

Corporations Tax Act Regulation for Corporate Minimum Tax

6023

About this Notice

The purpose of this notice is to inform corporations about Regulation 509/07 of the *Corporations Tax Act* (CTA) which was filed August 27, 2007. The regulation impacts the calculation of Corporate Minimum Tax (CMT).

Background

As announced in the 2007 Ontario Budget, the regulation amends the CMT rules to remove the impact of reporting certain unrealized gains and losses for accounting purposes. The Budget provided that these measures would be effective for taxation years ending after March 22, 2007. However, the regulation will also apply to taxation years beginning after June 30, 2004 and ending before March 23, 2007, where the corporation files an election within 180 days of the filing date of the regulation.

Unrealized Gains and Losses Excluded from CMT Income

Mark-To-Market Changes in Asset Values

Changes to Canadian accounting standards require corporations to report certain assets at fair market value rather than historical cost. These standards require any gain or loss accruing on an asset held at the end of a fiscal period to be recognized in net income for that period.

The regulation amends the CMT rules to remove the impact of these gains and losses. Income for CMT purposes will be calculated without reference to unrealized gains and losses that are not required to be included in computing income for income tax purposes.

The CMT rules do not apply to:

- assets that are “permanently impaired” and are subject to a one-time write-down, or
- unrealized mark-to-market gains and losses of a “financial institution” (for purposes of Part II of the CTA) which are included in income for income tax purposes.

Unrealized Foreign Currency Gains and Losses

Accounting rules also require assets denominated in a foreign currency to be adjusted to reflect the exchange rate in effect at the balance sheet date. In certain circumstances the change in value is also reported as a foreign currency gain or loss and is included in computing income for the period.

The CMT rules are amended to exclude unrealized foreign exchange gains and losses which are related to assets and which are not required to be included in income for income tax purposes for the taxation year.

Election for Earlier Years

A corporation may make an election in writing to the minister within 180 days of the filing date of the regulation to have the above measures apply. Where a corporation makes an election, it will apply to all of the corporation's taxation years beginning after June 30, 2004 and ending before March 23, 2007. The corporation cannot make an election to have the rules apply only to a specific taxation year(s) during this period.

Adjustment to Total Assets for CMT

The 2007 Ontario Budget proposed similar adjustments in calculating a corporation's total assets to determine whether the corporation qualifies for the CMT exemption for small corporations. Such adjustments cannot be implemented by regulation and will require an amendment to the CTA.

For More Information

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