

NO.: **IT-273R2**

DATE: September 13, 2000

SUBJECT: **INCOME TAX ACT**
Government Assistance – General Comments

REFERENCE: Section 9, subsection 13(7.1), paragraphs 12(1)(x) and 53(2)(k) (also sections 66, 66.1, 66.2, 66.4 and 126; subsections 12(2.1), 12(2.2), 13(7.4), 13(21), 14(10), 14(11), 53(2.1), 127(9) and 248(16); paragraphs 12(1)(t), 20(1)(hh), 20(1)(hh.1), 40(2)(i), 53(2)(s) and 56(1)(s) of the *Income Tax Act*; and sections 6700, 6700.1, 6700.2, 6702, 6705 and 7300 of the *Income Tax Regulations*)

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Explanation of Changes

Application

This bulletin cancels and replaces Interpretation Bulletin IT-273R dated January 19, 1981, its Special Release dated December 31, 1981, and IT-182 dated October 28, 1974. It applies to the grants and other government assistance described in these previously cancelled bulletins: IT-53R, IT-204, IT-228R, IT-235, IT-249, IT-250, IT-251, IT-252, IT-253, IT-276, IT-279, IT-294 and IT-455. These bulletins were cancelled by Interpretation Bulletin Directive ITD-2 dated May 17, 1991, consequential on the introduction of paragraph 12(1)(x) applicable to certain inducements and assistance received after May 22, 1985. The effective date of a particular legislative provision discussed in the bulletin may be indicated in the *Explanation of Changes* section (or, in some cases, in the *Discussion and Interpretation* section) of the bulletin. However, where the bulletin is silent with respect to the effective date of a particular provision, such date can be obtained from the legislation itself.

Summary

This bulletin deals with the tax treatment of inducements and other forms of government assistance received by a taxpayer in the course of earning income from a business or property. It discusses when such assistance is taxable and when it is not, and the effect of any repayments. It explains the rules which allow a taxpayer to reduce the cost of a property when such assistance is received in respect of the acquisition of capital property. It discusses the tax implications for government assistance received by a member of a partnership or a beneficiary of a trust. It also discusses the income tax treatment of input tax credits used in determining the amount of goods and services tax payable in respect of a business.

Discussion and Interpretation

General Considerations

¶ 1. A taxpayer carrying on a business or earning income from property may receive some form of financial assistance from a government source as an inducement (e.g., measures to increase employment, measures to reduce production of certain inventory such as fish or produce), as a result of some governmental action other than expropriation (such as an order for the destruction of certain capital assets or inventory of the taxpayer, e.g., animals suffering from disease), or in respect of an income or property loss caused by a disaster (such as a flood, frost or explosion). To determine the tax treatment to be applied in respect of such financial assistance, the following factors must be considered:

- whether the taxpayer is entitled to the amount because of a contract, statute law, order-in-council, etc.; and
- whether the assistance is related to an expense or to the acquisition of capital property.

¶ 2. When assistance is received in the course of earning income from a business or property, the application of

well-accepted business principles for the purpose of calculating profit or loss under section 9 commonly requires the cost of an asset or the amount of an expense to be reduced by any reimbursement or similar payment that relates to the acquisition of the asset or the expense incurred. When a person has a right to an amount because of a contract, statute law, order-in-council, etc., the amount received for the loss or destruction of capital property is considered to be proceeds of disposition received on the disposition of that property, whereas any compensation received for the loss or destruction of inventory or for loss of profits is considered to be income from carrying on a business or income from property, as appropriate. If the application of well-accepted business principles relating to the calculation of profit or loss for the purpose of section 9 does not require the government assistance to be included in income, or to reduce the cost or capital cost of a property or the amount deductible as an expense, a specific provision of the *Income Tax Act*, such as paragraph 12(1)(t), 12(1)(x), 12(1)(x.1) or 28(1)(d) (which refers to amounts deferred under section 80.3), or subparagraph 56(1)(a)(vi), may apply to require the amount to be included in income.

Source of the Assistance

¶ 3. Other than the reference to assistance in ¶ 18, a reference to assistance in this bulletin includes all amounts described in ¶ 7 received directly from a government, municipality or other public authority. Such assistance includes amounts received from a federal, provincial or foreign government, a municipality, a crown corporation or any other public authority (referred to collectively as “government organizations” in this bulletin). Although consideration should also be given to the nature of the functions performed by the entity, a public authority is generally an entity which:

- (a) has a duty to the public;
- (b) is subject to a significant degree of governmental control; and
- (c) uses its profits for the benefit of the public.

Paragraph 12(1)(x) and the related provisions concerning government assistance will apply when a taxpayer receives assistance indirectly from a government organization after February 23, 1998, unless the assistance was received before February 23, 1998, unless the assistance was received before 1999 pursuant to an agreement in writing that was made before February 24, 1998. This includes assistance received from a not-for-profit entity that, in turn, receives its funding from a government organization.

Reduction of the Cost of Capital Property

Depreciable property

¶ 4. When a taxpayer receives or is entitled to receive government assistance in respect of depreciable property, the manner in which the reduction to the capital cost of the depreciable property is applied depends on whether the entitlement arises or the amount is received before the

disposition or after the disposition of the property for which the assistance is provided. When a taxpayer is entitled to receive assistance for a depreciable property before the property is disposed of, subsection 13(7.1) applies to reduce the capital cost of the property (as determined without reference to section 80, or subsection 13(7.1) or (7.4)) by the amount of the assistance. When a taxpayer is not entitled to receive and does not receive the assistance until after the depreciable property has been disposed of, it is the undepreciated capital cost (UCC) of the prescribed class of property in which the property was previously included that is reduced by means of variable J of the formula in subsection 13(21) for calculating the UCC of a class at a particular time. Refer to the current version of IT-478, *Capital Cost Allowance – Recapture and Terminal Loss*, for further information on how recapture of capital cost allowance may occur if the assistance is received after the property is disposed of.

Non-depreciable capital property

¶ 5. When a taxpayer receives or is entitled to receive government assistance in respect of capital property that is not depreciable property, paragraph 53(2)(k) normally applies to reduce the adjusted cost base (ACB) of the property. Although paragraph 53(2)(k) does not apply to assistance received or receivable in respect of shares of a prescribed venture capital corporation or prescribed labour-sponsored venture capital corporation, or shares of a taxable Canadian corporation held in a prescribed stock savings plan, any capital loss realized on the disposition of such shares must be reduced by the amount of assistance received or receivable in respect of that share by reason of paragraph 40(2)(i). If the property is disposed of before the assistance is received or becomes receivable, there is no provision to retroactively reduce the ACB of that property, and therefore the assistance must be included in income under paragraph 12(1)(x) when received.

Assistance provided in respect of eligible capital expenditures

¶ 6. Under subsection 14(10), the amount of a taxpayer's eligible capital expenditure in respect of a business is reduced by the full amount of any government assistance the taxpayer received or was entitled to receive, net of any amount repaid pursuant to a legal obligation to do so (see ¶ 27 for the effect of any repayments made pursuant to a legal obligation to do so). As a result, the amount of a taxpayer's eligible capital expenditure (and the resulting cumulative eligible capital) can change by virtue of the receipt or repayment of assistance as long as the taxpayer continues to carry on the business. However, when government assistance in respect of an eligible capital expenditure is received after a taxpayer ceases to carry on the business to which the eligible capital expenditure relates, it is included in income under paragraph 12(1)(x).

Amounts Included in Income Under Paragraph 12(1)(x)

Application of paragraph 12(1)(x)

¶ 7. Paragraph 12(1)(x) applies to amounts received in respect of an outlay, an expense or the cost of a property, whether received as a refund, reimbursement, contribution, allowance, or as assistance of any kind (including assistance in the form of a grant, subsidy, forgivable loan or deduction from tax), unless one of the exceptions in subparagraphs 12(1)(x)(v) to (viii) applies (see ¶ 8). Paragraph 12(1)(x) also applies to inducements of any kind, including grants, subsidies, allowances, forgivable loans and deductions from tax, unless one of the exceptions described in ¶ 8 applies.

Exceptions to the paragraph 12(1)(x) requirement

- ¶ 8. The amount of any assistance or inducement described in paragraph 12(1)(x) is not included in income if the amount:
- (a) is prescribed under section 7300 of the *Income Tax Regulations* (see ¶ 9);
 - (b) is otherwise included in the taxpayer's income for the year or a previous year (for example, if the amount is required to be included in income by reason of well-accepted business principles or any of the provisions of the Act noted in ¶ 2);
 - (c) reduces the cost or capital cost of a property (see ¶s 4, 5 and 10 to 13)—note, however, that paragraph 12(1)(x) does apply where the reduction is made only for the purposes of the definition of “investment tax credit” in subsection 127(9);
 - (d) reduces the amount in respect of an outlay or expense (see ¶s 14 and 15);
 - (e) is otherwise deducted in computing any balance of undeducted outlays, expenses or other amounts of the taxpayer for the year or a previous year (e.g., see ¶ 6 or ¶ 20); or
 - (f) is reasonably considered a payment made for the acquisition by the payer (i.e., a government organization) of an interest in the taxpayer or in the business or property of the taxpayer (for example, when in exchange for the funds, a government organization receives an entitlement to a share of the profits of the business).

Prescribed amounts

¶ 9. The prescribed amounts set out in section 7300 of the Regulations include certain payments to aboriginal-controlled corporations as well as assistance provided by a province or the federal government in the form of a tax credit or other assistance for the acquisition of a share of certain venture capital corporations prescribed in the Regulations. These amounts are not included in income under paragraph 12(1)(x) and do not reduce the ACB of any

shares of a “prescribed venture capital corporation”, a “prescribed labour-sponsored venture capital corporation” or shares of a taxable Canadian corporation held in a “prescribed stock savings plan”. However, see ¶ 5 for the effect of such assistance on the amount of any capital loss realized on the disposition of such shares.

Election to reduce the cost of capital property

¶ 10. A taxpayer may elect in accordance with subsection 13(7.4) or 53(2.1) to reduce the capital cost or cost of capital property acquired with assistance in order to defer the tax consequences of having an amount included in income under paragraph 12(1)(x). An election under subsection 13(7.4) may be made in respect of assistance received in respect of depreciable property, and an election under subsection 53(2.1) may be made in respect of assistance received in respect of capital property other than depreciable property, provided that the property is acquired in the year the assistance is received, the immediately following year or the immediately preceding three years. The elected amount cannot be greater than the least of:

- (a) the capital cost of the depreciable property as otherwise determined (but not including any adjustments required by reason of subsection 13(7.1)), or the ACB of any other capital property at the time the property was acquired, determined without reference to paragraph 53(2)(s),
- (b) the actual amount of assistance received, and
- (c) nil, in cases where the taxpayer has disposed of the property before the year in which the assistance is received.

¶ 11. With respect to non-depreciable capital property, the limit described in ¶ 10(a) will usually correspond to the actual cost of acquiring the property before the application of any of the adjustments in section 53. The limitation in ¶ 10(c) prevents a taxpayer from making an election in respect of property which has been disposed of before the taxation year in which the assistance is received. Although a taxpayer does not have to elect on the full amount of assistance received, any assistance in excess of the elected amount is included in income under paragraph 12(1)(x).

¶ 12. A taxpayer may make the above elections in the year the assistance is received or in the following year if the property was acquired in that year. In both cases, the election must be filed no later than the day on which the income tax return for the year (i.e., the taxation year of receipt or the taxation year of acquisition) is due. The election is made by means of a signed letter accompanying the applicable income tax return which states:

- (a) the subsection under which the election is being made;
- (b) the elected amount;
- (c) the amount of assistance and the date it was received;
- (d) the date the property was acquired; and

- (e) the ACB or the capital cost of the property as determined before it is reduced by the elected amount.

¶ 13. When an amount of assistance is received in a year and the property to which the assistance relates is acquired in the immediately following year, the amount is required to be included in income for the year of receipt under paragraph 12(1)(x) unless one of the exceptions in ¶ 8 applies. When the property is acquired in the following year, and the taxpayer makes an election under subsection 13(7.4) or 53(2.1), the tax return for the previous year will be reassessed to remove the amount included in income to the extent of the elected or specified amount. However, if the property is acquired on or before the date on which the taxpayer is required to file the tax return for the year in which the assistance is received, the election can be filed with that return and the amount of the assistance that is subject to the election need not be included in income under paragraph 12(1)(x) for that previous year.

Election to reduce the amount of an outlay or expense

¶ 14. Under subsection 12(2.2), a taxpayer may elect to reduce the amount of an outlay or expense (whether deductible or not) incurred in the year, the immediately following year or any preceding year by all or part of the government assistance received in the year in respect of the outlay or expense and which would otherwise be included in income under paragraph 12(1)(x). This election may be made in respect of assistance other than assistance received for an outlay or expense which relates to the cost of the taxpayer’s property (e.g. legal fees to acquire capital property). The effect of an election under this provision is to reduce the amount required to be included in income under paragraph 12(1)(x) for the year in which the assistance is received, and to reduce the amount of the related expense or outlay. If the amount was deducted in computing the taxpayer’s income for a preceding year, an adjustment to that year would be required in order to make the election effective. When the adjustment to reduce the expense or outlay relates to a taxation year for which a notice of assessment has already been issued, subsection 12(2.2) provides that a notice of reassessment may be issued even though the normal reassessment period has expired and a waiver as described in subsection 152(4) has not been filed by the taxpayer. Such a reassessment will include an adjustment to any interest or penalties which may be applicable to the taxation year so reassessed.

¶ 15. An election under subsection 12(2.2) must be filed on or before the date that the income tax return is due to be filed (or would be due if income tax were payable under Part I for that year) for the year the assistance is received or for the year the outlay or expense is made or incurred, whichever is later. The election is made in a manner similar to that described in ¶ 12, indicating the amount of the outlay or expense and the date on which the outlay or expense was made or incurred.

Forgivable loans and guarantees

¶ 16. Forgivable loans and payments by government organization guarantors are included in income under paragraph 12(1)(x) at the time the loan is granted or the guarantor makes a payment to the creditor unless one of the exceptions described in ¶ 8 applies or the taxpayer makes an election as discussed in ¶s 10 to 15. With respect to a forgivable loan, if it is later established that the amount of the loan to be forgiven is less than the amount included in the debtor's income under paragraph 12(1)(x) and the debtor is legally obligated to repay the difference, the taxpayer is entitled to a deduction under paragraph 20(1)(hh) in the year in which the amount is so repaid (see ¶ 26). The fact that a loan is interest-free or that the rate of interest on the loan is less than the existing commercial rate of interest will not normally cause a loan to be considered as assistance for the purpose of paragraph 12(1)(x). With respect to a payment by a guarantor, if the debtor is legally obligated to repay the guarantor, a deduction under paragraph 20(1)(hh) is likewise available to the debtor for the year the repayment is made.

Tax credits and deductions from tax

¶ 17. Federal and provincial tax credits and deductions from tax which are in the nature of inducements, or which are received as assistance for the cost of property or an expense, are included in income under paragraph 12(1)(x) in the year received unless one of the exceptions discussed in ¶ 8 applies. The federal small business deduction is an example of a deduction from tax that is neither an inducement nor assistance for the cost of a property or expense and thus, is not included in income under paragraph 12(1)(x). A tax credit or deduction from tax is considered to be received (and therefore included in income if it is an inducement or assistance in respect of the cost of property or an expense) at the earliest of when it is applied:

- to reduce a taxpayer's tax instalment payable, and
- to create or increase a tax refund or to reduce tax liability for a taxation year.

Note that although subsections 125.4(5) and 125.5(5) deem the tax credits in respect of film or video productions to be assistance for the purpose of paragraph 12(1)(x), these provisions were enacted to establish the timing of the receipt of the assistance for all purposes of the *Income Tax Act*. In contrast to the general timing rule described above, by virtue of subsections 125.4(5) and 125.5(5), tax credits received under sections 125.4 and 125.5 are always considered to be received before the end of the taxation year to which the credits pertain. The lack of such a deeming provision in respect of other tax credits or deductions from tax does not mean that such amounts are not considered to be government assistance.

Refunds

¶ 18. A refund of an amount that was deducted as an expense in a prior year could be included in income under paragraph 12(1)(x) regardless of whether it can be

considered as an inducement or assistance (within the ordinary meaning of these terms). For example, when a taxpayer receives a refund of tax after 1990 which was deducted as an expense in a prior year, the amount of the refund is included in income under paragraph 12(1)(x) in the year the refund is received to the extent that an assessment or reassessment of another taxation year has not been issued to apply the refund as a reduction in the cost of property or the amount of an expense deducted in that other taxation year. Similarly, countervailing and anti-dumping duties payable by a taxpayer after February 23, 1998 are deductible under paragraph 20(1)(vv), and any amount which is later refunded is required to be included in income under paragraph 12(1)(z.6).

Partnerships and Trusts

¶ 19. Subsection 12(2.1) of the Act deems government assistance received by a beneficiary of a trust or by a member of a partnership to be received by the trust or partnership when it is provided in respect of an expense of, or activity carried on by, the trust or partnership, or in respect of the cost of property owned by the trust or partnership. Similarly, where a beneficiary of a trust or a member of a partnership receives or is entitled to receive government assistance that can reasonably be considered to be in respect of, or for the acquisition of, property the cost of which was an eligible capital expenditure of the trust or partnership, subsection 14(11) of the Act deems that assistance to be received by the trust or partnership. When subsection 12(2.1) applies, the assistance is included in the income of the partnership or trust under paragraph 12(1)(x) unless one of the exceptions in ¶ 8 applies in respect of the trust or partnership. See ¶ 6 for a discussion of the tax treatment of assistance provided in respect of eligible capital expenditures.

Assistance Provided in Respect of Resource Property

¶ 20. The *Income Tax Act* requires taxpayers in the resource industry to maintain separate accounts, or pools, for certain exploration and development expenses. The expenses which must be accounted for on a pooled basis include Canadian exploration expenses, Canadian development expenses, and Canadian oil and gas property expenses. Any assistance which a taxpayer receives, or is entitled to receive, for these expenses is generally deducted from the relevant pool. Such assistance is defined in subsection 66(15) and includes any form of financial aid received or receivable from any government, municipality or other public authority for exploration and development expenses incurred. This assistance also reduces the amount which can be renounced to the holders of flow-through shares under subsections 66(12.6) and (12.62). To the extent the assistance reduces a pool, it is not included in income under paragraph 12(1)(x). The amount of any assistance which the taxpayer is legally obligated to repay is added back to the pool when it is repaid.

Investment Tax Credit

¶ 21. An investment tax credit normally reduces the cost of the related expenditure for tax purposes (e.g., the cost or capital cost of the property to which the investment tax credit relates or the undepreciated capital cost of the relevant class of depreciable property in which the property belongs). To the extent that such a reduction does not take place (for example, when the tax credit relates to non-depreciable property that was acquired and disposed of in taxation years preceding the year in which the credit is claimed), the amount of the investment tax credit is included in income under paragraph 12(1)(t) for the taxation year following the later of the year in which the credit is claimed and the year in which the related expenditure took place.

Goods and Services Tax

¶ 22. The *Excise Tax Act* provides an input tax credit to a person who is registered for the purpose of collecting and remitting GST/HST (the goods and services tax or harmonized sales tax) on the goods and services provided by that person in the course of a commercial activity. Generally, the input tax credit is equal to the GST/HST paid or payable for the purchase of a property, supply or service which, in turn, is used to provide a good or service in the course of that person's business. In addition, various rebates of GST/HST (e.g., for the purchase of an individual's residence from a builder) are available under the *Excise Tax Act*. For the purposes of this bulletin, subsection 248(16) of the Act deems the amount claimed as an input tax credit or a rebate to be government assistance received by the taxpayer. Thus, for example, the amount of any input tax credit or rebate which is deemed to be received by a taxpayer:

- is included in income under paragraph 12(1)(x) to the extent it relates to GST/HST paid for an outlay or expense;
- reduces the capital cost of depreciable property under subsection 13(7.1) to the extent it relates to GST/HST paid for such property; or
- reduces the ACB of non-depreciable capital property under paragraph 53(2)(k) to the extent it relates to GST/HST paid for such property.

Inducements to Medical Practitioners

¶ 23. Government organizations may provide financial incentives to recruit health care professionals to practice in designated underserved areas. Such grants are included in income under paragraph 12(1)(x) when none of the exceptions described in ¶ 8 applies.

Assistance from a Foreign Government

¶ 24. Subsection 13(7.1) or 13(21), or paragraph 53(2)(k) can also apply when assistance is received from a foreign government for the acquisition of depreciable or non-depreciable capital property. However, when the amount of assistance reduces the income tax paid to a foreign

country, it may reduce the foreign tax credit available in Canada under section 126. To the extent that a reduction in foreign income tax payable reduces the amount of the foreign tax credit available to be applied to tax payable in Canada, it is not considered to be assistance and does not reduce the cost of the property nor is it required to be included in income under paragraph 12(1)(x).

Natural Disasters

¶ 25. When a natural disaster strikes, government assistance may be received in respect of the operation of a business, property held for the purpose of earning income, or a personal loss or expenditure. Generally, payments received by an individual from a government for personal losses and expenses incurred as a result of a disaster, including payments for temporary housing and meals during the disaster, are not included in income for tax purposes. As well, government compensation received for loss or damage to personal-use property does not ordinarily result in any tax consequences. However, assistance received in respect of capital property, whether business-related or personal, is ordinarily netted against the cost of the repairs made to that property or, if it relates to the replacement of that property, it normally reduces the cost or capital cost of the property so acquired. When government assistance is received for damaged inventory (e.g., spoiled milk, destroyed or damaged trees), the amount will be included in income under paragraph 12(1)(x) to the extent that the assistance does not reduce the amount of costs incurred related to that damage.

Repayments of Assistance

General

¶ 26. A deduction is available under paragraph 20(1)(hh) in respect of the repayment of government assistance that was previously included in income under paragraph 12(1)(x), provided that the taxpayer is under a legal obligation to repay such an amount. A deduction may also be available for the repayment of assistance that was not included in income under paragraph 12(1)(x) provided the reason it was not included in income is because it reduced the amount of an outlay or expense that was otherwise deductible in computing income for a taxation year and the taxpayer was under a legal obligation to repay the amount. For this purpose, an outlay or expense does not include an amount which relates to the cost of property or to an amount which is, or would be, deductible under section 66, 66.1, 66.2 or 66.4, if the income-based limitations on deductions under those sections were not taken into account.

Repayments of assistance in respect of eligible capital expenditures

¶ 27. When a taxpayer repays all or part of the assistance received in respect of an eligible capital expenditure pursuant to a legal obligation to do so, the amount of the eligible capital expenditure is increased to the extent of the repayment under paragraph 14(10)(b). As stated in ¶ 6, the

amount of a taxpayer's eligible capital expenditure (and the resulting cumulative eligible capital) can change as a result of the receipt or repayment of assistance as long as the taxpayer continues to carry on the business. When the repayment of an amount that the taxpayer was legally obligated to repay relates to assistance received in respect of an eligible capital expenditure for a business which has ceased at the time of the repayment, paragraph 20(1)(hh.1) provides for a deduction of three quarters (3/4) of the amount so repaid.

Repayments of assistance in respect of non-depreciable capital property

¶ 28. The repayment of assistance received in respect of a capital property (other than depreciable property), pursuant to a legal obligation to do so, decreases the amount of the reduction of the ACB of the property under paragraph 53(2)(k), or—where the taxpayer has made an election under subsection 53(2.1)—subparagraph 53(2)(s)(ii). In effect, the ACB of the property is increased by virtue of the repayment. If the property is disposed of before the assistance is repaid, there is no provision to adjust the capital gain or loss previously realized on the disposition of that property; however, the amount of the repayment is deemed to be a capital loss under subsection 39(13). If the property is disposed of before the assistance is received, and consequently the assistance is included in income under paragraph 12(1)(x) because it is no longer possible to adjust the ACB of the property, then the amount of any subsequent repayment of assistance may be deducted from income under paragraph 20(1)(hh).

Repayments of assistance in respect of depreciable property

¶ 29. The tax treatment of repayments of assistance received in respect of depreciable property depends on whether the taxpayer still owns the property at the time the assistance is repaid. When the taxpayer still owns the property and repays all or part of the assistance pursuant to a legal obligation to do so, the amount repaid increases the capital cost of the property under paragraph 13(7.1)(d), or—in those cases where the taxpayer has made a subsection 13(7.4) election—under paragraph 13(7.4)(b). A repayment which is made after the related depreciable property has been disposed of increases the UCC of the relevant class of depreciable property by reason of variable C or D of the formula in subsection 13(21), provided that the taxpayer is under a legal obligation to repay that amount. When the repayment is made after the taxpayer ceases to carry on business, the adjustment to the UCC may result in a deduction under subsection 20(16); refer to the current version of IT-478 for further details.

Repayments of assistance after amalgamation

¶ 30. The treatment of government assistance received by predecessor corporations but repaid by a new (amalgamated) corporation is described in the current version of Interpretation Bulletin IT-474, *Amalgamations of Canadian Corporations*.

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Explanation of Changes

Introduction

The purpose of the *Explanation of Changes* is to give the reasons for the revisions to an interpretation bulletin. It outlines revisions we have made as a result of changes to the law as of the date of this publication, as well as changes reflecting new or revised interpretations.

Overview

Interpretation Bulletin IT-273R discussed the general principles concerning the taxation of government assistance received by a taxpayer. This revision reflects legislative changes made since the date of the last bulletin up to and including amendments contained in S.C. 1998, c. 19 and S.C. 1999, c. 22 (primarily the introduction of paragraph 12(1)(x)).

Legislative and Other Changes

¶s 1 and 2 were added to incorporate the comments in IT-182 and provide general comments on the taxation of government assistance (the comments in ¶3 of that bulletin and comments on the taxation of assistance from persons described in subparagraph 12(1)(x)(i), which relate to assistance received from non-government sources, are beyond the scope of this bulletin).

¶ 3 was added to clarify the meaning of “government assistance” for all purposes of the bulletin.

¶ 4 incorporates and updates former ¶ 10.

¶ 5 was added as a result of S.C. 1994, c. 21 to explain the effect of the amendment to clause 53(2)(k)(i)(C) and provides a general description of how government assistance affects the ACB of both prescribed and non-prescribed capital property.

¶ 6 was added as a result of S.C. 1995, c. 21 to explain the effect of subsection 14(10), applicable to assistance received after February 21, 1994, in respect of an eligible capital expenditure related to a business.

¶s 7 to 18 were added to provide a general explanation of the operation of paragraph 12(1)(x) as it relates to assistance received from a government source.

¶ 19 was added as a result of S.C. 1986, c. 6 to provide a general explanation of the operation of subsection 12(2.1) as it relates to government assistance received by a partner or a member of a trust.

¶ 20 was added to explain that government assistance received in respect of resource expenditures reduces the related expenditure pool and is thus not included in income under paragraph 12(1)(x).

¶ 21 was added to explain the timing of the income inclusion required under paragraph 12(1)(t) for investment tax credits.

¶ 22 was added to explain the income tax treatment applicable to rebates of GST/HST as well as input tax credits used in calculating the amount of GST/HST payable by a person who is registered under the *Excise Tax Act*. Refer to the Canada Customs and Revenue Agency’s GST guides, forms and memoranda for further details on the GST/HST generally.

¶ 23 was added to clarify that paragraph 12(1)(x) does apply to payments made by a government organization to medical practitioners to induce them to practise in underserved areas. Interpretation Bulletin IT-204, which applied prior to the introduction of paragraph 12(1)(x), stated that such grants were non-taxable if received as a lump sum to establish a practice rather than as an income supplement. IT-204, along with several other bulletins, was cancelled by Interpretation Bulletin Directive ITD-2 dated May 17, 1991, consequential on the introduction of paragraph 12(1)(x). The grant programs described in the other bulletins cancelled by ITD-2 which were considered non-taxable prior to the introduction of paragraph 12(1)(x) are no longer in existence in the form described in those bulletins. Government programs initiated since the cancellation of those programs which provide similar assistance or inducements are taxable to the extent provided by paragraph 12(1)(x).

¶ 24 incorporates and updates ¶ 9.

¶ 25 was added to provide specific comments with respect to government assistance received as a result of a natural disaster.

¶s 26 to 29 expand upon the comments in former ¶ 11 and clarify that an increase in the capital cost, UCC or ACB is only available if the repayment of the assistance is made pursuant to a legal obligation to do so. ¶s 26 to 29 also provide an explanation of paragraphs 20(1)(hh) and (hh.1) as they relate to repayments made after the property or business has been disposed of.

¶ 30 is former ¶ 15.

Former ¶s 2 to 7 have been deleted because the discussion contained therein is no longer relevant in light of paragraph 12(1)(x).

Former ¶ 8 has been deleted because the discussion contained therein is found in new ¶s 4, 5 and 8.

Former ¶s 12 and 13 have been deleted because subsection 13(10) (which deemed the cost of certain property acquired before April 1, 1972 to be 115% of its actual cost) is not relevant for current taxation years.

Former ¶ 14, while correct in law, has been deleted as unnecessary.

In addition, throughout the bulletin, we have made minor changes for clarification or readability purposes.