

Business and Professional Income

2002

Before You Start

Is this guide for you?

Use this guide if you are a self-employed businessperson (which includes a self-employed commission salesperson) or a professional. It will help you calculate the business or professional income you will report on your 2002 income tax return*.

Forms and publications

In the middle of this guide, you will find two copies of Form T2124, *Statement of Business Activities*, and Form T2032, *Statement of Professional Activities*. The forms are provided to help you calculate your income and expenses for income tax purposes. We encourage you to use them. However, we will continue to accept other types of financial statements.

What's New for 2002

New legislation allows, after 2001, full deductibility for the cost of meals provided to an employee housed at a temporary work camp constructed or installed specifically for the purpose of providing meals and accommodation to employees working at a construction site. For more information, see Line 8523 – Meals and Entertainment on page 16.

You have to complete a separate form for each business or professional activity you operate. For more information, see Interpretation Bulletin IT-206, *Separate Businesses*.

Throughout the guide, we also refer to other forms and publications. If you need more copies of Form T2124, Form T2032, or any other forms or publications, visit our Web site at www.ccra.gc.ca. You may want to bookmark this address for easier access to our site in the future. You can also order forms and publications by calling us at 1-800-959-2221.

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

Do you need more information?

This guide uses plain language to explain the most common tax situations. If, after reading this guide, you need more information about businesses or professional activities, call our Business Enquiries line at 1-800-959-5525.

Visually impaired persons can order publications in braille or large print, or on audio cassette or computer diskette, by calling 1-800-267-1267 weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

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Chapter 1 – General Information

This chapter has general information for all businesses (including self-employed commission sales) and professional activities. It also provides information specifically for partnerships.

Business and business income

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

- a profession;
- a calling;
- a trade;
- a manufacture;
- an undertaking of any kind; and
- an adventure or concern in the nature of trade (for more details, see Interpretation Bulletin IT-459, *Adventure or Concern in the Nature of Trade*).

Business income includes income from any activity you do for profit. For example, income from a service business is business income. However, you do not include employment income as business income.

Note

Include all your income when you calculate it for tax purposes. If you repeatedly fail to report all your income, you may be subject to a penalty of 10% of the amount you failed to report.

You were asking?

- Q.** When does a business start? Can I deduct the costs I incur before and during the start of a business?
- A.** We look at each case on its own merits. Generally, we consider that a business starts whenever you start some significant activity that is a regular part of the business, or that is necessary to get the business going.

For example, suppose you decide to start a merchandising business and you buy enough goods for resale to start the business. At this point, we would consider that the business has started. You can usually deduct expenses you have incurred from that date to earn the business income. You could still deduct the expenses even if, despite all your efforts, the business ended. On the other hand, assume you review several different business prospects in the hope of going into a business of some kind. In this case, we would not consider that the business has started, and you could not deduct any of the costs you incur.

For more details about starting a business, see Interpretation Bulletin IT-364, *Commencement of Business Operations*.

The law allows Statistics Canada to access business information collected by Canada Customs and Revenue Agency (CCRA). Statistics Canada can now share with provincial statistical agencies, for research and analysis purposes only, data concerning business activities carried on in their respective province.

How do you report your business income?

Fiscal period

You report your business income based on a fiscal period. A **fiscal period** is the time covered from the day your business starts its business year to the day your business 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 an alternative method of reporting your business income that allows you to keep a fiscal period that does not end on December 31. If your fiscal year-end is not December 31, you will need the *Reconciliation of Business Income for Tax Purposes* guide to calculate the amount of business income to report on your 2002 income tax return. The publication includes Form T1139, *Reconciliation of 2002 Business Income for Tax Purposes*.

If you filed Form T1139 with your 2001 income tax return, generally you have to file that form again for 2002.

Accrual method

In most cases, as a self-employed person, you report business income by using the accrual method of accounting. With this method, you:

- report your income in the fiscal period you earn it, regardless of when you receive the income; and
- deduct expenses in the fiscal period you incur them, whether you paid them in that period or not. **Incur** usually means you either paid or will have to pay the expense.

As we said earlier, income from professional activities is business income. Therefore, you report it using the accrual method. Chapter 2 has more details about professionals.

Cash method

If you are a self-employed commission sales agent, you can use the cash method of reporting your income and expenses, as long as it accurately shows your income for the year. Under this method, you:

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

Business records

You have to keep records of all your transactions to support your income and expense claims.

Here are some benefits of keeping complete and organized records:

- When you earn income from many places, good records help you identify the source of the income. Unless you keep proper records, you may not 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 help from banks and other lenders.
- Good records can prevent problems you may run into if we audit your income tax returns.

Income records

Keep track of the gross income your business earns. Gross income is your total income before you deduct the cost of goods sold and expenses. Your income records should show 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, patient cards, fee statements, contracts, and so on.

Here is an example of how to record your income.

Sales Journal – Month of June

	Date	Particulars	Cash sales (1) *	Credit sales (2) *	Sales returns (3) *	Total sales (4) *	GST/ HST (7%)/ (15%) (5) **	PST (7%) (6)	Payment on account (7)
1	June 1	Daily sales	146.00	27.00		173.00	12.11	12.11	10.00
2	June 2	Daily sales	167.00	36.25	26.00	177.25	12.41	12.41	
3	June 3	Daily sales	155.02	19.95	10.01	164.96	11.55	11.55	32.40
4	June 4	Daily sales	147.00	29.95		176.95	12.39	12.39	
5									
6									
7									
8									
9									

* Does not include goods and services tax/harmonized sales tax (GST/HST) or provincial sales tax (PST).

** If you sell to a resident in one of the participating provinces, GST and PST are replaced by HST at 15%. For more information on HST, see the *General Information for GST/HST Registrants* guide.

On June 1, you examine the sales invoices and cash register tapes. You find that you had cash sales of \$146 and sales on account of \$27. In the sales journal, you record the cash sales in column 1 and credit sales in column 2. Since there were no merchandise returns on June 1, leave column 3 blank. Column 4 then shows the total of your cash sales plus credit sales minus any merchandise returned for the day. In columns 5 and 6, show the total GST and PST or HST you charged on your sales.

In column 7, keep track of any cash received on previous credit sales. Don't include the amount in the daily sales figures, since you would have included it in the sales figures on the day the sale took place.

Expense records

Always get receipts or other vouchers when you buy something for your business. When you buy merchandise or services, the receipts have to show:

- the date of the purchase;
- the name and address of the seller or supplier;
- the name and address of the buyer; and
- a full description of the goods or services.

Here is an example of how to record your expenses.

Expense Journal – Month of June

Date	Particulars	Cheque No.	Bank	GST*	Purchases	Legal & Acct.	Adv.	Fees	Repairs	Capital items
June 1	XYZ Radio	407	374.50	24.50			350.00			
June 1	Smith Hardware	408	27.47	1.80					25.67	
June 2	City of Ottawa	409	160.50	10.50				150.00		
June 3	Andy's Accounting	410	267.50	17.50		250.00				
June 5	Wholesale Supply Inc.	411	1,871.58	122.44	1,749.14					
June 5	Ed's Used Cars	412	1,605.00	105.00						1,500.00

* If you reside in one of the participating provinces, GST is replaced by HST. For more information on HST, see the guide called *General Information for GST/HST Registrants*.

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 journal.

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

A. When you buy something, make sure you ask for a receipt. Sometimes, however, suppliers may not provide receipts. In this case, write the information in your records. Show the name and address of the supplier, the date you made the payment, the amount you paid, and the details of the transaction.

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 claim for capital cost allowance and other amounts.

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.

Your record books

Keep a record of your daily income and expenses. We do not issue record books or suggest any type of book or set of books. There are many record books and bookkeeping systems available. For example, you can use a book that has columns and separate pages for income and expenses.

Keep your books, along with 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, keep them in case we ask to see them later.

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 reduce the expenses you deducted.

Time limits

Depending on the situation, keep your books and records and related vouchers for the following lengths of time:

- If you file your return on time, keep your records for a minimum of six years after the end of the taxation year to which they relate.
- If you file your return late, keep your records for six years after the date you file that return.
- If you file an objection or appeal, keep your records until either the issue is settled and the time for filing any further appeal expires, or the six-year period mentioned above has expired, whichever is later.

If you want to destroy your records before the minimum six-year period is over, you must first get written permission from the director of your tax services office. To do this, either use Form T137, *Request for Destruction of Books and Records*, or prepare your own written request. For more details, see Information Circular 78-10, *Books and Records Retention/Destruction*, and its Special Release.

Instalment payments

As a self-employed person, you may have to make instalment payments for 2003. Your 2003 instalment payments are due on March 15, June 15, September 15, and December 15. If you have to pay by instalments, we will send you a notice telling you how much to pay.

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

For more information, see the pamphlet called *Paying Your Income Tax by Instalments*. If you would like to calculate your instalment payments, use Form T1033-WS, *Worksheet for Calculating 2003 Instalment Payments*.

Note

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

Dates to remember

February 28, 2003 – If you have employees, file your 2002 T4 and T4A returns. Also, give your employees their copies of the T4 and T4A slips.

March 15, 2003 – Make your first 2003 instalment payment.

March 31, 2003 – Most partnerships will file a partnership information return (PIR) by March 31, 2003. However, there are exceptions. See the *Guide for the Partnership Information Return*, and Information Circular 89-5, *Partnership Information Return*, and its Special Release.

April 30, 2003 – Pay any balance owing. File your 2002 income tax return if the expenditures of the business are mainly the cost or capital cost of tax shelter investments.

June 15, 2003 – Make your second 2003 instalment payment. File your 2002 income tax return if you have self-employment income, or if you are the spouse or common-law partner of someone who does, unless the expenditures of the business are mainly the cost or capital cost of tax shelter investments. Remember in every case to pay any balance owing by April 30, 2003, to avoid interest charges.

September 15, 2003 – Make your third 2003 instalment payment.

December 15, 2003 – Make your fourth 2003 instalment payment.

Note

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

What is a partnership?

A partnership is usually the relationship between persons who conduct a business in common with the belief they will make a profit. You can have a partnership without a written agreement. Therefore, to determine if you are a partner, determine the type and extent of your involvement in the business. See the laws of your province or territory to help you decide if you are a partner in a certain business.

When you form, change, or dissolve a partnership, consider:

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

For more details about partnerships, see Interpretation Bulletin IT-90, *What is a Partnership?* and Interpretation Bulletin IT-138, *Computation and Flow-Through of Partnership Income*.

Reporting partnership income

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

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

If you are a partner of a partnership and you claim expenses on your income tax return, you may be able to get a rebate for any GST/HST you paid on the expenses.

The rebate is available to you as long as you meet **both** these conditions:

- you are a partner of a GST/HST-registered partnership; and
- on your income tax return, you deduct expenses incurred to earn partnership income for which the partnership did not repay you.

We base the rebate on the amount of the expenses subject to GST/HST that you deduct on your income tax return. Examples of expenses subject to GST/HST are vehicle costs, meals, and entertainment. You can also get a GST/HST rebate for capital cost allowance (CCA) you claim on certain types of property (e.g., if you claim CCA for a vehicle you bought to earn partnership income, and you paid GST/HST when you bought the vehicle). Use the chart "Other amounts deductible from your share of net partnership income (loss)" on page 2 of Form T2124 or Form T2032 to claim expenses for which the partnership did not reimburse you and any other deductible amounts. For more information, see page 24.

For more details about the GST/HST rebate, see the guide *GST/HST Rebate for Partners*, which includes Form GST370, *Employee and Partner GST/HST Rebate Application*.

Partnership losses

A partnership can have a loss. However, apply the loss carry-over rules to each partner, and not to the partnership. For example, when you complete your own income tax return, combine your share of the partnership non-capital losses with any other non-capital losses you have in the year. Apply this amount against your income using the usual loss carry-over rules.

Partnerships that have to file a partnership information return

A partnership with six or more partners at any time in the fiscal period has to file a partnership information return (PIR). If a partnership has five partners or less throughout the whole fiscal period and one or more of its partners is another partnership, it also has to file a PIR. There are other situations where you have to file a PIR. For more

information, see the *Guide for the Partnership Information Return*.

If you are a partner of a partnership that has to file a PIR, you should get two copies of a T5013 slip, *Statement of Partnership Income*, from the partnership. If you do not receive this form, contact the person who prepares the forms for the partnership.

On your income tax return, report the gross partnership income and your share of the net partnership income or loss. You will get these amounts from your T5013 slip. Attach a copy of your T5013 slip to your income tax return. Do not attach the partnership's income and expense statement.

You may need to adjust your share of the net partnership income or loss shown on your T5013 slip. Do this to deduct any business expenses you incur for which the partnership did not repay you, and for any other deductible amounts. If this is your situation, read "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" on page 24. You may also have expenses related to the business use of your home. For more information, see page 24.

The *Guide for the Partnership Information Return* has more details about the PIR.

Partnerships that do not have to file a partnership information return

Generally, partnerships with five partners or less throughout the whole fiscal period, and with no partner who is another partnership, do not have to file a PIR. For more information, see the *Guide for the Partnership Information Return*.

If you are a partner of a partnership that does not have to file a PIR, calculate the partnership's income and expenses using the same rules you would use for a proprietorship. Calculate the partnership's income and expenses as if the partnership was a separate person. Some rules for capital cost allowance and eligible capital expenditures on partnership-owned property are different. We explain these rules below.

Capital cost allowance (CCA)

A partnership can own depreciable property and claim CCA on it. As an individual partner, you 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 also reduce capital cost by any type of government assistance. See Chapter 4 for more details about CCA and the adjustments to capital cost.

Any taxable capital gain or recapture from the sale of property the partnership owns is income of the partnership. Also, any allowable capital or terminal loss from the sale of partnership-owned property is the loss of the partnership. For more details about capital gains and losses, as well as recapture and terminal losses, see Chapter 4.

Eligible capital expenditures

A partnership can own eligible capital property and deduct an annual allowance. Any income from the sale of eligible capital property the partnership owns is income of the partnership. For more details about eligible capital expenditures, see Chapter 5.

Limited partnership

A limited partnership is a partnership that gives its limited partners responsibilities that are similar to those given to shareholders of a corporation. A limited partner's liability as a partner of the partnership is limited, as opposed to that of a general partner.

Investment tax credit

The investment tax credit (ITC) lets you subtract, from the taxes you owe, part of the cost of some types of property you acquired or expenditures you incurred. You may be able to claim this tax credit if you bought qualifying property, incurred qualified expenditures, or received renounced Canadian exploration expenses in 2002. You may also be able to claim the credit if you have unused ITCs from years before 2002. For more details about ITCs, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

Chapter 2 – Income from Business or Professional Activities

Sole proprietorships

If you are a sole proprietor, complete all the applicable areas and lines on Form T2124, *Statement of Business Activities*, or Form T2032, *Statement of Professional Activities*.

Partnerships

The details of your business or professional activities that you have to give us depend on the type of your partnership. If you are a partner of a partnership that has to file a partnership information return, complete Form T2124 or Form T2032 as follows:

- Complete the "Identification" area.
- Enter your share of the partnership income shown in box 18 of the T5013 slip, *Statement of Partnership Income*, on line 9369, "Net income (loss) before adjustments."
- Complete 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 and any other deductible amounts. See page 24 for more information. Complete the "Calculation of business-use-of-home expenses" chart if applicable. For more information, see page 24.
- Enter your share of the net income or loss from the business on line 9946, "Your net income (loss)." If you did not make any adjustments to the amount in box 18 of your T5013 slip, the amount you enter on line 9946 will be the same as the amount you entered on line 9369.

If you are a partner of a partnership that **does not have** to file a PIR, complete Form T2124, or Form T2032, as follows:

- Complete the “Identification” area.
- Calculate the business income for all partners.
- Calculate the business part of expenses for all partners.
- Complete 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 and any other deductible amounts. Also, complete the “Calculation of business-use-of-home expenses” chart if applicable. For more information, see page 24.
- Complete the “Details of other partners” chart.

To see if your partnership has to file a PIR, read “What is a partnership?” on page 7. We explain how to complete each of the lines on Form T2124 and Form T2032 later in this chapter, as well as in Chapter 3 on page 13.

“Identification” area on Form T2124 and Form T2032

Complete all the lines that apply to your business or professional activities.

Indicate the period your business year covered, which is your fiscal period. For an explanation of fiscal period, see page 4.

Enter the **industry code** that corresponds to your business from the appendix on page 45. If more than one code describes your business, or if your business has more than one activity, use the code that most closely describes your main business activity. For example, you might operate a bookstore. However, the store might also sell postage stamps. You would still use industry code 451210 (for books or stationery) and not 491110 (for postal services).

If you did not prepare Form T2124 or T2032, enter the name and address of the person or firm that prepared it for you.

Enter your 15-digit Business Number in the appropriate area.

If your business or professional activities are a partnership, identify your percentage of the partnership and enter the partnership filer identification number if applicable.

Do you have a tax shelter?

If you have a tax shelter, enter its identification number on the appropriate line. A tax shelter is any property (including a right to income) that you expect will result, based on statements or representations made, in losses or other deductible amounts in the first four years after you acquire it. These losses or amounts would be equal to or more than the cost of your interest in the property (minus prescribed benefits). The cost of your interest in the property has to be reduced by prescribed benefits you or a person with whom you do not deal at arm’s length will receive or enjoy. Prescribed benefits include tax credits, revenue guarantees, contingent liabilities, limited-recourse debt, and rights of exchange or conversion. See page 26 for the meaning of **non-arm’s length transaction**.

Tax shelters do not include flow-through shares or prescribed property. Prescribed property means property that is a registered pension plan, a registered retirement savings plan, a deferred profit-sharing plan, a registered retirement income fund, or a registered education savings plan. For more details, see Information Circular 89-4, *Tax Shelter Reporting*.

If you invested in a tax shelter after August 31, 1989, and before 1991, you have to give your tax shelter identification number to make a claim on your 2002 income tax return. If you acquired a tax shelter after 1990 and are claiming a deduction for 2002, you **have** to file Form T5004, *Statement of Tax Shelter Loss or Deduction*, with your income tax return. The identification number is for administrative purposes only, and does not confirm in any way that an investor is entitled to claim any tax benefits associated with a tax shelter. Regardless of when you acquired a particular tax shelter, if this is the first year you are making a claim for it, include a copy of Form T5003, *Statement of Tax Shelter Information*, or, if the tax shelter is a partnership that has to file a partnership information return, a copy of Form T5013, *Statement of Partnership Income*, with your income tax return.

Form T2124, Statement of Business Activities

This section explains how to complete the “Income” area on Form T2124.

Sales, commissions, or fees

Your sales include all sales, whether you receive or will receive money, something the same as money (such as credit units possessing a notional monetary value), or something from bartering. Bartering occurs when two people agree to exchange goods or services without using money. Interpretation Bulletin IT-490, *Barter Transactions*, has more details.

If you usually deduct goods and services tax/harmonized sales tax (GST/HST), provincial sales tax (PST), or returns and allowances directly from sales when they take place, you can show your net sales (after GST/HST, PST, and returns and allowances) on the first line of Form T2124. Otherwise, show GST/HST, PST, and returns and allowances separately on the appropriate lines of the form. If you used the quick method option to calculate your GST/HST, reduce the gross sales by the quick method remittance rate. For more information on the quick method see Guide RC4058, *Quick Method of Accounting for GST/HST*.

If you are a self-employed commission salesperson, enter the commissions you received on this line.

Line 8000 – Net sales, commissions, or fees

Enter your net sales, commissions, and fees after deducting any GST/HST, PST, and any returns, allowances, and discounts, if these have been included in your sales.

Line 8290 – Reserves deducted last year

Include any reserves you deducted for 2001. For more details, see “Allowable reserves” on page 21.

Line 8230 – Other income

Enter the total income you received from other sources. Some examples of other income you would report on this line are:

- a recovery of an amount you wrote off as a bad debt in a previous year;
- the value of vacation trips or other prizes awarded to you because of your business activities;
- payments for land you leased for petroleum or natural gas exploration. For more information, see Interpretation Bulletin IT-200, *Surface Rentals and Farming Operations*; and
- grants, subsidies, incentives, or assistance you get from a government, government agency, or non-government agency. For more information, see Interpretation Bulletin IT-273, *Government Assistance – General Comments*.

Note

Subtract any rebate, grant, or assistance you get from the applicable expense. Enter the net figure on the appropriate line of this form. If the rebate, grant, or assistance is for a depreciable asset, subtract the amount you got from the asset's capital cost. This will affect the amount of capital cost allowance (CCA) you can claim for that asset. See Chapter 4 for information about CCA. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim. See Form T2038(IND), *Investment Tax Credit (Individuals)*, for details. If you cannot apply the rebate, grant, or assistance you got to reduce a particular expense or an asset's capital cost, include the total on line 8230, "Other Income." This amount must be included in income to the extent that it was not used to reduce the cost of a property or the amount of an outlay or expense.

Line 8299 – Gross income

Enter your gross income, which is your net sales (line 8000) plus any reserves deducted last year, and any other income.

Calculation of cost of goods sold

Complete this area if 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. To calculate your cost of goods sold, you need to know the following:

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

Line 8300 – Opening inventory and Line 8500 – Closing inventory

Enter your opening and closing inventory on the appropriate lines. These amounts must include raw materials, goods in process, and finished goods. The way you value your inventory is important when you determine

your income. For income tax purposes, we accept the following two methods:

- value your entire inventory at its fair market value. 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 in your inventory at either their fair market value 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 to 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.

See page 26 for the meaning of **fair market value**.

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 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 books and records.

For more information about valuing inventory, see Interpretation Bulletin IT-473, *Inventory Valuation*, and its Special Release.

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

Inventory value of an artistic endeavour

An artistic endeavour occurs when you are in the business of creating paintings, 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 choose to value your closing inventory at nil. To do this, show your closing inventory as "nil" on line 8500. Your choice stays in effect for each following year, unless we allow you to change it.

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

Gifts of inventory by an artist

If you donate a work of art you create, 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 total cultural gifts.

A cultural gift is art:

- you give to an institution or public body that is named under the *Cultural Property Export and Import Act*; and
- Heritage Canada has determined meets certain criteria set out in the *Cultural Property Export and Import Act*.

If your gift is a cultural gift, we consider you to have disposed of it at its cost amount to you as long as:

- it is part of a total cultural gift;
- it is a work of art you created; and
- you included it in your inventory.

You will be able to get a non-refundable tax credit based on the fair market value of your gift. Heritage Canada will decide the fair market value of your gift.

For more information, see our *Gifts and Income Tax* pamphlet.

The following example shows how this legislation works.

Example

Mike is an artist who creates a sculpture that cost him \$8,000 in materials. He includes it in his inventory at that amount. In 2002, Mike donates the sculpture to the National Gallery of Canada, an institution named under the *Cultural Property Export and Import Act*.

Heritage Canada decides the sculpture is a total cultural gift and has a fair market value of \$32,000. The effect on Mike's income is as follows:

Proceeds of disposition.....	\$8,000
Cost amount.....	<u>\$8,000</u>
Amount Mike will include in his income.....	<u>\$ 0</u>

On his income tax return, we will base Mike's non-refundable tax credit on the gift having a fair market value of \$32,000.

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 use goods you bought for the business for personal use. When this happens, you have to subtract the cost of these goods from your total purchases for the year. Do this before you enter the amount of the purchases.

Line 8360 – Subcontracts

Enter all the costs of hiring outside help to perform special tasks related to the goods you sell.

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 (see line 9060);
- a salary paid to yourself or a partner (see "Details of equity" on page 25); and
- withdrawals you may have made from the business (see "Details of equity" on page 25).

For more information on salaries and wages, see line 9060 on page 19.

Line 8519 – Gross profit

Enter your gross profit, which is your gross income (line 8299) minus your cost of goods sold.

Form T2032, Statement of Professional Activities

This section explains how to complete the "Income" area on Form T2032.

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. However, some aspects of professional activities are different from those of other types of businesses. Some of these differences are discussed in this section.

Professional fees

Your professional income includes all fees, whether you receive or will receive money, something the same as money (such as credit units possessing a notional monetary value), or something from bartering. Bartering occurs when two people agree to exchange goods or services without using money. For more information, see Interpretation Bulletin IT-490, *Barter Transactions*.

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

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

- all amounts you receive during the year for professional services, whether you provide the services 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;

minus

- all amounts receivable at your previous year-end.

Note

If you usually deduct GST/HST and PST directly from your professional fees when you earn them, you can show your net professional fees (after GST/HST and PST) on the first line of Form T2032. Otherwise, show GST/HST and PST separately on the appropriate line. If you used the quick method option to calculate your GST/HST, reduce the gross professional fees by the quick method remittance rate. For more information on the quick method, see Guide RC4058, *Quick Method of Accounting for GST/HST*.

Election to exclude your WIP

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

- an accountant;
- a dentist;
- a lawyer (including a notary in Quebec);
- a medical doctor;
- a chiropractor; or
- a veterinarian.

If you did not choose to exclude your WIP in any previous year, you can do so in 2002. You do not need a special form to do this. Attach a letter to your income tax return telling us that you want to exclude your WIP.

You can also use Form T2032 to exclude your WIP by doing the following:

- on the “Work-in-progress, end of the year” line, write the amount you included as “Work-in-progress, end of year” in your professional fees;
- on the “Work-in-progress, start of the year” line, write the amount of your WIP at the start of the year, if you excluded it at the end of last year.

Make this election when you file the original income tax return to which it relates. We will not accept an election you file with an amended return.

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 we allow you to change it.

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

Line 8000 – Adjusted professional fees

Enter your professional fees plus your WIP for the start of the year if you excluded it at the end of last year, minus any GST and PST, or HST included in your fees, and your WIP at the end of the year if you elect to exclude it.

Line 8290 – Reserves deducted last year

Include in your 2002 income any reserves you deducted for 2001. For more details, see “Allowable reserves” on page 21.

Line 8230 – Other income

Enter the total income you received from other sources. Some examples of other income you would report on this line are:

- a recovery of an amount you wrote off as a bad debt in a previous year;
- the value of vacation trips or other prizes awarded to you because of your professional activities; and
- grants, subsidies, incentives, or assistance you get from a government, a government agency, or a non-government agency. For more information, see Interpretation Bulletin IT-273, *Government Assistance – General Comments*, and read the note on page 10.

Line 8299 – Gross income

Enter your gross income. This amount includes your adjusted professional fees (line 8000) plus any reserves deducted last year, and any other income.

The following example summarizes this chapter. Since the rules for calculating business and professional income are similar, our example focuses on a business.

Example

Cathy is the sole proprietor of a fashion boutique that has a December 31 fiscal year-end. She rents the premises where the store is located. Cathy entered the following in her sales journals for 2002:

Total sales (excluding PST and GST, or HST)	\$ 189,000
Returned items	\$ 1,000
Inventory at the start of 2002	\$ 36,500
Inventory at the end of 2002	\$ 30,000
Purchases (including freight, etc.)	\$ 88,000

Cathy completes the “Income” and “Cost of goods sold” sections of Form T2124 as shown on the following page.

Income			
Sales, commissions, or fees			189,000.00 a
Minus – Goods and services tax/harmonized sales tax (GST/HST) and provincial sales tax (if included in sales above)			
– Returns, allowances, and discounts (if included in sales above)		1,000.00	
	Total of the above two lines	1,000.00	1,000.00 b
	Net sales, commissions or fees (line a minus line b)		8000 188,000.00
Reserves deducted last year			8290
Other income			8230
	Gross income (total of the above three lines) – Enter on the appropriate line of your income tax return		8299 188,000.00 c
Calculation of cost of goods sold (enter business part only)			
Opening inventory (include raw materials, goods in process, and finished goods)	8300	36,500.00	
Purchases during the year (net of returns, allowances, and discounts)	8320	88,000.00	
Sub-contracts	8360		
Direct wage costs	8340		
Other costs	8450		
	Total of the above five lines	124,500.00	
Minus – Closing inventory (include raw materials, goods in process, and finished goods)	8500	30,000.00	
	Cost of goods sold	8518 94,500.00	94,500.00 d
	Gross profit (line c minus line d)		8519 93,500.00 e

Chapter 3 – Expenses

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

As a rule, you can deduct any reasonable expense you incur to earn business income. The expenses you can deduct include any GST/HST you incur on these expenses. However, since you cannot deduct personal expenses, enter only the business part of expenses on the form.

In addition, you cannot claim expenses you incur to buy capital property.

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 deciding whether the expense is capital or current. To decide whether an amount is a current expense or a capital expense, consider your answers to the questions on the following chart.

Criteria	Capital expenses	Current expenses
Does the expense provide a lasting benefit?	A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.	A current expense is one that usually recurs after a short period. For example, the cost of painting the exterior of a wooden house is a current expense.
Does the expense maintain or improve the property?	The cost of a repair that improves a property beyond its original condition is probably a capital expense. If you replace wooden steps with concrete steps, the cost is a capital expense.	An expense that simply restores a property to its original condition is usually a current expense. For example, the cost of repairing wooden steps is a current expense.
Is the expense for a part of a property or for a separate asset?	The cost of replacing a separate asset within 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 to used property that you acquired to put it in suitable condition for use?	The cost of repairing used property that 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 that you already had in your business, the expense is usually current.
Is the expense for repairs made to an asset in order to sell it?	The cost of repairs made in anticipation of the sale of 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 cost is regarded as current.

For more information, see Chapter 4 of this guide and Interpretation Bulletin IT-128, *Capital Cost Allowance – Depreciable Property*.

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 you show on Form T2124 or Form T2032 by the amount of the input tax credit. Do this when the GST/HST for which you are claiming the input tax credit was paid or became payable. Similarly, subtract any other rebate, grant, or assistance from the expense to which it applies. Enter the net figure on the proper line. Any such assistance you claim for the purchase of depreciable property used in your business will affect your claim for capital cost allowance. 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 8230, "Other income," on Form T2124 or Form T2032. See "Grants, subsidies, or other incentives or inducements" on page 33.

Enter business part only, means that any of the following are not included as part of your expenses:

- salary or wages (including drawings) paid to self, partner(s), or both;
- cost of saleable goods or services that you, your family, or your partners and their families used (including items such as food, home maintenance, or business properties);
- donations to charities and political contributions;
- interest and penalties you paid on your income tax;
- life insurance premiums; and
- the part of any expenses that can be attributed to non-business use of business property.

Prepaid expenses

A prepaid expense is an expense you pay for ahead of time. Under the accrual method of accounting, claim any expense you prepay in the year or years in which you get the related

benefit. For example, suppose your fiscal year-end is December 31, 2002. On June 30, 2002, you prepay the rent on your store for a full year (July 1, 2002 to June 30, 2003). You can only deduct one-half of this rent as an expense in 2002. You deduct the other half as an expense in 2003.

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

Line 8521 – Advertising

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

However, certain restrictions apply to the amount of the expense you can deduct. You can deduct all the expense if your advertising is directed to a Canadian market and the original editorial content in the issue is 80% or more of the total non-advertising content in the issue.

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

Also, you cannot deduct expenses for advertising directed mainly to a Canadian market when you advertise with a foreign broadcaster.

Line 8590 – Bad debts

You can deduct an amount for a bad debt if you:

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

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

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

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

Line 9275 – Delivery, freight, and express

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

Line 9224 – Fuel costs

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" on page 16. The cost of fuel related to business use of work space in your home has to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 24.

Line 8690 – Insurance

You can deduct all ordinary commercial insurance premiums you incur on any buildings, machinery, and equipment you use in your business. For more information about claiming your motor vehicle insurance costs, see "Line 9281 – Motor vehicle expenses" on page 16. The insurance costs related to business use of work space in your home have to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 24.

In most cases, you cannot deduct your life insurance premiums.

Line 8710 – Interest

You can deduct the interest you incur on money you borrow to run your business. However, some limits can apply.

There is a limit on the interest you can deduct on money you borrow to buy a passenger vehicle. See "Line 9281 – Motor vehicle expenses" on page 16.

There is also a limit on the amount of interest you can deduct for vacant land. Usually, you can only deduct interest up to the amount of income that remains after you deduct all other expenses. You cannot use any remaining amounts of interest to create or increase a loss. Also, you cannot deduct interest from other sources of income.

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 (see "Prepaid expenses" on page 14) 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.

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

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

You deduct these fees over a period of five years. Deduct 20% in 2002, and 20% in each of the four following years. The 20% limit is reduced proportionally for fiscal periods of less than 12 months. However, 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.

If you incur standby charges, guarantee fees, service fees, or any other similar fees, you may be able to deduct them in full for the year you incur them. To do so, they have to relate only to that year. 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*.

You may be able to deduct interest expenses for a property that you used for business purposes, even if you have stopped using the property for such purposes because you are no longer in business.

You can deduct interest you paid on a loan made against an insurance policy, as long as the insurer did not add the interest you paid to the adjusted cost base of the insurance policy. To claim the interest you paid for 2002, have the insurer verify the interest before June 16, 2003, on Form T2210, *Verification of Policy Loan Interest by the Insurer*.

You can choose to capitalize interest on money you borrow:

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

When you choose to capitalize interest, add the interest to the cost of the property or exploration and development costs instead of deducting the interest as an expense. For more information about capitalizing interest, see Interpretation Bulletin IT-121, *Election to Capitalize Cost of Borrowed Money*.

The interest related to business use of work space in your home has to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 24.

Line 8960 – Maintenance and repairs

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

You cannot deduct costs you incur for repairs that are capital in nature. However, you may be able to claim capital cost allowance (CCA). For more information about CCA, see Chapter 4.

The maintenance and repairs related to business use of work space in your home have to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 24.

Line 8871 – Management and administration fees

You can deduct management and administration fees incurred to operate your business, including bank charges. Do not include on this line employees' salaries, property taxes, or rents paid. You can claim these amounts elsewhere on the appropriate form.

Line 8523 – Meals and entertainment

The maximum part you can claim for food, beverages, and entertainment expenses is 50% of either the amount you incur or an amount that is reasonable in the circumstances, whichever is less.

These limits also apply to the cost of your meals when you travel or go to a convention, conference, or similar event. However, special rules can affect your claim for meals in these cases. For more details, see "Line 9200 – Travel" on page 20 and "Convention expenses" on page 21.

These limits do not apply if:

- Your business regularly provides food, beverages, or entertainment to customers for compensation (for example, a restaurant, hotel, or motel).
- You bill your client or customer for the meal and entertainment costs, and you show these costs on the bill.
- You include the amount of the 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. The amount is not paid or payable in respect of a conference, convention, seminar, or similar event.

The special work location must be at least 30 kilometres from the closest urban centre that has a population of 40,000 or more people.

- You incur meal and entertainment expenses to provide a Christmas party or similar event, and you invite all your employees from a particular location. However, you are limited to six of these events each year.
- The meal and entertainment expenses you incur are for a fund-raising event that was mainly for the benefit of a registered charity.

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

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

New legislation allows, after 2001, full deductibility for the cost of meals provided to an employee housed at a temporary work camp constructed or installed specifically for the purpose of providing meals and accommodation to employees working at a construction site. It will also be required that the employee cannot be expected to return home daily.

Line 9281 – Motor vehicle expenses

You can deduct expenses you incur to run a motor vehicle you use to earn business income. Complete Chart A – Motor Vehicle Expenses on page 4 of Form T2124 or Form T2032, to help you calculate the amount of motor vehicle expenses you can deduct. If you are a partner in a partnership and you incur personal motor vehicle expenses for the business, those expenses must be claimed on line 9943, "Other amounts deductible from your share of net partnership income (loss)" on Form T2124 or Form T2032. For more information, see page 24.

Keeping 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 business income. For each business trip, list the date, destination, purpose, and number of kilometres you drive. Record the odometer reading of each vehicle at the start and end of the fiscal period.

If you change motor vehicles during the fiscal period, record the dates of the changes and the odometer reading at the time you buy, sell, or trade the vehicle.

What type of vehicle do you own?

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

- motor vehicles;
- automobiles; and
- passenger vehicles.

If you own or lease a passenger vehicle, there can be a limit on the amounts you can deduct for capital cost allowance (CCA), interest, and leasing costs.

We explain the CCA limits on page 31, the interest limits and the leasing costs on page 18.

Motor vehicle – This is 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.

Automobile – This is a motor vehicle designed or adapted mainly to carry people on highways and streets. It seats a driver and no more than eight passengers.

An automobile does not include:

- an ambulance;
- a motor vehicle you acquire to use more than 50% as a taxi, a bus used in the business of transporting passengers, or a hearse 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 which, in the tax year you bought it, was used more than 50% to transport goods or equipment to earn income; and
- a van, pick-up truck, or similar vehicle that, in the tax year you bought it, was used 90% or more to transport goods, equipment, or passengers to earn income.

Passenger vehicle – This is an automobile you bought after June 17, 1987. A passenger vehicle is also an automobile that you leased under an agreement you entered into, extended, or renewed after June 17, 1987.

Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA, interest, and leasing.

To help you determine what type of vehicle you have, see the chart on page 18. The chart does not cover every situation, but it gives some of the main definitions.

The chart is for a vehicle you buy or lease after June 17, 1987, and use to earn business income.

Deductible expenses

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

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

You can also claim CCA, but you enter this amount on line 9936. For 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 that you paid to earn income. To support the amount you can deduct, keep a record of both the total kilometres you drive, and the kilometres you drive to earn income.

Example

Danielle owns a hardware store that has a December 31 year-end. She has a van that she uses for the business. Danielle noted the following for 2002:

Kilometres driven to earn business income	27,000
Total kilometres driven	30,000
Expenses:	
Licence and registration fees	\$ 100
Gas and oil	\$ 2,400
Insurance	\$ 1,900
Interest	\$ 800
Maintenance and repairs	\$ <u>200</u>
Total expenses for the van	\$ <u>5,400</u>

Danielle calculates the expenses she can deduct for her van for 2002 as follows:

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

The deductible **business** part of Danielle's van expenses is \$4,860. She can claim this amount on line 9281 of Form T2124.

Joint ownership

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

More than one vehicle

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

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

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

Interest

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

When you use a passenger vehicle to earn income, there is a limit on the amount of interest you can deduct. Complete Chart B – Available interest expense for passenger vehicles on page 4 of Form T2124 or Form T2032 to calculate the amount of interest you can deduct.

Example

On May 1, 2002, Cathy bought a car that she uses to earn business income. Cathy's fiscal year ends on December 31. The car is a passenger vehicle. Cathy borrowed money to buy her car, and the interest payable in 2002 was \$1,500. Her available interest expense is whichever of the following amounts is less:

- the total interest payable in 2002, which is \$1,500; or
- $\$10 \times 245 \text{ days} = \$2,450$.

Cathy can claim an interest expense of \$1,500.

She also recorded the following information for 2002:

Kilometres driven to earn business income	25,000
Total kilometres driven	30,000

Expenses:

Gasoline and oil	\$ 1,330
Interest expense	\$ 1,500
Insurance	\$ 750

Licence and registration fees.....	\$ 70
Repairs and maintenance	\$ 100
Total car expenses	\$ 3,750

Cathy calculates the expenses she can deduct for her car for 2002 as follows:

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

Leasing costs

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

When you use a passenger vehicle to earn income, there is a limit on the amount of the leasing costs you can deduct. To calculate your eligible leasing costs, complete Chart C – Eligible leasing costs for passenger vehicles on page 4 of Form T2124 or Form T2032.

The lease agreement for your passenger vehicle may include items such as insurance, maintenance, and taxes. In this case, include them as part of the lease charges on line 1 when you complete Chart C.

Note

Generally, leases include taxes (GST and PST, or HST), but not items such as insurance and maintenance. You have to pay these amounts separately. Therefore, list these expenses separately on Form T2124 or Form T2032 when you calculate your allowable motor vehicle expenses. Do not include items such as insurance and

maintenance on line 1 when you complete Chart C. However, you do include taxes on line 1.

The following example will show you how to calculate your eligible leasing costs. Use Chart C on page 4 of Form T2124 to help you complete the following example.

Example

Amy owns a toy store. Her business has a December 31 fiscal year-end. On February 1, 2002, she started leasing a car that is a passenger vehicle. The PST rate for her province is 8%. Amy entered the following for 2002:

Monthly lease payment	\$	500	
Lease payments for 2002.....	\$	5,500	
Manufacturer’s suggested list price	\$	33,000	
Number of days in 2002 she leased the car		334	
GST and PST on \$30,000	\$	4,500	
GST and PST on \$35,294	\$	5,294	
GST and PST on \$800	\$	120	
Total lease charges incurred in Amy’s			
2002 fiscal period for the vehicle	\$	5,500	1
Total lease payments deducted in			
fiscal periods before 2002 for the vehicle	\$	0	2
Total number of days the vehicle was			
leased in 2002 and previous fiscal periods		334	3
Manufacturer’s list price	\$	33,000	4
The amount on line 4 or \$40,588			
(\$35,294 + \$5,294), whichever is more			
(\$40,588 × 85%).....	\$	34,500	5
(\$920 × 334) ÷ 30.....	\$	10,243	6
(\$34,500 × \$5,500) ÷ \$34,500.....	\$	5,500	7

Amy’s eligible leasing cost is either line 6 or 7, whichever amount is less. In this case, her allowable claim is \$5,500.

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 this is your situation, you will not be able to use the chart.

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

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

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

Line 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 items such as calculators, filing cabinets, chairs, and desks. These are capital items. For more information, see Chapter 4.

Line 8811 – Supplies

You can deduct the cost of items consumed indirectly to provide the business’s goods or services (e.g., drugs and medication used in a veterinary operation, or scripts required for an actor to portray a role).

Line 8860 – Legal, accounting, and other professional 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 books and 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, these are not business expenses. You have to reduce your claim by the amount of any award you get to cover your costs. Enter the difference on line 232 of your income tax return. If you received a reimbursement in 2002 for the types of fees that you deducted in a previous year, report the amount you received on line 130 of your income tax return.

You cannot deduct legal and other fees you incur to buy a capital property. Instead, add these fees to the cost of the property. For more details about capital property, see Chapter 4.

For more details, see Interpretation Bulletin IT-99, *Legal and Accounting Fees*.

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 business use of work space in your home has to be claimed on line 9945, “Business-use-of-home expenses.” For more information, see page 24.

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 business use of work space in your home has to be claimed on line 9945, “Business-use-of-home expenses.” For more information, see page 24.

Line 9060 – Salaries, wages, and benefits

You can deduct gross salaries you pay to employees. Do not include on this line salaries and wages described on line 8340, “Direct wage costs,” or line 8360, “Subcontracts,” or salaries and drawings of the owner(s) of the business. Salaries or drawings paid or payable to you or your partners are not deductible. For more information, see “Details of equity” on page 25.

As the employer, you can deduct your part of Canada Pension Plan or Quebec Pension Plan contributions, Employment Insurance premiums, and Workers' Compensation amounts payable on employees' remuneration.

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

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

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

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

Instead of cash, you 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. 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. However, you cannot claim as an expense the value of board and lodging you give to your dependent children and spouse or common law partner.

Line 9200 – Travel

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

In most cases, the 50% limit applies to the cost of meals, beverages, and entertainment when you travel. We discuss this limit in "Line 8523 – Meals and entertainment" on page 16.

The 50% limit also applies to the cost of food and beverages served and entertainment enjoyed when you travel on an airplane, train, or bus, when the ticket price does not include such amounts.

Line 9220 – Telephone and utilities

You can deduct expenses for telephone and utilities, such as gas, oil, electricity, and water, if you incurred the expenses to earn income. The expenses for utilities that are related to business use of work space in your home have to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 24.

Line 9270 – Other expenses

There are expenses you can incur to earn income, other than those listed on Form T2124 and Form T2032. 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 do not have to list these expenses on the form.

Disability-related modifications

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

- installing hand-activated power door openers;
- installing interior and exterior ramps; and
- modifying a bathroom, elevator, or 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 who are hard of hearing; and
- listening devices for group meetings.

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

Computer and other equipment leasing costs

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

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

Leasing costs

Deduct the lease payments you incurred in the year for property used in your business. If you lease a passenger vehicle, see "Line 9281 – Motor vehicle expenses" on page 16.

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

- bought the property rather than leased it; and

- borrowed an amount equal to the fair market value (FMV) of the leased property.

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

You can make this choice as long as the property qualifies and the total FMV of all the property subject to the lease is more than \$25,000. Digging equipment that you lease with a FMV of \$35,000 is property that qualifies. However, office furniture and automobiles 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*; or
- Form T2146, *Election in Respect of Assigned Leases or Subleased Property*.

Convention expenses

You can deduct the cost of going to a maximum of two conventions a year. The conventions have to:

- relate to your business or professional activity; and
- be held by a business or professional organization within the geographical limits of where the sponsor of the convention usually does 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. However, the convention organizer may not show these amounts separately on your bill. For each day the organizer provides food, beverages, or entertainment, subtract \$50 from the total convention fee.

You can deduct this daily \$50 amount as a meal and entertainment expense. However, the 50% limit applies to the daily \$50 amount. We discuss the 50% limit on "Line 8523 – Meals and entertainment" on page 16.

Example

Cathy attended a two-day convention in May 2002 that cost her \$600. The organizer did not indicate what part of the \$600 fee was for food and entertainment. Her convention expense is \$500 [$\$600 - (\$50 \times 2)$].

Cathy could also claim a meal and entertainment expense of \$50 ($\$50 \times 2 \times 50\%$).

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

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

Allowable reserves

You can deduct an amount for a reserve, contingent account, or a sinking fund as long as the *Income Tax Act* allows it. The amount you deduct has to be reasonable. You

can find details about allowable reserves in the following publications:

- Interpretation Bulletin IT-154, *Special Reserves*;
- Interpretation Bulletin IT-215, *Reserves, Contingent Accounts and Sinking Funds*, and its Special Release;
- Interpretation Bulletin IT-321, *Insurance Agents and Brokers – Unearned Commissions*;
- Interpretation Bulletin IT-442, *Bad Debts and Reserves for Doubtful Debts*;
- the *Capital Gains* guide; and
- the *Preparing Returns for Deceased Persons* guide.

Private health services plan (PHSP)

You can deduct premiums paid or payable to a private health service 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; and
- the premiums are paid or payable to insure yourself, your spouse or common-law partner, or any member of your household.

*For the purpose of this claim, calculate your **total income** as follows:

- the amount from line 150 of your 2001 or 2002 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**
- the amounts you entered on lines 207, 212, 217, 221, 229, 231, and 232 on your 2001 or 2002 income tax return, whichever applies.

For the purpose of this claim, calculate your **income from sources other than self-employment as follows:

- the amount from line 150 of your 2001 or 2002 income tax return, whichever applies, before you deduct any amounts for PHSPs; **minus**
- the amounts you entered on lines 135, 137, 139, 141, 143 (excluding business losses which reduced the net amount reported on those lines), 207, 212, 217, 221, 229, 231, and 232 on your 2001 or 2002 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 or payable under a contract with one of the following:

- an insurance company;
- a trust company;

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

For more information on PHSPs, see Interpretation Bulletin IT-339, *Meaning of "Private Health Services Plan."*

Note

In a cost-plus plan, the plan will only qualify as a PHSP if there is at least one employee. For example, a cost-plus plan that provides coverage for a sole proprietor and household members who are not employees will not qualify as a PHSP since it is not a plan of insurance.

Definitions

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

- **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.
- **Arm's-length employees** are, generally, employees who are not related to you and not carrying on your business with you, for example, as your partners. For more details, see "Non-arm's length transaction" on page 26.
- **Insurable persons** are people to whom coverage is extended and who are either:
 - qualified employees; or
 - people who would be qualified employees if they had worked for you for three months; or
 - people carrying on your business (including yourself and your partners).

How to calculate your maximum deduction for PHSPs

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

If you did not have any employees throughout 2002

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

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

The maximum deduction is also limited by the number of days the person was insured. Do the following calculation to determine your allowable maximum for the year.

$(A/365) \times (B + C)$, where:

- A is the number of days during the period of the year when you insured yourself and 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 18 insured during that period.

Example 1

Edwin was a sole proprietor who ran his business alone in 2002. He had no employees and did not insure any of his household members. Edwin paid \$2,000 for PHSP coverage in 2002. In his case, the coverage lasted from July 1 to December 31, 2002, a total of 183 days. Edwin's maximum allowable PHSP deduction is calculated as follows:

$$\frac{183}{365} \times \$1,500 = \$752$$

Even though Edwin paid \$2,000 in premiums in 2002, he can only deduct \$752, because the annual limit is \$1,500 and he was only insured for about half of the year. If he had been insured for the entire year, his deduction limit would be \$1,500.

Example 2

Bruce was a sole proprietor who ran his business alone in 2002. 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:

- for himself – \$1,500;
- for his wife – \$1,500;
- for his 15-year-old son – \$750; and
- for the son who turned 18 – \$750. The \$750 limit applies because he did not turn 18 until after the insured period started.

If you had employees throughout 2002

If you had at least one qualified employee throughout all of 2002, 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. (See the definition of **qualified employee** on this page.)

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

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

$X \times Y = Z$, where;

- X equals the amount you would pay to provide yourself, your spouse or common-law partner, and your household members with coverage equivalent to that provided to a particular employee, his spouse or common-law partner, and household members;
- Y equals the percentage of the premium you pay for that particular employee; and
- Z equals your limit based on that particular employee.

Example

You have one qualified employee. To provide yourself with coverage equivalent to his, you pay a premium of \$1,800. You pay 60% of your employee’s premium. Your deduction limit for yourself is \$1,080, calculated as follows:
 $\$1,800 \text{ (amount X)} \times 60\% \text{ (amount Y)} = \$1,080 \text{ (amount Z)}$.

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

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 and every employee.

Example

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

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

You have to do three calculations:

- For Jack, $\$1,500 \times 20\% = \300 .
- For Jill, $\$1,800 \times 50\% = \900 .
- For Sue, $\$1,400 \times 40\% = \560 .

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

Note

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

If you had employees throughout 2002, 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:

$(A/365) \times (B + C)$, where:

- A is the number of days during the period of the year when you insured yourself, and 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 18 years of age 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 on page 22. If you did not have at least one qualified employee, the limit in amount 1 will apply.

If you had employees for part of the year

For the part of the year when you had at least one qualified employee and your insurable arm’s length employees represented at least 50% of all the insurable persons in your business, calculate your limit **for that period** the same way as in the previous section “If you had employees throughout 2002.”

For the rest of the year when you had no employees or when your insurable arm’s-length employees represented less than 50% of all of the insurable persons in your business, your deduction limit **for that remaining period** is the lesser of the following two amounts:

Amount 1

Determine this amount by using the following formula:

$(A/365) \times (B + C)$, where:

- A is the number of days during the period of the year when you insured yourself, and 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 18 years of age 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 above. If you did not have at least one qualified employee, the limit in amount 1 will apply.

Undeducted premiums

If you deduct only a part of your PHSP premium on line 9270, and you paid the premium in the year, you can include the undeducted balance in the calculation of your non-refundable medical expense tax credit. For details, see “Line 330” in your *General Income Tax and Benefit Guide*.

Line 9935 – Allowance on eligible capital property

If you buy a property such as goodwill or a franchise for your business, you might be able to claim an annual allowance. For more information, see Chapter 5 on page 41.

Line 9936 – Capital cost allowance

If you use a property you own such as a building, a motor vehicle, or equipment in your business, you might be able to claim capital cost allowance. For more information, see Chapter 4 on page 26.

Line 9369 – Net income (loss) before adjustments

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

On line h of Form T2124 or line e of Form T2032, show your share of line 9369, "Net income (loss) before adjustments." This is the amount left after you subtract the amounts the other partners are responsible for reporting as specified in the partnership agreement. In the chart "Details of other partners" on Form T2124 or Form T2032, show the full names and addresses of the other partners, as well as a breakdown of their shares of net income or loss from line 9369 and their percentages of the partnership.

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

Enter the total of any extra expenses you incurred to earn your share of the partnership income (loss), such as the business part of allowable motor vehicle expenses. These expenses must not have been claimed anywhere else on the form. Claim these amounts only if the partnership did not repay you for them. The limits discussed earlier in this chapter also apply to these expenses.

Complete the chart "Other amounts deductible from your share of net partnership income (loss)" on page 2 of Form T2124 or Form T2032 to list the other amounts you can deduct from your share of the partnership's net income or loss.

You can also use the chart to claim the business income reduction if you are a partner in a partnership that has sold an eligible capital property and you have made an election for 1994 regarding the \$100,000 capital gains deduction on your interest in the partnership. For more information, see Chapter 5 on page 43.

Line 9945 – Business-use-of-home expenses

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

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

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

If you use part of your home for both your business and personal living, calculate how many hours in the day you use the rooms for your business, 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.

Example

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

The calculation is as follows:

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

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

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

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

The capital gain and recapture rules will apply if you deduct capital cost allowance on the business-use part of your home and you later sell your home. For more information about these rules, see Chapter 4 on page 26.

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

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

- any amount you carry forward from 2001, plus the business-use-of-home expenses you incur in 2002; or
- the amount on line j of Form T2124 or line g of Form T2032.

In your next fiscal period, you can use any expense you could not deduct in 2002, as long as you meet one of the two previous conditions. You also use the same rules.

You can use the chart "Calculation of business-use-of-home expenses," on Form T2124 or Form T2032 to calculate your allowable claim for business-use-of-home expenses. The expenses you claim on line 9945 must not be claimed elsewhere on Form T2124 or Form T2032.

To see how to calculate your business-use-of-home expenses, read the following example.

Example

Bill runs a hairstyling business and salon out of his home. His business has a December 31 fiscal year-end. Bill recorded the following for 2002:

Total house area (square metres).....	180
Area for business use only (square metres)	18
Area for personal use (square metres).....	162
Net business income (loss) after adjustments.....	\$7,100
Business-use-of-home expenses carried forward from 2001	\$ 150

Bill's home expenses for 2002:

Heat.....	\$1,200
Electricity.....	\$1,000
Insurance	\$ 650
Maintenance.....	\$ 350
Mortgage interest	\$8,000
Property taxes	\$1,800
Water.....	\$ 300

Bill completes the appropriate sections of Form T2032 as follows:

Calculation of business-use-of-home expenses		
Heat		1,200 00
Electricity		1,000 00
Insurance		650 00
Maintenance		350 00
Mortgage interest		8,000 00
Property taxes		1,800 00
Other expenses (water: \$300)		300 00
	Subtotal	13,300 00
Minus – Personal use part (162 ÷ 180 × \$13,300)		11,970 00
	Subtotal	1,330 00
Plus – Capital cost allowance (business part only)		0
– Amount carried forward from previous year		150 00
	Subtotal	1,480 00 1
Minus – Net income (loss) after adjustments (from line g on page 1) – if negative, enter "0"		7,100 00 2
Business-use-of-home expenses available to carry forward (line 1 minus line 2) – if negative, enter "0"		0
Allowable claim (the lesser of amounts 1 or 2 above) – Enter this amount on line 9945 on page 1		1,480 00

Line 9946 – Your net income (loss)

On the relevant lines of your income tax return, enter your total gross (from line 8299 on Form T2124 or Form T2032) and total net (from line 9946 on Form T2124 or T2032) business or professional income or loss. Include the total income or losses from all your businesses and professional activities. If you have a business or professional loss that is more than all your other sources of income, you may have a non-capital loss for the year. To apply this loss against income from previous years, complete and attach a copy of Form T1A, *Request for Loss Carryback*, to your income tax return. For more details about loss carrybacks, see Interpretation Bulletin IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*.

Details of other partners

If you are a partner in a partnership that does **not** have to file a partnership information return (PIR) (see Chapter 1 for these requirements), complete the chart "Details of other partners" on page 2 on Form T2124 or Form T2032.

If you are a partner in a partnership that **has** to file a PIR, do not complete this chart.

Details of equity (page 2 of Form T2124 and Form T2032)

If you are a partner in a partnership that **has** to file a PIR, do not complete this section.

Line 9931 – Total business liabilities

A liability is a debt or obligation of a business. Total business liabilities is the total of all amounts your business or professional activity owes at the end of its fiscal period. This includes:

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

Line 9932 – Drawings in 2002

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

Line 9933 – Capital contributions in 2002

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 (CCA)

What is capital cost allowance?

You might acquire a depreciable property, such as a building, furniture, or equipment, to use in your business or professional activities. You cannot deduct the cost of the property when you calculate your net business or professional income for the year. However, since these properties wear out or become obsolete over time, you can deduct their cost over a period of several years. The deduction for this is called capital cost allowance (CCA).

Definitions

To calculate your CCA claim, you will need to know the meaning of the following terms:

Available for use

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

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; and
- the time the property is delivered or made available to you and is capable of producing a saleable product or service.

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

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

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

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

Capital cost

This is the amount on which you first claim CCA. The capital cost of a property is usually the total of:

- the purchase price (not including the cost of land, which is usually not depreciable, see “Land” on page 28);
- the part of your legal, accounting, engineering, installation, and other fees that relates to the buying or construction of 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); and
- 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.

Depreciable property

This is any property on which you can claim CCA. You usually group depreciable properties into classes. For example, diggers, drills, and tools that cost \$200 or more belong to class 8. You have to base your CCA claim on a rate assigned to each class of property.

Fair market value (FMV)

FMV is generally the highest dollar value that 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.

Non-arm’s length transaction

A non-arm’s length transaction includes a transaction between people who are related, such as members of a family. An example of a non-arm’s length transaction would be the sale of property between a husband and wife, or a parent and child. For more details on non-arm’s length transactions, see Interpretation Bulletin IT-419, *Meaning of Arm’s Length*.

Proceeds of disposition

Proceeds of disposition generally means the sale price of a property. Usually the proceeds of disposition are the amounts you receive, or that we consider you to have received, when you dispose of your property. This could

include compensation you receive for property that someone destroys, expropriates, steals, or damages. Special rules may apply if you dispose of a building for less than both its undepreciated capital cost and for less than your capital cost. If this is the case, see “Special rules for disposing of a building in the year” on page 34 for details.

For more details about proceeds of disposition, see Interpretation Bulletin IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*, and its Special Release, and Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments*.

Undepreciated capital cost (UCC)

Generally the UCC is 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.

How much CCA can you claim?

The CCA you can claim depends on the type of property you own, and the date you acquired it. You 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 30. We list most of the classes and their rates in the chart “CCA classes” on page 38.

Base your CCA claim on your fiscal period ending in 2002, and not the calendar year.

There are a few other things you should know about CCA:

- For the most part, use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost of the property minus the CCA you claimed in previous years, if any. The remaining balance declines over the years as you claim CCA.

Example

Last year, Nick bought a building for \$60,000 to use in his business. On his tax return for last year, he claimed CCA of \$1,200 on the building. This year, Nick 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. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the balance of the 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 property, you can usually claim CCA only on one-half of your net additions to a class. We explain this 50% rule in “Column 6 – Adjustment for current-year additions” on page 29. The available-for-use rules discussed previously in this chapter may also affect the amount of CCA you can claim. For more information, see page 26.

- You cannot claim CCA on most 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 details, see Interpretation Bulletin IT-481, *Timber Resource Property and Timber Limits*, and Interpretation Bulletin IT-501, *Capital Cost Allowance – Logging Assets*, and its Special Release.
- If you claim CCA, and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Alternatively, you may be able to deduct an additional amount from your income as a terminal loss. For more information, see “Column 5 – UCC after additions and dispositions” on page 29.
- 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 details about quarries, pits, and woodlots, see Interpretation Bulletin IT-373, *Farm Woodlots and Tree Farms*, and its Special Release, and Interpretation Bulletin IT-492, *Capital Cost Allowance – Industrial Mineral Mines*.
- If you are a partner in a partnership that gives you a T5013 slip, *Statement of Partnership Income*, you cannot personally claim CCA. The T5013 slip you receive will have already allocated to you a share of the partnership’s CCA on the property.

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, 2002, to December 31, 2002?
- A. If your fiscal period is less than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules we discuss in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In your 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 ($\$3,500 \times 214/365$).

How do you make your claim?

To calculate your 2002 deduction for CCA, and any recaptured CCA and terminal losses, use Area A on page 3 of your Form T2124 or Form T2032. For 2002, you can get information to help you complete Area A from other areas of Form T2124 or Form T2032 and from the same form filed for 2001.

You may have acquired or disposed of buildings or equipment during the fiscal period. If so, complete the applicable Areas B, C, D, or E before completing Area A.

You will find explanations on how to complete Area B and Area C in “Column 3 – Cost of additions in the year” on page 28. You will find explanations on how to complete Area D and Area E in “Column 4 – Proceeds of dispositions in the year” on page 29.

Note

Even if you are not claiming a deduction for CCA for 2002, complete the appropriate areas of the form to show any additions and dispositions during the year.

Column 1 – Class number

Enter the class numbers of your properties in this column. If this is the first year you are claiming CCA, read “Column 3 – Cost of additions in the year” 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 30, and list most of the classes and their rates in the chart “CCA classes” on page 38.

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. These amounts were included in column 10 last year.

From your UCC at the start of 2002, subtract any investment tax credit you claimed or were refunded in 2001. Also subtract any 2001 investment tax credit you carried back to a year before 2001.

You may have received a GST/HST input tax credit in 2001 for a passenger vehicle you use less than 90% for your business. In this case, subtract the amount of the credit from your beginning UCC. See “Grants, subsidies, or other incentives or inducements” on page 33.

Note

In 2002, you may be claiming, carrying back, or getting a refund of an investment tax credit. If you still have depreciable property in the class, you have to adjust the UCC of the class to which the property belongs in 2003. To do this, subtract the amount of the credit from the UCC at the start of 2003. When there is no property left in the class, report the amount of the investment tax credit as income in 2003.

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:

- complete Area B and Area C of your Form T2124 or Form T2032, as explained below; and
- 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 that you use personally, separate from the part you use for business. For example, if you use 25% of the building you live in for business, your personal part is the other 75%.

Do not include the value of your labour in the cost of a property you build or improve. Include in the capital cost of the property the cost of surveying or valuing a property you acquire. Remember that a property usually has to be available for use before you can claim CCA. See the definition of **available for use** on page 26.

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, and also in Area B or C, whichever applies. Include the amount of insurance proceeds considered as proceeds of disposition in column 4 of Area A, and in Area D or E, whichever applies.

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. See Interpretation Bulletin IT-259, *Exchanges 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 32.

Area B – Details of equipment additions in the year

List the details of all equipment (including motor vehicles) you acquired or improved in 2002. Group the equipment into the applicable classes, and put each class on a separate line.

Equipment includes items (such as a cement mixer) and maintenance equipment (such as a snow blower or lawn mower) you acquire to use in your business or professional activities.

Enter on line 9925 the total business part of the cost of the equipment. You will find information about capital cost on page 26.

Area C – Details of building additions in the year

List the details of all buildings you acquired or improved in 2002. 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, plus any related expenses that you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees. You will find information about capital cost on page 26.

Land

Most land is not depreciable property. Therefore, you cannot usually 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:

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

You do not have to split a fee if it relates specifically to the land or 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 the total cost of acquiring land in 2002 on line 9923. The cost includes the purchase price of the land, plus any related expenses that 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.

Column 4 – Proceeds of dispositions in the year

Enter the details of your 2002 dispositions on your Form T2124 or Form T2032, as explained below.

If you disposed of a depreciable property during the 2002 fiscal period, enter in column 3 of the appropriate dispositions area (Area D or E) one of the following amounts, whichever is less:

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

Note

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

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

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, and also in Area B or C, whichever applies. Include the amount of insurance proceeds considered as proceeds of disposition in column 4 of Area A, and in Area D or E, whichever applies.

If you sell a property for more than it cost, you will have a capital gain. You may be able to postpone or defer adding the taxable part of a capital gain or recapture to income. For more information, see the sections “Capital gains” on page 34, and “Replacement property” on page 36.

If all of the proceeds of disposition are not received in the year of disposition, see Interpretation Bulletin IT-236, *Reserves – Disposition of Capital Property*.

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. See Interpretation Bulletin IT-259, *Exchanges of Property*, and Interpretation Bulletin IT-491, *Former Business Property*, and its Special Release.

Area D – Details of equipment dispositions in the year

List in this chart the details of all equipment (including motor vehicles) you disposed of in your 2002 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 in this chart the details of all buildings you disposed of in your 2002 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.

Column 5 – UCC after additions and dispositions

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

- negative (see “Recapture of CCA” below); or
- positive, and you do not have any property left in that class at the end of your 2002 fiscal period (see “Terminal loss” below).

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, “Other income,” of your Form T2124 or Form T2032. A recapture of CCA can happen if the proceeds from the sale of depreciable property are more than the total of:

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

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

Terminal loss

If the amount in column 5 is positive, and you no longer own any property in that class, you have a terminal loss. More precisely, you 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 which you have not deducted as CCA. You can subtract this terminal loss from your gross business or professional income in the year you disposed of the property. Enter your terminal loss on line 9270, “Other expenses,” on Form T2124 or Form T2032.

For more information on recapture of CCA and terminal loss, see Interpretation Bulletin IT-478, *Capital Cost Allowance – Recapture and Terminal Loss*.

Note

The rules for recapture of CCA and terminal loss do not apply to passenger vehicles in class 10.1. However, to calculate your CCA claim, see the comments in “Column 7 – Base amount for capital cost allowance (CCA)” on page 30.

Column 6 – Adjustment for current-year additions

In the year you acquire or make additions to a property, you can usually claim CCA on one-half of your net additions (the amount in column 3 minus the amount in column 4). We call this the **50% 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 2002 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 2002 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 your property, minus any related costs or expenses; or
 - the capital cost;
- subtract the above amount from the capital cost of your addition; and
- 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, you may buy depreciable property that the seller continuously owned for at least 364 days before the end of your 2002 fiscal period. However, if you transfer personal property, for example, a car or a personal computer, into your business, the 50% rule applies to the particular property transferred.

Also, some properties are not subject to the 50% rule. Some examples are those in classes 13, 14, 23, 24, 27, 29, and 34, as well as some of those in class 12, such as small tools that cost less than \$200.

The 50% rule does not apply when the available-for-use rules discussed on page 26 deny a CCA claim until the second tax year after the year you acquire the property.

If you need more details on the special rules that apply to class 13, see Interpretation Bulletin IT-464R, *Capital Cost Allowance – Leasehold Interests*, and for more details on the 50% rule, see Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments*.

Column 7 – Base amount for CCA

Base your CCA claim on this amount.

For a class 10.1 vehicle you disposed of in your 2002 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 2002 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 2001 fiscal period, you owned the class 10.1 vehicle you disposed of in 2002. 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 detailed information on certain kinds of property, see “Classes of depreciable property” on this page. For a more complete list of classes and rates, see the chart “CCA classes” on page 38.

Column 9 – CCA for the year

In column 9, enter the CCA you choose to deduct for 2002. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See “You were asking?” on page 27.

Add up all the amounts in column 9. Enter the total on line 9936, “Capital cost allowance,” on Form T2124 or Form T2032. To find out how to calculate your CCA claim if you are using the property both for business and personal use, see “Personal use of property” on page 32.

Column 10 – UCC at the end of the year

This is the undepreciated capital cost (UCC) at the end of your 2002 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.

Classes of depreciable property

In this part, we discuss the more common types of depreciable properties. We list most of the classes and their rates in the chart “CCA classes” on page 38.

Buildings

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:

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

Note

Most land is not depreciable property. Therefore, when you acquire property, only include the cost that relates to the building in Area C and Area A. Enter on line 9923 of Form T2124 or Form T2032 the cost of all land additions in 2002. For more details, see “Area F – Details of land additions and dispositions in the year” on page 29, and “Column 3 – Cost of additions in the year” on page 28.

Class 1 (4%)

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 after 1987 to a class 3 building. For more information, see “Class 3 (5%) below.”

Class 3 (5%)

Most buildings acquired before 1988 were added to 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 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.

Do not transfer property you previously included in class 3 to class 1. However, there is a limit to how much you can include in class 3 for the cost of any additions or alterations made after 1987 to a class 3 building. This limit is whichever of the following two amounts is less:

- \$500,000; or
- 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).

Include the cost of any additions or alterations over this limit in class 1.

Class 6 (10%)

Include a building in class 6 if you acquired it before 1988, and it is made of frame, log, stucco on frame, galvanized iron, or corrugated iron. If you acquired the building after 1987, it has to be made of frame, log, stucco on frame, galvanized iron, or any corrugated metal. In addition, **one** of the following conditions has to apply:

- The building is used for farming or fishing.
- The building has no footings or other base supports below ground level.

If either of the above conditions applies, you also add the full cost of all additions and alterations to the building to class 6.

If neither of the above conditions applies, include the building in class 6 if **one** of the following conditions applies:

- You acquired the building before 1979.
- You entered into a written agreement before 1979 to acquire the building, and 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 footings or other base supports of the building were started before 1979.

For additions or alterations to such a building:

- Add to class 6:
 - all additions made before 1979; and
 - only 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 above \$100,000 made after 1978 and before 1988; and
 - the part of the cost of additions or alterations above \$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 above these limits.

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

Other property – Class 8 (20%)

Class 8 includes property that is not included in any other class. For example, furniture, appliances, fixtures, machinery, and equipment you use in your business are all in this class.

Electronic office equipment – Class 8 (20%), Class 10 (30%), and Class 12 (100%)

Certain types of computer equipment and office communication and electronic equipment can become obsolete before you can fully deduct their cost for income tax purposes. This includes photocopiers and fax machines. For such property acquired after April 26, 1993, you can elect to include the property in a separate class. The election will only apply to each property that costs \$1,000 or more. This class does not change the CCA rate that applies to the properties. However, the election lets you calculate a separate CCA deduction for a five-year period. In this way, when all the property in the class is disposed of, the undepreciated capital cost (UCC) of the equipment will be fully deductible as a terminal loss. For more information on terminal losses, see “Column 5 – UCC after additions and dispositions” on page 29.

To make an election to include this property in a separate prescribed class, attach a letter to your income tax return for the tax year in which you got the property.

Note

You might still own the property at the start of the fifth tax year following the tax year in which the property became available for use. If so, you will have to transfer the UCC of each separate class from the separate prescribed class to the general class in which it would otherwise belong.

Passenger vehicles – Class 10.1 (30%)

Your passenger vehicle can belong to either class 10 or class 10.1. We define a **passenger vehicle** on page 17. Include your passenger vehicle in class 10 unless it meets a class 10.1 condition. List each class 10.1 vehicle separately.

Include your passenger vehicle in class 10.1 if you bought it in 2002 or 2001, and it cost more than \$30,000. We consider the capital cost of that vehicle to be \$30,000 plus the related GST and PST or HST.

The \$30,000 amount is the capital cost limit for a passenger vehicle. However, to determine the class to which your passenger vehicle belongs, you have to use the cost of the vehicle before you add GST and PST or HST.

Example

Erin owns a sporting goods retail business. On June 21, 2002, she bought two passenger vehicles to use in her business. The PST rate for her province is 8%. Erin noted these details for 2002:

	Cost	GST	PST	Total
Vehicle 1	\$33,000	\$2,310	\$2,640	\$37,950
Vehicle 2	\$28,000	\$1,960	\$2,240	\$32,200

Erin puts Vehicle 1 in class 10.1, since she bought it in 2002, and it cost her more than \$30,000. Before Erin 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 7% of \$30,000 = \$2,100; and
- PST at 8% of \$30,000 = \$2,400.

Therefore, Erin's capital cost is \$34,500 (\$30,000 + \$2,100 + \$2,400). She enters this amount in column 3 of Area B.

Erin puts Vehicle 2 into class 10, since she bought it in 2002, and it did not cost her more than \$30,000.

Erin's capital cost is \$32,200 (\$28,000 + \$1,960 + \$2,240). She enters this amount in column 3 of Area B.

Note

The GST rate is 7%, and we used a PST rate of 8% for this example. Use the appropriate PST rate for your province or territory. In the participating provinces, use HST. For more information on HST, see the *General Information for GST/HST Registrants* guide.

Small tools – Class 12 (100%)

You can deduct the full amount of a tool that cost under \$200 by putting it in Class 12. The CCA rate for items in this class is 100%. If the tool cost you \$200 or more, add the cost to Class 8 on your CCA schedule of Form T2124 or Form T2032.

Special situations

Personal use of property

If you buy property for both business and personal use, you can show the business part of the property in Area B or Area C in two ways:

- If your business use stays the same from year to year, enter in Area B or Area C the total cost of the property in column 3, the personal part in column 4, and the business portion in column 5. Enter in column 3 of Area A the amount from column 5 to calculate the CCA you can claim.
- If your business use changes from year to year, enter in Area B or Area C 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 to calculate the CCA you can claim. When you claim CCA, you will have to calculate the allowable part you can claim for business use.

The CCA calculated for the business use of a workspace in your home in Area A of Form T2124 or Form T2032 must be reported on the chart "Calculation of business-use-of-home expenses" on page 2 of the form used. 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," on page 1 of Form T2124 and Form T2032.

Example

Nadir owns a financial consulting business. He bought a car in 2002 that he uses both for personal and for business use. The car cost \$20,000, including all charges and taxes. Therefore, he includes the car in class 10. His business use varies from year to year. He calculates his CCA on the car for 2002 as follows:

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

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

Nadir enters \$2,000 on line 9936, "Capital cost allowance," on his Form T2124.

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 details, see "Passenger vehicles – Class 10.1 (30%)" on page 31.

Changing from personal to business use

If you bought a property for personal use and started using it in your business in your 2002 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 put 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 C.

When you start to use your property for business use, you are considered to have disposed of it. If the FMV of the property is greater than its cost, you may have a capital gain. See the *Capital Gains* guide for an explanation of capital gains.

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 any capital gains deduction claimed for the amount on line 4* \$ _____ × 2 = \$ _____		5
Line 4 minus line 5 (if negative, enter "0")	\$ _____ × 1/2 = \$ _____	6
Capital cost: line 1 plus line 6	\$ _____	7

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

Note

We consider that you 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, or other incentives or inducements

You may get a grant or subsidy from a government or a government agency to buy depreciable property. When this happens, subtract the amount of the grant 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/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.

The input tax credit is government assistance. Therefore, subtract it from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or Area C, whichever applies. If you receive an input tax credit for a passenger vehicle you use in your business, use **one** of these methods:

- For a passenger vehicle you use **90% or more** 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 C.
- For a passenger vehicle you use **less than 90%** for your business, do not make an adjustment in 2002. In 2003, subtract the amount of the credit from your beginning UCC.

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can either include the amount in income, or subtract the amount from the capital cost of the property.

For more details about government assistance, see Interpretation Bulletin IT-273, *Government Assistance – General Comments*, and its Special Release.

Non-arm's length transactions

When you acquire property in a non-arm's length transaction, there are special rules to follow to determine the property's cost. These special rules do not apply if you get the property because of someone's death.

You can acquire depreciable property in a non-arm's length transaction from an individual resident in Canada, a partnership with at least one partner who is an individual resident in Canada, or a partnership with at least one partner that is another partnership. If you pay more for the property than the seller paid for the same property, calculate the cost as follows:

Capital Cost Calculation

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	\$ _____	

Enter this amount in column 3 of either Area B or Area C, whichever applies. Do not include the cost of the related land, which you have to include on line 9923, "Total cost of all land additions in the year," in Area F.

You can also buy depreciable property in a non-arm's length transaction from a corporation, or from an individual who is not resident in Canada, or a partnership with no partners who are individuals resident in Canada, or no partners that are other partnerships. If you pay more for a property than the seller paid for it, calculate the capital cost as follows:

Capital Cost Calculation

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 Area C, whichever applies. Do not include the cost of the related land, which you have to include on line 9923, "Total cost of all land additions in the year," in Area F.

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

Example

Rachel bought a pickup truck from her father, Marcus, in her 2002 fiscal period for \$4,000. Marcus paid \$10,000 for the truck in 1993. Since the amount Rachel paid is less than the amount Marcus paid, we consider Rachel's cost to be \$10,000. We also consider that Rachel has deducted CCA of \$6,000 in the past (\$10,000 – \$4,000).

Rachel completes 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 2002 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 whichever of the following three amounts is **less**:

- the FMV when you buy it;
- \$30,000 plus GST and PST, or HST you would pay on \$30,000, if you bought it in 2002 or 2001;
- 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 will be the UCC of the vehicle when you buy it. If the seller did not use the vehicle to earn income, the cost amount will usually be the original cost of the vehicle.

For more details on non-arm's length transactions, see Interpretation Bulletin IT-405, *Inadequate Considerations – Acquisitions and Dispositions*, and Interpretation Bulletin IT-419, *Meaning of 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 2002*. You will find a

copy of this schedule in your *General Income Tax and Benefit Guide* package. For details on how to calculate your taxable capital gain, see the *Capital Gains* guide.

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

Note

You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. For an explanation of terminal losses, see "Column 5 – UCC after additions and dispositions" on page 29.

Special rules for disposing of a building in the year

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

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

* See the definition of **non-arm's length transaction** on page 26.

Calculate the cost amount as follows:

- if the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before you disposed of the building;
- if more than one property is in the same class, you have to calculate the cost amount of each building as follows:

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

Note

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

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 the next 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 the next page.

Calculation A
Land and building sold in the same year

FMV of the building when 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 disposed of the building (by either you or a person not dealing at arm's length with you, to you or to another person not dealing at arm's length with you)	\$ _____	5
Line 4 minus line 5 (if negative, enter "0")	\$ _____	6
Line 2 or line 6, whichever amount is less	\$ _____	7
Line 3 minus line 7 (if negative, enter "0")	\$ _____	8
Cost amount of the building just before you disposed of it	\$ _____	9
Capital cost of the building just before you disposed of it	\$ _____	10
Line 9 or line 10, whichever amount is less	\$ _____	11
Line 1 or line 11, whichever amount is more	\$ _____	12
Deemed proceeds of disposition for the building		
Line 8 or line 12, whichever amount is less (enter this amount in column 3 of Area E and in column 4 of Area A on either Form T2124 or Form T2032)	\$ _____	13
Deemed proceeds of disposition for the land		
Proceeds of disposition of the land and building	\$ _____	14
Amount from line 13	\$ _____	15
Line 14 minus line 15 (include this amount on line 9924 of Area F on either form)	\$ _____	16
If you have a terminal loss on the building, include it on line 9270, "Other expenses," on either form.		

Calculation B
Land and building sold 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 in column 4 of Area A)	\$ _____	8
If you have a terminal loss on the building, include it on line 9270, "Other expenses," on either Form T2124 or Form T2032.		

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

result of this calculation, you add part of the amount on line 5 to the actual proceeds of disposition from the building (see "Terminal loss" on page 29).

Replacement property

In a few cases, you can postpone or defer adding a capital gain or recapture of CCA to 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. You can defer tax on the sale proceeds which you reinvest in replacement property within a reasonable period of time. To defer reporting the gain or recapture of CCA, you must acquire and you, or a person related to you, use the new property for the same or similar purpose as the one that you are replacing.

If you need more details, see Interpretation Bulletin IT-259, *Exchanges 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 or a partnership. For information on transfers to a corporation or a partnership, see:

- Information Circular 76-19, *Transfer of Property to a Corporation Under Section 85*;

- Interpretation Bulletin IT-291, *Transfer of Property to a Corporation Under Subsection 85(1)*;
- Interpretation Bulletin IT-378, *Winding-up of a Partnership*;
- Interpretation Bulletin IT-413, *Election by Members of a Partnership Under Subsection 97(2)*.

The following example summarizes this chapter.

Example

When Cathy bought her new car in May 2002, it cost \$16,000 including all charges and taxes. Therefore, she includes the car in class 10. She was allowed a \$1,000 credit when she traded in her old car (which was also in class 10). Her UCC on the old car at the start of 2002 was \$1,000. Cathy knows that her personal use of the car will vary each year.

Cathy has a desk, calculator, filing cabinets, and shelves in her store. These are class 8 depreciable properties. The UCC of these properties at the start of 2002 is \$5,000. She did not buy any class 8 properties in 2002.

Therefore, she completes Form T2124 as follows:

Area A - Calculation of capital cost allowance claim									
1 Class number	2 Undepreciated capital cost (UCC) at the start of the year	3 Cost of additions in the year (see Areas B and C below)	4 Proceeds of dispositions in the year (see Areas D and E below)	5 * UCC after additions and dispositions (col. 2 plus col. 3 minus col. 4)	6 Adjustment for current year additions (1/2 x (col. 3 minus col. 4)) If negative, enter "0"	7 Base amount for capital cost allowance (col. 5 minus col. 6)	8 Rate %	9 CCA for the year (col. 7 x col. 8 or an adjusted amount)	10 UCC at the end of the year (col. 5 minus col. 9)
10	1,000	16,000	1,000	16,000	7,500	8,500	30	2,550	13,450
8	5,000			5,000		5,000	20	1,000	4,000
Total CCA claim for the year (enter this amount, minus any personal part and any CCA for business-use-of-home expenses, on line 9936 on page 1 **)								3,550	

* If you have a negative amount in this column, add it to income as a recapture on line 8230 "Other income" on page 1. If no property is left in the class and there is a positive amount in the column, deduct the amount from income as a terminal loss on line 9270 "Other expenses" on page 1. Recapture and terminal loss do not apply to Class 10.1 property. For more information, read Chapter 4 of the *Business and Professional Income* guide.

** CCA for "Calculation of business-use-of-home expenses" read Chapter 4 - Special Situations in the *Business and Professional Income* guide.

Area B - Details of equipment additions in the year				
1 Class number	2 Property details	3 Total cost	4 Personal part (if applicable)	5 Business part (Column 3 minus Column 4)
10	Passenger Vehicle	16,000	Varies	16,000
Total equipment additions in the year 9925				16,000

Area D - Details of equipment dispositions in the year				
1 Class number	2 Property details	3 Proceeds of disposition (should not be more than the capital cost)	4 Personal part (if applicable)	5 Business part (Column 3 minus Column 4)
10	Passenger Vehicle	1,000	N/A	1,000
Total equipment dispositions in the year 9926				1,000

Note: If you disposed of property from your business in the year, see Chapter 4 in the *Business and Professional Income* guide for information about your proceeds of disposition.

Since Cathy used the car partly for personal use, she calculates the amount to include on line 9936 for her car as follows:

$$\frac{25,000 \text{ (business kilometres)}}{30,000 \text{ (total kilometres)}} \times \$2,550 = \$2,125$$

The most that Cathy can claim for CCA for 2002 is \$2,125 for her car and \$1,000 for the class 8 properties. She wants to claim the most CCA allowed to her in 2002. She enters \$3,125 on line 9936 on Form T2124.

CCA classes

The following is a list of commonly used assets in a business.

Class	Rate (%)	Description
1	4	Most buildings you bought after 1987, including components such as wiring, plumbing, heating, and cooling systems.
3	5	Most buildings including components that you bought after 1978 and before 1988. However, you may have to include part of the cost of additions made after 1987 in class 1. For more details, see Interpretation Bulletin IT-79, <i>Capital Cost Allowance – Buildings or Other Structures</i> .
6	10	Frame, log, stucco on frame, galvanized iron, or corrugated metal buildings that do not have any footings below the ground. Class 6 also includes fences and greenhouses.
7	15	Canoes, rowboats, and most other vessels and their motors, furniture, and fittings. For more details, see Interpretation Bulletin IT-267, <i>Capital Cost Allowance – Vessels</i> .
8	20	Property that you did not include in any other class. Some examples are fixtures, furniture, machinery, photocopiers, refrigeration equipment, telephones, and tools costing \$200 or more. Class 8 also includes outdoor advertising signs you bought after 1987.
9	25	Aircraft, including furniture or equipment attached to the aircraft, and spare parts.
10	30	Automobiles, except those you use as a taxi or in a daily rental business, including vans, trucks, tractors, wagons, and trailers. You also put general-purpose electronic data-processing equipment (commonly called computer hardware) and systems software in class 10.
10.1	30	A passenger vehicle. See page 31 for the capital cost limits.
12	100	China, cutlery, kitchen utensils that cost under \$200, linen, uniforms, dies, jigs, moulds, cutting or shaping parts of a machine, tools and medical or dental instruments that cost under \$200, computer software (except systems software), and video cassettes bought after February 15, 1984, that you rent and do not expect to rent to any one person for more than 7 days in a 30-day period.
13		Leasehold interest – You can claim CCA on a leasehold interest, but the maximum rate depends on the type of leasehold interest and the terms of the lease.
14		Patents, franchises, concessions, or licences for a limited period. Your CCA is whichever of the following amounts is less: <ul style="list-style-type: none"> ■ capital cost of the property spread out over the life of the property; or ■ UCC of the property of that class at the end of the taxation year.
16	40	Taxis, vehicles you use in a daily car-rental business, coin-operated video games or pinball machines acquired after February 15, 1984, and freight trucks acquired after December 6, 1991, that are rated higher than 11,788 kilograms.
17	8	Roads, parking lots, sidewalks, airplane runways, storage areas, or similar surface construction.
22	50	Most power-operated, movable equipment you bought before 1988 that you use for excavating, moving, placing, or compacting earth, rock, concrete, or asphalt.
38	30	Most power-operated, movable equipment you bought after 1987 and use for excavating, moving, placing, or compacting earth, rock, concrete, or asphalt.

Note

You can choose to keep an outdoor advertising sign, and any property you would usually include in class 38 in a separate class. To do this, attach a letter to your income return for the year you bought the property. In the letter, list the properties you are including in a separate class.

Summary of Chapters 2 to 4 – Completed Form T2124

In this section, we summarize our discussion about income, expenses, and capital cost allowance, by showing you what the completed Form T2124 would look like for Cathy's business, and recapping the information we have so far.

Total sales (does not include GST and PST, or HST)	\$189,000
Returned items	\$ 1,000
Inventory at the start of her 2002 fiscal period	\$ 36,500
Inventory at the end of her 2002 fiscal period.....	\$ 30,000
Purchases (including freight, etc.)	\$ 88,000
Meals and entertainment expenses.....	\$ 50
Motor vehicle expenses.....	\$ 3,125
Convention expenses	\$ 500
Capital cost allowance	\$ 3,125

Cathy also entered these expenses in her expense journals:

Accounting fees	\$ 750
Advertising	\$ 2,800
Business tax	\$ 550
Business insurance.....	\$ 1,600
Interest on business loan.....	\$ 5,300
Maintenance.....	\$ 800
Office supplies.....	\$ 2,700
Rent of store.....	\$ 10,800
Salaries (full- and part-time help)	\$ 19,000
Travelling (except car)	\$ 350
Utilities on store	\$ 3,500

Therefore, the calculation of Cathy's net business income on her Form T2124 would look like this:

Income			
Sales, commissions, or fees			189,000 00 a
Minus – Goods and services tax/harmonized sales tax (GST/HST) and provincial sales tax (if included in sales above)			
– Returns, allowances, and discounts (if included in sales above)	1,000 00		
	Total of the above two lines	1,000 00	1,000 00 b
	Net sales, commissions or fees (line a minus line b)	8000	188,000 00
Reserves deducted last year		8290	
Other income		8230	
	Gross income (total of the above three lines) – Enter on the appropriate line of your income tax return	8299	188,000 00 c
Calculation of cost of goods sold (enter business part only)			
Opening inventory (include raw materials, goods in process, and finished goods)	8300	36,500 00	
Purchases during the year (net of returns, allowances, and discounts)	8320	88,000 00	
Subcontracts	8360		
Direct wage costs	8340		
Other costs	8450		
	Total of the above five lines	124,500 00	
Minus – Closing inventory (include raw materials, goods in process, and finished goods)	8500	30,000 00	
	Cost of goods sold	8518	94,500 00 d
	Gross profit (line c minus line d)	8519	93,500 00 e
Expenses (enter business part only)			
Advertising	8521	2,800 00	
Bad debts	8590		
Business tax, fees, licences, dues, memberships, and subscriptions	8760	550 00	
Delivery, freight, and express	9275		
Fuel costs (except for motor vehicles)	9224		
Insurance	8690	1,600 00	
Interest	8710	5,300 00	
Maintenance and repairs	8960	800 00	
Management and administration fees	8871		
Meals and entertainment (allowable part only)	8523	50 00	
Motor vehicle expenses (not including CCA) (see Chart A on page 4)	9281	3,125 00	
Office expenses	8810	2,700 00	
Supplies	8811		
Legal, accounting, and other professional fees	8860	750 00	
Property taxes	9180		
Rent	8910	10,800 00	
Salaries, wages, and benefits (including employer's contributions)	9060	19,000 00	
Travel	9200	350 00	
Telephone and utilities	9220	3,500 00	
Other expenses	9270	500 00	
	Subtotal	51,825 00	
Allowance on eligible capital property	9935	3,125 00	
Capital cost allowance (from Area A on page 3)	9936		
	Total business expenses (total of the above three lines)	9368	54,950 00 f
	Net income (loss) before adjustments (line e minus line f)	9369	38,550 00

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Net income (loss) before adjustments (from line 9369 on page 1)		38,550 00	g
Your share of line g above		38,550 00	h
Minus – Other amounts deductible from your share of net partnership income (loss) from the chart below	9943		i
Net income (loss) after adjustments (line h minus line i)		38,550 00	j
Minus – Business-use-of-home expenses (from the chart below)	9945		
Your net income (loss) (line j minus line 9945) (enter on the appropriate line of your income tax return)	9946	38,550 00	

Chapter 5– Eligible Capital Expenditures

What is an eligible capital expenditure?

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

We consider franchises, concessions, or licences with a limited period to be depreciable properties, not eligible capital properties. For details about depreciable properties, see Chapter 4 on page 26.

What is an annual allowance?

You cannot deduct the full cost of an eligible capital expenditure, since it is a capital cost and gives you 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 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.

How to calculate your annual allowance

CEC account

Complete the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 2002 fiscal period.

Calculating your annual allowance and CEC account balance at the end of your 2002 fiscal period

Balance in the account at the start of your 2002 fiscal period	\$_____	1
Eligible capital expenditures you made or incurred in your 2002 fiscal period	_____ × 75%	\$_____ 2
Line 1 plus line 2		\$_____ 3
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2002 fiscal period	\$_____	4
All the amounts that became receivable in your 2002 fiscal period from the sale of eligible capital properties before June 18, 1987	\$_____	5
Line 4 plus line 5	\$_____	6
Line 6 × 75%		\$_____ 7
CEC account balance Line 3 minus line 7		\$_____ 8
Annual allowance 7% × line 8		\$_____ 9
CEC account balance at the end of your 2002 fiscal period Line 8 minus line 9		\$_____ 10

Note

For tax years ending after February 22, 1994, an eligible capital expenditure is reduced by the amount of any assistance received or receivable from a government for the expenditure. Also, an amount forgiven (or entitled to be forgiven) on government debt reduces your CEC account.

You can deduct an annual allowance if there is a **positive** balance (line 8) in your CEC account at the end of your 2002 fiscal period. You do not have to claim the full amount of the maximum annual allowance for a given year. You can deduct any amount you want, up to the maximum allowable of 7%.

If your fiscal period is less than 365 days, you have to prorate your claim. Base your claim on the number of days in your fiscal period compared to 365 days.

If there is a **negative** balance in your CEC account, see “Sole proprietor – Sale of eligible capital property in a 2002 fiscal period” on page 42 and “Partnership – Sale of eligible capital property in a 2002 fiscal period” on page 43. The following is an example of how to calculate the maximum annual allowance and account balance.

Example

John started a business on January 1, 2002. John's business has a December 31 year-end. During 2002, he bought a franchise for \$16,000. He calculates his maximum annual allowance of \$840 for 2002 as follows:

John's CEC account

Balance at the start of John's 2002 fiscal period	\$ <u>0</u>	1	
John's eligible capital expenditure: franchise cost for the 2002 fiscal period	\$16,000 × 75%	<u>12,000</u>	2
Line 1 plus line 2	\$ <u>12,000</u>	3	
John has not sold any eligible capital property during the 2002 fiscal period. Therefore, he will not have any amounts on lines 4 to 8.			
John's maximum annual allowance on eligible capital property is 7% × line 3	\$ <u>840</u>	9	
Balance at the end of 2002 (line 3 minus line 9)	\$ <u>11,160</u>	10	

Sole proprietor

Sale of eligible capital property in a 2002 fiscal period

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

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

- in your 2002 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2002 fiscal period.

For 2002, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property you sell in your 2002 fiscal period; and
- the amount of any proceeds that become due to you in your 2002 fiscal period from eligible capital property you sold before June 18, 1987.

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

Multiply by 2/3 the part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, add the lesser of the excess and annual allowances deducted. This is the amount to include in your business income. The following example shows how to calculate the amount to include in your business income.

Example

Carol started her business on January 1, 1996, with a **December 31 year-end**. In 1996, Carol bought a client list for \$10,000. Carol sold her business on September 1, 2002. She sold her client list for \$15,000 and she does not have any other eligible capital property in her business. She deducted annual allowances each year as follows:

1996	\$ 525
1997	488
1998	454
1999	422
2000	393
2001	<u>365</u>
Total	\$ <u>2,647</u>

The amount included in Carol's business income on line 8230, "Other income," on Form T2124 is the total of amounts A and C:

Calculation of amount A:

The lesser of i) or ii):

- i) Excess amount calculated as follows:

Proceeds of disposition: \$15,000	
\$15,000 × 75%	\$ 11,250
Plus: total annual allowances deducted	<u>2,647</u>
	\$ 13,897

Minus: 75% of eligible capital expenditures	
\$10,000 × 75%	\$ <u>7,500</u>

Excess amount	\$ 6,397	i
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- ii) Total annual allowances deducted \$ 2,647 **ii**

The lesser of i) or ii): \$ 2,647 **A**

Calculation of amount B:

Excess amount	\$ 6,397
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Minus: total annual deductions taken	<u>2,647</u>	\$ 3,750	B
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Calculation of amount C:

Line B × 2/3	\$ 2,500	C
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Line A plus line C	\$ <u>5,147</u>
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The amount to be included in Carol's business income on line 8230, "Other income," is \$5,147.

Sale of eligible capital property for which you filed Form T664, Election to Report a Capital Gain on Property Owned at the End of February 22, 1994

If you filed Form T664 for eligible capital property of your business for the years 1994 or 1995, your CEC account does not change. Rather, the taxable capital gains on which you made the election created an **exempt gains balance** for your business. The exempt gains balance reduces your business income from the disposition of eligible capital property (other than the recapture of annual allowances deducted in previous years).

Example

Rick has operated a computer equipment business since February 1, 1993. The business has a **January 31 year-end**. Rick paid \$10,000 for a client list when he started the business. He has no other eligible capital property. Rick sells his business on December 1, 2001. He sells his client list for \$15,000. He made the election for the 1995 fiscal period to claim a capital gains deduction on the gain accrued up to February 22, 1994. Rick calculated his exempt gains balance to be \$3,000. In previous years, Rick claimed a total of \$2,647 as annual allowances on eligible capital property.

Rick calculates the amount to include in his business income on line 8230, "Other income," on Form T2124, as the total of amounts A and B:

Calculation of amount A:

The lesser of i) or ii):

i) Excess amount calculated as follows:

Actual proceeds of disposition: \$15,000	
$\$15,000 \times 75\%$	\$ 11,250
Plus: total annual allowances deducted	<u>2,647</u>
	\$ 13,897
Minus: 75% of eligible capital expenditures	
$\$10,000 \times 75\%$	<u>\$ 7,500</u>
Excess amount	\$ 6,397 i

ii) Total annual allowances deducted \$ 2,647 **ii**

The lesser of i) or ii): \$ 2,647 **A**

Calculation of amount B:

Excess amount	\$ 6,397
Minus: total annual allowances deducted	<u>2,647</u>
	\$ 3,750
Minus: exempt gains balance*	<u>3,000</u> \$ 750 B

Calculation of amount C:

Line B \times 2/3	\$ 500 C
Line A plus line C	<u>\$ 3,147</u>

Rick would include \$3,147 in his business income on line 8230, "Other income."

*The exempt gains balance (taxable capital gain on February 22, 1994) of \$3,000 is the amount on line 6 on Form T664, which was completed in 1995.

Partnership

Sale of eligible capital property in a 2002 fiscal period

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

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

- in its 2002 fiscal period; or

- before June 18, 1987, and the proceeds of disposition become due in its 2002 fiscal period.

For 2002, the amount the partnership has to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property the partnership sells in its 2002 fiscal period. The total proceeds of disposition have to be included even if the partnership will not receive the entire amount in 2002; and
- the amount of any proceeds that become due in the partnership's 2002 fiscal period from eligible capital property it sold before June 18, 1987.

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

Multiply by 2/3 the part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, add the lesser of the excess and annual allowances deducted. This is the amount to include in your business income. The following example shows how to calculate the amount to include in your business income.

If you, as a partner in the partnership have made the capital gains election by filing Form T664, *Election to Report a Capital Gain on Property Owned at the end of February 22, 1994*, on your 1994 income tax return for your partnership interest, you will have reported the capital gain accrued to February 22, 1994. In this case, the adjusted cost base of your partnership interest has not changed as a result of the election. Rather, you have created a special account called your **exempt capital gains balance**. You will be able to use this account to reduce your share of business income of the partnership from the sale of eligible capital property (other than the recapture of annual allowances deducted in previous years).

You have to include the business income that results from the sale of the eligible capital property on line 8230, "Other income," on Form T2124 or Form T2032. You will then reduce your share of the partnership income by claiming a **business income reduction**. To do this, complete the chart "Other amounts deductible from your share of net partnership income (loss)" on Form T2124 or Form T2032. To calculate your exempt capital gains balance and your business income reduction, see Chapter 4 of the *Capital Gains* guide.

Example

You and your partner have operated a telephone sales business since January 1, 1994. Your partnership agreement states that you and your partner will share the business profits equally. The business has a **December 31 year-end**. You and your partner paid a total of \$10,000 for a client list when you started the business. The business has no other eligible capital property. You and your partner sell the business on September 1, 2002. The proceeds of disposition of the client list are \$15,000. As a partner of the partnership, you made the capital gains election in 1994 on your partnership interest. In previous years, the partnership claimed \$2,647 as annual allowances on eligible capital property.

First step

Calculation of amount to include in business income – Sale of client list on September 1, 2002

The amount to include in the partnership's business income on line 8230, "Other income," on Form T2124 is the total of amount A and amount C:

Calculation of amount A:

The lesser of i) or ii):

i) Excess amount calculated as follows:

Actual proceeds of disposition: \$15,000
 $\$15,000 \times 75\%$ \$ 11,250

Plus: total annual allowances deducted 2,647
13,897

Minus: 75% of Eligible capital expenditures
 $\$10,000 \times 75\%$ 7,500

Excess amount \$ 6,397 i

ii) Total annual allowances deducted \$ 2,647 ii

The lesser of i) or ii) \$ 2,647 A

Calculation of amount B:

Excess amount \$ 6,397

Minus: total annual allowances deducted 2,647 \$ 3,750 B

Calculation of amount C:

Line B $\times 2/3$ \$ 2,500 C

Line A plus line C \$ 5,147

According to this example, you should include \$5,147 on line 8230, "Other income."

Second step

Calculating your share of partnership income from the sale of the client list (not including the recapture of annual allowances deducted)

Excess amount as calculated above \$ 6,397 1

Total annual allowances deducted 2,647 2

Line 1 minus line 2 \$ 3,750 3

$50\% \times$ line 3 \$ 1,875

The amount of \$1,875 is your share of the business income (other than the recapture of annual allowances deducted in previous years) from the sale of eligible capital property. You have to enter this amount on line 10 of Chart 7 in the appendix to our *Capital Gains* guide. This chart will help you calculate your business income reduction for 2002 as well as your exempt capital gains balance available for 2003. To make sure you complete the chart correctly, you should read Chapter 4 of our *Capital Gains* guide.

After you calculate your business income reduction on line 11 of the above-noted chart, you can enter this amount in the "Other amounts deductible from your share of net partnership income (loss)" chart on Form T2124.

If you did not make the capital gains election for 1994 as a partner of the partnership, the amount to include on line 8230, "Other income," on Form T2124, according to this example, is \$5,147. In this case, you could not use the calculation in the second step or the calculations for the business income reduction in the *Capital Gains* guide.

Election

Under certain conditions, you can elect to treat the disposition of an eligible capital property (other than goodwill) as a capital gain in your CEC account if you sold your interest in a property such as a franchise, concession, or licence that has an unlimited life. You can elect to deem the proceeds of disposition of the eligible capital property to be equal to its original cost.

You can then declare a capital gain equal to your actual proceeds of disposition minus the cost of acquisition. Report the details on the "Real estate, depreciable property and other properties" line of Schedule 3, *Capital Gains (or Losses) in 2002*. This election will benefit you if you have unused capital losses to apply against the capital gain.

The election is available if you meet the following conditions:

- You disposed of an eligible capital property other than goodwill.
- The cost of the eligible capital property can be determined.
- The proceeds of disposition exceed the cost.
- You don't have an exempt gains balance.

File your election by attaching a note to your income tax return.

Replacement property

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

For more information about eligible capital expenditures, see Interpretation Bulletin IT-123, *Transactions Involving Eligible Capital Property*, and Interpretation Bulletin IT-143, *Meaning of Eligible Capital Expenditure*, and its Special Release.

Appendix – Industry Codes

Professions

Architect (except landscape)	541310
Architect (landscape)	541320
Bookkeeping services	541215
Chartered or certified accountant	541212
Dentist	621210
Engineer	541330
Lawyer	541110
Notary	541120
Physician (general practice), surgeon, or specialist	621110
Psychologist	621330
Veterinarian	541940
Other health practitioner	621390
Other legal services	541190
Other professional, scientific, or technical services	541000
Other social service practitioner	624000

Services

Agricultural or animal services

Animal specialty or livestock services	115210
Crop services	115110
Other agricultural services	115000

Transportation or storage

Air transport	481000
Bus transport (school or employee)	485410
Interurban and rural transit	485210
Storage or warehousing	493100
Taxi	485310
Truck transport	484000
Urban transit	485110
Water transport	483000
Other transportation service	480000

Communications or utilities

Courier services	492110
Flyer delivery	541870
Postal services	491110
Public utilities	221000
Telecommunications	513300

Finance, insurance, or real estate

Financial services (excluding banks and finance companies)	523000
Insurance agent or broker (independent)	524210
Insurance company	524100
Lessors of non-residential buildings (except mini-warehouses)	531120
Lessors of other real estate property	531190
Lessors of residential buildings and dwellings	531111
Lessors of self-storage mini-warehouses	531130
Lessors of social housing projects	531112

Offices of real estate agents and brokers	531210
Offices of real estate appraisers	531320
Real estate property managers	531310
Other activities related to real estate	531390

Business services

Advertising	541800
Computer programmer or analyst	541510
Consultation – environment	541620
Consultation – management	541610
Consultation – science and technology	541690
Data processing, storing and related services	518210
Employment agency	561300
Exterminators, janitors, chimney cleaners	561700
Internet service and search engine suppliers	518110
Publishing	511000
Other business services	561000

Health or social services

Babysitting or child-care (your own home)	624410
Educational services	610000
Health or social services (other than child care)	620000
Tutors	611690

Entertainment or recreation

Agents and representatives – artists, athletes and other public figures	711410
Entertainment or stage company	711100
Film or video production services	512110
Gambling operation	713200
Independent athletes and trainers (coach)	711218
Independent artists, authors and interpreters (performers)	711510
Movie or motion picture film presenter	512130
Sports promoter	711319
Sports teams and clubs	711211
Ski facilities, golf courses, marinas, bowling centres, fitness centres	713900
Other amusements or recreation	710000

Accommodation, food, or beverage services

Bed and breakfast, cabins, tourist rooms	721190
Campgrounds, hunting, fishing, and vacation camps	721200
Canteens, mobile food services	722330
Catering	722320
Full-service restaurant	722110
Hotel, motor-hotel, motel, or resort	721110
Limited service restaurant, take-out and drive-in	722210
Rooming and boarding houses	721310
Tavern, bar, or nightclub	722410

Repairs and maintenance			
Automotive exhaust system repair	811112	Gifts, novelties, and souvenirs	453220
Automotive glass replacement shops	811122	Hardware	444130
Auto painting or body repairs	811121	Jewellery or watch sales or repairs	448310
Car washes	811192	Lawn and garden supplies	444220
Furniture refinishing or repairing	811420	Musical instruments	451140
General automotive repair	811111	Office supplies and stationery stores	453210
Home and garden equipment and appliances repair and maintenance	811410	Paint or wallpaper	444120
Shoe repair shops	811430	Pharmacies or drugstores	446110
TV, radio, stereo, computer, or camera repairs	811210	Records, CDs or pre-recorded tapes	451220
Other repairs	811000	Sewing, needlework, and piece goods	451130
		Shoes or clothing	448000
Personal or household services		Sporting goods or bicycles	451110
Barber or beauty shop	812110	Toys, hobbies, and games	451120
Carpet cleaning service	561740	Other merchandise	440000
Funeral services	812200		
Home cleaning services	561722	Direct sales	
Homemaker services	624120	Cosmetics	454390
Laundry or dry cleaning	812300	Electronic shopping and mail order	454110
Other personal or household services	810000	Food or beverages	454390
		Fuel dealers	454310
Other services		Household goods	454390
Business, religious, or social organization	813000	Newspaper delivery	454390
Janitorial services (except window cleaning)	561722	Vending machine operators	454210
Machine or equipment rental leasing	532000	Other direct sales	454390
Miscellaneous building or dwelling services	561700		
Photography	541920	Wholesales	
Travel services	561510	Agents and brokers	419100
Vehicle rental or leasing	532110	Apparel and dry goods	414100
		Beverages	413200
Sales		Building materials and supplies	416000
Household goods stores		Drugs	414510
Appliances, TV, radio, or stereo repairs	443110	Farm products	411100
Household accessories	442200	Food	413100
Household furniture and appliances	442110	Machinery, equipment, and related supplies	417000
		Personal and household goods	414000
Food or beverage stores		Petroleum products	412110
Baked goods, candy, or nuts	445290	Tobacco	413310
Beer, wine, or liquor	445310	Vehicles, parts, and accessories	415000
Convenience stores	445120	Other products	410000
Groceries	445110		
Meat, fish, fruits, or vegetables	445200	Construction	
Supermarket	445110	Acoustical work	238310
Other food stores	445000	Asphalt paving (driveways and parking lots)	238990
		Buildings (including development)	236000
Automotive		Construction project management	231410
Auto parts or accessories store	441310	Electrical installation	238210
Automobile sales	441100	Engineering construction	237000
Recreational vehicle sales	441210	Excavating or grading	238910
Service station (with convenience store)	447110	Fence installation	238990
Other service station	447190	Finish carpentry	238350
		Glass or glazing	238150
Other retail stores		Hardwood flooring installation	238330
Bookstores and news dealers	451210	Heating, air conditioning, or other duct/sheet metal work	238220
Cameras and photographic supplies	443130	Home renovations	236110
Florists	453110	Insulation	238310
General merchandise	452000		

Masonry	238140
Mechanical specialty work	238220
Painting or decorating	238320
Plastering or drywalling	238310
Plumbing	238220
Resilient flooring or carpet installation	238330
Shingling	238160
Siding installation	238170
Site work	238910
Structural or related work	238100
Terrazzo or tile work	238340
Other construction services	230000
Other exterior close-in work	238190
Other interior or finishing work	238390
Other trade work	238990

Manufacturing

Beverages	312100
Chemicals or chemical products	325000
Clothing	315000
Computer or electronic products	334000
Electrical equipment, appliances and components	335000
Fabricated metal products	332000
Food	311000
Furniture or fixtures	337000
Leather or leather products	316110
Non-electrical machines	333600
Non-metallic mineral products	327000
Paper products	322000

Plastic	326100
Primary metal	331000
Printing	323100
Refined petroleum and coal products	324100
Rubber	326200
Textile products	314000
Textile yarn or fabric	313000
Tobacco	312220
Transportation equipment	336000
Wood products	321000
Other manufacturing	300000

Natural resource industries

Forestry support services	115310
Hunting and trapping	114210
Logging	113310
Mining (except oil and gas)	212000
Oil and gas extraction	211110
Quarry or sand pit	212300
Support activities for mining or oil and gas extraction	213110

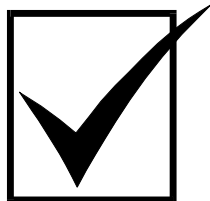
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