



Finance

Tax and Revenue Administration

GUIDE TO COMPLETION OF ALBERTA ROYALTY TAX CREDIT- AT1 SCHEDULE 6 CROWN ROYALTY SHELTER

The Alberta Corporate Tax Act

2007

December 2007

Alberta discontinued its ARTC program for corporations effective January 1, 2007. To facilitate this, revisions have been made to the *Alberta Corporate Tax Act* (the Act) with respect to the calculation of the crown royalty shelter (CRS) for corporations.

The CRS is the maximum amount of Alberta crown royalty on which a corporation may claim Alberta Royalty Tax Credit (ARTC) in a year. The CRS of a corporation is to be calculated as follows, depending on whether the corporation is associated with another corporation or is a member of a partnership. In calculating the CRS, the corporation or partner should use its entire Alberta Crown Royalty (ACR) in the calculation, and not just the amount needed to claim the maximum ARTC.

ACR of a corporation must be tracked before and after December 31, 2006. Please see Information Circular [CT-18R3, "Alberta Royalty Tax Credit"](#) for details on how to calculate ACR of a corporation. Note: the ACR calculated for the period after December 31, 2006 is considered ACR only for calculating CRS in this guide.

CRS for a Corporation that is not associated with any other corporation.

Enter the CRS of the corporation on Line 006 on page 1 of Schedule 6. Calculate the CRS for the corporation as follows.

- 1. The Corporation has a taxation year that ends after December 31, 2004 and before January 1, 2007.**

Prorate the CRS of the corporation on a daily basis. Multiply (\$2,000,000/365) by the number of days in the taxation year of the corporation before January 1, 2007.

2. **The Corporation has a taxation year beginning in 2006 and ending in 2007, and is not a member of a partnership.**

Prorate the CRS of the corporation on a daily basis. Multiply (\$2,000,000/365) by the number of days in the taxation year of the corporation before January 1, 2007.

3. **The Corporation has a taxation year beginning after December 31, 2006, and is a member of one or more partnerships, which have fiscal periods commencing in 2006 and ending in 2007 in the taxation year of the corporation.**

The CRS of the corporation for that taxation year is the sum of the amount for each of those partnerships as determined by the following formula:

$$\$2,000,000 \times \frac{A}{365} \times \frac{B}{C}$$

where

A is the number of days in the partnership's fiscal period in 2006,

B is the ACR deemed by subsection 26.1(12) or 26.1 (12.1) of the Act to be ACR of the corporation for the year from the particular partnership,

and

C is the total ACR of the corporation for the year.

For example:

A corporation has a 12-month taxation year commencing on January 1, 2007 with ACR of \$200,000. The corporation is a partner in a partnership that has a 12-month fiscal period ending on November 30, 2007, with ACR of \$100,000 allocated to the corporation. In this example the variables would be as follows:

A: 31

B: \$100,000

C: \$300,000 (\$200,000 + \$100,000)

The formula would be calculated as follows:

$$\$2,000,000 \times \frac{31}{365} \times \frac{\$100,000}{\$300,000} = \$56,621$$

4. **The Corporation has a taxation year beginning in 2006 and ending in 2007, and is a member of one or more partnerships, which have fiscal periods commencing in 2006 and ending in 2007 in the taxation year of the corporation.**

The CRS of the corporation for that fiscal year is the sum of the amounts determined by the following formulas.

$$(a) \quad \$2\,000\,000 \times \frac{E}{365} \times \frac{D}{C}$$

where

E is the number of days in the corporation's taxation year in 2006,

D is the difference between the ACR of the corporation for the year and the ACR deemed by subsection 26.1(12) or 26.1(12.1) of the Act to be ACR of the corporation for the year from all partnerships (i.e., D is the ACR incurred by the corporation directly), and

C is the total Alberta crown royalty of the corporation for the year

and

- (b) The aggregate of the amounts determined by the application of the following formula for each partnership referred to above

$$\$2\,000\,000 \times \frac{A}{365} \times \frac{B}{C}$$

where

A is the number of days in the partnership's fiscal period in 2006,

B is the ACR deemed by subsection 26.1(12) or 26.1(12.1) of the Act to be ACR of the corporation from the particular partnership, and

C is the total ACR of the corporation for the year.

For example:

A corporation has a 12-month taxation year ending June 30, 2007 with ACR of \$200,000. The corporation is a partner in partnership that has a 12-month fiscal period ending on May 31, 2007, with Alberta crown royalty of \$100,000 allocated to the corporation.

In this example there are two steps to the calculation that are summed up. The variables for the calculations are as follows:

A: 214

B: \$100,000

C: \$300,000 (\$200,000 + \$100,000)

D: \$200,000 (\$300,000 - \$100,000)

E: 184

The calculation is the sum of the following formula's:

$$\$2,000,000 \times \frac{E}{365} \times \frac{D}{C}$$

and

$$\$2,000,000 \times \frac{A}{365} \times \frac{B}{C}$$

that is

$$\$2,000,000 \times \frac{184}{365} \times \frac{\$200,000}{\$300,000} = \$672,146$$

and

$$\$2,000,000 \times \frac{214}{365} \times \frac{\$100,000}{\$300,000} = \$390,868$$

The total of the two calculations equals \$1,063,014 (\$672,146 + \$390,868).

CRS for Associated Corporations

The entire associated group of companies has to share the maximum CRS available. Enter on line 006 that portion of the CRS allocated to the corporation on page 2 of Schedule 6. The CRS for the associated group is to be calculated as follows.

- 5. The Corporation is associated with one or more corporations having taxation year-ends in 2007, one or more of which have a taxation year commencing before 2007, and none of the associated corporations is a member of a partnership with ACR.**

The aggregate CRS of the corporations for that taxation year in which they are associated is the amount determined by the following formula:

(\$2,000,000/365) multiplied by the number of days before January 1, 2007 in the taxation year of the corporation with the most days in its taxation year before January 1, 2007.

For example:

Corporation A has a taxation year ending June 30, 2007. An associated corporation, Corporation B has a fiscal year ending on March 31, 2007.

In this example the calculation is performed for Corporation B, since it has the most days in its taxation year before January 1, 2007. The calculation is as follows:

$(\$2,000,000/365) \times \text{number of days before January 1, 2007}$

that is

$(\$2,000,000/365) \times 275 = \$1,506,849$

Corporation A and B must allocate \$1,506,849 between them.

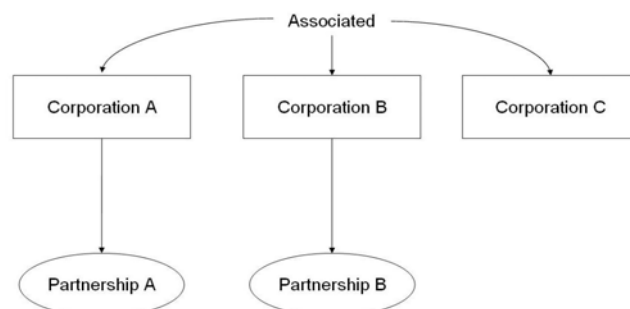
- 6. The Corporation is associated with one or more corporations, all the corporations have taxation years ending in 2007, and situations like those described in paragraph 3 or 4 above would apply to one or more of the corporations as if they were not associated with any other corporation.**

The aggregate CRS of the corporations for that taxation year in which they are associated is the amount that is the greater of:

- the CRS of the corporation with the greatest CRS for that taxation year determined using the formulas in paragraphs 2, 3 and 4 as if it were not associated, or
- $(\$2,000,000/365)$ multiplied by the number of days before January 1, 2007 in the taxation year of the corporation in the associated group with the greatest number of days before January 1, 2007.

For example:

Paragraph 6 applies where there are two or more associated companies, and one or more of the associated corporations are partners in a partnership with fiscal periods commencing in 2006 and ending in 2007. One possible corporate structure is outlined in the chart below.



The variables in the situation shown in the above chart are set out as follows:

Corporation A

12-month taxation year ending June 30, 2007

ACR incurred in the corporation: \$100,000

Partnership A

12-month fiscal year ending March 31, 2007

ACR incurred in the partnership allocated to corporation A: \$500,000

Corporation B

12 month taxation year ending December 31, 2007

ACR incurred in the corporation: \$500,000

Partnership B

12-month fiscal year ending January 31, 2007

ACR incurred in the partnership allocated to corporation B: \$200,000

Corporation C

12-month taxation year ending May 31, 2007

ACR incurred in the corporation: \$500,000

In this example the corporations are listed below with the paragraph above identified for each:

Corporation A: paragraph 4

Corporation B: paragraph 3

Corporation C: paragraph 2

In this example, calculations as described in paragraphs 2 to 4 are made for each corporation depending on which situation applies, then step (b) is calculated for the corporation with the greatest number of days in its taxation year before January 1, 2007.

Example Step a)

Corporation A (completion of paragraph 4 calculations)

The sum of:

$$\$2\,000\,000 \times \frac{E}{365} \times \frac{D}{C}$$

and

$$\$2,000,000 \times \frac{A}{365} \times \frac{B}{C}$$

that is

$$\$2\,000\,000 \times \frac{184}{365} \times \frac{\$100,000}{\$600,000} = \$168,037$$

and

$$\$2,000,000 \times \frac{275}{365} \times \frac{\$500,000}{\$600,000} = \$1,255,708$$

Total = \$1,423,745

Corporation B (completion of paragraph 3 calculations)

$$\$2,000,000 \times \frac{A}{365} \times \frac{B}{C}$$

that is

$$\$2,000,000 \times \frac{334}{365} \times \frac{\$200,000}{\$700,000} = \$522,896$$

Corporation C (completion of paragraph 2 calculations)

$$\frac{\$2,000,000}{365} \times 214 = \$1,172,603$$

Corporation A has the greatest CRS of \$1,423,745 in this example.

Example Step b)

Corporation C has the most days in 2006 in this example, therefore, calculate step (b) as follows:

$$(\$2,000,000/365) \times 214 = \$1,172,603$$

The result of the above exercise is to determine that the greater of the CRS calculation from steps (a) and (b) is \$1,423,745. This is the Alberta CRS of the associated group of companies, and must be allocated between the associated corporations.

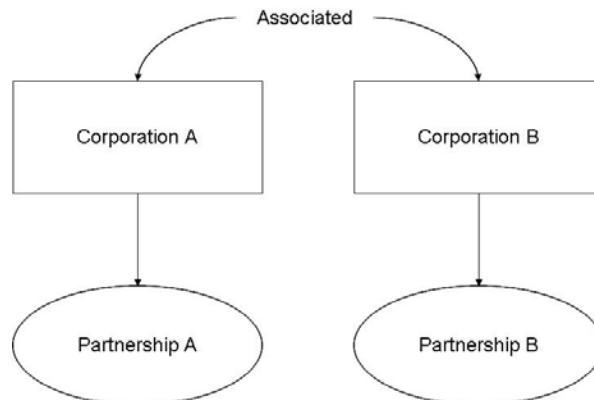
7. **The Corporation is associated with one or more corporations, all the corporations have taxation years ending in 2008, and one or more of those corporations is a member of one or more partnerships with fiscal periods beginning in 2006.**

The aggregate CRS to be shared by the associated group of corporations for the taxation year in which they are associated is the amount that is calculated as the greater of:

- (a) the greatest amount calculated using the formulas in paragraph 3 as if the corporations were not associated, or
- (b) $(\$2,000,000/365)$ multiplied by the number of days before January 1, 2007 in the fiscal period of the partnership with the greatest number of days before January 1, 2007.

For example:

One possible corporate structure is outlined in the chart below.



The variables in the situation shown in the chart above are set out as follows:

Corporation A

12-month taxation year ending March 31, 2008

ACR incurred in the corporation: \$100,000

Partnership A

12-month fiscal year ending June 30, 2007

ACR incurred in the partnership allocated to corporation A: \$500,000

Corporation B

12-month taxation year ending January 31, 2008

ACR incurred in the corporation: \$500,000

Partnership B

12-month fiscal year ending May 31, 2007

Alberta crown royal incurred in the partnership allocated to corporation B: \$200,000

Example Step a)

Corporation A (completion of paragraph 3 calculations)

$$\$2,000,000 \times \frac{A}{365} \times \frac{B}{C}$$

that is

$$\$2,000,000 \times \frac{184}{365} \times \frac{\$500,000}{\$600,000} = \$840,183$$

Corporation B (completion of paragraph 3 calculations)

$$\$2,000,000 \times \frac{A}{365} \times \frac{B}{C}$$

that is

$$\$2,000,000 \times \frac{214}{365} \times \frac{\$200,000}{\$600,000} = \$335,029$$

365 \$700,000

Corporation A has the greater CRS of \$840,183 under step a) of this example.

Example Step (b)

Partnership B has the most days in 2006 in this example, therefore, calculate step (b) in the previous example as follows:

$$(\$2,000,000/365) \times 214 = \$1,172,603$$

The result of the above exercise is that the greater of the CRS calculated from steps a) and b) is \$1,172,603. This is the Alberta CRS of the associated group of companies, and must be allocated between the associated corporations

Maximums

8. There are also new mutually-exclusive provisions dealing with the maximum CRS that can be allocated to a corporation in an associated group.
 - a) Where a corporation is associated with one or more corporations with taxation years ending in 2007, CRS allocated to the corporation cannot exceed:

(\$2,000,000/365) multiplied by the number of days in the taxation year of the corporation before January 1, 2007.
 - b) Where, in a taxation year ending in 2007 or 2008, a corporation is associated with one or more corporations and is a member of one or more partnerships whose fiscal periods ending in the particular year began before January 1, 2007, the CRS allocated to the corporation cannot exceed:

\$2,000,000/365 multiplied by the greater of:
 - (i) the number of days before January 1, 2007 in the fiscal period of the partnership with the greatest number of days before January 1, 2007, or
 - (ii) The number of days in the taxation year of the corporation before January 1, 2007.

Royalty Credit for Individuals and Trusts (RCIT)

9. Paragraphs 1, 2, 3 and 4 above apply when calculating CRS for Royalty Credit for Individuals and Trusts. Note: RCIT claims are completed on Form AT60, "Alberta Royalty Credit and Alberta Tax Refunds Application For Individuals".

For additional forms or information, please contact:

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9811-109 St.
EDMONTON, AB T5K 2L5

General Inquiries/Forms:
(780) 427-3044

Fax:
(780) 422-3770

Alberta callers outside Edmonton and Calgary may telephone toll free by entering 310-0000, then the applicable general inquiries or fax number shown above.

You may also contact us by e-mail at: tra.revenue@gov.ab.ca

This Guide makes references to an information circular for more detail. The circular is available on Alberta Finance's website at:

http://www.finance.alberta.ca/publications/tax_rebates/corporate/ct18.html

Printed copies are also available from one of the Tax and Revenue Administration (TRA) offices listed above.