



**CALCULATION OF CANADIAN MANUFACTURING AND PROCESSING PROFITS DEDUCTION
(2010 and later tax years)**

Name of corporation	Business number	Year	Tax year-end Month	Day
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- Small manufacturing corporations that meet requirements 1 through 4 in Part 1 of this schedule should complete Part 1 only. All other corporations should complete Part 2 except those that only generate electrical energy for sale or produce steam for sale. Corporations that generate electrical energy for sale or produce steam for sale must complete Part 10 on page 5.
- Income that is eligible for the small business deduction is not eligible for the manufacturing and processing profits deduction.
- All legislative references are to the federal *Income Tax Act* and *Income Tax Regulations*.
- See Interpretation Bulletin IT-145R, *Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax*, for more information.
- See page 7 for notes and definitions to help you complete this schedule.

Part 1 – Small manufacturing corporations

See notes 1 to 7 on page 7.

To qualify as a small manufacturer, the corporation has to meet all of the following requirements:

1. its activities during the year were mainly manufacturing or processing in Canada of goods for sale or lease;

2. the following calculation totals \$200,000 or less: active business income **minus** active business losses of the corporation for the year [this includes the corporation's share of active business income and active business loss for the fiscal period of each partnership of which the corporation was a member at any time in its year (see i) below)]

100

plus:

the active business income for the tax year of each Canadian corporation with which the corporation was associated in the year (see ii) below)

105

Total

110

3. it was not engaged at any time during the year in any activities as set out in subsections 5201 (c) to (c.3) of the Regulations.

4. the corporation did not carry on any active business outside Canada at any time during the year.

If the corporation meets requirements 1 through 4, its Canadian manufacturing and processing profits are equal to line 100 above. Enter this amount on line 200 in Part 9 of this schedule.

If the corporation does not meet requirements 1 through 4, complete Part 2 below.

Partnerships and associated corporations

On a separate sheet of paper attached to this form, please give the following information (if it applies):

- for partnerships – give the name, partnership identification number, and total income or loss from each active business carried on by each partnership of which the corporation was a member at any time in its tax year; and
- for associated corporations – give the name, Business Number, and total income from each active business for the tax year carried on by each Canadian corporation with which the corporation was associated in the year.

Part 2 – Corporations that do not qualify as small manufacturers

See note 6 on page 7.

Canadian manufacturing and processing profits (MP)

ADJUBI (Part 3, line 130) × [MC (Part 5, line 150) + ML (Part 7, line 170)] = (MP) _____
[C (Part 4, line 140) + L (Part 6, line 160)]

Enter amount MP on line 200 in Part 9 of this schedule.

Part 3 – Calculation of adjusted business income (ADJUBI)

See notes 1, 3, and 5 on page 7.

Active business income **minus** active business losses of the corporation for the year [this includes the corporation's share of active business income and active business loss for the fiscal period of each partnership of which the corporation was a member at any time in its year (see i) in Part 1)]

120

Deduct:

Net resource income (amount U from Part 8) A

Minus: Net resource adjustment per subsection 5203(3.1) of the Regulations

Excess (if negative, enter "0") 1

Refund interest as defined in subsection 5203(4) of the Regulations 2

Subtotal (amount 1 **plus** amount 2) 125

Adjusted business income – enter this amount in Part 2, and Part 10 if applicable (if negative, enter "0") . . . (ADJUBI) 130

Part 4 – Calculation of cost of capital (C)

See notes 3, 5, 8, and 12 on page 7.

Add: 1. Gross cost of the following property that the corporation owned at the end of the year and used at any time during the year:

- depreciable assets eligible for capital cost allowance under Schedule II of the Regulations

- timber limits and cutting rights (other than a timber resource property)

- immovable wood assets (class 15)

- industrial mineral mines

- capital expenditures for scientific research and experimental development

- Part XVII property

× 10% B

2. Rental cost for the use of property, which would be included in 1 if

it were owned by the corporation at the end of the year C

3. The corporation's share of the amounts that would be determined under 1 and 2 for a partnership of which the corporation was a member at any time in the year, if one were to substitute "partnership" for "corporation" and "its fiscal period" for "the year". D

Cost of capital – enter this amount in Parts 2 and 5, and Parts 10 and 11 if applicable . . . (C) 140

Part 5 – Calculation of cost of manufacturing and processing capital (MC)

See notes 3, 5, and 12 on page 7.

Cost of capital (from line 140, Part 4) E

The part of amount E that reflects the extent to which each property was used directly in qualified activities of the corporation during the year or in qualified activities of a partnership for the fiscal period of a partnership of which the corporation was a member at any time in the year F

Cost of manufacturing and processing capital: $\frac{100}{85}$ of amount F (enter this amount in Part 2) . . . (MC) 150 *

* cannot be more than the amount E

Part 6 – Calculation of cost of labour (L)

See notes 3, 5, 9, 10, and 12 on page 7.

1. Salaries and wages paid or payable to all employees for services performed during the year G

Deduct: Salaries and wages included above that were:

- a) included in the gross cost of property (Part 4) other than property manufactured and leased during the year to other persons H
- b) related to an active business carried on outside Canada I
- c) related to activities engaged in for the purpose of earning Canadian resource profits as defined in section 5202 of the Regulations I
- d) included in the corporation's Canadian or foreign exploration and development expenses H

Add: Salaries and wages referred to in 1, **less** the deductions in a) to d) for the fiscal period of a partnership of which the corporation was a member at any time in its year – corporation's share (attach calculation)

Subtotal – salaries and wages J

2. Amounts paid or payable during the year to non-employees for performing functions relating to:

- a) management and administration K
- b) scientific research and experimental development K
- c) any service or function normally performed by employees of the corporation K

Deduct: Amounts included above that were:

- d) included in the gross cost of property (Part 4), other than property manufactured by the corporation and leased during the year to other persons L
- e) related to an active business carried on outside Canada M
- f) related to activities engaged in for the purpose of earning Canadian resource profits as defined in section 5202 of the Regulations M
- g) included in the corporation's Canadian or foreign exploration and development expenses L

Add: Amounts referred to in 2, **less** the deductions in d) to g) for the fiscal period of a partnership of which the corporation was a member at any time in its year – corporation's share (attach calculation) N

Subtotal – other payments O

Cost of labour (amount J **plus** amount O) – enter this amount in Part 2, and Part 10 if applicable (L) **160**

Part 7 – Calculation of cost of manufacturing and processing labour (ML)

See notes 3, 5, and 12 on page 7.

Part of salaries and wages (included in amount J, Part 6) that was paid or payable to employees for the time they were directly engaged in qualified activities of the corporation during the year or of the partnership during its fiscal period P

Add:

Part of other payments (included in amount O, Part 6) that was paid or payable to non-employees for performing functions that would be directly related to qualified activities of the corporation during the year or of the partnership during its fiscal period, if they had been employees of the corporation or partnership Q

Total R

Cost of manufacturing and processing labour: $\frac{100}{75}$ of amount R (enter this amount in Part 2) (ML) **170** *

* cannot be more than the amount on line 160 in Part 6

Part 8 – Calculation of net resource income

For corporations with resource activities

See notes 5, 11, and 12 on page 7.

Resource profits as defined in section 1204 of the Regulations for the year of the corporation (including its share of resource profits as a member of a partnership under subsection 1206(3) of the Regulations)

Add:

Amounts included in income under section 59*, including its share of such amounts as a member of a partnership Subtotal S

Deduct:

Amounts deducted by the corporation under section 65**
The corporation's income from the processing of foreign ore (see note 11) T

Net resource income – enter this amount on line A in Part 3 U

* other than amounts that were included in calculating resource profits

** other than amounts that were deducted in calculating resource profits

Part 9 – Manufacturing and processing profits deduction

For eligible corporations that have such profits

Canadian manufacturing and processing profits from Part 1 or Part 2, as applicable 200

Deduct the least of the amounts on lines 400, 405, 410, and 425 of the T2 return* V

Taxable income from line 360 of the T2 return W

Deduct the total of:

1. The least of the amounts on lines 400, 405, 410, and 425 of the T2 return* X
2. Aggregate investment income from line 440 of the T2 return* Y
3. Foreign business income tax credit deductible at line 636** of the T2 return $\times a^{***} =$ X

Lesser of amounts V and Y $\times \frac{\text{Number of days in the tax year in 2008}}{\text{Number of days in the tax year}} \times 8.5\% =$ 1

Lesser of amounts V and Y $\times \frac{\text{Number of days in the tax year in 2009}}{\text{Number of days in the tax year}} \times 9\% =$ 2

Lesser of amounts V and Y $\times \frac{\text{Number of days in the tax year in 2010}}{\text{Number of days in the tax year}} \times 10\% =$ 3

Lesser of amounts V and Y $\times \frac{\text{Number of days in the tax year in 2011}}{\text{Number of days in the tax year}} \times 11.5\% =$ 4

Lesser of amounts V and Y $\times \frac{\text{Number of days in the tax year after 2011}}{\text{Number of days in the tax year}} \times 13\% =$ 5

Total general rate reduction percentage of the lesser of amounts V and Y (**add:** lines 1 to 5) Z

Add:

Amount RR from Part 13 if the corporation is also claiming a deduction for generating electrical energy for sale or producing steam for sale AA

Manufacturing and processing profits deduction – Total of amounts Z and AA BB

Enter amount BB on line 616 of the T2 return.

* Applies only to corporations that were Canadian-controlled private corporations throughout the tax year.

** Calculate the amount of foreign business income tax credit without reference to the corporate tax reductions under section 123.4.

*** Amount a is equal to: $\frac{1}{0.38 \text{ minus the general rate reduction percentage for the tax year}}$

The general rate reduction percentage is 10% for 2010, 11.5% for 2011, and 13% for 2012 and later years (use 0.1, 0.115, and 0.13 accordingly in the calculation above). For tax years that straddle a calendar year, prorate this amount based on the number of days in each calendar year divided by the number of days in the tax year.

Corporations that generate electrical energy for sale or produce steam for sale

A corporation that only generates electrical energy for sale, or produces steam for sale, will need to complete Part 10. If the corporation has other eligible activities besides generating electrical energy or producing steam, it will need to complete Part 2 and Part 10.

Complete Part 10 using all manufacturing and processing profits, including generating electrical energy for sale or producing steam for sale.

Complete Part 2 using all eligible activities other than generating electrical energy for sale or producing steam for sale.

Part 10 – Corporations that generate electrical energy for sale or produce steam for sale

Canadian manufacturing and processing profits (MPA)

ADJUBI _____ × $\left[\begin{array}{l} \text{MCA (Part 11, line 205)} \\ \text{C (Part 4, line 140)} \end{array} \right] + \left[\begin{array}{l} \text{MLA (Part 12, line 206)} \\ \text{L (Part 6, line 160)} \end{array} \right] = \text{(MPA)} \underline{\hspace{2cm}}$

(Part 3, line 130)

Enter amount MPA on line 210 in Part 13 of this schedule.

Part 11 – Calculation of cost of all manufacturing and processing capital (MCA)*

See notes 3, 5, and 12 on page 7.

Cost of capital (from line 140, Part 4) CC

The part of amount CC that reflects the extent to which each property was used directly in qualified activities of the corporation during the year or qualified activities of a partnership during its fiscal period of which the corporation was a member at any time in the year DD

Cost of manufacturing and processing capital: $\frac{100}{85}$ of amount DD (enter this amount in Part 10) **(MCA)**** **205** EE

* includes capital used directly in generating electrical energy for sale or producing steam for sale

** cannot be more than the amount CC

Part 12 – Calculation of cost of all manufacturing and processing labour (MLA)*

See notes 3, 5, and 12 on page 7.

Part of salaries and wages (amount J, Part 6) that was paid or payable to employees for the time they were directly engaged in qualified activities of the corporation during the year or of the partnership during its fiscal period FF

Add:

Part of other payments (amount O, Part 6) that was paid or payable to non-employees for performing functions that would be directly related to qualified activities of the corporation during the year or of the partnership during its fiscal period, if they had been employees of the corporation or partnership GG

Total HH

Cost of manufacturing and processing labour: $\frac{100}{75}$ of amount HH (enter this amount in Part 10) **(MLA)**** **206** II


* includes labour used directly in generating electrical energy for sale or producing steam for sale

** cannot be more than the amount on line 160 in Part 6

For eligible corporations that have profits from generating electrical energy for sale or producing steam for sale

Deduct the least of the amounts on lines 400, 405, 410, and 425 of the T2 return* JJ
 _____ ► _____ KK

Deduct the total of:

1. The least of the amounts on lines 400, 405, 410, and 425 of the T2 return* _____
2. Aggregate investment income from line 440 of the T2 return* _____
3. Foreign business income tax credit
deductible at line 636** of the T2 return _____ \times b*** = _____  _____ MM
NN

Deduct:

Lesser of amount V and amount Y from Part 9**** _____ PP

_____ ► _____ QQ

$$\text{Amount QQ} \times \frac{\text{Number of days in the tax year after 2011}}{\text{Number of days in the tax year}} \times 13\% = 5$$

Manufacturing and processing profits deduction for generating electrical energy for sale or producing steam for sale** (add: lines 1 to 5)**

* Applies only to corporations that were Canadian-controlled private corporations throughout the tax year.

** Calculate the amount of foreign business income tax credit without reference to the corporate tax reductions under section 123.4.

*** Amount b is equal to: $\frac{1}{0.38 \text{ minus the general rate reduction percentage for the tax year}}$

The general rate reduction percentage is 10% for 2010, 11.5% for 2011, and 13% for 2012 and later years (use 0.1, 0.115, and 0.13 accordingly in the calculation above). For tax years that straddle a calendar year, prorate this amount based on the number of days in each calendar year divided by the number of days in the tax year.

**** Enter "0" if the corporation is only claiming a manufacturing and processing profits deduction for generating electrical energy for sale or producing steam for sale.

***** If the corporation is also claiming a manufacturing and processing profits deduction for other eligible activities, enter amount RR on line AA of Part 9.
If the corporation is **only** claiming the deduction for generating electrical energy for sale or producing steam for sale, enter amount RR on line 616 of the T2 return.

Notes and definitions to help you complete this schedule

1. **Active business**, in relation to any business carried on by a taxpayer resident in Canada, means any business other than a specified investment business or a personal services business.
2. **Active business income of an associated corporation** includes its share of the active business income for the fiscal period of a partnership of which it was a member at any time in the year.
3. **Fiscal period of a partnership** refers to the period coinciding with or ending in the tax year of the corporation.
4. **Tax year of an associated corporation** means any tax year that coincides with or ends in the tax year of the corporation completing this schedule.
5. **Year** means the tax year of the corporation completing this schedule.
6. **Canadian manufacturing and processing profits** is defined in subsection 125.1(3). There is also a definition of **manufacturing or processing** which lists activities that are not included.
7. The term **associated** has the meaning given by section 256. See the *T2 Corporation Income Tax Guide* for more information.
8. To determine the **cost of capital**, exclude from the gross cost or rental cost, the part that reflects the extent the property was used during the year by the corporation or the partnership (section 5204 of the Regulations):
 - (a) in an active business carried on outside Canada;
 - (b) to earn Canadian investment income or foreign investment income as defined in subsection 129(4) (assuming that the subsection applies also to partnerships);
 - (c) in activities that earn Canadian resource profits as defined in section 5202 of the Regulations; or
 - (d) in activities referred to in items (a), (b), or (e) under the definition of "Canadian exploration and development expenses" in subsection 66(15), items (a) or (b) under the definition of "foreign exploration and development expenses" in subsection 66(15), items (a), (c), (f), or (i) under the definition of "Canadian exploration expense" in subsection 66.1(6), or items (a), (c), or (g) under the definition of "Canadian development expense" in subsection 66.2(5).
9. Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expense, and Canadian development expense are defined in subsection 66(15), subsection 66.1(6), and subsection 66.2(5) respectively. The corporation's **Canadian or foreign exploration and development expenses** include the share of these expenses incurred by a partnership only if the corporation was a member of that partnership at the end of the partnership's fiscal period.
10. **Salaries and wages** paid or payable to employees or **amounts** paid or payable to non-employees by a partnership that are included in its Canadian or foreign exploration and development expenses will be excluded from the calculation of the partnership's "Cost of labour" only if these exploration and development expenses can be included in the corporate partner's exploration and development expenses (see note 9 above).
11. Section 5203 of the Regulations, **Resource income**, provides that a corporation's income from the processing of foreign ore be excluded from its net resource income (NRI) for the year. Income from foreign ore processing is generally equal to the resource profits for the year less the sum of Canadian resource profits for the year and the earned depletion base at the beginning of the immediately following tax year.
12. The following terms are defined in the *Income Tax Regulations*:

Term

Income Tax Regulations

- Gross cost	5202 and 5204
- Net resource income	5203(3)
- Qualified activities	5202
- Rental cost	5202
- Resource activities	5203(2)
- Salaries and wages	5202