

Tax and Revenue Administration (TRA)

Alberta Corporate Tax Act

Interpretation Bulletin CTIB-3R2

Allocating Income to Permanent Establishments

Last updated: September 15, 2022

NOTE: This interpretation bulletin is intended to explain legislation and provide specific information. Every effort has been made to ensure the contents are accurate. However, if a discrepancy should occur in interpretation between this bulletin and governing legislation, the legislation takes precedence.

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General Allocation Rules

1. In accordance with the *Alberta Corporate Tax Act* (the Act), a corporation that has a permanent establishment in Alberta at any time in a taxation year is required to pay income tax on the amount taxable in Alberta for that taxation year. For additional information on the definition of 'permanent establishment' refer to [Interpretation Bulletin CTIB-1, Taxability of a Corporation in Alberta on the Basis of Permanent Establishment](#).
2. In general, if a corporation has a permanent establishment only in Alberta, all of its taxable income should be allocated to Alberta. If a corporation does not have a permanent establishment in Alberta, none of its taxable income would be allocated to Alberta.
3. If a corporation has a permanent establishment in more than one jurisdiction, taxable income should be allocated to each of those jurisdictions following the rules for taxable income earned in Alberta set out in the Alberta Corporate Tax Regulation, which generally applies Part IV of the federal *Income Tax Regulations* (federal Regulations) for the purpose of determining taxable income earned in Alberta. However, various exceptions apply for certain types of corporations, as explained in the '[Special Rules](#)' section.
4. If a corporation is not resident in Canada, taxable income of the corporation is deemed to refer to the corporation's taxable income earned in Canada.
5. If a corporation has a permanent establishment in a jurisdiction for part of a year, taxable income for the entire year should be allocated to that jurisdiction.

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The General Rule

6. A corporation that is not subject to one of the [Special Rules](#) is required to allocate its taxable income using the 'General Rule' set out in subsection 402(3) of the federal Regulations. Under the General Rule, the average of a 'gross revenue factor' and a 'salaries and wages factor' is used to determine the portion of taxable income allocable to Alberta.

Under the General Rule, the amount of taxable income allocable to Alberta for a taxation year is:

$$TI \times 1/2 [A/B + C/D]$$

where

TI = taxable income for the year for Alberta (the calculation of federal taxable income can differ from the calculation of taxable income for Alberta, for example, if a corporation deducts different discretionary deduction amounts for Alberta tax purposes),

- A = allocable gross revenue that is reasonably attributable to Alberta,
 - B = allocable gross revenue of the corporation for the year,
 - C = allocable salaries and wages paid in the year to employees in Alberta, and
 - D = allocable salaries and wages paid in the year by the corporation.
7. However, if a corporation has not paid any salaries and wages for the year, the allocation is based only on the gross revenue factor. If a corporation does not have any allocable gross revenue for the year, the allocation is based only on the salaries and wages factor. Therefore, no averaging is required in these cases and the respective amounts should not be multiplied by one half, as otherwise required by the General Rule.

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Special Rules

8. [The General Rule](#) does not apply to the following types of corporations for which there are special rules set out in the respective section of Part IV of the federal Regulations as to how taxable income should be allocated to a permanent establishment:

Section of the Federal Regulations	Type of Corporation
403	insurance corporations
404	banks
404.1	federal credit unions
405	trust and loan corporations
406	railway corporations
407	airline corporations
408	grain elevator operators
409	bus and truck operators
410	ship operators
411	pipeline operators
412	divided businesses

9. Where one of the allocation factors stated in section 404, 404.1, 406, 407, 408, 409 or 411 of the federal Regulations (as applicable) is nil, the amount taxable in Alberta should be calculated based solely on the allocation to Alberta from the other allocation factor.

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Gross Revenue

Determining Allocable Gross Revenue

10. For the purpose of determining allocable gross revenue, the gross revenue of a corporation for a taxation year generally includes the total of all amounts received or receivable by a corporation in the year (depending on the method regularly followed by the corporation in computing its income), other than on account of capital.
11. Gross revenue of a corporation includes amounts received by the corporation from its principal business operations, as well as other amounts received or receivable that a corporation considers incidental to its business operations, including, for example:
 - sales of goods or merchandise by a corporation (net of sales returns), including sales of scrap and other miscellaneous items,
 - revenue for services rendered by a corporation,
 - interest earned on bank accounts and trade receivables,
 - foreign exchange gains, where the gains are on account of income, or
 - proceeds of disposition of property that was included in the inventory of a business upon the disposition of, or ceasing to carry on, the business.
12. However, for the purpose of determining allocable gross revenue, gross revenue of a corporation for a taxation year does not include, for example:
 - sales, commodity and similar taxes (for example, the federal GST), harmonized sales taxes, and provincial sales taxes, where the corporation merely collects the applicable tax on behalf of a government entity,
 - amounts on account of capital, such as taxable capital gains,
 - interest on bonds, debentures or mortgages, including interest on promissory and other notes, bankers' acceptances, intercompany loans, certificates, guaranteed investment certificates, and any unsecured debt instruments or other similar obligations,
 - dividends on shares of capital stock, or
 - rents or royalties from land or property that is not used in connection with the principal business operations of the corporation.

13. Discounts given to customers at the time of sale should be included in allocable gross revenue. However, discounts and rebates given to customers subsequent to the time of sale should be excluded.

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Allocation Rules for Gross Revenue

14. Subsection 402(4) of the federal Regulations sets out the rules that apply for the purpose of determining a corporation's gross revenue for a taxation year reasonably attributable to a permanent establishment in a province or country other than Canada. In general, the rules allocate gross revenue where the revenue is derived from the sale of merchandise, the provision of services, the leasing of land, and the sale of (or right to cut) standing timber.

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Sale of Merchandise

15. The term 'merchandise' means any tangible personal property or corporeal movable property, and may include both goods manufactured by a corporation and goods that a corporation purchased from another party.
16. Subject to the '[Sale of Merchandise Outside of Canada](#)' section, for the purpose of determining the gross revenue for the year reasonably attributable to a permanent establishment in a province or country other than Canada, the following rules apply with respect to the sale of merchandise:
 - if the destination of a shipment of merchandise sold to a customer is located in a province or a country where the corporation has a permanent establishment, the respective gross revenue should be allocated to that permanent establishment,
 - if the destination of a shipment of merchandise sold to a customer is located in a province or a country other than Canada where the corporation does not have a permanent establishment, the respective gross revenue should be allocated to the permanent establishment in the province or country where the person negotiating the sale can reasonably be regarded as being attached,
 - notwithstanding the immediately preceding rule, if the destination of a shipment of merchandise sold to a customer is located in a country other than Canada where the corporation does not have a permanent establishment,
 - if the merchandise was produced and/or manufactured by the corporation entirely in a particular province, the respective gross revenue should be allocated to the permanent establishment in that province, or

- if the merchandise was produced and/or manufactured by the corporation [partly in a particular province and partly in another place](#), the respective gross revenue that is allocated to the permanent establishment in that province should be based on the proportion that the salaries and wages paid in the year to employees of that permanent establishment is of the aggregate salaries and wages paid in the year to employees of all permanent establishments where the merchandise was manufactured and/or produced,
- if the merchandise is sold to a customer who instructs that the merchandise be shipped to another person, and the customer's office with which the sale was negotiated is located in a particular province or country, the respective gross revenue should be allocated to the permanent establishment in that province or country,
- if the merchandise is sold to a customer who instructs that the merchandise be shipped to another person, and the customer's office with which the sale was negotiated is located in a province or country other than Canada where the corporation does not have a permanent establishment, the respective gross revenue should be allocated to the permanent establishment where the person negotiating the sale for the corporation may reasonably be regarded as being attached, or
- notwithstanding the immediately preceding rule, if the merchandise is sold to a customer who instructs that the merchandise be shipped to another person, and the customer's office with which the sale was negotiated is located in a country other than Canada where the corporation does not have a permanent establishment,
 - if the merchandise was produced and/or manufactured by the corporation entirely in a particular province, the respective gross revenue should be allocated to the permanent establishment in that province, or
 - if the merchandise was produced and/or manufactured by the corporation [partly in a particular province and partly in another place](#), the respective gross revenue that is allocated to the permanent establishment in that province should be based on the proportion that the salaries and wages paid in the year to employees of that permanent establishment is of the aggregate salaries and wages paid in the year to employees of all permanent establishments where the merchandise was manufactured and/or produced.

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Merchandise Produced or Manufactured in Multiple Jurisdictions

17. In situations where merchandise is produced and/or manufactured partly in a particular province and partly in another place, the following formula illustrates how gross revenue from the sale of the merchandise should be allocated to the permanent establishment in the particular province:

$$\text{GRP} = \text{GR} \times (\text{A/B})$$

where

GRP = gross revenue derived from the sale of merchandise allocable to the permanent establishment in the particular province,

GR = the corporation's total gross revenue for the year from the sale of merchandise produced and/or manufactured partly in the particular province and partly in another place,

A = the salaries and wages paid in the year by the corporation to employees of the permanent establishment in the province where the merchandise was partly produced and/or manufactured, and

B = the total salaries and wages paid in the year to employees of all permanent establishments where the merchandise was partly produced and/or manufactured.

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Sale of Merchandise Outside of Canada

18. Notwithstanding the [General Rule](#) and the allocation rules set out in the '[Sale of Merchandise](#)' section, a corporation's gross revenue from the sale of merchandise for a taxation year that is reasonably attributable to a permanent establishment in a province or country other than Canada is modified by subsection 402(4.1) of the federal Regulations if:

- either
 - the destination of a shipment of merchandise to a customer, to whom the merchandise is sold, is in a country other than Canada, or
 - the merchandise is sold to a customer who instructs that the merchandise be shipped to another person, and the customer's office with which the sale was negotiated is located in a country other than Canada,
- the corporation has a permanent establishment in the other country, and

- the corporation is not subject to tax on its income under the laws of the other country, or the corporation's gross revenue from the sale is not included in computing the income or profit or other base for income or profits taxed by the other country because of the provisions of any taxation statute of the other country or because of the operation of any tax treaty or convention between Canada and the other country.
19. For the purpose of calculating gross revenue and allocating it to a permanent establishment in situations where subsection 402(4.1) of the federal Regulations applies (as set out in the immediately preceding paragraph):
- salaries and wages paid in the year to employees of any permanent establishment of the corporation located in a country other than Canada are deemed to be nil, and
 - the gross revenue in respect of the sale of merchandise that was manufactured and/or produced should be allocated to the permanent establishment where the merchandise was manufactured and/or produced.

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Provision of Services

20. For the purpose of determining the gross revenue for the year reasonably attributable to a permanent establishment in a province or country other than Canada, the following rules apply with respect to the provision of services:
- if a corporation provides services in a province or country where it has a permanent establishment, gross revenue derived from the provision of those services should be allocated to the permanent establishment in the province or country where the services are provided, or
 - if a corporation provides services in a province or a country other than Canada where the corporation does not have a permanent establishment, the gross revenue derived from the provision of the services should be allocated to the permanent establishment where the person negotiating the services contract for the corporation may reasonably be regarded as being attached.
21. In allocating gross revenue derived from the provision of services, a corporation must determine where the services are provided. If a corporation provides services from permanent establishments in more than one jurisdiction, the gross revenue derived from the provision of the services should be allocated to each jurisdiction, including the value of any ancillary services rendered by the respective permanent establishment.

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Leasing Revenue

22. Gross revenue from leasing property under an operating (non-financial) lease should be allocated to the permanent establishment in the province where the leased property is being used, if the corporation has reasonable knowledge of such information.
23. Regarding reasonable knowledge, a corporation may be aware of the location where the leased property is being used simply by virtue of the relationship with the respective client. However, such awareness alone is not necessarily the prerequisite for reasonable knowledge. Gross revenue should be allocated to the jurisdiction where the leased property is being used only if the corporation needs to have this information because of the commercial or business relationship with the client, and only if the corporation has a permanent establishment in that jurisdiction.
24. If the corporation does not have reasonable knowledge of where property under an operating lease is being used, or if the corporation does not have a permanent establishment where the property is being used, the gross revenue should be allocated to the permanent establishment to which the person negotiating the lease can reasonably be regarded as being attached.
25. Gross revenue from leasing land owned by a corporation (other than land that is not used in the corporation's principal business operations) that is included in computing the corporation's income tax under Part I of the *Income Tax Act* (Canada) should be allocated to the permanent establishment, if any, of the corporation in the province where the land is situated.

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Sale of Timber

26. For the purpose of determining the gross revenue for the year reasonably attributable to a permanent establishment in a province or country other than Canada in respect of standing timber, if the standing timber or the right to cut the standing timber is sold and the timber limit on which the timber is standing is in a particular province or country, the gross revenue derived from such sales should be allocated to the permanent establishment of the corporation in that province or country.

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Salaries and Wages

Determining Allocable Salaries and Wages

Employees

27. For the purpose of determining allocable salaries and wages paid in the year, the salaries and wages generally include the total of all amounts paid in the taxation year by the corporation to its employees, including, for example:
- remuneration that the employee is required to include in income for personal income tax purposes,
 - taxable benefits,
 - directors' fees, and
 - commissions.
28. However, for the purpose of determining allocable salaries and wages paid in the year, the salaries and wages paid in the taxation year by a corporation to its employees generally do not include, for example:
- accrued vacation pay and unpaid bonuses,
 - payments for superannuation, pension benefits and retiring allowances, and
 - payroll expenses, such as an employer's contributions to the Canada Pension Plan and Employment Insurance premiums.

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Non-Residents

29. If a corporation is not a resident of Canada, the salaries and wages paid in the taxation year by the corporation do not include salaries and wages paid to employees of a permanent establishment outside of Canada.
30. However, salaries and wages paid in the taxation year by a corporation to employees of a permanent establishment in a province do include salaries and wages paid to non-resident employees performing employment duties at that permanent establishment.

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Third Party Service Providers

31. For the purpose of determining allocable salaries and wages paid in the year, certain amounts paid by a corporation to third party service providers are deemed to be salaries and wages paid in the taxation year by the corporation to its employees. If a corporation pays a fee to a person other than an employee (service provider) under an agreement whereby the service provider (or its employees) perform services for the corporation that would 'normally' be performed by the corporation's employees, the following rules apply:
- the fees paid to the service provider are deemed to be salaries and wages paid in the taxation year by the corporation, and
 - the portion of the fees paid to the service provider that may reasonably be regarded as payment in respect of services rendered at a particular permanent establishment of the corporation is deemed to be salaries and wages paid to an employee of that permanent establishment.
32. Services would 'normally' be considered to be performed by a corporation's employees if:
- the services performed by the service provider are services that are already performed by an employee of the corporation, and
 - the need for the service provider to perform the services is expected to last for only a limited period of time, for example, due to short-term economic conditions or a temporary labour shortage.

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Commissions Paid to Non-Employees

33. For the purpose of determining allocable salaries and wages paid in the year, the salaries and wages paid in the taxation year by a corporation do not include commissions paid to a person who is not an employee of the corporation.

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Allocation Rules for Salaries and Wages

34. In general, salaries and wages of an employee should be allocated to the permanent establishment to which the employee is attached or normally reports to work. This allocation rule is not altered if the employee is sometimes required to travel to other jurisdictions to perform duties.

35. Whether an individual is considered to be an employee of a permanent establishment in a particular province is a question of fact that may require an analysis of all relevant facts of a particular situation. The fact that the employment responsibilities of a particular employee of a permanent establishment in one province would also benefit permanent establishments of other provinces does not in and of itself result in the employee also being an employee of the other establishments.
36. For the purpose of determining if an individual is an employee of a permanent establishment in a particular province, it is also important to consider other factors, such as whether the individual is also considered to be an employee of that permanent establishment for provincial government-related filing requirements (for example, income tax and similar deductions), whether the employee maintains an office in that permanent establishment, or whether the employee normally reports to, or receives orders from, that permanent establishment.

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Central Paymaster Rules

The Deeming Rule

37. Section 402.1 of the federal Regulations applies special rules, referred to as the 'central paymaster rules', which may apply in situations where an individual (employee) who is employed by a corporation (employer or paymaster) performs a service in a particular province for the benefit of, or on behalf of, another corporation (benefiting corporation) that does not deal at arm's length with the employer. The employer is referred to as the 'paymaster' because it is responsible for hiring and paying the employee, even though the employee may provide the service to the benefiting corporation.
38. In particular, and notwithstanding that the paymaster is the legal employer of the employee, an amount that may reasonably be regarded as salaries and wages earned by the employee for the service performed for the benefiting corporation is deemed to be salaries and wages paid by the benefiting corporation in the taxation year in which the particular salaries and wages are paid if all of the following conditions are met:
 - at the time the service is performed, the paymaster and benefiting corporation do not deal at arm's length,
 - at the time the service is performed, the benefiting corporation has a permanent establishment in the particular province,
 - the service is performed by the employee in the normal course of the employee's employment by the paymaster,

- the service is performed by the employee for the benefit of, or on behalf of, the benefiting corporation in the ordinary course of a business carried on by the benefiting corporation,
 - the service performed by the employee is of a type that could reasonably be expected to be performed by an employee of the benefiting corporation in the ordinary course of the benefiting corporation's business, and
 - the amount is not otherwise included in the total of the salaries and wages paid by the benefiting corporation for purpose of determining allocable salaries and wages paid in the year.
39. Subject to the '[Shared Administrative Services](#)' section, in applying the conditions set out in the immediately preceding paragraph to a particular situation, a service performed 'in the normal course of the employee's employment' or 'in the ordinary course of a business', or a type of service that 'could reasonably be expected to be performed', is generally considered to be very broad and generally may include any type of operational service performed by the employee.

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Shared Administrative Services

40. In general, the central paymaster rules do not apply in situations where the respective service is a shared administrative (non-operational) service, for example, a general and administrative service that is incurred for the benefit of a group of companies as a whole. Rather, the salaries and wages of a parent corporation's employees providing a shared administrative service form a part of the parent corporation's salaries and wages paid in the year if:
- the respective employee reports to a permanent establishment of the parent corporation,
 - the respective employee receives direction from the parent's corporate structure, and
 - all or substantially all of the economic activity of the employee (for example, providing services to a subsidiary) is for the benefit of the parent.

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Central Paymaster Allocation of Salaries and Wages

41. If applicable, the central paymaster rules allocate salaries and wages as follows:
- if the services were performed at one or more permanent establishments of the corporation in a particular province, the amount deemed to be salaries and wages paid by the corporation to an employee of the corporation for the services performed in the province are deemed to have been paid to an employee of the permanent establishment or establishments, or
 - if the services were performed at a place other than at one or more permanent establishments of the corporation in a particular province, the amount deemed to be salaries and wages paid by the corporation to an employee of the corporation for the services performed in a province is deemed to have been paid to an employee of any other permanent establishment, as is reasonably determined in the circumstances, of the corporation in the particular province.
42. The salaries and wages paid by the employer (of the service provider) in the year should be reduced by the salaries and wages that are deemed to be salaries and wages paid by the corporation.
43. Although the central paymaster rules normally apply to a corporation and employer that do not deal at arm's length, the rules may be applied to a corporation and employer that do deal at arm's length if it is determined that they entered into an arrangement for the purpose of reducing, through the provision of services, the total amount of income tax payable by the corporation.

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Partnerships

44. Each member of a partnership is considered to have a permanent establishment in the province(s) in which the partnership has a permanent establishment.
45. If a corporation is a member of a partnership, the corporation should include its proportionate share of the partnership's gross revenue, and salaries and wages, in the appropriate factor in the General Formula. The corporation's proportionate share of the amounts from the partnership's fiscal period ending in (or coinciding with) the corporation's taxation year is based on the corporation's share of the partnership's income or loss for the fiscal period of the partnership.
46. If a corporation is a member of a partnership that has more than one fiscal period ending in (or coinciding with) the corporation's tax year, the corporation should include its proportionate share of the gross revenue of the partnership, and its proportionate share of the salaries and wages paid by the partnership, for each fiscal period of the partnership that ends in (or coincides with) the corporation's taxation year.

47. For the purposes of the [central paymaster rules](#), a partnership is deemed to be a corporation, and the corporation's taxation year is deemed to be the partnership's fiscal period.

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Joint Ventures

48. If a corporation is a participant in a joint venture, the determination of salaries and wages paid by the corporation from the joint venture activities will generally depend on the terms of the joint venture agreement. For example, for the purposes of determining salaries and wages paid by the corporation, if by agreement the venturers agree to share legal responsibility for the salaries and wages of the employees of the joint venture, each venturer would include their proportionate share of the salaries and wages.
49. If a corporation uses its own employees in a joint venture activity, then for the purposes of determining salaries and wages paid by the corporation, the corporation should include its share of the salaries and wages of the joint venture employees that are directly paid by the corporation to the employees of the permanent establishment in a province.

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