

TABLE OF CONTENTS

Volume 1

<i>Preface</i>	<i>iii</i>	
<i>Table of Cases</i>	TC-1	
<i>Table of Legislation</i>	TL-1	
ND	New Developments	
ND.1	CRA Views	ND-3
ND.2	Recent Case Law.....	ND-49
ND.3	Recent Legislation	ND-53
ND.4	Recent Amendments to the Act.....	ND-65
LG	Legislation, Government Documents, Case Law	
LG.1	Selected Sections of the <i>Income Tax Act</i>	LG-5
LG.2	Selected Sections of the <i>Income Tax Regulations</i>	LG-41
LG.3	CRA Views	LG-101
LG.4	Recent Cases.....	LG-401
Chapter 1: The Statutory Scheme		
1.1	Overview.....	1-1
1.2	List of Acronyms	1-4
Chapter 2: Summary of Definitions and Terms		
2AAA	Accelerated Canadian Development Expense.....	2-6
2AA	Accelerated Canadian Oil and Gas Property Expense	2-10
2A	Adjusted Cumulative Foreign Resource Expense	2-12
2.1	Agreed Portion.....	2-13
2.2	Assistance.....	2-13
2.2AAA	Bitumen Development Phase	2-16
2.2AA	Bitumen Mine Development Project	2-17
2.2AB	Bitumen Upgrading Development Project	2-17
2.2A	Bituminous Sands.....	2-17
2.3	Canadian Development Expense	2-19
2.3.1	General Comments	2-19
2.3.2	Partnership Expenses	2-27
2.3.3	Flow-through Shares	2-29

Table of Contents

2.3.4	Exclusions	2-30
2.4	2.3.5 Section 21 Election.....	2-31
	Canadian Exploration and Development Expenses	2-32
2.5	Canadian Exploration Expense.....	2-32
	2.5.1 General Comments	2-32
	2.5.2 Oil and Gas Activities.....	2-38.1
	2.5.3 Mineral Resource Activities.....	2-43
	2.5.4 Partnership Expenses	2-59
	2.5.5 Flow-through Shares	2-60
	2.5.6 Exclusions	2-61
	2.5.7 Section 21 Election.....	2-64
2.5A	Canadian Field Processing.....	2-65
2.6	Canadian Oil and Gas Property Expense.....	2-65
	2.6.1 General Comments	2-65
	2.6.2 Partnership Expenses	2-67
	2.6.3 Flow-through Shares	2-68
	2.6.4 Exclusions	2-69
	2.6.5 Section 21 Election.....	2-69
2.6AB	Canadian Real, Immovable or Resource Property	2-71
2.6A	Canadian Renewable and Conservation Expense.....	2-72
2.6B	Canadian Resident Partnership	2-79
2.7	Canadian Resource Property	2-80
	2.7.1 General Comments	2-81
	2.7.2 Right, Licence or Privilege	2-86
	2.7.3 Rental and Royalty	2-88
	2.7.3(1) Royalties Outside of the Resource Context	2-89
	2.7.3(2) Royalties in the Resource Context.....	2-95
	2.7.3(3) CRA Views—Meaning of Royalty	2-109
	2.7.4 Non-qualifying Royalties.....	2-112
	2.7.4(1) General Law	2-115
	2.7.4(1)(a) Enduring Benefit.....	2-116
	2.7.4(1)(b) Recurring Expenditures	2-119
	2.7.4(2) Capital Property vs. Inventory	2-122
	2.7.4(3) Section 18.1 Receipt.....	2-124
	2.7.4(4) Consequences.....	2-132
2.7A	Carved-out Income	2-135
2.7B	Carved-out Property.....	2-135
2.7C	Completion	2-137
2.8	Cumulative Canadian Development Expense.....	2-137
	2.8.1 General Comments	2-141
	2.8.2 Item A	2-142
	2.8.3 Item B	2-142
	2.8.4 Item C	2-143
	2.8.5 Item D	2-143
	2.8.6 Item D.1	2-143
	2.8.7 Item E	2-144

Table of Contents

	2.8.8 <i>Item F</i>	2-144
	2.8.9 <i>Item G</i>	2-152
	2.8.10 <i>Item H</i>.....	2-152.1
	2.8.11 <i>Item I</i>.....	2-152.1
	2.8.12 <i>Item J</i>.....	2-152.1
	2.8.13 <i>Item K</i>.....	2-152.1
	2.8.14 <i>Item L</i>.....	2-152.1
	2.8.15 <i>Item M</i>	2-152.2
	2.8.16 <i>Item M.1</i>.....	2-152.2
	2.8.17 <i>Item N</i>.....	2-152.2
	2.8.18 <i>Item O</i>.....	2-152.3
	2.8.19 <i>Subsection 66.2(6)</i>.....	2-152.3
	2.8.20 <i>Subsection 66.2(7)</i>.....	2-152.3
	2.8.21 <i>Subsection 66.2(8)</i>.....	2-152.4
	2.8.22 <i>Planning Commentary</i>	2-152.4
2.9	Cumulative Canadian Exploration Expense	2-152.4
	2.9.1 <i>General Comments</i>	2-152.6
	2.9.2 <i>Item A</i>	2-152.6
	2.9.3 <i>Item B</i>	2-152.6
	2.9.4 <i>Item C</i>	2-152.7
	2.9.5 <i>Item D</i>.....	2-152.7
	2.9.6 <i>Item E</i>.....	2-152.8
	2.9.7 <i>Item E.1</i>	2-152.8
	2.9.8 <i>Item F</i>	2-152.9
	2.9.9 <i>Item G</i>.....	2-152.9
	2.9.10 <i>Item H</i>.....	2-152.9
	2.9.11 <i>Item I</i>.....	2-152.9
	2.9.12 <i>Item J</i>.....	2-152.10
	2.9.13 <i>Item J.1</i>	2-152.10
	2.9.14 <i>Item K</i>.....	2-152.10
	2.9.15 <i>Item L</i>	2-152.11
	2.9.16 <i>Item M</i>	2-152.11
	2.9.17 <i>Partnership CEE</i>	2-152.12
2.10	Cumulative Canadian Oil and Gas Property Expense	2-152.12
	2.10.1 <i>General Comments</i>	2-152.15
	2.10.2 <i>Item A</i>	2-152.15
	2.10.3 <i>Item B</i>	2-152.15
	2.10.4 <i>Item C</i>	2-152.16
	2.10.5 <i>Item D</i>.....	2-152.16
	2.10.6 <i>Item D.1</i>	2-152.16
	2.10.7 <i>Item E</i>	2-152.17
	2.10.8 <i>Item F</i>	2-152.17
	2.10.9 <i>Item G</i>.....	2-152.26
	2.10.10 <i>Item H</i>.....	2-152.26
	2.10.11 <i>Item I</i>.....	2-152.26
	2.10.12 <i>Item I.1</i>	2-152.27
	2.10.13 <i>Item J</i>.....	2-152.27

Table of Contents

<i>2.10.14 Subsection 66.4(6)</i>	<i>2-152.27</i>
<i>2.10.15 Subsection 66.4(7)</i>	<i>2-152.27</i>
2.10A Cumulative Foreign Resource Expense	2-152.28
<i>2.10A.1 General Comments</i>	<i>2-152.30</i>
<i>2.10A.2 Item A</i>	<i>2-152.30</i>
<i>2.10A.3 Item B</i>	<i>2-152.30</i>
<i>2.10A.4 Item C</i>	<i>2-152.31</i>
<i>2.10A.5 Item D</i>	<i>2-152.31</i>
<i>2.10A.6 Item E</i>	<i>2-152.32</i>
<i>2.10A.7 Item F</i>	<i>2-152.32</i>
<i>2.10A.8 Item G</i>	<i>2-152.38</i>
<i>2.10A.9 Item H</i>	<i>2-152.39</i>
<i>2.10A.10 Item I</i>	<i>2-152.39</i>
<i>2.10A.11 Item J</i>	<i>2-152.39</i>
2.11 Cumulative Offset Account	2-152.39
2.11AA Designated Asset	2-152.39
2.11AB Development Phase	2-152.39
2.11A Disposition	2-152.40
2.12 Disposition (for Successor Corporation Rules)	2-152.40
2.13 Drilling or Exploration Expense	2-152.40
2.13A Eligible Dividend	2-152.41
2.13AB Eligible Mine Development Property	2-152.41
2.13BB Eligible Oil Sands Mine Development Expense	2-152.41
2.13B Entity	2-152.41
2.13C Equity Value	2-152.42
2.13D Excluded Trust	2-152.42
2.14 Expense	2-152.43
2.15 Flow-Through Share	2-152.44
<i>2.15.1 General Comments</i>	<i>2-152.44</i>
<i>2.15.2 Prescribed Share</i>	<i>2-152.49</i>
<i>2.15.2(1) History</i>	<i>2-152.49</i>
<i>2.15.2(2) Jurisprudence</i>	<i>2-154</i>
<i>2.15.2(3) Analysis of Regulation 6202.1</i>	<i>2-155</i>
<i>2.15.2(3)(a) Time of Issuance</i>	<i>2-156</i>
<i>2.15.2(3)(b) Assistance</i>	<i>2-156</i>
<i>2.15.2(3)(c) Conversions and Exchanges</i>	<i>2-160</i>
<i>2.15.2(3)(d) Escrow Arrangements</i>	<i>2-162</i>
<i>2.15.2(3)(e) Specified Person</i>	<i>2-162.1</i>
<i>2.15.2(3)(e)(i) Non-arm's Length Test</i>	<i>2-162.5</i>
<i>2.15.2(3)(e)(i)(A) "Common Mind" Test</i>	<i>2-162.8</i>
<i>2.15.2(3)(e)(i)(B) "Acting In Concert" Test</i>	<i>2-162.10</i>
<i>2.15.2(3)(e)(i)(C) "De Facto Control" Test</i>	<i>2-162.13</i>

Table of Contents

2.15A	2.15.3 Prescribed Right	2-162.14
2.16	Flow-Through Mining Expenditure	2-162.14
	Foreign Exploration and Development Expenses	2-162.18
	2.16.1 General Comments	2-162.18
	2.16.2 Section 21 Election.....	2-162.21
2.16A	Foreign Resource Expense.....	2-162.23
	2.16A.1 General Comments	2-162.23
	2.16A.2 Section 21 Election.....	2-164
2.16B	Foreign Resource Income	2-166
2.16C	Foreign Resource Loss.....	2-168
2.16D	Foreign Resource Pool Expense.....	2-169
2.17	Foreign Resource Property	2-169
2.17A	Global Foreign Resource Limit	2-172
2.17B	Head Lease	2-172.1
2.17C	Investment	2-172.2
2.18	Joint Exploration Corporation	2-172.2
2.18A	Mine	2-172.2
2.19	Mineral.....	2-172.2(2)
2.20	Mineral Resource	2-172.3
2.20A	Net Corporate Income Tax Rate.....	2-172.4(1)
2.20B	Non-Portfolio Earnings of a SIFT Partnership	2-172.5
2.20C	Non-Portfolio Earnings of a SIFT Trust.....	2-172.6
2.20D	Non-Deductible Distributions Amount	2-172.7
2.20E	Non-Portfolio Property	2-172.7
2.21	Oil or Gas Well.....	2-172.8
2.21A	Oil Sands Mine Development Project	2-175
2.21B	Oil Sands Project.....	2-175
2.21C	Oil Sands Property	2-175
2.22	Original Owner	2-175
2.23	Outlay	2-177
2.24	Predecessor Owner	2-178
2.24AA	Preliminary Work Activity	2-179
2.24A	Pre-production Mining Expenditure	2-179
2.25	Principal-Business Corporation	2-179
2.25A	Proceeds of Disposition.....	2-183
2.26	Production	2-183
2.26AA	Prohibited Investment	2-184
2.26A	Provincial SIFT Tax Factor	2-185
2.26B	Public Market	2-185
2.26C	QET Income Tax Rate	2-193
2.26D	Qualifying Contract	2-193
2.27	Qualifying Environmental Trust	2-193
	Appendix I Provincial Legislation	2-196
(i)	Ontario	2-197
(ii)	Quebec	2-197
(iii)	British Columbia	2-198
(iv)	Saskatchewan.....	2-198

Table of Contents

(v)	Manitoba	2-198
(vi)	Newfoundland and Labrador.....	2-199
(vii)	Alberta	2-199
2.27AA	Qualifying Law	2-200
2.27AB	Qualifying Site.....	2-200
2.27A	Qualified REIT Property	2-200.1
2.27B	Real Estate Investment Trust	2-201
2.27C	Real or Immovable Property	2-203
2.27D	Rent from Real or Immovable Properties	2-204
2.28	Reserve Amount.....	2-205
2.29	Restricted Expense	2-205
2.30	Resource Expenses	2-205
2.30A	Security.....	2-206
2.31	Selling Instrument	2-206
2.32	Shareholder Corporation.....	2-207
2.33	Specified Amount.....	2-207
2.33AAA	Specified Development Phase	2-207
2.33AA	Specified Energy Property	2-207
2.33A	Specified Foreign Exploration and Development Expense.....	2-207
2.33AB	Specified Oil Sands Property	2-209
2.33B	SIFT Partnership	2-209
2.33C	SIFT Partnership Balance-Due Day	2-209
2.33D	SIFT Trust.....	2-210
2.33E	Specified Oil Sands Mine Development Expense.....	2-210
2.33F	Specified Oil Sands Mine Development Project.....	2-210
2.34	Specified Purpose	2-210
2.34A	Specified Sampling	2-211
2.34B	Subject Entity	2-212
2.35	Successor.....	2-212
2.36	Tar Sands	2-212
2.36A	Taxable Non-Portfolio Earnings	2-213
2.36B	Taxable SIFT Trust Distributions	2-213
2.37	Term	2-214
2.38	Upgrading Development Phase	2-214
2.39	Historical Information	2-214
2.39.1	<i>Agreed Portion</i>	2-214
2.39.2	<i>Bitumen Development Phase</i>	2-215
2.39.3	<i>Bitumen Mine Development Project</i>	2-215
2.39.4	<i>Bitumen Upgrading Development Project</i>	2-217
2.39.5	<i>Canadian Exploration and Development Expenses</i> ...	2-219
2.39.6	<i>Canadian Field Processing</i>	2-222
2.39.7	<i>Completion</i>	2-224
2.39.8	<i>Cumulative Canadian Development Expense—Item L</i>	2-226
2.39.9	<i>Cumulative Offset Account</i>	2-229
2.39.10	<i>Designated Asset</i>	2-230
2.39.11	<i>Development Phase</i>	2-232
2.39.12	<i>Eligible Mine Development Property</i>	2-232

Table of Contents

2.39.13	<i>Eligible Oil Sands Mine Development Expense</i>	2-234
2.39.14	<i>Joint Exploration Corporation</i>	2-236
2.39.15	<i>Oil Sands Mine Development Project</i>	2-237
2.39.16	<i>Oil Sands Project</i>	2-238
2.39.17	<i>Oil Sands Property</i>	2-238
2.39.18	<i>Preliminary Work Activity</i>	2-239
2.39.19	<i>Pre-production Mining Expenditure</i>	2-241
2.39.20	<i>Reserve Amount</i>	2-243
2.39.21	<i>Shareholder Corporation</i>	2-245
2.39.22	<i>Specified Development Phase</i>	2-245
2.39.23	<i>Specified Energy Property</i>	2-246
2.39.24	<i>Specified Oil Sands Property</i>	2-250
2.39.25	<i>Specified Oil Sands Mine Development Expense</i>	2-251
2.39.26	<i>Specified Oil Sands Mine Development Project</i>	2-253
2.39.27	<i>Upgrading Development Phase</i>	2-255
 Chapter 3: Taxation of Resource Revenues		
3.1	Tax Rates Applicable to Resource Revenues	3-2
3.2	Computation of Resource Income	3-3
3.3	Crown Royalties.....	3-3
3.3.1	General Comments	3-3
3.3.2	Profits-Based Taxes	3-5
3.3A	Foreign Oil and Gas Production Taxes	3-9
3.4	Disposition of Resource Properties	3-10
3.4.1	Foreign Resource Properties	3-10
3.4.2	Canadian Resource Properties.....	3-10.1
3.4.3	Involuntary Dispositions of Canadian Resource Properties	3-11
3.4.4	Deemed Disposition by a Non-Resident.....	3-13
3.5	Other Income Inclusions	3-15
3.5.1	Recovery of Foreign Exploration and Development Expenses	3-15
3.5.1A	Negative CFRE Accounts.....	3-17
3.5.2	CEE, CDE and COGPE	3-18
3.6	Recent Historical Developments.....	3-22
3.6.1	Introduction	3-22
3.6.2	Corporate Tax Rate Reduction	3-24
3.6.3	Partnerships	3-27
3.7	Crown Royalties.....	3-28
3.7.1	General Comments	3-28
3.7.2	Disallowance of Crown Royalties	3-29
3.7.3	Reimbursement of Crown Charges	3-33
3.7.4	Crown Purchases and Sales	3-33
3.8	Other Income Inclusions	3-37

Table of Contents

3.8.1	Recovery of Earned Depletion, Supplementary Depletion, Frontier Exploration and Mining Exploration Depletion Allowances.....	3-37
3.8.2	Recovery of Reserves	3-38
3.8.3	Recovery of Expenses Renounced by a JEC	3-39
3.8.4	Losses	3-40
Chapter 4: Deduction of Expenditures		
4.1	General Limitations	4-2
4.2	Pre-1972 Expenditures	4-4
4.3	Canadian Exploration and Development Expenses	4-4
4.4	Foreign Exploration and Development Expenses	4-5
4.4A	Foreign Resource Expense.....	4-14
4.5	Canadian Exploration Expense.....	4-17
	4.5.1 Deduction by Principal-Business Corporations.....	4-17
	4.5.2 Deduction by Other Taxpayers.....	4-19
4.6	Canadian Development Expense	4-21
4.7	Canadian Oil and Gas Property Expense.....	4-26.3
4.8	Cumulative Offset Account	4-26.10
4.9	Carved-Out Income	4-26.10
4.10	Reserves	4-27
4.11	Depletion Allowances	4-27
4.12	Resource Allowance	4-27
4.13	Capital Cost Allowance.....	4-28
	4.13.1 Introduction	4-28
	4.13.1(1) What is Depreciable Property	4-29
	4.13.2 Classes 41, 41.1 and 41.2.....	4-30.7
	4.13.2(1) General Comments	4-30.7
	4.13.2(2) Paragraph (a)	4-32
	4.13.2(3) Paragraph (a.1).....	4-35
	4.13.2(4) Paragraph (a.2).....	4-36
	4.13.2(5) Paragraph (b)	4-37
	4.13.2(6) Paragraph (c)	4-37
	4.13.2(7) Paragraph (d)	4-38
	4.13.2(8) Rates.....	4-38
	4.13.3 Class 10	4-42
	4.13.4 Class 28	4-44
	4.13.5 Class 2	4-46
	4.13.5A Class 1	4-52
	4.13.6 Class 7	4-52
	4.13.7 Class 8	4-52.1
	4.13.8 Class 12	4-53
	4.13.9 Class 6	4-54
	4.13.9A Classes 43.1 and 43.2	4-54
	4.13.9B Class 49	4-58
	4.13.10 Transfers Between Classes	4-58

Table of Contents

4.14	4.13.11 Available for Use Rules	4-58
	Investment Tax Credits	4-59
	4.14.1 General Comments	4-59
	4.14.2 Qualified Property	4-61
	4.14.2A Qualified Resource Property	4-66
	4.14.3 Certified Property	4-66
	4.14.4 SR&ED Qualified Expenditure Pool.....	4-66
	4.14.5 Flow-Through Mining Expenditure	4-68
	4.14.5A Pre-Production Mining Expenditure.....	4-69
	4.14.6 Income Inclusion	4-70
4.15	Partnership Expenses	4-70
4.16	Expenses Renounced by Joint Exploration Corporations.....	4-71
4.17	Successor Corporation Rules	4-71
4.18	Traders and Dealers.....	4-72
4.19	Special Product Corporations	4-73
4.20	Order of Deductions	4-74
	4.20.1 Overview.....	4-74
	4.20.2 Order of Deductions for Principal-Business Corporations	4-76
	4.20.3 Order of Deductions for Other Taxpayers	4-83
	4.20.4 Planning Techniques.....	4-86
	Appendix.....	4-87
4.21	Historical Comments.....	4-87
	4.21.1 Cumulative Offset Account	4-87
	4.21.2 Transitional Bituminous Sands Provisions	4-87
	4.21.3 Pre-Production Mining Expenditures	4-96

Volume 2

Chapter 5: Depletion and Other Allowances

5.1	History	5-1
5.2	Nature of Deduction	5-4
5.3	Earned Depletion Allowance	5-5
	5.3.1 Computation of Deduction	5-5
	5.3.2 Resource Profits	5-6
	5.3.2(1) Computation of Gross Resource Profits	5-7
	5.3.2(2) Computation of Resource Profits.....	5-12
	5.3.3 Earned Depletion Base.....	5-16
5.4	Frontier Exploration Allowance	5-18
	5.4.1 Nature of Deduction	5-18
	5.4.2 Frontier Exploration Base.....	5-19
5.5	Supplementary Depletion Allowance	5-19
	5.5.1 Nature of Deduction	5-19

Table of Contents

5.6	5.5.2 Supplementary Depletion Base.....	5-21
	Mining Exploration Depletion Allowance	5-22
	5.6.1 Deductions.....	5-22
	5.6.2 Mining Exploration Depletion Base.....	5-23
 Chapter 6: Resource Allowance		
6.1	Introduction	6-1
6.2	Nature of Resource Allowance.....	6-6
	6.2.1 Adjusted Resource Profits	6-6
	6.2.2 CEDOE.....	6-8
	6.2.3 Earned Depletion Base.....	6-11
6.3	Calculation of Resource Allowance	6-12
	6.3.1 Gross Resource Profits.....	6-12
	6.3.2 Resource Profits	6-15
	6.3.3 Adjusted Resource Profits	6-20
	6.3.3(1) The Calculation of A	6-21
	6.3.3(1)(a) Rentals and Royalties.....	6-23
	6.3.3(2) The Calculation of B	6-25
	6.3.3(3) The Calculation of C	6-27
6.4	Losses	6-33
 Chapter 7: Successor Corporation Rules		
7.1	Introduction	7-3
7.2	Overview of the Rules	7-4
7.3	Definitions.....	7-9
	7.3.1 Illustration	7-10
7.4	Where the Rules Do Not Apply	7-11
	7.4.1 Certain Amalgamations and Windings-Up.....	7-11
	7.4.1(1) Subsection 87(1.2) Amalgamations.....	7-12
	7.4.1(2) Subsection 88(1.5) Windings-Up.....	7-13
	7.4.2 Acquisitions Before February 18, 1987.....	7-14
	7.4.3 Where Section 66.6 Applies	7-14
7.5	Conditions Precedent	7-15
	7.5.1 Canadian Resource Properties	7-15
	7.5.1(1) Current Transactions	7-17
	7.5.1(2) Transactions Before the 1987 Amendments	7-23
	7.5.2 Foreign Resource Properties	7-24
7.6	Common Elements of the Rules.....	7-24
7.7	Treatment of Particular Expenses	7-31
	7.7.1 Pre-1972 Expenses	7-31
	7.7.1(1) Original Owner	7-31
	7.7.1(2) Successor.....	7-31
	7.7.1(3) Predecessor Owner	7-32
	7.7.2 CEDE	7-32
	7.7.2(1) Original Owner	7-32

Table of Contents

	7.7.2(2) Successor.....	7-33
	7.7.2(3) Predecessor Owner	7-33
7.7.3 FEDE.....		7-33
	7.7.3(1) Original Owner	7-34
	7.7.3(2) Successor.....	7-34
	7.7.3(3) Predecessor Owner	7-36
7.7.4 CCEE, CCDE and CCOGPE Accounts.....		7-36
	7.7.4(1) Overview.....	7-36
	7.7.4(2) Specified Amount.....	7-40
	7.7.4(2)(a) Elected Amount.....	7-41
	7.7.4(2)(b) Deducted Amount	7-42
	7.7.4(2)(b)(i) CCEE Account.....	7-43
	7.7.4(2)(b)(i)(A) Paragraph 66.1(1)(c) deduction	7-43
	7.7.4(2)(b)(i)(B) Subsection 66.1(2) deduction	7-43
	7.7.4(2)(b)(i)(C) Subsection 66.1(3) deduction	7-46
	7.7.4(2)(b)(ii) CCDE and CCGOPE Accounts.....	7-46
	7.7.4(2)(b)(ii)(A) Paragraph 66.2(1)(d) deduction	7-47
	7.7.4(2)(b)(ii)(B) Subsections 66.2(2) and 66.4(2) deductions	7-48
	7.7.4(2)(b)(iii) CFRE Accounts.....	7-49
	7.7.4(2)(b)(iii)(A) Paragraph 66.21(3)(c) deduction	7-50
	7.7.4(2)(b)(iii)(B) Subsection 66.21(4) deduction	7-50
7.7.4(3) Application of Specified Amount		7-52
	7.7.4(3)(a) By the Original Owner	7-52
	7.7.4(3)(b) Deduction by Successor – General Rules.....	7-54
	7.7.4(3)(b)(i) Where the Original Owner Has One Disposition in the Year	7-54
	7.7.4(3)(b)(ii) Where the Original Owner Has More Than One Disposition in the Year	7-57
7.7.4(4) Specific Rules		7-63
	7.7.4(4)(a) CCEE Account.....	7-63
	7.7.4(4)(a)(i) Original Owner.....	7-63
	7.7.4(4)(a)(ii) Successor.....	7-64
	7.7.4(4)(a)(iii) Predecessor Owner	7-66

Table of Contents

	7.7.4(4)(b) CCDE and CCOGPE	
	Accounts.....	7-66
	7.7.4(4)(b)(i) Original Owner.....	7-66
	7.7.4(4)(b)(ii) Successor.....	7-68
	7.7.4(4)(b)(iii) Predecessor Owner	7-71
	7.7.4(4)(c) CFRE Accounts.....	7-71
	7.7.4(4)(c)(i) Original Owner.....	7-71
	7.7.4(4)(c)(ii) Successor.....	7-72
	7.7.4(4)(b)(iii) Predecessor Owner	7-75
7.8	Acquisition of Control	7-75
	7.8.1 Acquisition of Control of a Corporation.....	7-75
	7.8.1(1) General Rules	7-75
	7.8.1(2) Renewable Energy Corporations	7-77
	7.8.1(3) Tax-Exempts.....	7-77
	7.8.2 Where Change of Control Rules Do Not Apply.....	7-79
	7.8.3 Designation of Income of Other Corporations	7-80
	7.8.4 Partnership Income.....	7-82
	7.8.4(1) Tiered Partnerships	7-94
	7.8.5 Acquisition of Control of Trust.....	7-99
7.9	Amalgamation and Partnerships	7-100
7.10	Income Not Recognized.....	7-101
7.11	Miscellaneous Rules	7-102
	7.11.1 Subsection 66.7(16)	7-102
	7.11.2 Subsection 66.7(17)	7-103
	7.11.3 Subsection 66.7(18)	7-104
7.12	Allowances	7-104
	7.12.1 Definitions.....	7-104
	7.12.2 Where the Rules Do Not Apply	7-105
	7.12.3 Conditions Precedent	7-106
	7.12.4 Treatment of Particular Expenses	7-108
	7.12.4(1) Earned Depletion Base.....	7-108
	7.12.4(1)(a) Original Owner.....	7-108
	7.12.4(1)(b) Successor	7-108
	7.12.4(1)(c) Predecessor Owner	7-110
	7.12.4(1)(d) Change of Control.....	7-110
	7.12.4(1)(e) Miscellaneous Provisions	7-111
	7.12.4(2) Other Allowances	7-112
7.13	Utilization of Successored Expenses.....	7-113
 Chapter 8: Flow-Through Shares		
8.1	Historical Background and Perspective	8-2
8.2	Renunciation	8-5
	8.2.1 Related Penalty	8-14
8.3	CDE Renounced as CEE — Prior to 2019	8-14
8.4	Look-Back Rule	8-14
	8.4.1 Part XII.6 Tax.....	8-17

Table of Contents

8.5	8.4.2 Investors' Interest Obligations.....	8-22
	Effect of Renunciation	8-26
	8.5.1 Related Filings	8-27
	8.5.2 Related Penalty	8-28
8.6	Restrictions on Renunciation	8-28
	8.6.1 General Limitations	8-28
	8.6.2 CDE as CEE.....	8-30
	8.6.3 Prohibited Warehousing	8-30
8.7	Stacking Arrangements	8-33
8.8	Adjustment	8-34.1
	8.8.1 Related Penalty	8-35
8.9	Late Filing.....	8-36
8.10	Dispositions of Flow-Through Shares	8-38
8.11	Paid-up Capital	8-39
8.12	Partnerships	8-43
8.13	Advantages	8-45
	8.13.1 To the Shareholders.....	8-45
	8.13.2 To the Corporation	8-47
8.14	Disadvantages	8-48
	8.14.1 To the Shareholder	8-48
	8.14.2 To the Corporation	8-48
8.15	Flow-Through Share Donations.....	8-49
	8.15.1 The May 2, 2006 Budget	8-49
	8.15.2 Donation Arrangements.....	8-49
	<i>8.15.2(1) Advance Income Tax Rulings</i>	8-52
	8.15.3 The March 22, 2011 Budget.....	8-54
	<i>8.15.3(1) Risk</i>	8-56
8.16	Historical Information I.....	8-58
8.17	Historical Information II.....	8-61
8.18	Historical Information III	8-61

Chapter 9: Corporate Reorganizations

9.1	Section 85	9-1
	9.1.1 General Comments	9-1
	9.1.2 Elected Amount	9-2
	9.1.3 Interaction with Successor Corporation Rules	9-5
	9.1.4 Transferor as Original Owner and Predecessor Owner	9-8
	9.1.5 The Election Form.....	9-10
9.2	Amalgamations	9-10.4
	9.2.1 Successor Corporation Rules	9-10.4
	9.2.2 Flow-Through Shares.....	9-14
9.3	Windings-Up.....	9-16
	9.3.1 Subsection 88(1) Windings-Up	9-16
	9.3.1(1) Deduction by Parent-Timing.....	9-18.1
	9.3.1(2) Deduction by Subsidiary	9-18.1

Table of Contents

	9.3.1(3) Amount of Deductions	9-18.2
9.4	9.3.2 Other Windings-Up	9-18.6
	Acquisition of Control	9-18.7
	9.4.1 Successor Corporation Rules	9-18.7
	9.4.2 Subsection 66.7(11)	9-18.7
	9.4.3 Subsection 66(11.4)	9-19
	9.4.4 The Canadian Tax Cost Bump.....	9-20
	9.4.5 Foreign Affiliate Dumping Rules	9-23
9.5	Spin-outs	9-23
9.6	Wash Transactions.....	9-24
 Chapter 10: Partnerships		
10.1	Nature of Partnerships.....	10-2
	10.1.1 Contractual Relationship	10-2
	10.1.2 Requirements to Form Partnership.....	10-5
10.2	Income Tax Status of Partnership.....	10-9
	10.2.1 Computation of Income.....	10-9
	10.2.2 Application to Resource Expenses.....	10-21
	10.2.2(1) Introduction	10-21
	10.2.2(2) Expenses	10-23
	10.2.2(3) Proceeds of Disposition.....	10-28
	10.2.2(4) Section 103.....	10-29
	10.2.2(5) GAAR.....	10-30.2
	10.2.3 Adjusted Cost Base	10-31
	10.2.4 Limitation of Deductions.....	10-34
	10.2.4(1) Section 66.8.....	10-34
	10.2.4(2) Investment Tax Credit.....	10-36
	10.2.5 Taxation of Corporate Partners	10-38
	10.2.5(1) Adjusted Stub Period Accrual.....	10-38
	10.2.5(1)(a) Designation of QRE	10-39
	10.2.4(1)(b) Designation for the Stub Period	10-41
	10.2.5(2) Interest Charge for Underaccrued Partnership Income	10-42
	10.2.5(3) Special Rule for a New Corporate Partner.....	10-42
	10.2.5(4) Transitional Provisions.....	10-43
	10.2.5(5) Fiscal Period of a Partnership	10-43
	10.2.5(6) Character of ASPA and Partitioned Income	10-43
	10.2.5(7) Deemed Allowable Capital Loss	10-44
	10.2.5(8) Foreign Affiliates	10-44
	10.2.5(9) Joint Ventures	10-44
10.3	SIFT PARTNERSHIPS.....	10-45
	10.3.1 General Comments	10-45
	10.3.2 Taxation of SIFT Partnerships	10-47

Table of Contents

10.3.3	Foreign Tax Credit	10-48
10.3.4	Application	10-49
10.3.5	Compliance.....	10-49
10.4	At-Risk Rules	10-51
10.5	Historical Information I.....	10-57
10.5.1	Fiscal Period of a Partnership	10-57
10.5.2	Transitional Reserve	10-57
	10.5.2(1) Computation of QTI for a Partnership in a Single-Tier Structure	10-57
	10.5.2(2) Computation of QTI for a Partnership in a Multi-Tier Structure	10-58
	10.5.2(3) QTI Adjustments	10-59
	10.5.2(4) QTI Reserve	10-60
10.5.3	Character Reserve for QTI	10-61
10.5.4	Deemed Allowable Capital Loss	10-62
10.5.5	Joint Ventures	10-62
10.6	Historical Information II.....	10-63
10.6.1	Application	10-63

Chapter 11: Joint Exploration Corporations

11.1	Introduction	11-1
11.2	Meaning of Joint Exploration Corporation	11-2
11.3	Utility of a Joint Exploration Corporation	11-2
11.4	Renunciation of Expenses	11-2
11.5	Adjustments in Respect of Renounced Expenses	11-6
11.6	Income of a Joint Exploration Corporation.....	11-8
11.7	Advantages	11-8
11.8	Disadvantages	11-8

Chapter 12: Part IX Tax	12-1
--------------------------------------	------

Chapter 13: Part XII Tax	13-1
---------------------------------------	------

Chapter 14: Part XII.1 Tax

14.1	Introduction	14-1
14.2	Definitions	14-3
	14.2.1 Carved-out Income	14-3
	14.2.2 Carved-out Property.....	14-4
	14.2.2(1) Inclusions	14-4
	14.2.2(2) Exemptions	14-6
14.3	Compliance.....	14-9

Chapter 15: Qualifying Environmental Trusts

15.1	Introduction	15-1
15.2	Deductions of Outlays.....	15-4
15.3	Taxation of Receipts	15-5

Table of Contents

15.4	Taxation of Trusts	15-6
15.5	Taxation of Beneficiaries.....	15-8
	15.5.1 Income Inclusion.....	15-8
	15.5.2 Tax Credit	15-10
15.6	Double Taxation.....	15-12
15.7	Public Transactions.....	15-14
 Chapter 16: Industrial Mineral Mines		
16.1	General Comments	16-1
 Chapter 17: Prospectors and Grubstakers		
17.1	History	17-1
17.2	Nature of Deferral	17-2
17.3	Jurisprudence	17-6
 Chapter 18: Farm-Ins and Farm-Outs		
18.1	Origin of the Farm-Out Arrangement.....	18-1
18.2	Nature of the Farm-Out Arrangement	18-1
18.3	Tax Consequences of the Farm-Out Arrangement	18-3
18.4	Area of Mutual Interest.....	18-6
 Chapter 19: Carrying On Business in a Foreign Jurisdiction		
19.1	Introduction	19-1
19.2	Carrying on Business Through a Branch Operation.....	19-3
19.3	Foreign Tax Credits.....	19-5
19.4	Foreign Tax Deduction	19-8
19.5	Foreign Subsidiaries.....	19-10
	19.5.1 General Comments	19-10
	19.5.2 The Foreign Affiliate Dumping Rules.....	19-11
	19.5.3 Minimizing Foreign Tax	19-14
	19.5.4 Taxation of Income Earned by Foreign Subsidiaries.....	19-17
	19.5.4(1) Foreign Affiliate and Controlled Foreign Affiliate Status	19-17
	19.5.4(2) Income from an Active Business.....	19-19
	19.5.4(3) Foreign Accrual Property Income	19-19
	19.5.4(3)(a) General.....	19-19
	19.5.4(3)(b) Investment Business	19-20
	19.5.4(3)(c) Non-Qualifying Business	19-29
	19.5.4(3)(d) Excluded Property	19-30
	19.5.4(3)(e) Computation of FAPI.....	19-31
	19.5.4(4) Recharacterization Rules	19-32
	19.5.5 Repatriating Income Earned by Foreign Subsidiaries.....	19-35
	19.5.6 Impact of an Acquisition of Control on Surplus	19-39

Table of Contents

19.6	19.5.7 The Upstream Loan Rules	19-39
	Production Sharing Contracts.....	19-41
	19.6.1 General Comments	19-41
	19.6.2 Expenses Incurred in Respect of Exploring or Drilling.....	19-45
	19.6.3 Foreign Resource Property	19-47
 Chapter 19A: Relevant U.S. Tax Provisions for the Canadian Mining Corporation		
19A.1	Introduction	19A-2
	19A.1.1 Terms.....	19A-4
19A.2	Overview of U.S. Taxation of Mining Corporations.....	19A-7
	19A.2.1 Local Mining Tax Environment/Overview	19A-7
19A.3	Some Specific U.S. Tax Provisions Dealing with Specific Mining Corporation Expenditures.....	19A-8
	19A.3.1 Exploration Tax Deductions	19A-8
	19A.3.2 Development Tax Deductions	19A-9
	19A.3.3 Depletion Tax Deductions	19A-9
	19A.3.3(1) Computation of Percentage Depletion....	19A-10
	19A.3.3(2) Computation of Cost Depletion.....	19A-12
	19A.3.4 Reclamation Tax Deductions	19A-12
	19A.3.5 Additional Tax Deductions	19A-13
	19A.3.5(1) Receding Face Doctrine	19A-13
	19A.3.5(2) Manufacturing Deduction	19A-13
	19A.3.5(3) Depreciation Allowance	19A-13
	19A.3.6 Other U.S. Non Income Tax Considerations.....	19A-14
	19A.3.6(1) State/Local Severance Taxes.....	19A-14
	19A.3.6(2) State/Local Manufacturing/Mining Exemptions	19A-15
	19A.3.6(3) State/Local Pollution Control Abatement Equipment	19A-15
	19A.3.6(4) Customs Duties and Fees	19A-15
	19A.3.6(5) State/Local Property Taxes	19A-15
	19A.3.6(6) State/Local Withholding/Payroll Taxes	19A-15
	19A.3.6(7) State/Local Sales and Use Taxes	19A-15
	19A.3.6(8) Overall Tax Considerations	19A-16
19A.4	Foreign Investment in Real Property Tax Act of 1980 (FIRPTA)	19A-17
	19A.4.1 General Rules	19A-18
	19A.4.2 Filing a Withholding Certificate to Avoid Withholding Tax	19A-20
	19A.4.3 Non-U.S. Partners in a U.S. Partnership.....	19A-20
	19A.4.4 Tax-Free (or Roll-Over) Transfers of USRPIs	19A-22
	19A.4.5 Election to be Treated as a U.S. Corporation.....	19A-23

Table of Contents

	19A.4.6 Non-Taxable Like Kind Exchange of Mining Properties	19A-24
19A.5	Miscellaneous Tax Incentives Available to Mining Corporations	19A-25
	19A.5.1 Mining-Related Tax Credits.....	19A-25
	19A.5.1(1) Research or Experimental Expenditures	19A-25
	19A.5.1(2) State/Local Research and Development.....	19A-26
19A.6	Other General U.S. Corporate Tax Provisions that are Relevant for Canadian Mining Corporations.....	19A-27
	19A.6.1 Foreign-Derived Intangible Income	19A-27
	19A.6.2 Global Intangible Low-Taxed Income.....	19A-28
	19A.6.3 Prevention of Base Erosion — The Base Erosion and Anti-Abuse Tax	19A-29
	19A.6.4 Limitation on the Deduction of Net Business Interest Expense	19A-32
	19A.6.5 Alternative Minimum Tax (AMT).....	19A-34
	19A.6.6 Other.....	19A-35
	19A.6.7 Transfer Pricing Implications.....	19A-36
	19A.6.7(1) Recent Jurisprudence	19A-36
	19A.6.7(2) Operating Agreements Limiting Payments to U.S. Operator	19A-37
19A.7	Relevant U.S. Corporate Tax Provision for Canadian Mining Corporations Seeking Investment from U.S. Citizens	19A-41
	19A.7.1 Definition of a PFIC	19A-43
	19A.7.2 Special Look-Through Rules	19A-44
	19A.7.3 Are Mining Income (and the Related Assets) Considered Passive?	19A-45
	19A.7.3(1) Exploration, Development and Production Activities.....	19A-45
	19A.7.3(2) Active Conduct of a Trade or Business	19A-47
	19A.7.4 First-Year Exception	19A-48
	19A.7.5 Elections to Mitigate Effects of Classification as a PFIC	19A-49
	19A.7.5(1) QEF Elections and Purging	19A-49
	19A.7.5(2) Mark-to-Market.....	19A-51
	19A.7.6 Royalty Interests.....	19A-52
 Chapter 20: Debt Forgiveness		
20.1	Historical Review	20-1
20.2	Overview of Current Law.....	20-3
20.3	Debt Parking.....	20-6
20.4	Tax Planning.....	20-7

Table of Contents

Chapter 21: Trusts

21.1	NATURE OF TRUSTS.....	21-1
21.2	SIFT TRUSTS	21-2
21.2.1	General Comments	21-2
21.2.2	Taxation of SIFT Trusts	21-3
21.2.3	Taxation of Beneficiaries.....	21-4
21.2.4	Application	21-5

Chapter 22: Bituminous Sands

22.1	INTRODUCTION	22-1
22.2	DEFINITIONS	22-3
22.2.1	Mineral.....	22-3
22.2.2	Bituminous Sands.....	22-3
22.2.3	Petroleum	22-4
22.2.4	Oil or Gas Well.....	22-6
22.2.5	Mine	22-8
22.2.6	Canadian Resource Property	22-10
22.3	EXPLORATION AND DEVELOPMENT	
	PROVISIONS	22-11
22.3.1	Oil and Gas	22-11
22.3.1(1)	Exploration	22-11
22.3.1(2)	Development.....	22-12
22.3.2	Mining	22-13
22.3.2(1)	Exploration	22-13
22.3.2(2)	Development.....	22-13
22.4	APPLICATION.....	22-14
Index	I-1