Canada Revenue Agency    Agence du revenu du Canada

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

# 2023

T4002(E) Rev. 23

Canada

# Find out if this guide is for you

Use this guide if you earned income as a:

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

It will help you calculate your self-employment income to report on your 2023 income tax return.

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

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

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

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

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

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

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

## If your business is conducting research and development (R&D) in Canada

The Scientific Research and Experimental Development (SR&ED) Program gives tax incentives to encourage Canadian businesses of all sizes and in all sectors who conduct R&D to help create a thriving R&D culture in Canada. Learn how you can claim those incentives by going to **canada.ca/taxes-sred**.

## For farmers

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

- If you are an AgriStability and AgriInvest participant in Quebec, use this guide for your income tax return and contact La Financière agricole du Québec at **1-800-749-3646** about AgriStability and AgriInvest participation
- If you are an AgriStability and AgriInvest participant in Alberta, Ontario, Saskatchewan or Prince Edward Island, use Guide RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide
- If you are an AgriStability and AgriInvest participant in the rest of Canada, use Guide RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide

## For fishers

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

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

- you participate in making a catch

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

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

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

# What's new for 2023

New items in this guide are outlined in colour. These include changes introduced in the 2023 federal budget that had not yet become law at the time this guide was published.

## Automobile deduction limits

For Class 54 zero-emission passenger vehicles (new and used) acquired on or after January 1, 2023, the prescribed amount increases from $59,000 to $61,000, before tax.

For Class 10.1 passenger vehicles (new and used) acquired on or after January 1, 2023, the prescribed amount increases from $34,000 to $36,000, before tax.

Automobile deductible leasing costs increase from $900 to $950 per month, before tax, for new leases entered into after 2022.

## Flipped property rules

Starting January 1, 2023, profits from the disposition of a flipped property are fully taxable as business income, not as a capital gain. A flipped property is a housing unit (including a rental property) located in Canada or a right to acquire a housing unit (such as assignment sales) located in Canada that was owned or held for less than 365 consecutive days before its disposition, unless it was already considered inventory or the disposition can reasonably be considered to occur due to, or in anticipation of, certain life events.

For more information, see "Flipped property rules" on page 10.

## Information reporting

Taxpayers, advisors and promoters are subject to enhanced reporting requirements relating to certain transactions entered into after June 21, 2023.

For more information, see "Information reporting related to reportable transactions and notifiable transactions" on page 99.

## Return of fuel charge proceeds to farmers tax credit

For 2023, New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island have been added to the list of designated provinces eligible for the return of fuel charge proceeds to farmers tax credit. A self-employed farmer, or an individual who is a member of a partnership that operates a farming business, with one or more permanent establishments in one or more designated provinces may be able to claim the return of fuel charge proceeds to farmers tax credit.

For more information on how to claim this credit, see "Return of fuel charge proceeds to farmers tax credit" on page 33 and "Line 9951 – Return of fuel charge proceeds to farmers tax credit allocated to you in the year" on page 64.

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

The CRA's publications and personalized correspondence are available in braille, large print, e-text and MP3. For more information, go to **canada.ca/cra-multiple-formats** or call **1-800-959-5525**.

If you are outside Canada and the United States, call **613-940-8495**. The CRA only accepts collect calls made through a telephone operator. After your call is accepted by an automated response, you may hear a beep and notice a normal connection delay. This service operates in Eastern Standard Time and is open Monday to Friday from 8 am to 8 pm and Saturday from 9 am to 5 pm.

This guide uses plain language to explain the most common tax situations. It is provided for information only and does not replace the law.

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

Unless otherwise stated, all legislative references are to the Income Tax Act or, where appropriate, the Income Tax Regulations.

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# Definitions

**Accelerated investment incentive property (AIIP)** – property that is eligible for an enhanced first-year allowance that is subject to the capital cost allowance (CCA) rules. The property may be eligible if it is acquired after November 20, 2018, and becomes available for use before 2028. For more information on AIIP, go to **canada.ca/taxes-accelerated-investment-income**.

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

For more information, see Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.

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

For more information, see Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.

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

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

For more information, see Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.

**Available for use** – generally, the **earlier of**:

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

For more information, see "Available-for-use rules" on page 66.

**Capital cost** – generally the taxpayer's full cost of acquiring the property. The capital cost of a property is usually the total of the following:

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

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

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

**Designated immediate expensing property (DIEP) –** property that:

- is immediate expensing property (see definition on page 8) of the eligible person or partnership (EPOP)
- is designated on a prescribed form the EPOP files with the minister for the tax year on or before the day that is 12 months after the EPOP's filing due date for the tax year to which the designation relates
- became available for use by the EPOP in the current year

**Eligible person or partnership (EPOP) –** one of the following:

- a Canadian-controlled private corporation (CCPC) throughout the year
- an individual (other than a trust) resident in Canada throughout the year
- a Canadian partnership of which all the members were either CCPCs or individuals (other than trusts) and all the members were resident in Canada throughout the fiscal period

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

**Immediate expensing property –** property, other than property included in CCA Classes 1 to 6, 14.1, 17, 47, 49 and 51, that:

- is acquired by an EPOP who is an individual or a Canadian partnership after December 31, 2021
- becomes available for use before:
  - 2025, if the EPOP is an individual or a Canadian partnership of which all the members are individuals throughout the year
  - 2024 in any other case
- meets either of the following conditions:
  - it has never been used for any purpose and no person or partnership has claimed CCA (or terminal loss) for the property before the property was acquired by the EPOP
  - it has not been transferred to the EPOP on a tax deferred "rollover" basis and it was not previously owned or acquired by the EPOP or a non-arm's length person or partnership

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

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

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

**Passenger vehicle** – a motor vehicle that is owned by the taxpayer (other than a zero-emission vehicle) or that is leased, and is designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers. Most cars, station wagons, vans and some pick-up trucks are passenger vehicles.

Passenger vehicles and zero-emission passenger vehicles are subject to limits on the amount of CCA, interest and leasing costs that may be deducted. They do **not** include:

- an ambulance
- a clearly marked police or fire emergency response vehicle
- a motor vehicle you bought to use more than 50% as a taxi, a bus used in the business of transporting passengers or a hearse used in a funeral business
- a motor vehicle you bought to sell, rent or lease in a motor vehicle sales, rental or leasing business
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers
- a van, pick-up truck or similar vehicle that seats no more than the driver and two passengers and that, in the tax year you bought or leased it, was used more than 50% to transport goods and equipment to earn income
- a van, pick-up truck or similar vehicle that, in the tax year you bought or leased it, was used 90% or more to transport goods, equipment or passengers to earn income
- a pick-up truck that, in the tax year you bought or leased it, was used more than 50% to transport goods, equipment or passengers to earn or produce income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community with a population of at least 40,000
- a clearly marked emergency medical service vehicle used to carry paramedics and their emergency medical equipment

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

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

**Zero-emission passenger vehicle (ZEPV)** – an automobile that is owned by the taxpayer and is included in Class 54 (but would otherwise be included in Class 10 or 10.1). The rules that apply to the definition of passenger vehicles apply to zero-emission passenger vehicles. A ZEPV does not include a leased passenger vehicle, but other vehicles that would otherwise qualify as a ZEPV if owned by the taxpayer are subject to the same leasing deduction restrictions as passenger vehicles.

**Zero-emission vehicle (ZEV)** – is a motor vehicle that is owned by the taxpayer where all of the following conditions are met:

- is a plug-in hybrid with a battery capacity of at least 7kWh or is either fully:
  - electric
  - powered by hydrogen
- is acquired, and becomes available for use, after March 18, 2019, and before 2028
- has not been used or acquired for use for any purpose before it was acquired by the taxpayer
- is a vehicle in respect of which an amount has not been deducted as CCA and a terminal loss has not been claimed by another person or partnership

  **Note**
  If the property was acquired after March 1, 2020, it may have been used, but a vehicle that was subject to a prior CCA or terminal loss claim cannot have been acquired by the taxpayer on a tax-deferred "rollover" basis nor previously owned or acquired by the taxpayer or a non-arm's length person or partnership.

- is a vehicle for which:
  - an election has not been made to forgo the Class 54 or 55 treatment
  - assistance has not been provided by the Government of Canada under the new incentive announced on March 19, 2019

# Chapter 1 – General information

## A business and business income

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

A business includes:

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

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

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

If any of your income earning business activities takes place on a reserve, some of your business income might be exempt from tax. For more information, go to **canada.ca/en/revenue-agency/services/indigenous-peoples/information-indians.html#hdng5**.

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

## Gift cards or certificates

Gift cards or certificates could be cards, vouchers, receipts or tickets that have a monetary value. They can be in a physical form or an electronic/digital format. They are an alternative to paying cash for goods and services.

When you sell a gift card or certificate:

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

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

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

For more information on gift certificates, see GST/HST Policy Statement P-202, Gift Certificates, or call **1-800-959-5525**.

If you filed your return and did not report the income from gift cards or certificates, you can still change the information on your return. To find out how to change your return, go to **canada.ca/change-tax-return**.

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

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

## Crypto-assets

For income tax purposes, crypto-assets can be generally described as a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions. Common examples include but are not limited to:

- cryptocurrency
- utility tokens
- security tokens
- non-fungible tokens

In general, you should include any income (or losses) from your business activities that involved crypto-assets in your business income.

Generally, when you disposed of crypto-assets to pay for, or receive them as payment for, goods (including other crypto-assets) and services, the transaction is treated as a barter transaction for income tax purposes. When these transactions take place in the context of a business that you operate, they may result in business income (or loss) that you have to include in your total income for the year. This may also be the case if you exchange crypto-assets for fiat currency or other crypto-assets on account of income or hold crypto-assets as inventory.

If you disposed of crypto-assets on account of capital, see Guide T4037, Capital Gains.

For more information on crypto-assets and how they should be treated for income tax and GST/HST purposes, as well as how to value your crypto-assets, go to **canada.ca/cracryptoassets**.

## Flipped property rules

Starting January 1, 2023, if you owned a housing unit (including a rental property) located in Canada or held a right to acquire a housing unit (such as assignment sales) located in Canada for less than 365 consecutive days before its disposition, the property is generally considered to be a flipped property, unless it was already considered to be part of your inventory.

Any gain from the disposition of a flipped property is **fully** taxable as business income and **not** as a capital gain. Any loss resulting from the disposition of a flipped property is deemed to be nil and **can't** be included in the calculation of your net business income. However, there are exceptions to these rules when the disposition occurs due to, or in anticipation of, certain life events. For more information on these new rules and the exceptions, see Guide T4037.

To determine if the flipped property rules apply to you, fill out page 3 of Schedule 3, Capital Gains (or Losses).

**Note**
If the property is **not** considered a flipped property, whether the income from the disposition of the property should be treated as business income **or** as a capital gain depends on the specific details of the situation. If the disposition is considered:

- a capital gain, fill out Schedule 3
- business income, fill out Form T2125, Statement of Business or Professional Activities

For more information, see "Capital gains" on page 86.

# Farming and fishing income

You can earn farming or fishing income as a self-employed farmer, fisher or both, or as a member of a farm or fishing partnership or both. Most of the rules that apply to self-employed farmers or fishers also apply to partners. However, if you are a partner, you should see "Reporting partnership income" on page 20.

## Farming income

Farming income includes income you earned from the following activities:

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

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

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

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

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

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

## Fishing income

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

- shellfish
- crustaceans
- marine animals

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

# Daycare in your home

Daycare in your home has always been covered in the T4002 and reported on the T2125. However, for your convenience we have added specific examples and descriptions throughout the guide to highlight information that is particularly relevant to your situation.

# Reporting income and penalties

Include all your income when you calculate it for tax purposes. If you fail to report all your income in this year or in the last three years, you may have to pay a penalty of 10% of the amount you failed to report after your first omission.

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

For more information about penalties, go to **canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/interest-penalties/false-reporting**.

## When you must start reporting income and can start deducting expenses

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

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

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

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

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

# How to report your self-employment income

## Fiscal period

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

Self-employed individuals generally have to use a December 31 year-end. If you are an eligible individual, you may be able to use another method of reporting business income that allows you to have a fiscal period that does not end on December 31. If your fiscal year-end is not December 31, see Form T1139, Reconciliation of 2023 Business Income for Tax Purposes, to calculate the amount of business income to report on your 2023 income tax return.

If you filed Form T1139 with your 2022 income tax return, generally you have to file one again for 2023.

**Note**
If you receive a T4A slip that includes amounts accrued and reported in a previous year, do not claim that income again in the current year. Instead, write a letter showing the amount and the year you reported the income. If you file on paper, you may include the letter with your return. If you file electronically, keep the letter in case the CRA asks to see it.

## Reporting methods

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

### Cash method

**Note for farmers**
You can use the cash method of accounting for your farming activities, but must use the accrual method for separate business activities or for GST/HST/QST purposes. You must keep a separate set of records for each accounting method that you use.

When you use the cash method you must:

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

For special rules, see "Prepaid expenses" on page 38.

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

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

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

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

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

For more information on the cash method for farming or fishing income and the exceptions, see Interpretation Bulletin IT-433, Farming or Fishing – Use of Cash Method.

**Note for farmers**
For more information, see "Line 9941 – Optional inventory adjustment included in the current year" on page 59 and "Line 9942 – Mandatory inventory adjustment included in the current year" on page 60.

### Accrual method

When you use the accrual method you must:

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

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

For special rules, see "Prepaid expenses" on page 38.

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

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

- Value all inventory at its **FMV** (see "Definitions" on page 7). Use either the price you would pay to replace an item or the amount you would get if you sold an item

- Value individual items at cost or FMV, whichever is less. You can value items by group when you cannot easily tell one item from another. Cost is the price you incur for an item, plus any expenses to get it to your business location and put in a condition of use for your business
- For farmers, value livestock according to the unit price base. For this method, fill in Form T2034, Election to Establish Inventory Unit Prices for Animals

Use the same method you used in past years to value your inventory. The value of your inventory at the start of your 2023 fiscal period is the same as the value at the end of your 2022 fiscal period. In your first year of operating a business, you will not have an opening inventory at the start of your fiscal period.

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

> **Note for farmers and fishers**
> If you use the accrual method to calculate your farming or fishing income, calculate your cost of goods sold separately. Form T2042 or Form T2121 does not have a line to calculate this amount.

### Changing your method of reporting income

If you decide to change your method of reporting income from the **accrual method** to the **cash method**, use the cash method when you file your next income tax return. Make sure you include a statement that shows each adjustment made to your income and expenses because of the difference in methods.

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

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

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

# Business records

You are required by law to keep records of all your transactions to be able to support your income and expense claims. A record is defined to include an account, an agreement, a book, a chart or table, a diagram, a form, an image, an invoice, a letter, a map, a memorandum, a plan, a return, a statement, a telegram, a voucher and any other proof containing information, whether in writing or in any other form.

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

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

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

## Benefits of keeping complete and organized records

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

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

## Consequences of not keeping adequate records

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

We may also disallow expenses you deducted if you cannot support them.

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

## Income records

Keep track of the gross income your business earns. Gross income is your total income before you deduct any expenses, including those related to the goods sold. Your income records must include the date, amount and source of the income. Record the income whether you received cash, property or services. Support all income entries with original documents.

Original documents include:

- sales invoices
- cash register tapes
- receipts
- bank deposit slips
- fee statements
- contracts

Original documents for farming also include cash purchase tickets from the sale of grain and cheque stubs from marketing boards.

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

**Example**
The following sales journal is an example of how to record your income for one month. The provincial sales tax (PST) rate for your province is 8% and the goods and services tax (GST) rate is 5%:

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

* GST and PST or harmonized sales tax (HST) are not included.

** If you sell in one of the participating provinces, the HST replaces the GST and the PST.

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

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

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

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

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

## Issuing receipts as a daycare provider

For daycare, you are expected to issue receipts to the parents of the children in your care. You should do this as soon as possible to give them time to file their income tax returns. By law, the receipts you issue must include all the following information:

- the name of the person you are preparing the receipt for
- the name of the child of the person you are preparing the receipt for
- the amount you received for your services
- the period you provided these services (from and to dates)

- your name
- your address
- your social insurance number
- your signature
- the date you signed the receipt

## Expense records

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

- the date of the purchase
- the name and address of the seller or supplier
- the name and address of the buyer
- the full description of the goods or services
- the vendor's business number if they are a GST/HST registrant when the purchase price is $30 or more (before tax)

**You were asking?**

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

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

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

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

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

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

**Example**

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

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

### Example of how to record fishing expenses

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

| Date | Gross stock | Boat share | Oil | Bait | Ice | Food | Captain's commission | Crewman No.1 | Crewman No.2 | Crewman No.3 | Crewman No.4 | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| February 14 | $10,000 | $ 4,000 | $300 | $400 | $200 | $300 | $200 | $1,150 | $1,150 | $1,150 | $1,150 | $10,000 |
| March 10 | $30,000 | $12,000 | $300 | $400 | $200 | $300 | $600 | $4,050 | $4,050 | $4,050 | $4,050 | $30,000 |
| March 19 | $20,000 | $ 8,000 | $300 | $400 | $200 | $300 | $400 | $2,600 | $2,600 | $2,600 | $2,600 | $20,000 |
| **Totals** | **$60,000** | **$24,000** | **$900** | **$1200** | **$600** | **$900** | **$1200** | **$7,800** | **$7,800** | **$7,800** | **$7,800** | **$60,000** |

**Summary Sheet for Boat and Other Expenses**

| Date | To whom paid | Boat repairs | Engine repairs | Electrical equipment repairs | Radar rental | Insurance | Interest on loan | Nets, traps, twine | Wages | Other | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Description | Amount |
| January 19 | Shipyard | $1,500 | $900 | | | | | | | | |
| February 3 | X Suppliers Ltd. | | | | | | | $600 | | | |
| March 31 | Rental services | | | | $800 | | | | | | |
| March 31 | Fishermen’s loan | | | | | $2,250 | $945 | | | | |
| April 4 | L. Electronics | | | $85 | | | | | | | |
| April 12 | B. Garage | | | | | | | | | Car repairs | $75 |
| May 2 | J G. Smith | | | | | | | | $120 | | |
| May 16 | L. Electronics | | | | | | | | | Sounder | $3,000 |
| **Totals** | | **$1,500** | **$900** | **$85** | **$800** | **$2,250** | **$945** | **$600** | **$120** | | **$3,075** |

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

| Date | To whom sold | Gross landings | Deducted from sales proceeds | | | Net cash received |
|---|---|---|---|---|---|---|
| | | | Gas | Bait | Other | |
| January 16 | Fish Packers | $1,000 | $36.50 | $ 74.90 | $20 | $ 868.60 |
| 20 | Fish Packers | $ 800 | $20.00 | $ 36.00 | $10 | $ 734.00 |
| 21 | J. Restaurant – no fish slip | $ 100 | | | | $ 100.00 |
| 25 | Fish Packers | $ 940 | $32.00 | $ 56.00 | $12 | $ 840.00 |
| **Totals** | | **$2,840** | **$88.50** | **$166.90** | **$42** | **$2,542.60** |

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

| Date | To whom paid | Boat repairs | Engine repairs | Wages paid | Bait | Gas for boat | Rope | Motor vehicle expenses | Materials, traps, nets | Other | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Description | Amount |
| January 4 | X Suppliers | | | | | | $25 | | $85 | | |
| 5 | Shipyard | $300 | | | | | | | | | |
| 7 | Provincial gov. | | | | | | | | | Fishing Licence | $7 |
| 7 | B. Insurance | | | | | | | $280 | | | |
| 9 | X. Service Station | | | | | | | $16 | | | |
| 12 | F. Jones | | | $85 | | | | | | | |
| 31 | Fishermen’s loan | | | | | | | | | Interest | $175 |
| **Totals** | | **$300** | | **$85** | | | **$25** | **$296** | **$85** | | **$182** |

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

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

## Instalment payments

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

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

- My Account at **canada.ca/my-cra-account**, for income tax instalments
- My Business Account at **canada.ca/my-cra-business-account**, for GST/HST instalments

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

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

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

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

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

## Dates to remember

**February 29, 2024** – If you have employees, file your 2023 T4 Summary and T4A Summary. Also, give your employees their copies of the T4 and T4A slips.

**March 15, 2024** – Make your first 2024 instalment payment if you earn business, professional or commission income.

**March 31, 2024** – Most partnerships with individuals as partners file a partnership information return. However, there are exceptions, see Guide T4068, Guide for the Partnership Information Return (T5013 Forms).

**April 30, 2024** – Pay any balance owing for 2023. Also, file your 2023 income tax return if the expenditures of your business are mainly the cost or the **capital cost** (see "Definitions" on page 7) of tax shelter investments.

**June 15, 2024** – File your 2023 income tax return if you have self-employment income, or if you are the spouse or common-law partner of someone who does, unless your business expenditures are mainly the cost or the capital cost of tax shelter investments. Remember to pay any balance owing due by April 30, 2024, to avoid interest charges.

**June 15, 2024** – Make your second 2024 instalment payment by this date if you earn business, professional or commission income.

**June 30, 2024, or the period end date plus 6 months** – If your business is in the construction industry and hires subcontractors, you may have to file a 2023 T5018 information return, that consists of Form T5018SUM, Summary of Contract Payments, and the related T5018 slips, to report your payments.

For more information, go to **canada.ca/t5018-slip**.

**September 15, 2024** – Make your third 2024 instalment payment by this date if you earn business, professional or commission income.

**December 15, 2024 –** Make your fourth 2024 instalment payment by this date if you earn business, professional or commission income.

**December 31, 2024 –** Pay your instalment payment if you meet the following conditions:

- your main source of income in 2024 is self-employment income from farming or fishing
- your net tax owing is more than $3,000 in each of 2022, 2023 and 2024 ($1,800 if you live in Quebec on December 31 for any of those years)

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

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

## Employment insurance premiums

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

Beginning in the year you register, your EI premiums will be calculated on your income tax return for that year. If you register in 2023 to participate in this program, premiums for 2023 will be calculated on your 2023 income tax return and will be payable by April 30, 2024.

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

When you register for the EI program, EI premiums will be payable on your self-employment income for the entire year, regardless of the date you register. For example, whether you register in April 2023 or December 2023, you will pay EI premiums on your self-employment income for the entire 2023 year.

EI premiums are payable on the amount of your self-employment earnings up to an annual maximum amount. The annual maximum amount for 2023 is $61,500.

Claim your provincial or territorial non-refundable tax credit for the EI premiums on the provincial or territorial Form 428 on line 58305.

For more information, go to **canada.ca/service-canada-home**.

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

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

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

**Note for daycare**
If you provide care and supervision in your home to children 14 years of age or under for periods of usually less than 24 hours per day, your daycare service is exempt from GST/HST. If your only business activity is operating a daycare, you generally cannot register for GST/HST purposes.

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

If you carry on a taxi business or provide commercial ride-sharing services, you must register for GST/HST regardless of your income.

For more information about how the GST/HST applies to taxable farm or fishing goods and services, zero-rated farm or fishing products and zero-rated farm or fishing purchases, see page 104.

For more general information on GST/HST, go to **canada.ca/gst-hst** or see Guide RC4022, General Information for GST/HST Registrants. For more information about registering for GST/HST purposes, see GST/HST Memorandum 2.1, Required Registration.

### The GST/HST Registry

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

For businesses registered under the simplified regime, you can also use the regime's new registry to confirm their GST/HST number. GST/HST paid on purchases from these businesses is **not** eligible for input tax credits. For more information, go to **canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/digital-economy-gsthst/confirming-simplified-gst-hst-account-number.html**.

You can check the Quebec Sales Tax (QST) registration number at **entreprises.revenuquebec.ca/EntNa/SX/SX00/SX00.SXCLT20A.ValiderInscription/SXCLT20AA**.

## Find out what a partnership is

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

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

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

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

### Limited partnership

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

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

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

## Reporting partnership income

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

## Partnership losses

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

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

## Filing requirements for partnerships

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

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

## Capital cost allowance

A partnership can own **depreciable property** (see "Definitions" on page 7) and claim CCA on it. However, individual partners cannot claim CCA on property the partnership owns.

From the capital cost of depreciable property, subtract any investment tax credit allocated to the individual partners. We consider this allocation to be made at the end of the partnership's fiscal period. You must also reduce the capital cost by any type of government assistance received. Box 040 of your T5013 slip, Statement of Partnership Income, shows the amount of CCA the partnership claimed on your behalf. This amount has already been deducted from your business income in box 116 of the T5013 slip. Do not deduct this amount again.

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

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

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

## GST/HST rebate for partners

If you are an individual who is in a partnership, you may be able to get a rebate for the GST/HST you paid on certain expenses. The rebate is based on the GST/HST you paid on expenses you deducted from your share of the partnership income on your income tax return. However, special rules apply if your partnership paid you an allowance for those expenses. For more information, go to **canada.ca/cra-gst-hst-rebates** and click on "Employee and partner."

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

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

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

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

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

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

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

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

For example, if in 2023 you receive a GST/HST rebate for the 2022 tax year, you have to include the amount of the rebate on your income tax and benefit return for 2023:

- Report at line 9974 of Form T2125, T2042 or T2121 the GST/HST rebate amount for partners that pertains to eligible expenses other than the CCA
- In column 2 of "Area A – Calculation of CCA claim," reduce the UCC for the beginning of 2023 by the rebate part that relates to the eligible CCA

For more information about the GST/HST rebate, go to our web page "GST/HST rebate for employees and partners."

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

The following are his 2023 motor vehicle expenses. He did not receive an allowance or reimbursement for these expenses.

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

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

$8,250.84 × (5 ÷ 105) = $392.90

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

He files Form GST370, Employee and Partner GST/HST Rebate Application, and includes $392.90 at line 45700 on his 2023 tax return.

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

$3,150.84 × (5 ÷ 105) = $150.04

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

When filing his 2024 tax return, he will include this amount on line 9974 of Part 5 of his Form T2125, Form T2042 or Form T2121. Patrick also calculates the amount of the GST/HST rebate for partners that relates to CCA:

$5,100 × (5 ÷ 105) = $242.86

On his 2024 tax return, he will reduce the 2024 beginning UCC of his motor vehicle by $242.86 in column 2 of Area A.

## Investment tax credit

An investment tax credit (ITC) lets you subtract part of the cost of some types of property you acquired or expenditures you incurred from the taxes you owe. You may be able to claim this tax credit in 2023 if you:

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

You may also be able to claim this tax credit in 2023 if you have unused ITCs from previous years.

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

### Atlantic Investment Tax Credit

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

### Scientific research and experimental development

You can earn a scientific research and experimental development (SR&ED) ITC on qualified expenditures. You can receive them in the form of a cash refund or a reduction of tax payable or both. Unused SR&ED ITC can be carried back three years or carried forward 20 years. For more information, see the SR&ED Investment Tax Credit Policy.

> **Note for farmers**
> Agricultural producers can access ITCs earned on contributions made to agricultural organizations that fund SR&ED. For more information, see section 8 of the Third-Party Payments Policy on the CRA website. Self-employed farmers may be required to file a Form T661 as well as a Form T2038. For more information, see Guide T4088, Scientific Research and Experimental Development (SR&ED) Expenditures Claim – Guide to Form T661.

### Mineral exploration tax credit

Certain renounced Canadian exploration expenses qualify for the mineral exploration tax credit (METC). You must subtract the amount of any allowable provincial tax credit.

### Critical mineral exploration tax credit

Certain renounced Canadian exploration expenses qualify for the critical mineral exploration tax credit (CMETC) if they were incurred for the exploration of any of the following specified minerals: copper, nickel, lithium, cobalt, graphite, a rare earth element, scandium, titanium, gallium, vanadium, tellurium, magnesium, zinc, a platinum group metal and uranium.

Eligible expenses must be renounced under flow-through share agreements that are entered into after April 7, 2022, and before April 1, 2027.

You cannot claim both the CMETC and the METC for your eligible expenses. You must subtract the amount of any allowable provincial tax credit.

### Air quality improvement tax credit

As a self-employed individual, you could only claim the air quality improvement tax credit (AQITC) for your qualifying expenditures in the 2022 tax year, even if you had an alternative fiscal period end for your business in 2023.

If you were a member of a partnership in 2023, enter any AQITC allocated to you by the partnership for its fiscal period ending in 2023 on line 47557 of your income tax and benefit return. The amount allocated to you is shown in box 238 of your T5013 slip or in a letter that your partnership provided to you.

For more information on the AQITC, see "Line 47557" of the Federal Income Tax and Benefit Information.

### Apprenticeship job creation tax credit

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

# Chapter 2 – Income

## Sole proprietorships

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

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

## Partnerships

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

- Fill in the "Identification" section
- For business and professional income, enter in Part 5 at amount 5A the income amount from your T5013 slip. On your T5013 slip, you will find "Business income (loss)" at box 116, "Professional income (loss)" at box 120 and "Commission income (loss)" at box 122

- For farming income, enter the amount from box 125 of your T5013 slip at line 14099 of your income tax return. Enter the amount from box 124 (or box 101 if a limited partnership) of your T5013 slip at amount 5A of Form T2042
- For fishing income, enter the amount from box 126 (or box 103 if a limited partnership) of your T5013 slip at amount 5A of Form T2121
- Fill in the "Other amounts deductible from your share of net partnership income (loss)" chart to claim any expenses for which the partnership did not reimburse you, or other amounts you may be able to deduct. Also, fill in the "Calculating business-use-of-home expenses" chart if it applies to you. For more information, see "Line 9945 – Business-use-of-home expenses" on page 64
- 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 116 for business, box 120 for professional or box 122 for commission of your T5013 slip, the amount you enter at line 9946 will be the same as the amount you entered at amount 5A of Form T2125
  - box 124 for farming (or box 101 if a limited partnership) of your T5013 slip, the amount you enter at line 9946 will be the same as the amount you entered at amount 5A of Form T2042
  - box 126 for fishing (or box 103 if a limited partnership) of your T5013 slip, the amount you enter at line 9946 will be the same as the amount you entered at amount 5A of Form T2121

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

- Fill in the "Identification" section
- Fill in the "Income" section to report the partnership's income
- Fill in the "Net income (loss) before adjustments" section
- Fill in the "Other amounts deductible from your share of net partnership income (loss)" chart to claim any expenses for which the partnership did not reimburse you or any other amounts you may be able to deduct. Also, fill in the "Calculating business-use-of-home expenses" chart if it applies to you. For more information, see "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" on page 64
- Fill in the "Details of other partners" chart

To see if your partnership has to file a partnership information return, see "Filing requirements for partnerships" on page 20.

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

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

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

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

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

**Note for farmers**

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

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

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

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

# Part 1 – Identification

Fill in all the lines that apply to your business.

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

Indicate the period your business year covered, which is your fiscal period. For an explanation of fiscal period, see page 12.

**Note for fishers**
Enter your boat's name and vessel registration number (VRN) given by Fisheries and Oceans Canada (DFO). If your boat has no formal name, enter the VRN only.

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

## Industry codes

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

If more than 50% of your business involves one specific activity, choose the code that identifies that main activity. However, if your business is involved in more than one type of economic activity, and none of the codes make up more than 50% of your business, choose the appropriate level of code from the list. Codes with more than one zero are more general and are at a higher level.

For example, your business is 49% computer systems design and 51% video game design and development services. Though there is a level 5 general category, you should not use the number 541510. There are more specific codes at level 6 for the focus of your business. You could choose between codes 541514 and 541515. The business in this example focuses on video game design and development services. So your industry code would be 541515.

If you are filing your income tax return on paper, enter the six-digit industry code that corresponds to your business listed in the latest version of the North American Industry Classification System (NAICS). To get the full list of NAICS codes and their descriptions, go to **statcan.gc.ca/en/subjects/standard/naics/2022/v1/index**.

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

## Tax shelter identification number

If you have a tax shelter, enter the tax shelter identification number found on your T5013 slip on the proper line.

If you are claiming a deduction or losses for 2023, attach to your income tax return any applicable T5003 slip, Statement of Tax Shelter Information, and a completed Form T5004, Claim for Tax Shelter Loss or Deduction.

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

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

## Partnership business number

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

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

# Part 2 – Internet business activities

You may earn income from your web pages or websites:

- by selling goods and services on your own page(s) or site(s). You may have a shopping cart and process payment transactions yourself or using a third-party service
- if your site does not support transactions but your customers call, fill in and submit a form, or email you for things like making a purchase, ordering or booking
- by selling goods and services on auction, online marketplace or similar sites operated by others

- if earning income from advertising, income programs or traffic your site generates. This would include either:
  – static advertisements placed on your site for other businesses
  – affiliate programs
  – advertising programs such as Google AdSense or Microsoft Advertising
  – other types of traffic programs

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

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

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

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

## Part 3 – Income

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

For farming income, see page 29. Use Form T2042.

For fishing income, see page 34. Use Form T2121.

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

## Business and professional income

### Part 3A – Business income

Fill in this part **only** if you have business income, including all income (both monetary and non-monetary) earned from any of the following:

- sharing economy activities such as ridesharing and accommodation sharing
- gig economy activities
- peer-to-peer sales using online platforms
- social media influencer activities

This could apply, for example, if you are a social media influencer who received monetary amounts (including donations, gifts or tips) or non-monetary gifts (such as consumer goods or services) in the course of your business.

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

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

#### Gross sales, commissions or fees

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

At amount 3A, enter the gross sales, commissions or fees (including GST/HST, collected or collectible).

At amount 3B, enter any GST/HST, provincial sales tax, returns, allowances, discounts and GST/HST adjustments (included on amount 3A).

> **Note**
> If you are using the quick method of accounting to calculate your GST/HST remittances, calculate government assistance as follows:
>
> - At amount 3D, enter GST/HST collected or collectible on sales, commissions and fees that are eligible for the quick method

- For each applicable remittance rate, include the sales, commissions and fees eligible for the quick method **plus** GST/HST collected or collectible. **Multiply** this amount by the quick method remittance rate and enter the result on amount 3E. This is the amount you enter on line 105 of your GST/HST return (or line 103 if you are filing your GST/HST return on paper)
- The subtotal at amount 3F is amount 3D **minus** amount 3E

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

Amount 3G (Adjusted gross sales) is the total of amount 3C **plus** amount 3F.

### Adjusted gross sales – Amount 3G

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

## Part 3B – Professional income

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

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

### Professional fees

Your professional income includes all fees you receive for goods or services you provide. These fees include money or other goods that have bartering or monetary value (such as credit units). Bartering means when two people agree to exchange goods or services without using money.

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

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

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

**plus:**

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

**minus:**

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

At amount 3H, enter the gross professional fees including WIP and GST/HST collected or collectible.

At amount 3I, enter any GST/HST, provincial sales tax, returns, allowances, discounts and GST/HST adjustments (included on amount 3H).

Amount 3J is the subtotal of amount 3H **minus** amount 3I.

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

- At amount 3K, enter GST/HST collected or collectible on professional fees eligible for the quick method
- For each applicable remittance rate, include the sales, commissions and fees eligible for the quick method **plus** GST/HST collected or collectible. **Multiply** this amount by the quick method remittance rate and enter the result on amount 3L. This is the amount you enter on line 105 of your GST/HST return (or line 103 if you are filing your GST/HST return on paper)
- The subtotal at amount 3M is amount 3K **minus** amount 3L

Amount 3N, Adjusted professional fees, is the total of the amount 3J **plus** amount 3M.

### Adjusted professional fees – Amount 3N

Enter amount 3N in Part 3C at line 8000.

## Part 3C – Gross business or professional income

### Line 8000 – Adjusted gross sales or adjusted professional fees

If you are completing Form T2125 for a business activity, enter at line 8000 your adjusted gross sales from amount 3G in Part 3A.

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

### Line 8290 – Reserves deducted last year

Include any reserves you deducted for 2022. For more information, see "Allowable reserves" on page 56.

### Line 8230 – Other income

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

- a recovered amount you wrote off as a bad debt in a previous year
- the value of prizes or vacation trips awarded to you because of your business or professional activities
- payments you received for land you leased for petroleum or natural gas exploration. For more information, see Interpretation Bulletin IT-200, Surface Rentals and Farming Operations
- grants, subsidies, incentives, or assistance you get from a government, government agency or non-government agency. Input tax credits are considered government assistance. Include the amount you claimed on line 108 of your GST/HST return only if you cannot apply the rebate, grant or assistance you received to reduce a particular expense or an asset's capital cost. For more information, see "Grants, subsidies and rebates" on page 84

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

> **Note**
> Enter on line 9974 in Part 5 the amount of GST/HST rebate for partners you received in the year that relates to eligible capital expenses other than CCA.

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

### Line 8299 – Gross business or professional income

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

Enter the amount at line 8299 on your form. If it is business income, enter this amount on your tax return on line 13499. If it is professional income, enter this amount on your tax return on line 13699.

> **Note for daycare**
> If you determine that you are self-employed, report your daycare income as business income on your tax return. Enter your gross daycare income on line 13499 and your net income or loss on line 13500. If you are filing your return online, use the industry code for daycare that your tax preparation software uses.

Your gross income includes all the income you earned from daycare services you provided during the year. This income includes payments from parents, as well as subsidies such as provincial or territorial grants to care for children.

If you received a grant to buy a daycare property, that amount is not part of your income. Instead, subtract the grant you used to buy the property from the capital cost of the property.

Keep track of how much of your business income was commission income. Enter your gross commission income on line 13899 of your income tax return.

## Part 3D – Cost of goods sold and gross profit

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

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

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

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

### Line 8300 – Opening inventory and Line 8500 – Closing inventory

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

- value your entire inventory at its fair market value (FMV) (see "Definitions" on page 7). Use the price you would pay to replace the item or the amount you would get if you sold the item
- value individual items in your inventory at either their FMV or their cost, whichever is less. Cost is the price you incur for an item. Cost also includes any expenses you incur to bring the item to the business location and put it in a condition so that you can use it in the business. When you cannot easily tell one item from another, you can value the items as a group

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

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

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

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

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

#### Inventory value of an artistic endeavour

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

When you calculate your income from an artistic endeavour, you can elect to value your closing inventory at zero. To do this, enter zero at line 8500. Your election of zero closing inventory stays in effect for each following year, unless you request a change and we allow the change. You cannot use this election if you reproduced the works of art.

For more information, see Income Tax Folio S4-F14-C1, Artists and Writers.

#### Gifts of inventory by an artist

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

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

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

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

### Line 8340 – Direct wage costs

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

- indirect wages
- a salary paid to yourself or a partner (see "Part 9 – Details of equity" on page 66)
- withdrawals you may have made from the business (see "Part 9 – Details of equity" on page 66)

### Line 8360 – Subcontracts

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

### Line 8519 – Gross profit

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

The rules for calculating business and professional income are similar.

# Farming income

## Lines 9370 to 9378 (inclusive)

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

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

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

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

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

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

### Cash advances

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

## Lines 9421 to 9424 (inclusive)

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

Do not include amounts received from the sale of greenhouse vegetables. For more information, see "Line 9425 – Greenhouse and nursery products."

## Line 9420 – Other crops

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

## Line 9425 – Greenhouse and nursery products

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

## Line 9426 – Forage crops or seeds

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

## Lines 9471 to 9474 (inclusive) – Livestock sold

Enter the total income from the sale of the identified livestock on the applicable line. In some cases, you can defer including some amounts in income, as explained on page 30. These deferrals do not apply if you were a non-resident and were not carrying on a farming business through a fixed place of business in Canada at the end of the tax year. Also they do not apply in the year of the farmer's death.

## Line 9470 – Livestock and animal products revenue

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

### Prescribed drought region (PDR)

In some cases, you may be able to defer the applicable income received from the sale of breeding animals in your 2023 fiscal period to a later fiscal period.

To be able to do this, you must meet the following **two** conditions:

- your farming business was located in a PDR at some time during your 2023 fiscal period
- you reduced, by sale or other means, the number of breeding animals in your breeding herds by at least 15%

For a list of PDRs, contact us at **1-800-959-5525** or Agriculture and Agri-Food Canada. For a list of the prescribed regions of drought, flood or excessive moisture, go to **canada.ca** and search for "Drought Watch" or "Livestock Tax Deferral Provision."

### Prescribed flood region (PFR)

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

For a list of the prescribed regions of flood or excessive moisture, go to **canada.ca** and search for "Drought Watch" or "Livestock Tax Deferral Provision."

### Income deferral

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

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

Eligibility for the income deferral includes:

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

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

To determine the size of your breeding herd at the end of your 2023 fiscal period, fill in the following chart:

**Breeding herd chart**

**Part 1**

| | | |
|---|---|---|
| How many of your female bovine cattle over 12 months of age (held at the end of your 2023 fiscal year) have given birth? | ________ | 1 |
| How many of your female bovine cattle over 12 months of age (held at the end of your 2023 fiscal year) have never given birth? | ________ | 2 |
| Enter one half of the amount from line 1 | ________ | 3 |
| Enter either the amount from line 2 or line 3, whichever is less | ________ | 4 |

**Part 2**

| | | | | |
|---|---|---|---|---|
| How many breeding animals did you have at the end of your 2023 fiscal period? | | | ________ | 5 |
| Enter the amount from line 2 | ________ | 6 | | |
| Enter the amount from line 4 | ________ | 7 | | |
| Line 6 **minus** line 7 | | | ________ | 8 |
| Number of breeding animals in your breeding herd at the end of your 2023 fiscal period: line 5 **minus** line 8 | | | ________ | 9 |

If the amount from line 9 does **not** exceed 85% of the total number of animals in your breeding herd at the end of your 2022 fiscal year, you can defer part of the income received in 2023 from the sale of breeding animals.

Before you determine how much you can defer, you need to calculate a few amounts. First, determine your sales of breeding animals for your 2023 fiscal period **minus** any reserves you claimed for these sales.

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

When you have determined your sales of breeding animals, **subtract** from this amount the cost of breeding animals you bought in your 2023 fiscal period. The result is your net sales amount.

You then determine how much you can defer as follows:

- if the amount at line 9 is more than 70% and not more than 85% of your breeding herd at the end of your 2022 fiscal period, you can defer up to 30% of your net sales amount
- if the amount at line 9 is between 0% and 70% of your breeding herd at the end of your 2022 fiscal period, you can defer up to 90% of your net sales amount

You do not have to defer all of this income. You can include any part of it in your 2023 income. However, the deferred income must be reported in the fiscal period that ends in either:

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

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

However, as long as your farming business was in a PDR/PFR at any time in your 2023 fiscal period, you do not have to include income you deferred in earlier years.

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

On the applicable line, enter the total income from selling eggs, milk and cream. Do not include any amount you received as dairy subsidies. Include these in your 2023 fiscal period, on line 9541.

## Line 9520 – Other commodities

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

## Program payments

You should receive an AGR-1 slip, Statement of Farm-Support Payments, to identify your 2023 taxable farm-support payments for all farm-support programs from which you received payments of more than $100. These include farm-support programs administered by the federal, provincial, territorial and municipal governments, and by producer associations.

You have to include in income all taxable farm-support payments you received in your 2023 fiscal period, including amounts of $100 or less.

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

If the annual period of the AGR-1 slip is not the same as the fiscal period of your farming operation, report only the part of the farm-support payments you earned during your normal fiscal period. For example, if your farming business has a fiscal period ending on June 30, 2023, and your AGR-1 slip shows income of $10,000 in box 14, but you earned only $6,000 of that income by June 30, 2023, include only $6,000 in your income for your 2023 fiscal period. Include the remaining $4,000 in your next fiscal period. However, include the AGR-1 slip issued for the 2023 calendar year with your 2023 income tax return or partnership information return.

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

## Line 9541 – Dairy subsidies

Enter the dairy or milk subsidies you received.

## Line 9542 – Crop insurance

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

## Line 9540 – Other program payments

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

### Disaster assistance program payments

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

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

### Destroying livestock

You have to include in income any payments you received under the Health of Animals Act for destroying animals. You can choose to deduct all or part of the payment as an expense in the year. However, if you choose to do this, you have to include in your income for your next fiscal period the amount you deduct in your 2023 fiscal period. If you deferred payments in your 2022 fiscal period, you have to include the deferred amounts as income in 2023.

## Line 9570 – Rebates

Enter the amount of the rebate, grant or assistance you received on this line. Before doing so, reduce any related expense or the capital cost of a related depreciable asset by the amount of the rebate, grant or assistance you received. For more information, see "Grants, subsidies and rebates" on page 84. This will affect the amount of CCA you can claim for that asset. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim for the investment tax credit. Input tax credits are considered government assistance. Include the amount you claimed on line 108 of your GST/HST return only if you cannot apply the rebate, grant or assistance you received to reduce a particular expense or an asset's capital cost. For more information, see "GST/HST input tax credits" on page 50.

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

## Line 9600 – Other income

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

### Wood sales (including stumpage)

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

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

If you earned the income by letting other people remove standing timber from your woodlot, the proceeds may be a capital receipt. A taxable capital gain or an allowable capital loss may result. For more information on capital gains and losses, see Chapter 6 of this guide and Guide T4037, Capital Gains.

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

### Gifts

In your income, include the **FMV** (see "Definitions" on page 7) of livestock or other items you gave away you would normally have sold.

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

### Payment in kind

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

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

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

### Surface rental for petroleum or natural gas exploration

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

The first payment from these agreements is often larger than the rest of the annual payments. However, the agreement may not specify how much of the first payment is for such things as damage to land, land improvements, severance, inconvenience or the first year's rent. When this happens, in the year you received the first payment, include in income an amount that is equal to the annual payment you will receive in the following years. The rest of the payment will be considered as payment for property for income tax purposes. This may result in either a capital gain or loss. For information about capital gains, see Chapter 6.

### Rental income

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

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

### Recapture of capital cost allowance

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

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

### Return of fuel charge proceeds to farmers tax credit

This credit is considered to be government assistance that you received in the year and is taxable to you. Include the amount of the credit in your income in the same tax year you claim the credit.

To calculate your credit, fill in Form T2043, Return of Fuel Charge Proceeds to Farmers Tax Credit.

### Miscellaneous

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

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

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

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

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

### Line 9604 – Insurance proceeds

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

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

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

If the insurance proceeds compensated you for **damages** to depreciable property, and you used all of them to **repair** the property within a reasonable period of time, include the proceeds as income on this line. Claim a deduction for the same amount in the "Other expenses" area of Form T2042. Claim repairs to depreciable property that is machinery on line 9760 and repairs to motor vehicles on line 9819. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, we consider the amounts you did not spend to be proceeds of disposition. Report these amounts in column 5 of Area A of Form T2042. For more information, see "Column 5 – Proceeds of dispositions in the year" on page 71.

Insurance proceeds that compensate you for **replacement** of **lost** or **destroyed** depreciable property are considered to be proceeds of disposition for that depreciable property. Do not include this type of insurance proceeds on this line. For more information, see Chapter 4. For information on how insurance affects the adjusted cost base of capital property, see Chapter 6.

Do not include insurance proceeds from federal, provincial or municipal government programs. For information on government insurance programs, see "Line 9540 – Other program payments" and "Line 9542 – Crop insurance" on page 32.

### Line 9605 – Patronage dividends

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

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

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

### Line 9659 – Gross income

Gross farming income is your total farming income before you deduct expenses. Enter your gross farming income on line 14099 of your income tax return.

## Fishing income

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

### T4 slip, Statement of Remuneration Paid

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

As a fisher, you may have received a T4 slip that shows your fishing income. Since your T4 slip may not show all of your fishing income for the year, you should keep a detailed record of all your fishing income. Enter on Form T2121 the income you received in your 2023 fiscal period.

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

However, if your fiscal period ended on a date other than December 31, enter on line 43700 of your income tax return **one** of these amounts:

- the total tax deducted for the year, as shown on your T4 slip
- the part of the tax deducted for your 2023 fiscal period (in 2024, you claim the amount that remains)

In either case, include your T4 slip with your 2023 income tax return.

If you are claiming income tax that was deducted from a 2022 T4 slip, attach a note to your 2023 income tax return telling us you are doing this.

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

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

## Fish products

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

## Other marine products

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

## Subsidies

Include the income you received during your 2023 fiscal period from all fishing subsidy programs made to fishers under federal, provincial, territorial, municipal or joint programs.

## Compensation for loss of fishing income or property

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

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

## Other income

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

### Paying debts with part of a catch

You may have bought property or paid off a debt with fish or other catch instead of money. In this case, include in your income the **FMV** (see "Definitions" on page 7) of the fish or other catch.

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

### Sale of property

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

For instance, if you sold capital property, you may have to include in your income a capital gain and a recapture of CCA, or you may be able to deduct a terminal loss. For more information, see Chapter 4.

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

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

**Note**
It has become a standard industry practice to pay amounts to existing licence holders to relinquish their fishing licence if the licence holder recommends to DFO that a replacement licence be issued to a specific individual and that individual is granted a new licence. It is common industry terminology to refer to this exercise as **selling** or **buying** a licence.

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

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

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

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

**Tax treatment**: **Richard** includes the amount in his income if he inventories his nets and traps, or he includes the amount as proceeds of disposition if he capitalizes his nets and traps. He may also have a capital gain as well as a recapture of CCA, or a terminal loss. See Chapter 4. **Stacey** sees "Line 9137 – Nets and traps" on page 44.

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

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

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

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

**Total** $32,500

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

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

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

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

## Line 8299 – Gross income
Gross fishing income is your total fishing income before you deduct expenses. Enter your gross fishing income on line 14299 of your income tax return.

# Chapter 3 – Expenses

This chapter discusses the more common expenses you might incur to earn income from your activities. Incur means you paid or will pay the expense.

**Note for daycare**
You can claim daycare expenses on your income tax and benefit return if you report self-employment income earned from running a daycare.

As an employee, you cannot deduct daycare expenses. If you are not sure about your situation, see Guide RC4110, Employee or Self-Employed.

If you care for children part time or from time to time and it's impossible for you to tell how long and steady the work is going to be, you cannot deduct business expenses. Report these earnings on your income tax return as "Other employment income" on line 10400.

## 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 in the following chart.

**Current or capital expenses**

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

For more information, see "Chapter 4 – Capital cost allowance" on page 66 and Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

You cannot claim expenses you incur to buy capital property. However, as a rule, you can deduct any reasonable current expense you incur to earn income. The deductible expenses include any GST/HST you incur on these expenses less the amount of any input tax credit claimed.

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

**Note**
When you claim the GST/HST you paid or owe on your business expenses as an input tax credit, reduce the amounts of the business expenses by the amount of the input tax credit. Do this when the GST/HST for which you are claiming the input tax credit was paid or became payable, whichever is earlier. Similarly, subtract any rebate, grant or assistance from the expense to which it applies. Enter the net figure on the proper line. Any such assistance you claim for the purchase of depreciable property used in your business will affect your claim for capital cost allowance (CCA).

**Note for farmers**
If you cannot apply the rebate, grant or assistance you received to reduce a particular expense, or to reduce an asset's capital cost, include the total on line 9570, "Rebates," on Form T2042. For more information, see "Grants, subsidies and rebates" on page 84.

**Note for business and professional**
If you cannot apply the rebate, grant or assistance you received to reduce a particular expense, or to reduce an asset's capital cost, include the total in Part 3C at line 8230, "Other income." For more information, see "Grants, subsidies and rebates" on page 84.

**Do not include any of the following in your expenses:**

- salary, wages (including drawings) paid to self, partner(s) or both
- the cost of saleable goods or services you, your family, or your partners and their families used or consumed (including items such as food, home maintenance and business properties)
  - for farmers, this includes items such as dairy products, eggs, fruit, vegetables, poultry and meat
- donations to charities and political contributions
- interest and penalties you paid on your income tax
- most life insurance premiums; for more information on limited exceptions:
  - for farming, see line 9804 on page 47
  - for fishing, see line 8690 on page 40
- the part of any expenses that can be attributed to non-business use of business property
- most fines and penalties imposed, under the law of Canada or a province or a foreign country

### Prepaid expenses

A prepaid expense is an expense you paid for ahead of time. Under the **accrual method** of accounting, claim the expense you prepay in the year or years in which you get the related benefit. Suppose your fiscal year-end is December 31, 2023. On June 30, 2023, you prepay the rent on your building for a full year (July 1, 2023, to June 30, 2024). You can only deduct one-half of this rent as an expense in 2023. You can deduct the other half as an expense in 2024.

Under the **cash method** of accounting, you cannot deduct a prepaid expense amount (other than for inventory) relating to a tax year that is two or more years after the year the expense is paid. However, you can deduct the part of an amount you paid in a previous year for benefits received in the current tax year. These amounts are deductible as long as you have not previously deducted them.

If you paid $600 for a three-year service contract for office equipment in 2023, you can deduct $400 in 2023. This represents the part of the expense that applies to 2023 and 2024. On your 2025 income tax return, you could then deduct the balance of $200 for the part of the prepaid lease that applies to 2025.

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

## Part 4 – Net income (loss) before adjustments

If you are self-employed, you can deduct certain amounts you spent to earn business, professional, commission, farming and fishing income. For the definition of self-employed fisher, see "Find out if this guide is for you" on page 2. If you use the cash method of reporting income and expenses, you can only deduct expenses you paid in the year. If you are using the accrual method, you can deduct expenses you had during the year, whether you paid them or not. There are special rules for deducting prepaid expenses. For more information, see "Prepaid expenses" on page 38.

**Note**
When you claim the GST/HST you paid or owe on your fishing expenses as an input tax credit, reduce the amounts of the expenses to which the credit relates by the amount of the input tax credit. Do this when the GST/HST for which you are claiming the input tax credit was paid or became payable, whichever is earlier.

This section will introduce expense line numbers from Part 4 of all three forms in ascending order. To determine which lines occur on which forms, please reference the icons below:

For business and professional expenses

For farming expenses

For fishing expenses

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

## Line 8521 – Advertising

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

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

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

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

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

## Line 8523 – Meals and entertainment

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

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

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

These limits also apply to the cost of your meals when you travel or go to a convention, conference, or similar event. Special rules can affect your claim for meals in these cases. For more information, see "Convention expenses for business and professional" on page 55.

These limits do not apply in any of these cases:

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

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

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

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

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

Self-employed foot and bicycle couriers and rickshaw drivers can deduct the cost of extra food and beverages they must consume in a normal working day (eight hours) because of the nature of their work. The daily flat rate that can be claimed is $23.

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

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

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

### Meals and entertainment expenses for fishers

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

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

In some cases, you can deduct the cost of meals even though they were not taxable benefits. You can do this if your boat was at sea for 36 hours or more and the meals you provided for your crew were not taxable benefits. Also, if you gave meals to your sharespeople, generally the meals you provided for them are not taxable benefits because we do not consider sharespeople to be employees. The 50% rule applies to all self-employed sharespeople. However, they may be limited by the restriction noted above.

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

## Line 8590 – Bad debts

You can generally deduct an amount for a bad debt if you meet the following conditions:

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

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

## Line 8690 – Insurance

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

Motor vehicle insurance costs are listed at line 9281.

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

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

### Insurance expenses for fishers

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

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the property for personal use and for your fishing business, you can deduct the business part of these costs. For more information, see "Line 9281 – Motor vehicle expenses (not including CCA)" on page 45 and "Line 9945 – Business-use-of-home expenses" on page 64.

## Line 8710 – Interest and bank charges

You can deduct interest on money borrowed for business purposes or to acquire property for business purposes. This includes fishing businesses.

There are limits on:

- The interest you can deduct on money you borrow to buy a passenger vehicle or a zero-emission passenger vehicle (ZEPV). For more information, see "Line 9281 – Motor vehicle expenses (not including CCA)" on page 45

- The amount of interest you can deduct for vacant land. Usually, you can only deduct interest up to the amount of income from the land that remains after you deduct all other expenses. You cannot use any remaining amounts of interest to create or increase a loss, and you cannot deduct them from other sources of income
- The interest you paid on any real estate mortgage you had to earn fishing income. You can deduct the interest, but you cannot deduct the principal part of loan or mortgage payments. Do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes

#### Fees, penalties or bonuses paid for a loan

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

For example, if the term of your loan is five years and in the third year you pay a fee to reduce your interest rate, treat this fee as a prepaid expense and deduct it over the remaining term of the loan. For more information, see "Prepaid expenses" on page 38.

#### Fees deductible over five years

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

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

You deduct these fees over a period of five years, regardless of the term of your loan. Deduct 20% (100% divided by five years equals 20%) in the current tax year and 20% in each of the next four years. The 20% limit is reduced proportionally for fiscal periods of less than 12 months.

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

#### Fees deductible in the year incurred

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

#### Interest deductible on property no longer used for business purposes

You may be able to deduct interest expenses for a property you used for business purposes, even if you have stopped using the property for business activities because you are no longer in business. For more information, see Income Tax Folio S3-F6-C1, Interest Deductibility, or call **1-800-959-5525**.

#### Interest on loans made against insurance policies

You can deduct interest you paid on a loan made against an insurance policy, as long as the insurer didn't add the interest you paid to the adjusted cost basis of the insurance policy. To claim the interest you paid for 2023, have the insurer verify the interest before June 16, 2024, on Form T2210, Verification of Policy Loan Interest by the Insurer.

#### Capitalizing interest

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

- to buy depreciable property
- to buy a resource property
- for exploration and development

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

#### Interest related to workspace in your home

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

## Line 8760 – Business taxes, licences and memberships

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

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

### Licences (business taxes and memberships) for fishers

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

If you bought a fishing boat and the price included the cost of a licence, you need to know what part of the price was for the licence and what part was for the boat. Try to agree on these amounts with the seller. See the example on page 36.

## Line 8810 – Office expenses

You can deduct the cost of office expenses that are generally **not** related to your workspace. These include small items such as pens, pencils, paper clips, stationery and stamps. For office expenses related to your workspace, see "Line 8811 – Office stationery and supplies" below.

Office expenses do not include capital expenditures to acquire capital property such as calculators, filing cabinets, chairs and a desk. These are capital items.

## Line 8811 – Office stationery and supplies

You can deduct the cost of items the business used to provide goods or services, for example, drugs and medication used by a veterinarian or cleaning supplies used by a plumber. If you run a daycare, these include household supplies that children use and food you buy to feed the children.

These expenses are generally related to the workspace. For more information on whether an expense is related to your workspace, see Income Tax Folio S4-F2-C2, Business Use of Home Expenses.

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

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

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

You can deduct accounting or legal fees you paid to have an objection or appeal prepared against an assessment for income tax, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, or employment insurance (EI) premiums. However, the full amount of these deductible fees must first be reduced by any reimbursement of these fees that you have received. Report the difference on line 23200 of your tax return. If you received a refund in 2023 for the types of fees that you deducted in a previous year, report the amount you received at line 13000 of your 2023 tax return.

You cannot deduct legal expenses and other fees you incur to buy a capital property, such as a boat or fishing material. Instead, add these fees to the cost of the property. For more information on capital property, see "Class 14.1 (5%)" on page 78.

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

## Line 8871 – Management and administration fees

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

## Line 8910 – Rent

You can deduct rent incurred for property used in your business. For example, you can deduct rent for the land and building where your business is situated. The rent expense related to the business use of your home has to be claimed on line 9945 in Part 5.

## Line 8960 and Line 8963 – Repairs and maintenance

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

You cannot deduct costs you incur for repairs that are capital in nature. However, you can claim CCA.

The maintenance and repairs related to business use of workspace in your home are claimed at line 9945 in Part 5.

**Note for daycares**
You can only deduct maintenance and repair expenses if you can prove that the day to day running of your daycare is what caused any damage and you have not received any compensation or refund from your insurer.

### Fishing boat

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

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

### Engine

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

### Electrical equipment

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

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

You can deduct employees' gross salaries and other benefits you incurred. For more information, go to **canada.ca/taxes-payroll-fishers-ei**. Do not deduct salaries or drawings paid or payable to yourself or to a partner. For more information, see "Part 9 – Details of equity" on page 66.

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

Quebec workers including the self-employed are covered under the QPP.

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

You can also deduct any insurance premiums you pay for an employee for a sickness, an accident, a disability or an income insurance plan and 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, professional or fishing income
- the salary is reasonable when you consider your child's age, and the amount you pay is what you would pay someone else

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

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

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

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

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

## Line 9062 – Crew shares

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

## Line 9136 – Fishing gear

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

## Line 9137 – Nets and traps

Nets and traps include lines, hooks, buoys, anchors and radar reflectors. Generally, you cannot deduct the entire cost of nets and traps you bought in the year. Instead, there are two methods you can use to deduct these costs.

### Method 1 – Capital cost allowance method

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

### Method 2 – Inventory method

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

**Example**

| | | |
|---|---|---|
| Value of nets, traps and twine, on hand at the end of your 2022 fiscal period | | $ 750 |
| **Add**: Cost of nets and traps you bought in your 2023 fiscal period | $ 200 | |
| Cost of twine and other net and trap materials you bought in your 2023 fiscal period (do not include the value of your own labour) | $ 125 | $ 325* |
| Subtotal | | **$1,075** |
| **Minus**: Value of nets, traps and twine, on hand at the end of your 2023 fiscal period | $ 700** | |
| Proceeds from the sale of nets, traps and twine | $ 150 | $ 850 |
| **Loss on nets and traps** | | $ 225 |

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

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

If you just started your fishing business, choose one of the two methods. If you have been running your fishing business for several years and each year you claim the cost of replacing nets and traps, you can keep on doing so. However, you can choose to change to either the CCA or the inventory method. If you choose to do this in 2023, the value of nets and traps on hand at the end of 2022 will be zero since you have deducted their value in previous years.

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

## Line 9138 – Salt, bait and ice

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

## Line 9180 – Property taxes

You can deduct property taxes you incurred for property used in your business. For example, you can deduct property taxes for the land and building where your business is situated. The property tax related to the business use of workspace in your home has to be claimed on line 9945 in Part 5.

## Line 9200 – Travel expenses

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

In most cases, the 50% limit applies to the cost of meals, beverages and entertainment when you travel. We discuss this limit in "Line 8523 – Meals and entertainment" on page 39.

## Line 9220 – Utilities

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

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

You can also deduct the percentage of air-time expenses for a cellphone you use to earn your business income.

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

### Line 9224 – Fuel costs (except for motor vehicles)

You can deduct the cost of fuel used in your business, as well as for your fishing boat and equipment, (including gasoline, diesel and propane), motor oil and lubricants. For more information about claiming the fuel used in your motor vehicle, or if you used a car or truck for your fishing business, see "Line 9281 – Motor vehicle expenses (not including CCA)."

The cost of fuel related to the business use of workspace in your home has to be claimed on "Line 9945 – Business-use-of-home expenses." For more information, see page 64.

### Line 9270 – Other expenses

For a list of expenses you can claim on line 9270 on your T2125 or T2121, see "Line 9790 or 9270 – Other expenses" on page 54.

### Line 9275 – Delivery, freight and express

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

### Line 9281 – Motor vehicle expenses (not including CCA)

You can deduct expenses you incur to run a motor vehicle you use to earn business or fishing income. Fill in "Chart A – Motor vehicle expenses" on your form. The chart will help you calculate the amount of motor vehicle expenses you can deduct. If you are a member of a partnership and you incur motor vehicle expenses for the business through the use of your personal vehicle, you can claim those expenses related to the business on line 9943 in Part 5. For more information, see page 64.

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

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

## Expense lines specific to farming

### Line 9661 – Containers and twine

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

### Line 9662 – Fertilizers and lime

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

### Line 9663 – Pesticides (herbicides, insecticides, fungicides)

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

### Line 9664 – Seeds and plants

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

### Line 9711 – Feed, supplements, straw and bedding

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

### Line 9712 – Livestock purchased

Enter the amount you paid for all livestock you purchased.

## Line 9713 – Veterinary fees, medicine and breeding fees

Enter the total amount you paid for medicine for your animals, and for veterinary and breeding fees. Examples of such fees include the cost of artificial insemination, stud service and semen, embryo transplants, disease testing and neutering or spaying. If you used disposable veterinary supplies for your farming business, enter these costs here.

## Machinery expenses

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

## Line 9760 – Repairs, licences and insurance

Enter the total amount of repair, licence fee and insurance premium expenses you incurred for your machinery. If you received insurance proceeds to help pay for repairs, see "Line 9604 – Insurance proceeds" on page 34.

## Line 9764 – Gasoline, diesel fuel and oil

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

## Line 9790 – Total other expenses

For a list of expenses you can claim on line 9790 on your T2042, see "Line 9790 or 9270 – Other expenses" on page 54.

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

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

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

If you used your farmhouse for business reasons, see "Line 9945 – Business-use-of-home expenses" on page 64.

> **Note**
> You may have received insurance proceeds to pay for the cost of repairs. If the insurance proceeds compensated you for damages to depreciable property, such as buildings or fences, and you used all of them to repair the property within a reasonable period of time, you can claim a deduction for the amount spent on repairs on line 9795. However, you have to include the insurance proceeds as income on line 9604. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, include the unexpended excess as proceeds of disposition in column 5 of "Area A – Calculation of CCA claim" on Form T2042. For more information, see "Column 5 – Proceeds of dispositions in the year" on page 71.

## Line 9796 – Clearing, levelling and draining land

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

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

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

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

For more information, see Interpretation Bulletin IT-485, Cost of Clearing or Levelling Land.

#### Improving land

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

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

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

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

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

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

Enter the amount of deductible premiums to the Crop Insurance Program. Do not include any premiums for private, business-related or motor vehicle insurance. For information on other types of insurance, see “Line 9760 – Repairs, licences and insurance” on page 46, “Line 9804 – Insurance” on page 47 and “Line 9819 – Motor vehicle expenses” on page 49.

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

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

## Line 9799 – Electricity

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

The business part of your electricity expense will depend on how much electricity is used for the barns and shops. Because the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions explained at “Line 9945 – Business-use-of-home expenses” on page 64.

Do not include on Form T2042 the electricity expense for a house you rented to someone else. This is a rental expense, which you enter on Form T776, Statement of Real Estate Rentals.

## Line 9802 – Heating fuel and curing fuel

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

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

The business part of your heating fuel expense will depend on how much heating fuel is used for the barns and shops. Because the heating fuel for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions explained at “Line 9945 – Business-use-of-home expenses” on page 64.

Do not include the heating fuel expenses for a house you rented to someone else. This is a rental expense, which you enter on Form T776.

## Line 9803 – Insurance program overpayment recapture

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

## Line 9804 – Insurance

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

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

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the personal property for your farming business, you can deduct the business part of these costs. For more information, see "Line 9945 – Business-use-of-home expenses" on page 64 and "Line 9819 – Motor vehicle expenses" on page 49.

## Line 9805 – Interest and bank charges

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

- The interest you can deduct on money you borrowed to buy a passenger vehicle or a zero-emission passenger vehicle. For more information, see "Line 9819 – Motor vehicle expenses" on page 49
- The amount of interest you can deduct for vacant land. Usually, you can only deduct interest up to the amount of income from the land that remains after you deduct all other expenses. You cannot use any remaining amounts of interest to create or increase a loss, and you cannot deduct them from other sources of income

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

You may be able to deduct interest expenses for a property you used for farming business purposes, even if you have stopped using the property for such purposes because you are no longer in the farming business. For more information, see Income Tax Folio S3-F6-C1, Interest Deductibility, or call **1-800-959-5525**.

## Line 9808 – Office expenses

You can deduct the cost of office expenses. These include small items such as pens, pencils, paper clips, stationery and stamps. Office expenses do not include items such as calculators, filing cabinets, chairs and desks. These are capital items. For more information on capital property, see "Class 14.1 (5%)" on page 78.

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

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

You can deduct accounting and legal fees you incur to get advice and help in keeping your records. You can also deduct fees you incur for preparing and filing your income tax and GST/HST returns.

You can deduct accounting or legal fees you paid to have an objection or appeal prepared against an assessment for income tax, CPP or QPP contributions, or EI premiums. However, the full amount of these deductible fees must first be reduced by any reimbursement of these fees you have received. Report the difference on line 23200 of your income tax return. If you received a reimbursement in 2023 for the types of fees you deducted in a previous year, report the amount you received on line 13000 of your 2023 income tax return.

You cannot deduct legal and other fees you incur to buy capital property. Instead, add these fees to the cost of the property. For more information on capital property, see "Class 14.1 (5%)" on page 78.

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

## Line 9810 – Property taxes

Enter the amount of land, municipal and realty taxes you paid for property used in your farming business. Since the municipal tax for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions explained at "Line 9945 – Business-use-of-home expenses" on page 64.

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

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

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

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

- Add to your income the fair market value (FMV) (see "Definitions" on page 7) of the crops given to your landlord. Deduct the same amount as a rent expense
- Do not include the FMV in income and do not deduct the amount as a rent expense

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

You can deduct employees' gross salaries and other benefits you incurred. Do not deduct salaries or drawings paid or payable to yourself or a partner. For more information, see "Part 9 – Details of equity" on page 66.

As the employer, you must deduct your part of CPP or QPP contributions and EI premiums. You can also deduct workers' compensation amounts payable on employees' remuneration and PPIP premiums. The PPIP is an income replacement plan for residents of Quebec. For details, contact Revenue Québec. For more information on making payroll deductions, go to **canada.ca/payroll**.

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

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

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

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

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

You can also deduct the salary you pay to your spouse or common-law partner by using the same rules that apply to paying your child.

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

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

## Line 9819 – Motor vehicle expenses (not including CCA)

You can deduct expenses you incur to run a motor vehicle you use to earn farming income. Fill in "Chart A – Motor vehicle expenses" of Form T2042. The chart will help you calculate the amount of motor vehicle expenses you can deduct. If you are a member of a business partnership and you incur motor vehicle expenses for the business through the use of your personal vehicle, you can claim those business related expenses on "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" of Form T2042. For more information, see page 64.

## Line 9820 – Small tools

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

Small tools that cost less than $500 are fully deductible in the year you buy them. You may claim them as an expense at line 9820 or claim CCA by including them in Class 12 (with a CCA rate of 100%). Either method is acceptable, but do not claim the amount twice. For more information on CCA, see Chapter 4.

## Line 9937 – Mandatory inventory adjustment included in the previous year

If you included an amount for the mandatory inventory adjustment (MIA) on line 9942 in your 2022 fiscal period, deduct the amount as an expense in your 2023 fiscal period. Do not include the valuation of inventories if you are using the accrual method of accounting. For more information about the accrual method, see "Reporting methods" on page 13.

For more information on MIA, see "Line 9942 – Mandatory inventory adjustment included in the current year" on page 60.

## Line 9938 – Optional inventory adjustment included in the previous year

If you included an amount for the optional inventory adjustment (OIA) on line 9941 in your 2022 fiscal period, deduct the amount as an expense in your 2023 fiscal period. Do not include the valuation of inventories if you are using the accrual method of accounting. For more information about the accrual method, see "Reporting methods" on page 13.

For more information on OIA, see "Line 9941 – Optional inventory adjustment included in the current year" on page 59.

## Fishing expenses – Specific information

### Fishing boat owners

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

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

### Captains of fishing boats

As the captain of a fishing boat, you can deduct expenses for which the owner did not pay or reimburse you. These expenses include the cost of personal navigation aids and rubber gear. You can also deduct motor vehicle expenses you paid to transport crew members and to get supplies and parts to use on the boat. You may be able to deduct business-use-of-home expenses and the cost of travel between your home and the fishing boat if you meet certain conditions. For more information, see "Line 9281 – Motor vehicle expenses (not including CCA)" on page 45 and "Line 9945 – Business-use-of-home expenses" on page 64.

### Sharespeople

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

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

### Use of a fishing boat mainly for personal use

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

### Grants, credits and rebates

Subtract, from the applicable expense, any grant, credit or rebate you received. Enter the net figure on the appropriate line of Form T2121. For more information, see "Grants, subsidies and rebates" on page 84.

## GST/HST input tax credits and exempt goods and services

GST/HST registrants may claim an **input tax credit** for the GST/HST they paid or owe for expenses used to provide taxable property and services at the rates of 0%, 5%, 13% or 15%.

If you claim the GST/HST you paid or owe on your expenses as an input tax credit, reduce the amounts of the business expenses you show on Form T2125, Form T2042 or Form T2121 by the amount of the input tax credit. Do this when the GST/HST for which you are claiming the input tax credit was paid or became payable, whichever is earlier. Enter the net expense figure on the proper line on the form.

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

For more information on how claiming input tax credits will affect your CCA claim, see "Column 2 – Undepreciated capital cost (UCC) at the start of the year" on page 69.

Some purchases of property and services are exempt from GST/HST. Because you do not pay GST/HST on these purchases, there is no input tax credit to claim. Examples of **exempt** purchases of property and services include:

- commercial fishing licences
- insurance services sold by insurance companies, agents or brokers
- most services provided by financial institutions, such as arranging loans or mortgages
- most health, medical and dental services

Since you don't pay GST/HST on zero-rated purchases, there is no input tax credit to claim for these purchases. For examples of zero-rated property and services, see "GST/HST for farmers and fishers" on page 104.

For more information on claiming the input tax credits and the percentage of use in commercial activity, see GST/HST Memorandum 8.1, General Eligibility Rules, and GST/HST Memorandum 8.2, General Restrictions and Limitations.

For more information on GST/HST, see Guide RC4022, General Information for GST/HST Registrants, GST/HST Memorandum 4.4, Agriculture and Fishing, and GST/HST Info Sheet GI-049, Fishing Equipment and Products.

Eligible registrants can file their GST/HST returns online by using GST/HST NETFILE or the "File a return" service in My Business Account at **canada.ca/my-cra-business-account**. For information about GST/HST, go to **canada.ca/gst-hst**.

## Keeping motor vehicle records

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

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

### Simplified logbook for motor vehicle expense provisions

Following a federal initiative to reduce the paper burden on businesses, you can choose to maintain a full logbook for one complete year to establish a base year's business use of a vehicle.

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

#### What type of vehicle do you own?

The kind of vehicle you own can affect the expenses you can deduct. For income tax purposes, you should know the definitions of motor vehicles, zero-emission vehicles, passenger vehicles and zero-emission passenger vehicles (see "Definitions" on page 7).

If you own a passenger vehicle or a ZEPV, or you lease a passenger vehicle or a vehicle that would otherwise qualify as a ZEPV, there may be a limit on the amounts you can deduct for CCA, interest and leasing costs. We explain the CCA limits in Chapter 4. You will find the limits on interest and leasing costs later in this section.

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

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

#### Deductible expenses

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

- licence and registration fees

- fuel and oil costs
- electricity costs for zero-emission vehicles
- insurance
- interest on money borrowed to buy a motor vehicle
- maintenance and repairs
- leasing costs

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

### Business use of a motor vehicle or passenger vehicle (including zero-emission vehicles and zero-emission passenger vehicles)

If you use a motor vehicle or passenger vehicle for business and personal use, you can deduct only the part of the expenses you paid to earn income. However, you can deduct the full amount of parking fees related to your business activities and supplementary business insurance for your motor vehicle or passenger vehicle.

To support the amount you can deduct, keep a record of the total kilometres you drive and the kilometres you drive to earn income.

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

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

**Example**

Murray's business has a December 31 year-end. He owns a truck that is not a passenger vehicle. He uses the truck to pick up supplies and equipment. Murray kept the following records for his 2023 fiscal period:

| | |
|---|---|
| Business kilometres | 27,000 km |
| Total kilometres | 30,000 km |

| | |
|---|---|
| **Expenses**: | |
| Gasoline and oil | $ 3,500 |
| Repairs and maintenance | $ 500 |
| Insurance | $ 1,000 |
| Interest (on loan to buy truck) | $ 1,900 |
| Licence and registration fees | $ 100 |
| Total expenses for the truck | $ 7,000 |

This is how Murray determines the motor vehicle expenses he can deduct in his 2023 fiscal period:

27,000 (business kilometres) ÷ 30,000 (total kilometres) × $7,000 = $6,300

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

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

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

**Note for farmers**

If you received insurance proceeds to help pay for repairs, see "Line 9604 – Insurance proceeds" on page 34.

### Joint ownership of a passenger vehicle or a zero-emission passenger vehicle

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

### More than one vehicle

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

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

### Interest

You can deduct interest on the money you borrow to buy a motor vehicle, zero-emission vehicle, passenger vehicle or a zero-emission passenger vehicle you use to earn business, professional, farming or fishing income. Include the interest as an expense when you calculate your allowable motor vehicle expenses.

When you use a passenger vehicle or a zero-emission passenger vehicle to earn income, there is a limit on the amount of interest you can deduct. To calculate the interest you can deduct, fill in "Chart B – Available interest expense for passenger vehicles and zero-emission passenger vehicles" of your form.

**Example**

Heather's business has a December 31 year-end. On January 1, 2023, she bought a new passenger vehicle that she uses for both personal and business use. She borrowed money to buy the vehicle, and the interest she paid in her 2023 fiscal period was $2,200. Since the car that Heather bought is a passenger vehicle, there is a limit on the interest she can deduct.

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

- $2,200 (the total interest she paid in her 2023 fiscal period)
- $3,650 ($10 × 365 days)

Heather's records for her 2023 fiscal period:

| | |
|---|---|
| Business kilometres | 20,000 km |
| Total kilometres | 25,000 km |
| **Expenses**: | |
| Gasoline and oil | $ 2,000 |
| Repairs and maintenance | $ 1,000 |
| Insurance | $ 1,900 |
| Interest (on loan to buy vehicle) | $ 2,200 |
| Licence and registration | $ 60 |
| Total vehicle expenses | $ 7,160 |

Heather determines the motor vehicle expenses she can deduct in her 2023 fiscal period:

20,000 (business kilometres) ÷ 25,000 (total kilometres) × $7,160 = $5,728

Heather can deduct $5,728 as motor vehicle expenses for her 2023 fiscal period.

### Leasing costs for a passenger vehicle (or a vehicle that would qualify as a zero-emission passenger vehicle if you owned it)

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

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

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

If the lease agreement for your passenger vehicle includes such items as insurance, maintenance and taxes, include them as part of the lease charges on amount 20 of Chart C.

> **Note**
> Generally, leases include taxes (GST/HST or PST), but not items such as insurance and maintenance. You have to pay these amounts separately. Include the taxes on amount 20 of Chart C, and list the items like insurance and maintenance on the appropriate lines of "Chart A – Motor vehicle expenses."

For your 2023 fiscal period, use the GST rate of 5% or the applicable HST rate of your specific province to fill in Chart C.

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

**Example**
On July 1, 2023, Meadow started leasing a car that is a passenger vehicle. She used the car to earn business income. Her business has a December 31 fiscal year-end. The PST rate for her province is 8% and GST is 5%. Meadow entered the following for 2023:

| | | |
|---|---|---|
| Monthly lease payment | $ 500 | |
| Lease payments for 2023 | $ 3,000 | |
| Manufacturer's suggested list price | $ 33,000 | |
| Number of days in 2023 she leased the car | 184 | |
| Prescribed CCA capital cost limit | $ 36,000 | |
| Prescribed CCA capital cost limit × Prescribed limit rate: 36,000 × (100 ÷ 85) | $ 42,353 | |
| Prescribed deductible leasing costs limit | $ 950 | |
| GST and PST on $36,000 | $ 4,680 | |
| GST and PST on $42,353 | $ 5,506 | |
| GST and PST on $950 | $ 124 | |
| Total lease charges incurred in 2023 fiscal period for the vehicle | $ 3,000 | **1** |
| Total lease payments deducted in fiscal periods before 2023 for the vehicle | $ 0 | **2** |
| Total number of days the vehicle was leased in 2023 and previous fiscal periods | 184 | **3** |
| Manufacturer's list price | $ 33,000 | **4** |
| The highest amount: line 4 or $47,859 ($42,353 + $5,506) × 85% | $ 40,680 | **5** |
| ($1,074 × 184) ÷ 30 | $ 6,587 | **6** |
| ($40,680 × $3,000) ÷ $40,680 | $ 3,000 | **7** |

Meadow's eligible leasing cost is either amount 6 or 7, whichever **amount is less**. In this case, her allowable claim is $3,000.

### Repayments and imputed interest

When you lease a passenger vehicle, you may have a repayment owing to you, or you may have imputed interest. If so, you will not be able to use the chart.

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

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

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

## Line 9790 or 9270 – Other expenses

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

For farming expenses, use line 9790 on Form T2042.

For fishing expenses, use line 9270 on Form T2121.

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

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

**Note for daycare**
You may be able to deduct the cost of taking a course or seminar on child care. For more information, see Interpretation Bulletin IT-357, Expenses of training.

However, you cannot deduct as a business expense any tuition fees you paid to educational institutions, such as universities and colleges. For more information, see Schedule 11, Federal Tuition, Education, and Textbook Amounts and Canada Training Credit, or Guide P105, Students and Income Tax.

### Disability-related modifications

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

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

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

- elevator car-position indicators (such as braille panels and audio indicators)
- visual fire alarm indicators
- listening or telephone devices for people who have a hearing impairment
- disability specific computer software and hardware attachments

### Payment in kind

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

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

### Leasing costs

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

If you are a business person or a professional and lease a passenger vehicle, see "Line 9281 – Motor vehicle expenses (not including CCA)" on page 45.

If you are a farmer and lease a passenger vehicle, see "Line 9819 – Motor vehicle expenses" on page 49.

If you are a fisher and lease a passenger vehicle, see "Line 9281 – Motor vehicle expenses (not including CCA)" on page 45.

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

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

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

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

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

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

### Convention expenses for business and professional

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

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

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

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

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

**Example**
Cathy attended a two-day convention in May 2023 that cost her $600. The organizer did not indicate what part of the $600 fee was for food and entertainment. Her convention expense is $600 **minus** the two days at $50 each $600 – ($50 × 2) = $500.

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

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

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

### Computer and other equipment leasing costs

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

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

### Allowable reserves

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

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

### Premiums to a private health services plan

You can deduct premiums paid to a private health services plan (PHSP) if you meet the following conditions:

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

* To make this claim, calculate your **total income** as follows:
  - the amount from line 15000 of your income tax return before you deduct any amounts for PHSPs; **minus**
  - the amount you entered on lines 20700, 21200, 21700, 22100, 22900, 23100 and 23200 on your income tax return

** To make this claim, calculate your income from sources **other than self-employment** as follows:
  - the amount from line 15000 of your income tax return before you deduct any amounts for PHSPs; **minus**
  - the amount you entered on lines 13500, 13700, 13900, 14100, 14300 (excluding business losses that reduced the net amount reported on those lines), 20700, 21200, 21700, 22100, 22900, 23100 and 23200 of your income tax return

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

- an insurance company
- a trust company

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

For more information on PHSPs, see Interpretation Bulletin IT-339, Meaning of private health services plan (1988 and subsequent taxation years), or go to **canada.ca/cra-private-health-services-plan**.

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

**Arm's length employees** are, generally, employees who are not related to you and who are not carrying on your business with you, for example, as your partners.

**Qualified employees** are arm's length, full-time employees who have three months service since they last became employed with a business carried on by you, a business in which you are a majority interest partner or a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.

**Insurable persons** are people to whom coverage is extended and who are either:

- qualified employees
- people who would be qualified employees if they had worked for you for three months
- people carrying on your business (including yourself and your partners)

### How to calculate your maximum deduction for PHSPs

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

**Note**
All PHSP deduction limits and calculated limits must include all applicable taxes as part of the total dollar amount.

### If you did not have any employees throughout 2023

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

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

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

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

A is the number of days during the period of the year you insured yourself and your household members, if applicable

B equals $1,500 × the number of household members 18 and over insured during that period

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

**Example 1**
Edwin was a sole proprietor who ran his business alone in 2023. He had no employees and did not insure any of his household members. Edwin paid $2,000 for PHSP coverage in 2023. His coverage lasted from July 1 to December 31, 2023 (a total of 184 days).

Edwin's maximum allowable PHSP deduction is calculated as follows:

$184 \div 365 \times \$1,500 = \$756$

Even though Edwin paid $2,000 in premiums in 2023, he can only deduct $756 because the annual limit is $1,500 and he was only insured for half of the year. If he had been insured for the entire year, his deduction limit would be $1,500.

**Example 2**
Bruce was a sole proprietor who ran his business alone in 2023. He had no employees. From January 1 to December 31, he insured himself, his wife and his two sons. Bruce paid $1,800 to insure himself, $1,800 to insure his wife and $1,000 for each of his sons. One of his sons was 15 years old and the other turned 18 on September 1. Bruce's PHSP deduction is limited to the following amounts:

- $1,500 for himself
- $1,500 for his wife
- $750 for his 15-year-old son
- $750 for the son who turned 18. This limit applies because he did not turn 18 until after the insured period began

### If you had employees throughout 2023

If you had at least one **qualified employee** (see the definition on page 57) throughout all of 2023, and at least 50% of the **insurable persons** in your business were qualified employees, your claim for PHSP premiums is limited in a different way. Your limit is based on the lowest cost of equivalent coverage for each of your qualified employees.

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

For each of your qualified employees, calculate the following:

X × Y = Z, where:

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

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

Z equals your limit based on that particular employee

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

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

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

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

**Example 2**
You have three qualified employees, Jack, Jill and Sue. The following table shows how much you would pay for coverage equivalent to each of theirs, and the percentage of each employee's premium you pay.

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

You have to do the following three calculations:

Jack: $1,500 (X) × 20% (Y) = $300 (Z)
Jill: $1,800 (X) × 50% (Y) = $900 (Z)
Sue: $1,400 (X) × 40% (Y) = $560 (Z)

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

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

If you had employees throughout 2023 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 × (B + C), where:

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

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

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

#### Amount 2

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

#### If you had employees for part of the year

If you had at least one qualified employee for part of the year and your insurable arm's length employees represented at least 50% of all the insurable persons in your business, calculate your limit for that period by using the X × Y = Z formula of "If you had employees throughout 2023."

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 the insurable persons in your business, your deduction limit for that remaining period is the **lesser of** Amount 1 and Amount 2, calculated in the same way as in the previous section.

#### Undeducted premiums

If you deduct only part of your PHSP premium at line 9804 for farming or line 9270 for fishing, and you paid the premium in the year, you can include the undeducted balance when you calculate your non-refundable medical expense tax credit. For more information, see "Line 33099" in your Federal Income Tax and Benefit Information.

### Line 9936 – Capital cost allowance (CCA)

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

### Line 9898 – Total farm expenses

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

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

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

For farming income, use line 9899 on Form T2042.

For fishing income, use line 9369 on Form T2121.

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

## Inventory adjustments included in 2023 for farmers

### Line 9941 – Optional inventory adjustment included in the current year

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

By making the OIA, you can include in your income an amount up to the FMV of your inventory minus the MIA. You can only make the OIA if you use the cash method. For the meaning of inventory and FMV, see "Line 9942 – Mandatory inventory adjustment included in the current year" on page 60.

For the OIA, unlike for the MIA, the inventory does **not** have to be purchased inventory. It is the entire inventory you still have at the end of your 2023 fiscal period.

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

## Line 9942 – Mandatory inventory adjustment included in the current year

The MIA decreases your net loss if you held inventory at the end of your fiscal period. Read this section, even if you do not have to make the MIA. This section will show you how to determine the value of the farm inventory you bought and still have at the end of your 2023 fiscal period. You will need to know this value if you have to make the MIA this year or in the future.

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

- You use the cash method to report your income
- You have a net loss on line 9899 of Form T2042
- You bought inventory and still have it at the end of your 2023 fiscal period. This does not refer only to inventory you bought in 2023. It includes inventory you had previously bought and still owned at the end of your 2023 fiscal period

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

- the net loss before adjustments on line 9899
- the value of the purchased inventory you still have at the end of your 2023 fiscal period

To calculate your MIA, fill in charts 1, 2, 3 and 4 on page 103. Once you have completed chart 4, enter the amount on line 9942. For more information, see Interpretation Bulletin IT-526, Farming – Cash Method Inventory Adjustments.

In your next fiscal period, deduct the MIA you added to your net loss in your 2023 fiscal period.

> **Note**
> If you bought a specified animal (as defined below) in a **non-arm's length transaction** (see "Definitions" on page 7), we consider you bought the animal in the same year and at the same price for which the seller bought it. A non-arm's length transaction is, for example, a transaction between members of a family, such as a husband and wife, or a parent and child.

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

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

**Farm inventory** is tangible property that is either:

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

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

**Purchased inventory** is inventory you have bought and paid for.

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

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

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

### Value of your purchased inventory

To value your purchased inventory, read the text that follows and the example of how to fill in the MIA charts. There are blank charts for you to use on page 103 of this guide. Keep these charts as part of your records.

Except for specified animals, you have to value any purchased inventory you acquired before or during your 2023 fiscal period at the lesser of these amounts:

- the cash cost
- the FMV

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

Value the specified animals you acquired **in** your 2023 fiscal period and still have at the end of this period at **one** of the following amounts:

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

Value the specified animals you acquired **before** your 2023 fiscal period and still have at the end of this period at **one** of the following amounts:

- the cash cost
- 70% of:
  - the value of the specified animals for MIA purposes as determined at the end of your 2022 fiscal period; **plus**
  - any amounts you paid in your 2023 fiscal period toward the purchase price
- any amount between these two amounts

**Example**
Doug started his farming business in 2020 and uses the cash method to report his income. His year-end is December 31. Doug shows a net loss of $55,000 in 2023 on line 9899. Doug has purchased inventory at the end of his 2023 fiscal period. This means he has to decrease his net loss by the MIA. Doug made a chart for the cash cost of his livestock that is purchased inventory at the end of his 2023 fiscal period.

| Livestock | | |
|---|---|---|
| **Year of purchase** | **Cost of purchase** | **Amount Doug paid by the end of his 2023 fiscal period** |
| 2023 | $30,000 | $25,000 |
| 2022 | $26,000 | $26,000* |
| 2021 | $22,000 | $22,000 |
| 2020 | $20,000 | $20,000 |

* For livestock bought in his 2022 fiscal period, Doug paid $19,000 in 2022 and $7,000 in 2023.

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

- bought in his 2023 fiscal period: $15,000
- bought in his 2022 fiscal period: $6,000
- bought in his 2021 fiscal period: $5,000

At the end of his 2023 fiscal period, Doug did not have any other inventory that he bought before his 2020 fiscal period.

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

**Chart 1**
**Cash cost of purchased inventory**

Doug enters the amount he paid by the end of his 2023 fiscal period for the specified animals he bought:

| Fiscal period | Cash cost | |
|---|---|---|
| in his 2023 fiscal period | $ 25,000 | 1 |
| in his 2022 fiscal period | $ 26,000 | 2 |
| in his 2021 fiscal period | $ 22,000 | 3 |
| in his 2020 fiscal period | $ 20,000 | 4 |
| before his 2020 fiscal period | $ 0 | 5 |

Doug enters the amount he paid by the end of his 2023 fiscal period for all other inventory he bought:

| | | |
|---|---|---|
| in his 2023 fiscal period | $ 15,000 | 6 |
| in his 2022 fiscal period | $ 6,000 | 7 |
| in his 2021 fiscal period | $ 5,000 | 8 |
| in his 2020 fiscal period | $ 0 | 9 |
| before his 2020 fiscal period | $ 0 | 10 |

Doug now knows the cash cost of his purchased inventory, including his specified animals. He uses these amounts to calculate the value of his purchased inventory at the end of his 2023 fiscal period. To do this, he fills in charts 2, 3 and 4 as follows:

**Chart 2**
**Value of purchased inventory for specified animals**

The small letters in front of each line match the paragraphs at the end of this chart. These paragraphs explain how Doug calculates the number on each line.

| | | | |
|---|---|---|---|
| **Inventory bought in his 2023 fiscal period** Doug enters an amount that is not more than the amount from line 1, but not less than 70% of this amount. | a) | $ 20,000 | 11 |
| **Inventory bought in his 2022 fiscal period** Doug enters an amount that is not more than the amount from line 2, but not less than 70% of the total of the value at the end of his 2022 fiscal period, plus any amounts he paid in his 2023 fiscal period toward the purchase price. | b) | $ 14,210 | 12 |
| **Inventory bought in his 2021 fiscal period** Doug enters an amount that is not more than the amount from line 3, but not less than 70% of the total of the value at the end of his 2022 fiscal period, plus any amounts he paid in his 2023 fiscal period toward the purchase price. | c) | $ 7,546 | 13 |
| **Inventory bought in his 2020 fiscal period** Doug enters an amount that is not more than the amount from line 4, but not less than 70% of the total of the value at the end of his 2022 fiscal period, plus any amounts he paid in his 2023 fiscal period toward the purchase price. | d) | $ 4,802 | 14 |
| **Inventory bought before his 2020 fiscal period** | e) | $ 0 | 15 |

a) Doug chose $20,000, which is between the cash cost of $25,000 and $17,500 (70% of the cash cost).

b) Doug chose to value the inventory he bought in his 2022 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2022 fiscal period was $13,300 ($19,000 × 70%). Remember, Doug paid $19,000 for these specified animals in 2022. He paid $7,000 in 2023.

For his 2023 fiscal period, Doug chose to value the inventory that he bought in his 2022 fiscal period at 70% of the total of the value at the end of the 2022 fiscal period plus any amounts that he paid in his 2023 fiscal period toward the purchase price. Therefore, the amount that he enters on line 12 is $14,210 [70% × ($13,300 + $7,000)]. He could choose any amount between the cash cost of $26,000 and the lowest acceptable inventory value of $14,210.

c) Doug chose to value the inventory that he bought in his 2021 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2021 fiscal period was $15,400 ($22,000 × 70%).

For his 2022 fiscal period, Doug chose to value the inventory that he bought in his 2021 fiscal period at 70% of the total of the value at the end of his 2021 fiscal period. Therefore, the value of this inventory at the end of his 2022 fiscal period was $10,780 ($15,400 × 70%).

For his 2023 fiscal period, Doug chose to value the inventory that he bought in his 2021 fiscal period at 70% of the total of the value at the end of his 2022 fiscal period. Therefore, the amount he enters on line 13 is $7,546 ($10,780 × 70%). He could choose any amount between the cash cost of $22,000 and the lowest acceptable inventory value of $7,546.

d) Doug chose to value the inventory that he bought in his 2020 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 2020 fiscal period was $14,000 ($20,000 × 70%).

For his 2021 fiscal period, Doug chose to value the inventory that he bought in his 2020 fiscal period at 70% of the total of the value at the end of his 2020 fiscal period. Therefore, the value of this inventory at the end of his 2021 fiscal period was $9,800 ($14,000 × 70%).

For his 2022 fiscal period, Doug chose to value the inventory that he bought in his 2020 fiscal period at 70% of the total of the value at the end of his 2021 fiscal period. Therefore, the value of this inventory at the end of his 2022 fiscal period was $6,860 ($9,800 × 70%).

For his 2023 fiscal period, Doug chose to value the inventory that he bought in his 2020 fiscal period at 70% of the total of the value at the end of his 2022 fiscal period. Therefore, the amount he enters on line 14 is $4,802 ($6,860 × 70%). He could choose any amount between the cash cost of $20,000 and the lowest acceptable inventory value of $4,802.

e) Doug had not purchased any specified animals before his 2020 fiscal period.

**Chart 3**
**Value of purchased inventory for all other inventory**

| | | |
|---|---|---|
| **Inventory bought in his 2023 fiscal period** | | |
| Doug enters the amount from line 6 or the fair market value, whichever is less. | $ 15,000 | 16 |
| **Inventory bought in his 2022 fiscal period** | | |
| Doug enters the amount from line 7 or the fair market value, whichever is less. | $ 6,000 | 17 |
| **Inventory bought in his 2021 fiscal period** | | |
| Doug enters the amount from line 8 or the fair market value, whichever is less. | $ 5,000 | 18 |
| **Inventory bought in his 2020 fiscal period** | | |
| Doug enters the amount from line 9 or the fair market value, whichever is less. | $ 0 | 19 |
| **Inventory bought before his 2020 fiscal period** | | |
| Doug enters the amount from line 10 or the fair market value, whichever is less. | $ 0 | 20 |

**Chart 4**
**Calculation of MIA**

| | | | |
|---|---|---|---|
| Doug enters the amount of his net loss from line 9969. | | $ 55,000 | 21 |
| Doug enters the value of his inventory from charts 2 and 3: | | | |
| ■ the amount from line 11 | $ 20,000 | | |
| ■ the amount from line 12 | $ 14,210 | | |
| ■ the amount from line 13 | $ 7,546 | | |
| ■ the amount from line 14 | $ 4,802 | | |
| ■ the amount from line 15 | $ 0 | | |
| ■ the amount from line 16 | $ 15,000 | | |
| ■ the amount from line 17 | $ 6,000 | | |
| ■ the amount from line 18 | $ 5,000 | | |
| ■ the amount from line 19 | $ 0 | | |
| ■ the amount from line 20 | $ 0 | | |
| Total value of inventory | $ 72,558 | $ 72,558 | 22 |
| MIA – Doug enters the amount from line 21 or line 22, whichever is less | | $ 55,000 | 23 |

The MIA that Doug uses for his 2023 fiscal period will be the same amount that he deducts from his farming income when he calculates his income for his next fiscal period.

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

## Part 5 – Your net income (loss)

### Your share of net income (loss) before adjustments

On Form T2125 for business and professional income, enter your share of line 9369 on amount 5A.

On Form T2042 for farming income, enter your share of amount 4C on amount 5A.

On Form T2121 for fishing income, enter your share of line 9369 on amount 5A.

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

### Canadian Journalism Labour Tax Credit

As the Canadian Journalism Labour Tax Credit is considered to be government assistance received by you in the year and is taxable to you, include the amount allocated to you by the partnership (box 236 of your T5013 slip) at amount 5B of Form T2125.

### Line 9951 – Return of fuel charge proceeds to farmers tax credit allocated to you in the year

This credit is considered to be government assistance that you received in the year and is taxable to you. Include in your income the amount of the credit allocated to you by the partnership (amount 5C of your Form T2043) in the same tax year in which you claimed the credit.

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

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

For business and professional income, enter the total of amount 5A, amount 5B and line 9974 at amount 5C.

For farming income, enter the total of amount 5A, line 9951 and line 9974 at amount 5B.

For fishing income, enter the total of amount 5A and line 9974 at amount 5B.

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

If you are a member of a partnership and you incur motor vehicle expenses for the business using your personal vehicle, you can claim those expenses on this line. The expenses must not have been claimed anywhere else on the form.

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

Fill in the "Other amounts deductible from your share of net partnership income (loss)" chart of your form. List the other amounts you can deduct from your share of the partnership's net income or loss.

### Line 9945 – Business-use-of-home expenses

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

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

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

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

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

**Example**
James runs a business, for example a daycare, from his home weekdays from 7 am to 5 pm (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.

James calculates as follows:

(10 ÷ 24 **hours**) × (35 ÷ 100 **metres**) × $5,800 **expenses** = $845.83

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

$845.83 × 5 ÷ 7 **days** = $604.16

James can deduct $604.16 for his household expenses.

The capital gain and recapture rules will apply if you deduct CCA on the business-use part of your home and you later sell your home. For more information about these rules, see Chapters 4 and 6, as well as Guide T4037, Capital Gains.

If you rent your home, you can deduct the part of the rent and any expenses you incur that relate to the 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 the **lesser of** the following amounts:

- any amount you carry forward from your 2022 fiscal period **plus** the business-use-of-home expenses you incur in 2023
- the net income (loss) at:
  - amount 5D of Form T2125 for business and professional
  - amount 5C of Form T2042 for farming
  - amount 5C of Form T2121 for fishing

**Note**
If the net income (loss) after adjustments is negative, you must enter "0" at amount 7N when calculating your business-use-of-home expenses.

In your next fiscal period you can use any expense you could not deduct in 2023, as long as you meet one of the previous two conditions. The same rules apply.

You can use the "Calculating business-use-of-home expenses" chart of your form to calculate your allowable claim for business-use-of-home expenses. Enter on line 9945 your share of amount 7P. The expenses you claim on line 9945 cannot be claimed anywhere else on the form.

## Line 9946 – Your net income (loss)

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

- line 13500, Business income
- line 13700, Professional income
- line 13900, Commission income
- line 14100, Farming income
- line 14300, Fishing income

If you have a loss, enter the amount in brackets. For more information about losses, see Chapter 5.

**Note**
You may have to adjust the figure from line 9946 before entering it on your income tax return. You may have filed Form T1139, Reconciliation of 2022 Business Income for Tax Purposes, with your 2022 income tax return. If so, you may have to fill in the same form for 2023. To find out if you have to file Form T1139, and calculate the amount of income to report on your 2023 income tax return, see Form T1139, Reconciliation of 2023 Business Income for Tax Purposes.

## Part 8 – Details of other partners

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

## Part 9 – Details of equity

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

### Line 9931 – Total business liabilities

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

Total business liabilities include:

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

### Line 9932 – Drawings in the current year

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

### Line 9933 – Capital contributions in the current year

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

# Chapter 4 – Capital cost allowance

## What is capital cost allowance

You might acquire a depreciable property, such as a building, furniture or equipment, to use in your self-employment activities.

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

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

You can usually claim CCA on a property when it becomes **available for use** (see "Definitions" on page 7).

## Available-for-use rules

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

- the date you first use it to earn income
- the second tax year after the year you acquire the property
- the time just before you dispose of the property

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

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

**Example for fishers**
If you buy an electric motor for your fishing boat and the seller delivers it to you in your 2023 fiscal period, but it was not in working order until your 2024 fiscal period, you cannot claim CCA on it until 2024. However, if you buy an electric motor and the seller delivers it to you in working order in your 2023 fiscal period, but you did not use it until your 2024 fiscal period; you can still claim CCA in 2023 because it was available for use.

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

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

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

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

## How much CCA you can claim

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

We explain the most common classes of property in "Classes of depreciable property" on page 75. We list most of the classes and their rates in the "Capital cost allowance (CCA) rates" chart on page 101.

Base your CCA claim on your fiscal period ending in 2023, and not the calendar year.

### Basic information about CCA

To decide whether an amount is a current expense or a capital expense, see the "Current or capital expenses" chart on page 37.

For the most part, use the declining balance method to calculate your CCA, as it is the most common one. This means that you apply the CCA rate to the **capital cost** (see "Definitions" on page 7). Over the life of the property, the rate is applied against the remaining balance. The remaining balance declines each year that you claim CCA.

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

You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. 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 amount of CCA available for you to claim in future years will be reduced.

In the year you acquire a depreciable property, you can usually claim CCA only on one-half of your net additions to a class. We explain this half-year rule in "Column 15 – Adjustment for current-year additions subject to the half-year rule" on page 74. The available-for-use rules discussed earlier in this chapter may also affect the amount of CCA you can claim.

You cannot claim CCA on land or on living things such as trees, shrubs or animals. However, you can claim CCA on timber limits, cutting rights and wood assets. For more information, see interpretation bulletins IT-481, Timber Resource Property and Timber Limits, and IT-501, Capital Cost Allowance – Logging Assets, and its Special Release IT-501SR.

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 7 – UCC after additions and dispositions" on page 72.

If you receive income from a quarry, sand or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance. For more information, see Income Tax Folio S4-F11-C1, Meaning of Farming and Farming Business, and Interpretation Bulletin IT-492, Capital Cost Allowance – Industrial Mineral Mines.

**Note for farmers**
If you used depreciable property in 2023 you used in your farming business before January 1, 1972, fill in "Part XVII properties (acquired before 1972)" on Form T2042.

If you are a member of a partnership, you cannot separately claim CCA for depreciable property owned by the partnership. Instead, the partnership can deduct CCA when calculating its net income or loss for the year. The partnership's net income or loss is then allocated to the partners and the partner's share is shown on the partner's T5013 slip, Statement of Partnership Income. If the partnership does not need to file a partnership information return, you will not get a T5013. If this is the case, complete Area A of your form to report the CCA claim for the partnership.

**You were asking?**

**Q**. How do I calculate my CCA claim if I start a business and my first fiscal period is from June 1, 2023, to December 31, 2023?

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

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

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

### Immediate expensing incentive

The immediate expensing incentive has the following characteristics:

- An eligible person or partnership (EPOP) (see definition on page 8) may deduct the full cost of designated immediate expensing properties (DIEPs) (see definition on page 8) up to \$1.5 million per tax year, subject to specific limitations
- The deduction applies only to immediate expensing property (see definition on page 8) that you designated as a DIEP on the prescribed form you must file with the minister by the due date
- The deduction is available only for the year when the property becomes available for use
- The deduction is limited to \$1.5 million per tax year:
  - The \$1.5 million may be shared among associated members of a group. Each member must file an agreement on the prescribed form assigning a percentage to one or more of them for the year
  - The limit is also prorated for tax years shorter than 365 days
  - If the capital cost of the DIEP is more than \$1.5 million and is included in more than one CCA class, the EPOP can decide which CCA class the immediate expensing deduction is attributed to
- The deduction is limited to the amount of income earned (before deducting CCA) from the business or property for which the DIEP is used

EPOPs with less than \$1.5 million of eligible capital costs can't carry forward any unused annual immediate expensing limit.

As a result of this new CCA incentive, columns 4, 6, 8, 9, 10, 11 and 12 have been added to Area A of your form. For more information on how this could affect your CCA calculations, go to **canada.ca/en/department-finance/news/2022/02/expansion-of-the-eligibility-for-tax-support-for-business-investments**.

## How to calculate your CCA

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

If you want to claim CCA under the immediate expensing rules and you are part of an associated group of EPOPs, fill in Area G before completing Area A to calculate the immediate expensing limit allocated to your business.

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

**Note**
Even if you are not claiming a deduction for CCA for 2023, fill in the appropriate areas of the form to show any additions or disposals during the year. For more information on how to fill in all these areas, see the following section.

## Area A – Calculation of CCA claim

### Column 1 – Class number

Enter in this column the class numbers of your properties. If this is the first year you are claiming CCA, see "Column 3 – Cost of additions in the year" below 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 75, and we list most of the classes and their rates in the "Capital cost allowance (CCA) rates" chart on page 101.

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

If this is the first year you are claiming CCA, skip this column. Otherwise, enter in this column the UCC for each class at the end of last year. Enter these amounts from column 19 from your 2022 form.

From your UCC at the start of 2023, subtract any investment tax credit (ITC) you claimed or were refunded in 2022. Also, subtract any 2022 ITC you carried back to a year before 2022.

In 2022, you may have received a GST/HST input tax credit for a passenger vehicle you used less than 90% of the time for your business. In this case, subtract the amount of the credit you got from your 2023 opening UCC. See "Grants, subsidies and rebates" on page 84.

**Note**
In 2023, you may be claiming, carrying back or getting a refund of an ITC. If you still have depreciable property in the class, you have to adjust, in 2024, the UCC of the class to which the property belongs. To do this, subtract the amount of the credit from the UCC at the start of 2024. When there is no property left in the class, report the amount of the ITC as income in 2024.

### Column 3 – Cost of additions in the year

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

- fill in Areas B and C on your form, if applicable, as explained on page 70
- for each class, enter in column 3 of Area A's calculation table the amounts from column 5 for each class in Areas B and C

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

Do not include the value of your labour in the cost of a property you build or improve. Include the cost of surveying or valuing a property you acquire. Remember that a property usually has to be **available for use** (see "Definitions" on page 7) in the year before you can claim CCA.

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

Include the amount of insurance proceeds considered as **proceeds of disposition** (see "Definitions" on page 7) in column 5 of Area A, as well as in Area D or E, whichever applies.

**Note for farmers**
For more information, see "Line 9604 – Insurance proceeds" on page 34.

If you replaced lost or destroyed property, special rules for replacement property may apply. The replacement property must be acquired within two years of the end of the tax year in which it was lost or destroyed. For more information, see Income Tax Folio S3-F3-C1, Replacement Property.

To find out if any of these special situations apply, see "Special situations" on page 82.

**Note**
If you acquired a Class 14.1 property through a non-arm's length transfer, enter only 75% of the capital cost of the property if the following conditions apply:

- the property or a similar property was previously an eligible capital property owned by you or by a person or partnership not dealing at arm's length with you
- the UCC was increased in respect of an earlier disposition of the property or similar property by yourself or the non-arm's length person or partnership

## Area B – Equipment additions in the year

List the details of all equipment (including motor vehicles) you acquired or improved in 2023. Group the equipment into the applicable classes and put each class on a separate line.

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

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

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

## Area C – Building additions in the year

List the details of all buildings you acquired or improved in 2023. Group the buildings into the applicable classes and put each class on a separate line.

Enter on line 9927 the total business part of the cost of the buildings. The cost includes the purchase price of the building, and any related expenses you should add to the capital cost of the building, such as legal fees, land transfer taxes and mortgage fees.

### Land

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

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

(building value ÷ total purchase price) × legal, accounting or other fees = the part of the fees you can include in the building's cost

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

## Area F – Land additions and dispositions in the year

Enter on line 9923 the total cost of acquiring land in 2023. The cost includes the purchase price of the land plus any related expenses you should add to the capital cost of the land, such as legal fees, land transfer taxes and mortgage fees.

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

## Area H – Quota additions and dispositions in the year

Enter on line 9929 the total cost of acquiring quotas in 2023.

### Column 4 – Cost of additions from column 3 that are DIEPs

For each class, enter in column 4 the amount that you designate as immediate expensing property (see definition on page 7) from the total cost included in column 3. The cost of DIEPs is included in column 3 in the total cost of additions in the year and shown separately in column 4. If you are part of an associated group of EPOPs, fill in Area G of your form as explained below.

Remember that property has to be **available for use** in the year before you can claim CCA.

## Area G – Agreement between associated eligible persons or partnerships (EPOPs)

Fill in this area if you are associated in the tax year with one or more EPOPs and you entered into an agreement with them under subsection 1104(3.3) of the Income Tax Regulations. The agreement assigns a percentage to one or more of you in the tax year so you can share the immediate expensing limit. For this agreement, individuals and partnerships are considered to be corporations.

List in the table the names of the associated EPOPs, including your business, their identification number and the percentage the agreement assigned to each of them.

Calculate the immediate expensing limit allocated to you by multiplying $1.5 million by the percentage assigned to your business in column 3. Enter the result at amount iv of Form T2042 or at amount iii of Form T2121 or T2125.

If the total percentage assigned in column 3 exceeds 100%, the immediate expensing limit of the associated group is zero.

### Column 5 – Proceeds of dispositions in the year

Enter the details of your 2023 dispositions on your form, as explained below.

If you disposed of depreciable property in the current tax year, you should:

- complete, for each class, Areas D and E, if applicable
- enter in column 5 of the calculation table in Area A the amounts for each class from column 5 of Areas D and E

When completing the tables in Areas D and E, enter in column 3 of the table the lesser of:

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

**Note**
If you dispose of Class 14.1 property and that property was eligible capital property before January 1, 2017, include only 75% of the lesser of the proceeds of disposition and the capital cost of the property. For more information on transitional rules for former eligible capital property, go to **budget.canada.ca/2016/docs/tm-mf/notes-en.html**.

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

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

Include the amount of insurance proceeds considered as **proceeds of disposition** in column 5 of Area A, as well as in column 4 of Area D or E, whichever applies. This could include compensation you receive for property that someone destroys, expropriates, steals or damages.

**Note for farmers**
For more information, see "Line 9604 – Insurance proceeds" on page 34.

If you dispose of a property for proceeds that are more than it cost you to acquire it (or you receive insurance proceeds for a property that was lost or destroyed that exceed the cost of the property), you will have a capital gain and possibly a recapture of CCA. You may be able to postpone or defer recognition of a capital gain or recapture of CCA in computing income if, among other things, the property disposed of is replaced within certain specified time limits. For more information, see "Replacement property" on page 88 and Income Tax Folio S3-F3-C1, Replacement Property.

Special rules may apply if you dispose of a building for less than both its UCC and your capital cost. If this is the case, see "Special rules for disposing of a building in the year" on page 86. If you dispose of a depreciable property for more than its cost, you will have a capital gain. For more information on capital gains, see Chapter 6. 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 7 – UCC after additions and dispositions" on page 72.

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

## Area D – Equipment dispositions in the year

List the details of all equipment (including motor vehicles) you disposed of in your 2023 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 – Building dispositions in the year

List all buildings and leasehold interests you disposed of in the current tax year. Group the buildings and leasehold interests into the applicable classes, and put each class on a separate line. Enter at line 9928 the total amount for the rental portion from the proceeds of disposition of the buildings and leasehold interests.

## Area F – Land additions and dispositions in the year

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

## Area H – Quota additions and dispositions in the year

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

### Column 6 – Proceeds of dispositions of DIEP

Enter in column 6 the total proceeds of disposition from column 5 of any DIEP that was acquired in the year.

Proceeds of dispositions of DIEP are included in column 5 in the total proceeds of dispositions in the year and shown separately in column 6.

### Column 7 – UCC after additions and dispositions

The UCC amount for column 7 is the initial UCC amount at the start of the year in column 2 **plus** the cost of additions in column 3 **minus** the proceeds of dispositions in column 5.

You cannot claim CCA when the amount in column 7 is:

- negative (see "Recapture of CCA" below)
- positive and you do not have any property left in that class at the end of your 2023 fiscal period (see "Terminal loss" below)

In either case, enter "0" in column 19.

#### Recapture of CCA

If the amount in column 7 is negative, you have a recapture of CCA. Enter your recapture on:

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

A recapture of CCA can happen if the proceeds from the sale of depreciable property are more than the total of the following amounts:

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

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

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

#### Terminal loss

If the amount in column 7 is positive and you no longer own any property in that class, you may have a terminal loss. More precisely, you may have a terminal loss when, at the end of a fiscal period, there is no longer any property in the class, but there is still an amount you have not deducted as CCA. You can usually subtract this terminal loss from your gross income in the year you disposed of the depreciable property. Enter your terminal loss on:

- line 9270 for business or professional expenses
- line 9790 for farming expenses
- line 9270 for fishing expenses

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

> **Note**
> The rules for recapture of CCA and terminal loss do not apply to passenger vehicles in Class 10.1 unless they are DIEPs. To calculate your CCA claim, see the comments in "Column 16 – Base amount for CCA."

### Column 8 – UCC of DIEP

Enter in column 8 the cost of DIEP additions from column 4 **minus** the proceeds of dispositions of DIEP from column 6. If the result of column 4 **minus** column 6 exceeds the amount from column 7, enter in column 8 the amount from column 7. If the amount from column 7 is negative, enter "0."

Since immediate expensing is only available for DIEP that becomes available in the year, there can be no UCC of DIEP from the previous year.

### Column 9 – Immediate expensing amount for DIEPs

Enter the immediate expensing amount you choose to apply to each class.

The total immediate expensing amount must be equal to or less than the least of the following amounts:

- $1.5 million, if you are not associated with any other EPOP in the year
- the UCC of the DIEP before any CCA deductions in the year
- the amount of income, if any, before any CCA deductions, earned from the source of income that is a business or property for which the relevant DIEP is used for the tax year

### Column 10 – Cost of remaining additions after immediate expensing

Column 10 represents the cost of additions after applying the immediate expensing deduction to DIEP. It includes the cost of properties that are not immediate expensing property, are immediate expensing property not designated, or are DIEPs that exceed the immediate expensing deduction for the fiscal period for each class.

To calculate this amount, **subtract** the immediate expensing amount in column 9 from the total cost of additions in column 3.

### Column 11 – Cost of remaining additions from column 10 that are AIIPs or ZEVs

For each class, enter from column 10 the total cost of properties that are accelerated investment incentive properties (AIIPs) or properties included in Classes 54 to 56 that you acquired during the year. They are included in column 10 and shown separately in column 11.

An AIIP generally means a property, other than zero-emission vehicles and automotive equipment included in Classes 54 to 56, acquired after November 20, 2018, and that becomes available for use before 2028.

If you did not acquire any AIIPs, ZEVs or Class 56 properties, enter "0" in this column.

For more details, see "Class 54 (30%) and Class 55 (40%) – Zero-emission vehicles" on page 80, "Class 56 (30%)" on page 81 and the "Accelerated investment incentive property" definition on page 7.

### Column 12 – Remaining UCC after immediate expensing

Column 12 represents the remaining portion of UCC after applying the immediate expensing deduction. The remaining portion of UCC will be used to calculate the regular CCA deduction.

**Subtract** the amount in column 9 from the amount in column 7 and enter the difference.

### Column 13 – Proceeds of dispositions available to reduce additions of AIIPs and ZEVs

This column calculates the adjustments under certain circumstances to the additions for the year where there is also a disposition in the year.

When an AIIP and a non-AIIP of the same class are purchased during the year and a disposition occurs, the disposition first reduces the UCC of the non-AIIP before reducing the UCC of the AIIP.

To determine which part of your proceeds of dispositions, if any, will reduce the cost of your AIIP, ZEV or Class 56 additions, take the proceeds of disposition in column 5 **minus** the cost of remaining additions in the year in column 10 **plus** the cost of remaining additions of AIIPs, ZEVs or Class 56 properties in column 11. If the result is negative, enter "0."

If you did not acquire any AIIPs, ZEVs or Class 56 properties, you do not need to use this column.

### Column 14 – UCC adjustment for current-year additions of AIIPs and ZEVs

This column calculates the enhanced UCC amount used to determine the additional CCA for AIIPs, ZEVs or Class 56 properties.

For this column, reduce the cost of AIIP, ZEV or Class 56 additions in column 11 by the proceeds of disposition available to reduce the AIIP, ZEV or Class 56 additions as calculated in column 13. **Multiply** the result by the following factor:

- 1 for Classes 43.2 and 53
- 1 1/2 for Class 55
- 2 1/3 for Classes 43.1, 54 and 56
- 0 for property in Classes 12, 13, 14 and 15, as well as properties that are Canadian vessels included in paragraph 1100(1)(v) of the Income Tax Regulations
- 1/2 for the remaining AIIPs

These factors will change for properties that become available for use after 2023 and the incentive is completely phased out for properties that become available for use after 2027.

If you did not acquire any AIIPs, ZEVs or Class 56 properties, enter "0" in this column.

### Column 15 – Adjustment for current-year additions subject to the half-year rule

Generally, in the year you acquire or make additions to a property, you can usually claim CCA on half of your net additions. We call this the half-year rule. You calculate your CCA only on the net adjusted amount. For example, if before November 20, 2018, you acquired a property for $30,000, you would base your CCA claim on $15,000 ($30,000 × 50%) in the year you acquired the property. However, the half-year rule does not apply to AIIPs, ZEVs or Class 56 properties.

Calculate the net first-year additions that are subject to the half-year rule by taking the cost of remaining additions in column 10 **minus** AIIP, ZEV and Class 56 additions in column 11 **minus** proceeds of dispositions in column 5. Enter 50% of the result in column 15. If the result is negative, enter "0."

There are circumstances where the half-year rule does not apply. For example, in a **non-arm's length** transaction (see "Definitions" on page 7) you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2023 fiscal period to the day the property was acquired. However, if you transfer personal property, such as a car or a personal computer, into your business, the half-year rule applies to the particular property transferred.

Also, some properties are not subject to the half-year rule. Some examples are those in Classes 13, 14, 23, 24, 27, 34 and 52, as well as most of those in Class 12, such as small tools. The half-year rule **does not apply** when the available for use rules discussed on page 66 denies a CCA claim until the second tax year after you acquire the property.

For more information on the special rules that apply to Class 13, see Interpretation Bulletin IT-464, Capital Cost Allowance – Leasehold Interests. For more information on the half-year rule, see Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

### Column 16 – Base amount for CCA

The base amount for CCA is the remaining UCC amount after additions, dispositions and the current-year adjustments. This is the amount in column 12 **plus** the amount in column 14 **minus** the amount in column 15. The CCA rate is applied to this amount.

For a Class 10.1 vehicle you disposed of in your 2023 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 2023 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 2022 fiscal period, you owned the Class 10.1 vehicle you disposed of in 2023. If this applies to you, enter 50% of the amount from column 2 (for Class 10.1 vehicles) in column 16.

### Column 17 – CCA rate (%)

Enter the prescribed CCA rate (percentage) for each property class you have listed in column 1.

For more information on certain kinds of property, see "Classes of depreciable property" on page 75. For a list of rates, see "Capital cost allowance (CCA) rates" on page 101.

### Column 18 – CCA for the year

In column 18, enter the CCA you want to deduct for 2023. You can claim the CCA for the year up to the maximum amount allowed. In Area A, you calculate the maximum amount for column 18 by multiplying the amount in column 16 by the amount in column 17, then adding the amount in column 9.

In your first year of business, you may have to prorate your CCA claim. See "You were asking?" on page 68.

To get your CCA yearly total, **add** up all amounts in column 18. Enter this result on line 9936, "Capital cost allowance (CCA)." If you are a co-owner, enter only your share of the CCA. To find out how to calculate your CCA claim if you are using the property for both business and personal use, see "Personal use of property" on page 82.

### Column 19 – UCC at the end of the year

The final result in column 19 is the UCC at the end of the year. This is the result of the UCC after additions and dispositions in column 7, **minus** the amount for CCA claimed for the year in column 18. The amount in column 19 is the starting UCC balance you will use when you calculate your CCA claim next year. Next year, enter this amount in column 2. If you have a terminal loss or a recapture of CCA, enter "0" in column 19.

The example at the end of this chapter sums up CCA.

## Classes of depreciable property

In this part, we discuss the more common classes of depreciable property. We list most of the classes and their rates in the "Capital cost allowance (CCA) rates" chart on page 101.

### Class 1 (4%)

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

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

**Note**
Land is not depreciable property. Therefore, when you acquire property, only include the cost related to the building in Area A and Area C. Enter on line 9923 in Area F the cost of all land additions in 2023. For more information, see "Area F – Land additions and dispositions in the year" on page 70 and "Column 3 – Cost of additions in the year" on page 69.

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

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

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

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

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

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

### Class 3 (5%)

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

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

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

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

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

Any amount that exceeds the lesser amount above is included in Class 1.

## Class 6 (10%)

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

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

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

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

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

Also include in Class 6 certain greenhouses and fences.

For additions or alterations to such a building:

- add to Class 6 the first $100,000 of additions or alterations made after 1978
- add to Class 3:
  - the part of the cost of all additions or alterations over $100,000 made after 1978 and before 1988
  - the part of the cost of additions or alterations over $100,000 made after 1987, but only up to $500,000 or 25% of the cost of the building, whichever is less
- add to Class 1 any additions or alterations over these limits

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

## Class 8 (20%)

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

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

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

Include data network infrastructure equipment and systems software for that equipment acquired before March 23, 2004, in Class 8. If acquired after March 22, 2004, include it in Class 46. See "Class 46 (30%)" on page 79.

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

## Class 10 (30%)

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

- before March 23, 2004
- after March 22, 2004, and before 2005, and you made an election

Class 10 also includes motor vehicles, as well as some passenger vehicles. We define **motor vehicle** and **passenger vehicle** on page 7.

Include passenger vehicles in Class 10 unless they meet the Class 10.1 conditions.

Eligible zero-emission vehicles (see the definition on page 9) are included in Class 54.

## Class 10.1 (30%)

Your **passenger vehicle** (see “Definitions” on page 7) can belong in either Class 10 or Class 10.1.

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

Include your passenger vehicle in Class 10.1 if you bought it in 2023 and it cost more than $36,000 before tax. List each Class 10.1 vehicle separately.

The capital cost limits of a Class 10.1 passenger vehicle are as follows: $30,000 for vehicles acquired before 2022, $34,000 for vehicles acquired in 2022 and $36,000 for vehicles acquired in 2023, plus the GST/HST, or PST.

**Note**
Use the GST rate of 5% and the appropriate PST rate for your province or territory. If your province is a participating province, use the appropriate HST rate. For more information on the GST and the HST, see Guide RC4022, General Information for GST/HST Registrants.

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**Example**
Vivienne owns a business. On June 21, 2023, she bought two passenger vehicles to use in her business. The PST rate for her province is 8%. Vivienne kept the following records for 2023:

| | Cost | GST | PST | Total |
|---|---|---|---|---|
| Vehicle 1 | $37,000 | $1,850 | $2,960 | $41,810 |
| Vehicle 2 | $28,000 | $1,400 | $2,240 | $31,640 |

Vivienne puts vehicle 1 in Class 10.1, since she bought it in 2023 and it cost her more than $36,000. Before Vivienne enters an amount in column 3 of Area B, she has to calculate the GST and PST on $36,000. She does this as follows:

- GST at 5% of $36,000 = $1,800
- PST at 8% of $36,000 = $2,880

Therefore, Vivienne’s capital cost is $40,680 ($36,000 + $1,800 + $2,880). She enters this amount in column 3 of Area B.

Vivienne puts vehicle 2 into Class 10, since she bought it in 2023 and it did not cost her more than $36,000. Vivienne’s capital cost is $31,640 ($28,000 + $1,400 + $2,240). She enters this amount in column 3 of Area B.

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Under the immediate expensing rules, if you dispose of a passenger vehicle acquired after April 18, 2021, to a person or partnership with whom you deal at arm’s length, and its cost exceeds the prescribed amount ($30,000 for vehicles acquired after 2000 and before January 1, 2022; $34,000 for vehicles acquired after December 31, 2021, and before January 1, 2023; or $36,000 for vehicles acquired after December 31, 2022), the proceeds of disposition will be adjusted based on a factor equal to the prescribed amount as a proportion of the actual cost of the vehicle.

Eligible zero-emission vehicles (see the definition on page 9) are included in Class 54.

## Class 12 (100%)

Class 12 includes property such as tools, medical or dental instruments, and kitchen utensils that cost less than $500 and were acquired on or after May 2, 2006.

Class 12 includes china, cutlery, linen and uniforms. It also includes video-cassettes, video laser discs and digital video disks that you rent and do not expect to rent to any one person for more than seven days in a 30-day period.

Most small tools in Class 12 are not subject to the half-year rule. They are fully deductible in the year of purchase. If the tool costs $500 or more, include it in Class 8 with a CCA rate of 20%.

Class 12 tools that **are** subject to the half-year rule include dies, jigs, patterns, moulds and lasts, as well as the cutting or shaping part of a machine. For more information, see Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

Include in Class 12 with a CCA rate of 100% computer software that is not systems software. Software in Class 12 **is** subject to the half-year rule.

Class 12 specifically excludes electronic communication devices and electronic data processing equipment.

## Class 14

Class 14 includes patents, franchises, concessions or licences for a limited period. Your CCA is whichever of the following amounts is less:

- the total of the capital cost of each property spread out over the life of the property
- the undepreciated capital cost to the taxpayer as of the end of the tax year of property of that class

## Class 14.1 (5%)

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

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

Examples for farming are milk and egg quotas.

Examples for business, professions and fishing are franchises, concessions or licences for an unlimited period.

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

For tax years that end prior to 2027, properties included in Class 14.1 that were acquired before January 1, 2017, will be depreciable at a CCA rate of 7% instead of 5%. Transitional rules will apply.

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

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

## Class 16 (40%)

Class 16 includes:

- taxis acquired after May 25, 1976
- vehicles acquired after November 12, 1981, which you use in a daily car rental business
- coin operated video games or pinball machines acquired after February 15, 1984
- freight trucks acquired after December 6, 1991, that are rated above 11,788 kg

Eligible zero-emission vehicles (see the definition on page 9) are included in Class 55.

## Class 43 (30%)

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

You can list this property in a separate class if you file an election by submitting a letter when you file your tax return for the year in which you acquired the property. For information on separate class elections, see "Class 8 (20%)" on page 76.

## Class 43.1 (30%) and Class 43.2 (50%) – Clean energy equipment

To support investment in clean technologies, the CCA Classes 43.1 and 43.2 are expanded by:

- including new types of property (for example, pumped hydroelectric storage equipment)
- broadening the eligibility for certain existing property types (for example, ground source heat pump systems)

This applies to property that is acquired and that becomes available for use after April 18, 2021, where it has not been used or acquired for use for any purpose before April 19, 2021.

Also, for property that becomes available for use after 2024, access to Classes 43.1 and 43.2 for certain fossil-fuelled and low efficiency waste-fuelled electrical generation equipment is restricted by:

- removing some property that are currently included in these classes (for example, fossil-fuelled cogeneration systems)
- narrowing the eligibility by imposing heat rate thresholds for others (for example, producer gas generating equipment)

Classes 43.1 and 43.2 include air-source heat pumps primarily used for space and water heating. This applies to property you acquired after April 6, 2022, and that has not been used or acquired for use before April 7, 2022.

These properties may benefit from the enhanced first-year CCA that currently provides full expensing of the property in the year of acquisition, subject to a gradual phase-out for property that becomes available for use after 2023 and before 2028.

For more information, see Income Tax Folio S3-F8-C2, Tax Incentives for Clean Energy Equipment.

For more information on the enhanced first-year CCA, go to **canada.ca/taxes-accelerated-investment-income**.

### Class 43.1 (30%)

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

Class 43.1 also includes geothermal heat recovery equipment acquired for use after March 21, 2017, that is used primarily for extracting heat for sale. Geothermal equipment may be eligible for accelerated capital cost allowance.

### Class 43.2 (50%)

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

## Class 44 (25%)

Include in Class 44 patents or a licence to use patents for a limited or unlimited period that was acquired after April 26, 1993. However, you can elect not to include such property in Class 44 by attaching a letter to the return for the year you acquired the property. In the letter, indicate the property you do not want to include in Class 44. The property you elect not to include in Class 44 will be included in Class 14 instead, if it has a limited life. If it has an unlimited life, it may qualify as an eligible capital property (before 2017) or as a Class 14.1 property (after 2016).

## Class 45 (45%)

Include general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment, in Class 45 with a CCA rate of 45% if you acquired them after March 22, 2004, and before March 19, 2007.

**Note**
If you acquired the equipment or software before 2005 and made the separate Class 8 election, as discussed in the Class 8 note, the property does not qualify for the 45% rate.

## Class 46 (30%)

Include in Class 46 with a CCA rate of 30% data network infrastructure equipment and systems software for that equipment if they were acquired after March 22, 2004. If they were acquired before March 23, 2004, include them in Class 8. See "Class 8 (20%)" on page 76.

## Class 50 (55%)

Include in Class 50 with a CCA rate of 55% property acquired after March 18, 2007, that is general-purpose electronic data processing equipment and systems software for that equipment, including ancillary data processing equipment.

Do not include property that is included in Class 29 or Class 52 or that is mainly or is used mainly as:

a) electronic process control or monitor equipment

b) electronic communications control equipment

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

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

## Class 52 (100%)

Include in Class 52 with a CCA rate of 100% (with no half-year rule) general-purpose electronic data processing equipment (commonly called computer hardware) and systems software for that equipment, including ancillary data processing equipment if they were acquired after January 27, 2009, and before February 2011.

Do not include property that is mainly or is used mainly as:

a) electronic process control or monitor equipment

b) electronic communications control equipment

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

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

To qualify for this rate, the asset must also meet the following conditions:

- be located in Canada
- not have been used, or acquired for use, for any purpose before it was acquired by the taxpayer
- be acquired by the taxpayer either:
  - for use in a business carried on by the taxpayer in Canada or to earn income from property located in Canada
  - for lease by the taxpayer to a lessee for the lessee to use in a business the lessee carried on in Canada or to earn income from property located in Canada

## Class 53 (50%)

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

## Class 54 (30%) and Class 55 (40%) – Zero-emission vehicles

There are two CCA classes for zero-emission vehicles (see the definition on page 7) acquired after March 18, 2019. Class 54 was created for zero-emission vehicles that would otherwise be included in Class 10 or 10.1, with the same CCA rate of 30%. Class 55 was created for zero-emission vehicles otherwise included in Class 16, with the same CCA rate of 40%. The CCA still applies on a declining-balance basis.

An enhanced first-year CCA deduction with the following phase-out period is available:

- 100% after March 18, 2019, and before 2024
- 75% after 2023 and before 2026
- 55% after 2025 and before 2028

For the enhanced first-year allowance, the following steps should be taken before calculating the CCA:

- increase the net capital cost addition to the new class for property that becomes available for use before 2028 as follows:
  - For Class 54, increase the capital cost addition by an amount equal to:
    - 2 1/3 times the net addition to the class for property that becomes available for use before 2024
    - 1 1/2 times the net addition to the class for property that becomes available for use in 2024 or 2025
    - 5/6 times the net addition to the class for property that becomes available for use after 2025 and before 2028
  - For Class 55, increase the capital cost addition by an amount equal to:
    - 1 1/2 times the net addition to the class for property that becomes available for use before 2024

- 7/8 times the net addition to the class for property that becomes available for use in 2024 or 2025
- 3/8 times the net addition to the class for property that becomes available for use after 2025 and before 2028

- suspend the existing CCA half-year rule

Multiply the result by the prescribed CCA rate of 30% for Class 54 and 40% for Class 55.

The CCA will be applicable on any remaining balance in these classes using the specific rate for the class.

A taxpayer may elect to not include in Class 54 or 55 a vehicle that would otherwise be a zero-emission vehicle or a zero-emission passenger vehicle. When such an election is filed, the vehicle will no longer be considered to be a zero-emission vehicle or a zero-emission passenger vehicle. As a result, the vehicle will be included in its usual CCA Class 10, 10.1 or 16 as the case may be. Such vehicles will not qualify for the enhanced first-year CCA under the ZEV rules. However those vehicles, that will be included in Class 10, 10.1 or 16, may be eligible for the immediate expensing incentive or enhanced CCA under the AIIP rules.

The election must be filed with the minister of national revenue in your income tax and benefit return for the tax year in which the vehicle is acquired. There is no provision for late-filing or amended elections.

#### Class 54 (30%)

Include in Class 54 zero-emission vehicles that are not included in Class 16 or 55 and would normally be included in Class 10 or 10.1.

There is a limit of $61,000 (plus federal and provincial sales taxes) on the capital cost for each zero-emission passenger vehicle in Class 54. Class 54 may include both zero-emission passenger vehicles that do and do not exceed the prescribed threshold. However, unlike Class 10.1, Class 54 does not establish a separate class for each vehicle whose cost exceeds the threshold.

If a zero-emission passenger vehicle is disposed of to a person or partnership with whom you deal at arm's length, and its cost exceeds the prescribed amount ($55,000 for vehicles acquired after March 18, 2019, and before January 1, 2022; $59,000 for vehicles acquired after December 31, 2021, and before January 1, 2023; or $61,000 for vehicles acquired after December 31, 2022), the proceeds of disposition will be adjusted based on a factor equal to the prescribed amount as a proportion of the actual cost of the vehicle. For dispositions made after July 29, 2019, the actual cost of the vehicle will also be adjusted for the payment or repayment of government assistance.

**Example**

| | **First-year enhanced allowance** |
|---|---|
| Acquisition cost | $65,000 |
| First-year CCA | $61,000 × 100% = $61,000 |
| Undepreciated capital cost (UCC) | $61,000 – $61,000 = 0 |
| Proceeds of disposition | $30,000 |
| Part of proceeds of disposition to be deducted from the UCC | $30,000 × ($61,000 ÷ $65,000) = $28,154 |

#### Class 55 (40%)

Include in Class 55 zero-emission vehicles that would normally be included in Class 16.

### Class 56 (30%)

Include in Class 56 (CCA rate of 30%) zero-emission automotive equipment and vehicles (other than motor vehicles) that do not currently benefit from the accelerated rate provided by Classes 54 and 55. To be included in this class, such property needs to be acquired after March 1, 2020, and become available for use before 2028.

The enhanced first-year CCA deduction for this class applies only for the tax year in which the equipment or vehicle first becomes available for use. The deduction is subject to the following phase-out period:

- 100% on or after March 2, 2020, and before 2024
- 75% after 2023 and before 2026
- 55% after 2025 and before 2028

To be eligible for the enhanced first-year allowance, a vehicle or equipment must be automotive (that is, self-propelled) and fully electric or powered by hydrogen. Vehicles or equipment that are powered partially by electricity or hydrogen (which includes hybrid vehicles and vehicles that require human or animal power for propulsion) are not eligible.

Class 56 captures automotive equipment that is not designed for use on highways or streets such as zero-emission aircraft, watercraft, trolley buses and railway locomotives. Additions or alterations may qualify if they convert automotive equipment (other than a motor vehicle) into a zero-emission property.

The CCA is deductible on any remaining balance in the class on a declining-balance basis, at the CCA rate of 30%.

You may elect to not include the vehicle or equipment in Class 56. As a result, the property is then included in the class for which it would otherwise be eligible.

Class 56 excludes property in respect of which CCA or a terminal loss has previously been claimed by another person or partnership where the equipment was acquired by the taxpayer on a tax-deferred "rollover" basis or it was previously owned or acquired by the taxpayer or a non-arm's length person or partnership.

## Special rates for certain fishing boats

In most cases, a fishing boat belongs to Class 7. Therefore, you can claim CCA at a maximum rate of 15%. However, there are some exceptions to this rule.

A fishing boat, or the cost to convert it, is eligible for a special rate of CCA as follows:

- If you bought the boat between November 13, 1981, and December 31, 1982, you can claim CCA at a yearly rate of 33 1/3%. You can do this only in certain cases
- If you bought the boat after December 31, 1982, you can claim CCA at a rate of 16 2/3% for the year you bought the boat. You can claim 33 1/3% for the years after you bought the boat

You can claim this special rate on the following:

- a boat that was built and registered in Canada and was not used for any purpose before you bought it
- the cost to convert or alter a boat in Canada
- a boat, or the cost to convert it, established as a separate prescribed class under the now repealed Canadian Vessel Construction Assistance Act

An enhanced first-year CCA deduction is available for fishing boats in Class 7 that are AIIP. The first-year CCA deduction is calculated by both:

- applying the prescribed CCA rate of 15% to 0.5 times the net addition to the class for property that becomes available for use before 2024
- suspending the existing CCA half-year rule

For boats that are eligible for the special rate of 33 1/3% (16 2/3% in the year of acquisition) that are AIIP, the enhanced first-year CCA rate is:

- 50% for boats acquired before 2024
- 33 1/3% for boats acquired after 2023 and before 2028

# Special situations

## Personal use of property

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

- If your business use stays the same from year to year, enter the total cost of the property in column 3, the personal part in column 4 and the business part in column 5. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A
- If your business use changes from year to year, enter the total cost of the property in column 3 and column 5, and enter "0" in column 4

Enter in column 3 of Area A the amount from column 5 of Area B or Area C and calculate the CCA amount (business and personal) in column 18. The amount in column 19 (UCC at the end of the year) of Area A is equal to the amount in column 7 **minus** the amount in column 18.

The CCA calculated for the business use of a workspace in your home in Area A of your form must be reported on the chart "Calculating business-use-of-home expenses" of the form. This CCA must be subtracted from the total amount of the CCA for the year calculated in Area A and must not be included on line 9936, "Capital cost allowance (CCA)," of the form.

When you claim CCA, you will have to calculate the allowable part you can claim for business use.

**Example**
Jennifer owns a business. She bought a car in 2023 that she uses for both personal and business use. The car cost $20,000, including all charges and taxes. Therefore, she includes the car in Class 10. Her business use this year was 12,000 kilometres of the total 18,000 kilometres driven. She calculates her CCA on the car for 2023 as follows:

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

12,000 (business kilometres) ÷ 18,000 (total kilometres) × $3,000 = $2,000

Jennifer enters $2,000 on line 9936.

To claim CCA for business use of a workspace in your home, on the form, use "Part 7 – Calculating of business-use-of-home expenses." Subtract the CCA portion for business-use-of-home expenses from amount ii, "Total CCA claim for the year." Enter the result in Part 4 at line 9936. In Part 7, enter at amount 7K the amount of CCA you are claiming for business-use-of-home.

**Note**
The capital cost limits on a Class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use. For more information, see "Class 10.1 (30%)" on page 77.

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

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

## Changing from personal to business use

If you bought a property for personal use and started using it in your business in your current tax year, there is a change in use. You need to determine the capital cost for business purposes at the moment of this change in use.

If the fair market value (FMV) of a depreciable property (such as equipment or a building) is less than its original cost when you change its use, the amount you enter in column 3 of Area B or C is the FMV of the property (excluding the land value if the property is land and a building). If the FMV is more than the original cost of the property (excluding the land value if the property is land and a building) when you change its use, use the following chart to determine the amount to enter in column 3 of Area B or Area C.

Enter the FMV of the property in column 3 of Area B or C, whichever applies, if, at the time of change in use, the FMV of the depreciable property is less than its original cost.

When you start using your property for business use, you are considered to have disposed of it. If the FMV of the property is more than its cost, you may have a capital gain unless you file an election. For more information on capital gains, see Chapter 6 or see Guide T4037, Capital Gains. Use the following chart to determine the amount to enter in column 3 when the FMV is more than its original cost.

**Capital cost calculation – Change in use**

| | | | | | | |
|---|---|---|---|---|---|---|
| Actual cost of the property | | | | | $ ____ | 1 |
| FMV of the property | $ ____ | 2 | | | | |
| Amount from line 1 | $ ____ | 3 | | | | |
| Line 2 **minus** line 3 (if negative, enter "0") | $ ____ | 4 | | | | |
| Enter all capital gains deductions claimed for the amount from 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 only to the depreciable property.

Enter the capital cost of the property from line 7 in column 3 of Area B or C.

**Note**
We consider you to acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923, "Total cost of all land additions in the year," in Area F.

## Grants, subsidies and rebates

You should subtract from the applicable expense any rebate, grant or assistance you received. Enter the net expense on the appropriate line of your form.

When you receive a grant, subsidy or rebate from a government or a government agency to buy depreciable property, subtract the amount of the grant, subsidy or rebate from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C. If you receive a grant, subsidy or rebate for a property after the year you disposed of the property, subtract the amount of the grant, subsidy or rebate from the UCC of the class in which the property was included.

If you made a repayment of a grant, subsidy or rebate received for a property that you were legally required to make, add the amount you repaid to the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C. If you repaid this amount after the year you disposed of the property, add the amount to the UCC of the class in which the property was included.

You may have paid GST or HST on some of the depreciable property you acquired for your business. If so, you may have also received an input tax credit from us. Subtract the input tax credit from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C, whichever applies. If you get an input tax credit for a passenger vehicle you use in your business, use **one** of these methods:

- For a passenger vehicle you used **90% or more** of the time for your business, subtract the amount of the credit from the vehicle's cost before you enter its capital cost in column 3 of Area B
- For a passenger vehicle you used **less than 90%** of the time for your business, do not make an adjustment in 2023. Instead, subtract the amount of the credit from your beginning UCC in 2024

For information on claiming input tax credits for the GST/HST you paid to buy a passenger vehicle, see GST/HST Memorandum 8.2, General Restrictions and Limitations.

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

Input tax credits are considered government assistance. Include the amount you claimed on line 108 of your GST/HST return only if you cannot apply the rebate, grant or assistance you received to reduce a particular expense or an asset's capital cost. For more information, see "GST/HST input tax credits" on page 50.

You may get an incentive from a non-government agency to buy depreciable property. For example, you may receive a tax credit that you can use to reduce your income tax payable.

You can include the amount in income or you can subtract the amount from the capital cost of the property. If the incentive is more than the remaining UCC in the particular class, add the excess to income:

- on line 8230 of Form T2125 for business and professional
- on line 9570 of Form T2042 for farming
- on line "Grants, credits and rebates" of Form T2121 for fishing

For more information about government assistance, see Interpretation Bulletin IT-273, Government Assistance – General Comments.

## Non-arm's length transaction

When you acquire depreciable property in a **non-arm's length** (see "Definitions" on page 7) transaction, there are special rules for determining the property's cost. These special rules do not apply if you acquire the property because of someone's death.

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

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

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

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

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

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

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

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

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

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

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

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

If you acquire depreciable property in a non-arm's length transaction and pay less for it than the seller paid, your capital cost is the same amount as the seller paid. The difference between what you paid and what the seller paid is considered to be deducted as CCA. Enter the amount you paid in column 3 of Area A. Enter the same amount in Area B or C, whichever applies.

**Example**
Rachel bought a pickup truck for $4,000 from her father, Marcus, in her 2023 fiscal period. Marcus paid $10,000 for the truck in 2014. Since the amount Rachel paid is less than the amount Marcus paid, we consider Rachel's cost to be $10,000. We also consider Rachel to have deducted CCA of $6,000 in the past ($10,000 – $4,000).

Rachel fills in the CCA chart as follows:

- In Area B, she enters $10,000 in column 3, "Total cost"
- In Area A, she enters $4,000 in column 3, "Cost of additions in the year," as the addition for her 2023 fiscal period

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

- the FMV when you buy it
- $36,000 **plus** any GST/HST or PST you would pay on $36,000 if you bought it in your 2023 fiscal period
- the seller's cost amount of the vehicle when you buy it

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

For more information on non-arm's length transactions, see the Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.

## Capital gains

If you sell a property for more than it cost, you may have a capital gain. List the dispositions of all your properties on Schedule 3, Capital Gains (or Losses) in 2023. For information on how to calculate your taxable capital gain, see Chapter 6 or Guide T4037, Capital Gains.

Gains earned from the disposition of a flipped property are fully taxable as business income, not capital gains. For more information, see "Flipped property rules" on page 10.

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

> **Note**
> You cannot have a capital loss when you sell depreciable property. However, you can have a terminal loss; see "Column 7 – UCC after additions and dispositions" on page 72.

## Special rules for disposing of a building in the year

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

- you disposed of the building for an amount less than both its cost amount, as calculated below, and its capital cost to you
- you, or a person with whom you do not deal at **arm's length** (see "Definitions" on page 7), owned the land that the building is on, or the land next to it, which was necessary for the building's use

To calculate the **cost amount**:

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

(capital cost of the building ÷ capital cost of all property in the class not previously disposed of) × UCC of the class = cost amount of the building

> **Note**
> If a building acquired in a non-arm's length transaction was previously used for something other than producing income, the capital cost of the property will need to be recalculated to determine the cost amount of the building.

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

If you disposed of a building under these conditions and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A on page 87.

If you or a person with whom you do not deal at arm's length did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B on page 87.

## Calculation A – Land and building disposed of in the same year

| | | | | |
|---|---|---|---|---|
| 1. FMV of the building when you disposed of it | | $ ______ 1 | | |
| 2. FMV of the land just before you disposed of it | + | $ ______ 2 | | |
| 3. Line 1 **plus** line 2 | = | $ ______ | > | $ ______ 3 |
| 4. Seller's adjusted cost base of the land | | $ ______ 4 | | |
| 5. Total capital gains (without reserves) from any disposition of the land (such as a change in use) by you, or by a person not dealing at arm's length with you, in the three-year period before you disposed of the building, to you or to another person not dealing at arm's length with you | – | $ ______ 5 | | |
| 6. Line 4 **minus** line 5 (if negative, enter "0") | = | $ ______ 6 | | |
| 7. Line 2 or line 6, (whichever amount is **less)** | | | – | $ ______ 7 |
| 8. Line 3 **minus** line 7 (if negative, enter "0") | | | = | $ ______ 8 |
| 9. Cost amount of the building just before you disposed of it | | $ ______ 9 | | |
| 10. Capital cost of the building just before you disposed of it | | $ ______ 10 | | |
| 11. Line 9 or line 10, whichever amount is **less** | | $ ______ 11 | | |
| 12. Line 1 or line 11, whichever amount is **more** | | $ ______ 12 | | |

**Deemed proceeds of disposition of the building**

| | | |
|---|---|---|
| 13. Line 8 or line 12, whichever amount is **less** (enter the amount from line 13 in column 3 of Area E and include it in column 5 of Area A) | | $ ______ 13 |

**Deemed proceeds of disposition of the land**

| | | |
|---|---|---|
| 14. Proceeds of disposition of the land and building | | $ ______ 14 |
| 15. Amount from line 13 | – | $ ______ 15 |
| 16. Line 14 **minus** line 15 (enter this amount on line 9924 of Area F) | = | $ ______ 16 |

If you have a terminal loss on the building, include it on line 9270 of Form T2125 for business and professional, line 9790 of Form T2042 for farming or line 9270 of Form T2121 for fishing.

## Calculation B
## Land and building disposed of in different years

| | | | | |
|---|---|---|---|---|
| Cost amount of the building just before you disposed of it | $ ______ 1 | | | |
| FMV of the building just before you disposed of it | $ ______ 2 | | | |
| Line 1 or line 2, whichever amount is more | | | | $ ______ 3 |
| Actual proceeds of disposition, if any | | | | $ ______ 4 |
| Line 3 **minus** line 4 | | | | $ ______ 5 |
| Amount from line 5 | $ ______ | × 1/2 | = | $ ______ 6 |
| Amount from line 4 | | | | $ ______ 7 |

**Deemed proceeds of disposition for the building**

| | |
|---|---|
| Line 6 **plus** line 7 (enter this amount in column 3 of Area E and include it in column 5 of Area A) | $ ______ 8 |

If you have a terminal loss on the building, include it on line 9270 of Form T2125 for business and professional, line 9790 of Form T2042 for farming or line 9270 of Form T2121 for fishing.

Usually, you can deduct 100% of a terminal loss, but only 50% of a capital loss. Calculation B makes sure you use the same percentage to calculate both a terminal loss on a building and a capital loss on land. As a result of this calculation, you add 50% of the amount on line 5 to the actual proceeds of disposition from the building. For more information, see "Terminal loss" on page 72.

## Replacement property

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

For more information, see Income Tax Folio S3-F3-C1, Replacement Property.

You can also defer a capital gain or recapture of CCA when you transfer property to a corporation, a partnership or your child. For more information on transferring property to your child, see page 97.

For more information on transfers to a corporation or a partnership, see:

- Information Circular IC76-19, 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 on CCA.

**Example**
During the current tax year, D'Arcy bought a building to use for his business. The total cost was $95,000 (the sum of the $90,000 total purchase price and the $5,000 total expenses connected with the purchase). The details are as follows:

| | | |
|---|---|---|
| Building value | $ | 75,000 |
| Land value | $ | 15,000 |
| Total purchase price | $ | 90,000 |
| **Expenses connected with the purchase**: | | |
| Legal fees | $ | 3,000 |
| Land transfer taxes | $ | 2,000 |
| Total fees | $ | 5,000 |

D'Arcy's business has a December 31 year-end. In 2023, D'Arcy's income was $6,000 and his expenses were $4,900. Therefore, his net income before deducting CCA was $1,100 ($6,000 – $4,900). D'Arcy wants to deduct as much CCA as he can.

Before D'Arcy can fill in his CCA table in Area A, he has to calculate the capital cost of the building. Since land is not depreciable property, he has to calculate the part of the expenses connected with the purchase that relates only to the building. To do this, he has to use the following formula:

($75,000 ÷ $90,000) × $5,000 = $4,166.67

This $4,166.67 represents the part of the $5,000 in legal fees and land transfer taxes that relates to the purchase of the building. The remaining $833.33 relates to the purchase of the land. Therefore, the capital cost of the building is:

| | | |
|---|---|---|
| Building value | $ | 75,000.00 |
| Related expenses | $ | 4,166.67 |
| Capital cost of the building | $ | 79,166.67 |

D'Arcy enters $79,166.67 in column 3 of Area C and $15,833.33 ($15,000 + $833.33) on line 9923 of Area F as the capital cost of the land.

**Note**
D'Arcy did not own property before the current year. Therefore, he has no UCC to enter in column 2 of Area A.

D'Arcy acquired his property during the current year. Therefore, he is subject to the half-year rule that we explain under the heading "Column 15 – Adjustment for current-year additions subject to the half-year rule" on page 74.

# Chapter 5 – Losses

For farm losses, see below.

For fishing losses, see page 91.

## Farm losses

When your farming business expenses are more than the farming business income in a year, you have a net loss. However, before you can calculate your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments explained in "Line 9941 – Optional inventory adjustment included in the current year" on page 59 and "Line 9942 – Mandatory inventory adjustment included in the current year" on page 60.

If you show a net farm loss for the year, read this chapter for information on how to treat your loss. For more information on farm losses, see Income Tax Folio S4-F11-C1, Meaning of Farming and Farming Business.

The amount of the net farm loss you can deduct depends on the nature and extent of your business. Your farm loss may be one of the following:

- fully deductible
- restricted (partly deductible)
- non-deductible

### Non-deductible farm losses

If you did not run your farm as a business, you cannot deduct any part of your net farm loss.

The size and scope of your farm may make it impossible for the farm to make a profit, either now or in the near future. In this case, you cannot deduct your farm loss. We consider this kind of farm to be personal. Therefore, any farm expenses are personal expenses.

### Fully deductible farm losses

If you made your living from farming, we consider farming to be your main source of income. As long as farming was your main source of income, you can deduct the full amount of your net farm loss from other income. Farming can still be your main source of income even if your farm did not show a profit. Other income could come from investments, part-time employment, and so on.

To determine if farming was your main source of income, you need to consider such factors as:

- gross income
- net income
- capital invested
- cash flow
- personal involvement
- your farm's ability to make a profit (both actual and potential)
- plans to maintain or develop your farm and how you carried them out

Although you may have been a partner in a farming business, you still have to determine if farming was your own main source of income.

When farming is your main source of income and you show a net farm loss in 2023, you may have to reduce the loss when you have other income in 2023. Any loss that is left is your farm loss for 2023.

**Example**
Rick's farming business, which is his main source of income, has a December 31 fiscal year-end. His farm loss before adjustments is $50,000. He wants to reduce his loss by the optional inventory adjustment (OIA). Rick kept the following records for 2023:

| | |
|---|---|
| Net farm loss before adjustments | $ 50,000 |
| Optional inventory adjustment | $ 15,000 |
| Other income | $ 2,000 |

To reduce the loss amount, Rick adds back his OIA. He determines his farm loss for 2023 as follows:

| | |
|---|---|
| Farm loss before adjustments | ($ 50,000) |
| **Add** optional inventory adjustment | $ 15,000 |
| Farm loss after adjustments | ($ 35,000) |
| **Add** other income | $ 2,000 |
| Farm loss for 2023 | ($ 33,000) |

### Applying your 2023 farm loss

You may have a farming loss in 2023. If you do, you can carry it back for up to 3 years or carry it forward for up to 20 years for all non-capital losses incurred after 2005. In both cases, you can deduct it from all your sources of income in those years.

If you choose to carry back your 2023 farm loss to your 2020, 2021 or 2022 income tax returns, fill in Form T1A, Request for Loss Carryback. Attach the completed form to your 2023 income tax and benefit return or to your request for an adjustment and send it to your tax centre. You can also send the form on its own. Do not file an amended return for the year to which you apply the loss.

### Applying your farm losses from years before 2023

The 20-year carryforward is only allowed for losses starting January 1, 2006, and onward. You may be able to apply farm losses you had in any year from 2006 to 2022 on your 2023 income tax return. You can apply these losses if you did not already deduct them, and you have net income in 2023. To apply these losses to 2023, you have to apply the loss from the earliest year first. Enter the amount you wish to deduct on line 25200 on your income tax return.

## Restricted farm losses (partly deductible)

You may have run your farm as a business. For your farm to be considered a business, you must have carried on activities with the intention of making a profit and there must be evidence to support that intention.

However, if farming was neither your main source of income (for example, you did not rely on farming alone to make your living) nor was it your main source of income in addition to some other subordinate source of income (for example, where the other source of income was a side-line employment or business) you may only be able to deduct a part of your net farm loss.

Each year you have a farm loss, review your situation carefully to see if farming was either your main source of income or it was your main source of income in addition to some other subordinate source of income. It is important to do this, since a farming loss may be restricted in one year, but not in another year.

### How to calculate your restricted farm loss

If farming was neither your main source of income nor your main source of income in addition to some other subordinate source of income and you had a net farm loss, the loss you can deduct depends on the amount of your net farm loss.

For tax years that end after March 20, 2013, the annual maximum deduction used in the calculation for restricted farm losses is $17,500.

When your net farm loss is $32,500 or more, you can deduct $17,500 from your other income. The rest of your net farm loss is your restricted farm loss.

When your net farm loss is less than $32,500, the amount you can deduct from your other income is the **lesser of**:

A) your net farm loss for the year

B) $2,500 **plus** 50% × (your net farm loss **minus** $2,500)

The amount remaining is your restricted farm loss.

> **Note**
> When the farm loss you deduct is different from your actual farm loss because of the restricted farm loss calculation, you should indicate this on your income tax return on line 14099, "Farming Income." For example, you can do this by noting "restricted farm loss," "RFL," or "Section 31" to the left of line 14099.

**Example**
Sharon ran a cattle farm with the intention of making a profit. However, farming was neither her main source of income, nor her main source of income in addition to some other subordinate source of income in 2023. In 2023, she had employment income and a net farm loss of $9,200, which she calculated on line 9946 of Form T2042.

The part of Sharon's net farm loss that she can deduct from her other income in 2023 is either amount A or B, whichever is **less**:

A) $9,200

B) $2,500 **plus** 50% × ($9,200 – $2,500)
$2,500 **plus** 50% × $6,700

Therefore, B = ($2,500 + $3,350) = $5,850.

Because Sharon can only deduct either A or B, whichever amount is **less**, she enters $5,850 on line 14100 of her income tax return and deducts this amount from her other income in 2023. Her restricted farm loss is the amount that remains, which is $3,350 ($9,200 **minus** $5,850). Sharon prints "Section 31" to the left of line 14099 on her income tax return to show that the loss she is deducting is the result of a restricted farm loss calculation.

### Applying your 2023 restricted farm loss

You can carry back your 2023 restricted farm loss up to 3 years. You can also carry it forward up to 20 years.

The amount you deduct in any year cannot be more than your net farming income for that year. If you have no net farming income in any of those years, you cannot deduct any restricted farm loss.

To carry back your 2023 restricted farm loss to your 2020, 2021 or 2022 income tax returns, use Form T1A, Request for Loss Carryback. Attach the completed form to your 2023 income tax and benefit return or to your request for an adjustment and send it to your tax centre. You can also send the form on its own. Do not file an amended return for the year to which you would like the loss applied.

### Applying your restricted farm losses from years before 2023

The 20-year carryforward is only allowed for losses starting January 1, 2006, and onward. If you have net farming income in 2023, you may be able to apply restricted farm losses you had in any year from 2006 to 2022 on your 2023 income tax return. You can apply these losses as long as you did not already deduct them from your farming income. Also, you can only apply them up to the amount of your net farming income in 2023. You have to apply the loss from the earliest year before you apply the losses from other years. Claim this amount on line 25200 of your income tax return.

You may have sold farmland at a time when you had restricted farm losses you did not claim. When this happens, you may be able to reduce the amount of your capital gain from the sale. In this case, see "Restricted farm losses" on page 94.

## Fishing losses

When your fishing business expenses are more than the fishing business income in a year, you have a net loss. If your net loss from fishing is higher than your other income in the current year, you will be able to carry back or carry forward the balance to reduce your taxes in other years. For example, in 2023 your fishing income was $18,000 and your total fishing expenses were $25,000. Therefore, your net loss from fishing was $7,000 [$18,000 – $25,000 = ($7,000)]. Also, you had employment income of $2,000. To check if you are able to carry back or carry forward part of this loss, you subtract your other income from your net loss from fishing ($7,000 – $2,000 = $5,000). In this example, you would be able to carry back or carry forward a loss of $5,000.

You may have net fishing income in 2023 instead of a fishing loss. If so, you may be able to apply to your 2023 income tax return fishing losses you had from 2006 to 2022. You can apply these losses as long as you did not already deduct them. You have to apply the loss from the earliest year first before you apply the losses from later years. Enter the amount on line 25200 of your income tax return.

You may have a fishing loss in 2023. If you do, you can carry back this loss for 3 years or carry it forward for up to 20 years. To carry back a 2023 loss, fill in Form T1A, Request for Loss Carryback. Attach the completed form to your 2023 income tax and benefit return or to your request for an adjustment and send it to your tax centre. You can also send the form on its own. Do not file an amended return for the year to which you want to apply the loss.

## Non-capital losses

You may have incurred a loss in 2023 from a business other than farming or fishing. If this loss is more than your other income for the year, you may have a non-capital loss. Use Form T1A, Request for Loss Carryback, to calculate your 2023 non-capital loss.

You can carry back your non-capital loss up to 3 years. Non-capital losses incurred after 2005 can be carried forward up to 20 years.

If you choose to carry back your 2023 non-capital loss to your 2020, 2021 or 2022 income tax returns, fill in Form T1A. Attach the completed form to your 2023 income tax and benefit return or to your request for an adjustment and send it to your tax centre. You can also send the form on its own. Do not file an amended return for the year to which you apply the loss.

For more information about non-capital losses, see Interpretation Bulletin IT-232, Losses – Their Deductibility in the Loss Year or in Other Years. You can view carry-over amounts using My Account at **canada.ca/my-cra-account** or Represent a Client at **canada.ca/taxes-representatives**.

# Chapter 6 – Capital gains

This chapter explains the capital gains rules for people who farm or fish. General capital gains rules are covered in Guide T4037, Capital Gains.

Throughout this chapter, we use the terms **sell**, **sold**, **buy** or **bought**. These words describe most capital transactions. However, the information in this chapter also applies to deemed dispositions or acquisitions. When reading this chapter, you can use the terms **sold** instead of **disposed of,** and **bought** instead of **acquired**, if they more clearly describe your situation.

## If you sold in 2023 capital property that you owned before 1972

If you did, you have to apply a special set of rules when you calculate your capital gain or loss because you did not have to pay tax on capital gains before 1972. To help you calculate your gain or loss from the sale of property you owned before 1972, use Form T1105, Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972.

## Capital gains for farmers

### Disposing of farmland that includes your principal residence

Your home is usually your principal residence. If your home was your principal residence for every year you owned it, you generally do not pay tax on any capital gains when you dispose of it. Therefore, if you sold farmland that included your home in 2023, only part of the gain is taxable.

The sale must be reported, along with any principal residence designation, on Schedule 3, Capital Gains (or Losses) in 2023, under "Qualified farm or fishing property" or "Real estate, depreciable property, and other properties." The CRA can accept a late designation in certain circumstances, but a penalty may apply.

For more information on change in use rules or on deemed dispositions from a full or partial change of use of a property, see Guide T4037, Capital Gains.

You can choose one of two methods to determine your taxable capital gain. Try both methods to see which one is best for you.

The land on which your home is located can be part of your principal residence. Usually, the amount of land that you can consider as part of your principal residence is limited to one half hectare (1.24 acres). If you can show that you need more land to use and enjoy your home, you can consider more than 1.24 acres as part of your principal residence. For example, this may happen if the minimum lot size imposed by a municipality at the time you bought the property is larger than one half hectare.

#### Method 1

Separately calculate the capital gain on your principal residence and each of your farm properties. To do this, apportion the proceeds of disposition, the adjusted cost base (ACB) and any selling expenses between:

- your principal residence
- each of your farm properties

Then, calculate the **taxable** capital gain on your principal residence, if any, and each of the farm properties.

Value the land that is part of your principal residence at one of the following two amounts, whichever is **more**:

- the fair market value (FMV) of the land
- the FMV of a comparable residential building site in the area

**Note**
If your home was **not** your principal residence for every year you owned it, there could be a capital gain on it you have to include in your income. Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust), will help you calculate the number of years you are entitled to designate your home as your

principal residence and calculate the part of your gain, if any, that is taxable. For additional information on how to report the disposition of your principal residence, see Guide T4037, Capital Gains.

**Example**

On February 1, 2023, Helena sold her 32-acre farm, which included her principal residence. One acre of land is part of her principal residence. Helena has these details:

**Value of land when she purchased her farm**

| | |
|---|---|
| FMV of similar farmland per acre | $ 3,750 |
| FMV of a typical residential building site in the area | $ 15,000 |

**Value of land when she sold her farm**

| | |
|---|---|
| FMV of similar farmland per acre | $ 6,250 |
| FMV of a typical residential building site in the area | $ 25,000 |

**Adjusted cost base – actual purchase price**

| | |
|---|---|
| Land | $ 120,000 |
| House | $ 60,000 |
| Barn | $ 16,000 |
| Silo | $ 4,000 |
| **Total** | **$ 200,000** |

**Proceeds of disposition – actual sale price**

| | |
|---|---|
| Land | $ 200,000 |
| House | $ 75,000 |
| Barn | $ 20,000 |
| Silo | $ 5,000 |
| **Total** | **$ 300,000** |

| **Proceeds of disposition** | **Principal residence** | **Farm properties** | **Total** |
|---|---|---|---|
| Land | $ 25,000* | $175,000 | $200,000 |
| House | $ 75,000 | | $ 75,000 |
| Barn | | $ 20,000 | $ 20,000 |
| Silo | | $ 5,000 | $ 5,000 |
| | **$100,000** | **$200,000** | **$300,000** |
| **Minus ACB**: | | | |
| Land | $ 15,000* | $105,000 | $120,000 |
| House | $ 60,000 | | $ 60,000 |
| Barn | | $ 16,000 | $ 16,000 |
| Silo | | $ 4,000 | $ 4,000 |
| | **$ 75,000** | **$125,000** | **$200,000** |
| **Gain on sale** | $ 25,000 | $ 75,000 | $100,000 |
| **Minus**: Gain on principal residence** | $ 25,000 | | $ 25,000 |
| **Capital gain** | **$ 0** | **$ 75,000** | **$ 75,000** |
| **Taxable capital gain** | | (1/2 × $75,000) | **$ 37,500** |

* Helena uses the value of a typical residential building site for the land that is part of her principal residence, because the FMV of a typical site in the area is more than the FMV of one acre of farmland.

** Because Helena's home was her principal residence during all the years she owned it, the capital gain is not taxable.

## Method 2

Determine the capital gain on your land and your principal residence. Then subtract $1,000 from the gain. Subtract an additional $1,000 for each year after 1971 that the property was your principal residence and you were a resident of Canada. Using Method 2, you can reduce a gain to nil, but you cannot create a loss.

To calculate your capital gain, use the following formula:

| | | |
|---|---|---|
| Proceeds of disposition | $ | A |
| Adjusted cost base | $ | B |
| Line A **minus** line B | $ | C |
| Outlays and expenses | $ | D |
| Capital gain before reduction (Line C **minus** line D) | $ | E |
| Method 2 reduction | $ | F |
| Capital gain after reduction (Line E **minus** line F) | $ | G |

**Note**

Transfer the entries from lines A, B, D and G to the relevant columns on Schedule 3, Capital Gains (or Losses) in 2023, under "Qualified farm or fishing property" or "Real estate, depreciable property, and other properties."

If you choose this method, attach a letter to your income tax return that includes the following information:

- a statement by you that you sold your farm and are electing under subparagraph 40(2)(c)(ii) of the Income Tax Act
- a description of the property you sold
- the number of years after 1971 that the farmhouse was your principal residence during which you were a resident of Canada (if you purchased your farm after 1971, give the date you purchased it)

As proof of the value of your property, regardless of the method you choose, keep documents that have the following information:

- a description of the farm, including the size of the buildings and construction type
- the cost of the property and the date of purchase
- the cost of any additions or improvements you made to the property
- the assessment for property tax purposes
- any insurance coverage
- the type of land (arable, bush or scrub)
- the type of farm operation

For more information, see Income Tax Folio S1-F3-C2, Principal Residence.

### Restricted farm losses

You may have a capital gain from farmland you sell in 2023. You may also have restricted farm losses from previous years you have not yet used. In this case, you can deduct part of these losses from the gain. The part you can deduct is the property taxes and the interest on money you borrowed to buy the land, if you included these amounts in the calculation of the restricted farm loss in question.

You cannot use the restricted farm loss to create or increase a capital loss on the sale of your farmland.

## How to calculate your capital gain or loss

To calculate your capital gain or loss, use the following:

| | | |
|---|---|---|
| Proceeds of disposition | $ | 1 |
| Adjusted cost base | $ | 2 |
| Line 1 **minus** line 2 | $ | 3 |
| Outlays and expenses | $ | 4 |
| Capital gain (loss) = Line 3 **minus** line 4 | $ | 5 |

**Note**
You have to calculate the capital gain or loss on each property separately.

## Qualified farm or fishing property and cumulative capital gains deduction

The following is a list of updated definitions effective January 1, 2014:

- the new definition **qualified farm or fishing property** (QFFP) replaced the two previous definitions:
  - qualified farm property (QFP)
  - qualified fishing property (QXP)
- the new definition **interest in family-farm or family-fishing partnership** replaced the two previous definitions:
  - interest in family-farm partnership
  - interest in family-fishing partnership
- the new definition **share of the capital stock of a family-farm or family-fishing corporation** replaced the two previous definitions:
  - share of the capital stock of a family-farm corporation
  - share of the capital stock of a family-fishing corporation

### Find out what a qualified farm or fishing property is

QFFP is certain property you or your spouse or common-law partner own. It is also certain property owned by a family-farm or family-fishing partnership in which you or your spouse or common-law partner holds an interest. We define spouse and common-law partner in the Federal Income Tax and Benefit Information.

Qualified farm or fishing property includes:

- a real property, such as land and buildings
- a fishing vessel that was used in the course of carrying on a fishing business
- a share of the capital stock of a family-farm or family-fishing corporation you or your spouse or common-law partner own
- an interest in a family-farm or family-fishing partnership you or your spouse or common-law partner own
- a property included in Class 14.1 used in the course of carrying on a farming or fishing business in Canada, such as:
  - milk and egg quotas for farmers
  - fishing permits or licenses with an unlimited period

## Cumulative capital gains deduction

If you have a taxable capital gain from the sale of QFFP, you may be able to claim a capital gains deduction.

For dispositions in 2023, the maximum base capital gains deduction for qualifying properties is $971,190.

The lifetime capital gains exemption (LCGE) for QFFP sold after April 20, 2015, increased to $1,000,000. The additional deduction is the difference between $500,000 (50% of $1,000,000) and the amount of the existing maximum base capital gains deduction for qualifying properties of $485,595 (50% of $971,190) for 2023. The value of this new deduction will phase out as the maximum base capital gains deduction for qualifying properties increases through indexation.

This additional deduction for taxable capital gains from the disposition of QFFP can only be used after the existing maximum base capital gains deduction that applies to both QFFP and qualified small business corporation shares ($485,595 for 2023) is used.

Existing rules on the base capital gains deduction also apply to the additional deduction for taxable capital gains from the disposition of QFFP.

Where a trust determines and designates an amount as a beneficiary's taxable capital gain from the disposition of QFFP after April 20, 2015, the beneficiary is deemed to have a taxable capital gain of that amount from the disposition of QFFP after April 20, 2015. Therefore the additional deduction for taxable capital gains from the disposition of QFFP is available to the beneficiary.

For more information on how to calculate your capital gains deduction, see Form T657, Calculation of Capital Gains Deduction for 2023, and Form T936, Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2023.

You may be a member of a partnership that sold capital property. In this case, the partnership would allocate any taxable capital gains or allowable capital losses to the partners. If you are allocated a share of a taxable capital gain on QFFP, you may be entitled to claim a capital gains deduction.

The LCGE rules on certain farming or fishing property, shares or interests include taxpayers involved in a combination of farming and fishing businesses.

- Property held directly or through a partnership:
  - Where an individual carries on a farming or fishing business as a sole proprietor, or through a partnership, in order to be eligible for the LCGE, the qualifying property must be used mainly in a farming business or a fishing business. Eligibility for the LCGE extends to property of an individual used mainly in a combination of farming and fishing
- Shares or partnership interests:
  - In order for an individual's shares in a family corporation or interest in a family partnership to qualify for the LCGE, all or substantially all (generally interpreted as 90% or more) of the fair market value of the property of the entity must be property used mainly in a farming business or a fishing business. A property held by a family-farm corporation or partnership that is used in a combination of farming and fishing must be used mainly in farming in order to count towards the "all or substantially all" test. A similar rule applies for a property held by a family-fishing corporation or partnership
  - Eligibility for the LCGE extends to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used mainly in either business, or is used mainly in a combination of farming and fishing, the property will count towards the "all or substantially all" test
  - Also, throughout any 24-month period ending before that time, more than 50% of the FMV of the property of the entity was attributable to property. That property must have been used principally in the course of carrying on a farming or

fishing business in Canada in which a qualified user was actively engaged on a regular and continuous basis by any of the following:

- you, your spouse or common-law partner, or any of your parents or children (we define children on page 97)
- the beneficiary of a personal trust, or the spouse or common-law partner, parent, or child of such a beneficiary
- a family-farm or family-fishing corporation where any of the above persons owns a share of the corporation
- a family-farm or family-fishing partnership where any of the above persons (except a family-farm or family-fishing corporation) owns an interest in the partnership

### Real property or property included in Class 14.1

Real property or property included in Class 14.1 is qualified farm or fishing property only if it is used to carry on a farming or fishing business in Canada by any of the following:

- you, your spouse or common-law partner, or any of your parents or children (we define children on page 97)
- the beneficiary of a personal trust, or the spouse or common-law partner, parent, or child of such a beneficiary
- a family-farm or family-fishing corporation where any of the above persons owns a share of the corporation
- a family-farm or family-fishing partnership where any of the above persons (except a family-farm or family-fishing corporation) owns an interest in the partnership

We will consider real property or property included in Class 14.1 to be used to carry on a farming or fishing business in Canada if you meet the following conditions:

- throughout the 24 months before the sale, you, your spouse or common-law partner, any of your children or parents, a personal trust from which one of these persons acquired the property, or a family-farm or family-fishing partnership (in which any of these persons has an interest) must have owned the property
- you meet **one** of the following two conditions:
  - While the property was owned by any of the above persons in at least two years; the property or the property it replaced was mainly used in a farming or fishing business in Canada in which any of the above persons was actively engaged on a regular and ongoing basis. Also, while the property was owned by any of the above persons in at least two years; the person's gross income from the business was larger than the person's income from all other sources in the year
  - A family-farm or a family-fishing partnership or corporation used the property for at least 24 months, to carry on a farming or fishing business in Canada. Also, during this time, you, your spouse or common-law partner, any of your children, or your parents must have been actively engaged on a regular and ongoing basis in the business

**Note for fishers**
Qualified fishing property does include a fishing vessel.

## Real property or property included in Class 14.1 bought before June 18, 1987, for farmers

You may have bought or entered into an agreement to buy real property or property included in Class 14.1 before June 18, 1987. We consider you to have used this property in carrying on a farming business in Canada if you meet **one** of the following conditions:

- in the year you disposed of it, the property or the one it replaced was used in a farming business in Canada by any of the above persons, a family-farm partnership, a corporation or by a personal trust from which one of the above individuals acquired the property
- the property, or the property it replaced, was used in a farming business in Canada for at least five years by any of the above persons, a family-farm partnership or corporation, or by a personal trust from which one of the above individuals acquired the property. During this time, the property was owned by any of the above persons or a family-farm partnership or corporation

## Transfer of farm or fishing property to a child

You may be able to transfer Canadian farm or fishing property to your child. When you do this, you can postpone tax on any taxable capital gain and any recapture of capital cost allowance until the child sells the property. To do this, **both** of these conditions have to be met:

- your child was a resident of Canada just before the transfer
- the farm or fishing property was land in Canada, or depreciable property in Canada of a prescribed class, in respect of a farming or fishing business carried on in Canada, and has been used in the business in which you, your spouse or common-law partner, or any of your children were actively engaged on a regular and ongoing basis before the transfer

The rules on intergenerational transfers of certain farming and fishing property from an individual to the individual's child include taxpayers involved in a combination of farming and fishing businesses.

Where an individual carries on farming or fishing business as a sole proprietor, or through a partnership, in order to be eligible for the intergenerational transfer, the qualifying property must be used mainly in a farming business or a fishing business. Eligibility for the intergenerational transfer extends to property of an individual used mainly in a combination of farming and fishing.

Your **children** include:

- your natural child, your adopted child, or your spouse's or common-law partner's child
- your grandchild or great-grandchild
- your child's spouse or common-law partner
- another person who is wholly dependent on you for support and who is, or was immediately before the age of 19, in your custody and under your control

The following types of property qualify for this transfer:

- farmland
- land used in a fishing business
- depreciable property, including buildings

Furthermore, a share of the capital stock of a family-farm or family-fishing corporation and an interest in a family-farm or family-fishing partnership also qualify for this transfer if your child is a resident of Canada just before the transfer.

The rules on intergenerational transfers of certain farming and fishing property from an individual to the individual's child include taxpayers involved in a combination of farming and fishing businesses.

Shares or partnership interests:

- In order for an individual's shares in a family corporation or interest in a family partnership to qualify for the intergenerational transfer, all or substantially all (generally interpreted as 90% or more) of the FMV of the property of the entity must be property used mainly in a farming business or a fishing business. Eligibility for the intergenerational transfer extends to an individual's shares in a corporation, or interest in a partnership, where the corporation or partnership carries on both a farming business and a fishing business. In particular, if a property of the corporation or partnership is used mainly in either business, or is used mainly in a combination of farming and fishing, the property will count towards the "all or substantially all" test.

For most property, the transfer price can be any amount between the ACB and its FMV. For depreciable property, the transfer price can be any amount between its undepreciated capital cost (UCC) and its FMV.

### Example for farmers

Wade wants to transfer these farm properties to Vicky, his 19-year-old daughter.

**Land**

| | |
|---|---|
| ACB | $ 85,000 |
| FMV at the time of transfer | $ 100,000 |

**Combine**

| | |
|---|---|
| FMV | $ 9,000 |
| UCC at the time of transfer | $ 7,840 |

Therefore, Wade can transfer the following:

- the land at any amount between $85,000 (ACB) and $100,000 (FMV)
- the combine at any amount between $7,840 (UCC) and $9,000 (FMV)

If Wade transfers the land at a price equal to its ACB and the combine at a price equal to its UCC, he postpones any taxable capital gain and any recapture of capital cost allowance (CCA). Also, if he does this, we consider that Wade's proceeds of disposition and the amounts Vicky paid to acquire the properties are $85,000 for the land and $7,840 for the combine. When Vicky disposes of the land and the combine, she includes in her income any taxable capital gain and recapture that Wade postpones.

**Example for fishers**

Wade wants to transfer these fishing properties to Vicky, his 19-year-old daughter.

**Fishing boat**

| | |
|---|---|
| ACB | $ 85,000 |
| FMV at the time of transfer | $ 100,000 |

**Fishing licence**

| | |
|---|---|
| FMV | $ 9,000 |
| UCC at the time of transfer | $ 7,840 |

Therefore, Wade can transfer the following:

- the fishing boat at any amount between $85,000 (ACB) and $100,000 (FMV)
- the fishing licence at any amount between $7,840 (UCC) and $9,000 (FMV)

If Wade transfers the fishing boat at a price equal to its ACB and the fishing licence at a price equal to its UCC, he postpones any taxable capital gain and any recapture of CCA. Also, if he does this, we consider that Wade's proceeds of disposition and the amounts Vicky paid to acquire the properties are $85,000 for the fishing boat and $7,840 for the fishing licence. When Vicky disposes of the fishing boat and the fishing licence, she will include in her income any taxable capital gain and recapture that Wade postpones.

## Transfer of farm or fishing property to a child if a parent dies in the year

We allow a tax-free transfer of a deceased taxpayer's Canadian farm or fishing property to a child if **all** of these conditions are met:

- the child was resident in Canada just before the parent's death
- the property was used mainly in a farming or fishing business on a regular and ongoing basis by the deceased, the deceased's spouse or common-law partner, or any of the children before the parent's death
- the property was transferred to the child no later than 36 months after the parent's death. In some cases, we may allow the transfer even if it took place later than 36 months after the parent's death

> **Note**
> The rules under "Transfer of farm or fishing property to a child" may also apply in this section if the deceased's legal representative doesn't elect to have paragraph 70(9.01)(b) of the Income Tax Act apply in respect of the property.

The following types of farm or fishing property qualify for this transfer:

- land and buildings, or other depreciable property used mainly in a farming or fishing business
- a share of the capital stock of a family-farm or family-fishing corporation, and an interest in a family-farm or family-fishing partnership

For most property, the transfer price can be any amount between the ACB and its FMV.

For depreciable property, the transfer price can be an amount between the property's FMV and a special amount. For more information, see Chapter 4, "Deemed disposition of property," in Guide T4011, Preparing Returns for Deceased Persons.

The deceased's legal representative can elect, under paragraph 70(9.01)(b), to choose the amount in the year of death. We consider the child to acquire these properties at the amount chosen.

Similar rules apply for property that a deceased person leased to the family-farm or family-fishing corporation or partnership.

If a child gets a farm or fishing property from a parent and the child later dies, the property can be transferred to the surviving parent based on the same rules.

Shares or other property of a family-farm or family-fishing holding corporation can also be transferred based on the same rules, from a spouse or common-law partner trust to a child of the settlor. The settlor is the person who sets up a trust, or the person who transfers property to a trust.

**Note for farmers**
For more information on these transfers, see Interpretation Bulletin IT-349, Intergenerational Transfers of Farm Property on Death.

## Transfer of farm or fishing property to a spouse or common-law partner

A farmer or fisher can transfer property to a spouse or common-law partner or to a spousal or common-law partner trust during the farmer's or fisher's lifetime. At the time of transfer, the farmer or fisher can postpone any taxable capital gain or recapture of CCA.

If the spouse or common-law partner later disposes of the property, the farmer or fisher, not the spouse or common-law partner, generally has to report any taxable capital gain. This rule applies where the farmer or fisher is living at the time the spouse or common-law partner sells the property. However, there are exceptions to this rule. For more information, see Interpretation Bulletin IT-511, Interspousal and Certain Other Transfers and Loans of Property.

A transfer of farm or fishing property can also occur after the farmer or fisher dies. For more information, see Chapter 4, "Deemed disposition of property," in Guide T4011.

**Note for farmers**
The rollover provisions available for farm properties also apply to land and depreciable property used mainly in a woodlot farming business. They will apply where the deceased, the deceased's spouse or common-law partner, or any of the deceased's children were engaged in the woodlot operation as required by a **prescribed forest management plan** in respect of the woodlot.

## Other special rules

You may also be able to postpone paying tax on capital gains in the following situations.

### Reserves

When you dispose of a capital property, you usually receive full payment at that time. However, sometimes you receive the amount over a number of years. Generally, a reserve allows you to defer reporting part of the capital gain to the year in which you receive the proceeds.

For example, you may sell a capital property for $50,000 and receive $10,000 at the time of the sale. You receive the remaining $40,000 over four years. In this situation, you can claim a reserve. However, there is a limit to the number of years you can do this.

For more information on reserves, see Guide T4037, Capital Gains, and Form T2017, Summary of Reserves on Dispositions of Capital Property.

### Exchanges or expropriations of property

There are special rules that apply when you dispose of a property and replace it with a similar one, or when someone expropriates your property. For more information, see Income Tax Folio S3-F3-C1, Replacement Property.

## Information reporting related to reportable transactions and notifiable transactions

If you are a taxpayer, advisor or promoter who engages in or who is entitled to certain fees in relation to certain tax avoidance transactions, you are subject to new reporting requirements.

### Reportable transactions

Effective for transactions entered into after June 21, 2023, a transaction is reportable if it is an avoidance transaction as defined in subsection 237.3(1), previously 245(3), of the Income Tax Act and has at least one (previously two) of the following three characteristics:

- the advisor or promoter has or had an entitlement to contingent fee arrangements

- the advisor or promoter has or had confidential protection with respect to the transaction
- the taxpayer, advisor or promoter (including any non-arm's length parties) has or had contractual protection for the transaction (other than as a result of certain types of fees or, for transactions entered into after 2022, because it concerns contractual protection offered in the context of normal commercial transactions to a wide market)

To learn more about these hallmarks, go to **canada.ca/mandatory-disclosure-rules**.

**Note**
The definition of **tax benefit** under subsection 245(1) was amended to include tax attributes that have not yet become relevant to the calculation of tax. This is important in determining whether there is an avoidance transaction for the purposes of the reportable transaction rules.

A reportable transaction does not include a transaction that is, or is part of, a series of transactions that includes the acquisition of a tax shelter or issuance of a flow-through share for which an information return has been filed with the minister of national revenue under subsections 237.1(7) or 66(12.68), respectively. This is the case unless it is reasonable to conclude that one of the main reasons for the acquisition of a tax shelter, or the issuance of a flow through-share, was to avoid the reportable transactions provisions under section 237.3.

## Notifiable transactions

You are now required to report **notifiable transactions**. The minister of national revenue has the authority to designate, with the agreement of the minister of finance, a transaction or a series of transactions as a notifiable transaction. Reporting requirements (and exceptions to the rule) similar to those for reportable transactions entered into after June 21, 2023, apply with the inclusion of a prescribed form. A notifiable transaction is a transaction that is the same as, or substantially similar to, a designated transaction, or a transaction in a series of transactions that is the same as, or substantially similar to, a designated series of transactions. This applies to notifiable transactions entered into after June 21, 2023.

For a list of notifiable transactions designated by the minister of national revenue, go to **canada.ca/notifiable-transactions**. You can subscribe to CRA's electronic mailing list at **canada.ca/cra-email-lists** to receive an email when the minister designates new notifiable transactions.

## Filing requirements

For reportable transactions and notifiable transactions entered into after June 21, 2023, you must file Form RC312, Reportable Transaction and Notifiable Transaction Information Return. You must send it to us within 90 days of the earlier of the day the business or a person transacting for it:

- becomes contractually obligated to enter into the reportable or notifiable transaction
- enters into the reportable or notifiable transaction

An extended reassessment period may apply under paragraph 152(4)(b.5) and (b.6) of the Income Tax Act.

For reportable transactions entered into before June 22, 2023, you must file a previous version of Form RC312 by June 30 of the calendar year following the calendar year in which the transaction first becomes a reportable transaction.

File this return separately from your tax return. Before you file it, make a copy for your records. Send the original return, amended return or any additional information to:

Winnipeg Tax Centre
Data Assessment and Evaluation Programs
Validation and Verification Section
Foreign Reporting Returns
66 Stapon Road
Winnipeg MB  R3C 3M2

## Penalties

Failure to report could result in suspension of the tax benefit and a penalty.

For transactions entered into after June 21, 2023, penalties will apply for each failure to report a reportable transaction or a notifiable transaction:

- to persons who enter into such transactions or for whom a tax benefit results from such transactions
- to advisors and promoters of such transactions and persons who do not deal at arm's length with them and who are entitled to a fee for the transactions

# Capital cost allowance (CCA) rates

Below you will find the more common depreciable properties that a business may use. The CCA rates appear at the end of the list. **For more information on Classes 13, 14, 34 and 43.1, and Part XVII of the** Income Tax Act**, call us at 1-800-959-5525**.

| Depreciable property | Class No. |
|---|---|
| Aircraft – Acquired before May 26, 1976 | 16 |
| Aircraft – Acquired after May 25, 1976 | 9 |
| Bee equipment | 8 |
| Boats and component parts | 7 |
| Breakwaters | |
| Cement or stone | 3 |
| Wood | 6 |
| Brooders | 8 |
| Buildings and component parts | |
| Wood, galvanized or portable | 6 |
| Other: | |
| Acquired after 1978 and before 1988* | 3 |
| Acquired after 1987 | 1 |
| Fruit and vegetable storage (after Feb. 19, 1973) | 8 |
| Casing, cribwork for water wells | 8 |
| Chain-saws | 10 |
| Cleaners – grain or seed | 8 |
| Combines | |
| Drawn | 8 |
| Self-propelled | 10 |
| Computer equipment and systems software | |
| Acquired before March 23, 2004 | 10 |
| Acquired after March 22, 2004 | 45 |
| Acquired after March 18, 2007 | 50 |
| Acquired after January 27, 2009 and before February 2011 | 52 |
| Computer software (other than systems software) | 8 |
| Coolers – Milk | 8 |
| Cream separators | 8 |
| Cultivators | 8 |
| Dams | |
| Cement, stone, wood or earth | 1 |
| Data network infrastructure equipment – Acquired after March 22, 2004 | 46 |
| Diggers – All types | 8 |
| Discs | 8 |
| Docks | 3 |
| Drills – All types | 8 |
| Dugouts, dikes and lagoons | 6 |
| Electric-generating equipment – portable | 8 |
| Electric motors | 8 |
| Elevators | 8 |
| Engines – Stationary | 8 |
| Fences – All types | 6 |
| Forage harvesters | |
| Drawn | 8 |
| Self-propelled | 10 |
| Graders – Fruit or vegetable | 8 |
| Grain-drying equipment | 8 |
| Grain loaders | 8 |
| Grain separators | 8 |
| Grain-storage building | |
| Wood, galvanized steel | 6 |
| Other | 1 |
| Greenhouses (all except as noted below) | 6 |

| Depreciable property | Class No. |
|---|---|
| Greenhouses of rigid frames covered with replaceable flexible plastic | 8 |
| Grinder | 8 |
| Harness | 10 |
| Harrows | 8 |
| Hay balers and stookers | |
| Drawn | 8 |
| Self-propelled | 10 |
| Hay loaders | 8 |
| Ice machines | 8 |
| Incubators | 8 |
| Irrigation equipment – Overhead | 8 |
| Irrigation ponds | 6 |
| Leasehold interest | 13 |
| Manure spreaders | 8 |
| Milking machines | 8 |
| Mixers | 8 |
| Mowers | 8 |
| Nets | 8 |
| Office equipment including photocopiers, fax machines | 8 |
| Outboard motors | 10 |
| Passenger vehicles (see Chapter 4) | 10 or 10.1 |
| Piping – Permanent | 2 |
| Planters – All types | 8 |
| Plows | 8 |
| Power block – Purse seine | 7 |
| Pumps | 8 |
| Radar or radio equipment | |
| Acquired before May 26, 1976 | 9 |
| Acquired after May 25, 1976 | 8 |
| Rakes | 8 |
| Roads or other surface areas – Paved or concrete | 17 |
| Silo fillers | 8 |
| Silos | 8 |
| Sleighs | 10 |
| Sprayers | 8 |
| Stable cleaners | 8 |
| Stalk cutters | 8 |
| Swathers | |
| Drawn | 8 |
| Self-propelled | 10 |
| Threshers | 8 |
| Tile or concrete drainage system – Acquired before 1965 | 13 |
| Tillers – All types | 8 |
| Tools | |
| Less than $500 | 12 |
| $500 and more | 8 |
| Tractors | 10 |
| Trailers | 10 |
| Traps | 8 |
| Trucks | 10 |
| Trucks (freight) | 16 |

| Depreciable property | Class No. |
|---|---|
| Wagons | 10 |
| Water towers | 6 |
| Weeders | 8 |
| Weirs | 3 |
| Weirs – Fish | 8 |
| Welding equipment | 8 |
| Well equipment | 8 |
| Wharves | |
| Cement, steel or stone | 3 |
| Wood | 6 |
| Wind chargers | 8 |
| Wind-energy conversion equipment | |
| Acquired before February 22, 1994 | 34 |
| Acquired after February 21, 1994 | 43.1 |
| (Note: Class 43.1 can be used other than for wind energy.) | |
| Zero-emission automotive equipment or vehicles (other than motor vehicles) | 56 |
| Zero-emission vehicles that would otherwise be in Class 10 or 10.1 | 54 |
| Zero-emission vehicles that would otherwise be in Class 16 | 55 |

* You may add to or alter a Class 3 building after 1987. In this case, there is a limit on the amount you can include in Class 3. The most you can include in Class 3 is the lesser of $500,000 or 25% of the building's cost on December 31, 1987. In Class 1, include any costs you incur that are over this limit.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Class 1 | 4% | Class 8 | 20% | Class 13** | | Class 50 | 55% |
| Class 2 | 6% | Class 9 | 25% | Class 16 | 40% | Class 52 | 100% |
| Class 3 | 5% | Class 10 | 30% | Class 17 | 8% | Class 54 | 30% |
| Class 6 | 10% | Class 10.1 | 30% | Class 45 | 45% | Class 55 | 40% |
| Class 7 | 15% | Class 12 | 100% | Class 46 | 30% | Class 56 | 30% |

** You can claim CCA on leasehold interest, but the maximum rate depends on the type of leasehold interest and the terms of the lease.

# How to calculate the mandatory inventory adjustment (MIA)

For instructions on how to fill in the following charts, see page 59 of Chapter 3.

### Chart 1
### Cash cost of purchased inventory

Enter the amount you paid by the end of the 2023 fiscal period for the specified animals you bought:

| Fiscal period | Cash cost | |
|---|---|---|
| ■ in your 2023 fiscal period | $ ________ | 1 |
| ■ in your 2022 fiscal period | $ ________ | 2 |
| ■ in your 2021 fiscal period | $ ________ | 3 |
| ■ in your 2020 fiscal period | $ ________ | 4 |
| ■ before your 2020 fiscal period | $ ________ | 5 |

Enter the amount you paid by the end of your 2023 fiscal period for all other inventory you bought:

| | | |
|---|---|---|
| ■ in your 2023 fiscal period | $ ________ | 6 |
| ■ in your 2022 fiscal period | $ ________ | 7 |
| ■ in your 2021 fiscal period | $ ________ | 8 |
| ■ in your 2020 fiscal period | $ ________ | 9 |
| ■ before your 2020 fiscal period | $ ________ | 10 |

### Chart 2
### Value of purchased inventory for specified animals

**Inventory bought in your 2023 fiscal period**
Enter an amount that is not more than the amount from line 1, but not less than 70% of this amount. $________ **11**

**Inventory bought in your 2022 fiscal period**
Enter an amount that is not more than the amount from line 2, but not less than 70% of the total of the value at the end of your 2022 fiscal period **plus** any amounts you paid in your 2023 fiscal period toward the purchase price. $________ **12**

**Inventory bought in your 2021 fiscal period**
Enter an amount that is not more than the amount from line 3, but not less than 70% of the total of the value at the end of your 2022 fiscal period **plus** any amounts you paid in your 2023 fiscal period toward the purchase price. $________ **13**

**Inventory bought in your 2020 fiscal period**
Enter an amount that is not more than the amount from line 4, but not less than 70% of the total of the value at the end of your 2022 fiscal period **plus** any amounts you paid in your 2023 fiscal period toward the purchase price. $________ **14**

**Inventory bought before your 2020 fiscal period**
Enter an amount that is not more than the amount from line 5, but not less than 70% of the total of the value at the end of your 2022 fiscal period **plus** any amounts you paid in your 2023 fiscal period toward the purchase price. $________ **15**

### Chart 3
### Value of purchased inventory for all other inventory

**Inventory bought in your 2023 fiscal period**
Enter the amount from line 6 or the fair market value, whichever is less. $________ **16**

**Inventory bought in your 2022 fiscal period**
Enter the amount from line 7 or the fair market value, whichever is less. $________ **17**

**Inventory bought in your 2021 fiscal period**
Enter the amount from line 8 or the fair market value, whichever is less. $________ **18**

**Inventory bought in your 2020 fiscal period**
Enter the amount from line 9 or the fair market value, whichever is less. $________ **19**

**Inventory bought before your 2020 fiscal period**
Enter the amount from line 10 or the fair market value, whichever is less. $________ **20**

### Chart 4
### Calculation of MIA

Enter the amount of your net loss from line 9899 of Form T2042. $________ **21**

Enter the value of your inventory from Chart 2 and Chart 3:

| | | | |
|---|---|---|---|
| ■ the amount from line 11 | $________ | | |
| ■ the amount from line 12 | $________ | | |
| ■ the amount from line 13 | $________ | | |
| ■ the amount from line 14 | $________ | | |
| ■ the amount from line 15 | $________ | | |
| ■ the amount from line 16 | $________ | | |
| ■ the amount from line 17 | $________ | | |
| ■ the amount from line 18 | $________ | | |
| ■ the amount from line 19 | $________ | | |
| ■ the amount from line 20 | $________ | | |
| **Total value of inventory** | $________ | $________ | **22** |

MIA – Enter the amount from line 21 or line 22, whichever is less. $________ **23**

Supplies of farm goods and services **subject to** GST (5%) or HST (13% or 15%) include:

- crop dusting
- contract work, including field clearing, tilling and harvesting done by one farmer on behalf of another
- road-clearing services
- stud or artificial insemination services
- storing goods (for example, storing grain in a grain elevator)
- beeswax
- maple sugar candy
- canary seed, lawn seed and flower seed
- bedding plants, sod, cut flowers, living trees and firewood
- furs, animal hides and dead animals not suitable for human consumption
- fertilizer sold in containers of any size or in bulk when the total quantity is less than 500 kilograms, or any quantities of soil or soil mixture whether or not they contain fertilizer
- gravel, stones, rock, soil and soil additives
- livestock or poultry not normally raised as food or to produce food for human consumption (for example, horses, mules and mink)
- feathers, down and processed wool

Supplies of fishing goods and services **subject to** GST (5%) or HST (13% or 15%) include:

- fish or other marine or freshwater animals sold as bait for recreational fishing
- fish or other marine or freshwater animals not ordinarily used as food for human consumption
- traps, pots and cages
- fish boxes
- navigation equipment
- repair and maintenance materials
- stationary engines and outboard motors

Other supplies are taxable at 0%. We refer to these as **zero-rated supplies**. You do not pay GST/HST when you make these purchases and you do not charge GST/HST when you supply them to your customers. For zero-rated farm supplies, see this page. For zero-rated fishing supplies, see page 106.

Common zero-rated supplies of farm products are:

- fruits and vegetables
- grains or seeds in their natural state, treated for seeding purposes or irradiated for storage purposes, and hay or silage, or other fodder crops, when they are sold in quantities larger than ordinarily offered for sale to consumers, except grains and seeds packaged, prepared and sold to use as feed for wild birds or pet food
- feed sold by a feedlot operator, as long as the price is separately identified on the invoice or written agreement
- hops, barley, flaxseed, straw, sugar cane or sugar beets
- livestock such as cattle, hogs, poultry, bees or sheep that are raised or kept to produce food, or to be used as food, for human consumption, or to produce wool
- poultry or fish eggs that are produced for hatching
- rabbits, except those supplied by a person in the course of a business in the course of which the person regularly supplies animals as pets to consumers
- fertilizer sold in bulk or in a container of at least 25 kg where the total quantity of fertilizer supplied at the time is at least 500 kg

- wool that is not further processed than washed
- tobacco leaves that are not further processed than dried and sorted

Examples of **zero-rated** farm purchases are:

- tractors designed for farm use that have a rating of at least 44.74 kW at power takeoff (60 PTO horsepower)
- pull and self-propelled combines, swathers and wind-rowers
- headers for combines, forage harvesters, swathers or wind-rowers
- combine or forage harvester pickups
- forage harvesters, and self-propelled, tractor-mounted or pull-type mechanical fruit or vegetable pickers or harvesters
- mouldboard and disc plows (3 or more furrows), and chisel plows and subsoil chisels (at least 8 feet or 2.44 metres wide)
- discers, rod weeders or bean rods (at least 8 feet or 2.44 metres wide)
- field and row crop cultivators (at least 8 feet or 2.44 metres wide)
- combination discer-cultivators (at least 8 feet or 2.44 metres wide)
- rototillers and rotovators (at least 6 feet or 1.83 metres wide)
- harrows sold in complete units and pulverizers (at least 8 feet or 2.44 metres wide)
- land packers, mulchers and rotary hoes (at least 8 feet or 2.44 metres wide)
- airflow seeders, grain and seed drills (at least 8 feet or 2.44 metres wide), and farm-type row-crop or toolbar seeders or planters designed to seed two or more rows at a time
- mower-conditioners, hay balers, hay cubers, hay rakes, hay conditioners, hay crushers, hay crimpers, hay tedders, swath turners and wind-row turners
- bale throwers, elevators, or conveyors, silage baggers, and round bale wrapping machines
- grain bins or tanks with a capacity of 181 cubic metres or less (5,000 bushels)
- transportable conveyors with belts less than 76.2 cm (30 inches) wide and 0.48 cm (3/16 inch) thick, transportable farm grain augers, transportable utility augers and transportable elevators
- bin sweep or cleaner attachments for portable grain augers
- tractor-powered pneumatic grain conveyors
- feed mills, including roller mills and hammer mills
- feed mixers, feed grinder mixers, tub grinders and other farm-type feed grinders
- ensilage mixers and self-propelled feed or ensilage carts
- grain toasters to use in livestock feed production
- grain dryers
- farm-type refrigerated bulk milk coolers
- assembled and fully operational milking systems or individual components of milking systems that are supplied together, unassembled and then assembled into a fully operational milking system
- automated and computerized farm livestock or poultry feeding systems, or individual components of these systems when they are supplied together, unassembled and then assembled into a fully operational feeding system
- self-propelled, tractor-mounted, or pull-type agricultural wagons or trailers designed for off-road handling and transporting of grain, forage, livestock feed or fertilizer, and for use at speeds not exceeding 40 km per hour
- mechanical rock or stone pickers, rock or root rakes, and rock or root wind-rowers, forage blowers, silo unloaders and shredders with an operational width of at least 3.66 m or 12 feet
- tractor-mounted, self-propelled or pull-type field sprayers with tank capacities of at least 300 litres or 66 gallons
- granular fertilizer or pesticide applicators with operational capacity of at least 0.2265 cubic metres or 8 cubic feet
- liquid box, tank or flail manure spreaders, and injection systems for liquid manure spreaders
- leaf-cutter bees

- complete feeds, supplements, micro-premixes, macro-premixes or mineral feeds other than trace mineral salt feeds, as defined and labelled in accordance with the Feeds Regulations, 1983 and designed for rabbits or a specific type of farm livestock, fish or poultry ordinarily raised or kept for human consumption or to produce wool, when sold in bulk quantities of at least 20 kg (44 lbs.) or in bags that contain at least 20 kg (44 lbs.)
- feed sold in bulk quantities of at least 20 kg (44 lbs.) or bags that contain at least 20 kg (44 lbs.) that is designed for ostriches, rheas, emus or bees
- farm refrigerated bulk milk coolers
- food processing by-products and plant and animal products sold in bulk quantities of at least 20 kg (44 lbs.) or bags that contain at least 20 kg (44 lbs.) used as feed or as ingredients in feed for farm livestock, fish or poultry that is ordinarily raised or kept for human consumption or to produce wool, or for rabbits, ostriches, rheas, emus or bees
- pesticides having a purpose that includes agricultural use and having a product class of other than domestic labelled in accordance with the Pest Control Products Regulations
- sales of quotas authorized by a government agency or marketing board for zero-rated products for human consumption (including dairy, turkey, chicken, eggs), certain agricultural products (including farm livestock, zero-rated grains or seeds, hops, barley, flaxseed, straw, sugar cane or sugar beets) and tobacco leaves
- farmland rented to a registrant under a sharecropping arrangement to the extent that consideration for the supply is a share of the production that is zero-rated is part of the price (any other extra payments are taxable)

Examples of **zero-rated** supplies of fishing products and equipment are:

- most fish feed and other specified products when sold in quantities of at least 20 kg. For more information, see GST/HST Memorandum 4.4, Agriculture and Fishing
- fish or other marine or freshwater animals, such as oysters, clams and mussels, not further processed than frozen, salted, smoked, dried, scaled, eviscerated or filleted, provided they are ordinarily used as food for human consumption, and not used as bait for recreational fishing
- fish eggs that are produced for hatching purposes
- fishing vessels you buy either inside or outside Canada to use in commercial fishing, if you provide all the following documents to the vendor or the customs office:
  - your GST/HST account number
  - a declaration signed by you stating you intend to use the vessel in commercial fishing
  - your valid commercial limited-entry fishing licence number issued by Fisheries and Oceans Canada or a provincial or territorial government (licensing requirements may vary from region to region)
- the following nets and related equipment:
  - gill-nets, seines and trawl-nets
  - webbing, leadlines, corkline (top rope) for gill-nets, seines and trawl-nets
  - floats for gill-nets and seines
  - drums for gill-nets, seines, trawl-nets and long-lines
  - entrapment and predator webbing
  - trawl-net doors
- the following equipment and products:
  - automatic baiters, jiggers and net-pen feeders
  - manufactured netpens for use in aquaculture
  - mechanical net washers and pescalators

# Digital services

The CRA's digital services are fast, easy and secure!

## My Account

My Account lets you view and manage your personal income tax and benefit information online.

Use My Account throughout the year to:

- view your benefit and credit information and apply for certain benefits
- view your notice of assessment or reassessment
- view uncashed cheques and request a replacement payment
- change your address, phone numbers, direct deposit information, marital status and information about children in your care
- manage notification preferences and receive email notifications when important changes are made to your account
- check your tax-free savings account (TFSA) contribution room, your registered retirement savings plan (RRSP) deduction limit and your first home savings account (FHSA) participation room
- track the progress of certain files and enquiries you have submitted to the CRA
- make a payment online to the CRA with the My Payment service, create a pre-authorized debit (PAD) agreement or create a QR code to pay in person at Canada Post for a fee (for more information on how to make a payment, go to **canada.ca/payments**)
- view and print your proof of income statement
- manage authorized representatives and authorization requests
- submit documents to the CRA
- submit an audit enquiry
- manage Multi-factor authentication settings

To sign in to or register for the CRA's digital services, go to:

- My Account, at **canada.ca/my-cra-account**, if you are an individual
- Represent a Client, at **canada.ca/taxes-representatives**, if you are an authorized representative

## Receive your CRA mail online – Individuals

Set your correspondence preference to "Electronic mail" to receive email notifications when CRA mail, like your notice of assessment, is available in your account.

For more information, go to **canada.ca/cra-email-notifications**.

## Handle your business taxes online

My Business Account lets you view and manage your business taxes online.

Use My Business Account throughout the year to:

- make a payment online to the CRA with the My Payment service, create a pre-authorized debit (PAD) agreement or create a QR code to pay in person at Canada Post for a fee (for more information on how to make a payment, go to **canada.ca/payments**)
- file a return, view the status of filed returns and adjust returns online
- submit documents to the CRA
- manage authorized representatives and authorization requests
- register to receive email notifications and to view mail from the CRA in My Business Account
- manage addresses, direct deposit information, program account names, operating names, phone numbers and business numbers in your profile
- view and pay account balances

- calculate and make instalment payments
- calculate a future balance
- transfer payments and immediately view the updated balance
- make an online request about your account and view answers to common enquiries
- track the progress of certain files you have submitted to the CRA
- submit an audit enquiry
- download reports
- request relief of penalties and interest
- manage Multi-factor authentication settings

To sign in to or register for the CRA's digital services, go to:

- My Business Account, at **canada.ca/my-cra-business-account**, if you are a business owner
- Represent a Client, at **canada.ca/taxes-representatives**, if you are an authorized representative

For more information, go to **canada.ca/taxes-business-online**.

### Receive your CRA mail online – Businesses

Register for email notifications to find out when CRA mail, like your notice of assessment, is available in My Business Account.

For more information, go to **canada.ca/cra-business-email-notifications**.

### Create a pre-authorized debit agreement for payments from your Canadian chequing account

A pre-authorized debit (PAD) is a secure online self-service payment option for individuals and businesses to pay their taxes. A PAD lets you authorize withdrawals from your Canadian chequing account to pay the CRA. You can set the payment dates and amounts of your PAD agreement using the CRA's secure My Business Account service at **canada.ca/my-cra-business-account**. PADs are flexible and managed by you. You can use My Business Account to view your account history and modify, cancel or skip a payment. For more information, go to **canada.ca/pay-authorized-debit**.

## Electronic payments

Make your payment using:

- your Canadian bank or credit union's online banking, mobile app or telephone service
- the CRA's My Payment service at **canada.ca/cra-my-payment** with your activated debit card from a participating Canadian bank or credit union with one or more of the following logos: Visa® Debit, Debit MasterCard® or Interac® Online (does **not** include credit cards)
- pre-authorized debit (PAD) at **canada.ca/my-cra-business-account** which lets you:
  - set up payments to the CRA from a Canadian chequing account on pre-set dates starting in five or more business days
  - pay an amount due, repay overpaid amounts or make instalment payments
  - view your account history and modify, cancel or skip a payment (for more information on PAD, go to **canada.ca/pay-authorized-debit**)
- the "Proceed to pay" button on the "View and pay account balance" page and other pages within My Business Account
- your credit card, Interac e-transfer or PayPal through one of the third-party service providers **for a fee**

For more information, go to **canada.ca/payments**.

# For more information

## If you need help

If you need more information after reading this guide, go to **canada.ca/taxes** or call **1-800-959-5525**.

## Direct deposit

Direct deposit is a fast, convenient and secure way to receive your CRA payments directly in your account at a financial institution in Canada. For more information and ways to enrol, go to **canada.ca/cra-direct-deposit** or contact your financial institution. You can view your direct deposit information and online transactions at **canada.ca/my-cra-business-account**.

## Forms and publications

The CRA encourages you to file your return electronically. If you need a paper version of the CRA's forms and publications, go to **canada.ca/cra-forms-publications** or call **1-800-959-5525**.

## Electronic mailing lists

The CRA can send you an email when new information on a subject of interest to you is available on the website. To subscribe to the electronic mailing lists, go to **canada.ca/cra-email-lists**.

## Tax Information Phone Service (TIPS)

For tax information by telephone, use the CRA's automated service, TIPS, by calling **1-800-267-6999**.

## Teletypewriter (TTY) users

If you use a TTY for a hearing or speech impairment, call **1-800-665-0354**.

If you use an **operator-assisted relay service**, call the CRA's regular telephone numbers instead of the TTY number.

## Formal disputes (objections and appeals)

You have the right to file an objection or an appeal for the Canada Pension Plan or Employment Insurance if you disagree with an assessment, determination or decision.

For more information about objections and related deadlines, go to **canada.ca/cra-file-objection.**

## CRA service feedback program

### Service complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the CRA. For more information about the Taxpayer Bill of Rights, go to **canada.ca/taxpayer-rights**.

You may provide compliments or suggestions, and if you are not satisfied with the service you received:

1. Try to resolve the matter with the employee you have been dealing with or call the telephone number provided in the correspondence you received from the CRA. If you do not have contact information for the CRA, go to **canada.ca/cra-contact**
2. If you have not been able to resolve your service-related issue, you can ask to discuss the matter with the employee's supervisor
3. If the problem is still not resolved, you can file a service-related complaint by filling out Form RC193, Service Feedback. For more information and to learn how to file a complaint, go to **canada.ca/cra-service-feedback**

If you are not satisfied with how the CRA has handled your service-related complaint, you can submit a complaint to the Office of the Taxpayers' Ombudsperson.

### Reprisal complaints

If you have received a response regarding a previously submitted service complaint or a formal review of a CRA decision and feel you were not treated impartially by a CRA employee, you can submit a reprisal complaint by filling out Form RC459, Reprisal Complaint.

For more information, go to **canada.ca/cra-reprisal-complaints**.

## Due dates

When a due date falls on a Saturday, Sunday or public holiday recognized by the CRA, your return is considered on time if the CRA receives it or if it is postmarked on or before the next business day.

For more information, go to **canada.ca/taxes-dates-individuals**.

## Cancel or waive penalties and interest

The CRA administers legislation, commonly called the taxpayer relief provisions, that gives the CRA discretion to cancel or waive penalties and interest when taxpayers cannot meet their tax obligations due to circumstances beyond their control.

The CRA's discretion to grant relief is limited to any period that ended within 10 calendar years before the year in which a relief request is made.

For penalties, the CRA will consider your request only if it relates to a tax year or fiscal period ending in any of the 10 calendar years before the year in which you make your request. For example, your request made in 2023 must relate to a penalty for a tax year or fiscal period ending in 2013 or later.

For interest on a balance owing for any tax year or fiscal period, the CRA will consider only the amounts that accrued during the 10 calendar years before the year in which you make your request. For example, your request made in 2023 must relate to interest that accrued in 2013 or later.

Taxpayer relief requests can be made online using the CRA's My Account, My Business Account (MyBA) or Represent a Client digital services:

- My Account: After signing in, select "Accounts and payments," then "Request relief of penalties and interest."
- MyBA or Represent a Client: After signing in, on the overview page, select the appropriate program from the left menu and then select the account. Finally, select "Request relief of penalties and interest" from the right menu.

You can also fill out Form RC4288, Request for Taxpayer Relief – Cancel or Waive Penalties and Interest, and send it in one of the following ways:

- online using My Account: select "Submit documents" from the left menu; then select "Submit documents" again at the bottom of the next page; and then follow the instructions
- online using MyBA or Represent a Client: for a new case, select "Submit documents" from the left menu; then select "No case or reference number?"; and finally, select "Request taxpayer relief – cancel or waive penalties and interest (Form RC4288)"
- by mail to the designated office, as shown on the last page of the form, based on your place of residence

For information on the "Submit documents online" service, go to **canada.ca/cra-submit-documents-online**.

For more details on the required supporting documents, relief from penalties and interest and other related forms and publications, go to **canada.ca/penalty-interest-relief**.