shown in the following table.

	Alberta Small Business Threshold	Threshold as a Multiple of Base Amount of \$200,000	Alberta Small Business Deduction Rate	Alberta Small Business Tax Rate
Before April 1, 2001	\$200,000	100%	9.5%	6.0%
After March 31, 2001 and before April 1, 2002	\$300,000	150%	8.5%	5.0%
After March 31, 2002 and before April 1, 2003	\$350,000	175%	8.5%	4.5%
After March 31, 2003 and before April 1, 2004	\$400,000	200%	8.5%	4.0%
After March 31, 2004	\$400,000	200%	8.5%	3.0%
After March 31, 2006	\$400,000	200%	7.0%	3.0%

Schedule 1 has been redesigned to incorporate the above changes.

Line 001:

The Act adopts the meaning of “associated corporations” from the federal Act. Therefore, corporations that are associated for purposes of the federal Small Business Deduction are also associated for the ASBD.

Area A on page 2 of Schedule 1, “Agreement Among Associated Corporations”, must be completed if the corporation is associated with one or more Canadian-controlled private corporations.

Area A: Agreement Among Associated Corporations (Page 2 of Schedule 1)

If two or more Canadian-controlled private corporations are associated, the **maximum** Alberta small business threshold each corporation may claim is the portion of the small business threshold (\$200,000 before April 1, 2001; \$300,000 after March 31, 2001 and before April 1, 2002; \$350,000 after March 31, 2002 and before April 1, 2003, and \$400,000 after March 31, 2003) that is allocated to it. The allocated amount may be reduced under certain circumstances.

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

For taxation years ending before December 4, 2002, corporations may choose to use the same allocation as those shown on federal Schedule 023 or a different allocation for Alberta purposes. Where the federal allocation is used, the amounts from federal Schedule 023 must be entered in "Area A" on page 2 of Schedule 1. The amount reported on line 015 for each of the associated corporations is then the same as the business limit determined for federal purposes.

For taxation years ending after December 4, 2002, corporations must allocate the Alberta small business threshold by using the same percentages as those used to allocate the federal business limit shown on federal Schedule 023. The federal percentages are to be entered at column 044 in "Area A" on page 2. Corporations are no longer allowed to use different allocations for Alberta purposes.

Similar to the federal Small Business Deduction rules, the base amount of an associated corporation, finally determined, might be less than the amount allocated to it. Area B on page 2 of Schedule 1 must be completed in this case.

Line 003:

The amount to be entered on line 003 will usually be the amount of active business income determined for the federal deduction (line 400 of the federal T2). A difference will arise if, for instance, the corporation's discretionary deductions for Alberta purposes differ from the amounts claimed for federal purposes and if some part of the deductions are a component of active business income. In this case, the amount to be entered on line 003 will be the amount reported on line 106 on Schedule 12.

The amount to be entered on line 003 excludes income from a personal services business (i.e., income earned as an incorporated employee) and income from a specified investment business, whose principal purpose is to earn income from property (e.g., interest, real estate rentals, dividends, or royalties) with fewer than six full-time employees throughout the year.

Income from property not incidental to an active business carried on by the corporation is also not included in active business income. Under this rule, interest earned on long-term investments would ordinarily be excluded from active business income.

Specified Partnership Income

Specified partnership income is eligible for the small business deduction allocated to a corporation. It is included in the corporation's calculation of active business income for determining the small business deduction the corporation may claim.

The rules for determining the specified partnership income for calculating the ASBD parallel the federal rules. The federal calculation, however, must be adjusted to account for increases to the Alberta small business threshold.

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

If the corporation has specified partnership income and the fiscal period of the partnership ends after March 31, 2001, paragraph (b) of "A" in the definition of "specified partnership income" in subsection 125(7) of the federal Act is to be calculated as the aggregate of the amounts determined by the following formulas:

K/L x P,
 K/L x Q,
 K/L x R, and
 K/L x S

"K" and "L" have the meaning assigned to them in the definition of specified partnership income in subsection 125(7) of the federal Act; and

"P" is the lesser of

- i) \$200,000, and
- ii) the amount obtained when \$548 (\$200,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the years that were before April 1, 2001;

"Q" is the lesser of

- i) \$300,000, and
- ii) the amount obtained when \$822 (\$300,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the years that were after March 31, 2001 and before April 1, 2002;

"R" is the lesser of

- i) \$350,000, and
- ii) the product obtained when \$959 (\$350,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the years that were after March 31, 2002 and before April 1, 2003;

and

"S" is the lesser of

- i) \$400,000, and
- ii) the product obtained when \$1096 (\$400,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the years that were after March 31, 2003.

Line 009:

The amount to be entered on line 009 is the taxable income entered on line 062 of page 2 of the AT1 return **less** the total of:

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

- a) 2.5 times the foreign tax credit deducted from federal tax for foreign business income,
- b) 10/3 of the foreign tax credit deducted from federal tax for foreign non-business income, and
- c) amounts included in the amount taxable in Alberta not subject to Alberta corporate income tax.

Line 015:

The Alberta small business threshold is similar to the federal small business limit and is set at the base amount of \$200,000.

Area B on page 2 of Schedule 1, "Determination of the Value for Line 015", must be completed if the corporation's taxation year is less than 51 weeks or if, in the preceding year, any corporation in the associated group paid the federal Large Corporations Tax.

The amount (a) is \$200,000 if the corporation is not associated with another corporation. Otherwise, the allocated base amount from Area A is used.

Area B: Determination Of The Value For Line 015 (Page 2 of Schedule 1)

There are two possible reductions. The first occurs if the corporation has a taxation year of less than 51 weeks. Then the prorated base amount entered in Amount (b) in Area B is:

$$\text{Amount (a) in Area B} \times \frac{\text{\# of days in taxation year}}{365}$$

The second reduction occurs if,

- a) the corporation paid the federal Large Corporations Tax in the preceding taxation year, or
- b) any associated corporation (whether or not a Canadian-controlled private corporation) paid the federal Large Corporations Tax in its last taxation year ending in the preceding calendar year.

Under these circumstances, the **reduction** in the base amount of a taxpayer corporation entered in Amount (c) in Area B is:

$$\text{Amount (a) or (b) in Area B} \times \frac{\text{Gross Part 1.3 tax paid}}{11,250}$$

where:

"Amount (a) or (b) in Area B" is Amount (b) where the corporation has a taxation year shorter than 51 weeks; otherwise it is Amount (a).

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

“Gross Part 1.3 tax paid” is the total Large Corporations Tax to a maximum of \$11,250, before proration for short years and before the credit for federal corporate surtax, paid by the taxpayer corporation in its preceding taxation year and by its associated corporations for their latest tax years ending in the preceding calendar year.

Income Eligible for the Alberta Small Business Deduction:

Only active business income earned in Canada and allocated to Alberta is eligible for the Alberta Small Business Deduction. The Alberta Small Business Allocation Factor on line 21 is derived from the Alberta Allocation Factor in column I of Schedule 2. The Alberta Allocation Factor must be adjusted to remove from it any consideration of jurisdictions outside Canada because the Alberta Small Business Allocation Factor is applied only to income from active businesses carried on in Canada.

Line 019:

If the corporation does not have a permanent establishment outside Alberta, enter “0” on line 019 or leave the line blank. If the corporation has a permanent establishment outside Alberta, enter the amount of “Total Salaries and Wages Paid in Jurisdiction – Outside Canada” from line 127 of federal Schedule 5.

Line 020:

If the corporation does not have a permanent establishment outside Alberta, enter “0” on line 020 or leave the line blank. If the corporation has a permanent establishment outside Alberta, enter the amount of “Gross Revenues Attributable to Jurisdiction – Outside Canada” from line 167 of federal Schedule 5.

Line 021:

Line 021 is the Alberta Small Business Allocation Factor that would be determined if, during the taxation year, the corporation had no permanent establishment in a country other than Canada. For a corporation allocating income under any federal regulation from 402 to 409 or 411, it is equal to the Alberta Allocation Factor on Schedule 2 of the Alberta return, adjusted by removing the “Outside Canada Amounts” on lines 019 and 020. The adjustment is made by reducing the Amount B in the calculation of the Alberta Allocation Factor on Schedule 2 by the amount on line 019, and by reducing the Amount D by the amount on line 020. For a corporation allocating income other than by the federal regulations listed above, manual calculation may be required to remove the “Outside Canada Amounts” for calculating the Alberta small business allocation factor.

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

Example: Calculation of the Alberta Small Business Allocation Factor

Alberta Allocation Factor (per Schedule 2)

Amount A	\$5
Amount B	\$10
Amount C	\$15
Amount D	\$20
Value on line 019 of Schedule 1	\$2
Value on line 020 of Schedule 1	\$3

$$\text{Alberta Allocation Factor} = (A/B + C/D) \times \frac{1}{2}$$

$$\text{Alberta Allocation Factor} = (5/10 + 15/20) \times \frac{1}{2}$$

$$\text{Alberta Allocation Factor} = (0.50 + 0.75) \times \frac{1}{2}$$

$$\text{Alberta Allocation Factor} = 0.625000$$

$$\text{Alberta Small Business Allocation Factor} = [A/(B - \text{line 019}) + C/(D - \text{line 020})] \times \frac{1}{2}$$

$$\text{Alberta Small Business Allocation Factor} = (5/8 + 15/17) \times \frac{1}{2}$$

$$\text{Alberta Small Business Allocation Factor} = (0.625000 + 0.882353) \times \frac{1}{2}$$

$$\text{Alberta Small Business Allocation Factor} = 0.753676$$

The Alberta Small Business Allocation Factor will never be greater than 10000.

Line 031:

The Alberta Small Business Deduction (ASBD) Rate and the Small Business Threshold have changed as set out in the chart on p. 14, Schedule 1, "Alberta Small Business Deduction". The calculations in Column G determine the ASBD for the portions of the taxation year before and after these changes.

The ASBD available to the corporation for the year is then calculated by adding the amounts in Column G.

The deduction available in a taxation year cannot be greater than the amount determined by multiplying the amount taxable in Alberta on line 066 on page 2 of the AT1 return by the applicable ASBD rate.

For further information, please refer to [Information Circular CT-17, "Alberta Small Business Deduction"](#).

The amount entered on line 031 of Schedule 1 must be entered on line 070 on page 2 of the AT1 to claim the Alberta Small Business Deduction.

SCHEDULE 2: Allocation of Income

A corporation with permanent establishments in Alberta and in other jurisdictions must calculate the portion of its taxable income that is allocated to Alberta. Such a corporation must file a Schedule 2.

The definition of “permanent establishment” is the same in the Act as it is in the federal regulations, **with one important difference**: effective for taxation years beginning after December 4, 2003, the Act states that, if a corporation resident in Canada does not otherwise have a permanent establishment in Canada, it is deemed to have a permanent establishment in the place where it has its registered office or in a place designated in its articles, charter or bylaws as its office or registered office. Therefore, for the most part, the determination of whether or not a corporation has a permanent establishment in Alberta will already have been made while completing the federal tax return. The same determination will apply for the Alberta return.

For additional information about permanent establishment, refer to [Interpretation Bulletin CTIB-1, “Taxability of a Corporation in Alberta on the Basis of Permanent Establishment”](#). For more detail about income allocation, refer to [Interpretation Bulletin CTIB-3, “Allocating Income Among Permanent Establishments”](#).

Line 001: Special Allocation Rule

The following corporations are subject to the special allocation rules provided in sections 403 to 412 of the federal regulations:

- | | | | |
|-------------------------------|----------|----------------------------|----------|
| • insurance corporations | Reg. 403 | • grain elevator operators | Reg. 408 |
| • chartered banks | Reg. 404 | • ship operators | Reg. 410 |
| • trust and loan corporations | Reg. 405 | • bus and truck operators | Reg. 409 |
| • railway corporations | Reg. 406 | • pipeline operators | Reg. 411 |
| • airline corporations | Reg. 407 | • divided businesses | Reg. 412 |

A corporation that conducts one of the businesses listed in federal regulations 403 to 411 in conjunction with another business is a divided business (see below).

If the corporation is subject to any of these regulations, indicate “YES” on line 001 and complete the applicable portion of Area B of Schedule 2.

If the answer on line 001 is “NO”, the corporation should complete only **Area A** of Schedule 2.

All required information for completing Area A or B may be obtained from federal Schedule 5 – “Tax Calculation Supplementary - Corporations” which must accompany the federal T2 return.

Descriptions of the required components of the various formulae in Areas A and B are provided on Schedule 2.

