

## *Corporations Tax Act - Regulation Amendments*

6012

### About this Notice

This notice provides information on the amendments to the regulations to the *Corporations Tax Act* (CTA) filed March 6, 2006. These amendments bring into force announcements made in the 2004 and 2005 Budgets.

### Ontario Interactive Digital Media Tax Credit (OIDMTC)

The OIDMTC is a 20 per cent refundable tax credit available to eligible corporations for qualifying expenditures incurred to create and market original interactive digital media products in Ontario.

The 2005 Budget announced enhancements to the OIDMTC. These enhancements removed the requirement that qualifying corporations own at least 90 per cent of the copyright in an eligible product. They also clarified the exclusion from the tax credit of products developed under fee-for-service arrangements.

The amendments to Section 906 of Regulation 183 implement these changes by:

- (a) Removing the stipulation in the existing regulation that the product be developed for commercial exploitation by the qualifying corporation (deals with copyright issue).
- (b) Stating that the product must be developed for sale or licensing to one or more arm's length parties who have not previously entered into an arrangement with the qualifying corporation for the development of the product. This effectively excludes fee-for-service arrangements.

These changes apply to products completed after May 11, 2005.

### Ontario Sound Recording Tax Credit (OSRTC)

The OSRTC is a 20 per cent refundable tax credit available to eligible Ontario sound recording companies for qualifying expenditures in respect of an eligible Canadian sound recording by an emerging Canadian artist or group.

The amendments to Section 905 of Regulation 183 bring into force the enhancements proposed in the 2005 Budget:

- (a) The minimum period of time required by an eligible company to carry on a sound recording business is reduced from 24 to 12 months.
- (b) The minimum required playing time for an eligible recording is reduced from 40 to 15 minutes.

### Ontario Sound Recording Tax Credit (OSRTC) (continued)

- (c) The requirement that a sound recording company market an eligible recording through an “established national distributor” is replaced with a more flexible requirement that the company have a “distribution plan approved by a person designated by the Minister of Culture.”

The definition of sound recording has been expanded to include a recording made on any other fixed medium (e.g., MP3 files).

These changes are effective for taxation years ending after May 11, 2005 or for master recordings made after May 11, 2005.

### Co-operative Education Tax Credit (CETC)

The CETC provides employers with a 10 per cent refundable tax credit (15 per cent for small businesses) on the salaries and wages paid to students or apprentices in qualifying work placements.

Regulation 329/97 is replaced and the amendments implement changes to the CETC that were announced in the 2004 Budget. New regulation 61/06 provides for the phase-out of the leading-edge technology component of the tax credit. The phase-out is consequential to the introduction of the Apprenticeship Training Tax Credit, which was also announced in the 2004 Budget.

As described in the 2004 Budget, the CETC for leading-edge technology work placements is phased-out as follows:

- (a) For apprentices who were in the first 36 months of an apprenticeship on May 18, 2004, salaries and wages paid before May 19, 2004 would qualify for the CETC and salaries and wages paid after May 18, 2004 would qualify for the Apprenticeship Training Tax Credit; and
- (b) For other apprentices past the 36-month period and for non-apprentices, no expenses after December 31, 2004 would qualify for the CETC.

### Resource Allowance Regulation

The Ontario resource allowance, in general terms, provides corporations with a deduction in computing income under the CTA at a rate of 25 per cent of net resource profits.

The amendments to the resource allowance regulations contained in Part 1 of Regulation 183 provide for:

- (a) Implementation of the 2004 Budget announcement to maintain the Ontario resource allowance and the provincial Crown royalties and mining tax deduction. The corresponding federal measures are being phased-out. The CTA was amended through the *Budget Measures Act 2004* to maintain the Ontario measures and certain regulatory provisions are required.
- (b) Implementation of the 2005 Budget announcement that the resource allowance is to be calculated on the basis of income determined for Ontario tax purposes rather than for federal tax purposes. This change ensures that special incentive deductions claimed by a corporation in computing income for Ontario tax purposes also reduce the base for calculating the Ontario resource allowance.

Resource  
Allowance  
Regulation  
(continued)

- (c) Changes to partnership rules that are consequential to amendments that were made to the CTA. A corporation may claim the resource allowance with respect to profits earned through a partnership where the partnership does not deduct Crown royalties and mining taxes in computing its income.
- (d) Technical changes to ensure that oil and gas companies can claim depletion deductions from earned depletion pools generated before 1990.
- (e) Amendments to improve the clarity of the regulation and to reflect changes to the federal *Income Tax Act* and corresponding regulations.

For More  
Information

Please contact the Ministry Information Centre between 8:15 a.m. and 5 p.m.

- English language enquiries 1-800-263-7965 (Canada & U.S.)
- French language enquiries 1-800-668-5821 (Canada & U.S.)
- TTY (Teletypewriter) 1-800-263-7776

Website at [www.trd.fin.gov.on.ca](http://www.trd.fin.gov.on.ca)