



Calculation of Canadian Manufacturing and Processing Profits Deduction (2016 and later tax years)

Corporation's name	Business number	<table style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="3" style="text-align: center; border-bottom: 1px solid black;">Tax year-end</th> </tr> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Year</th> <th style="text-align: center; border-bottom: 1px solid black;">Month</th> <th style="text-align: center; border-bottom: 1px solid black;">Day</th> </tr> <tr> <td style="border-bottom: 1px solid black; text-align: center;"> </td> <td style="border-bottom: 1px solid black; text-align: center;"> </td> <td style="border-bottom: 1px solid black; text-align: center;"> </td> </tr> </table>	Tax year-end			Year	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. Corporations that only generate electrical energy for sale or produce steam for sale must complete Part 10 on page 5. All other corporations should complete Part 2.
- All legislative references are to the *Income Tax Act* and the *Income Tax Regulations*.
- Income that is eligible for the small business deduction is not eligible for the manufacturing and processing profits deduction.
- 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, you have to meet all of the following requirements:

1. your 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:

your active business income minus active business losses for the year [this includes your share of active business income and active business loss for the fiscal period of each partnership of which you were a member at any time in its year (see i) below)]	100 _____
the active business income for the tax year of each Canadian corporation with which you were associated in the year (see ii) below)	105 _____
Total (line 100 plus line 105) (cannot exceed \$200,000 under section 5201)	110 _____
3. you were not engaged at any time during the year in any activities as set out in subsections 5201 (c) to (c.3) of the Regulations; and
4. you did not carry on any active business outside Canada at any time during the year.

If you meet requirements 1 through 4, your Canadian manufacturing and processing profits are equal to line 100 above. Enter this amount on line 200 in Part 9.

If you do not meet requirements 1 through 4, complete Part 2 below.

Partnerships and associated corporations

If it applies, please give the following information on a separate sheet of paper attached to this form:

- i) for partnerships – give the name, business number, and total income or loss from each active business carried on by each partnership of which you were a member at any time in its tax year; and
- ii) 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 you were associated in the year.

Part 2 – Corporations that do not qualify as small manufacturers

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

See note 6 on page 7.

Canadian manufacturing and processing profits (MP)

ADJUBI (Part 3, line 130)	×	[MC (Part 5, line 150) C (Part 4, line 140)	+	ML (Part 7, line 170) L (Part 6, line 160)]	= (MP) _____
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Enter amount MP at line 200 in Part 9.

Part 8 – Net resource income

For corporations with resource activities

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

Resource profits under section 1204 of the Regulations for the year, including your share of resource profits as a member of a partnership under subsection 1206(3) of the Regulations	_____	8A
Amounts included in income under section 59 (other than amounts that were included in calculating resource profits), including your share of such amounts as a member of a partnership	_____	8B
Subtotal (amount 8A plus amount 8B)	=====	8C
Amounts deducted under section 65 (other than amounts that were deducted in calculating resource profits)	_____	8D
Income from the processing of foreign ore (see note 11 on page 7)	_____	8E
Subtotal (amount 8D plus amount 8E)	===== ▶	8F
Net resource income (amount 8C minus amount 8F)	=====	8G

Enter this at amount 3A.

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 _____	
The least of the amounts on lines 400, 405, 410, and 427 of the T2 return (footnote 1)	_____	9A
Subtotal (line 200 minus amount 9A)	===== ▶	9B
Taxable income from line 360 of the T2 return	_____	9C
The least of the amounts on lines 400, 405, 410, and 427 of the T2 return (footnote 1)	_____	9D
Aggregate investment income from line 440 of the T2 return (footnote 1)	_____	9E
Foreign business income tax credit deductible at line 636 (footnote 2) of the T2 return	_____ × 4 (footnote 3) = _____	9F
Subtotal (total of amounts 9D to 9F)	===== ▶	9G
Subtotal (amount 9C minus amount 9G)	=====	9H
Lesser of amount 9B and amount 9H	_____ × 13% = _____	9I
Amount 13L if the corporation is also claiming a deduction for generating electrical energy for sale or producing steam for sale	_____	9J
Manufacturing and processing profits deduction (amount 9I plus amount 9J)	=====	9K

Enter this amount at line 616 of the T2 return.

Footnote 1: Applies only if you are a Canadian-controlled private corporation throughout the tax year.
 Footnote 2: Calculate the amount of foreign business income tax credit without reference to the corporate tax reductions under section 123.4.
 Footnote 3: General tax reduction for the tax year being 13% since January 1, 2012, the equation $1/(0.38 - X)$ becomes: $1/(0.38 - 0.13) = 1/(0.25) = 4$.

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 (Part 3, line 130) _____ x [MCA (Part 11, line 205) + MLA (Part 12, line 206)] = (MPA) _____
 [C (Part 4, line 140) + L (Part 6, line 160)]

Enter amount MPA at line 210 in Part 13.

Part 11 – Cost of all manufacturing and processing capital (MCA)

Include capital used directly in generating electrical energy for sale or producing steam for sale.

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

Cost of capital (from line 140) 11A

The part of amount 11A 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 11B

Cost of manufacturing and processing capital (MCA)
 (amount 11B multiplied by 100 divided by 85, cannot be more than amount 11A) **205**

Enter this amount in Part 10.

Part 12 – Cost of all manufacturing and processing labour (MLA)

Include labour used directly in generating electrical energy for sale or producing steam for sale.

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

Part of salaries and wages (included in amount 6I) that was paid or payable to employees for services directly engaged in qualified activities of the corporation during the year, or of the partnership during its fiscal period 12A

Part of other payments (included in amount 6U) 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 12B

Total (amount 12A plus amount 12B) 12C

Cost of manufacturing and processing labour (MLA)
 (amount 12C multiplied by 100 divided by 75, cannot be more than line 160) **206**

Enter this amount in Part 10.

Part 13 – Manufacturing and processing profits deduction for generating electrical energy for sale or producing steam for sale

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

Canadian manufacturing and processing profits from Part 10	210 _____	
The least of the amounts on lines 400, 405, 410, and 427 of the T2 return (footnote 4)	_____	13A
Subtotal (Line 210 minus amount 13A)	_____	▶ 13B
Taxable income from line 360 of the T2 return	_____	13C
The least of the amounts on lines 400, 405, 410, and 427 of the T2 return (footnote 4)	_____	13D
Aggregate investment income from line 440 of the T2 return (footnote 4)	_____	13E
Foreign business income tax credit deductible at line 636 (footnote 5) of the T2 return	_____ × 4 (footnote 6) =	13F
Subtotal (total of amounts 13D to 13F)	_____	▶ 13G
	Subtotal (amount 13C minus amount 13G)	_____ 13H
Lesser of amount 13B and amount 13H	_____	13I
Lesser of amount 9B and amount 9H (footnote 7)	_____	13J
Subtotal (amount 13I minus amount 13J)	_____	▶ 13K
Manufacturing and processing profits deduction for generating electrical energy for sale or producing steam for sale (footnote 8) (amount 13K multiplied by 13%)	_____	13L

Footnote 4: Applies only if you are a Canadian-controlled private corporation throughout the tax year.

Footnote 5: Calculate the amount of foreign business income tax credit without reference to the corporate tax reductions under section 123.4.

Footnote 6: General tax reduction for the tax year being 13% since January 1, 2012, the equation $1/(0.38 - X)$ becomes: $1/(0.38 - 0.13) = 1/(0.25) = 4$.

Footnote 7: 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.

Footnote 8: If the corporation is also claiming a manufacturing and processing profits deduction for other eligible activities, enter amount 13L on 9J of Part 9. If the corporation is **only** claiming the deduction for generating electrical energy for sale or producing steam for sale, enter amount 13L on line 616 of the T2 return.

Notes and definitions

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 corporation** 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. Your **Canadian or foreign exploration and development expenses** include the share of these expenses incurred by a partnership only if you were 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*:

Terms	Section or subsection
– Gross cost	5202 and 5204
– Net resource income	5203(3)
– Qualified activities	5202
– Rental cost	5202
– Resource activities	5203(2)
– Salaries and wages	5202