Alberta Corporate Tax Act

Information Circular CT-1R3

Overview of the Alberta Corporate Income Tax Program

Last updated: April 26, 2024

Important information

This information circular 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 information circular and governing legislation, the legislation takes precedence.

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Overview

1. Alberta's corporate income tax program is administered by the Tax and Revenue Administration (TRA) Division of Treasury Board and Finance. For additional information on TRA and its various branches, refer to Information Circular TRA-1, *An Introduction to Tax and Revenue Administration*.

2. In general, an incorporated business with a permanent establishment (a fixed place of business such as an office, branch, mine, oil well or farm) in Alberta at any time in a taxation year is required to pay Alberta income tax in accordance with the provisions of the *Alberta Corporate Tax Act* (the Act) and its respective regulations. The Act, which has been in force since January 1, 1981, provides the rules for the calculation of corporate income tax, including the rules for calculating various deductions and credits that are allowed for Alberta tax purposes.

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3. A corporation with a permanent establishment in Alberta at any time during the taxation year is required to file an Alberta Corporate Income Tax Return (AT1) in respect of each taxation year, unless the corporation is exempt from doing so. For additional information on filing requirements, including the criteria for when a corporation is exempt from filing an AT1, refer to Information Circular CT-2, *Corporate Income Tax Filing and Payment Requirements*. For information on how to determine whether or not a corporation is required to file an AT1, refer to Preparing and Filing the Alberta Corporate Income Tax Return – AT1 and Schedules (AT100).

4. For additional information on taxability of a corporation in Alberta, including a more detailed explanation of what constitutes a permanent establishment, refer to Interpretation Bulletin CTIB-1, *Taxability of a Corporation in Alberta on the Basis of Permanent Establishment*.

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Alberta Taxable Income

5. The calculation of Alberta Taxable Income parallels the calculation of taxable income for federal tax purposes. However, Alberta Taxable Income may differ from federal taxable income if a corporation reports different amounts for Alberta and federal tax purposes.

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Alberta Income or Loss Reconciliation

6. If a corporation reports the same amount of taxable income for Alberta and federal tax purposes, then Alberta Taxable Income reported on line 062 of the AT1 is the same as Net Income (Loss) for federal tax purposes reported on line 300 of the T2 Corporation Income Tax Return. However, if there are differences, then Alberta Taxable Income to be reported on line 062 of the AT1 is the amount calculated using the Alberta Income/Loss Reconciliation – AT1 Schedule 12 (Form AT112).

7. AT1 Schedule 12 reconciles Net Income (Loss) for federal tax purposes to Alberta Taxable Income using information from supporting Alberta AT1 Schedules as necessary. AT1 Schedule 12 is for use by a corporation that

   - claims different discretionary amounts for Alberta tax purposes in the current year,
   - has different opening balances in the discretionary pools for Alberta tax purposes from those for federal tax purposes, or
   - has capital tax liabilities in other provinces that have been deducted in the calculation of Net Income (Loss) for federal tax purposes.

8. Notable amounts that may be different for Alberta and federal tax purposes, or are not deductible for Alberta tax purposes, and must be reconciled using AT1 Schedule 12 (and supporting AT1 Schedules as necessary) include the following:

   (a) Capital Cost Allowance, Recapture and Terminal Losses, calculated using Alberta Capital Cost Allowance (CCA) – AT1 Schedule 13 (Form AT13),
   (b) Farming Inventory, reported directly on AT1 Schedule 12,
   (c) Resource Related Deductions, such as Depletion and Exploration, calculated using Alberta Resource Related Deductions – AT1 Schedule 15 (Form AT237),
   (d) Reserves, calculated using Alberta Reserves - AT1 Schedule 17 (Form AT170),
   (e) Capital Tax Liability in other provinces, which are not deductible for Alberta tax purposes and must be reported directly on AT1 Schedule 12,
   (f) Charitable Donations and Gifts, calculated using Alberta Charitable Donations & Gifts Deduction – AT1 Schedule 20 (Form AT20),
   (g) Non-capital, Net-capital, Farm and Limited Partnership Losses, calculated using Alberta Calculation of Current Year Loss and Continuity of Losses – AT1 Schedule 21 (Form AT173).

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Loss Balances

9. If a corporation sustains a loss for a particular taxation year, it may be entitled to apply the loss to reduce Alberta Taxable Income of another taxation year. For additional information on losses, refer to the 'Calculation and Deduction of Losses' section.

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Amount Taxable in Alberta

10. The Amount Taxable in Alberta is Alberta Taxable Income multiplied by the Alberta Allocation Factor.

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Alberta Allocation Factor

11. A corporation with a permanent establishment only in Alberta must allocate 100 per cent of its taxable income to Alberta. However, a corporation with permanent establishments in more than one province must allocate taxable income to Alberta based equally on the proportion of gross revenue attributed to Alberta compared to total gross revenue, and the proportion of salaries and wages paid to employees in Alberta compared to total salaries and wages.

12. For additional information on the taxability of a corporation in Alberta, refer to Interpretation Bulletin CTIB-1, *Taxability of a Corporation in Alberta on the Basis of Permanent Establishment*. For additional information on allocating income to more than one jurisdiction, refer to Interpretation Bulletin CTIB-3, *Allocating Income to Permanent Establishments*.

13. The Alberta Allocation Factor is calculated using Alberta Income Allocation Factor – AT1 Schedule 2 (Form AT271) and reported on line 065 of the AT1. If a corporation has a permanent establishment only in Alberta, it is not required to complete Form AT271 and the Alberta Allocation Factor is equal to one.

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Basic Alberta Tax Payable

14. Basic Alberta Tax Payable for a particular taxation year is calculated as the Amount Taxable in Alberta (as explained above) multiplied by the respective tax rate, less the Alberta Small Business Deduction (if applicable), and less certain other deductions and tax credits (if applicable).

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Tax Rates

15. The tax rate for a particular effective date is set out in the Corporate income tax rates table.

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Alberta Small Business Deduction

16. The Alberta Small Business Deduction (ASBD) is a deduction that may be taken in calculating Alberta Basic Tax Payable. For information on the ASBD, refer to the 'Calculation and Deduction of the Alberta Small Business Deduction' section.

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Other Deductions and Tax Credits

17. Certain other deductions and credits also may be claimed by an eligible corporation in the calculation of Alberta Basic Tax Payable, including the Alberta Foreign Investment Income Tax Credit and the Film and Television Tax Credit.

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Alberta Foreign Investment Income Tax Credit

18. A corporation may be entitled to claim an Alberta Foreign Investment Income Tax Credit if it received foreign investment income and is entitled to claim a foreign tax credit for federal tax purposes relating to foreign income or profits tax paid on income from foreign non-business sources. Foreign investment income is income earned outside of Canada that is not reasonably attributable to the carrying on of the corporation's business.

19. The Alberta Foreign Investment Income Tax Credit is calculated using the Alberta Foreign Investment Income Tax Credit – AT1 Schedule 4 (Form AT201) and reported on line 072 of the AT1.

Film and Television Tax Credit

20. A corporation may be entitled to claim a Film and Television Tax Credit (FTTC), which offers a refundable tax credit on eligible Alberta production and labour costs with respect to films, television series and certain other screen-based productions in Alberta.

21. A corporation may deduct an FTTC in a particular taxation year to a maximum of the amount specified on the respective FTTC certificate (issued to eligible corporations under the FTTC program) and the respective Alberta corporate tax payable calculated before deducting the FTTC.

22. The FTTC is reported on line 087 of the AT1. The amount by which the corporation's FTTC exceeds the corporation's tax otherwise payable for the year, net of any other Alberta tax, interest, penalties or other amounts owing by the corporation to Alberta, will be refunded to the corporation. No interest is payable in respect of an FTTC that is deducted by, or paid to, a corporation.

23. A corporation entitled to an FTTC may request that its corporate income tax refund for the respective taxation year be redirected, for example, to its lender as security for bridge financing of the respective Alberta film or television production. Redirecting the refund does not affect the legal rights of set-off in favour of Alberta, which has no obligation toward the person to whom the refund is redirected. Therefore, the recipient's rights are subject to the legal rights of set-off in favour of Alberta. All corporate income tax refund cheques will be issued in the name of the corporation entitled to the FTTC.

24. A corporation may request that its refund cheque be redirected to its lender, or to another person, by including with its AT1 for the respective taxation year a letter that includes the name and address of the recipient and an acknowledgment that the redirection of the refund does not affect the legal rights of setoff in favour of TRA.

25. For additional information on the FTTC, including eligibility criteria and details on how to apply, refer to the Film and Television Tax Credit program page of the Government of Alberta website.

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Agri-Processing Investment Tax Credit

26. A corporation may be entitled to claim an Agri-Processing Investment Tax Credit (APITC), which offers a 12 per cent non-refundable tax credit based on eligible capital expenditures to corporations investing $10 million or more to build or expand agri-processing facilities in Alberta.

27. A corporation may deduct an amount not exceeding the lesser of

- the 'Corporation's APITC', including all amounts specified on the certificates issued to the corporation in respect of the year,
- the 'Maximum Amount' that may be claimed in the year, after accounting for any maximum specified on the relevant certificate for the year, and
- the amount of Alberta Tax Payable calculated after claiming the Alberta Small Business Deduction and Alberta Foreign Investment Income Tax Credit (if applicable) but before deducting the APITC.

28. The 'Maximum Amount' that may be claimed in the first three years is limited as follows:

- up to 20 per cent of the 'Corporation's APITC' in the first taxation year,
- up to 30 per cent of the 'Corporation's APITC' in the second taxation year, and
- up to 50 per cent of the 'Corporation's APITC' in the third taxation year.

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29. Any remaining APITC may be carried forward up to 10 taxation years.

30. The amount of APITC that a corporation may deduct is calculated on Alberta Other Tax Deductions and Credits - AT1 Schedule 3 (Form AT3) and reported on line 076 of the AT1. An APITC should not be deducted prior to the respective certificate being issued. A corporation is not required to file the certificate along with the AT1, but it should be prepared to provide a copy of the certificate to TRA upon request.

31. For additional information on the APITC, including eligibility criteria and details on how to apply, refer to the APITC page of the Government of Alberta website.

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Alberta Tax Payable

32. Alberta Tax Payable for a particular taxation year is calculated as the Basic Alberta Tax Payable (as explained above) less instalments credited to a corporation's income tax account for the particular taxation year, less any Alberta Capital Gains Refund (if applicable).

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Instalment Payments and Balances Due

33. There are three different payment patterns for the payment of Alberta Tax Payable (under Part 5 of the Act):

- Alberta Tax Payable must be paid in equal monthly instalments with any balance due by the end of the **second** month following the taxation year (the corporation's balance-due day). This is applicable to any corporation not qualifying under either of the next two bullets.
- A Canadian-controlled private corporation (CCPC) is exempt from paying instalments throughout the taxation year and is permitted to defer payment of its tax, in total, to the end of the third month following the taxation year-end (its balance-due day) if
    - it claimed the ASBD and its Amount Taxable in Alberta is not greater than $500,000 in the current year,
    - it claimed the ASBD and its Amount Taxable in Alberta was not greater than $500,000 in the immediately preceding year, or
    - its Alberta Tax Payable for the year or its first instalment base (i.e., its Alberta Tax Payable for the immediately preceding taxation year) is not greater than $2,000.
- A corporation that is not a CCPC is also exempt from paying instalments throughout the taxation year and permitted to defer payment of its tax, in total, to the end of the **second** month following the taxation year-end (its balance-due day) if its tax for the year or its first instalment base is not greater than $2,000.

34. A new corporation, other than one formed by amalgamation, is not required to pay instalments during its first taxation year. Rather, full payment of its Alberta Tax Payable must be made by its balance-due day.

35. Instalments are reported on line 082 of the AT1.

36. For additional information on instalment requirements, refer to Information Circular CT-2, *Corporate Income Tax Filing and Payment Requirements*. For information on how to pay corporate income tax to TRA, refer to the 'Making payments to Tax and Revenue Administration' page of the Government of Alberta website.

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Alberta Capital Gains Refund

37. The Alberta Capital Gains Refund is available to mutual fund corporations and public investment corporations. The provisions in the federal *Income Tax Act* (federal Act) specifically applicable to these types of corporations have been incorporated, with modifications as necessary, into the Act for Alberta tax purposes. Accordingly, a corporation that claims a federal capital gains refund may also claim the Alberta Capital Gains Refund.

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38. The Alberta Capital Gains Refund is reported on line 086 of the AT1. There is no Alberta schedule for this deduction, but the calculation follows the federal rules using the Alberta corporate income tax rate instead of the federal rate.

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Calculation and Deduction of Losses

39. A corporation may apply unused losses by deducting them from income earned in the current or a previous taxation year, or may carry them forward to a future taxation year. Losses may be deducted in any order but, for each type of loss, the oldest available loss should be deducted first. The number of taxation years to which a loss may be applied are summarized in the following table:

TYPE OF LOSS	BACK	FORWARD	APPLIED AGAINST
Net capital	3 taxation years	Indefinitely	Taxable capital gains
Non-capital	3 taxation years	20 taxation years	Any income
Farm	3 taxation years	20 taxation years	Any income
Restricted farm	3 taxation years	20 taxation years	Net farming income
Listed personal property	3 taxation years	7 taxation years	Listed personal property gains
Limited partnership	No carry-back	Indefinitely	Same partnership's income

40. Unlike taxable income, which must be allocated among jurisdictions in which a corporation has a permanent establishment, a loss is not allocated in the year it is incurred. Instead, the loss is carried over to another year and deducted from net income for tax purposes to arrive at the taxable income for that year. The resulting amount is then allocated among the jurisdictions for that year.

For example, assume that a corporation has permanent establishments in Alberta and Manitoba. In Year 1, 60% of taxable income is allocated to Alberta and 40% to Manitoba. Year 2 is a loss year but, if there had been taxable income in Year 2, it would have been allocated 80% to Alberta and 20% to Manitoba.

	Year 1 Initial Assessment	%	Year 2 Initial Assessment	%	Year 1 After Loss Deduction	%
Taxable income (loss)	$10,000		$(5,500)		$4,500	
Allocated to Alberta	6,000	60%	0	80%	2,700	60%
Allocated to Manitoba	4,000	40%	0	20%	1,800	40%

The loss deduction is made before allocation. Therefore, the taxable income of $10,000 in Year 1 less the loss of $5,500 from Year 2 results in revised taxable income of $4,500 for Year 1. This revised amount is then allocated to the provinces using the allocation factors (percentages) that existed in Year 1. The percentages in Year 2 (the year the loss was incurred) are not relevant to the allocation of taxable income in Year 1.

41. As explained in the 'Alberta Taxable Income' section, a corporation may claim different loss amounts for federal and Alberta tax purposes. The amount of a non-capital loss for Alberta tax purposes may also differ from the amount for federal tax purposes due to modifications in the Act to the federal definition of non-capital loss, as follows:

(a) The federal Act allows a corporation to increase its taxable income in order to claim additional foreign tax credits. The amount added to taxable income is also added to the corporation's non-capital loss for the year. A corporation may choose to increase its taxable income for Alberta tax purposes by any amount up to the amount used to increase taxable income for federal tax purposes. The non-capital loss for the year for Alberta tax purposes must be increased by the same amount as the increase to taxable income for Alberta tax purposes.

(b) The federal Act allows a private corporation to deduct part or all of a non-capital loss from its federal Part IV tax base rather than from its income. Because Alberta does not impose the equivalent of Part IV tax, this use of losses for federal tax purposes does not apply for Alberta tax purposes. Accordingly, non-capital losses available for Alberta tax purposes are not reduced by any amount deducted from the federal Part IV tax base.

42. Charitable donations cannot be used to create or increase a non-capital loss. Rather, unused charitable donations made in a particular year may be carried forward and deducted from net income in any of the next five years.

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43. With the exception of net capital losses, a corporation cannot use losses from another year to create or increase a non-capital loss for a particular taxation year.

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Application Process

44. A loss from the current taxation year carried back to reduce Alberta Taxable Income of a preceding taxation year is claimed using the Alberta Loss Carry-Back Application - AT1 Schedule 10 (Form AT293). This application must be filed even if the corporation is exempt from filing an AT1.

45. A loss from a preceding taxation year carried forward to reduce Alberta Taxable Income in the current taxation year, if different from the amount of losses claimed for federal tax purposes, is claimed using the Alberta Income/Loss Reconciliation – AT1 Schedule 12 (Form AT112).

46. A request may not be processed if the effect on the corporation's Alberta Tax Payable, interest and penalties is less than $20 and the request does not accompany other adjustments.

47. When a loss is deducted in a taxation year that is two or more years before the year in which the loss occurred, it may impact the calculation of tax for the intervening years. TRA will process the changes required to all relevant years.

48. When a corporation deducts a loss from an earlier year in its federal T2 Corporation Income Tax Return, the loss deduction will be applied for Alberta tax purposes (providing there are losses available for Alberta purposes) unless the corporation specifies otherwise.

49. In any year in which an applied loss or an opening loss balance for Alberta tax purposes differs from the corresponding loss applied or opening loss balance for federal tax purposes, the corporation must file an Alberta Calculation of Current Year Loss and Continuity of Losses - AT1 Schedule 21 (Form AT173) and an Alberta Income/Loss Reconciliation - AT1 Schedule 12 (Form AT112).

50. A corporation may request a written Notice of Loss Determination by contacting TRA. If the corporation has a loss for federal tax purposes, TRA will require the corporation to provide a copy of a federal Notice of Loss Determination before TRA will issue the Notice of Loss Determination for Alberta tax purposes. In all cases, TRA will reconcile the Alberta amounts to the federal amounts.

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Effect of Reorganization

Acquisitions of Control

51. A corporation's ability to deduct previously unused losses is restricted when control of the corporation is acquired. When control of a corporation is acquired, the federal Act provides that the taxation year of the corporation is deemed to end immediately before the time control is acquired, and a new taxation year is deemed to begin immediately after the time control is acquired. The taxation year that ended is considered to be a full year for the purpose of determining a loss carryover period.

52. Net capital losses incurred before an acquisition of control cannot be deducted in taxation years following the acquisition of control, and net capital losses incurred following an acquisition of control cannot be deducted in taxation years before the acquisition of control.

53. In general, non-capital losses incurred before an acquisition of control cannot be deducted in years following the acquisition of control. However, the federal Act permits a corporation, in computing its taxable income for a taxation year ending after an acquisition of control, to deduct a non-capital loss incurred before the acquisition of control if

- the loss was a loss from carrying on a business, and
- the business in which the loss was incurred is carried on for profit or with a reasonable expectation of profit throughout the taxation year in which the corporation wishes to deduct the loss.

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54. Similarly, non-capital losses incurred following the acquisition of control generally cannot be deducted in taxation years before the acquisition of control. However, the federal Act permits a corporation, in computing its taxable income for a taxation year ending before an acquisition of control, to deduct a non-capital loss incurred after the acquisition of control if

- the loss is a loss from carrying on a business, and
- the business in which the loss was incurred was carried on for profit or with a reasonable expectation of profit, both throughout the taxation year in which the loss was incurred and during the taxation year in which the corporation wishes to deduct the loss.

55. If the criteria described in the two immediately preceding paragraphs are met, the loss that may be deducted in the taxation year is limited to

- the total income arising in the taxation year from the business in which the loss was sustained, and
- the total income arising in the taxation year from another business, if
  - before the acquisition of control, the business in which the loss was sustained included the selling, leasing, renting or developing property or rendering services, and
  - substantially all of the income from the other business was derived from the sale, lease, rental or development of similar properties or the rendering of similar services.

56. Whether a corporation continued to carry on the business is a question of fact determined using the following factors:

(a) location of the business carried on before and after the acquisition of control,
(b) nature of the business,
(c) name of the business,
(d) nature of the income-producing assets of the business,
(e) existence of a period or periods of dormancy, and
(f) extent to which the original business constituted a substantial portion of the activities of the corporation in the allocation of time and financial resources.

Amalgamations

57. In general, only the corporation that incurs a loss is entitled to use that loss. Therefore, upon an amalgamation of corporations, losses incurred by predecessor corporations normally cannot be deducted by the successor corporation, and losses incurred by the successor corporation cannot be deducted by its predecessors.

58. However, the Act has adopted certain provisions of the federal Act that provide for certain exceptions, as follows:

(a) A successor corporation is allowed to deduct losses of its predecessor corporations in the same manner and to the same extent that such losses would have been deductible by the predecessor corporations had there not been an amalgamation. The successor corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation. As a result, any loss of a predecessor corporation will be treated as the loss of the successor corporation. The losses of the predecessor corporations "age" by one year since each of these corporations was deemed to have a taxation year end immediately before the amalgamation and that taxation year is counted for the purposes of the loss carryover period.

(b) In situations where a parent corporation amalgamates with one or more of its wholly-owned subsidiaries, the successor corporation is allowed to carry back to the predecessor parent corporation losses it incurs after the amalgamation. However, the parent corporation is not allowed to carry back and deduct prior losses of the subsidiaries.

59. The restrictions placed on the use of losses following an acquisition of control take priority over the relieving provisions for amalgamations. For example, if an amalgamated corporation inherits a net capital loss carry-forward from a predecessor, that loss will expire if there is a subsequent acquisition of control of the amalgamated corporation.

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Wind-Ups

60. Losses of a corporation normally expire upon the winding-up of the corporation. However, where a subsidiary Canadian corporation has been wound up into its parent Canadian corporation, the subsidiary's net capital losses, non-capital losses, farm losses, restricted farm losses and limited partnership losses are generally deemed to be losses of the same type to the parent for the taxation year of the parent in which the subsidiary's loss year ended. Immediately before the winding-up, the parent must have owned at least 90% of each class of the subsidiary's capital stock and any shares not owned by the parent must have been owned by persons with whom the parent was dealing at arm's length.

61. The exception described in the immediately preceding paragraph will apply to a loss of the subsidiary, provided that any such loss

- was not previously deducted in computing the taxable income of the subsidiary, and
- would have been deductible in computing the taxable income of the subsidiary for any taxation year beginning after the commencement of the winding-up on the assumption that it had such a taxation year, and sufficient income to use the loss.

62. However, such losses are available to the parent in computing its taxable income only for taxation years beginning after the commencement of the winding-up (as evidenced by a resolution of shareholders authorizing or requiring that the corporation be wound up).

63. If a subsidiary has a loss in a taxation year that starts after its winding-up has commenced, the parent may elect under the federal Act to move that loss into a year that is one year earlier than the year in which it otherwise would be deemed to have been incurred. This may hasten its deductibility to the parent. In the case where the winding-up process is of limited duration, the loss, like other subsidiary losses, will be available to the parent in its first taxation year commencing after the winding-up commenced.

64. To illustrate the points related to a wind-up, the following example is provided:

Assumptions

- *The normal taxation year end of the subsidiary is October 31.*
- *The normal taxation year of the parent is January 31.*
- *The winding-up of the subsidiary commenced on September 1, 20X7 and dissolution occurred on February 15, 20X8.*
- *The subsidiary has the following unused non-capital losses:*

Subsidiary's Year End	Subsidiary's Unused Non-Capital Loss	Tax Year In Which Loss is Deemed Incurred by Parent	Beginning of First Tax Year that Loss is Available for Use by Parent
October 31, 20X4	$(1,200)	January 31,20X5	February 1, 20X8
October 31, 20X7	(800)	January 31, 20X8	February 1, 20X8
February 15, 20X8 (final year end on dissolution)	(500)	January 31, 20X9 (Without election under the federal Act to move the unused loss into the preceding year)	February 1, 20X9
February 15, 20X8 (final year end on dissolution)	(500)	January 31, 20X8 (With election under the federal Act to move the unused loss into the preceding year)	February 1, 20X8

Results

- *The non-capital loss of $1,200 for the subsidiary's 20X4 year is deemed to be a non-capital loss incurred by the parent for its year ended January 31, 20X5, and the non-capital loss of $800 for the subsidiary's 20X7 year is deemed to be a non-capital loss incurred by the parent for its year ended January 31, 20X8. The parent cannot use these losses before its year ended January 31, 20X9, which begins February 1, 20X8 and is the first year of the parent that starts after the winding-up commenced on September 1, 20X7.*

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- *By not filing an election under the federal Act, the non-capital loss of $500 for the subsidiary's short year ended February 15, 20X8 is deemed to be a non-capital loss incurred by the parent for its year ended January 31, 20X9. The parent cannot use this loss in that year because a loss cannot be deducted in the year in which it was incurred.*
- *By filing an election under the federal Act, the loss of $500 for the subsidiary's short year ended February 15, 20X8 year is deemed to be incurred by the parent for its year ended January 31, 20X8. Therefore, the parent is permitted to use this loss in its year ended January 31, 20X9.*

65. A parent corporation's use of is subsidiary's losses is restricted or eliminated if there is an acquisition of control of the parent during the period in which the losses could otherwise be deducted. Net capital losses expire and non-capital losses are restricted (as explained in the 'Acquisitions of Control' section). The same restrictions apply if there is an acquisition of control of the subsidiary after its loss year and before the winding-up.

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Effect of Change in Permanent Establishment

66. A corporation that moves into Alberta and has a permanent establishment in Alberta at any time in a taxation year becomes subject to the Act. The corporation brings its federal loss balances with it. Losses calculated, deducted or deductible under the federal Act for a previous taxation year where the corporation was not subject to the Act are deemed to have been calculated, deducted or deductible under the Act for the previous taxation year.

    For example, assume that a corporation incurred a non-capital loss of $25,000 in 20X6 and deducted $10,000 for federal tax purposes in 20X7. In 20X8, the corporation acquired a permanent establishment in Alberta. The $10,000 is deemed to have been deducted under the Act and the balance that is available for Alberta tax purposes is the same as that for federal tax purposes, being $15,000.

    Similarly, if a corporation incurs a loss while it is subject to the Act and, for federal purposes, applies that loss back to a taxation year in which the corporation was not subject to the Act, that application is deemed to have occurred for Alberta tax purposes.

67. If a corporation leaves Alberta such that it is no longer subject to the Act, it can carry back, for Alberta tax purposes, losses incurred within three years of the last taxation year it was subject to the Act. TRA may also process a loss carry-back if the Canada Revenue Agency has allowed a corresponding deduction.

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Effect on Tax Account

68. A loss carried back to a previous taxation year does not alleviate any late-filing penalty that was previously assessed.

69. For the purposes of calculating interest and penalties on late or deficient instalments, a reduction in tax for a year resulting from a loss carry-back is deemed to be a payment on account of tax for the year. Accordingly, the effective date assigned to the payment is the latest of

    - the first day following the loss year,
    - the day on which the AT1 for the loss year is filed (if not exempt from filing),
    - the day on which the Alberta Loss Carry-Back Application - AT1 Schedule 10 is filed, and
    - the day on which a request was made for the loss carry-back (the day TRA receives a complete request that can be processed).

70. If a corporation requests a change to a discretionary amount originally claimed in the taxation year (such as capital cost allowance) to make room for a loss carry-back, there may be the following interest implications:

    (a) Interest is recalculated taking into consideration the higher taxable income resulting from the change in the discretionary amount, but not taking into account the loss application.
    (b) Interest is charged on the revised tax payable from the day the tax for the year was originally due to the effective date of the loss carry-back.
    (c) The tax reduction as a result of a loss carry-back is applied as a payment on account as of the effective date (as explained in the immediately preceding paragraph), and interest is calculated on any remaining balance.

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Such interest implications may result in interest owing for a period preceding the effective date of the loss carry-back even though the tax payable after the loss carry-back is nil. Furthermore, if the AT1 for the year was filed late, the substitution of the loss carry-back for another discretionary deduction may result in the creation of, or increase to, a late-filing penalty.

71. Subject to provisions of the Act that allow TRA to issue a refund of an overpayment only if an AT1 has been filed within three years from the end of the taxation year, any overpayment that arises from a loss carry-back may be automatically applied to any unpaid balance on the corporation's account. The corporation may request that the remainder, or any portion of the remainder, be applied as an instalment for a subsequent taxation year. Any further amount remaining may be refunded. However, for administrative efficiency, TRA does not refund an amount less than $20.00 unless specifically requested to do so.

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Calculation and Deduction of the Alberta Small Business Deduction

72. The ASBD may be deducted only by a corporation that was a CCPC throughout the respective taxation year. The ASBD is patterned on the federal small business deduction, although the deduction rate and the amount of income from an active business that qualifies for the deduction are different. The ASBD may be applied to reduce income from an active business carried on in Canada up to the corporation's small business threshold (annual business limit), which must be shared with any associated corporations.

73. The ASBD is calculated using Alberta Small Business Deduction – AT1 Schedule 1 (Form AT2) and carried to line 070 of the AT1.

74. In general, the ASBD is the small business deduction rate multiplied by the least of the three following amounts:

    (a) The sum of

    - the total of all amounts each of which is the corporation's income from an active business, other than a partnership, carried on in Canada, and
    - the corporation's specified partnership income for the year

    less

    - the total of all amounts each of which is the corporation's loss from an active business, other than a partnership, carried on in Canada, and
    - the corporation's specified partnership loss for the year.

    (b) The sum of taxable income for the year less the grossed-up foreign tax credit amounts used in calculating the federal small business deduction.

    (c) The corporation's small business threshold (or allocated threshold amount).

75. For taxation years that straddle changes to either the small business threshold or small business deduction rate, the amount by which the small business deduction rate is multiplied must be calculated separately for each part of the taxation year over which a different threshold or rate applies. For each part, the least of the three amounts calculated (as explained in the immediately preceding paragraph) is calculated, then the amount that is least is prorated by multiplying it by the proportion that the number of days in that part of the taxation year is of the total number of days in the taxation year. The prorated amount is then multiplied by the applicable small business deduction rate to obtain the ASBD for that part of the taxation year. The resulting amounts are added together to obtain the total ASBD for the taxation year.

76. The least of the three amounts by which the small business deduction rate is multiplied is subject to adjustment if the corporation has permanent establishments in Alberta and another jurisdiction, and allocates only a portion of its income to Alberta. Under such circumstances, the least of the three amounts is prorated by the Alberta Small Business Allocation Factor:

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(a) If all of the corporation's permanent establishments are in Canada, the Alberta Small Business Allocation Factor will be the same as the Alberta Allocation Factor calculated using Alberta Income Allocation Factor – AT1 Schedule 2 (Form AT271), generally the ratio that taxable income allocated to Alberta is of total taxable income.

(b) If the corporation has permanent establishments located outside Canada, the Alberta Allocation Factor must be adjusted to obtain the Alberta Small Business Allocation Factor, which will be the ratio of taxable income allocated to Alberta over taxable income from all permanent establishments in Canada. Income allocated to jurisdictions outside of Canada is not taken into account.

77. The ASBD for a taxation year **cannot exceed** the amount determined by multiplying the Amount Taxable in Alberta by the small business deduction rate.

78. For the current small business tax rate, ASBD rate and small business threshold (annual business limit), refer to the Corporate income tax rates table.

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Active Business Income

79. An active business is defined in the Act as any business carried on by the corporation **other than** a 'personal services business' or a 'specified investment business', **and includes** an adventure or concern in the nature of trade.

80. A 'personal services business' is a business carried on by a corporation where an employee of the corporation performs services for another entity through the corporation and who, in the absence of the corporation, would reasonably be regarded as an employee or officer of the other entity for which the services are provided. A corporation is not considered to carry on a personal services business if it has more than five full-time employees throughout the year or renders its services to an associated corporation.

81. A 'specified investment business' is a business whose principal purpose is to derive income from property, including interest, rents, dividends and royalties. A specified investment business **does not include** a credit union, property leasing (other than real property), or a corporation that employs more than five full-time employees in the business throughout the year. Also excluded from the definition of specified investment business is the business of a corporation that receives managerial or similar services from an associated corporation and that would otherwise reasonably require more than five full-time employees. However, this exclusion only applies to situations where the associated corporation provides the services in the course of carrying on an active business itself.

82. In many cases, the amount of income from an active business income used in the calculation of the ASBD will be the same as that used in the calculation of the federal small business deduction. However, a difference may arise if, for example, the corporation has claimed a different discretionary deduction for Alberta tax purposes.

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Specified Partnership Income

83. Specified partnership income is income from an active business carried on by a corporation through a partnership that is eligible for the ASBD, and is included in the corporation's calculation of the ASBD. The rules for determining the specified partnership income of a corporation for purposes of calculating the ASBD parallel the federal rules.

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Associated Corporations

84. If two or more CCPCs are associated with each other in a taxation year, those corporations must share the Alberta small business threshold. The associated corporations may allocate the threshold amongst themselves as they wish by completing the 'Agreement Among Associated Corporations' on the second page of Alberta Small Business Deduction – AT1 Schedule 1 (Form AT2). However, the Alberta small business threshold must be allocated using the same percentages as those used to allocate the federal business limit.

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Effect of Short Taxation Years

85. If a corporation's taxation year is less than 51 weeks, the Alberta small business threshold for non-associated corporations (or the allocated amount for associated corporations) must be prorated by multiplying it by the number of days in the corporation's taxation year and then dividing by 365. This prorated amount is then used in calculating the amounts by which the small business deduction rate is multiplied (as explained in the 'Calculation and Deduction of the Alberta Small Business Deduction' section).

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Large Corporations

86. The Alberta small business deduction is gradually phased out for larger CCPCs, and a corporation's small business threshold or allocated amount is reduced or eliminated if the corporation or any of its associated corporations paid Large Corporations Tax under Part I.3 of the federal Act. The reduction of the small business threshold or allocated amount is determined by the formula

    A x (B / 11,250)

    where

    A is the small business threshold, or the allocated amount of threshold, otherwise determined and adjusted as necessary for a short taxation year, and

    B is the total large corporations tax to a maximum of $11,250, calculated before proration for short taxation years and before the credit for federal corporate surtax, that would be payable

- where the corporation is not associated with any other corporations in the taxation year, by the corporation in its preceding taxation year, **or**
- where the corporation is associated with other corporations in the taxation year, by the corporation and all associated corporations (whether or not CCPCs) for their latest taxation years ending in the preceding calendar year.

This reduced amount is then used in calculating the amounts by which the small business deduction rate is multiplied (as explained in the 'Calculation and Deduction of the Alberta Small Business Deduction' section).

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Alberta Elections for Transfers of Property

87. With respect to transfers of property, subsections 85(1), 85(2) and 97(2) of the federal Act apply for Alberta tax purposes only if a valid election has been made for federal tax purposes. If so, the amounts elected for federal tax purposes are deemed to apply for Alberta tax purposes. However, if the respective parties wish to elect different amounts for Alberta and federal tax purposes, then an Alberta election form must be filed.

88. Alberta election forms include the following:

    (a) Alberta Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation (Form AT107).
    (b) Alberta Election on Disposition of Property by a Partnership to a Taxable Canadian Corporation (Form AT108).
    (c) Alberta Election on Disposition of Property by a Taxpayer to a Canadian Partnership (Form AT109).

89. Copies of Forms AT107, AT108 and AT109 are available on the Corporate Income Tax page of the Alberta website.

90. To be eligible to elect different amounts for Alberta tax purposes, the party acquiring the property and the party disposing of the property each must be a "qualified party" for the taxation year or fiscal period in which the transaction occurred. Furthermore, the party acquiring the property must continue to be a qualified party for all of its taxation years or fiscal periods beginning in the 36 months following the end of the taxation year or fiscal period in which the transaction occurred.

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91. For the purposes of making an election for Alberta tax purposes, a corporation is a qualified party if its Alberta Allocation Factor (as explained in the 'Amount Taxable in Alberta' section) is at least 90 per cent. A partnership is a qualified party if it would have an Alberta Allocation Factor for the taxation year of at least 90 per cent, if it were treated as a corporation having a taxation year corresponding to its fiscal period.

92. The qualified parties may jointly elect one of the following amounts:

(a) The amount deemed to be the proceeds of disposition and the cost of the property under the federal Act.
(b) The amount equal to the above amount less the cost of the property under the federal Act plus the cost amount of the property for the purposes of the Alberta Act, both determined immediately before the disposition.
(c) Any amount that is greater than or equal to the lesser of the above amounts, but less than or equal to the greater of the above amounts.

93. A corporation must file Form AT107 or Form AT108 by the time the corporation's AT1 is due for the last taxation year. The last taxation year begins in the 36-month period after the end of the taxation year in which the corporation acquired the respective property.

94. All members of a partnership must file Form AT109 by the time the AT1 is first due for a corporate member of the partnership for the member's taxation year. The taxation year includes the last fiscal period of the partnership beginning in the 36-month period after the end of the fiscal period in which the partnership acquired the property.

95. TRA will not accept an election that is filed past the due date.

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Qualifying Environmental Trusts

96. A qualifying environmental trust (QET) is a special kind of trust under the federal Act that is maintained solely for the purpose of accumulating funds to finance the future reclamation of a qualifying site, such as an oil sands mine or a pipeline, in Canada. A QET enables a corporation to claim a tax deduction in the year for amounts set aside for future reclamation. Corporations required to prefund reclamation may use QETs for this purpose so that contributions to the trust are tax deductible.

97. A QET resident in Alberta is required to pay Alberta tax on its trust income for the year at Alberta's corporate tax rate. A corporation that is a beneficiary of the QET also is required to report and pay tax on its share of the QET's income for the year. To offset this second level of tax on the QET's income, the corporation may apply for a refundable Alberta QET tax credit equal to the corporation's share of the amount of Alberta tax paid by the QET.

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Payment and Filing Requirements

98. Tax to be paid by a QET is imposed under the *Alberta Personal Income Tax Act* (APITA), which is administered by the Canada Revenue Agency.

99. Every QET resident in Alberta at the end of a taxation year must file a return and pay tax equal to its income for the year for the purposes of Part XII.4 of the federal Act multiplied by the applicable Alberta corporate tax rate for the respective taxation year. A QET resident in Alberta should follow the federal income tax laws and policies for filing federal returns and making payments in respect of the QET tax.

100. The taxation year of a QET is the calendar year.

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Alberta QET Tax Credit

101. A corporation that is a beneficiary of a QET may apply for an Alberta QET tax credit for a taxation year equal to the amount of Alberta tax paid by the QET on the corporation's share of the QET's income for the particular year. The Alberta QET tax credit is administered by TRA.

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102. A corporation entitled to an Alberta QET tax credit applies for the credit by claiming it on line 087 of the AT1.

103. In addition to the AT1, a corporation that applies for an Alberta QET tax credit for a taxation year will not be entitled to the credit unless it also submits to TRA a letter or statement from the respective QET specifying for the particular year

- the amount of trust income subject to Alberta tax as reported by the QET under the APITA,
- the amount of Alberta tax paid by the QET for its relevant taxation year,
- the corporation's share of the QET's income subject to Alberta tax, and
- the corporation's share of the Alberta tax paid by the QET on the corporation's share of the QET's income subject to Alberta tax.

104. The QET should issue such a letter or statement to each beneficiary corporation. The letter or statement should be sent to TRA by the corporation when the respective AT1 is filed.

105. A corporation that applies for an Alberta QET tax credit must file an AT1 for the year. The filing exemptions otherwise provided for in the *Alberta Corporate Tax Act* do not apply to a corporation that is claiming an Alberta QET tax credit.

106. For a corporation that is a member of a partnership, the Alberta QET tax credit to which the corporation is entitled will also include the aggregate total of each amount that can reasonably be considered the corporation's share of the relevant tax credit in respect of the partnership. For this purpose, the relevant tax credit in respect of a partnership is the amount that would, if the partnership were a person and its fiscal period were its taxation year, be the Alberta QET tax credit of the partnership for its taxation year that ends in the particular year.

107. A corporation that is entitled to an Alberta QET tax credit is deemed to have made a payment for the particular year on account of its tax payable equal to its Alberta QET tax credit for the particular year. The Alberta QET tax credit is a refundable credit, but will be first applied, effective as of the corporation's balance-due day, against the corporation's Alberta Tax Payable for the particular year. Therefore, the amount of the Alberta QET tax credit to which the corporation is entitled will reduce the amount upon which a late-filing penalty is calculated.

108. Any remaining balance of the Alberta QET tax credit in excess of the corporation's tax payable for the particular year will be applied against other amounts owing by the corporation. Other amounts may include interest, penalties, or tax from another taxation year, or any other amount owing to the Crown. Remaining balances are applied effective the later of the corporation's balance-due day for the particular year and the day on which the corporation's application for the Alberta QET tax credit was received by TRA. Any further remaining balance will be refunded to the corporation.

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