# Fishing Income

2001

T4004(E) Rev. 01

# 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 member of a fishing partnership. It will help you calculate the fishing income you will report on your 2001 income tax return*.

You can be a self-employed fisher and also a member of one or more 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.

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

## 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, contact us to get a copy of the guide called *Fishers and Employment Insurance*.

For basic goods and servicestax/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 more copies of Form T2121, or any other forms or publications, visit our **www.ccra.gc.ca** Web site. 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.

# What's New for 2001

The ceiling on the capital cost of a passenger vehicle for capital cost allowance (CCA) has increased from $27,000 to $30,000 plus the GST and PST or HST on those amounts.

The limit on deductible leasing costs for a passenger vehicle has increased from $700 per month to $800 per month plus the GST and PST or HST on those amounts.

Generally, for dispositions of capital property in 2001, the inclusion rate for capital gains and losses is 1/2 as announced in the economic statement of October 18, 2000.

## 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 cette publication est intitulée *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 you carry on for profit or with a reasonable expectation of profit. 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*).

Therefore, business income includes income from any activity you carry on for profit or with a reasonable expectation of profit. See the section called "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 your income for tax purposes. If you repeatedly fail to report these amounts, you will be subject to a penalty of 10% of the amount of income that 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 was a regular part of the business, or that was 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. At this point, we would consider that the business has started. You can usually deduct expenses you have incurred to 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 taxpayer information collected by the 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 business income based on a **fiscal period**. A fiscal period is the time covered from the day your business starts its business year, to the day your 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, you will need the publication called *Reconciliation of Business Income for Tax Purposes* to calculate the amount of business income to report on your 2001 income tax return. The publication includes Form T1139, *Reconciliation of 2001 Business Income for Tax Purposes*.

If you filed Form T1139 with your 2000 income tax return, you generally have to file one again for 2001.

### 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 the section called "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 your 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. For more details, contact us.

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

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

For more details on the cash method for fishing income, 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 the section called "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. Use either the price you would pay to replace an item, or the amount you would get if you sold an item;
- value individual items in your inventory at either their fair market value, 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.

See page 22 for the meaning of fair market value.

In your first year of business, you will not have an opening inventory at the start of your fiscal period.

If this is not your first year of business, use the same method you used in past years to value your inventory. The value of your inventory at the start of your 2001 fiscal period is the same as the value at the end of your 2000 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 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 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 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 comes time to do your return.
- Good records will keep you better informed about the past and present financial position of your business.
- Good records can help you budget and spot trends in your business.
- Good records can prevent problems you may run into if we audit your returns.

### Income records

Keep track of the gross income your 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.

If asked to do so, you must be able to 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. If there is no description on your receipt, 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 claim for 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 return. However, you must keep them in case we ask to see them.

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 #1 | Crewman #2 | Crewman #3 | Crewman #4 | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| February 14 | $10,000.00 | $ 4,000.00 | $300.00 | $400.00 | $200.00 | $300.00 | $200.00 | $1,150.00 | $1,150.00 | $1,150.00 | $1,150.00 | $10,000.00 |
| March 10 | 30,000.00 | 12,000.00 | 300.00 | 400.00 | 200.00 | 300.00 | 600.00 | 4,050.00 | 4,050.00 | 4,050.00 | 4,050.00 | 30,000.00 |
| March 19 | 20,000.00 | 8,000.00 | 300.00 | 400.00 | 200.00 | 300.00 | 400.00 | 2,600.00 | 2,600.00 | 2,600.00 | 2,600.00 | 20,000.00 |
| **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 | $1,500.00 | $900.00 | | | | | | | | |
| February 3 | X Suppliers Ltd. | | | | | | | $600.00 | | | |
| March 31 | Rental services | | | | $800.00 | | | | | | |
| March 31 | Fishermen's loan | | | | | $2,250.00 | $945.00 | | | | |
| April 4 | L. Electronics | | | $85.00 | | | | | | | |
| April 12 | B. Garage | | | | | | | | | Car repairs | $ 75.00 |
| May 2 | J.G. Smith | | | | | | | | $120.00 | | |
| May 16 | L. Electronics | | | | | | | | | Sounder | 3,000.00 |
| | **Totals** | | | | | | | | | | |

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

| Date | To whom sold | Gross landings | Deducted from sales proceeds | | | Net cash received |
|---|---|---|---|---|---|---|
| | | | Gas | Bait | Other | |
| January 16 | Fish Packers | $1,000.00 | $36.50 | $74.90 | $20.00 | $868.60 |
| 20 | Fish Packers | 800.00 | 20.00 | 36.00 | 10.00 | 734.00 |
| 21 | J. Restaurant – no fish slip | 100.00 | | | | 100.00 |
| 25 | Fish Packers | 940.00 | 32.00 | 56.00 | 12.00 | 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 | | | | | | $25.00 | | $85.00 | | |
| 5 | Shipyard | $300.00 | | | | | | | | | |
| 7 | Provincial Gov. | | | | | | | | | Fishing Licence | $ 7.00 |
| 7 | B. Insurance | | | | | | | $280.00 | | | |
| 9 | X. Service Station | | | | | | | 16.00 | | | |
| 12 | F. Jones | | | $85.00 | | | | | | | |
| 31 | Fishermen's Loan | | | | | | | | | Interest | 175.00 |
| | Totals | | | | | | | | | | |

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

### Time limits

Depending on the situation, keep your records for the following lengths of time:

- If you file your return on time, keep your records for a minimum of six years after the end of the taxation year to which they relate.
- If you file your return late, keep your records for six years from the date you file that return.
- If you file an objection or an appeal, keep your records 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 records 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.

## Income tax instalment

As a self-employed fisher, you may have to make an annual instalment payment for 2002. Your 2002 instalment is due on December 31, 2002. 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 on time the full instalment amount you owe.

For more information, see the pamphlet called *Paying Your Income Tax by Instalments*. If you would like to calculate your instalment, get Form T1033-WS, *Worksheet for Calculating 2002 Instalment Payments*.

> **Note**
> If the date mentioned above falls on a Saturday, Sunday, or a statutory holiday, you have until the next business day to make your payment.

## Dates to remember

**February 28, 2002** – If you have employees, file your 2001 T4 Summary and T4A Summary returns. Also, give your employees their copies of the T4 and T4A slips.

**March 31, 2002** – Most fishing partnerships will file a partnership information return by March 31, 2002. However, there are exceptions. See the publication called *Guide for the Partnership Information Return* and Information Circular 89-5, *Partnership Information Return*, and its Special Release.

**April 30, 2002** – Payment of any balance owing is due. If the expenditures of the business are primarily the cost or capital cost of tax shelter investments, file your 2001 return by April 30, 2002.

**June 15, 2002** – File your 2001 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, 2002, to avoid interest charges.

**December 31, 2002** – Pay your 2002 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 return or make your payment.

## What is a partnership?

A partnership is usually the relationship between persons who carry on a business in common with the belief 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. Please get the partnership law for your province to help you decide if you are a partner in a business.

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

- whether or not the relationship is a partnership;

- the rules about capital gains or losses and the recapture of capital cost allowance (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 Bulletins IT-90, *What is a Partnership?*, and IT-138, *Computation and Flow-Through of Partnership Income*, have more details about partnerships.

## Reporting partnership income

A partnership does not pay tax on its income and it does not file an income tax return. Instead, each partner files a return to report his or her share of the partnership's net income or loss. This requirement remains 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 member of a partnership and you claimed expenses on your 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 member of a GST/HST-registered partnership; and
- on your return you deducted 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 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 the vehicle. Use the chart called "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 the section called "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 guide called *GST/HST Rebate for Partners* which includes Form GST 370, *Employee and Partner GST /HST Rebate Application*.

## Partnership losses

A partnership can have a loss. Calculate the loss as though the partnership were a separate person. However, apply the loss carry-over rules to each partner, and not to the partnership. For example, when you complete your 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. Contact us for details about these rules.

## Partnerships that have to file a partnership information return (PIR)

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

If you are a member of a partnership that has to file a PIR, you should get two copies of 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 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 return. Do not attach the partnership's income and expense statement to your 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 the section called "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, see the section called "Line 9945 – Business-use-of-home expenses" on page 20.

The *Guide for the Partnership Information Return* has more details about the PIR. Information Circular 89-5, *Partnership Information Return*, and its Special Release also have more information.

## Partnerships that do not have to file a partnership information return (PIR)

Partnerships with five members or less throughout the year, none of which is another partnership, do not have to file a PIR. For more information, see Information Circular 89-5, *Partnership Information Return*, and its Special Release. You can also get the *Guide for the Partnership Information Return*.

If you are a member 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 below.

## 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 capital gain or recapture from the sale of property the partnership owns is income of the partnership. Also, any capital or terminal loss from the sale of partnership-owned property is the loss of the partnership. For more information about capital gains and capital losses, see the guide called *Capital Gains*. 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 member of a limited partnership is limited, as opposed to general partners.

Contact us for more information on limited partnerships.

## Investment tax credit

The investment tax credit 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 or incurred qualified expenditures or received renounced Canadian exploration expenses in 2001. You may also be able to claim the credit if you have unused investment tax credits from years before 2001. For more details about the investment tax credit, 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 member of a partnership that **has** to file a partnership information return, 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 chart called "Other amounts deductible from your share of net partnership income (loss)" 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 member of a partnership that **does not have** to file a partnership information return, 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. For more information, see page 20. 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 see the section called "What is a partnership?" on page 7. We explain later in this chapter, as well as in Chapter 3, how to complete each of the lines 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. See page 4 for an explanation of fiscal period.

Enter the name and commercial fishing vessel (CFV) licence number of your boat. If your boat has no formal name, enter the CFV 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 the 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 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 applicable 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 get 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 a 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 2001 return. If you got a tax shelter after 1990 and are claiming a deduction for 2001, you **have** to file Form T5004, *Statement of Tax Shelter Loss or Deduction,* with your 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. 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 your T5003 slip, *Statement of Tax Shelter Information*, with your return.

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

## Fishing income

This section explains how to complete the area called "Income" 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 your Form T2121, the income you received in your 2001 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 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 2001 fiscal period (in 2002, you claim the amount that remains).

In either case, include your T4F slip with your 2001 return.

On your 2001 return, you may be claiming income tax that was deducted from a 2000 T4F slip. In this case, attach a note to your 2001 return telling us you are doing this.

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

### 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 then. If you sell at various times in the year, you can use an average rate. You can get the average rate by contacting us.

### 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 this form. 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 member 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 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 you claimed on a vehicle you bought for your fishing business.

If you think you may be eligible for this GST/HST rebate, see the guide called *GST/HST Rebate for Partners*, which includes Form GST 370, *Employee and Partner GST /HST Rebate Application*. Complete Form GST 370 and attach it to your return.

## Subsidies

Include the income you received during your 2001 fiscal period from all fishing subsidy programs made to fishers under federal, provincial, 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 FMV.

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 capital cost allowance (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.<br>**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.<br>**Stacey**: See "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.<br>**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 return and the balance received as "Other income" on Form T2121.

You may have lived in Canada but fished on a foreign vessel. In this case, 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 return.

# Fishing expenses

## Who can claim expenses?
If you were a self-employed fisher, you can deduct certain amounts you spent to earn fishing income. We define self-employed fisher in the section called "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. See the information 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.

The phrase **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 you can attribute 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 capital cost allowance (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 capital cost allowance. 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 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 income, you cannot deduct a prepaid expense amount (other than for inventory) for a taxation 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 taxation 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 2001, you can deduct $400 in 2001. This represents the part of the expense that applies to 2001 and 2002.

On your 2003 tax return, you could then deduct the balance of $200 for the part of the prepaid service contract for office equipment that applies to 2003.

### Rebates

Subtract any rebate, grant, or assistance you get from the applicable expense. 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 capital cost allowance (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** – Crewshares

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 your fishing business, you can deduct the business part of these costs. For more details, see "Line 9945 – Business-use-of-home expenses" on page 20. For more information about claiming your motor vehicle insurance costs, see the section called "Line 9281 – Motor vehicle expenses" on page 14. The insurance costs related to business use of work space in your home have to be

claimed on line 9945, "Business-use-of-home expenses." 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 the section called "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. For more information, contact us.

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 interest 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

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

Often, inshore fishermen 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, the meals you gave them are not taxable benefits because we do not consider sharespeople to be employees.

If you need more details about taxable benefits, see the employers' guide called *Taxable Benefits*. You can also see Interpretation Bulletins IT-91, *Employment at Special Work Sites or Remote Work Locations*, and its Special Release, and 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 capital cost allowance (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 cover the CCA limits in Chapter 3. You will find the limits on interest and leasing costs further on in this section.

A **motor vehicle** is an automotive vehicle 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 that is designed or adapted mainly to carry passengers on streets and highways. It will seat 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 for more than 50% of the distance travelled to transport goods or equipment to earn income; or
- a van, pick-up truck, or similar vehicle that, in the tax year you got it, was used for 90% or more of the distance travelled 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, 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 2001:

| | | |
|---|---|---|
| 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 determines the motor vehicle expenses she can deduct in 2001:

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

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 1999, 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 2001 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 2001); or
- $3,040.45 ($8.33 × 365 days).

Since Russ bought the passenger vehicle in 1999, he uses the $8.33 rate.

Russ calculated the following amounts for 2001:

| | | |
|---|---|---|
| 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 determines the motor vehicle expenses he can deduct in 2001:

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

Russ can deduct $5,728 as motor vehicle expenses in 2001.

### 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 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 details on motor vehicle expenses, 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 2000 fiscal period | | $ 750 |
| Add: Cost of nets and traps you bought in your 2001 fiscal period | $200 | |

| | | |
|---|---|---|
| Cost of twine and other net and trap materials you bought in your 2001 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 2001 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 2001, the value of nets and traps on hand at the end of 2000 will be zero since you have deducted their value in previous years.

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

In most cases, you can deduct legal fees that you incurred for your fishing business. 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 incurred 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 return. You should subtract any reimbursement from the applicable fees, and enter the result on line 232.

If you received a reimbursement in 2001 for these types of fees, which you deducted in a previous year, enter the amount of the reimbursement on line 130 of your 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 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. If you were a member 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 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*, get the guide called *Filing the T4 Slip and Summary Form.*

## **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*. If you are not sure whether your repairs were capital, contact us.

#### 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 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 fiscal period for property you 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 from whom you are leasing have to agree to treat the payments this way. In this case we consider that:

- you have bought the property rather than leased it; and
- you have borrowed an amount equal to the fair market value (FMV) of the leased property. We define FMV 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 that is 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 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*.

If you and the person you are leasing from have agreed to this kind of lease arrangement and you need one of these forms, or if you want more details, contact us.

#### 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 on your home telephone.

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 capital cost allowance and interest you paid on money you borrowed to buy this equipment that reasonably relates to earning your fishing income. For more information on capital cost allowance, 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 private health service plan (PHSP) premiums paid or payable 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 business on a regular and continuous basis, individually or as a partner; and
- the premiums are paid 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 2000 or 2001 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 2000 or 2001 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 2000 or 2001 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 2000 or 2001 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 private health services plans;
- 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.

### 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-arms' length transactions" on page 22.
- **Insurable persons** are people to whom coverage is extended and who are:
  - qualified employees; or
  - 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 2001

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;
- $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.

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**Example 1**
Edwin was a sole proprietor who ran his business alone in 2001. He had no employees and did not insure any of his family members. Edwin paid $2,000 for PHSP coverage in 2001. In his case, the coverage lasted from July 1 to December 31, 2001, 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 2001, 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 2001. 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.

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### If you had employees throughout 2001

If you had at least one **qualified employee** throughout all of 2001, 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 page 18 for a definition of qualified employee.)

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 for yourself is amount Z above, 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. You may, however, be able to deduct them as medical expenses.

If you had employees throughout 2001 but the number of **arm's length** employees you insured was less than 50% of all of 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.

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 above. 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 called "If you had employees throughout 2001" 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.

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 above. If you did not have at least one qualified employee, the limit in Amount 1 will apply.

### Undeducted premiums

If you deduct only a part of your PHSP premium at line 9270, you can include the undeducted balance in the calculation of your non-refundable medical expense tax credit, if you paid the premium in the year. 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 the gross income minus the deductible expenses. If you are a member of 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 called "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 called "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 member of a partnership that has sold an eligible capital property and in 1994 you made an election for the $100,000 capital gains exemption on your interest in the partnership. For more information, see Chapter 4 in this guide.

## 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 capital cost allowance (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.

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.

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**Example**
Monique runs a business in 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 only operates during the 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.

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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 CCA recapture, see Chapter 3. For information on capital gains, get the guide called *Capital Gains*.

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 2000 fiscal period, plus the business-use-of-home expenses you incur in your 2001 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 2001 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 called "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 return. If you have a loss, enter the amount in brackets.

## Details of equity (page 2 of Form T2121)

If you are a member of a partnership that has to file a partnership information return, 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.

**Line 9932** – Drawings in 2001
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 2001
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 (chart on page 3 of Form T2121)

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

If you are a member of 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 may get 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 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 taxation year after the year in which you get the property;
- the date it is delivered 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 the disposition of the property.

**Example**
If you buy an electric motor and the seller delivers it to you in your 2001 fiscal period, but it was not in working order until your 2002 fiscal period, you cannot claim CCA on it until 2002. However, if you buy an electric motor and the seller delivers it to you in working order in your 2001 fiscal period, but you did not use it until your 2002 fiscal period, you can still claim CCA in 2001 because it was available for use.

A **building** is usually available for use at the earliest of the following dates:

- the date on which you use 90% or more of the building in your business;
- the second taxation year after the year in which you got the building; and
- the time just before the disposition of the building.

A building that you **bought or are constructing, renovating, or altering** is usually available for use at the earliest of the following dates:

- the date on which you have completed the construction, renovation, or alteration;
- the date on which you use 90% or more of the building in your business;
- the second taxation year after the year in which you got the building; and
- the time just before the disposition 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 the section called "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
- for a building, soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building.

#### 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

The proceeds of disposition are generally 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 30 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?

The amount of 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. The section called "Classes of depreciable property" on page 25, describes the most common classes of depreciable property. We list most of the classes of depreciable property and the rates for each class in the section called "Capital Cost Allowance (CCA) Rates" on page 36.

Base your CCA claim on your fiscal period ending in 2001, and not the calendar year.

### 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 the section called "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. You will find more information under the heading "available for use" on page 21.
- You cannot claim CCA on most land or on living things such as trees, shrubs, or animals. However, if you receive income from a quarry, sand or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance. For more details about quarries, pits, and woodlots, see Interpretation Bulletins IT-373, *Farm Woodlots and Tree Farms*, and its Special Release, and IT-492, *Capital Cost Allowance – Industrial Mineral Mines*.
- 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 the section called "Column 5 – UCC after additions and dispositions" on page 24.
- If you are a member of 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 2001 fiscal period that you used in your fishing business before January 1, 1972, complete Part XVII properties in Area A on page 2 of Form T2121. For more information on how to claim CCA on that property, contact us.

**You were asking . . . ?**

**Q**. How do I determine my CCA claim if I start a fishing business and my first fiscal period is from June 1, 2001, to December 31, 2001?

**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 2001 deduction for CCA and any recaptured CCA and terminal losses.

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

**Note**
Even if you are not claiming a deduction for CCA for 2001, complete the appropriate areas 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 the section called "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 CCA class, you combine the capital cost of all these properties in one class.

We explain the more common classes of property in the section called "Classes of depreciable property" on page 25. We also list most of the classes and their rates in the section called "Capital cost allowance (CCA) rates" on page 36. Contact us if you need help in determining the rate for depreciable property not listed.

### **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 the 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 2000 from your UCC at the start of 2001. Also subtract any 2000 ITC you carried back to a year before 2000.

You may have received a GST/HST input tax credit in 2000 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 the section called "Grants and subsidies" on page 28.

**Note**
In 2001, 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 2002. To do this, subtract the amount of the ITC from the UCC at the beginning of 2002. When there is no property left in the class, report the amount of the ITC as income in 2002.

### **Column 3** – Cost of additions in the year

If you get 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 below; 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 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 get. 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 get property, see the section called "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 got or improved in 2001. 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 21.

#### **Area C** – Details of building additions in the year

List the details of all buildings you got or improved in 2001. 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 21.

### Land

Land is usually not depreciable property. Therefore, you cannot claim CCA on its cost. If you get 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 getting land in 2001 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 capital cost allowance 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 2001 dispositions on Form T2121, as explained below.

If you disposed of a depreciable property during your 2001 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.

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 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%.

If you dispose of a depreciable property for more than it cost, you will have a capital gain. See the guide called *Capital Gains* for details. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. See the section called "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

List in this chart the details of all equipment and motor vehicles you disposed of in your 2001 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

List in this chart the details of all buildings you disposed of in your 2001 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 the total of all amounts you received or will receive for disposing of land in the fiscal period on line 9924.

## **Column 5** – UCC after additions and dispositions

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

- negative (see "Recapture of CCA" below); or
- positive, and you do not have any property left in that class at the end of 2001 (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 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. For more details, contact us.

### 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 taxation year, 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 and terminal loss do not apply to passenger vehicles in class 10.1. However, see the comments in the section called "Column 7 – Base amount for capital cost allowance," to calculate your CCA claim.

### **Column 6** – Adjustment for current-year additions

In the year you get 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 2001.

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 got a property in your 2001 fiscal period for $30,000, you would base your CCA claim on $15,000 ($30,000 × 50%).

If you got **and** disposed of depreciable property of the same class in your 2001 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.
- In column 6, enter 50% of the result. If the result is negative, enter "0."

In some cases, you do not make an adjustment in column 6. For example, in a non-arm's length transaction, you may buy depreciable property that the seller continuously owned for at least 364 days before the end of your 2001 fiscal period. However, if you transfer personal property, for example 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 taxation year after the year you got a property.

If you need more details on the special rules that apply to class 13, see Interpretation Bulletin IT-464, *Capital Cost Allowance – 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 capital cost allowance (CCA)

Base your CCA claim on this amount.

For a class 10.1 vehicle you disposed of in your 2001 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 2001 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 2000 fiscal period, you owned the class 10.1 vehicle you disposed of in 2001. If this applies to you, enter in column 7 50% of the amount in column 2.

### **Column 8** – Rate (%)

Enter the rate in this column for each class of property in Area A. For a list of rates, see the section called "Capital Cost Allowance (CCA) Rates" on page 36. For more detailed information on certain kinds of property, see the section called "Classes of depreciable property" on page 25.

### **Column 9** – CCA for the year

In column 9, enter the CCA you would like to deduct for 2001. 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 22.

For Part XI assets, add the amounts in column 9 and enter the total on line i. For part XVII assets, add the amounts in column 6 and enter the total on line ii. Enter the total of lines i and ii on line 9936, "Capital cost allowance," on Form T2121. If you are using the property both for business and personal use, see the section called "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 2001 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. To determine the rate for depreciable property not listed below or in the section

called "Capital cost allowance (CCA) rates" on page 36, contact us.

## **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** – Classes 8 (20%), 10 (30%), and 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 acquired during a taxation year 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 the section called "Column 5 – UCC after additions and dispositions" on page 24.

To make an election to include this property in a separate prescribed class, let us know by attaching a letter to your return for the taxation year in which you got the property.

**Note**
You might still own the electronic office equipment at the start of the fifth taxation year after the taxation 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. For more details, contact us.

## **Passenger vehicles** – Class 10.1 (30%)

Your passenger vehicle can belong to either class 10 or class 10.1. We define a 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 it meets **one** of these conditions:

- you bought it in 2001, and it cost more than $30,000; or
- you bought it in 2000, and it cost more than $27,000.

If a passenger vehicle you bought in 2001 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. If a passenger vehicle you bought in 2000, cost more than $27,000, we consider the capital cost of that vehicle to be $27,000 plus the related GST and PST or HST.

The $30,000, and $27,000 amounts are 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 business. On June 21, 2001, she bought two passenger vehicles to use in her business. The PST rate for her province is 8%. Angie wrote down these details for 2001:

| | 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 2001, 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 2001, 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% throughout the country. We have used a PST rate of 8% for the above example only. In your case, use the rate that applies in your province. In the participating provinces, use HST. The rate is 15%.

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

## **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 need more details, contact us.
- If you buy the boat after December 31, 1982, you can claim CCA at a rate of 16 2/3% in the year you buy 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 capital cost allowance schedule.

### **Leasehold interest** – Class 13

Special CCA rules apply to leasehold interests in property. If you have a leasehold interest, contact us for more details.

### Wind energy conversion equipment

Certain types of wind energy conversion equipment acquired before February 22, 1994, are included in class 34 and are eligible for a straight line CCA rate of 25% in the first year, 50% in the second year, and 25% in the third year. Such property acquired after February 21, 1994, will be included in class 43 with a declining balance CCA rate of 30%. For more details, contact us.

## Special situations

### Changing from personal to business use

If you bought a property for personal use and then started using it in your business in your 2001 fiscal period, a change in use has occurred and 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.

**Note**
The deemed capital cost of the land when you change its use is its fair market value (FMV). Include this amount on line 9923 in Area F.

**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 |
| Your **capital cost** is line 1 **plus** line 6 | | $ ________ | 7 |

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

** See the note below for an explanation.

**Note**
For dispositions of capital property in 2000, use on line 6 the **inclusion rate (IR)**, expressed as a fraction, shown on your *Notice of Assessment* or *Notice of Reassessment* for 2000. The **rate** (**R**) on line 5 is the inverse of the inclusion rate used on line 6 in the chart above. For example, if the inclusion rate on line 6 is 2/3, the rate to use on line 5 is 3/2.

### 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 called "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 Form T2121.

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**Example**
Jim owns a fishing business. He bought a car in 2001 that he uses both for personal and for business use. 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 2001 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 as follows:

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

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

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**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 the section called "Passenger vehicles – Class 10.1 (30%)" on page 26.

## Grants and subsidies

You may get a grant or subsidy from a government or a government agency to buy depreciable property. When this happens, subtract the amount of the grant 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 incurred GST/HST on some of the depreciable property you got 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 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% for your business, do not make an adjustment in 2001. In 2002, subtract the amount of the credit from your beginning UCC. For more information on calculating this annual credit, contact us.

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*.

## Non-arm's length transactions

When you get 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 get depreciable property in a non-arm's length transaction from an individual **resident in Canada**, a partnership with at least one member who is an individual **resident in Canada**, or a partnership with at least one member 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**

| | | | | |
|---|---|---|---|---|
| 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.

* See the note below for an explanation.

**Note**
For dispositions of capital property in 2000, use on line 6 the **inclusion rate (IR),** expressed as a fraction, shown on your *Notice of Assessment* or *Notice of Reassessment* for 2000. The **rate (R)** on line 5 is the inverse of the inclusion rate used on line 6. For example, if the inclusion rate on line 6 is 2/3, the rate to use on line 5 is 3/2.

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 members who are individuals resident in Canada or no members 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** | | | | | |
|---|---|---|---|---|---|
| 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.

* See the note below for an explanation.

**Note**
For dispositions of capital property in the year 2000, use on line 4 the **inclusion rate (IR)**, expressed as a fraction, shown on your *Notice of Assessment* or *Notice of Reassessment* for 2000.

You might have bought depreciable property in a non-arm's length transaction and paid less for it than the seller paid. If that is the case, 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 from her father Paul in her 2001 fiscal period for $4,000. Paul paid $10,000 for the outboard motor in 1992. 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 2001 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 four amounts, **whichever is less**:

- the fair market value when you buy the vehicle;
- $30,000 plus any GST and PST or HST you would pay on $30,000, if you buy the vehicle in 2001;
- $27,000 plus any GST and PST or HST you would pay on $27,000, if you buy the vehicle in 2000; 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 will be the undepreciated capital cost of the vehicle when you buy it. If the seller did not use the vehicle to earn income, the cost amount will 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 2001*. You can get this schedule from your tax services office or visit our Web site. For details on how to calculate your taxable capital gain and the capital gains deduction, see the guide called *Capital Gains*.

You may be a member of a partnership that provides you with a T5013 slip, *Statement of Partnership Income*. If the partnership has a capital gain, the partnership 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. See the section "Column 5 – UCC after additions and dispositions" on page 24 for an explanation of terminal losses.

## 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 less than the lesser of 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 you to use the building.

* 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 this page.

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 31.

**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 disposed of the building, either by you or a person not dealing at arm's length with you, either to you or to 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.

* See the note below for an explanation.

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 the section called "Terminal loss" on page 24).

**Note**
The **rate (R)** to use on line F of Calculation B for dispositions of capital property in the year 2000 is determined by the formula 1 – IR. The IR must be expressed as a fraction. For example if the **inclusion rate (IR)** is 2/3, the rate to use on line F is 1 – 2/3 = 1/3. Your 2000 **inclusion rate** is shown on your *Notice of Assessment* or *Notice of Reassessment* for 2000.

### Replacement property

In a few cases, you can postpone or defer adding a capital gain or recapture 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, 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 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 2001 fiscal period.

**Calculating your annual allowance and your CEC account balance for your 2001 fiscal period**

| | | | | |
|---|---|---|---|---|
| Balance in the account at the start of your 2001 fiscal period | | | $_______ | 1 |
| Eligible capital expenditures you made or incurred in your 2001 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 2001 fiscal period | $________ | 4 | | |
| All the amounts that became receivable in your 2001 fiscal period from the sale of eligible capital properties before June 18, 1987 | $________ | 5 | | |
| Line 4 plus line 5 | $________ | 6 × 75% | $_______ | 7 |
| **Cumulative eligible capital** (line 3 minus line 7) | | | $_______ | 8 |
| **Annual allowance** – 7% × line 8 | | | $_______ | 9 |
| **CEC account balance at the end of your 2001 fiscal period** (line 8 minus line 9) | | | $_______ | 10 |

**Note**
For taxation 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 reduces your CEC account. For more information on forgiveness of debt, contact us.

You can deduct an annual allowance if there is a **positive balance** in your CEC account at the end of your 2001 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 the sections called "Sole proprietor – Sale of eligible capital property in a 2001 fiscal period" on this page, and "Partnership – Sale of eligible capital property in a 2001 fiscal period" on page 34.

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, 2001. Lorin's business has a December 31 year-end. During 2001, she bought a fishing permit for $16,000. She calculates her maximum annual allowance of $840 for 2001 as follows:

**Lorin's CEC account**

| | | |
|---|---|---|
| Balance at the start of Lorin's 2001 fiscal period | $ 0 | 1 |
| Lorin's eligible capital expenditure (fishing permit during 2001 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 2001 fiscal period. Therefore, she will not have any amounts on lines 4 to 8. | | |
| Lorin's maximum annual allowance on eligible capital property (7% × line 3) | $ 840 | 9 |
| Balance at the end of 2001 (line 3 minus line 9) | $ 11,160 | 10 |

## Sole proprietor

### Sale of eligible capital property in a 2001 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 2001 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2001 fiscal period.

For 2001, 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 2001 fiscal period; and
- the amount of any proceeds that become due to you in your 2001 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.

The portion of the negative amount in your CEC account that exceeds the annual allowances deducted is multiplied by 2/3. 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, 1995, with a **December 31 year-end**. In 1995, Bill bought a fishing permit for $10,000. Bill sold his business on September 1, 2001. 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:

| | |
|---|---|
| 1995 | $ 525 |
| 1996 | 488 |
| 1998 | 454 |
| 1998 | 422 |
| 1999 | 393 |
| 2000 | 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<br>$15,000 × 75% | | $ 11,250 | |
| Plus: Total annual allowances deducted | | 2,647 | |
| Sub-total | | 13,897 | |
| Minus: 75% of eligible capital expenditures<br>$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 line "Other income" 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 cumulative eligible capital 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, 2000. 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<br>$15,000 × 75% | $ 11,250 | |
| Plus: Total annual allowances deducted | 2,647 | |
| Subtotal | 13,897 | |
| Minus: 75% of eligible capital expenditures<br>$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 | | |
| Subtotal | 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 line "Other income."

* 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.

For more information about this election, see the *Capital Gains Election Package*.

# Partnership

## Sale of eligible capital property in a 2001 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 2001 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due in its 2001 fiscal period.

For 2001, 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 2001 fiscal period. The total proceeds of disposition have to be included even if the partnership will not receive the entire amount in 2001; and
- the amount of any proceeds that become due in its 2001 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.

The portion of the negative amount in your CEC account that exceeds the annual allowances deducted is multiplied by 2/3. 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 member 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 called "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 guide called *Capital Gains*.

**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, 2001. The proceeds of disposition of the fishing permit are $15,000. You, as a member of the partnership, 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, 2001**

The amount to include in the partnership's business income, on the line called "Other income" 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<br>$15,000 × 75% | $ 11,250 | |
| Plus: Total annual allowances deducted | 2,647 | |
| Subtotal | 13,897 | |
| Minus: 75% of eligible capital expenditures<br>$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** |
| The total of lines A and C | $ 5,147 | |

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

**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 represents 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 guide called *Capital Gains*. This chart will help you calculate your business income reduction for 2001 as well as your exempt capital gains balance available for 2002. To make sure you complete the chart correctly, you should read Chapter 4 in the guide called *Capital Gains*.

After you have calculate your business income reduction on line 11 of the above-noted chart, you can enter this amount in the chart called "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 member of the partnership, the amount to include on the line called "Other income" on Form T2121, according to this example, is $5,147. In this case, you could not use the calculation of the second step and the calculations in the *Capital Gains* guide for the business income reduction.

## Election

There is an election that may allow you 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 2001*. 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 return. For more information about this election contact us.

## 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 get 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 taxation 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, or contact us.

# 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 2001 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 2001 instead of a fishing loss. If so, you may be able to apply to your 2001 return fishing losses you had from 1991 to 2000.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 2001. 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 2001 loss, complete Form T1A, *Request for Loss Carryback*. Attach one copy of the form to your 2001 return. Do not file an amended return for the year to which you want to apply the loss.

### Non-capital losses

You may have incurred a loss in 2001 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 2001 non-capital loss.

You can carry back your 2001 non-capital loss for up to three years and forward up to seven years.

If you choose to carry back your 2001 non-capital loss to your 1998, 1999, or 2000 returns, complete Form T1A. Attach one copy of the form to your 2001 return. Do not file an amended 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 | Part XI 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 |
| Wind energy conversion equipment | 34 or 43 |

* 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 more than 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% |

For details about the CCA rates for classes 13 and 43, contact us.

# 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**
> On April 1, 1997, three participating provinces—Nova Scotia, New Brunswick, and Newfoundland and Labrador—harmonized their provincial sales tax with GST to create harmonized sales tax (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 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 for commercial fishing; and
  - a valid commercial limited-entry fishing licence number issued by Fisheries and Oceans Canada or a provincial 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;
  - gill-net drums, seine drums, trawl-net drums, long-line drums;
  - entrapment webbing, predator webbing; and
  - trawl-net doors; and
- the following equipment and products:
  - automatic baiters, jiggers, and net-pen feeders;
  - fish feed and by-products, sold in quantities of at least 20 kg according to the *Feeds Regulations*;
  - 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 guide called *General Information for GST/HST Registrants*.

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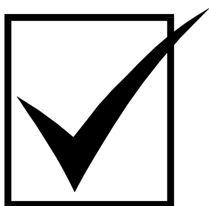
# *Your opinion counts!*



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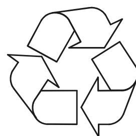

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