Fishing Income

2002

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Before You Start

Is this guide for you?

This guide is for you if you earned income as a self-employed fisher or as a partner in a fishing partnership. It will help you calculate the fishing income to report on your 2002 income tax return. *

*The term **income tax return** used in this guide has the same meaning as **income tax and benefit return**.

You can be a self-employed fisher and also a partner of one or more fishing partnerships. For instance, you may have fished for groundfish by yourself and also have been in a lobster-fishing partnership with your child.

Generally, we consider you to be a self-employed fisher if the following applies to you:

- you participate in making a catch;
- you are not fishing for your own or another person's sport; and
- you meet at least one of the following conditions:
  - you own or lease the boat which is used to make the catch;
  - you own or lease specialized fishing gear (not including hand tools or clothing) used to make the catch;
  - you hold a species licence, issued by Fisheries and Oceans Canada, necessary to make the catch; or
  - you have a right of ownership to all or part of the proceeds from the sale of the catch, and you are responsible for all or part of the expenses incurred in making the catch. This means you have to pay a predetermined amount or percentage of the expenses, such as fuel, incurred by the crew in making the catch, regardless of the value of the catch.

What is fishing income?

Fishing income includes income you earned from fishing for or catching:

- shellfish;
- crustaceans; and
- marine animals.

Fishing income does **not** include income you earned from working as an employee in a fishing business.

If you are not sure whether you are a self-employed fisher or an employee, see the *Fishers and Employment Insurance* guide.

For basic goods and services tax/harmonized sales tax (GST/HST) information, see page 37.

Forms and publications

In the middle of this guide, you will find two copies of Form T2121, *Statement of Fishing Activities*. The form can help you calculate your income and expenses for income tax purposes. We encourage you to use this form. However, you do not have to use it. We will accept other types of financial statements.

You have to complete a separate form for each business you operate. Interpretation Bulletin IT-206, *Separate Businesses*, has more details.

Throughout the guide, we also refer to other forms and publications. If you need any of these, visit our Web site at **www.ccra.gc.ca**. You may want to bookmark this address for easier access to our site in the future.

You can also order forms or publications by calling us at 1-800-959-2221.

Do you need more information?

This guide uses plain language to explain the most common tax situations. If, after reading this guide, you need more information about fishing businesses, call our Business Enquiries line at **1-800-959-5525**.

La version française de ce guide est intitulé *Revenus de pêche*.

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Visually impaired persons can order this publication in braille or large print, or on audio cassette or computer diskette, by calling 1-800-267-1267 weekdays between 8:15 a.m. and 5:00 p.m. (Eastern Time).

Chapter 1 – General Information

This chapter has general information for all businesses. It also provides information specifically of interest to partnerships.

Business and business income

A business is an activity that you intend to carry on for profit and there is evidence to support that intention. A business includes:

- a profession;
- a calling;
- a trade;
- a manufacture;
- an undertaking of any kind; and
- an adventure or concern in the nature of trade (for more details, see Interpretation Bulletin IT-459, *Adventure or Concern in the Nature of Trade*).

Business income includes income from any activity you do for profit. See "What is fishing income?" on page 2 for a list of activities that could produce fishing income. Do not include employment income as business income.

> **Note**
> Include all your income when you calculate it for tax purposes. If you repeatedly fail to report all your income, you may be subject to a penalty of 10% of the amount you failed to report.

You were asking?

Q. When does a business start? Can I deduct the costs I incur before and during the start of a business?

A. We look at each case on its own merit. Generally, we consider that a business starts whenever you start some significant activity that is a regular part of the business, or that is necessary to get the business going.

For example, suppose you decide to start a fishing business and you buy enough equipment to start the business. We would consider this to be the starting point of your business. You can usually deduct expenses you have incurred from that date to earn the business income. You could still deduct the expenses even if, despite all your efforts, the business wound up. On the other hand, assume you review several different business prospects in the hope of going into business in the fishing industry. In this case, we would not consider that the business has begun, and you cannot deduct any of the costs you incur.

For more details about the start of a business, see Interpretation Bulletin IT-364, *Commencement of Business Operations*.

The law allows Statistics Canada to access business information collected by Canada Customs and Revenue Agency (CCRA). Statistics Canada can now share with provincial statistical agencies, for research and analysis purposes only, data concerning business activities carried out in their respective province.

How do you calculate your fishing income?

Fiscal period

You report your fishing business income based on a **fiscal period**. A fiscal period is the time covered from the day your fishing business starts its business year, to the day your fishing business ends its business year. For an existing business, the fiscal period is usually 12 months. A fiscal period cannot be longer than 12 months. However, it can be shorter than 12 months in some cases, such as when a new business starts or when a business stops.

Self-employed individuals generally have to use a December 31 year-end. If you are an eligible individual, you may be able to use an alternative method of reporting your business income, which allows you to have a fiscal period that does not end on December 31. If you have a fiscal-year end that is not December 31, see the *Reconciliation of Business Income for Tax Purposes* guide to calculate the amount of your fishing income to report on your 2002 income tax return. The guide includes Form T1139, *Reconciliation of 2002 Business Income for Tax Purposes*.

If you filed Form T1139 with your 2001 income tax return, you generally have to file one again for 2002.

Cash method

When you use this method you:

- report income in the fiscal period you receive it; and
- deduct expenses in the fiscal period you pay them.

For more information on certain exceptions, see "Prepaid expenses" on page 13.

The following post-dated cheque rules apply to income-producing transactions, such as the sale of fish. They do not apply to transactions involving capital property, such as the sale of a boat.

If you receive a post-dated cheque as security for a debt, include the amount in income when the cheque is payable.

However, if you receive a post-dated cheque as security for a debt and the cheque is payable before the debt is due, include the amount in your income on one of the following dates, whichever is earlier:

- the date the debt is payable; or
- the date you cash or deposit the cheque.

If you receive a post-dated cheque as an absolute payment for a debt, include the amount in your income when you receive the cheque. If the bank does not honour the cheque, you can adjust your income then.

When you use the cash method in a fishing business, do not include inventory when you calculate your income. However, you can inventory your nets and traps. We explain this on page 15.

A fishing partnership can use the cash method only if all the partners agree to use it.

For more details on the cash method for fishing businesses, see Interpretation Bulletin IT-433, *Farming or Fishing – Use of Cash Method*.

Accrual method

When you use this method you:

- report income in the fiscal period you earn it, no matter when you receive it; and
- deduct expenses in the fiscal period you incur them, whether or not you pay them in that period.

For more information on certain exceptions, see "Prepaid expenses" on page 13.

When you calculate your income, include the value of all inventories of fish, fish by-products, supplies, and so on. Make a list of your inventory and count it at the end of your fiscal period. Keep this list as part of your business records.

The value you give to your year-end inventory is important for calculating your income. If this is your first year of fishing, there are two methods you can use to value your inventory:

- Value your entire inventory at its fair market value (FMV). Use either the price you would pay to replace an item, or the amount you would get if you sold an item. See page 22 for the meaning of **fair market value**.
- value individual items in your inventory at either their FMV, or their cost, whichever is less. Cost is the price you incur for an item. Cost also includes any expenses you incur to bring the item to the business location, and to put it in a condition so that you can use it in the business. When you cannot easily tell one item from another, you can value the items as a group.

Once you have chosen a method for valuing your inventory, you have to use that method consistently. If this is not your first year of fishing business, use the same method you used in past years to value your inventory.

The value of your inventory at the start of your 2002 fiscal period is the same as the value at the end of your 2001 fiscal period. In your first year of fishing business, you will not have an opening inventory at the start of your fiscal period.

For more details on inventories, see Interpretation Bulletin IT-473, *Inventory Valuation*, and its Special Release.

Changing your method of reporting income

If you decide to change your method of reporting income from the accrual method to the cash method, use the cash method when you file your income tax return. Make sure you include a statement that shows each adjustment you had to make to your income and expenses because of the difference in methods.

If you decide to change from the cash method to the accrual method, you have to ask the director of your tax services office. Ask for this change in writing before the date you have to file your income tax return. In your letter, explain why you want to change methods.

Because there is a difference between the cash and accrual methods, the first time you file your income tax return using the accrual method, make sure you include a statement that shows each adjustment you had to make to your income and expenses.

Business records

You have to keep records of all your transactions to be able to support your income and expense claims. Therefore, your records should be complete and organized.

There are other benefits to keeping careful records:

- When you earn income from many places, good records help you identify the source of the income. Unless you keep proper records, you may not be able to prove that some income is not from your fishing business, or that it is not taxable.
- Keeping good records will remind you of expenses you can deduct when it is time to file your income tax return.
- Good records will keep you better informed about the past and present financial position of your fishing business.
- Good records can help you budget and spot trends in your fishing business, and get help from banks and other lenders.
- Good records can prevent problems you may run into if we audit your income tax returns.

Income records

Keep track of the gross income your fishing business earns. Gross income is your total income before you deduct expenses. Your income records should show the date, the amount, and the source of the income. Record the income whether it was payable in cash, property, or services.

Support all income entries with original documents. Original documents include sales slips for each landing, trip settlement sheets, and slips or records of sale to the public, retailers, and restaurants.

For an example of how to record your income, see page 6.

Expense records

Always get receipts, invoices, or other vouchers when you buy something for your business. When you buy merchandise or services, the receipts have to show:

- the date of the purchase;
- the name and address of the seller or supplier;
- the name and address of the purchaser; and
- a full description of the goods or services.

For an example of how to record your expenses, see page 6.

You were asking?

Q. What should I do if there is no description on a receipt?

A. When you buy something, make sure the seller describes the item on the receipt. If there is no description, write one on the receipt or in your expense journal.

Q. What should I do if a supplier does not give me a receipt?

A. When you buy something, ask for a receipt. However, some suppliers may not give receipts. In this case, write the information in your records. Show the name and address of the supplier, the date of your purchase, the amount you paid, and the details of the transaction.

If you plan to claim capital cost allowance (CCA), keep a record of the properties you bought and sold. This record should show who sold you the property, the cost, and the date you bought it. This information will help you calculate your CCA. For more details on CCA, see Chapter 3.

If you sell or trade a property, show the date you sold or traded it, and the amount you got from the sale or trade-in.

Your record books

Keep a record of your daily income and expenses. We do not issue record books or suggest a type of book or set of books. There are many record books and bookkeeping systems available. For example, you can use a book that has columns and separate pages for income and expenses.

Keep your books, along with your receipts, duplicate deposit slips, bank statements, and cancelled cheques. Keep separate records for each business you run. If you want to keep computerized records, make sure they are clear and easy to read.

> **Note**
> Do not send your records with your income tax return. However, keep them in case we ask to see them later.

If you do not keep the necessary information and you do not have any other proof, we may have to determine your income using other methods. We may also have to reduce the expenses you deducted.

Example

Summary Sheet for a Fishing Boat – Fishing on a Share Basis

Date	Gross stock	Boat share	Oil	Bait	Ice	Food	Captain's commis-sion	Crewman No.1	Crewman No.2	Crewman No.3	Crewman No.4	Totals
February 14	$10,000	$ 4,000	$300	$400	$200	$300	$200	$1,150	$1,150	$1,150	$1,150	$10,000
March 10	30,000	12,000	300	400	200	300	600	4,050	4,050	4,050	4,050	30,000
March 19	20,000	8,000	300	400	200	300	400	2,600	2,600	2,600	2,600	20,000
Totals												

Summary Sheet for Boat and Other Expenses

Date	To whom paid	Boat repairs	Engine repairs	Electrical equipment repairs	Radar rental	Insurance	Interest on loan	Nets, traps, twine	Wages	Other	
										Description	Amount
January 19	Shipyard	$1,500	$900								
February 3	X Suppliers Ltd.							$600			
March 31	Rental services				$800						
March 31	Fishermen's loan					$2,250	$945				
April 4	L. Electronics			$85							
April 12	B. Garage									Car repairs	$ 75
May 2	J.G. Smith								$120		
May 16	L. Electronics									Sounder	3,000
	Totals										

Summary Sheet for Sales Other Than From Fishing on a Share Basis

Date	To whom sold	Gross landings	Deducted from sales proceeds			Net cash received
			Gas	Bait	Other	
January 16	Fish Packers	$1,000	$36.50	$74.90	$20	$868.60
20	Fish Packers	800	20.00	36.00	10	734.00
21	J. Restaurant – no fish slip	100				100.00
25	Fish Packers	940	32.00	56.00	12	840.00
	Totals					

Summary Sheet for Expenses (other than those deducted on fish slips)

Date	To whom paid	Boat repairs	Engine repairs	Wages paid	Bait	Gas for boat	Rope	Motor vehicle expenses	Materials, traps, nets	Other	
										Description	Amount
January 4	X Suppliers						$25		$85		
5	Shipyard	$300									
7	Provincial Gov.									Fishing Licence	$ 7
7	B. Insurance							$280			
9	X. Service Station							16			
12	F. Jones			$85							
31	Fishermen's Loan									Interest	175
	Totals										

You use the totals to complete Form T2121, *Statement of Fishing Activities*.

Time limits

Depending on the situation, keep your books, records, and related vouchers for the following lengths of time:

- if you file your income tax return on time, a minimum of six years after the end of the tax year to which they relate;
- if you file your income tax return late, six years from the date you file that income tax return; and
- if you file an objection or appeal, until either the issue is settled and the time for filing any further appeal expires, or the six-year period mentioned above has expired, whichever is later.

If you want to destroy your books, records, and related vouchers before the minimum six-year period is over, you must first get written permission from the director of your tax services office. To do this, either use Form T137, *Request for Destruction of Books and Records*, or prepare your own written request. Information Circular 78-10, *Books and Records Retention/Destruction,* and its Special Release have more details.

Instalment payments

As a self-employed fisher, you may have to make an annual instalment payment by December 31, 2003. If you have to pay your tax by instalment, we will send you an instalment reminder in late November telling you how much to pay. You may have to pay a penalty and interest if you do not pay the full instalment amount you owe on time.

For more information, see the pamphlet *Paying Your Income Tax by Instalments*. If you would like to calculate your instalment, see Form T1033-WS, *Worksheet for Calculating 2003 Instalment Payments*.

Note
If any of the dates mentioned above fall on a Saturday, Sunday, or a statutory holiday, you have until the next business day to make your payment.

Dates to remember

February 28, 2003 – If you have employees, file your 2002 T4 Summary and T4A Summary returns. Also, give your employees their copies of the T4 and T4A slips.

March 31, 2003 – Most fishing partnerships will file a partnership information return by March 31, 2003. However, there are exceptions. See the *Guide for the Partnership Information Return* and Information Circular 89-5, *Partnership Information Return,* and its Special Release.

April 30, 2003 – Pay any balance owing. File your 2002 income tax return if the expenditures of the business are primarily the cost or capital cost of tax shelter investments.

June 15, 2003 – File your 2002 income tax return if you have self-employment income, or if you are the spouse or common-law partner of someone who has such income, unless the expenditures of the business are primarily the cost or capital cost of tax shelter investments. However, you have to pay any balance owing by April 30, 2003, to avoid interest charges.

December 31, 2003 – Pay your 2003 instalment for income tax and Canada Pension Plan (CPP) contributions.

Note
If any of the dates mentioned above fall on a Saturday, Sunday, or a statutory holiday, you have until the next business day to file your returns or make your payments.

What is a partnership?

A partnership is usually the relationship between persons who carry on a business in common with the belief that they will make a profit. You can have a partnership without a written agreement. Therefore, to determine if you are a partner, determine the type and extent of your involvement in the business. Read the laws of your province or territory to help you decide if you are a partner in a business.

When you form, change, or dissolve a partnership, consider:

- whether the relationship is a partnership;
- the special rules about capital gains or losses and the recapture of CCA that apply when you give properties to a partnership. For details on CCA, see Chapter 3;
- the rules that apply when you dissolve a partnership; and
- the rules that apply when you sell or dispose of your interest in a partnership.

Interpretation Bulletin IT-90, *What is a Partnership?* has more details about partnerships.

Reporting partnership income

A partnership does not pay tax on its income or file an income tax return. Instead, each partner files an income tax return to report his or her share of the partnership's net income or loss. The partners have to do this whether the share of income was received in cash or as a credit to a capital account in the partnership.

Goods and services tax/harmonized sales tax (GST/HST) rebate

If you are a partner of a partnership and you claimed expenses on your income tax return, you may be able to get a rebate for any GST/HST you paid on the expenses.

The GST/HST rebate is available to you as long as you meet **both** of these conditions:

- you are a partner of a GST/HST-registered partnership; and
- on your income tax return, you deduct expenses incurred to earn partnership income for which the partnership did not repay you.

We base the rebate on the amount of the expenses subject to GST/HST that you deduct on your income tax return. Examples of expenses subject to GST/HST are vehicle costs and certain business-use-of-home expenses. You can also get a GST/HST rebate for CCA you claim on certain types of property. For example, you can claim CCA for a vehicle you bought to earn partnership income, if you paid GST/HST when you bought it. Use the chart "Other amounts deductible from your share of net partnership income (loss)" on page 2 of Form T2121, *Statement of Fishing Activities*, to claim expenses for which the partnership did not reimburse you, and any other deductible amounts. For more information, see "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" on page 20.

For more details about the GST/HST rebate, see the *GST/HST Rebate for Partners* guide which includes Form GST370, *Employee and Partner GST /HST Rebate Application*.

Partnership losses

A partnership can have a loss. However, apply the loss carry-over rules to each partner, and not to the partnership. For example, when you complete your income tax return, combine your share of the partnership fishing losses with any other non-capital losses you have in the year. Then apply this amount against your income using the usual loss carry-over rules.

Partnerships that have to file a *Partnership Information Return* (PIR)

A partnership with six or more partners at any time in the fiscal period has to file a PIR. A partnership with five partners or less throughout the whole fiscal period, when one or more of its partner is another partnership, also has to file a PIR. There are other situations in which you have to file a PIR. For more information, see the *Guide for the Partnership Information Return*.

If you are a partner of a partnership that has to file a PIR, you should get two copies of a T5013 slip, *Statement of Partnership Income,* from the partnership. If you do not receive this slip, contact the person who prepares the forms for the partnership.

On your income tax return, report the gross partnership income and your share of the net partnership income or loss. You will get these amounts from your T5013 slip. Attach a copy of your slip to your income tax return. Do not attach the partnership's income and expense statement to your income tax return.

You may need to adjust your share of the net partnership income or loss shown on your T5013 slip for any business expenses you incur for which the partnership did not repay you, and for any other deductible amounts. If this is your situation, see "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" on page 20. You may also have expenses related to the business use of your home. For more information, read "Line 9945 – Business-use-of-home expenses" on page 20.

The *Guide for the Partnership Information Return* has more details about the PIR.

Partnerships that do not have to file a *Partnership Information Return* (PIR)

Generally, partnerships with five partners or less throughout the whole fiscal period, and with no partner who is another partnership, do not have to file a PIR. For more information, see the *Guide for the Partnership Information Return.*

If you are a partner of a partnership that does not have to file a PIR, use the same rules to calculate your income and expenses as you would for a proprietorship. Calculate the partnership's income and expenses as if the partnership were a separate person. Some rules for capital cost allowance and eligible capital expenditures on partnership-owned property are different. We explain these rules on the next page.

Capital cost allowance (CCA)

A partnership can own depreciable property and claim CCA on it. As an individual partner, you cannot claim CCA on property the partnership owns.

From the capital cost of depreciable property, subtract any investment tax credit allocated to the individual partners. We consider this allocation to be made at the end of the partnership's fiscal period. You also reduce capital cost by any type of government assistance. For more details about CCA and the adjustments to capital cost, see Chapter 3.

Any taxable capital gain or recapture from the sale of property the partnership owns is income of the partnership. Also, any allowable capital or terminal loss from the sale of partnership-owned property is the loss of the partnership. For more information about capital gains and losses, see the *Capital Gains* guide. For information about recapture and terminal losses, see Chapter 3 in this guide.

Eligible capital expenditures

A partnership can own eligible capital property and deduct an annual allowance. Any income from the sale of eligible capital property the partnership owns is income of the partnership. For more details about eligible capital expenditures, see Chapter 4.

Limited partnership

A limited partnership is a partnership that gives its limited partners responsibilities similar to those given to shareholders of a corporation.

A limited partner is generally someone whose liability as a partner is limited, as opposed to that of a general partner.

Investment tax credit (ITC)

The ITC lets you subtract, from the taxes you owe, part of the cost of some types of property you acquired or expenditures you incurred. You may be able to claim this tax credit if you bought qualifying property, incurred qualified expenditures, or received renounced Canadian exploration expenses in 2002. You may also be able to claim the credit if you have unused ITCs from years before 2002. For more details about the ITC, see Form T2038(IND), *Investment Tax Credit (Individuals)*.

Chapter 2 – Form T2121, *Statement of Fishing Activities*

Sole proprietorships

If you are a sole proprietor of a fishing business, complete all the applicable areas and lines on Form T2121.

Partnerships

The details of your fishing activities that you have to give us depend on the type of your partnership. If you are a partner of a partnership that **has** to file a partnership information return (PIR), complete Form T2121 as follows:

- Complete the "Identification" area.
- Enter your share of the partnership income shown in box 18 of your T5013 slip, *Statement of Partnership Income*, on line 9369, "Net income (loss) before adjustments."
- Complete the "Other amounts deductible from your share of net partnership income (loss)" chart to claim any expenses for which the partnership did not reimburse you, or other amounts you may be able to deduct. See page 20 for more information. Complete the "Calculation of business-use-of-home expenses" chart if it applies to you. For more information, see page 20.
- Enter your share of the net income or loss from the fishing business on line 9946, "Your net income (loss)." If you did not make any adjustments to the amount in box 18 of your T5013 slip, the amount you enter on line 9946 will be the same as the amount you entered on line 9369.

If you are a partner of a partnership that does **not** have to file a PIR, complete Form T2121 as follows:

- Complete the "Identification" area.
- Report the business income for the partnership.
- Report the business part of expenses for the partnership.
- Complete the "Other amounts deductible from your share of net partnership income (loss)" chart to claim any expenses for which the partnership did not reimburse you, or any other amounts you may be able to deduct. Complete the "Calculation of business-use-of-home expenses" chart if it applies to you. For more information, see page 20.
- Complete the "Details of other partners" chart.

To see if your partnership has to file a PIR, read "Partnerships that have to file a *Partnership Information Return* (PIR)" on page 8. We explain later in this chapter, as well as in Chapter 3, how to complete each line on Form T2121.

Identification area

Complete all the lines that apply to your fishing business.

Indicate the period your fishing business year covered, which is your fiscal period. For an explanation of fiscal period, see "Fiscal period" on page 4.

Enter the name and commercial fishing vessel licence number of your boat. If your boat has no formal name, enter the licence number only.

Indicate the main species you caught or fished in your fishing business.

Enter the **industry code** that best describes your fishing activity. The following is a list of codes that apply to fishing activities:

- 114123 Salt water fishing – Boat owners with crewshares
- 114133 Salt water fishing – Boat owners without crewshares
- 114143 Salt water fishing – Sharesman

- 114124 Inland fishing – Boat owners with crewshares
- 114134 Inland fishing – Boat owners without crewshares
- 114144 Inland fishing – Sharesman
- 112510 Animal aquaculture

If you did not prepare your Form T2121, enter the name and address of the person or the firm that prepared it for you.

If your Form T2121 is for a fishing partnership, enter the partnership filer identification number, if you have one, and identify your percentage of the partnership.

Enter your 15-digit Business Number in the appropriate area.

Do you have a tax shelter?

If you have a tax shelter, enter its identification number on the appropriate line. A tax shelter is any property that is expected to result, based on statements or representations made, in losses or other amounts deductible in the first four years after you acquire it. These losses or amounts would be equal to or more than the cost of your interest in the property, minus prescribed benefits. You have to reduce the cost of your interest in the property by prescribed benefits you or a person with whom you do not deal at arm's length will receive or enjoy. Prescribed benefits include tax credits, revenue guarantees, contingent liabilities, limited recourse debt, and rights of exchange or conversion. We define **non-arm's length transaction** on page 22.

If you invested in a tax shelter after August 31, 1989, and before 1991, you have to give your tax shelter identification number to make a claim on your 2002 income tax return. We issue identification numbers for administrative purposes only. A number does not entitle you to claim any tax benefits associated with a tax shelter. If you acquired a tax shelter after 1990 and are claiming a deduction for 2002, you **have** to file Form T5004, *Statement of Tax Shelter Loss or Deduction*, with your income tax return.

Regardless of when you acquired a tax shelter, if this is the first year you are making a claim for it, include a copy of Form T5003 slip, *Statement of Tax Shelter Information*, with your income tax return.

For more details, see Information Circular 89-4, *Tax Shelter Reporting.*

Fishing income

This section explains how to complete the "Income" area on Form T2121.

T4F slip, *Statement of Fishing Income*

As a fisher, you may have received a T4F slip that shows your fishing income. Since your T4F slip may not show all your fishing income for the year, you should keep a detailed record of all your fishing income. Enter on Form T2121, the income you received in your 2002 fiscal period.

Your T4F slip also shows the amount of income tax that has been deducted from your fishing income for the calendar year.

However, if your fiscal period ended on a date other than December 31, enter on line 437 of your income tax return **one** of these amounts:

- the total tax deducted for the year, as shown on your T4F slip; or
- the part of the tax deducted for your 2002 fiscal period (in 2003, you claim the amount that remains).

In either case, include your T4F slip with your 2002 income tax return.

On your 2002 income tax return, you may be claiming income tax that was deducted from a 2001 T4F slip. In this case, attach a note to your 2002 income tax return telling us you are doing this.

You can choose to have tax deducted at the rate of 20% on an amount you will receive from a catch. To do this, complete Form TD3F, *Fisher's Election to Have Tax Deducted at Source* that you and the buyer of the catch or the designated employer have to sign.

Fish products

Include all amounts you received from the sale of fish, lobster, scallops, and so on. If you sell on the high seas, report the amount you received in Canadian dollars. Use the exchange rate in effect at the time you sold the fish. If you sell at various times in the year, use an average rate.

Other marine products

Include all amounts you received from the sale of Irish moss, herring scales, herring roe, seal meat and flippers, seaweed, kelp, roe on kelp, and so on.

Grants, credits, and rebates

You should subtract from the applicable expense any rebate, grant, credit, or assistance you received, and enter the net figure on the appropriate line on Form T2121. If you cannot apply the rebate, grant, credit, or assistance you received to reduce a particular expense, include the total amount on this line.

For example, you may have received assistance, such as the GST/HST input tax credit from us, for your fishing expenses. You should reduce the amount of the expenses by the amount of the credit.

If the rebate, grant, credit, or assistance is for a depreciable asset, subtract the amount of the rebate from the property's capital cost. See Chapter 3 for details. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim. See Form T2038(IND), *Investment Tax Credit (Individuals),* for details.

Also include on this line any bonuses you received from fishing boat owners and buyers.

If you were a partner of a GST/HST-registered partnership, you may also receive a GST/HST rebate. We pay this rebate on the GST/HST expenses you incur to earn partnership income for which the partnership did not repay you. We base the rebate on the amount of expenses to which GST/HST applies that you deducted on your income tax return. Expenses include vehicle costs, meals, entertainment, and certain business-use-of-home expenses. You may also have received a GST/HST rebate for capital cost allowance (CCA) you claimed on a vehicle you bought to earn partnership income.

If you think you may be eligible for this GST/HST rebate, see the guide *GST/HST Rebate for Partners*, which includes Form GST370, *Employee and Partner GST/HST Rebate Application*. Complete Form GST370 and attach it to your income tax return.

Subsidies

Include the income you received during your 2002 fiscal period from all fishing subsidy programs made to fishers under federal, provincial, territorial, municipal, or joint programs.

Compensation for loss of fishing income or property

You may have received insurance proceeds for property that was lost or destroyed. If you previously deducted the cost of the property as an expense, include the amount of the proceeds in income. This also includes any amounts you may have received for lost or destroyed nets and traps you included in inventory. Also include on this line compensation you received for loss of income, such as payments from the Fisheries Restructuring and Adjustment Program.

Compensation for lost or destroyed capital property, such as a fishing boat, equipment, or nets and traps you capitalize, are proceeds of disposition for the property. Therefore, you have to deduct the proceeds from the undepreciated capital cost of the class to which the property belongs. See Chapter 3 for details.

Other income

You may have other types of fishing income that are not listed on Form T2121. Show this income on the "Other income" line. Below, we have listed some of the more common types of other income.

Patronage dividends

Include all patronage dividends (other than those for consumer goods or services) in your income in the year you received them. We consider a patronage dividend that is a share or a certificate of indebtedness to be income when you received it.

Paying debts with part of a catch

You may have bought property or paid off a debt with fish or other catch instead of money. In this case, include in your income the fair market value (FMV) of the fish or other catch. See page 22 for the definition of **fair market value**.

You may have paid off a business expense with fish or other catch. If you did this, include in income the FMV of the fish or other catch. Then you can deduct as an expense the FMV of the fish or other catch.

Sale of property

The tax treatment of the proceeds of disposition from a sale depends on the type of property you sold.

For instance, if you sold capital property, you may have to include in your income a capital gain and a recapture of CCA, or you may be able to deduct a terminal loss. See Chapter 3.

On the other hand, you may have sold an item that you deducted as an expense, such as small tools. In this case, include the proceeds of disposition for the tools in your income. However, if you sold a fishing boat, and the sale price includes other items such as a fishing licence, nets, or traps, you have to divide the proceeds of disposition among the items. You and the buyer should try to reach an agreement on the price for each item.

Example
Richard sold his fishing boat, licences, and so on to Stacey for $32,500. Richard and Stacey agree on how to divide the proceeds of disposition. To determine how to treat each item, they set up this chart:

Item	Amount	Tax treatment
Fishing boat	$20,000	**Richard** deducts the amount from the class. Richard may also have a capital gain as well as a recapture of CCA, or a terminal loss. See Chapter 3. **Stacey** adds the amount to the class. See Chapter 3 for details on CCA.
Nets and traps	7,000	**Richard** includes the amount in his income if he inventories his nets and traps, or he includes the amount as proceeds of disposition if he capitalizes his nets and traps. He may also have a capital gain as well as a recapture of CCA, or a terminal loss. See Chapter 3. **Stacey** reads "Line 9137 – Nets and traps" on page 15.
Fishing licences	5,000	**Richard** and **Stacey** read Chapter 4 for information on eligible capital expenditures.
Hooks, lines, etc.	500	**Richard** includes this amount in his income. **Stacey** deducts this amount as an expense.
Total	$32,500	

Income from related activities

Report other income you received that is not on your T4F slip or elsewhere on Form T2121. Some examples of other income are income you received working as a captain, engineer, first mate, or cook.

An owner may have paid you wages and let you keep part of a catch. In this case, include the wages on the appropriate line of your income tax return and the balance received as "Other income" on Form T2121.

If you are a resident of Canada and fish on a foreign vessel, include in your income any amount you received as wages or as your share of the catch. Report the amount you received in Canadian dollars.

Sharesperson income

Report the income you received as a sharesperson. Also, write down the name of the fishing boat and captain.

Line 8299 – Gross income

Gross fishing income is your total fishing income before you deduct expenses. Enter your gross fishing income on line 170 of your income tax return.

Fishing expenses

Who can claim expenses?

If you are a self-employed fisher, you can deduct certain amounts you spent to earn fishing income. We define **self-employed fisher** in the section "Is this guide for you?" on page 2. If you use the cash method of reporting income and expenses, you can only deduct expenses that you paid in the year. If you are using the accrual method, you can deduct expenses incurred during the year, whether you paid them or not. An expense you either paid or will have to pay is said to be incurred. There are special rules for deducting prepaid expenses. These rules are explained on page 13.

Note
When you claim GST/HST you paid on your fishing expenses as an input tax credit, reduce the amounts of the expenses to which the credit relates by the amount of the input tax credit. Do this when GST/HST for which you are claiming the input tax credit was paid or became payable.

Enter business portion only, on Form T2121, means that you cannot include any of the following as part of your expenses:

- salary, wages, or drawings paid to yourself or your partners;
- cost of saleable goods or services you, your family, or your partners and their families used;
- donations to charities and political contributions;
- interest and penalties you paid on your income tax;
- life insurance premiums; and
- the part of any expenses that can be attributed to your personal use of property or services of your fishing business.

Fishing boat owners

As a fishing boat owner, you can deduct all the expenses you incurred for each trip. This includes the expenses to calculate the crewshares.

You may be able to deduct expenses when you used your home for business purposes. You may also be able to deduct the cost to travel between your home and the fishing boat. However, to deduct either of these expenses, you have to meet certain conditions. We explain these conditions on "Line 9945 – Business-use-of-home expenses" on page 20 and on "Line 9281 – Motor vehicle expenses" on page 14.

You can also deduct other expenses you paid to earn fishing income, as well as CCA on property you owned and used to earn fishing income. We explain CCA in Chapter 3.

Captains of fishing boats

As the captain of a fishing boat, you can deduct expenses for which the owner did not pay or reimburse you. These expenses include the cost of personal navigation aids and rubber gear. You can also deduct motor vehicle expenses you paid to transport crew members, and to get supplies and parts to use on the boat. You may be able to deduct business-use-of-home expenses and the cost of travel between your home and the fishing boat if you meet certain conditions. For more information, see "Line 9281 – Motor vehicle expenses" on page 14 and "Line 9945 – Business-use-of-home expenses" on page 20.

Sharespeople

As a sharesperson, your income is the amount you received after you deducted all trip expenses from the sale of the catch. Therefore, you can only deduct the expenses you paid for rubber gear, gloves, and knives you used on the fishing boat. You cannot deduct the cost to travel between your home and the fishing boat since we consider these expenses to be personal.

> **Note**
> Fishing boat owners, captains, and sharespeople cannot duplicate expenses. For example, if the owner deducted expenses for fuel, food, and ice, a captain cannot deduct the same expenses.

Use of a fishing boat mainly for personal use

You may have used a fishing boat mainly for personal use but sometimes caught a small amount of fish to sell. In this case, you can deduct expenses and CCA. However, the amount you deduct cannot be more than your income from the catch.

Prepaid expenses

A prepaid expense is the cost of a service you paid for before you received it. This could include insurance, property taxes, or rent you paid in one year, if you did not receive the benefits until the next year.

If you use the accrual method to determine your fishing income, you can deduct the part of the prepaid expenses that applies to the year you receive the benefit.

If you use the cash method for reporting your fishing income, you cannot deduct a prepaid expense amount (other than for inventory) for a tax year that is two or more years after the year you paid the expense. However, you can deduct the part of an amount you paid in a previous year for benefits received in the current tax year. These amounts are deductible as long as you have not already deducted them.

For example, if you paid $600 for a three-year service contract for office equipment in 2002, you can deduct $400 in 2002. This represents the part of the expense that applies to 2002 and 2003. On your 2004 income tax return, you could then deduct the balance of $200 for the part of the prepaid service contract that applies to 2004.

Rebates, grants, or assistance

Subtract, from the applicable expense, any rebate, grant, or assistance you received. Enter the net figure on the appropriate line of Form T2121.

If the rebate, grant, or assistance is for a depreciable asset, subtract the amount you received from the asset's capital cost. This might affect the amount of CCA you can claim for that asset. For information about CCA, see Chapter 3.

If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim. For details, see Form T2038(IND), *Investment Tax Credit (Individuals).*

If you cannot apply the rebate, grant, or assistance you received to reduce a particular expense, or to reduce an asset's capital cost, include the total on the line "Grants, credits, and rebates" in the income area on Form T2121.

Line 9138 – Bait, ice, salt

Deduct the amount you paid for bait, ice, and salt used for your fishing business.

Line 9062 – Crew shares

Enter the total amount of each crew member's share of the catch. You will find these amounts on the trip settlement sheets.

Line 9224 – Fuel costs

Deduct the amounts you paid for fuel and oil for your fishing boat and equipment. If you used a car or truck for your fishing business, see "Line 9281 – Motor vehicle expenses" on page 14. The cost of fuel related to business use of work space in your home has to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 20.

Line 9136 – Gear

Deduct the amounts you paid for gear. This includes knives, small assorted supplies, gloves, and rubber or oilskin clothing you used in your fishing business.

Line 8690 – Insurance

Deduct the premiums you paid to insure your fishing boat and equipment.

In most cases, you cannot deduct your life insurance premiums or amounts you paid to insure personal property such as your home. However, if you used the property for personal use and for your fishing business, you can deduct the business part of these costs. For more details, see "Line 9281 – Motor vehicle expenses" on page 14 and "Line 9945 –Business-use-of-home expenses" on page 20. The insurance costs related to business use of work space in your home have to be claimed on line 9945. For more information, see page 20.

Line 8710 – Interest

Enter the total interest you paid on money you borrowed to earn fishing income, such as interest on a loan you used to buy a fishing boat, engine, or gear. However, do not include the interest on money you borrowed to buy a motor vehicle you used in your fishing business. For more information on where to include this amount, see "Line 9281 – Motor vehicle expenses" on this page.

You may be able to deduct interest expenses for certain property that you used for fishing business purposes, but which you stopped using for such purposes after 1993 because you are no longer in business. Previously, these expenses were not deductible as business expenses.

Do not deduct the principal part of loan or mortgage payments. Also, do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes.

The mortgage interests related to business use of work space in your home has to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 20.

Line 8523 – Food

The maximum part you can claim for food, beverages, and entertainment expenses is 50% of either the amount you incur or an amount that is reasonable in the circumstances, whichever is less. However, special rules can affect your claim for meals.

Claim the total amount you paid for food you stocked on your boat to feed your crew when you fished offshore.

Often, inshore fishers do not stock food. Instead, they bring meals from home for their crew because the trips are short (leave home early in the morning and come back late in the afternoon). You can deduct the cost of these meals as long as the meals were a taxable benefit to your crew.

In some cases, you can deduct the cost of meals even though they were not taxable benefits. You can do this if your boat was at sea for 36 hours or more, and the meals you gave to your crew were not taxable benefits. Also, if you gave meals to your sharespeople, generally the meals you gave them are not taxable benefits because we do not consider sharespeople to be employees. However, they may be limited by the restriction noted above.

If you need more details about taxable benefits, see the *Taxable Benefits* guide. You can also see Interpretation Bulletin IT-91, *Employment at Special Work Sites or Remote Work Locations,* and its Special Release, and Interpretation Bulletin IT-254, *Fishermen – Employees and Seafarers – Value of Rations and Quarters*.

Line 8760 – Licences

Enter the total cost to renew your annual licences. If you bought a licence from another fisher, you can only deduct part of the cost each year. For details on eligible capital expenditures, see Chapter 4.

If you bought a fishing boat and the price included the cost of a licence, you need to know what part of the price was for the licence and what part was for the boat. Try to agree on these amounts with the seller. See the example on page 12.

Line 9281 – Motor vehicle expenses

Enter the total of all your motor vehicle expenses excluding the CCA. See line 9936 on page 20 for details on CCA.

Complete "Chart A – Motor Vehicle Expenses," on page 4 of Form T2121 to help you calculate the amount of motor vehicle expenses you can deduct.

The kind of vehicle you owned can affect the expenses you can deduct. For income tax purposes, there are three types of vehicles:

- motor vehicles;
- automobiles; and
- passenger vehicles.

If you owned or leased a passenger vehicle, there may be a limit on the amounts you can deduct for CCA, interest, and leasing costs. We explain the CCA limits in Chapter 3 on page 21, and the interest and leasing costs limits on page 15.

A **motor vehicle** is an automotive vehicle designed or adapted for use on streets or highways, but does not include a trolley bus or a vehicle designed or adapted to be operated only on rails.

An **automobile** is a motor vehicle designed or adapted mainly to carry people on streets and highways, and seats no more than a driver and eight passengers. However, an automobile does not include:

- a van, pick-up truck, or similar vehicle that seats no more than the driver and two passengers that, in the tax year you got it, was used more than 50% to transport goods or equipment to earn income; and
- a van, pick-up truck, or similar vehicle that, in the tax year you got it, was used 90% or more to transport goods, equipment, or passengers to earn income.

A **passenger vehicle** is any automobile you bought after June 17, 1987, or that you leased under an agreement you entered into, extended, or renewed after June 17, 1987.

Business use of a motor vehicle

If you used your motor vehicle for personal and business reasons, you can deduct the part of your expenses that was for fishing business use. Fishing business use includes trips to pick up parts or supplies for your boat, and to deliver fish to markets. It also includes driving to and from the fishing boat if your home is your main place of business. To determine if you used your home as your main place of business, see "Line 9945 – Business-use-of-home expenses" on page 20.

Keep a record of the total kilometres you drove, and the kilometres you drove for business use. Also, keep track of what it costs you to run and maintain the motor vehicle for the year.

Example
Amy's fishing business has a December 31 year-end. She owned a truck that was not a passenger vehicle. She used the truck to carry nets and other equipment. Amy wrote down the following for 2002:

Fishing business kilometres	27,000 km
Total kilometres	30,000 km
Expenses:	
Gasoline and oil	$ 3,500
Interest (on loan to buy truck)	1,900
Insurance	1,000
Licence and registration fees	100
Repairs and maintenance	500
Total expenses for the truck	$ 7,000

This is how Amy calculates the motor vehicle expenses she can deduct in 2002:

$$\frac{27{,}000 \text{ (fishing business kilometres)}}{30{,}000 \text{ (total kilometres)}} \times \$7{,}000 = \$6{,}300$$

Amy can deduct $6,300 as motor vehicle expenses on line 9281 of Form T2121.

Interest on the money you borrow for a passenger vehicle

If you used a passenger vehicle to earn fishing income, there is a limit on the amount of interest you can deduct.

Whether you used the cash or accrual method to determine your income, complete "Chart B – Available interest expenses for passenger vehicles," on page 4 of Form T2121, to calculate the amount of interest you can deduct. If you used your passenger vehicle for both personal and business use, complete the chart before you determine how much interest you can deduct as an expense.

Example
Russ's fishing business has a December 31 year-end. In March 2000, he bought a new passenger vehicle that he uses for both personal and business reasons. Russ borrowed money to buy the vehicle and the interest he paid in 2002 was $2,200.

Since the car Russ bought is a passenger vehicle, there is a limit on the interest he can deduct. Russ's available interest is either of these two amounts, whichever is less:

- $2,200 (the total interest he paid in 2002); or
- $3,040.45 ($8.33 × 365 days).

Since Russ bought the passenger vehicle in 2000, he uses the $8.33 rate.

Russ calculated the following amounts for 2002:

Fishing business kilometres	20,000 km
Total kilometres	25,000 km
Expenses:	
Gasoline and oil	$ 2,000
Interest (on loan to buy vehicle)	2,200
Insurance	1,900
Licence and registration	60
Repairs and maintenance	1,000
Total vehicle expenses	$ 7,160

This is how Russ calculates the motor vehicle expenses he can deduct in 2002:

$$\frac{20{,}000 \text{ (fishing business kilometres)}}{25{,}000 \text{ (total kilometres)}} \times \$7{,}160 = \$5{,}728$$

Russ can deduct $5,728 as motor vehicle expenses in 2002.

Leasing costs for a passenger vehicle

There is a limit on the leasing costs you can deduct as an expense if you leased a passenger vehicle to use in a fishing business. Complete "Chart C – Eligible leasing costs for passenger vehicles," on page 4 of Form T2121, to determine your available leasing costs.

Joint ownership of a passenger vehicle

If you and someone else owned or leased the same passenger vehicle, the limits on CCA, interest, and leasing costs still apply. The amount you can deduct as joint owners cannot be more than the amount that one person owning or leasing the passenger vehicle could deduct. Each of you has to claim expenses in proportion to your share of the passenger vehicle.

More than one vehicle

If you used more than one motor vehicle for your fishing business, keep separate records that show the kilometres you drove for your fishing business and the total kilometres you drove, and the cost to run and keep each vehicle. Calculate each vehicle's expenses separately.

For more information, see Interpretation Bulletin IT-521, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

Line 8810 – Office expenses

Enter the total amount of office expenses, such as stationery, invoices, receipt and accounting books, and any other operating supplies.

Line 9137 – Nets and traps

Nets and traps include lines, hooks, buoys, anchors, and radar reflectors.

Generally, you cannot deduct the entire cost of nets and traps you bought in the year. Instead, there are two methods you can use to deduct these costs.

Method 1 – Capital cost allowance (CCA) method

Capitalize the cost of nets and traps. That is, put the nets and traps in classes of depreciable property and claim CCA. See Chapter 3 for details on CCA.

Method 2 – Inventory method

Include in inventory the cost of nets and traps and deduct the loss in value, as shown in the following example:

Example

Value of nets, traps, twine, etc., on hand at the end of your 2001 fiscal period		$ 750
Add: Cost of nets and traps you bought in your 2002 fiscal period	$200	

Cost of twine and other net and trap materials you bought in your 2002 fiscal period (do not include the value of your own labour)	125	325 *
Subtotal		$1,075
Minus: Value of nets, traps, twine, etc., on hand at the end of your 2002 fiscal period	$700**	
Proceeds from the sale of nets, traps, twine, etc.	150	850
Loss on nets and traps		$ 225

* If you use the inventory method, do not deduct this amount as an expense.

** The value of nets and traps on hand is the amount you would receive if you sold them to another fisher who was not related to you.

If you just started fishing, choose one of the two methods. If you have been fishing for several years and each year you claim the cost of replacing nets and traps, you can keep on doing so. However, you can choose to change to either the CCA or the inventory method. If you choose to do this in 2002, the value of nets and traps on hand at the end of 2001 will be zero since you have deducted their value in previous years.

You can change from the inventory method to the CCA method. However, you cannot change from the CCA method to the inventory method.

Line 8860 – Legal, accounting, and other professional fees

Enter the total of all your allowable business-related legal, accounting, or professional fees. Also, you can deduct any accounting or bookkeeping fees you incurred to have someone keep your books and records, and prepare your income tax and GST/HST returns.

If you paid accounting and legal fees to file an appeal against your assessment for income tax, Canada Pension Plan or Quebec Pension Plan contributions, or Employment Insurance premiums, deduct these fees on line 232 of your income tax return. You should subtract any reimbursement from the applicable fees, and enter the result on line 232.

If you received a reimbursement in 2002 for these types of fees, which you deducted in a previous year, enter the amount of the reimbursement on line 130 of your income tax return.

Do not deduct any legal or other fees you paid to buy property such as a fishing boat and equipment. Add these fees to the capital cost of the property.

For more details, see Interpretation Bulletin IT-99, *Legal and Accounting Fees*.

Line 9060 – Salaries, wages, and benefits

Enter the total amount of gross wages you paid your crew. This includes wages you paid to individuals for repairing the boat, cutting bait, baiting the trawl, shucking scallops, handling cargo, standing watch, and so on.

As the employer, you also include in this total your share of Canada Pension Plan or Quebec Pension Plan contributions and Employment Insurance premiums. Do not deduct the amounts you withheld from your employees' remuneration, because they are already deducted in the amount you claimed as wages.

Keep a detailed record of the amounts you paid to each employee along with the employee's name, address, and social insurance number.

You can deduct the wages you paid to your child as long as you meet **all** these conditions:

- you paid the salary in cash or in kind;
- the work your child did was necessary for you to earn fishing income; and
- the salary is reasonable considering your child's age and the amount you would have paid someone else for the same work.

Keep documents to support the salary you paid to your child. If you paid your child by cheque, keep the cancelled cheque. If you paid cash, have your child sign a receipt.

Your **children** include:

- your natural child, your adopted child, or your spouse's or common-law partner's child;
- your grandchild or great-grandchild;
- your child's spouse or common-law partner; and
- a person who was in your custody and under your control and, just before the person reached the age of 19 years, was wholly dependent on you for support.

Following the same rules, you can deduct wages you paid to your spouse or common-law partner if your spouse or common-law partner is not a partner in your fishing business. If you were a partner of a partnership that employed your spouse or common-law partner, the partnership can deduct your spouse's or common-law partner's wages if the expense was incurred to earn fishing income and the wages were reasonable.

You have to complete a T4 Summary as well as the related T4 slips. On the T4 slips, report the salary, wages, and taxable benefits you paid to your employees, children, or spouse or common-law partner. Also show the amounts of deductions you withheld.

For more details on wages and how to complete the T4 Summary, see the *Filing the T4 Slip and Summary Form* guide.

Line 8963 – Repairs

Fishing boat

Enter the total amounts you paid for the general repairs you needed to keep your fishing boat seaworthy.

The structural improvements and additions you make to your fishing boat are capital expenditures. You have to add these expenditures to the cost of the boat. This will affect

your CCA claim on the boat. For details on CCA, see Chapter 3.

If you need more details about capital expenditures, see Interpretation Bulletin IT-128, *Capital Cost Allowance – Depreciable Property*.

Engine

Enter the total amounts you paid for all general engine repairs. You can also deduct the cost of an overhaul. However, if you replaced an engine, it is a capital expenditure. Therefore, add the expenditure to the cost of the boat. This will affect the CCA on the boat. For details on CCA, see Chapter 3.

Electrical equipment

Deduct the amounts you pay for repairs to a loran, sounder, radar, ship-to-shore radio, fish finder, and so on.

Line 9270 – Other expenses

You may have other fishing expenses that are not shown on Form T2121. In this case, enter these amounts on this line. We cover some common other expenses below.

Leasing costs

Deduct the lease payments you incurred in the year for property used in your fishing business. If you leased a passenger vehicle, see "Line 9281 – Motor vehicle expenses" on page 14.

If you entered a lease agreement after April 26, 1989, you can choose to treat your lease payments as combined payments of principal and interest. However, you and the person you are leasing from have to agree to treat the payments this way. In this case, we consider that you:

- bought the property rather than leased it; and
- borrowed an amount equal to the fair market value (FMV) of the leased property. We define **fair market value** on page 22.

You can deduct the interest part of the payment as an expense. You can also claim CCA on the property. For details on CCA, see Chapter 3.

You can make this choice as long as the property qualifies and the total FMV of all the property subject to the lease is more than $25,000. For example, a fishing boat you leased with an FMV of $35,000 qualifies. However, office furniture and automobiles often do not.

To treat your lease this way, complete **one** of the following forms and file it with your income tax return for the year you make the lease agreement:

- Form T2145, *Election in Respect of the Leasing of Property*; or
- Form T2146, *Election in Respect of Assigned Leases or Subleased Property*.

Advertising

Deduct the cost of advertising you do for your fishing business.

Telephone expenses

Do not deduct the basic monthly rate of your home telephone. However, you can deduct any long-distance telephone calls you made for your fishing business.

If you have a separate telephone to use in your fishing business and you used it for business calls only, you can deduct its basic monthly rate.

Computer and other equipment leasing costs

If you lease computers, cellular telephones, fax machines, and other equipment, you can deduct the percentage of the lease costs that reasonably relates to earning your fishing income. You can also deduct the percentage of airtime expenses for a cellular telephone that reasonably relates to earning your fishing income.

If you buy a computer, cellular telephone, fax machine, or other such equipment, you cannot deduct the cost. You can deduct CCA and interest you paid on money you borrowed to buy this equipment that reasonably relates to earning your fishing income. For more information on CCA, see Chapter 3.

Freight and trucking

Deduct the expenses you incurred for delivery, shipping, trucking, or other distribution costs related to your fishing business.

Private health service plan (PHSP)

You can deduct premiums paid or payable to a private health service plan (PHSP) if you meet the following conditions:

- your net income from self-employment (excluding losses and PHSP deductions) for the current or previous year is more than 50% of your **total income**,* or

  your **income from sources other than self-employment**** is $10,000 or less, for the current or previous year;
- you are actively engaged in your fishing business on a regular and continuous basis, individually or as a partner; and
- the premiums are paid or payable to insure yourself, your spouse or common-law partner, or any member of your household.

* For the purposes of this claim, calculate your **total income** as follows:

  – the amount from line 150 of your 2001 or 2002 income tax return, whichever applies, before you deduct any amounts for PHSPs, **minus**

  – the amounts you entered on lines 207, 212, 217, 221, 229, 231, and 232 on your 2001 or 2002 income tax return, whichever applies.

** For the purposes of this claim, calculate your **income from sources other than self-employment** as follows:

  – the amount from line 150 of your 2001 or 2002 income tax return, whichever applies, before you deduct any amounts for PHSPs, **minus**

– the amounts you entered on lines 135, 137, 139, 141, 143 (excluding business losses which reduced the net amount reported on those lines), 207, 212, 217, 221, 229, 231, and 232 on your 2001 or 2002 income tax return, whichever applies.

You cannot claim a deduction for PHSP premiums if another person deducted the amount, or if you or anyone else claimed the premiums as a medical expense. For your premiums to be deductible, your PHSP coverage has to be paid or payable under a contract with one of the following:

- an insurance company;
- a trust company;
- a person or partnership in the business of administering PHSPs;
- a tax-exempt trade union of which you or the majority of your employees are members; or
- a tax-exempt business organization or a tax-exempt professional organization of which you are a member.

For more information on PHSP's, see Interpretation Bulletin IT-339, *Meaning of Private Health Services Plan*.

> **Note**
> In a cost-plus plan, the plan will only qualify as a PHSP if there is at least one employee. For example, a cost-plus plan that provides coverage for a sole proprietor and household members who are not employees will not qualify as a PHSP since it is not a plan of insurance.

Definitions

For the purposes of this claim, the following definitions apply:

- **Qualified employees** are arm's length, full-time employees who have three months service since they last became employed with a business carried on by you, with a business in which you are a majority interest partner, or with a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.
- **Arm's length employees** are, generally, employees who are not related to you and who are not carrying on your business with you, for example, as your partners. For more details, see "Non-arm's length transactions" on page 22.
- **Insurable persons** are people to whom coverage is extended and who are either:
  – qualified employees;
  – people who would be qualified employees if they had worked for you for three months; or
  – people carrying on your business (including yourself and your partners).

How to calculate your maximum deduction for PHSPs

The following sections explain how to calculate your maximum PHSP deduction based on whether you had employees and whether you insured them throughout the year or part of the year. Find the section that describes your situation.

If you did not have any employees throughout 2002

Your PHSP deduction is restricted by a dollar limit on an annual basis. The limit is a maximum of:

- $1,500 for yourself;
- $1,500 for your spouse or common-law partner and household members 18 years of age or older at the start of the period when they were insured; and
- $750 for household members under the age of 18 at the start of the period.

The maximum deduction is also limited by the number of days the person was insured. Do the following calculation to determine your allowable maximum for the year.

$A/365 \times (B + C)$, where:

A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees.

B equals $1,500 × the number of household members 18 and over insured during that period.

C equals $750 × the number of household members under 18 insured during that period.

Example 1
Edwin was a sole proprietor who ran his business alone in 2002. He had no employees and did not insure any of his household members. Edwin paid $2,000 for PHSP coverage in 2002. In his case, the coverage lasted from July 1 to December 31, 2002, a total of 183 days. Edwin's maximum allowable PHSP deduction is calculated as follows:

$\frac{183}{365} \times \$1,500 = \$752$

Even though Edwin paid $2,000 in premiums in 2002, he can only deduct $752, because the annual limit is $1,500 and he was only insured for about half of the year. If he had been insured for the entire year, his deduction limit would be $1,500.

Example 2
Bruce was a sole proprietor who ran his business alone in 2002. He had no employees. From January 1 to December 31, he insured himself, his wife, and his two sons. Bruce paid $1,800 to insure himself, $1,800 to insure his wife, and $1,000 for each of his sons. One of his sons was 15 years old and the other turned 18 on September 1. Bruce's PHSP deduction is limited to the following amounts:

- for himself – $1,500;
- for his wife – $1,500;
- for his 15-year-old son – $750; and
- for the son who turned 18 – $750. The $750 limit applies because he did not turn 18 until after the insured period began.

If you had employees throughout 2002

If you had at least one qualified employee throughout all of 2002, and at least 50% of the insurable persons in your business were qualified employees, your claim for PHSP

premiums is limited in a different way. Your limit is based on the lowest cost of **equivalent coverage** for each of your qualified employees. See the definition of **qualified employees** on page 18.

Use the following steps to calculate your maximum allowable claim for the PHSP premiums paid or payable for yourself, your spouse or common-law partner, and your household members.

For each of your qualified employees, do the following calculation:

X × Y = Z, where:

X equals the amount you would pay to provide yourself, your spouse or common-law partner, and your household members with coverage equivalent to that provided to a particular employee, his spouse or common-law partner and household members;

Y equals the percentage of the premium you pay for that particular employee; and

Z equals your limit based on that particular employee.

Example
You have one qualified employee. To provide yourself with coverage equivalent to his, you pay a premium of $1,800. You pay 60% of your employee's premium. Your deduction limit for yourself is $1,080, calculated as follows:

$1,800 (amount X) × 60% (amount Y) = $1,080 (amount Z).

The maximum you can claim is $1,080, if you had only one qualified employee.

If you had more than one qualified employee, you have to do the X × Y = Z calculation for each employee. Your limit is then the least amount you calculate for each and every employee.

Example
You have three qualified employees, Jack, Jill, and Sue. The following table shows how much you would pay for coverage equivalent to each of theirs, and the percentage of each employee's premium that you pay.

Name of employee	Cost of equivalent coverage for yourself	% of the employee's premium you pay
Jack	$1,500	20%
Jill	$1,800	50%
Sue	$1,400	40%

You have to do three calculations:

For Jack, $1,500 × 20% = $300
For Jill, $1,800 × 50% = $900
For Sue, $1,400 × 40% = $560

Your limit is $300, the least of the amounts calculated for the three employees.

Note
If you have a qualified employee with no coverage, you cannot claim your PHSP premiums as a deduction from self-employment income. However, you may be able to claim them as medical expenses.

If you had employees throughout 2002 but the number of **arm's length** employees you insured was less than 50% of all the insurable persons in your business, your maximum allowable deduction is the **lesser** of the following two amounts:

Amount 1
Determine this amount by using the following formula:

A/365 × (B + C), where:

A is the number of days during the period of the year when you insured yourself, and household members, if applicable, but insured less than 50% of your employees;

B equals $1,500 × the number of household members 18 years of age or older insured during that period; and

C equals $750 × the number of household members under 18 years of age insured during that period.

Amount 2
If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the X × Y = Z formula on this page. If you did not have at least one qualified employee, the limit in amount 1 will apply.

If you had employees for part of the year

For the part of the year when you had at least one qualified employee and your insurable arm's length employees represented at least 50% of all the insurable persons in your business, calculate your limit **for that period** the same way as in the section "If you had employees throughout 2002" on page 18.

For the remainder of the year when you had no employees or when your insurable arm's length employees represented less than 50% of all of the insurable persons in your business, your deduction limit **for that remaining period** is the lesser of the following two amounts:

Amount 1
Determine this amount by using the following formula:

A/365 × (B + C), where:

A is the number of days during the period of the year when you insured yourself, and household members if applicable, but insured less than 50% of your employees;

B equals $1,500 × the number of household members 18 years of age or older insured during that period; and

C equals $750 × the number of household members under 18 years of age insured during that period.

Amount 2
If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the X × Y = Z formula. If you did not have at least one qualified employee, the amount 1 limit will apply.

Undeducted premiums
If you deduct only a part of your PHSP premium at line 9270, and you paid the premium in the year, you can include the undeducted balance in the calculation of your non-refundable medical expense tax credit. For details, see "Line 330" in your *General Income Tax and Benefit Guide*.

Line 9936 – Capital cost allowance (CCA)

Enter the total amount of CCA you calculate on all the eligible assets you used in your fishing operation. To calculate your CCA claim, use the charts on pages 2 and 3 of Form T2121. See Chapter 3 for details on how to complete these charts.

Line 9935 – Allowance on eligible capital property

We explain how to determine this allowance in Chapter 4.

Line 9369 – Net income (loss) before adjustments

Enter on this line the gross income minus the deductible expenses. If you are a partner in a partnership, this amount is the net fishing income of all partners. If you have a loss, enter the amount in brackets.

On line c, enter your share of line 9369. This is the amount left after you subtract the amounts the other partners are responsible for reporting as specified in the partnership agreement. In the chart "Details of other partners" on page 3 of Form T2121, show the full names and addresses of the other partners, as well as a breakdown of their shares of the income and their percentages of the partnership.

Line 9943 – Other amounts deductible from your share of net partnership income (loss)

Enter the total of any extra expenses you incurred to earn your share of partnership income (loss) for which the partnership did not repay you. For instance, you may use your automobile for the partnership business. When you do this, you can deduct part of your motor vehicle expenses. However, you must not have claimed these expenses anywhere else on Form T2121.

Complete the chart "Other amounts deductible from your share of the net partnership income (loss)" on page 2 of Form T2121 to list these amounts.

You can also use the chart to claim your business income reduction if you are a partner of a partnership that has sold an eligible capital property and in 1994 you made an election for the $100,000 capital gains deduction on your interest in the partnership. For more information, see Chapter 4.

Line 9945 – Business-use-of-home expenses

You can deduct expenses for using a work space in your home for business, as long as you meet **one** of these conditions:

- it is your main place of business; or
- you use the space only to earn your fishing business income, and you use it on a regular and ongoing basis to meet your customers.

You can deduct part of your maintenance costs, such as heating, home insurance, electricity, and cleaning materials.

You can also deduct part of your property taxes, mortgage interest, and CCA. To calculate the part you can deduct, use a reasonable basis, such as the area of the work space divided by the total area of your home.

If you use part of your home for both your business and personal living, calculate how many hours in the day you use the rooms for your business, then divide that amount by 24 hours. Multiply the result by the business part of your total home expenses. This will give you the household cost you can deduct. If you run the business for only part of the week or year, reduce your claim accordingly.

Example
Monique runs a fishing business from her home weekdays from 7:00 a.m. to 5:00 p.m. (10 hours out of a 24-hour day.) The business uses an area of 35 square metres. The house is 100 square metres, and the annual household expenses are $5,800.

The calculation is as follows:

10/24 **hours** × 35/100 **metres** × $5,800 **expenses** = $845.83

The business operates 5 days a week, so Monique has to do another calculation:

$845.83 × 5/7 **days** = $604.16

Monique can deduct a total of $604.16 for household expenses.

The capital gain and recapture rules will apply if you deduct CCA on the business-use part of your home and you later sell your home. For details on recapture of CCA, see Chapter 3. For information on capital gains, see the *Capital Gains* guide.

If you rent your home, you can deduct the part of the rent and any expenses you incur that relate to the work space.

The amount you can deduct for business-use-of-home expenses cannot be more than your net income from the fishing business before you deduct these expenses. In other words, you cannot use these expenses to increase or create a business loss.

You can deduct whichever of the following amounts is **less**:

- any amount you carry forward from your 2001 fiscal period, plus the business-use-of-home expenses you incur in your 2002 fiscal period; or
- the income amount on line e on page 1 of Form T2121.

In your next fiscal period, you can use any expense you could not deduct in your 2002 fiscal period, as long as you meet one of the two previous conditions. You also use the same rules.

To calculate your allowable claim for business-use-of-home expenses, use the chart "Calculation of business-use-of-home expenses" on page 2 of Form T2121. The expenses you claim on line 9945 must not have been claimed elsewhere on Form T2121.

For more details, see Interpretation Bulletin IT-514, *Work Space in Home Expenses.*

Line 9946 – Your net income (loss)

Enter your net fishing income or loss on line 143 of your income tax return. If you have a loss, enter the amount in brackets.

Details of equity (page 2 of Form T2121)

If you are a partner of a partnership that **has** to file a PIR, do not complete this section.

Line 9931 – Total business liabilities
A liability is a debt or obligation of a business. Total business liabilities is the total of all amounts your fishing business owes at the end of its fiscal period. This includes:

- accounts payable;
- notes payable;
- taxes payable;
- unpaid salaries, wages and benefits;
- interest payable;
- deferred or unearned revenues;
- loans payable;
- mortgages payable; and
- any other outstanding balance related to the business.

Line 9932 – Drawings in 2002
A drawing is any withdrawal of cash (including salaries), other assets, or services of a business by the proprietor or partners. This includes such transactions by the proprietor or partners (or family members) as withdrawing cash for non-business use, and using business assets and services for personal use. Include the cost or value of personal use of business assets or services in your drawings for the year.

Line 9933 – Capital contributions in 2002
A capital contribution is an addition of cash or other assets to the fishing business you made during its fiscal period. This includes adding personal funds to the business account, paying business debts with personal funds, and transferring personal assets to the fishing business.

Details of other partners (page 3 of Form T2121)

If you are a partner in a partnership that does **not** have to file a PIR (see Chapter 1 for these requirements), you can complete the chart "Details of other partners" on page 3 on your Form T2121.

If you are a partner in a partnership that **has** to file a PIR, you do not have to complete this chart.

Chapter 3 – Capital Cost Allowance (CCA)

What is CCA?

You might acquire a depreciable property, such as a boat, furniture, or equipment, to use in your fishing activities. You cannot deduct the cost of the property when you calculate your net fishing income for the year. However, since these properties wear out or become outdated over time, you can deduct their cost over a period of several years. The deduction for this is called CCA.

Definitions

To calculate your CCA claim, you will need to know the meaning of the following terms.

Available for use

You can usually claim CCA on a property only when it becomes available for use.

Property other than a building usually becomes available for use on the earlier of:

- the date you first use it to earn income;
- the second tax year after the year in which you get the property;
- the date it is delivered or made available to you and is capable of performing the function for which you got it;
- in the case of a vessel, the date when all permits, certificates, or licences needed by law are obtained; and
- the time just before you dispose of the property.

Example
If you buy an electric motor and the seller delivers it to you in your 2002 fiscal period, but it was not in working order until your 2003 fiscal period, you cannot claim CCA on it until 2003. However, if you buy an electric motor and the seller delivers it to you in working order in your 2002 fiscal period, but you did not use it until your 2003 fiscal period, you can still claim CCA in 2002 because it was available for use.

A **building**, or **part of a building**, usually becomes available for use on the earlier of:

- the date you start using 90% or more of the building in your business;
- the second tax year after the year in which you got the building; and
- the time just before you dispose of the building.

A building that you **bought or are constructing**, **renovating**, **or altering** usually becomes available for use on the earlier of:

- the date you complete the construction, renovation, or alteration;
- the date you start using 90% or more of the building in your business;
- the second tax year after the year in which you got the building; and
- the time just before you dispose of the building.

Capital cost

This is the amount on which you first claim CCA. The capital cost of a depreciable property is usually the total of:

- the purchase price (not including the cost of land, which is usually not depreciable—see "Land" on page 24);
- the part of your legal, accounting, engineering, installation, and other fees that relates to the purchase or the construction of the depreciable property (not including the part that applies to land);
- the cost of any additions or improvements you made to the depreciable property after you got it, if you have not claimed these costs as a current expense; and
- soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building, if these costs have not been deducted as current expenses.

Depreciable property

This is any property on which you can claim CCA. You usually group depreciable properties into classes. For example, pumps, ice machines, and tools that cost $200 or more belong to class 8. You have to base your CCA claim on a rate assigned to each class of property.

Fair market value (FMV)

FMV is generally the highest dollar value you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who deal at arm's length with each other.

Non-arm's length transaction

A non-arm's length transaction includes a transaction between parties who are related, such as members of a family. An example of a non-arm's length transaction would be the sale of property between a husband and wife, or a parent and child.

Proceeds of disposition

Proceeds of disposition generally means the sale price of a property. Usually the proceeds of disposition are the amounts you receive, or that we consider you to have received, when you dispose of your property. This could include compensation you receive for property that someone destroys, expropriates, steals, or damages. Special rules may apply if you dispose of a building for less than both its undepreciated capital cost and for less than your capital cost. If this is the case, see "Special rules for disposing of a building in the year" on page 29 for details.

For more details about proceeds of disposition, see Interpretation Bulletins IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*, and its Special Release, and IT-285, *Capital Cost Allowance – General Comments.*

Undepreciated capital cost (UCC)

Generally the UCC is the amount left after you deduct CCA from the capital cost of a depreciable property. The CCA you claim each year reduces the UCC of the property.

How much CCA can you claim?

Base your CCA claim on your fiscal period ending in 2002, and not the calendar year.

The CCA you can claim depends on the type of property you own and the date you got it. You group the depreciable property you own into classes. A rate of CCA applies to each class. We explain the most common classes of depreciable property in "Classes of depreciable property" on page 26. We list most of the classes of depreciable property and the rates for each class in the section "Capital Cost Allowance (CCA) Rates" on page 36.

There are a few other things you should know about CCA:

- For the most part, use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost of the property minus the CCA you claimed in previous years, if any. The remaining balance declines over the years as you claim CCA.
- You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the amount of CCA available to you for future years.
- In the year you get a depreciable property, you can usually claim CCA only on one half of your net additions to a class. We explain this 50% rule in "Column 6 – Adjustment for current-year additions" on page 25. The available-for-use rules may also affect the amount of CCA you can claim. For more information, see the definition of **available for use** on page 21.
- You cannot claim CCA on most land or on living things such as trees, shrubs, or animals. However, you can claim CCA on timber limits, cutting rights, and wood assets. For more details, see Interpretation Bulletins IT-481, *Timber Resource Property and Timber Limits*, and IT-501, *Capital Cost Allowance – Logging Assets*, and its Special Release.
- If you claim CCA and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Alternatively, you may be able to deduct an additional amount from your income as a terminal loss. For more information, see "Column 5 – UCC after additions and dispositions" on page 24.
- If you are a partner in a partnership that gives you a T5013 slip, *Statement of Partnership Income*, you cannot

claim CCA. The T5013 slip you receive will have already allocated to you a share of the partnership's CCA on the depreciable property.

- If you used depreciable property in your 2002 fiscal period that you used in your fishing business before January 1, 1972, complete "Part XVII properties (acquired before 1972)" in Area A on page 2 of Form T2121.

You were asking?

Q. How do I calculate my CCA claim if I start a fishing business and my first fiscal period is from June 1, 2002, to December 31, 2002?

A. If your fiscal period is less than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules we discuss in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In your case, your fiscal period is 214 days. Suppose you calculate your CCA to be $3,500. The amount of CCA you can claim is $2,052 ($3,500 × 214/365).

How do you make your claim?

Use Area A of your Form T2121 to calculate your 2002 deduction for CCA and any recaptured CCA and terminal losses.

If you acquired or disposed of any buildings or equipment during the fiscal period, complete Areas B, C, D, or E before completing Area A.

You will find explanations on how to complete Areas B and C in "Column 3 – Cost of additions in the year" on this page. You will find explanations on how to complete Areas D and E in "Column 4 –Proceeds of dispositions in the year" on page 24.

Note
Even if you are not claiming a deduction for CCA for 2002, complete the appropriate areas of the form to show any additions and dispositions during the year.

Column 1 – Class number

Enter the class numbers of your properties in this column. If this is the first year you are claiming CCA, see "Column 3 – Cost of additions in the year," before completing column 1. If you claimed CCA last year, you can get this information from last year's form.

Generally, if you own several properties in the same class, you combine the capital cost of all these properties in one class.

We explain the more common classes of property in "Classes of depreciable property" on page 26. We also list most of the classes and their rates in "Capital cost allowance (CCA) rates" on page 36.

Column 2 – Undepreciated capital cost (UCC) at the start of the year

If this is the first year you are claiming CCA, skip this column. Otherwise, enter in this column the UCC for each class at the end of last year. These amounts were entered in column 10 last year.

Subtract any investment tax credit (ITC) you claimed or were refunded in 2001 from your UCC at the start of 2002. Also subtract any 2001 ITC you carried back to a year before 2001.

You may have received a GST/HST input tax credit in 2001 for a passenger vehicle you used less than 90% of the time in your business. In this case, subtract the amount of the credit from your beginning UCC. For more information, see "Grants, subsidies, and rebates" on page 28.

Note
In 2002, you may be claiming, carrying back, or getting a refund of an ITC. If you still have depreciable property in the class, you have to adjust the UCC of the class to which the property belongs in 2003. To do this, subtract the amount of the ITC from the UCC at the beginning of 2003. When there is no property left in the class, report the amount of the ITC as income in 2003.

Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we consider them to be additions to the class in which the property belongs. You should:

- complete Areas B and C of Form T2121 as explained on page 24; and
- enter in column 3 of Area A for each class, the figure from column 5 of each class in Areas B and C.

If a chart asks for the personal part of a property, this refers to the part that you use that is separate from what you use for fishing business. For example, if you use 25% of the building you live in for business, your personal part is the other 75%.

Do not include the value of your own labour in the cost of a property you build or improve. Include in the capital cost of the property the cost of surveying or valuing a property you acquire. Remember that a property usually has to be available for use before you can claim CCA. See the definition of **available for use** on page 21.

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you spent to replace the property in column 3 of Area A, and also in Area B or C, whichever applies. Include the amount of insurance proceeds as deemed proceeds of disposition in column 4 of Area A and also in Area D or E, whichever applies.

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. See Interpretation Bulletins IT-259, *Exchanges of Property*, and IT-491, *Former Business Property*, and its Special Release.

To find out if any special rules apply when you acquire property, see "Special situations" on page 27.

Area B – Details of equipment additions in the year

List in this chart the details of all equipment, machinery, or motor vehicles you acquired or improved in 2002. Group the equipment into the applicable classes and put each class on a separate line.

Equipment includes a motor vehicle, machinery, and equipment you get to use in your fishing business.

Enter on line 9925 the total business part of the cost of the equipment. You will find information about capital cost on page 22.

Area C – Details of building additions in the year

List the details of all buildings you got or improved in 2002. Group the buildings into the applicable classes and put each class on a separate line.

Enter on line 9927 the total business part of the cost of the buildings. The cost includes the purchase price of the building, plus any related expenses that you should add to the capital cost of the building such as legal fees, land transfer taxes, and mortgage fees. You will find information about capital cost on page 22.

Land

Land is usually not depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a property that includes both land and a building, enter in column 3 of Area C only the cost of the building. To work out the building's capital cost, you have to split between the land and the building any fees that relate to buying the property. Related fees may include legal and accounting fees.

Calculate the part of the related fees you can include in the capital cost of the building as follows:

$$\frac{\text{building value}}{\text{total purchase price}} \times \text{legal, accounting, or other fees} = \text{the part of the fees you can include in the building's cost}$$

You do not have to split a fee if it relates either to the land or the building. In this case, you would add the amount of the fee to the cost to which it relates.

Area F – Details of land additions and dispositions in the year

Enter the total cost of acquiring land in 2002 on line 9923. The cost includes the purchase price of the land plus any related expenses that you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees.

You cannot claim CCA on land. Do **not** enter this amount in column 3 of Area A.

Column 4 – Proceeds of dispositions in the year

Enter the details of your 2002 dispositions on Form T2121, as explained below.

If you disposed of a depreciable property during your 2002 fiscal period, enter in column 3 of the appropriate dispositions chart one of the following amounts, whichever is less:

- your proceeds of disposition, minus any related expenses; or
- the capital cost of your depreciable property.

Note
If a chart asks for the personal part of a property, this refers to the part that you use that is separate from the part you use for business. For example, if you use 25% of the building you live in for business, your personal part is the other 75%.

Enter in column 4 of Area A for each class, the figure from column 5 of each class in Areas D and E.

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you spent to replace the property in column 3 of Area A, and also in Area B or C, whichever applies. Include the amount of insurance proceeds as deemed proceeds of disposition in column 4 of Area A and also in Area D or E, whichever applies.

If you dispose of a depreciable property for more than it cost, you will have a capital gain. See the *Capital Gains* guide for details. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. See "Column 5 – UCC after additions and dispositions" on this page for an explanation of terminal losses.

If all of the proceeds of disposition are not received in the year, see Interpretation Bulletins IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*, and IT-236, *Reserves – Disposition of Capital Property*.

Area D – Details of equipment dispositions in the year

In this chart, list the details of all equipment and motor vehicles you disposed of in your 2002 fiscal period. Group the equipment into the classes that apply, and put each class on a separate line.

Enter on line 9926 the total business part of the proceeds of disposition of the equipment and motor vehicles.

Area E – Details of building dispositions in the year

In this chart, list the details of all buildings you disposed of in your 2002 fiscal period. Group the buildings into the classes that apply and put each class on a separate line.

Enter on line 9928 the total business part of the proceeds of disposition of the buildings.

Area F – Details of land additions and dispositions in the year

Enter on line 9924 the total of all amounts you received or will receive for disposing of land in the fiscal period.

Column 5 – UCC after additions and dispositions

You cannot claim CCA when the amount in column 5 is:

- negative (see "Recapture of CCA" on page 25); or

- positive, and you do not have any property left in that class at the end of your 2002 fiscal period (see "Terminal loss" below).

In either case, enter "0" in column 10.

Recapture of CCA

If the amount in column 5 is negative, you have a recapture of CCA. Enter your recapture on the "Other income" line of Form T2121. A recapture of CCA can happen if you sell the property, or if you receive a government grant or you claim an investment tax credit. A recapture of CCA can also happen if the proceeds from the sale of depreciable property are more than the total of:

- the UCC of the class at the start of the fiscal period; and
- the capital cost of any new additions during the fiscal period.

In some cases, you may be able to postpone a recapture of CCA. For example, you may sell a property and replace it with a similar one, someone may expropriate your property, or you may transfer property to a corporation or a partnership.

Terminal loss

If the amount in column 5 is positive, and you no longer own any property in that class, you have a terminal loss. More precisely, you have a terminal loss when, at the end of a fiscal period, you have no more property in the class but still have an amount which you have not deducted as CCA. You can subtract this terminal loss from your gross fishing income in the year you disposed of the depreciable property. Enter your terminal loss on line 9270, "Other expenses," of Form T2121.

For more information on recapture of CCA and terminal loss, see Interpretation Bulletin IT-478, *Capital Cost Allowance – Recapture and Terminal Loss*.

> **Note**
> The rules for recapture of CCA and terminal loss do not apply to passenger vehicles in class 10.1. However, to calculate your CCA claim, see the comments in "Column 7 – Base amount for CCA," on this page.

Column 6 – Adjustment for current-year additions

In the year you acquire or make additions to a property, you can usually claim CCA on only one-half of your net additions (the amount in column 3 minus the amount in column 4). We call this the **50% rule**. Column 6 allows you to adjust the cost of property you got in 2002.

Calculate your CCA claim only on the net adjusted amount. Do not reduce the cost of the additions in column 3 or the CCA rate in column 8. For example, if you acquired a property in your 2002 fiscal period for $30,000, you would base your CCA claim on $15,000 ($30,000 × 50%).

If you acquired and disposed of depreciable property of the same class in your 2002 fiscal period, the calculation in column 6 restricts your CCA claim. Calculate the CCA you can claim as follows:

- Determine which of the following amounts is less:
  - the proceeds of disposition of your property, minus any related costs or expenses; or
  - the capital cost.
- Subtract the above amount from the capital cost of your addition.
- Enter 50% of the result in column 6. If the result is negative, enter "0."

In some cases, you do not make an adjustment in column 6. For example, you may buy depreciable property in a non-arm's length transaction that the seller continuously owned for at least 364 days before the end of your 2002 fiscal period. However, if you transfer personal property, such as a car or personal computer, into your business, the 50% rule applies to the particular property transferred.

Also, some properties are not subject to the 50% rule. Some examples are those in classes 13, 14, 23, 24, 27, 29, or 34, as well as some of those in class 12, such as small tools that cost less than $200.

The 50% rule does not apply when the available-for-use rule denies a CCA claim until the second tax year after the year you acquired the property.

If you need more details on the special rules that apply to class 13, see Interpretation Bulletin IT-464, *CCA – Leasehold Interests*, and for more information on the 50% rule, see Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments*.

Column 7 – Base amount for CCA

Base your CCA claim on this amount.

For a class 10.1 vehicle you disposed of in your 2002 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of your 2002 fiscal period. This is known as the **half-year rule on sale**.

You can use the half-year rule on sale if, at the end of your 2001 fiscal period, you owned the class 10.1 vehicle you disposed of in 2002. If this applies to you, enter 50% of the amount from column 2 in column 7.

Column 8 – Rate (%)

In this column, enter the rate for each class of property in Area A. For more detailed information on certain kinds of property, see "Classes of depreciable property" on page 26. For a list of rates, see "Capital Cost Allowance (CCA) Rates" on page 36.

Column 9 – CCA for the year

In column 9, enter the CCA you choose to deduct for 2002. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See "You were asking?" on page 23.

Add all the amounts in column 9. Enter the total on line 9936, "Capital cost allowance," on Form T2121. If you are using the property both for business and personal use, see the section "Personal use of property" on page 27 to find out how to calculate your CCA claim.

Column 10 – UCC at the end of the year

This is the undepreciated capital cost (UCC) at the end of your 2002 fiscal period. This is the amount you will enter in column 2 when you calculate your CCA claim next year.

Enter "0" in column 10 if you have a terminal loss or a recapture of CCA. There will not be an amount in column 10 for a class 10.1 passenger vehicle you dispose of in the year.

Classes of depreciable property

In this part, we discuss the more common types of depreciable properties. We list most of the classes and their rates in the chart "Capital Cost Allowance (CCA) Rates" on page 36.

Other property – Class 8 (20%)

Class 8 includes property that is not included in any other class. For example, furniture, appliances, fixtures, machinery, and equipment you use in your business are all in this class.

Electronic office equipment – Class 8 (20%), Class 10 (30%), and Class 12 (100%)

Certain types of computer equipment and office communication and electronic equipment can become obsolete before you can fully deduct their cost for income tax purposes. This includes photocopiers and fax machines. For such property acquired after April 26, 1993, you can elect to include the property in a separate class. The election will only apply to each property that costs $1,000 or more. This class does not change the CCA rate that applies to the properties. However, the election lets you calculate a separate CCA deduction for a five-year period. In this way, when all the property in the class is disposed of, the undepreciated capital cost (UCC) of the equipment will be fully deductible as a terminal loss. For more information on terminal losses, see "Column 5 – UCC after additions and dispositions" on page 24.

To make an election to include this property in a separate prescribed class, attach a letter to your income tax return for the tax year in which you acquired the property.

Note
You might still own the electronic office equipment at the start of the fifth tax year after the tax year in which the property became available for use. If so, you will have to transfer the UCC of each separate class from the prescribed class to the general class in which it would otherwise belong.

Passenger vehicles – Class 10.1 (30%)

Your passenger vehicle can belong to either class 10 or class 10.1. We define **passenger vehicle** on page 14. Include your passenger vehicle in class 10 unless it meets a class 10.1 condition. List each class 10.1 vehicle separately.

Include your passenger vehicle in class 10.1 if you bought it in 2002 or 2001, and it cost more than $30,000. We consider the capital cost of that vehicle to be $30,000 plus the related GST and PST, or HST.

The $30,000 amount is the capital cost limit for a passenger vehicle. However, to determine the class to which your passenger vehicle belongs, you have to use the cost of the vehicle before you add GST and PST, or HST.

Example
Angie owns a fishing business. On June 21, 2002, she bought two passenger vehicles to use in her business. The PST rate for her province is 8%. Angie wrote down these details for 2002:

	Cost	GST	PST	Total
Vehicle 1	$33,000	$2,310	$2,640	$37,950
Vehicle 2	$28,000	$1,960	$2,240	$32,200

Angie puts vehicle 1 in class 10.1, since she bought it in 2002, and it cost her more than $30,000. Before Angie enters an amount in column 3 of Area B, she has to calculate the GST and PST on $30,000. She does this as follows:

- GST at 7% of $30,000 = $2,100; and
- PST at 8% of $30,000 = $2,400.

Therefore, Angie's capital cost is $34,500 ($30,000 + $2,100 + $2,400). She enters this amount in column 3 of Area B.

Angie puts vehicle 2 into class 10, since she bought it in 2002 and it did not cost her more than $30,000.

Angie's capital cost is $32,200 ($28,000 + $1,960 + $2,240). She enters this amount in column 3 of Area B.

Note
The GST rate is 7% and we have used a PST rate of 8% for this example. Use the appropriate PST rate for your province or territory. In the participating provinces, use HST. The rate is 15%. For more information on HST, see the *General Information for GST/HST Registrants* guide.

Special rates for certain boats

In most cases, a fishing boat belongs to class 7. Therefore, you can claim CCA at a maximum rate of 15%. However, there are some exceptions to this rule.

A fishing boat, or the cost to convert it, is eligible for a special rate of CCA as follows:

- If you bought the boat between November 13, 1981, and December 31, 1982, you can claim CCA at a yearly rate of 33 1/3%. You can do this only in certain cases.
- If you bought the boat after December 31, 1982, you can claim CCA at a rate of 16 2/3% for the year you bought the boat. You can claim 33 1/3% for the years after you bought the boat.

You can claim this special rate on the following:

- a boat that was built and registered in Canada and was not used for any purpose before you bought it;
- the cost to convert or alter a boat in Canada; and
- a boat, or the cost to convert it, established as a separate prescribed class under the now-repealed *Canadian Vessel Construction Assistance Act*.

Small tools – Class 12 (100%)

You can deduct the full amount of a tool that cost under $200 by putting it in class 12. The CCA rate for items in this class is 100%. If the tool cost you $200 or more, add the cost to class 8 on your CCA schedule.

Leasehold interest – Class 13

Special CCA rules apply to leasehold interests in property. If you have a leasehold interest, see Interpretation Bulletin IT-464, *CCA – Leasehold Interests* for details.

Special situations

Personal use of property

If you buy property for both business and personal use, there are two ways to show the business part of the property in Area B or Area C:

- If your business use stays the same from year to year, enter in Area B or Area C the total cost of the property in column 3, the personal part in column 4, and the business part in column 5. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A.
- If your business use changes from year to year, enter in Area B or Area C the total cost of the property in column 3 and column 5, and enter "0" in column 4. To calculate the CCA you can claim, enter the amount from column 5 in column 3 of Area A. When you claim CCA, you will have to calculate the allowable part you can claim for business use.

The CCA calculated for the business use of a work space in your home in Area A of Form T2121 must be reported on the chart "Calculation of business-use-of-home expenses" on page 2 of the form. This CCA must be subtracted from the total amount of the CCA for the year calculated in Area A and must not be included on line 9936, "Capital cost allowance," on page 1 of the form.

Example
Jim owns a fishing business. He bought a car in 2002 that he uses both for personal and for business purposes. The car cost $20,000, including all charges and taxes. Therefore, he includes the car in class 10. Jim's business use varies from year to year. He calculates his CCA on the car for 2002 as follows:

Jim enters $20,000 in column 3 and column 5 of Area B. He also enters $20,000 in column 3 of Area A. By completing the other columns in the chart, he calculates a CCA claim of $3,000. Because Jim used his car partly for personal use, he calculates his CCA claim for 2002 as follows:

$$\frac{12{,}000 \text{ (business kilometres)}}{18{,}000 \text{ (total kilometres)}} \times \$3{,}000 = \$2{,}000$$

Jim enters $2,000 on line 9936, "Capital cost allowance," on his Form T2121.

Note
The capital cost limits on a class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use. For more details, see "Passenger vehicles – Class 10.1 (30%)" on page 26.

Changing from personal to business use

If you bought a property for personal use and started using it in your business in your 2002 fiscal period, there is a change in use. You need to determine the capital cost for business purposes.

If the FMV of a depreciable property is less than its original cost when you change its use, the amount you put in column 3 of either Area B or Area C is the FMV of the property (excluding the land value if the property is land and a building). If the FMV is more than the original cost of the property (excluding the land value if the property is land and a building) when you change its use, use the following chart to determine the amount to enter in column 3 of Area B or C.

Calculating Capital Cost

Actual cost of the property		$ ________	1
FMV of the property	$ ________ 2		
Amount on line 1	$ ________ 3		
Line 2 **minus** line 3 (if negative, enter "0")	$ ________ 4		
Enter any capital gains deduction claimed for the amount on line 4* $________ × 2 =	$ ________ 5		
Line 4 **minus** line 5 (if negative, enter "0")	$ ________	× 1/2 = $ ________	6
Capital cost Line 1 **plus** line 6		$ ________	7

* Enter the amount that relates to the depreciable property only.

Note
We consider that you acquire the land for an amount equal to its FMV when you change its use. Include this

amount on line 9923, “Total cost of all land additions in the year” in Area F of Form T2121.

Grants, subsidies, and rebates

You may get a grant, subsidy, or rebate from a government or a government agency to buy depreciable property. When this happens, subtract the amount you received from the property’s capital cost. Do this before you enter the capital cost in column 3 of Area B or C.

You may have paid GST/HST on some of the depreciable property you acquired for your business. If so, you may have also received an input tax credit from us.

The input tax credit is government assistance. Therefore, subtract it from the property’s capital cost. Do this before you enter the capital cost in column 3 of Area B or Area C, whichever applies. If you receive an input tax credit for a passenger vehicle you use in your business, use **one** of these methods:

- For a passenger vehicle you use 90% or more of the time for your business, subtract the amount of the credit from the vehicle’s cost before you enter its capital cost in column 3 of Area B.
- For a passenger vehicle you use less than 90% of the time for your business, do not make an adjustment in 2002. In 2003, subtract the amount of the credit from your beginning UCC.

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can either include the amount in income or subtract the amount from the capital cost of the property.

For more details about government assistance, see Interpretation Bulletin IT-273, *Government Assistance – General Comments*, and its Special Release.

Non-arm’s length transactions

When you acquire depreciable property in a non-arm’s length transaction, there are special rules to follow to determine the property’s capital cost. These special rules will not apply if you get the property because of someone’s death.

You can acquire depreciable property in a non-arm’s length transaction from an individual resident in Canada, a partnership with at least one partner who is an individual resident in Canada, or a partnership with at least one partner that is another partnership.

If you pay more for the property than the seller paid for it, calculate the cost as follows:

Capital Cost Calculation

				Line
The seller’s cost or capital cost			$________	1
The seller’s proceeds of disposition	$ ________	2		
Amount from line 1	$ ________	3		
Line 2 **minus** line 3 (if negative, enter “0”)	$ ________	4		
Enter any capital gains deduction claimed for the amount on line 4 $________ × 2 =	$ ________	5		
Line 4 **minus** line 5 (if negative, enter “0”)	$ ________	× 1/2 =	$________	6
Capital cost Line 1 **plus** line 6			$________	7

Enter this amount in column 3 of either Area B or Area C, whichever applies. Do not include the cost of the related land, which you have to include on line 9923, “Total cost of all land additions in the year,” in Area F of Form T2121.

You can also buy depreciable property in a non-arm’s length transaction from an individual who is not resident in Canada, or a partnership with no partners who are individuals resident in Canada or no partners that are other partnerships.

If you pay more for the property than the seller paid for it, calculate the capital cost as follows:

Capital Cost Calculation

				Line
The seller’s cost or capital cost			$________	1
The seller’s proceeds of disposition	$ ________	2		
Amount from line 1	$ ________	3		
Line 2 **minus** line 3 (if negative, enter “0”)	$ ________	× 1/2 =	$________	4
Capital cost Line 1 **plus** line 4			$________	5

Enter this amount in column 3 of either Area B or Area C, whichever applies. Do not include the cost of the related land, which you have to include on line 9923, “Total cost of all land additions in the year,” in Area F of Form T2121.

If you buy depreciable property in a non-arm’s length transaction and pay less for it than the seller paid, your capital cost is the same amount as the seller paid. We consider you to have deducted as CCA the difference between what you paid and what the seller paid.

Example
Erin bought an outboard motor for $4,000 from her father Paul in her 2002 fiscal period. Paul paid $10,000 for the outboard motor in 1993. Since the amount Erin paid is less than the amount Paul paid, we consider Erin's cost to be $10,000. We also consider that Erin has deducted CCA of $6,000 in the past ($10,000 – $4,000).

Erin completes the CCA chart as follows:

- in Area B, she enters $10,000 in column 3, "Total cost";
- in Area A, she enters $4,000 in column 3, "Cost of additions in the year," as the addition for her 2002 fiscal period.

There is a limit on the cost of a passenger vehicle you buy in a non-arm's length transaction. The cost is one of these three amounts, whichever is **less**:

- the FMV when you buy the vehicle;
- $30,000 plus any GST and PST, or HST you would pay on $30,000, if you bought the vehicle in 2002 or 2001; or
- the seller's cost amount of the vehicle when you buy it.

The cost amount can vary, depending on what the seller used the vehicle for before you bought it. If the seller used the vehicle to earn income, the cost amount would be the UCC of the vehicle when you buy it. If the seller did not use the vehicle to earn income, the cost amount would usually be the original cost of the vehicle.

For more details on non-arm's length transactions, see Interpretation Bulletins IT-405, *Inadequate Considerations – Acquisitions and Dispositions*, and IT-419, *Meaning of Arm's Length*.

Capital gains

If you sell a property for more than it cost, you may have a capital gain. List the dispositions of all your properties on Schedule 3, *Capital Gains (or Losses) in 2002*. You will find a copy of this schedule in your *General Income Tax and Benefit Guide* package. For details on how to calculate your taxable capital gain and the capital gains deduction, see the *Capital Gains* guide.

You may be a partner in a partnership that gives you a T5013 slip, *Statement of Partnership Income*. If the partnership has a capital gain, it will allocate part of that gain to you. The gain will show on the partnership's financial statements or on your T5013 slip.

> **Note**
> You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. For an explanation of terminal losses, see "Column 5 – UCC after additions and dispositions" on page 24.

Special rules for disposing of a building in the year

If you disposed of a building in the year, special rules may apply that make the proceeds of disposition an amount other than the actual proceeds of disposition. This happens when you meet **both** of the following conditions:

- you disposed of the building for an amount less than both its cost amount, as calculated below, and its capital cost to you; and
- you, or a person with whom you do not deal at arm's length, * owned the land where the building is located, or the land next to it that was necessary for the building's use.

* See the definition of **non-arm's length transaction** on page 22.

Calculate the cost amount as follows:

- If the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before you disposed of the building.
- If there is more than one property in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{capital cost of the building}}{\text{capital cost of all property in the class not previously disposed of}} \times \text{UCC of the class} = \text{cost amount of the building}$$

> **Note**
> Property in the class of the building may have been acquired at non-arm's length, or previously used for a purpose other than gaining or producing income, or the part of the property used for gaining or producing income, may have changed. If any of these situations apply, you have to recalculate the capital cost of such property to determine the cost amount of any property in the class.

If you disposed of a building under these conditions, and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A on page 30.

If you, or a person with whom you do not deal at arm's length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B on page 30.

Calculation A
Land and building sold in the same year

FMV of the building when you disposed of it	$ ________	A
FMV of the land just before you disposed of it	$ ________	B
Line A **plus** line B	$ ________	C
Seller's adjusted cost base of the land	$ ________	D
Total capital gains (without reserves) from any disposition of the land (such as a change in use) in the three-year period before you or a person not dealing at arm's length with you, disposed of the building, either to you or another person not dealing at arm's length with you	$ ________	E
Line D **minus** line E (if negative, enter "0")	$ ________	F
Line B or line F, whichever amount is less	$ ________	G
Line C **minus** line G (if negative, enter "0")	$ ________	H
Cost amount of the building just before you disposed of it	$ ________	I
Capital cost of the building just before you disposed of it	$ ________	J
Line I or line J, whichever amount is less	$ ________	K
Line A or line K, whichever amount is more	$ ________	L

Deemed proceeds of disposition of the building

Line H or line L, whichever amount is less (enter this amount in column 3 of Area E, and include it in column 4 of Area A)	$ ________	M

Deemed proceeds of disposition of the land

Proceeds of disposition of the land and building	$ ________	N
Amount from line M	$ ________	O
Line N **minus** line O (include this amount on line 9924 of Area F)	$ ________	P

If you have a terminal loss on the building, include it on line 9270, "Other expenses," on Form T2121.

Calculation B
Land and building sold in different years

Cost amount of the building immediately before you disposed of it	$ ________	A
FMV of the building immediately before you disposed of it	$ ________	B
Line A or line B, whichever amount is more	$ ________	C
Actual proceeds of disposition, if any	$ ________	D
Line C **minus** line D	$ ________	E
Line E $________ × 1/2 =	$ ________	F
Amount from line D	$ ________	G

Deemed proceeds of disposition for the building

Line F **plus** line G (enter this amount in column 3 of Area E, and include it in column 4 of Area A)	$ ________	H

If you have a terminal loss on the building, include it on line 9270, "Other expenses," on Form T2121.

Ordinarily, you can deduct 100% of a terminal loss, but only part of a capital loss. Calculation B ensures that you use the same factor to calculate a terminal loss on a building as you use to calculate a capital loss on land. As a result of this calculation, you add part of the amount on line E to the proceeds of disposition from the building (see "Terminal loss" on page 25).

Replacement property

In a few cases, you can postpone or defer adding a capital gain or recapture of CCA to income. You might sell a business property, and replace it with a similar one, or your property might be stolen, destroyed, or expropriated, and you replace it with a similar one. You can defer tax on the amount of sale proceeds that you reinvest in replacement property within a reasonable period of time. To defer reporting the gain or recapture of CCA, you must acquire and you, or a person related to you, must use the new property for the same or similar purpose as the one which you are replacing.

If you need more details, see Interpretation Bulletins IT-259, *Exchanges of Property*, and IT-491, *Former Business Property*, and its Special Release.

You can also defer a capital gain or recapture of CCA when you transfer property to a corporation or partnership. For information on transfers to a corporation or a partnership, see:

- Information Circular 76-19, *Transfer of Property to a Corporation Under Section 85*;
- Interpretation Bulletin IT-291, *Transfer of Property to a Corporation Under Subsection 85(1)*;
- Interpretation Bulletin IT-378, *Winding-up of a Partnership*; and
- Interpretation Bulletin IT-413, *Election by Members of a Partnership Under Subsection 97(2)*.

Chapter 4 – Eligible Capital Expenditures

What is an eligible capital expenditure?

You may buy property that does not physically exist, but gives you a lasting economic benefit. Some examples are goodwill and licences for an unlimited period. We call this kind of property **eligible capital property**. The price you pay to buy this type of property is an **eligible capital expenditure**.

We consider licences with a limited period to be depreciable properties, not eligible capital properties. For details about depreciable properties, see Chapter 3.

What is an annual allowance?

You cannot deduct the full cost of an eligible capital expenditure, since the cost is capital and gives you a lasting economic benefit. However, you can deduct part of its cost each year. We call the amount you can deduct your **annual allowance**.

What is a cumulative eligible capital (CEC) account?

This is the bookkeeping record you establish to determine your annual allowance. You also use your CEC account to keep track of the property that you buy and sell. We call the property in your CEC account your eligible capital property. You base your annual allowance on the balance in your account at the end of your fiscal period. Keep a separate account for each business.

How to calculate your annual allowance

CEC account

Complete the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 2002 fiscal period.

Calculating your annual allowance and your CEC account balance for your 2002 fiscal period

Balance in the account at the start of your 2002 fiscal period			$______	**1**
Eligible capital expenditures you made or incurred in your 2002 fiscal period	$______	× 75%	$______	**2**
Line 1 **plus** line 2			$______	**3**
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2002 fiscal period	$______	**4**		
All the amounts that became receivable in your 2002 fiscal period from the sale of eligible capital properties before June 18, 1987	$______	**5**		
Line 4 **plus** line 5	$______	**6**		
Line 6 × 75%			$______	**7**
CEC account balance Line 3 **minus** line 7			$______	**8**
Annual allowance 7% × line 8			$______	**9**
CEC account balance at the end of your 2002 fiscal period Line 8 **minus** line 9			$______	**10**

Note
For tax years ending after February 22, 1994, an eligible capital expenditure is reduced by the amount of any help received or receivable from a government for the expenditure. Also, an amount forgiven (or entitled to be forgiven) on loans from a government related to an eligible capital expenditure reduces your CEC account.

You can deduct an annual allowance if there is a **positive** balance (line 8) in your CEC account at the end of your 2002 fiscal period. You do not have to claim the full amount of the maximum annual allowance for a given year. You can deduct any amount you wish, up to the allowable maximum of 7%.

If your fiscal period is less than 365 days, you have to prorate your claim. Base your claim on the number of days in your fiscal period compared to 365 days.

If there is a **negative** balance in your CEC account, see "Sole proprietor – Sale of eligible capital property in a 2002 fiscal period" on page 32, and "Partnership – Sale of eligible capital property in a 2002 fiscal period" on page 33.

The following is an example of how to calculate the maximum annual allowance and the account balance. The examples that follow are for illustrative purposes only. There are certain regulations that deal with the ownership and transfer of fishing permits. For more information, contact Fisheries and Oceans Canada.

Example

Lorin started a fishing business on January 1, 2002. Lorin's business has a December 31 year-end. During 2002, she bought a fishing permit for $16,000. She calculates her maximum annual allowance of $840 for 2002 as follows:

Lorin's CEC account

Balance at the start of her 2002 fiscal period	$	0	1
Eligible capital expenditure: (fishing permit cost for the 2002 fiscal period) $16,000 × 75%		12,000	2
Line 1 **plus** line 2	$	12,000	3
Lorin has not sold any eligible capital property during the 2002 fiscal period. Therefore, she will not have any amounts on lines 4 to 8.			
Maximum annual allowance 7% × line 3	$	840	9
Balance at the end of 2002 Line 3 **minus** line 9	$	11,160	10

Sole proprietor

Sale of eligible capital property in a 2002 fiscal period

When you sell eligible capital property, you have to subtract part of the proceeds of disposition from your CEC account.

You have to do this calculation if you sold eligible capital property:

- in your 2002 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2002 fiscal period.

For 2002, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property you sell in your 2002 fiscal period; and
- the amount of any proceeds that become due to you in your 2002 fiscal period from eligible capital property you sold before June 18, 1987.

There may be a negative amount (excess) in your CEC account after you subtract the required amount. In this case, you will have to include part of the negative amount in your business income.

Multiply by 2/3 the part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, you add the lesser of the excess and annual allowances deducted. This is the amount to include in your business income. The following example shows how to calculate the amount to include in your business income.

Example

Bill has operated a fishing business since January 1, 1996, with a **December 31** year-end. In 1996, Bill bought a fishing permit for $10,000. Bill sold his business on September 1, 2002. He sold his fishing permit for $15,000 and he does not have any other eligible capital property in his business. He deducted annual allowances each year as follows:

Year	Amount
1996	$ 525
1997	488
1998	454
1999	422
2000	393
2001	365
Total	$2,647

The amount Bill will include in business income on the line "Other income" of Form T2121 is the total of A and C:

Calculating amount A

The lesser of i) or ii)

i) Excess amount calculated as follows:

Proceeds of disposition: $15,000 $15,000 × 75%	$	11,250	
Plus: Total annual allowances deducted		2,647	
		13,897	
Minus: 75% of eligible capital expenditures $10,000 × 75%	$	7,500	
Excess amount	$	6,397	i
ii) Total annual allowances deducted	$	2,647	ii
The lesser of i) or ii)	$	2,647	A

Calculating amount B

Excess amount	$ 6,397			
Minus: Total annual allowances deducted	$ 2,647	$	3,750	B

Calculating amount C

Line B × 2/3	$	2,500	C
Line A **plus** line C	$	5,147	

The amount Bill will include in business income on the "Other income" line is $5,147.

Sale of eligible capital property for which you filed Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22,1994*

If you filed Form T664 for eligible capital property of your business for the years 1994 or 1995, your CEC account does not change. Rather, the taxable capital gains on which you made the election created an **exempt gains balance** for your business. The exempt gains balance reduces your business income from the disposition of eligible capital property (other than the recapture of annual allowances deducted in previous years).

Example
Carol has operated a fishing business since February 1, 1993. The business has a **January 31** year-end. Carol paid $10,000 for a fishing permit when she started the business. She has no other eligible capital property. Carol sells her business on September 1, 2001. She sells her fishing permit for $15,000. Also, she had filed the election to claim a capital gains deduction for the 1995 fiscal period that includes February 22, 1994. Carol calculated her exempt gains balance to be $3,000. In previous years, Carol claimed a total of $2,647 of annual allowances on eligible capital property.

Carol calculates the amount to include in her business income on the "Other income" line on Form T2121, as the total of amounts A and B:

Calculating amount A
The lesser of i) or ii)

i) Excess amount calculated as follows:

Proceeds of disposition: $15,000 $15,000 × 75%	$ 11,250	
Plus: Total annual allowances deducted	2,647	
	13,897	
Minus: 75% of eligible capital expenditures $10,000 × 75%	7,500	
Excess amount	$ 6,397	**i**
ii) Total annual allowances deducted	$ 2,647	**ii**
The lesser of i) or ii)	$ 2,647	**A**

Calculating amount B

Excess amount	$ 6,397		
Minus: Total annual allowances deducted	2,647		
	3,750		
Minus: Exempt gains balance *	3,000	$ 750	**B**

Calculating amount C

Line B × 2/3	$ 500	**C**
Line A **plus** line C	$ 3,147	

Carol would include $3,147 in her business income on the "Other income" line.

* The exempt gains balance (taxable capital gain on February 22, 1994) of $3,000 is the amount on line 6 of Form T664 that was completed in 1995.

Partnership

Sale of eligible capital property in a 2002 fiscal period

When the partnership sells eligible capital property, it has to subtract part of the proceeds of disposition from its CEC account.

The partnership has to do this calculation if it sold eligible capital property:

- in its 2002 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due in its 2002 fiscal period.

For 2002, the amount the partnership has to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property the partnership sells in its 2002 fiscal period. The total proceeds of disposition have to be included even if the partnership will not receive the entire amount in 2002; and
- the amount of any proceeds that become due in its 2002 fiscal period from eligible capital property the partnership sold before June 18, 1987.

There may be a negative amount (excess) in the partnership's CEC account after it subtracts the required amount. In this case, the partnership will have to include the negative balance or part of it in its business income.

Multiply by 2/3 the part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, you add the lesser of the excess and annual allowances deducted. This is the amount to include in your business income. The following example shows how to calculate the amount to include in your business income.

If you, as a partner of the partnership, have made the capital gains election by filing Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, on your 1994 income tax return for your partnership interest, you will have reported the capital gain accrued to February 22, 1994. In this case, the adjusted cost base (ACB) of your partnership interest has not changed as a result of the election. Rather, you have created a special account called your **exempt capital gains balance**. You will be able to use this account to reduce your share of business income of the partnership from the sale of eligible capital property (other than the recapture of annual allowances deducted in previous years).

You have to include on the "Other income" line on Form T2121 the business income that results from the sale of the eligible capital property. You will then reduce your share of the partnership income by claiming a **business income reduction** in the chart "Other amounts deductible from your share of net partnership income (loss)" on Form T2121. To calculate your exempt capital gains balance and your business income reduction, see Chapter 4 of the *Capital Gains* guide.

Example
You and your partner have operated a fishing business since January 1, 1994. Your partnership agreement states that you and your partner will share the business profits equally. The business has a **December 31** year-end. You and your partner paid a total of $10,000 for a fishing permit when you started the business. The business has no other eligible capital property. You and your partner sell the business on September 1, 2002. The proceeds of disposition of the fishing permit are $15,000. As a partner of the partnership, you made the capital gains election in 1994 on your partnership interest. In previous years, the partnership claimed $2,647 as annual allowances on eligible capital property.

First step
Calculating the amount to include in business income – Sale of fishing permit on September 1, 2002
The amount to include in the partnership's business income, on the "Other income" line on Form T2121, is the total of amounts A and C:

Calculating amount A
The lesser of i) or ii)

i) Excess amount calculated as described below:

Proceeds of disposition: $15,000 $15,000 × 75%	$ 11,250	
Plus: Total annual allowances deducted	2,647	
	13,897	
Minus: 75% of eligible capital expenditures $10,000 × 75%	7,500	
Excess amount	$ 6,397	**i**
ii) Total annual allowances deducted	$ 2,647	**ii**
The lesser of i) or ii).	$ 2,647	**A**

Calculating amount B

Excess amount	$6,397		
Minus: Total annual allowances deducted	2,647	$ 3,750	**B**

Calculating amount C

Line B × 2/3	$ 2,500	**C**
Line A **plus** line C	$ 5,147	

According to this example, you should include $5,147 on the "Other income" line.

Second step
Calculating your share of partnership income from the sale of the fishing permit (not including the recapture of annual allowances deducted in previous years)

Excess amount as calculated above	$ 6,397	**1**
Total annual allowances deducted	2,647	**2**
Line 1 **minus** line 2	$ 3,750	**3**
50% × line 3	$ 1,875	

The amount of $1,875 is your share of the business income (other than the recapture of annual allowances deducted in previous years) from the sale of eligible capital property. You have to enter this amount on line 10 of Chart 7 in the appendix to our *Capital Gains* guide. This chart will help you calculate your business income reduction for 2002 as well as your exempt capital gains balance available for 2003. To make sure you complete the chart correctly, you should read Chapter 4 in the *Capital Gains* guide.

After you calculate your business income reduction on line 11 of the above-noted chart, you can enter this amount in the chart "Other amounts deductible from your share of net partnership income (loss)" on Form T2121.

If you did not make the capital gains election for 1994 as a partner in a partnership, the amount to include on the "Other income" line on Form T2121, according to this example, is $5,147. In this case, you could not use the calculation of the second step or the calculations for the business income reduction in the *Capital Gains* guide.

Election

Under certain conditions, you can elect to treat the disposition of an eligible capital property (other than goodwill) as a capital gain in your CEC account if you sold your interest in property, such as a franchise, concession, or licence that has an unlimited life. You can elect to deem the proceeds of disposition of the eligible capital property to be equal to its original cost.

You can then declare a capital gain equal to your actual proceeds of disposition minus the cost of acquisition. Report the details on the "Real Estate, depreciable property and other properties" line of Schedule 3, *Capital Gains (or Losses) in 2002*. This election will benefit you if you have unused capital losses to apply against the capital gain.

The election is available if you meet the following conditions:

- you disposed of an eligible capital property other than goodwill;
- the cost of the eligible capital property can be determined;
- the proceeds of disposition exceed the cost; and
- you don't have an exempt gains balance.

File your election by attaching a note to your income tax return.

Replacement property

If you sell an eligible capital property and replace it with another one for the same or similar use, you can postpone all or part of any gain on the sale. This happens if you acquire a replacement eligible capital property within a certain period of time. To do this, you have to replace the property no later than one year after the end of the tax year in which you sell the original property. For more details, see Interpretation Bulletin IT-259, *Exchanges of Property*.

For more information about eligible capital expenditures, see Interpretation Bulletins IT-123, *Transactions Involving Eligible Capital Property*, and IT-143, *Meaning of Eligible Capital Expenditure*, and its Special Release.

Chapter 5 – Fishing Losses

When the expenses for your fishing business are more than the income for the year, you have a net operating loss. You must reduce your net operating loss by the amount of other income you may have.

For example, if in 2002 your total fishing expenses were $25,000 and your fishing income was $18,000, you would have a net operating loss of $7,000. If you also had other income of $2,000, you would reduce your net operating loss of $7,000 by $2,000. Therefore, your fishing loss for the year would be $5,000 ($7,000 – $2,000).

Fishing and non-capital losses

Fishing losses

You may have net fishing income in 2002 instead of a fishing loss. If so, you may be able to apply to your 2002 income tax return fishing losses you had from 1992 to 2001. You can apply these losses as long as you did not already deduct them. You have to apply the loss from the earliest year first, before you apply the losses from later years. Enter the amount on line 252 of your income tax return.

You may have a fishing loss in 2002. If you do, you can carry back this loss for three years or carry it forward for up to 10 years. To carry back a 2002 loss, complete Form T1A, *Request for Loss Carryback*. Attach one copy of the form to your 2002 income tax return. Do not file an amended income tax return for the year to which you want to apply the loss.

Non-capital losses

You may have incurred a loss in 2002 from a business that was not fishing or farming. If this loss is more than your other income for the year, you may have a non-capital loss. Use Form T1A to calculate your 2002 non-capital loss.

You can carry back your 2002 non-capital loss up to three years and carry it forward up to seven years.

If you choose to carry back your 2002 non-capital loss to your 1999, 2000, or 2001 income tax returns, complete Form T1A. Attach one copy of the form to your 2002 income tax return. Do not file an amended income tax return for the year to which you want to apply the loss.

For more details on non-capital losses, see Interpretation Bulletin IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*.

Capital Cost Allowance (CCA) Rates

This is a list of the more common depreciable properties a fishing business may use and the related class for each type of property. We show the CCA rates at the end of the list.

Depreciable property	Class No.
Automobiles	10
Boats and component parts	7
Breakwaters	
Cement or stone	3
Wood	6
Buildings and component parts	
Wood, galvanized, or portable	6
Other:	
Acquired after 1978 and before 1988*	3
Acquired after 1987	1
Chain saws	10
Computer hardware and systems software	10
Docks	
Cement, steel, stone, or wood	3
Drills – All types	8
Electric-generating equipment (not more than 15 kW)	
Acquired after May 25, 1976	8
Acquired before May 26, 1976	9
Electric motors	8
Engines – Stationary	8
Ice machines	8
Leasehold interest	13
Nets	8
Office equipment	8
Outboard motors	10
Passenger vehicles (see Chapter 3)	10 or 10.1
Power block – Purse seine	7
Pumps	8
Radar or radio equipment	
Acquired before May 26, 1976	9
Acquired after May 25, 1976	8
Tools	
Under $200	12
$200 and over	8
Trailers	10
Traps	8
Trucks	10
Weirs	3
Weirs – Fish	8
Welding equipment	8
Wharves	
Cement, steel, or stone	3
Wood	6
Windchargers	8

* You may add to or alter a class 3 building after 1987. In this case, there is a limit on the amount you can include in class 3. The most you can include in class 3 is the lesser of $500,000 or 25% of the building's cost on December 31, 1987. Include in class 1 any costs you incur that are over this limit.

Rates – Part XI

Class	Rate
Class 1	4%
Class 2	6%
Class 3	5%
Class 6	10%
Class 7	15%
Class 8	20%
Class 9	25%
Class 10	30%
Class 10.1	30%
Class 12	100%

Basic GST/HST Information

If your total gross worldwide revenue from your taxable sales and those of your associates (those taxable at 15%, 7%, and 0%) is more than $30,000 in the current calendar quarter or in the previous four calendar quarters, you have to register for GST/HST.

We consider crew members who receive a share of the catch, commonly known as **sharespeople**, to be self-employed. Therefore, they may also have to register for GST/HST.

If your gross revenue is $30,000 or less, you do not have to register for GST/HST, but you may do so voluntarily. It may benefit you to register because GST/HST registrants can claim **input tax credits**. These credits allow you to recover the GST/HST you have to pay on some of your business purchases and operating expenses.

Note
Nova Scotia, New Brunswick, and Newfoundland and Labrador harmonized their provincial sales tax with GST to create HST. HST applies to the same goods and services as GST but at the rate of 15%.

Examples of sales and purchases that are **taxable** at 7% or 15% include:

- fish or other marine or freshwater animals sold as bait for recreational fishing;
- fish or other marine or freshwater animals not ordinarily used as food for human consumption;
- traps, pots, and cages;
- fish boxes;
- navigation equipment;
- repair and maintenance materials; and
- stationary engines and outboard motors.

Many fish products and certain large fishing equipment are taxable but at the rate of 0%. We refer to these as zero-rated. You do not pay GST/HST when you buy these products, and you do not charge GST/HST when you sell them to your customers.

Here is the list of **zero-rated** fishing products and equipment:

- bait, such as minnow, used in commercial fishing;
- fish feed and by-products, sold in quantities of at least 20 kg according to the *Feeds Regulations*;
- fish or other marine or freshwater animals, such as oysters, clams, and mussels, not further processed than frozen, salted, smoked, dried, scaled, eviscerated, or filleted, provided they are normally used as food for human consumption;
- fish eggs that are produced for hatching purposes;
- fishing vessels you buy in Canada or outside Canada to use in commercial fishing, if you provide all the following documents to the vendor or to the customs office:
  - your GST/HST Business Number;
  - a declaration signed by you stating that you intend to use the vessel in commercial fishing; and
  - a valid commercial limited-entry fishing licence number issued by Fisheries and Oceans Canada or a provincial or territorial government (licensing requirements may vary from region to region);
- the following nets and related equipment:
  - gill-nets, seines, and trawl-nets;
  - webbing, leadlines, corkline (top rope) for gill-nets, seines, and trawl-nets;
  - floats for gill nets and seines;
  - drums for gill-nets, seines, trawl-nets, and long-lines;
  - entrapment and predator webbing;
  - trawl-net doors; and
- the following equipment and products:
  - automatic baiters, jiggers, and net pen feeders;
  - manufactured netpens for use in aquaculture; and
  - mechanical net washers and pescalators.

GST/HST registrants can claim an input tax credit for the GST/HST they paid or owe for purchases and expenses made to provide taxable goods and services at the rates of 0%, 7%, and 15%.

A limited number of goods and services you buy are exempt from GST/HST. Since you do not pay GST/HST on these goods and services, there is no input tax credit to claim.

Examples of **exempt** goods and services include:

- commercial fishing licence fees;
- insurance services sold by insurance companies, agents, or brokers;
- most services provided by financial institutions, such as arranging loans; and
- most health, medical, and dental services.

For more information, see the *General Information for GST/HST Registrants* guide.

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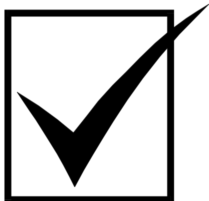
Your opinion counts!



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