



Canada Revenue
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T3 Trust Guide

2014

Is this guide for you?

In this guide, you will find information on how to complete the *T3 Trust Income Tax and Information Return*, the T3 slip, *Statement of Trust Income Allocations and Designations*, and the T3 Summary, *Summary of Trust Income Allocations and Designations*.

Use this guide if you are filing a return for either a testamentary trust or an inter vivos trust. For more information, see “Types of trusts” on page 8.

We have used the word “you” throughout the guide to mean the trustee, executor, administrator, liquidator, or anyone preparing the return for a trust. For tax purposes, estates and trusts are treated similarly. In calculating the income of an estate, references in this guide to a trust or trust property include estate or estate property.

We use “the Act” to refer to the *Income Tax Act*. Unless otherwise noted, all legislative references are to the *Income Tax Act* and the *Income Tax Regulations*.

If you need more information after reading this guide, visit www.cra.gc.ca, or call 1-800-959-8281.

If you are blind or partially sighted, you can get our publications in braille, large print, etext, or MP3 by going to www.cra.gc.ca/alternate. You can also get our publications and your personalized correspondence in these formats by calling 1-800-959-8281.

If you are outside Canada and the United States, call us at 613-940-8495. We accept collect calls by automated response. You may hear a beep and experience a normal connection delay.

What's new for 2014

We list the major changes below, including income tax changes that have been announced but were not law at the time of printing. If they become law as proposed, they will be effective for 2014. For more details on these changes, see the areas outlined in colour in this guide.

Dividends other than eligible dividends

For dividends paid in 2014, the rate that applies to the amount of other than eligible dividends, for purposes of the dividend tax credit, has changed.

For dividends paid in 2014, the gross-up factor was reduced from 25% to 18%, and the tax credit was revised from 2/3 of the gross-up amount to 13/18 of the gross-up amount (11.0169% of the gross-up dividends).

Trusts having a fiscal period straddling 2013 and 2014 would apply the 2013 rate to those dividends received in 2013.

There is no change to the federal rate on eligible dividends for 2013 or 2014.

Schedule 8A, Calculation of the gross-up amount of dividends other than eligible dividends received in 2013 and retained or not designated by the trust

Schedule 8A is an addendum to Schedule 8 to calculate the gross-up amount of dividends other than eligible dividends received in 2013, for trusts having a fiscal period straddling 2013 and 2014.

Non-resident trusts

For tax years that end after February 10, 2014 (with certain exceptions), the definition of connected contributor and resident contributor has been amended. For more information, see "Deemed resident trust" description in "Chart 1 – Types of Trusts" at page 8.

Lifetime capital gains exemption limit

For dispositions after 2013 of qualified farm property or fishing property, or qualified small business corporation shares, the lifetime capital gains exemption limit is increased from \$750,000 to \$800,000. The new limit will be indexed to inflation, and the first indexation adjustment will occur for the 2015 tax year.

Cultural and ecological gifts

For donations of certified cultural property made after February 10, 2014, special rules will apply when the property was acquired through a gifting arrangement that is a tax shelter. For more information about these new rules, see Pamphlet P113, *Gifts and Income Tax*.

Form T3-DD, Direct Deposit Request for T3

Trustees can have the trust's refund deposited into the trust's bank account at a Canadian financial institution. You can start, change, or stop the trust's direct deposit information by completing Form T3-DD, *Direct Deposit Request for T3*. A direct deposit request will stay in effect until the trustee or other authorized person changes the information or cancels the request. For more information, see "Form T3 DD, *Direct deposit Request for T3*" on page 16.

Transition from paper to electronic filing of T3 Slips and Summary

Even if you do not have special software, you can file your return electronically. Our Web Forms application is available for free. All you need is access to the Internet and the application will walk you through the steps.

For more information about Web Forms, go to www.cra.gc.ca/webforms.

Filing by CD, DVD, USB key, or diskette

You will have to send your XML files by Internet file transfer or through our Web Forms application. We will no longer accept CDs, DVDs, USB keys, or diskettes.

For more information about filing information returns electronically, go to www.cra.gc.ca/iref.

Existing rules relating to testamentary trusts and new rules for graduated rate estates in 2016

Testamentary trusts and grandfathered inter vivos trusts qualify for certain special tax rules including graduated tax rates. For the 2016 and subsequent tax years, eligibility for several of these rules will be restricted to a "graduated rate estate", (defined in subsection 248(1) to mean, at any time, an estate that arises on and as a consequence of a death, if that time is not more than 36 months after that death, and at that time the estate is a testamentary trust).

The following is a brief summary of selected topics in this guide that will be impacted by the changes. For further details relating to these topics and other changes, refer to the Department of Finance's October 20, 2014 Explanatory Notes related to Bill C-43 (royal assent December 16, 2014) at www.fin.gc.ca/drleg-apl/2014/bia-leb-oct20-1014-eng.asp. Further details of the changes will be provided in the 2015 version of this guide.

- In determining whether a testamentary trust is a “personal trust” (described in Chart 1 on page 9), the same test related to an inter vivos trust will apply.
- Tax measures available only to a “graduated rate estate” in 2016 and subsequent years:
 - Exemption from the requirement that the tax year correspond to the calendar year and fiscal periods end in the calendar year in which the period began – (see Tax year on page 16 for more information);
 - Tax based on graduated tax rates for individuals – (see Schedule 11, Lines 8 and 9 on page 51);
 - The basic exemption of \$40,000 in computing alternative minimum tax – (see page 5 of Schedule 12, Line 28);
- Exclusion from Part XII.2 tax – (see Schedule 10, Lines 1 to 14 on page 49);
- Exclusion from definition of “designated beneficiary” for Part XII.2 tax – (see Schedule 10 – Designated beneficiary on page 49);
- Exemption from the requirement to pay tax by instalments;
- Designating an investment tax credit to beneficiaries (see Schedule 9 – Lines 940 and 941 on page 48).

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Before you start

Do you need to read the whole guide?

If you are filing a T3 return for an estate that has only pension income, investment income, or death benefits, you do not need to read the entire guide. We have used the ▲ symbol to lead you to the information you may need. This symbol appears in the table of contents, in the right margins of the guide, and in the left margins of the return beside the lines that may relate to your situation.

Before you start to complete the return, be sure to read:

- “Chapter 1 – General information” on page 8;
- “Step 1 – Identification and other required information” on page 19; and
- the introduction to “Chapter 4 – T3 slip and summary” on page 56.

Non-resident trusts

If you are the trustee for a non-resident trust, or a deemed resident trust (described on page 10), there are special rules that apply in some situations. Not all of these rules are covered in this guide. For more information, contact the International and Ottawa Tax Services Office at the numbers listed on page 18.

Which tax package should you use?

Use the provincial or territorial forms package for the province or territory where the trust was resident on the last day of its tax year.

To get any schedules and forms that you may need, go to www.cra.gc.ca/forms, or call 1-800-959-8281. Once you have completed the necessary schedules, forms, and statements, you will be ready to complete the return. Attach all required documents to the return.

Note

The province of Quebec collects its own provincial income tax. **Do not** calculate provincial income tax on the trust’s federal return if it was resident in Quebec on the last day of its tax year. If the trust had income from a business with a permanent establishment in another province or territory, you have to calculate that province’s or territory’s income tax on the trust’s federal tax return.

Taxpayer Bill of Rights

The Canada Revenue Agency (CRA) operates on the fundamental belief that you are more likely to comply with the law if you have the information and other services you need to meet your obligations. These obligations may include paying taxes or providing information.

The CRA wants to make sure you receive all of your entitlements and that you understand and can exercise your rights as described and defined in the Taxpayer Bill of Rights.

The Taxpayer Bill of Rights describes and defines 16 rights and has a five-part commitment to small business.

For more information about your rights and what you can expect when you deal with the CRA, go to www.cra.gc.ca/rights.

Definitions

In this section, we define the technical terms we use in this guide.

Administrator – a person appointed by a court to settle the estate of a deceased person.

Allocate, allocation – to assign or set apart income from the trust to a beneficiary. An amount can only be allocated to a beneficiary when one of the following applies:

- the beneficiary is entitled to the income in the year that it is earned by the trust, under the trust document;
- the trust makes a preferred beneficiary election to include the trust income in the beneficiary’s income; or
- the beneficiary is paid income in the year that it is earned by the trust, at the discretion of the trustee.

In most cases, the amounts you allocate have to be included in the beneficiary’s income, and they are deducted from the trust’s income. For exceptions to this general rule, see “Exceptions and limits to income allocations” on page 42.

Arm’s length – generally refers to a relationship or a transaction between persons acting in their separate interests. An arm’s length transaction is generally a transaction that reflects ordinary commercial dealings between parties acting in their own interests.

“Related persons” are not considered to deal with each other at arm’s length. For example, individuals connected by blood relationship, marriage or common law partnership or adoption, are related persons. A taxpayer and a personal trust (other than a specified trust described in Chart 1 on page 9) are deemed not to deal with each other at arm’s length if the person, or anyone not dealing at arm’s length with the person, is beneficially interested in the trust.

“Unrelated persons” may not be dealing with each other at arm’s length at a particular time. Each case will depend upon its own facts. The following factors are useful criteria that will be considered in determining whether parties are not dealing at arm’s length:

1. the existence of a common mind which directs the bargaining for both parties to a transaction;
2. the parties to a transaction are “acting in concert” without separate interests; “acting in concert” means, for example, a group acting with considerable interdependence in transactions involving a common purpose; or
3. the existence of control of one party by the other by way of, for example, advantage, authority or influence.

For more information, see Income Tax Folio S1-F5-C1, *Related persons and dealing at arm’s length*.

Non arm's length – refers to parties that are not dealing with each other at arm's length.

Beneficiary – includes the person for whose benefit the trust is created, the person to whom the amount of an insurance policy or annuity is payable, or the unit holder of a mutual fund trust.

Common-law partner – this applies to a person who is **not your spouse** (see page 8), with whom you are living in a conjugal relationship, and to whom at least **one** of the following situations applies. He or she:

- a) has been living with you in such a relationship for at least 12 continuous months;
- b) is the parent of your child by birth or adoption; or
- c) has custody and control of your child (or had custody and control immediately before the child turned 19 years of age) and your child is wholly dependent on that person for support.

In addition, an individual immediately becomes your common-law partner if you previously lived together in a conjugal relationship for at least 12 continuous months and you have resumed living together in such a relationship.

For 2001 and later years, a person (other than a person described in b) or c) on this page) will be your common-law partner only after your **current** relationship with that person has lasted at least 12 continuous months.

Reference to "12 continuous months" in this definition includes any period that you were separated for less than 90 days because of a breakdown in the relationship.

Contribution of property – generally refers to a transfer or loan of property, other than an "arm's length transfer" (as defined in subsection 94(1)) to a non-resident trust by a person or partnership. A contribution is also considered to have been made by a person or partnership where the person or partnership makes (or becomes obligated to make) a particular transfer (other than an "arm's length transfer") as part of a series of transactions or events that includes another transfer or loan (other than an "arm's length transfer"), to the trust, by another person or partnership.

In these circumstances, the other transfer or loan is considered to be a contribution to the trust by the person or partnership only to the extent that the other transfer or loan can reasonably be considered to have been made in respect of the particular transfer or loan, or the obligation to make the particular transfer or loan.

Deemed disposition – used when you are considered to have disposed of property, even though you did not actually do so.

Designate, designation – to keep the identity of certain types of allocated income or credits. In this way, the beneficiaries can take advantage of deductions or credits that relate directly to the type of income, such as a dividend tax credit or pension income amount. Generally, you report amounts designated to a beneficiary in the appropriate box on the T3 slip.

Distribute, distribution – to divide the trust property among the beneficiaries according to the terms of the trust document, or according to the applicable law.

Excluded property – a share of the capital stock of a non-resident-owned investment corporation that is not taxable Canadian property.

Executor – an individual or trust institution named in a will and confirmed by a court to settle the testator's estate. We define "testator" on the next page.

Exempt property – is trust property that, if disposed of, any income or capital gain resulting from the disposition is exempt from Canadian tax, either because the trust is not resident in Canada, or because of a tax treaty.

Gift – a voluntary transfer of property (including money). For gifts made after December 20, 2002, this includes a gift where the donor receives an advantage, as long as the advantage does not exceed 80% of the FMV of the property, or we are satisfied the property was transferred with the intention of making a gift.

Generally, the **eligible amount** of a gift or monetary contribution is the amount by which the fair market value (FMV) of the gifted property exceeds the amount of the advantage, if any, received for the gift.

The **advantage** is generally the total value of any property, service, compensation, use, or any other benefit that the trust, or a person not dealing at arm's length with the trust, is entitled to as partial consideration for, or in gratitude for, the gift.

Inter vivos trust – a trust set up by a living person. See page 9 for additional information for inter vivos trusts.

Liquidator – in Quebec, the liquidator is responsible for distributing the assets of all estates established after December 31, 1993. For estates with a will, the liquidator's role is similar to an executor's. For estates without a will, the liquidator acts as the administrator of the estate.

Preferred beneficiary – a person resident in Canada who is a beneficiary under the trust at the end of the year, and who meets one of the following conditions:

- he or she qualifies for the disability amount for the tax year that ends in the trust's tax year; or
- he or she:
 - is 18 years of age or older before the end of the tax year;
 - is a dependant of another individual for the tax year because of a mental or physical impairment; and
 - has income for the tax year, not including income from a preferred beneficiary election, which does not exceed the dependant tax credit.

In addition, he or she must be one of the following:

- the settlor of the trust (see the definition of "settlor" on the next page);
- the spouse or common-law partner, or former spouse or common-law partner, of the settlor of the trust;

- a child, grandchild, or great-grandchild of the settlor of the trust; or
- the spouse or common-law partner of a child, grandchild, or great-grandchild of the settlor of the trust.

Principal residence – generally means any of the following:

- a housing unit;
- a leasehold interest in a housing unit; or
- a share of a co-operative housing corporation, if the share is acquired for the sole purpose of obtaining the right to live in a housing unit owned by that corporation.

For more information, see “Principal residence” on page 35.

Settlor – generally means the person who set up a trust by contributing property to the trust. In the case of a preferred beneficiary election, a settlor is restricted to a person who is otherwise the settlor of the trust and has contributed the majority of property to the trust.

Spouse – this applies only to a person to whom you are legally married.

Testator – the deceased person who made and left a valid will.

Trust – a binding obligation enforceable by law when undertaken. It may be created by one of the following:

- a person (either verbally or in writing);
- a court order; or
- a statute.

Generally, a trust is created when it is properly established and there is certainty of:

- the intent to create a trust;
- the property to be placed in trust; and
- the beneficiaries of the trust.

Trustee – an individual or trust institution that holds legal title to property in trust for the benefit of the trust beneficiaries. The trustee includes an executor, administrator, assignee, receiver, or liquidator who owns or controls property for some other person.

Vested interest – an immediate fixed interest in property, although the right of possession and enjoyment may be postponed.

Will – a legally enforceable document that declares the intentions about disposal and administration of the testator’s estate after his or her death. It is effective only at death and can be revoked at any time before death.

Chapter 1 – General information

This chapter provides general information on the different types of trusts and the filing requirements for each.

Types of trusts ▲

A trust is either a testamentary trust or an inter vivos trust. Each trust has different tax rules. “Chart 1 – Types of Trusts” on the next page, describes different types of trusts and arrangements.

Testamentary trust

A testamentary trust is a trust or estate that is generally created on the day a person dies. All testamentary trusts are personal trusts. The terms of the trust are established by the will or by court order in relation to the deceased individual’s estate under provincial or territorial law.

Generally, this type of trust does not include a trust created by a person other than a deceased individual, or a trust created after November 12, 1981, if any property was contributed to it other than by a deceased individual as a consequence of the individual’s death. For rules about testamentary trusts created before November 13, 1981, call **1-800-959-8281**.

If the assets are not distributed to the beneficiaries according to the terms of the will, the testamentary trust may become an inter vivos trust.

For tax years ending after December 20, 2002, a testamentary trust may become an inter vivos trust if the trust incurs a debt or other obligation to pay an amount to, or guaranteed by, a beneficiary or any other person or partnership (any or all referred to as specified party), with whom any beneficiary of the trust does not deal at arm’s length.

This does not apply for certain debts or other obligations, including those:

- incurred by the trust in satisfaction of a beneficiary’s right to enforce payment of an amount payable by the trust to the beneficiary or to receive any part of the trust’s capital;
- owed to the beneficiary as a result of services provided by the beneficiary for the trust; or
- owed to the beneficiary as a result of a payment on behalf of the trust for which property was transferred to the specified party within 12 months of the payment and the beneficiary would have made the payment had they been dealing with the trust at arm’s length.

Note

The deadline for the full reimbursement of the specified party by the trust or estate is extended, without need for written application to the Minister, provided that full reimbursement is made on or before June 26, 2014. In addition, for tax years that end before June 26, 2013, a payment made by a specified party for or on behalf of the estate will not be subject to the arm’s length requirement where the payment is made at any time after the individual’s death and on or before June 26, 2014. For these years, if the qualifying payment is not made on or before June 26, 2014, the Minister may grant a further extension of the period if written application is made to the Minister by the estate on or before June 26, 2014.

Inter vivos trust

An inter vivos trust is a trust that is not a testamentary trust.

Grandfathered inter vivos trust

A grandfathered inter vivos trust is one established before June 18, 1971, which:

- was resident in Canada without interruption from June 18, 1971, until the end of the tax year;
- did not carry on any active business in the tax year;
- did not receive any property as a gift since June 18, 1971;

- did not incur any debt or obligation after June 18, 1971, to pay an amount to, or guaranteed by, any person with whom any beneficiary of the trust was not dealing at arm's length;
- did not receive any property after December 17, 1999, as a transfer from another inter vivos trust, where:
 - the other trust is not grandfathered; and
 - there is no change in the beneficial ownership of the property on its transfer; and
- for tax years beginning after 2002, was not a trust that received a "contribution" after June 22, 2000.

Chart 1 – Types of Trusts	
Type of trust	General information
▲ Personal trust	<p>This is either:</p> <ul style="list-style-type: none"> ■ a testamentary trust; or ■ an inter vivos trust in which no beneficial interest was acquired for consideration payable either to the trust, or a person who contributed to the trust. <p>The person or related persons who create an inter vivos trust may acquire all the interests in it without the trust losing its status as a personal trust.</p> <p>A personal trust does not include a trust that is, or was at any time after 1999, a unit trust.</p>
Alter ego trust	<p>This is an inter vivos trust created after 1999 by a settlor who was 65 years of age or older at the time the trust was created, for which the settlor is entitled to receive all the income that may arise during his or her lifetime, and is the only person who can receive, or get the use of, any income or capital of the trust during the settlor's lifetime. A trust will not be considered an alter ego trust if it so elects in its return for its first tax year.</p>
Specified trust	<p>This is a trust that is: an amateur athlete trust; an employee life and health trust; an employee trust; a master trust; a trust governed by a deferred profit sharing plan, an employee benefit plan, an employees profit sharing plan, a foreign retirement arrangement, a pooled registered pension plan; a registered disability savings plan; a registered education savings plan, a registered pension plan, a registered retirement income fund, a registered retirement savings plan, or a registered supplementary unemployment benefit plan; a tax-free savings account trust; a related segregated fund trust; a retirement compensation arrangement trust; a trust whose direct beneficiaries are one of the above mentioned trusts; a trust governed by an eligible funeral arrangement or a cemetery care trust; a communal organization; and a trust where all or substantially all of the property is held for the purpose of providing benefits to individuals from employment or former employment.</p>
Joint spousal or common-law partner trust	<p>This is an inter vivos trust created after 1999 by a settlor who was 65 years of age or older at the time the trust was created. The settlor and the settlor's spouse or common-law partner are entitled to receive all the income that may arise from the trust before the later of their deaths. They are the only persons who can receive, or get the use of, any income or capital of the trust before the later of their deaths.</p>

Chart 1 – Types of Trusts

Type of trust	General information
<p align="center">▲ Spousal or common-law partner trust</p>	<p>A post-1971 spousal or common-law partner trust includes both a testamentary trust created after 1971, and an inter vivos trust created after June 17, 1971. In either case, the living beneficiary spouse or common-law partner is entitled to receive all the income that may arise during the lifetime of the spouse or common-law partner. That spouse or common-law partner is the only person who can receive, or get the use of, any income or capital of the trust during his or her lifetime.</p> <p>A pre-1972 spousal trust includes both a testamentary trust created before 1972, and an inter vivos trust created before June 18, 1971. In either case, the beneficiary spouse was entitled to receive all the income during the spouse's lifetime, and no other person received, or got the use of, any income or capital of the trust. These conditions must be met for the period beginning on the day the trust was created, up to the earliest of the following dates:</p> <ul style="list-style-type: none"> ■ the day the beneficiary spouse dies; ■ January 1, 1993; or <p>the day on which the definition of a pre-1972 spousal trust is applied.</p>
<p>Deemed resident trust</p>	<p>A trust is deemed resident in Canada where there is:</p> <ul style="list-style-type: none"> ■ a “resident contributor”; or ■ a “resident beneficiary” under the trust. <p>For tax years ending before February 11, 2014</p> <p>A resident contributor to a trust at any time means a person that is, at that time, resident in Canada and has at or before that time made a contribution to the trust. An individual resident in Canada for a period of (or periods, the total of which is) 60 months or less is exempted from treatment as a “resident contributor.” A resident beneficiary at a particular time under the trust is a person (other than an “exempt person” or “successor beneficiary”) that, at that time is a beneficiary under the trust, is resident in Canada, and there is a “connected contributor” to the trust.</p> <p>For tax years ending after February 10, 2014</p> <p>The definitions for both “connected contributor” and “resident contributor” no longer refer to the 60-month exemption. However, this change in these definitions will not apply for tax years of a non-resident trust that end before 2015, if the following conditions are met:</p> <ul style="list-style-type: none"> ■ no contributions were made to the trust after February 10, 2014 and before 2015; and ■ at any time that is after 2013 and before February 11, 2014, the 60-month exemption applied in respect of the trust. <p>The deemed residence rules will also apply to tax years that end after March 20, 2013 if a non-resident trust holds property on conditions that grant effective ownership of the property to a Canadian resident person. In these circumstances, any transfer or loan of the property made directly or indirectly by the Canadian resident taxpayer is treated as a transfer or loan of restricted property. The Canadian resident taxpayer will be treated as having made a contribution to the trust and the deemed residence rules will apply to the trust. If you need help in determining whether the trust is a deemed resident of Canada, call one of the telephone numbers listed in “Non-resident trusts and deemed resident trusts” on page 18.</p>
<p>Unit trust</p>	<p>This is an inter vivos trust for which the interest of each beneficiary can be described at any time by referring to units of the trust. A unit trust must also meet one of the three conditions described in subsection 108(2) of the Act.</p>
<p>Communal organization</p>	<p>We consider an inter vivos trust to exist when a congregation:</p> <ul style="list-style-type: none"> ■ has members who live and work together; ■ follows the practices and beliefs of, and operates according to the principles of, the religious organization of which it is a part; ■ does not permit its members to own property in their own right; ■ requires that its members devote their working lives to the congregation's activities; and ■ carries on one or more businesses directly, or owns all of the shares of the capital stock of a corporation (except directors' qualifying shares), or every interest in a trust or other person that carries on the business to support or sustain its members or the members of another congregation. <p>The communal organization has to pay tax as though it were an inter vivos trust. However, it can elect to allocate its income to the beneficiaries. For more information, see Information Circular IC78-5, <i>Communal Organizations</i>.</p>

Chart 1 – Types of Trusts

Type of trust	General information
<p align="center">Retirement compensation arrangement (RCA)</p>	<p>This arrangement exists when an employer makes contributions for an employee's retirement, termination of employment, or any significant change in services of employment.</p> <p>For more information, see Guide T4041, <i>Retirement Compensation Arrangements Guide</i>.</p> <p>Note: You have to file a T3 return for the portion of an RCA that is treated as an employee benefit plan. Form T3-RCA, <i>Retirement Compensation Arrangement (RCA) – Part XI.3 Tax Return</i>, has to be filed to report the income of the other portion of the plan.</p>
<p align="center">Mutual fund trust</p>	<p>This is a unit trust that resides in Canada. It also has to comply with the other conditions of the Act, as outlined in section 132 and the conditions established by <i>Income Tax Regulation</i> 4801. For a mutual fund trust that is a public trust, or public investment trust, there are certain reporting requirements these types of trusts must meet. For more information, see below or go to www.cra.gc.ca/trusts.</p> <p>Public trust</p> <p>A public trust is, at any time, a mutual fund trust of which its units are listed, at that time, on a designated stock exchange in Canada.</p> <p>Public investment trust</p> <p>A public investment trust is, at any time, a trust that is a public trust, where all or substantially all of the fair market value of the property is, at that time, attributable to the fair market value of property of the trust that is:</p> <ul style="list-style-type: none"> ■ units of public trusts; ■ partnership interests in public partnerships; ■ shares of the capital stock of public corporations; or ■ any combination of those properties.
<p align="center">Employee benefit plan</p>	<p>Generally, this is any arrangement under which an employer makes contributions to a custodian, and under which one or more payments will be made to, or for the benefit of, employees, former employees, or persons related to them.</p> <p>For more information, and for details on what we consider to be an employee benefit plan and how it is taxed, see Interpretation Bulletin IT-502, <i>Employee Benefit Plans and Employee Trusts</i>, and its Special Release.</p> <p>Note: An employee benefit plan has to file a return if the plan or trust has tax payable, has a taxable capital gain, or has disposed of capital property.</p> <p>Because the allocations are taxed as income from employment to the beneficiaries, report the allocations on a T4 slip, not on a T3 slip. For more information, see Guide RC4120, <i>Employers' Guide – Filing the T4 Slip and Summary</i>.</p>
<p align="center">Salary deferral arrangement (SDA)</p>	<p>Generally, this is a plan or arrangement (whether funded or not) between an employer and an employee or another person who has a right to receive salary or wages in a year after the services have been performed.</p> <p>For more information, see Interpretation Bulletin IT-529, <i>Flexible Employee Benefit Programs</i>.</p> <p>Note: If a salary deferral arrangement is funded, we consider it a trust, and you may have to file a T3 return. The deferred amount is deemed to be an employment benefit, so you report it on a T4 slip, not on a T3 slip. The employee has to include the amount in income for the year the services are performed. The employee also has to include any interest, or other amount earned by the deferred amount. For more information, see Guide RC4120, <i>Employers' Guide – Filing the T4 Slip and Summary</i>.</p>
<p align="center">Insurance segregated fund trust</p>	<p>This is a related segregated fund of a life insurer for life insurance policies and is considered to be an inter vivos trust. The fund's property and income are considered to be the property and income of the trust, with the life insurer as the trustee.</p> <p>Note: You have to file a separate return and financial statements for each fund. If all the beneficiaries are fully registered plans, complete only the identification and certification areas of the return and enclose the financial statements. If the beneficiaries are both registered and non-registered plans, report and allocate only the income that applies to the non-registered plans.</p>

Chart 1 – Types of Trusts

Type of trust	General information
<p>Employee trust</p>	<p>This is an inter vivos trust. Generally, it is an arrangement established after 1979, under which an employer makes payments to a trustee in trust for the sole benefit of the employees. The trustee has to elect to qualify the arrangement as an employee trust on the trust's first return. The employer can deduct contributions to the plan only if the trust has made this election and filed it no later than 90 days after the end of its first tax year. To maintain its employee trust status, each year the trust has to allocate to its beneficiaries all non-business income for that year, and employer contributions made in the year. Business income cannot be allocated and is taxed in the trust.</p> <p>For more information, see Interpretation Bulletin IT-502, <i>Employee Benefit Plans and Employee Trusts</i>, and its Special Release.</p> <p>Note: An employee trust has to file a return if the plan or trust has tax payable, has a taxable capital gain, or has disposed of capital property.</p> <p>Because the allocations are taxed as income from employment to the beneficiaries, report the allocations on a T4 slip, not on a T3 slip. For more information, see Guide RC4120, <i>Employers' Guide – Filing the T4 Slip and Summary</i>.</p>
<p>Non-profit organization</p>	<p>This is an organization (for example, club, society, or association) that is usually organized and operated exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit. The organization will generally be exempt from tax if no part of its income is payable to, or available for, the personal benefit of a proprietor, member, or shareholder. For more information, see Interpretation Bulletin IT-496, <i>Non-Profit Organizations</i>.</p> <p>If the main purpose of the organization is to provide services such as dining, recreational, or sporting facilities to its members, we consider it to be an inter vivos trust. In this case, the trust is taxable on its income from property, and on any taxable capital gains from the disposition of any property that is not used to provide those services. The trust is allowed a deduction of \$2,000 when calculating its taxable income. Claim this on line 54 of the T3 return.</p> <p>For more information, see Interpretation Bulletin IT-83, <i>Non-Profit Organizations – Taxation of Income From Property</i>.</p> <p>Note: A non-profit organization may have to file Form T1044, <i>Non-Profit Organization (NPO) Information Return</i>. For more information, see Guide T4117, <i>Income Tax Guide to the Non-Profit Organization (NPO) Information Return</i>.</p>
<p>Master trust</p>	<p>This is an inter vivos trust. A trust can elect to be a master trust if during the entire time since its creation it met all of the following conditions:</p> <ul style="list-style-type: none"> ■ it was resident in Canada; ■ its only undertaking was the investing of its funds; ■ it never borrowed money except for a term of 90 days or less (for this purpose, the borrowing cannot be part of a series of loans or other transactions and repayments); ■ it has never accepted deposits; and ■ each of its beneficiaries is a registered pension plan or a deferred profit sharing plan. <p>Note: A master trust is exempt from Part I tax. A trust can elect to be a master trust by indicating this in a letter filed with its return for the tax year the trust elects to become a master trust. Once made, this election cannot be revoked. However, the trust must continue to meet the conditions listed above to keep its identity as a master trust. After the first T3 return is filed for the master trust, you do not have to file any further T3 returns for this trust. If a future return is filed, we will assume the trust no longer meets the above conditions. The trust will not be considered a master trust and must file yearly returns from then on. If the trust is wound up, send us a letter to tell us the wind-up date.</p>
<p>Registered retirement savings plan (RRSP), or Registered retirement income fund (RRIF) trusts</p>	<p>An RRSP, or RRIF trust has to complete and file a T3 return if the trust meets one of the following conditions:</p> <ul style="list-style-type: none"> ■ the trust has borrowed money and paragraph 146(4)(a) or 146.3(3)(a) of the Act applies; ■ the RRIF trust received a gift of property and paragraph 146.3(3)(b) of the Act applies; or ■ the last annuitant has died and paragraph 146(4)(c) or subsection 146.3(3.1) of the Act applies. If this is the case, claim an amount on line 43 of the T3 return only if the allocated amounts were paid in accordance with paragraph 104(6)(a.2) of the Act. <p>If the trust does not meet one of the above conditions and the trust held non-qualified investments during the tax year, you have to complete a T3 return to calculate the taxable income from non-qualified investments, determined under subsection 146(10.1) or 146.3(9). If the trust is reporting capital gains or losses, it has to report the full amount (that is, 100%) on line 01 of the T3 return. If the trust does not meet one of the above conditions and the trust carried on a business, you have to complete a T3 return to calculate the taxable income of the trust from carrying on a business. Do not include the business income earned from qualified investments for the trust.</p>

Chart 1 – Types of Trusts

Type of trust	General information
Registered disability savings plan (RDSP) trust	<p>An RDSP trust has to complete and file a T3 return if the trust has borrowed money and subparagraph 146.4(5)(a)(i) or 146.4(5)(a)(ii) of the Act applies. If this does not apply and the trust carried on a business or held non-qualified investments (as defined in subsection 205(1)) during the tax year, you have to complete a T3 return to calculate the taxable income from the business or non-qualified investments. If the trust is reporting capital gains or losses, it has to report the full amount (that is, 100%) on line 01 of the T3 return.</p>
Specified investment flow-through (SIFT) trust	<p>This is a trust (other than a trust that is a real estate investment trust for the tax year or an entity that is an excluded subsidiary entity) that meets all of the following conditions at any time during the tax year:</p> <ul style="list-style-type: none"> ■ the trust is resident in Canada; ■ investments in the trust are listed or traded on a stock exchange or other public market; and ■ the trust holds one or more non-portfolio properties. <p>For more information, go to www.cra.gc.ca/tx/trsts/sfts/menu-eng.html.</p>
Tax-free savings account (TFSA) trust	<p>A trust governed by a TFSA is generally non-taxable. When the funds in the TFSA trust are used in the carrying on of a business or used to acquire non-qualified investments, the trust will be taxable to the extent of the income earned from that business or those investments. For more information, see “Line 22 – Non-qualified investments for TFSA, RRSP, RRIF and RDSP trusts” on page 36, go to www.cra.gc.ca/tfsa, or call 1-800-959-8281.</p>
Employee life and health trust (ELHT) (established after 2009)	<p>This is an inter vivos trust, established by one or more employers, that meets a number of conditions under subsection 144.1(2) of the Act. The trust’s only purpose is the payment of designated employee benefits (DEBs) for employees and certain related persons (certain limitations apply to the rights and benefits that may be provided to key employees).</p> <p>Employers can deduct contributions made to the trust, as long as they are for DEBs and meet the conditions in subsection 144.1(4). Employee contributions are permitted, but are not deductible. However, employee contributions may qualify for the medical expense tax credit, to the extent that they are made to a private health services plan.</p> <p>The trust can deduct amounts paid to employees or former employees for DEBs and can generally carry non-capital losses back or forward three years. Any amount received from an ELHT must be included in income, unless the amount was received as the payment of a DEB. Payments of DEBs to non-resident employees or former employees will generally not be subject to tax under Part XIII.</p> <p>For more information on ELHTs, designated employee benefits and key employees, see section 144.1 of the Act.</p>
Qualifying environmental trust (QET)	<p>Generally, this is a trust resident in Canada or a province, or a corporation resident in Canada that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, or that is not an excluded trust and maintained at that time for the sole purpose of funding the reclamation of a qualifying site in Canada or in the province that is, or may become, required to be maintained under the terms of a qualifying contract, or a qualifying law, and that had been used primarily for, or for any combination of:</p> <ul style="list-style-type: none"> ■ the operation of a mine; ■ the extraction of clay, peat, sand, shale or aggregates (including dimension stone and gravel); ■ the deposit of waste; or ■ If the trust was created after 2011, the operation of a pipeline, as long as the other requirements defined in subsection 211.6(1) are met. <p>Under the definition, the trust is, or may become, required to be maintained under the terms of a contract entered into with the federal or provincial Crown or if the trust was established after 2011, by an order of a tribunal constituted under a federal or provincial law. Certain conditions exist that may exclude a trust from being a QET. For more information, please see the definition of a QET in subsection 211.6 (1) of the Act.</p>
Environmental Quality Act trust	<p>A trust under paragraph 149(1)(z.1) of the Act. This is a trust that was created because of a requirement imposed by section 56 of the <i>Environment Quality Act</i>. The trust must meet the following conditions:</p> <ul style="list-style-type: none"> ■ the trust is resident in Canada; and ■ the only persons that are beneficially interested are: <ul style="list-style-type: none"> (A) Her Majesty in right of Canada, (B) Her Majesty in right of a province, or (C) a municipality (as defined in section 1 of that Act) that is exempt because of subsection 149(1) from tax under Part 1 on all of its taxable income.

Chart 1 – Types of Trusts

Type of trust	General information
<p>Nuclear Fuel Waste Act trust</p>	<p>A trust under paragraph 149(1)(z.2) of the Act. This is a trust that was created because of a requirement imposed by subsection 9(1) of the <i>Nuclear Fuel Waste Act</i>. The trust must meet the following conditions:</p> <ul style="list-style-type: none"> ■ the trust is resident in Canada; and ■ the only persons that are beneficially interested are: <ul style="list-style-type: none"> (A) Her Majesty in right of Canada, (B) Her Majesty in right of a province, (C) a nuclear energy corporation (as defined in section 2 of that Act) all the shares of the capital stock of which are owned by one or more persons described in clause (A) or (B), (D) the waste management organization established under section 6 of that Act if all shares of its capital stock are owned by one or more nuclear energy corporations described in clause (C), or (E) Atomic Energy of Canada Limited, being the company incorporated or acquired in accordance with subsection 10(2) of the <i>Atomic Energy Control Act</i>.
<p>Real estate investment trust (REIT)</p>	<p>A trust is a REIT for a tax year, if it is resident in Canada throughout the year and meets a number of other conditions, including the following:</p> <ul style="list-style-type: none"> ■ at least 90% of the trust's non-portfolio properties must be qualified REIT properties; ■ at least 90% of the trust's gross REIT revenue for the tax year must be derived from rent, from real properties, interest, capital gains from dispositions of real properties which are capital properties, dispositions of eligible resale properties, dividends and royalties; and ■ at least 75% of the trust's gross REIT revenues for the tax year must be derived from rent from real properties, interest from mortgages on real properties and capital gains from dispositions of real properties which are capital properties.
<p>Health & Welfare trust (HWT)</p>	<p>Health and welfare benefits for employees are sometimes provided through a trust arrangement under which the trustees receive the contributions from the employer(s), and in some cases from employees, to provide such health and welfare benefits as have been agreed to between the employer and the employees. To qualify for treatment as a HWT, the funds of the trust cannot revert to the employer or be used for any purpose other than providing health and welfare benefits for which the contributions are made. In addition, the employer's contributions to the fund must not exceed the amounts required to provide these benefits. Further, to qualify for treatment as a HWT, the payments by the employer cannot be made on a voluntary or gratuitous basis – they must be enforceable by the trustees should the employer decide not to make the payments required. This arrangement is restricted to the following:</p> <ul style="list-style-type: none"> ■ a group sickness or accident insurance plan; ■ a private health services plan; ■ a group term life insurance policy; or ■ any combination of (a) to (c). <p>For more information, see Interpretation Bulletin IT-85R2, <i>Health and Welfare Trusts for Employees</i>.</p>
<p>Pooled registered pension plans (PRPP)</p>	<p>Pooled Registered Pension Plans must operate through an arrangement acceptable to the Minister. Where a trust is used, the PRPP will generally be treated as a trust for tax purposes. A pooled registered pension plan trust will be excluded for purposes of the 21 year deemed disposition rule and other specified measures. In addition, when certain criteria are met, a pooled registered pension plan trust will be exempt from Part 1 tax. For more information, please refer to Department of Finance News Release 2011-134 dated December 14, 2011.</p>
<p>Lifetime benefit trust</p>	<p>This a trust that is at any particular time a lifetime benefit trust with respect to a taxpayer and the estate of a deceased individual if</p> <ul style="list-style-type: none"> ■ immediately before the death of the deceased individual, the taxpayer: <ul style="list-style-type: none"> (i) was both a spouse or common-law partner of the deceased individual and mentally infirm; or (ii) was both a child or grandchild of the deceased individual and dependent of the deceased individual for support because of mental infirmity; and ■ the trust is, at the particular time, a personal trust under which: <ul style="list-style-type: none"> (i) no person other than the taxpayer may receive or otherwise obtain the use of, during the taxpayer's lifetime, any of the income or capital of the trust; and (ii) the trustees: <ul style="list-style-type: none"> (A) are empowered to pay amounts from the trust to the taxpayer; and (B) are required in determining whether to pay, or not to pay, an amount to the taxpayer to consider the needs of the taxpayer including, without limiting the generality of the foregoing, the comfort, care and maintenance of the taxpayer.

Chart 1 – Types of Trusts

Type of trust	General information
<p>Hepatitis C trust and Indian residential school trust</p>	<p>These are inter vivos trusts under paragraph 81(1)(g.3) of the Act and are government funded trusts.</p> <ul style="list-style-type: none"> ■ established under; <ul style="list-style-type: none"> (A) the 1986-1990 Hepatitis C Settlement Agreement; (B) the Pre-1986/Post-1990 Hepatitis C Settlement Agreement; or (C) the Indian Residential Schools Settlement Agreement entered into by her Majesty in right of Canada on May 8, 2006. ■ As long as no contribution to the trust, other than contributions provided for under the Agreement, is made before the end of a tax year of the trust, the trust's income is generally exempt from income tax for that tax year.

Who should file

A T3 return must be filed if the trust is subject to tax, and any one of the following conditions applies. The trust:

- has tax payable;
- is requested to file;
- is resident in Canada and has either disposed of, or is deemed to have disposed of, a capital property or has a taxable capital gain;
- is a non-resident throughout the year, and has a taxable capital gain or has disposed of taxable Canadian property;
- is a deemed resident trust;
- holds property that is subject to subsection 75(2) of the Act;
- has provided a benefit of more than \$100 to a beneficiary for upkeep, maintenance, or taxes for property maintained for the beneficiary's use (for more information, see "Line 43 – Upkeep, maintenance, and taxes of a property used or occupied by a beneficiary" on page 26); or
- receives from the trust property any income, gain, or profit that is allocated to one or more beneficiaries, and the trust has:
 - total income from all sources of more than \$500;
 - income of more than \$100 allocated to any single beneficiary;
 - made a distribution of capital to one or more beneficiaries; or
 - allocated any portion of the income to a non-resident beneficiary.

Examples

1. A T3 return must be filed when a trust does not have tax payable, however the trust holds property that is subject to subsection 75(2) of the Act.
2. A T3 return must be filed when the trusts' total income from all sources is less than \$500, however the trust made a distribution of capital to one or more beneficiaries.

Tax tip

You may not have to file a return if the estate is distributed immediately after the person dies, or if the estate did not earn income before the distribution. In these cases, you should give each beneficiary a statement showing his or her share of the estate.

Trust account number

Trustees can now apply for a trust account number before filing their T3RET, *T3 Trust Income Tax and Information Return*. A trust account number is an identifier starting with the letter "T" followed by an eight-digit number.

Who can apply for a trust account number?

The trustee, which is an individual or trust institution that holds legal title to property in trust for the benefit of the trust beneficiaries, can apply for a trust account number. The trustee includes an executor, administrator, assignee, receiver, or liquidator who owns or controls property for some other person.

Note

This does not apply to a non-resident trust electing to file an income tax return under section 216 of the Act.

How to apply for a trust account number?

Apply for a trust account number using Form T3 APP, *T3 Application for Trust Account Number*.

What information is needed?

To process your application, we need a **completed and signed** Form T3 APP with a signed copy of the **trust document or will**.

Once we have assigned a trust account number to the trust, we will inform you of your trust account number by mail when your T3 APP form is processed. Include this number on all correspondence related to the trust to simplify dealings with us.

If you want to apply for a trust account number for someone, or you want to authorize a person to apply for you, we need a completed and signed Form T1013, Authorizing or Cancelling a Representative. This form allows us to deal with a person who is acting as a representative for another person on income tax matters (including trust accounts).

What to file ▲

Trusts listed in Chart 1 may have to file a *T3 Trust Income Tax and Information Return* (T3 return), and any related schedules and statements, if they meet the requirements listed in “Who should file” on this page. The T3 return is filed as both an income tax return, which calculates tax liability, and an information return, which reports amounts allocated and designated to beneficiaries. When the trust files its first T3 return, attach a copy of the will or trust document.

You may also have to file the following, depending on the type of amounts paid or allocated by the trust.

- If the trust allocated amounts to resident beneficiaries, file the T3 Summary, *Summary of Trust Income Allocations and Designations* and the related T3 slips. For more information, see “Chapter 4 – T3 slip and summary” on page 56.
- If the trust paid executor, liquidator, or trustee fees, or if an employee benefit plan or an employee trust made distributions other than a return of employee contributions, file a T4 Summary, *Summary of Remuneration Paid*, and the related T4 slips, *Statement of Remuneration Paid*. For more information, see Guide RC4120, *Employers’ Guide – Filing the T4 Slip and Summary*.
- If the trust paid scholarships, fellowships, bursaries, prizes, or research grants to a resident of Canada, file a T4A Summary, *Summary of Pension, Retirement Annuity, and Other Income*, and the related T4A slips, *Statement of Pension, Retirement, Annuity, and Other Income*. For more information, see Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.
- If the trust paid or credited, or is considered to have paid or credited, amounts to a non-resident beneficiary, file an NR4 Summary, *Summary of Amounts Paid or Credited to Non-Residents of Canada*, and the related NR4 slips, *Statement of Amounts Paid or Credited to Non-Residents of Canada*. For more information, see Guide T4061, *NR4 – Non-Resident Tax Withholding, Remitting, and Reporting*.
- If the trust paid fees to a non-resident of Canada for services performed in Canada and the non-resident acts in the capacity of an executor in the course of a business, file a T4A-NR Summary, *Fees, Commissions, or Other Amounts Paid to Non-Residents for Services Rendered in Canada*, and the related T4A-NR slips, *Statement of Fees, Commissions, or Other Amounts Paid to Non-Residents for Services Rendered in Canada*. For more information, see Guide RC4445, *T4A-NR – Payments to Non-Residents for Services Provided in Canada*.

Form T3-DD, Direct Deposit Request for T3

We can deposit a trust’s T3 refund into the trust’s account at a financial institution in Canada.

To enrol for direct deposit or to update a trust’s banking information, the trustee or other authorized person can complete Form T3-DD, *Direct Deposit Request for T3*, and send it to the CRA. You can also sign up for direct deposit, or change your banking information by filling out the “Direct Deposit – Start or Change” area on the T3RET, *Trust Income Tax and Information Return*, or on the T3 Special Returns forms. For more information, go to www.cra.gc.ca/directdeposit.

When to file ▲

The filing due date depends on the trust’s tax year-end.

Tax year

Inter vivos trust

The tax year end of an inter vivos trust is December 31, except for a mutual fund trust that elects to have a December 15 year-end. A mutual fund trust that previously elected to have a December 15 year-end can revoke the election. For more information, call 1-800-959-8281.

Testamentary trust

The tax year end of a testamentary trust may be, but does not have to be, December 31. The first tax period of the trust begins on the day after the person dies, and ends at any time you select within the next 12 months. The tax rates used, and the tax year of the slips issued to the beneficiaries, are based on the year-end of the trust.

Note

Commencing in 2015, testamentary trusts (other than graduated rate estates) will be required to use a calendar year tax year end and have their fiscal periods end in the calendar year in which the periods began. Those testamentary trusts which currently have a non-calendar year-end will have a deemed tax year ending on December 31, 2015, unless the trust is an estate that exists at the end of 2015 and is a graduated rate estate for its 2016 tax year. For more information about the 2016 changes to the taxation of testamentary trusts, see “Existing rules relating to testamentary trusts and new rules for graduated rate estates in 2016” under the “What’s new for 2014” section of this guide.

You may prefer to choose a December 31 (calendar) year end for a testamentary trust for several reasons:

- **Availability of forms** – The current-year trust returns and related schedules are usually not available until the end of the calendar year. A 2014 return due before the forms are available would have to be filed using a 2013 form, which might not contain current-year changes or information.
- **Easier form completion** – Generally, it is easier to complete forms and interpret rules when the tax year coincides with the calendar year.

- **Availability of information** – Most information slips for income amounts are issued for a calendar year (for example, a T5 slip for bank interest).

Minimum delay in assessing the return – Changes to law generally requires changing the processing procedures for the return. If the return has a tax year ending early in a calendar year, we may have to delay assessing the return until the law is passed and the new procedures are in place. However, there may be advantages to choosing a **non-calendar** year-end. Elections to transfer certain estate losses incurred and certain gains realized on employee security options during the first tax year of the trust to the deceased person's return for the year of death, and the timing of income receipts may play an important role when you choose the trust's tax year.

Once you establish the trust's year-end, you **cannot** change it without our approval. Requests will be approved only if the change is for sound business reasons. Normally, retroactive changes will not be approved. For more information, go to www.cra.gc.ca/tx/trsts/menu-eng.html.

Note

If the assets of the testamentary trust are not distributed to the beneficiaries according to the terms of the will, the testamentary trust may become an inter vivos trust. If this is the case, change the tax year of the trust to December 31 if the trust is not already filing on this basis. On the first return with a December 31 year-end, attach a note to explain the situation. In the year of change, the tax year may be less than, but not more than, 12 months.

A testamentary trust that becomes an inter vivos trust must start filing on a December 31 year-end from the beginning of its current tax year. After July 18, 2005, a trust in this situation will switch to a December 31 year-end the day it becomes an inter vivos trust.

Example

A testamentary trust has a year-end of September 30. On January 7, a transaction occurs that causes it to become an inter vivos trust. As a result, its last tax year as a testamentary trust will be from October 1 to January 6. Its return for that period will be due on April 6 (90 days after the end of its tax year). The first reporting period as an inter vivos trust will be from January 7 to December 31.

Filing dates

You have to file the T3 return, the related T3 slips, NR4 slips, and T3 and NR4 summaries no later than **90 days** after the trust's tax year-end (see "Tax year" on page 16). You should also pay any balance owing no later than 90 days after the trust's tax year-end.

Tax tip

You have to file T4, T4A, and T4A-NR slips by the last day of February after the calendar year in which the trust made the payment.

If you do not have the information slips you need to complete the return when it is due, **estimate** the income. If, after you receive the slips, you find your estimate differs from the actual amounts, send the slips and a letter to us,

requesting an adjustment to the trust's income. For more information, see "Reassessments" on page 19.

If you mail the return first class, or if you use an equivalent delivery service, we consider the date of the postmark on the envelope to be the day you filed the return.

If the filing due date falls on a Saturday, a Sunday, or a statutory holiday, we will consider it filed on time if it is delivered on, or postmarked, the first working day after the filing due date.

For information on late-filing penalties and interest on unpaid taxes, see "Penalties and interest" on page 18.

Deadline for distributing T3 slips – You must send the T3 slips to the beneficiary's last known address no later than 90 days after the end of the trust's tax year. If you have the information you need to complete the slips before that deadline, we encourage you to send them to the beneficiaries as early as possible.

Final return

For a testamentary trust, you have to file the final T3 return and pay any balance owing no later than 90 days after the trust's wind-up (discontinuation) date. Enter the wind-up date on page 1 of the return.

If you wind up a **testamentary trust**, the tax year will end on the date of the final distribution of the assets.

If you wind up an **inter vivos trust**, you have to file the final T3 return and pay any balance owing no later than 90 days after the trust's tax year-end. However, you may want to file the final return before the trust's tax year-end.

In either case, you should get a clearance certificate before you distribute the trust property. For more information, see "Clearance certificate" on page 19.

Where to file ▲

Where you file the return depends on where the trustee address is based in. Generally, we consider a trust to reside where the trustee, executor, administrator, liquidator, or other legal representative who manages the trust or controls the trust's assets lives. It is the jurisdiction in which the central management and control is factually exercised that will be considered in determining the residence of the trust.

If the trustee address is based in:

Northwest Territories, Yukon, British Columbia, Alberta, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Montreal Quebec, Laval Quebec or Sherbrooke Quebec

Send the return to:

Summerside Tax Centre
Canada Revenue Agency
275 Pope Road
Summerside PE C1N 6A2

If the trustee address is based in:

Nunavut, Saskatchewan, Ontario and the remainder of the Province of Quebec not listed above

Send the return to:

Ottawa Technology Centre
Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1A2

If you have questions about **resident trusts**, call **1-800-959-8281**.

Non-resident trusts and deemed resident trusts

Send the return to:

International and Ottawa Tax Services Office
Canada Revenue Agency
Post Office Box 9769, Station T
Ottawa ON K1G 3Y4
Canada

If you have questions about **non-resident trusts** or **deemed resident trusts**, call one of the following numbers:

- toll free within Canada and the Continental USA: **1-800-959-8281**;
- from outside Canada and the continental USA – We accept collect calls by automated response. Please note that you may hear a beep and experience a normal connection delay: **613-940-8495**.

Penalties and interest ▲

Penalties

If you do not file the trust's T3 return by the due date, we will charge a late-filing penalty. The penalty is 5% of the unpaid tax plus 1% of the unpaid tax for each full month that the return is late, to a maximum of 12 months.

The late-filing penalty will be **higher** if we issued a demand to file the return, and we assessed a late-filing penalty for any of the three previous years' returns. In this case, the penalty is 10% of the unpaid tax, plus 2% of the unpaid tax for each full month that the return is late, to a maximum of 20 months.

If you fail to report an amount on the return, we may charge you a penalty. If you do this more than once within a four-year period, the penalty will be higher.

If you distribute any trust-related information slip to a recipient late, the penalty is \$25 a day for each day the slip is late, from a minimum of \$100 to a maximum of \$2,500, for each failure to comply with this requirement.

If you are convicted of not filing a return or slip as required, you are liable to a fine of \$1,000 to \$25,000, or to a fine and imprisonment for a period of up to 12 months.

You will be liable to a penalty if, due to culpable conduct, you prepare income tax or information returns, forms, or certificates on behalf of another person and you make false statements or omissions. The penalty is the greater of \$1,000

or 50% of the tax avoided or refunded as a result of the false information.

The minimum penalty for failing to file a trust-related information slip by the due date is \$100 and the maximum penalty is \$7,500. For more information, go to www.cra.gc.ca/penaltyinformationreturns.

You will also be liable to a penalty if, due to culpable conduct, you counsel others to file tax returns based on false or misleading information, or you disregard false information provided by your clients for tax purposes.

Interest

We pay compounded daily interest on a tax refund starting on the **latest** of:

- the 31st day after the return is due;
- the 31st day after the return is filed; or
- the day after the overpayment arises.

We charge interest on unpaid amounts and the total amount of penalties assessed. We calculate this interest, compounded daily, at a prescribed rate from the date the unpaid amount was due until the date of its payment.

Cancel or waive penalties or interest

The Canada Revenue Agency (CRA) administers legislation that gives the Minister of National Revenue the discretion to cancel or waive penalties or interest when a taxpayer is unable to meet his or her tax obligations because of:

- extraordinary circumstances;
- actions of the CRA;
- inability to pay or financial hardship; or
- other circumstances.

For penalties, the CRA will consider your request only if it relates to a tax year or fiscal period ending in any of the 10 calendar years before the year in which you make your request. For example, your request made in 2015 must relate to a penalty for a tax year or fiscal period ending in 2005 or later.

For interest on a balance owing for any tax year, the CRA will consider only the amounts that accrued during the 10 calendar years before the year in which you make your request. For example, your request made in 2015 must relate to interest that accrued in 2005 or later.

To request relief from penalties or interest, fill out Form RC4288, *Request for Taxpayer Relief - Cancel or Waive Penalties or Interest*, and send it to the appropriate designated office. The designated office addresses are given on Form RC4288.

For more information about relief from penalties or interest, including examples of extraordinary circumstances, see Information Circular IC07-1, *Taxpayer Relief Provisions*, or go to www.cra.gc.ca/taxpayerrelief.

After you file

Processing times

We can usually process a T3 return within four months. If you filed a return for the first year of a testamentary trust, and you chose a tax year-end other than December 31, it may take longer to process the return. For more information, see “Tax year” on page 16.

Reassessments

If you need to change a return after you send it to us, **do not** file another return for that tax year. Send us a completed Form T3-ADJ, *T3 Adjustment Request*, or a letter providing the details of the change. Indicate the trust’s account number, the tax year you want us to change, and attach any supporting documents.

We can reassess your return, make additional assessments, or assess tax, interest, or penalties within:

- three years (four years for mutual fund trusts) from the date of your original notice of assessment or a notice that no tax was payable for the tax year (this period is called the “normal reassessment period”); or
- six years (seven years for mutual fund trusts) from the date of your original notice of assessment to allow or change a carryback of certain deductions, such as a loss or an unused investment tax credit.

Your request should be postmarked before the end of the above periods for us to consider reassessing your return.

In certain cases, we can reassess a **testamentary trust** for any of the 10 previous tax years to give you a refund or reduce the tax owing. For more information, see Information Circular IC07-1, *Taxpayer Relief Provisions*.

We usually base our initial assessment on the income you report. Later, we may select the return for a more in-depth review or audit. We can also reassess a return at any time if:

- you have made a misrepresentation because of neglect, carelessness, wilful default, or fraud in either filing the return or supplying information required by the Act; or
- you file Form T2029, *Waiver in respect of the normal reassessment period or extended reassessment period*, with your tax services office before the normal reassessment period expires. If you want to revoke a waiver you previously filed, file Form T652, *Notice of Revocation of Waiver*. The revocation will take effect six months after you file Form T652.

Elections

Under certain circumstances, we may allow you to make a late or amended election, or revoke an original election. This applies to the following elections that we discuss in this guide:

- 164(6) election by an estate (see page 31); and
- preferred beneficiary election (see page 44).

A late, amended, or revoked election is subject to a penalty of \$100 for each complete month from the due date of the election to the date of the request. The maximum penalty is \$8,000.



For more information, see Information Circular IC07-1, *Taxpayer Relief Provisions*.

What records do you have to keep?

You have to keep your books, records, and supporting documents in case we need to verify the income or loss you reported on the return. Generally, you must keep them for at least six years from the tax-year end to which they relate. However, you can request permission to dispose of them before the end of this period.

For more information, go to www.cra.gc.ca/records, or see:

- Information Circular IC78-10, *Books and Records Retention/Destruction*; and
- Guide RC4409, *Keeping Records*.

Clearance certificate

You can distribute property without a clearance certificate, as long as you keep sufficient property in the trust to pay any liability to us. However, by getting a clearance certificate, you will avoid being personally liable for unpaid taxes, interest, and penalties.

We **cannot** issue a clearance certificate until you:

- have filed all the required returns and we have assessed them; and
- have paid or secured all amounts owing.

To ask for a clearance certificate, complete Form TX19, *Asking for a Clearance Certificate*, and send it to the Assistant Director, Audit Division, at your tax services office. **Do not** send Form TX19 until you have received a notice of assessment for each return.

For more information, see Information Circular IC82-6, *Clearance Certificate*.

Chapter 2 – Completing the return

The *T3 Trust Income Tax and Information Return* is a four-page form with related schedules. The following information will help you to complete the return.

Step 1 – Identification and other required information

Complete all items on page 1 of the return. The assessment of the return may be delayed if you do not provide all the information.

Residence of trust – A trust resides where its real business is carried on, which is where the central management and control of the trust actually takes place. For information about the residence of a trust or estate, see Income Tax Folio S6-F1-C1.

Name of trust – Use the same name on all returns and correspondence for the trust. The name of the trust will be modified to meet our requirements if it is longer than 60 characters.

Mailing address – We may modify part of your address to meet Canada Post’s requirements. Therefore, the address on any cheques or correspondence we send you may be different from the one you indicate on the trust’s return. If you include the name and mailing address of a contact person, we will send any cheques or correspondence for the trust in care of that person.

Trust account number – If we have assigned an account number to the trust, enter it in this space. Include this number on all correspondence related to the trust. If this is the first return for the trust, we will issue an account number, which will appear on the notice of assessment.

Designated Aboriginal settlement lands – If the trust resides on designated Aboriginal settlement lands, answer **yes**, and enter the name and settlement number in the spaces provided. The settlement lands and their numbers are as follows:

British Columbia:

Nisga’a 09001

Yukon:

Carcross/Tagish 11001

Champagne and Aishihik 11002

Kluane 11003

Kwanlin Dun 11004

Little Salmon/Carmacks 11006

Nacho Nyak Dun 11007

Selkirk 11009

Ta’an Kwäch’än 11010

Teslin Tlingit 11011

Tr’ondëk Hwëch’in 11012

Vuntut Gwitchin 11013

Northwest Territories:

Tlicho 10008

Newfoundland and Labrador:

Nunatsiavut Government 00010

When you enter this information on the return, we will transfer part of any tax payable to the government of the Aboriginal settlement where the trust resides.

Date of residency – Provide the date the trust became a resident of Canada or ceased to be a resident of Canada during the tax year, if applicable.

Type of trust – It is important that you complete this section correctly because we use this information to determine the correct rate of tax. A trust is either a testamentary trust or an inter vivos trust. To identify the correct type of trust, see Chart 1 beginning on page 9.

Testamentary trusts:

- If you are filing a return for a Spousal or common-law partner trust, use the “Spousal or common-law partner” box to identify the trust. No code is required.
- If you are **not** filing a return for a Spousal or common-law partner trust, use the “Other testamentary trust” box to identify trusts that are not spousal or common-law partner trusts, specify the type of trust on the “Other testamentary trust” line, and enter one of the following codes:

- **code 900**, if the testamentary trust is not a Spousal or common-law partner trust or a Lifetime Benefit trust; or
- **code 901**, if the testamentary trust is a Lifetime Benefit trust.

Inter vivos trusts:

- If you are filing a return for an Inter vivos trust listed in Chart 1, use the applicable box. No code is required.
- If you are **not** filing a return for an Inter vivos trust listed in Chart 1, use the “Other Inter vivos” box, specify the type of trust on the “Other Inter vivos” line, and enter one of the following code:
- If you are filing a return for an RRSP, a RRIF, or RDSP trust, see note 1;
- If you are filing a return for a REIT, a HWT, or for a SDA trust, see note 2;
- If you are filing a return for an Environmental Quality Act trust or a Nuclear Fuel Waste Act trust, see note 3;
- If you are filing a return for a Hepatitis C trust, or an Indian Residential School trust, see note 4;
- If you are filing a return to elect to be a master trust, enter **code 024**;
- If you are filing a return for an Inter vivos trust not listed in Chart 1 and for which we have not provided another code, enter **code 300**.

Note 1

If you are filing a return for an RRSP, a RRIF or an RDSP trust to report tax payable on an advantage under section 207.05 of the Act, enter one of the following codes:

- **code 301** for an RRSP trust;
- **code 302** for a RRIF trust; or
- **code 303** for an RDSP trust.

Note 2

If you are filing a return for a REIT, a HWT or for a SDA trust, enter one of the following codes:

- **code 304** for a REIT trust;
- **code 305** for a HWT trust; or
- **code 306** for a SDA trust.

Note 3

If you are filing a return for an Environmental Quality Act trust described by paragraph 149(1)(z.1) of the Act or a Nuclear Fuel Waste Act trust described by paragraph 149(1)(z.2) of the Act, enter one of the following codes:

- **code 314** for an *Environmental Quality Act trust*; or
- **code 315** for a *Nuclear Fuel Waste Act trust*.

Note 4

If you are filing a return for a Hepatitis C trust or an Indian Residential School trust as described in paragraph 81(1)(g.3) of the Act, enter one of the following codes:

- **code 316** for a Hepatitis C trust; or
- **code 317** for an Indian Residential School trust.

Date of death (testamentary trust) or **Date trust was created** (inter vivos trust) – Provide this information on each return filed.

Non-profit organization – If the non-profit organization is incorporated, enter the business number.

Deemed resident trust – Indicate if the trust is a deemed resident trust and provide the name of any other country in which the trust is considered to be resident. See the definition of a deemed resident trust in Chart 1 on page 10.

Reporting foreign income and property

If the trust is resident in Canada, you have to report its income from **all** sources, both inside and outside Canada.

If a resident trust or a deemed resident trust conducts business with a foreign affiliate, or has foreign holdings in excess of CAN\$100,000, you may have to file special returns. For more information, call **1-800-959-8281**.

Foreign property includes:

- funds held outside Canada, including a foreign bank account;
- tangible property located outside Canada, including real estate and equipment;
- shares in foreign corporations;
- an interest in a foreign trust, including a foreign mutual fund trust;
- intangible property located outside Canada, such as rights to royalties, and shares of a Canadian corporation deposited with a foreign broker; and
- a debt (such as a note, bond, or debenture) owed or issued by a non-resident.

Foreign property **does not** include:

- an interest in a registered retirement savings plan, registered retirement income fund, or registered pension plan that contains foreign property;
- mutual funds registered in Canada that contain foreign investments;
- property the trust used or held exclusively in the course of carrying on an active business; or
- personal-use property.

Other required information

Answer all the questions on page 2. The following information will help you answer some of the questions.

Question 1 – You have to answer this question for each personal trust.

Question 2 – The sale of an income or capital interest in a trust is a change in ownership. Distributing estate property to beneficiaries is not a change in ownership for this question.

Question 5 – Answering this question will help us determine which tax rate will apply to the trust.

Question 6 – For information about debts incurred in non-arm's length transactions, see Interpretation Bulletin IT-406, *Tax Payable by an Inter Vivos Trust*.

Question 7 – The terms of the will, trust document, or court order determine the requirement to allocate income. The trust may be required to pay out its income to a beneficiary. In this case, the income cannot be retained and taxed in the trust, unless the trust has made a designation under subsections 104(13.1) or 104(13.2). For more information, see "Income to be taxed in the trust" on page 43.

Question 9 – If you answer **yes**, attach a statement giving all required information. For more information, see "Distribution of property to beneficiaries" on page 30.

Question 10 – "Contribution of property" is defined on page 7.

Question 11 – A **yes** response to this question only applies to a mutual fund trust.

Question 12 – If a trust used International Financial Reporting Standards (IFRS) when it prepared its financial statements, answer **yes**.

IFRS is the collection of financial reporting standards developed by the International Accounting Standards Board (IASB). For more information, go to www.cra.gc.ca/tx/bsnss/tpcs/frs/menu-eng.html.

Question 13 – Was the trust subject to a loss restriction event at any time during this tax year? If **yes**, provide the date of the event.

For more information about a loss restriction event, see "Loss trading – Rules for trusts" on page 27.

Step 2 – Calculating total income: Lines 01 to 20

Line 01 – Taxable capital gains

Calculate the taxable capital gains and allowable capital losses of the trust on Schedule 1.

If the amount on line 23 of Schedule 1 is a taxable capital gain, enter it on line 01.

If the amount on line 23 of Schedule 1 is a net capital loss, **do not** enter it on line 01. You cannot deduct the net capital loss from other income of the trust in the year, or allocate it to the beneficiaries (except as described under "Exceptions and limits to income allocations" on page 42). You can only use it to reduce the trust's taxable capital gains of other years. For more information, see "Line 52 – Net capital losses of other years" on page 28.

Tax tip

In the first tax year of an estate, the legal representative can elect to apply any net capital loss against income on the deceased's final return. For more information, see "Estate elections (losses)" on page 30.

If a trust sells capital property and realizes a gain, it is treated as a capital gain. If a trust sells eligible capital property and realizes a gain, it is treated as business, farming, or fishing income. If the eligible capital property is qualified farm or fishing property, or qualified small business corporation, the gain may qualify for the capital gains deduction.

For more information, see:

- "Capital gains deduction" on page 36;
- Guide T4003, *Farming Income*; and
- Guide T4004, *Fishing Income*.

Line 02 – Pension income ▲

Enter amounts that the trust received from the following:

- registered pension plans;
- retirement compensation arrangements;
- deferred profit sharing plans;
- superannuation plans; or
- foreign retirement arrangements.

When an amount is considered to have been distributed to an estate from a foreign retirement arrangement according to the laws of the country where the arrangement was established, the payment is also deemed received by the estate for tax purposes in Canada. In this case, you must include the amount, in Canadian funds, on line 02.

Lump-sum payments

If the trust received a lump-sum payment from a registered pension plan or a deferred profit sharing plan that includes amounts accrued to December 31, 1971, you can elect to have this portion taxed in the trust at a lower rate. **Do not** include the amount on this line. Instead, enter "ITAR 40" on line 02 and on line 22 of Schedule 11, and we will calculate any federal, provincial, or territorial tax adjustment.

Attach to the return any information slips the trust received. If the information slip does not show the amount of the lump-sum payment accrued to December 31, 1971, provide a statement from the payer indicating the amount.

Line 03 – Total of actual amount of dividends from taxable Canadian corporations ▲

Total 2013 Dividends and Total 2014 Dividends

As both of the gross-up rate and dividend tax credit rate have changed in 2014 for taxable Canadian dividends, a testamentary trust having a fiscal period straddling 2013 and 2014 may apply the 2013 rates to those dividends received in the 2013 portion of the fiscal period. For this reason, separate totals are required to separate the 2013 dividends, if any, from the 2014 dividends. The gross-up amount for 2013 is 13.3333% and for 2014 is 11.0169%.

The dividend tax credit rate based on the gross-up amount for 2013 is 25% and 18% for 2014.

Enter the total of the **actual amount** of dividends received from taxable Canadian corporations from line 3 of Schedule 8. On line 3A, enter the actual amount of dividends, **other than eligible** dividends received in **2014** from line 1A of Schedule 8. On line 3B, enter the actual amount of dividends, **other than eligible** dividends received in **2013** from line 1B of Schedule 8. Attach all information slips received. For more information, see "Lines 1 to 3 – Dividends from taxable Canadian corporations" on page 38.

Line 04 – Foreign investment income ▲

Enter all interest and other investment income from foreign sources from line 6 of Schedule 8. For more information, see the tax tip below and "Lines 4 to 6 – Foreign investment income" on page 39.

Line 05 – Other investment income ▲

Enter the amount from line 12 of Schedule 8.

Include all interest and investment income from Canadian sources except dividends from taxable Canadian corporations reported on line 03. Attach all information slips received. For more information, see "Lines 7 to 12 – Other investment income" on page 39.

Tax tip

In the first year of a testamentary trust, any interest income that has accrued to the person's date of death is reported on the deceased's final return. Any interest income accrued after the person's date of death is reported on the *T3 Trust Income Tax and Information Return*.

Thin capitalization – Rules for trusts

The scope of the application of the thin capitalization rules will be extended to:

- Canadian-resident trusts; and
- non-resident corporations and trusts that operate in Canada.

These measures will also apply where a Canadian-resident trust or a non-resident trust is a member of a partnership.

Canadian resident trusts

A trust's "equity" for the purposes of the thin capitalization rules will generally consist of contributions to the trust from specified non-residents plus the tax-paid earnings of the trust, less any capital distributions from the trust to specified non-residents. The permitted 1.5-to-1 debt-to-equity ratio will remain unchanged.

Trust beneficiaries will be used in place of shareholders for the purpose of determining whether a person is a specified non-resident in respect of the trust and, therefore, whether a debt owing to that person is included in the trust's outstanding debt to specified non-residents. The current rules dealing with rights to acquire shares in determining who is a specified shareholder will be modified to address discretionary powers.

Where interest expense of a trust is not deductible as a result of the application of the thin capitalization rules, the trust will be entitled to designate the non-deductible interest as a payment of income of the trust to a non-resident beneficiary (i.e., the recipient of the non-deductible interest). In such a case, the trust will be able to deduct the designated payment in computing its income, but the designated payment will be subject to non-resident withholding tax under Part XIII of the *Income Tax Act* and potentially tax under Part XII.2, depending on the character of the income earned by the trust.

The thin capitalization rules apply to partnerships in which a Canadian resident trust is a member. As with debt owed directly by the trust, where these rules result in an amount being included in computing the income of a trust, the trust is entitled to designate the included amount as having been paid to a non-resident beneficiary as income of the trust.

Since some trusts may not have complete historical information, any trust that exists on March 21, 2013 are able to elect to determine the amount of its equity for thin capitalization purposes as at March 21, 2013 based on the fair market value of its assets less the amount of its liabilities. Each beneficiary of the trust would then be considered to have made a contribution to the trust equal to the beneficiary's share (determined by reference to the relative fair market value of their beneficial interest in the trust) of this deemed trust equity. Contributions to the trust, tax-paid earnings of the trust and distributions from the trust on or after March 21, 2013 would then increase or decrease (as appropriate) trust equity for thin capitalization purposes.

This measure applies to tax years that begin after 2013 and applies with respect to existing as well as new borrowings.

Non-resident trusts

Since a Canadian branch is not a separate person from the non-resident corporation or trust, the branch does not have shareholders or equity for purposes of the thin capitalization rules. Therefore, the thin capitalization rules for non-resident corporations and trusts will differ from the rules for Canadian-resident corporations in certain respects. For example, a debt-to-asset ratio of 3-to-5 will be used, which parallels the 1.5-to-1 debt-to-equity ratio used for Canadian-resident corporations.

A loan that is used in a Canadian branch of a non-resident corporation or trust will be an outstanding debt to a specified non-resident for thin capitalization purposes if it is a loan from a non-resident who does not deal at arm's length with the non-resident corporation or trust.

A non-resident corporation or trust that earns rental income from certain Canadian properties may elect to be taxed on its net income under Part I of the *Income Tax Act* rather than being subject to non-resident withholding tax under Part XIII on its gross rental income. The election allows the non-resident to compute its taxable income as if it were a resident of Canada, with such modifications to the tax rules as the circumstances require. Where an election is made, the thin capitalization rules for non-resident corporations and trusts, rather than those for Canadian residents, will apply in computing the non-resident's Part I tax liability.

The thin capitalization rules apply to partnerships in which a non-resident corporation or trust is a member. Any income inclusion for a non-resident partner that arises as a consequence of the application of the thin capitalization rules is deemed to have the same character as the income against which the partnership's interest deduction is applied.

This measure applies to tax years that begin after 2013 and applies with respect to existing as well as new borrowings.

Lines 06, 07, 08, and 09 – Business, farming, fishing, and rental income

Enter on the appropriate lines, the trust's gross and net income or loss from business, farming, fishing, and rentals. If the amount is a loss, report it in brackets. If the trust is a member of a partnership, enter the **partnership's** total gross income and the **trust's share** of the partnership's net income or loss. Attach the appropriate forms or statements to the T3 return.

If a trust operates a business with a tax year-end other than December 31, special rules may apply for calculating income. For more information, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*, to calculate the income to report.

Note

A testamentary trust is exempt from these special rules if the trust is the sole proprietor of the business, or if the business is owned by a partnership of testamentary trusts.

You have to follow certain rules when reporting business, farming, fishing, and rental income. The following publications contain more information and the forms you may need to calculate the trust's income:

- Guide T4002, *Business and Professional Income* (Form T2125, *Statement of Business or Professional Activities*);
- Guide T4003, *Farming Income* (Form T2042, *Statement of Farming Activities*);
- Guide T4004, *Fishing Income* (Form T2121, *Statement of Fishing Activities*); and
- Guide T4036, *Rental Income* (Form T776, *Statement of Real Estate Rentals*).

If the trust is a member of the AgriInvest Fund 2, call **1-866-367-8506** to find out which form you should use to report farming income.

Line 10 – AgriInvest Fund 2

Use the calculation in this section to report all amounts received, and those deemed to have been received by the trust out of its AgriInvest Fund 2. This fund is the portion of a farm producer's net income stabilization account that comes from third-party sources, such as interest, bonuses, and government contributions.

The trust should receive an AGR-1 slip, *Statement of Farm-Support Payments*, (AgriInvest Fund 2 amounts are reported in Box 18) for all farm support-programs from which it received payments of more than \$100. These

include programs administered by the federal, provincial, territorial, and municipal governments, and producer associations. Participants in the Agri-Quebec program must also include in income, any amounts withdrawn from their Agri-Quebec Fonds 2. The trust should receive an RL-21 slip, *Farm Support Payments* (Agri-Quebec Fonds 2 amounts are reported in Box D).

Note

In this Guide and the T3 return, any reference to AgriInvest Fund 2 is a reference to AgriInvest Fund 2 and includes Agri-Quebec Fonds 2.

An AgriInvest Fund 2 amount can be transferred to a testamentary post-1971 spousal or common-law partner trust when the settlor dies. If the beneficiary spouse or common-law partner dies, the trustee has to report a deemed payment on the day the beneficiary spouse or common-law partner dies. The deemed payment is equal to the fund’s balance at the end of the day of death. However, the trust and the legal representative of the beneficiary spouse or common-law partner can elect to report all or part of this deemed payment on the final return of the beneficiary spouse or common-law partner instead of on the trust’s return. For more information, see “AgriInvest Fund 2 election” on this page.

The trust has to report on line 10, the amount, if any, determined by the following calculation:

A – (B – C)
 where:
A = the amount paid in the year out of the program (or deemed to have been paid out of the AgriInvest Fund 2, such as on the death of the beneficiary spouse or common-law partner)
B = the total of all amounts previously deemed to have been paid out of the AgriInvest Fund 2 to the trust, or to the beneficiary spouse or common-law partner, or out of another person’s AgriInvest Fund 2 on being transferred to the trust
C = the total of all amounts previously applied to reduce income out of the AgriInvest Fund 2

Make separate calculations for each amount either paid or deemed paid.

AgriInvest Fund 2 payments are taxable in the trust. They cannot be allocated to beneficiaries, except for:

- amounts that relate to payments received by a testamentary spousal or common-law partner trust while the beneficiary spouse or common-law partner was still alive; or
- amounts received by a communal organization.

Use the space below line 10 to show any of the amounts on that line relating to payments received by the beneficiary spouse or common-law partner while he or she was, or is still alive, or by a communal organization.

For more information, see Guide T4003, *Farming Income*.

AgriInvest Fund 2 election

The trust may want to make an election to report the deemed payment out of the AgriInvest Fund 2 on the final

return of the beneficiary spouse or common-law partner. To do so, submit the following information with the return on which the trust is reporting, or would have reported, the deemed disposition:

- a statement making the election, showing the amount on which you are electing, signed by both the trustee and the legal representative of the estate of the beneficiary spouse or common-law partner; and
- a statement, signed by the trustee, showing the calculation of the AgriInvest Fund 2 and the amount being reported on the final return of the beneficiary spouse or common-law partner and the trust’s return.

Line 11 – Deemed dispositions income or losses

Enter the trust’s total income or losses resulting from deemed dispositions from line 42 of Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*. For more information, see “Deemed disposition” on page 36.

Line 19 – Other income ▲

Enter the total income the trust received in the tax year that is not included elsewhere on the return or schedules, such as:

- royalties (do not include Crown royalties in income);
- commissions;
- death benefits under the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP);
- retiring allowances, unless this amount is reported by a beneficiary, or reported in the retired person’s income for the year of death as a **right or thing** (for more information, see Interpretation Bulletin IT-337, *Retiring Allowances*); and
- certain employment-related income (for more information, see Guide T4011, *Preparing Returns for Deceased Persons*).

Death benefit – Other than CPP or QPP

A death benefit is an amount for a deceased person’s employment service. This amount is shown in box 106 of a T4A slip. If a death benefit is to be taxed in the trust according to the provisions of the trust document, you may be able to exclude up to \$10,000 of the amount from the trust’s income.

If no one other than a trust received a death benefit, report the amount that is more than \$10,000. Even if the trust did not receive all of the death benefits in one year, the total tax-free amount for all years cannot exceed \$10,000. To find out what to report if anyone else received a death benefit for the same person, see Interpretation Bulletin IT-508, *Death Benefits*.

Attach a copy of the T4A slip, or a statement from the deceased person’s employer that identifies the payment as a death benefit.

Registered retirement savings plan (RRSP)

A trust may be entitled to income earned by an RRSP after the death of the only or last annuitant. Usually, this income is shown on a T5 or T4RSP slip issued to the estate. Include

this amount on line 19 of the return. Generally, amounts deemed received on death or as a refund of premiums should not be included.

For more information on taxable benefits from matured and unmatured RRSPs, see Guide T4040, *RRSPs and Other Registered Plans for Retirement*, Guide T4011, *Preparing Returns for Deceased Persons*, and Interpretation Bulletin IT-500, *Registered Retirement Savings Plans – Death of an Annuitant*.

Step 3 – Calculating net income: Lines 21 to 50

Line 21 – Carrying charges and interest expenses

Enter the total carrying charges from line 17 of Schedule 8. For more information, see “Lines 13 to 17 – Carrying charges and interest expenses” on page 39.

Lines 22 to 24 – Trustee fees

Trustee, executor, and liquidator fees include:

- fees paid for certain investment advice (for more information, see Interpretation Bulletin IT-238, *Fees Paid to Investment Counsel*);
- fees incurred to gain or produce business or property income (deducted when you calculate the trust’s business or property income); and
- fees for administering the trust or looking after real property (for example, a residence) used by a lifetime beneficiary of a testamentary trust (because these fees are not incurred to earn business or property income, you cannot deduct them from the income of the trust).

Whether or not these fees are deductible by the trust, they are still income to the recipient. For this reason, you have to include the total fees paid in the year on line 22.

On line 23, enter the fees that were not incurred to earn income or that were already deducted elsewhere on the return.

Trustee, executor, or liquidator fees paid to a person who acts in the capacity of an executor in the course of a business are part of that individual’s business income. You must report these amounts on a T4A slip. If the trust paid fees to a non-resident of Canada for services performed in Canada and the non-resident acts in the

capacity of an executor in the course of a business, complete a T4A-NR slip. For more information, see Guide RC4445, *T4A-NR – Payments to Non-Residents for Services Provided in Canada – 2014*. Otherwise, the fee for acting as executor is income from an office. If the fees paid are \$500 or more, you have to prepare a T4 slip for that individual. The individual reports these amounts as income from an office, even if he or she does not receive a T4 slip. For more information, see Guide RC4120, *Employers’ Guide – Filing the T4 Slip and Summary*.

Line 25 – Allowable business investment losses (ABIL)

If the trust had a business investment loss, you can deduct a part of that loss from income. We call the deductible portion an ABIL. It results from the actual or deemed disposition of certain capital properties. This can happen if the trust has disposed of, or is deemed to dispose of, one of the following to a person with whom it deals at arm’s length:

- a share or debt of a small business corporation; or
- a bad debt owed to it by a small business corporation.

For more information, see Guide T4037, *Capital Gains*.

You can deduct the ABIL from the trust’s other sources of income for the year. If the ABIL is more than the other sources of income for the year, the difference is a non-capital loss for the year. For more information, see “Line 51 – Non-capital losses of other years” on page 27.

If you cannot deduct the ABIL as a non-capital loss within the allowed time frame, the unapplied part becomes a net capital loss in the 11th year. You can then use it to reduce the trust’s taxable capital gains in the 11th year or any following year.

Reduction in business investment loss – If the trust designated part or all of its eligible taxable capital gains for the purpose of the capital gains deduction to a beneficiary in a previous year, you have to reduce the business investment loss for the current year.

Use the chart below to calculate the reduction in business investment loss. If the trust had more than one business investment loss in the year, use this chart to calculate the total reduction.

For more information, see Interpretation Bulletin IT-484, *Business Investment Losses*.

Allowable Business Investment Loss and Reduction

You have to adjust the amount of eligible taxable capital gains on lines 1 to 7, because they were included in income at different rates in previous years.

Total eligible taxable capital gains designated by the trust in 1985, 1986, and 1987.....	_____ × 2	= _____	1
Total eligible taxable capital gains designated by the trust in 1988 and 1989; do not include eligible capital property on this line	_____ × 3/2	= + _____	2
Total deemed taxable capital gains from eligible capital property designated by the trust in 1988 and 1989.....	_____ × 4/3	= + _____	3
Total eligible taxable capital gains designated by the trust in years after 1989 and before 2000.....	_____ × 4/3	= + _____	4
Total eligible taxable capital gains designated by the trust in 2000 (see Note).....	_____ × _____	= + _____	5
Total eligible taxable capital gains designated by the trust in 2001 (see Note).....	_____ × _____	= + _____	6
Total eligible taxable capital gains designated by the trust in years after 2001	_____ × 2	= + _____	7
Add lines 1 to 7.....		= _____	8
Total amount you used to reduce the trust's business investment losses in years after 1985 and before 2014		- _____	9
Line 8 minus line 9		= _____	10
Business investment losses for the year before reducing the losses.....			11
Enter the amount from line 10 or line 11, whichever is less . This is the reduction for the year. (Enter this amount on line 12 of Schedule 1.)		- _____	12
Business investment losses for the year: line 11 minus line 12.....		= _____	13
Allowable business investment losses for the year: line 13 (_____) × 1/2		= _____	14
(Enter this amount on line 25 of the return.)			

Note: The fractions to be used at lines 5 and 6 are the inverse of the trust's inclusion rates for 2000 and 2001. For example, if the trust's inclusion rate was 1/2, the inverse is 2. If the trust's inclusion rate was 3/4, the inverse is 4/3. If the trust's inclusion rate was 2/3, the inverse is 3/2. For 2000 (and 2001, if applicable), use the inclusion rate from line 16 of the 2000 Schedule 1.

Line 40 – Other deductions from total income

Generally, you can deduct expenses if they were paid to earn income for the trust. Expenses include legal, accounting, and management fees. You can also deduct the fees paid for advice or assistance in objecting to or appealing an assessment or decision under the Act (although you have to reduce the claim by any award or reimbursement you received for such expenses).

Do not deduct the following:

- outlays and expenses that apply to the capital assets of the trust (see "Outlays and expenses" on page 33);
- personal expenses of the beneficiaries or trustees, such as funeral expenses or probate fees; or
- any amounts paid to beneficiaries.

Line 43 – Upkeep, maintenance, and taxes of a property used or occupied by a beneficiary

You may have claimed expenses on the return that relate to the upkeep, maintenance, and taxes on a property used by a beneficiary. You may have claimed these expenses on a financial statement, such as a rental statement. Generally, if these amounts were paid out of the income of the trust according to the trust document, the beneficiary is required to include these amounts in income in the year they were paid. Therefore, you have to report these benefits as income on the beneficiary's T3 slip, and you will deduct them again from the trust's income on line 47. To offset this "double-deduction" of the same expenses, you have to add these amounts back into the trust's income on line 43.

Provide details of the amount entered on this line, including the nature and amount of each expense, and where on the return or financial statement these expenses have been claimed.

Line 44 – Value of other benefits to a beneficiary

You may have paid benefits, such as amounts for personal or living expenses, from the trust to a beneficiary. The beneficiary has to include the value of these benefits in income in the year they were paid, unless the value:

- is already included in calculating the beneficiary's income for the year; or
- has been used to reduce the adjusted cost base of the beneficiary's interest in the trust.

Enter on line 44, the amount of these benefits that were included as income on the beneficiary's T3 slip.

Because you have to deduct the value of the benefits as income allocations and designations to beneficiaries on line 47, and the trust cannot deduct this amount, you have to add it back into the trust's income by including the amount on line 44. Provide details of the amount entered on this line, including the nature and amount of each benefit.

Lines 471, 472, and 47 – Total income allocations and designations to beneficiaries ▲

Generally, a trust receives income and pays it to the beneficiaries according to the terms of a will or trust document. We call this **allocating** income (defined

on page 6). In most cases, you enter the income on the T3 return in Step 2, then enter it on line 471 in Step 3, so the trust does not pay tax on the income. The beneficiary then has to report the income on his or her return. For more information, see “Schedule 9 – Income Allocations and Designations to Beneficiaries” on page 40.

In some cases, income that is allocated to a beneficiary may be taxed on the trust’s return, instead of on the beneficiary’s return. In other cases, income that is usually reported on the trust’s return may instead be reported on the beneficiary’s return. For more information, see “Exceptions and limits to income allocations” on page 41.

Note

Income allocated to a beneficiary that is not deductible by the trust (other than a designated amount included in line 472) should **not** be included on line 471, or reported on Schedule 9.

On line 471, enter the amounts paid or payable to beneficiaries in the current year, including any amount designated by a preferred beneficiary election. On line 472, subtract the amounts claimed under subsections 104(13.1) and 104(13.2). Enter the result on line 47.

For more information, see “Income to be taxed in the trust” on page 43.

Tax tip

Line 47 has to equal the amount entered on line 928 of Schedule 9.

Step 4 – Calculating taxable income: Lines 51 to 56

Losses of other years – If you are claiming a loss from other years, provide a continuity statement of the loss balances.

Be sure the statement includes the year the loss was incurred, the amounts applied in previous years, and the balance remaining at the beginning of the current year.

If you are providing a continuity statement for a net capital loss carryforward, use the table in Chart 5 of Guide T4037, *Capital Gains*.

Loss trading – Rules for trusts

The loss streaming rules generally apply to limit a corporation’s trading of certain tax attributes (for example, non-capital losses, net capital losses, farm losses, and unused investment tax credits) where a person or group of persons acquires control of the corporation. The loss-streaming and related rules apply, with appropriate modifications, to a trust that is subject to a “loss restriction event.”

A trust will be subject to a loss restriction event when a person or partnership becomes a majority-interest beneficiary of the trust or a group becomes a majority-interest group of beneficiaries of the trust. The concepts of majority-interest beneficiary and majority-interest group of beneficiaries will apply as they do under the existing income tax provisions for affiliated persons, with appropriate modifications. In general, under the affiliated persons provisions, a majority-interest beneficiary of a trust is a beneficiary who, together with

persons and partnerships with which the beneficiary is affiliated, has a beneficial interest in the trust’s income or capital with a fair market value that exceeds 50 per cent of the fair market value of all the beneficial interests in income or capital, respectively, in the trust.

The rules that deem certain transactions or events to involve (or not involve) an acquisition of control of a corporation are applicable, with appropriate modifications, in determining whether a trust is subject to a loss restriction event under section 251.2. For example, rules similar to the continuity of ownership rules that deem a corporate acquisition of control not to occur in certain circumstances involving the death of a shareholder, or involving transactions within certain groups of shareholders, will also apply in the context of trusts and their beneficiaries.

Many of the typical transactions or events involving changes in the beneficiaries of a personal (that is, family) trust will not, because of the continuity of ownership rules, result in the trust being subject to a loss restriction event.

These measures, apply to transactions that occur after March 20, 2013.

For more information in respect of the rules and exceptions, refer to the Department of Finance’s September 2013 Explanatory Notes for section 251.2 and subsection 251.2(3) at <http://www.fin.gc.ca/drleg-apl/ita-lir0913-eng.asp>.

As a result of recent amendments, the acquisition of equity in certain types of investment trusts will not be treated as a loss restriction event of the trusts if certain conditions are met. In addition, certain relieving measures have been introduced for a trust subject to a loss restriction event; for example, the filing due date of the trust’s T3 return and issuance of T3 slips, and balance due date have been extended in respect of a tax year that is deemed to end before the loss restriction event. For more information in respect of these measures, refer to the Department of Finance’s October 2014 Explanatory Notes for subsections 251.2(3) and (7) at <http://www.fin.gc.ca/drleg-apl/2014/bia-leb-oct20-1014-eng.asp>.

Line 51 – Non-capital losses of other years

A non-capital loss could arise if the trust had a loss from business or property in a year, and it was more than the trust’s income from all sources in that year.

The tax year in which the non-capital loss was incurred will affect the extent to which you can carry over the unused portion. You can carry over the unused portion of a loss that was incurred in a tax year ending:

- on or after January 1, 2006, back 3 years and forward 20 years;
- after March 22, 2004, and before January 1, 2006, back 3 years and forward 10 years; and
- before March 23, 2004, back 3 years and forward 7 years.

If the trust has an unused non-capital loss from a previous year, you can use it to reduce taxable income for the current year. Enter this amount on line 51.

For information on how to carry back an unused non-capital loss, see “Form T3A, *Request for Loss Carryback by a Trust*” on the next page.

Note

Under proposed changes, for tax years beginning after December 31, 2004, the trust can claim a non-capital loss only if there is a reasonable expectation of profit from that business or property. For this purpose, **do not** include capital gains or capital losses.

Farming and fishing losses – If the trust had a farming or fishing loss from a previous year, see “Line 54 – Other deductions to arrive at taxable income” on this page.

Line 52 – Net capital losses of other years

Generally, if the trust’s allowable capital losses are more than its taxable capital gains in a year, the difference is a net capital loss for that year. You can use the net capital loss to reduce the trust’s taxable capital gains in any of the three preceding years or in any future year.

Within certain limits, you can deduct all or a portion of the trust’s net capital losses of other years that have not already been claimed.

For more information, see Guide T4037, *Capital Gains*.

Listed personal property losses – Losses on listed personal property (LPP) can be applied only against LPP gains. Claim the unused portion of an LPP loss from a **previous** year against a current-year LPP gain on line 8 of Schedule 1, or on line 8 of Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*, if applicable. For more information, see “Lines 7 to 9 – Listed personal property” on page 35.

The unused portion of an LPP loss can be carried back three years and forward seven years, and applied against LPP gains in those years.

For information on how to carry back an unused net capital loss or an LPP loss, see the next section.

Form T3A, Request for Loss Carryback by a Trust

Use this form to carry an unused loss back to a previous year. You have to make your request on or before the due date of the return for the year in which the trust incurred the loss. You can file the form separately or attach it to the current year’s return.

If the loss was not deducted fully in a previous year, keep a schedule of the unused portion so you can deduct it in future years. Always apply the oldest loss within a class of losses first. For example, apply a 2006 non-capital loss before a 2007 non-capital loss.

A non-capital loss carryback is used to reduce the taxable income of the trust in a previous year. If you allocated income to beneficiaries in the previous year, you cannot reduce the income allocated to increase the loss you can apply.

A net capital loss carryback is deductible in computing a trust’s taxable income for a previous tax year only to the extent of the trust’s taxable capital gains in that previous year. If taxable capital gains were previously designated to beneficiaries, contact us to determine whether the trust can carry back the net capital loss to the previous year.

If you apply a net capital loss carryback, a non-capital loss may be increased or created if the loss was previously used to reduce the amount of taxable capital gains in the year of the carryback.

For more information, see Interpretation Bulletin IT-381, *Trusts – Capital Gains and Losses and the Flow-Through of Taxable Capital Gains to Beneficiaries*, and Interpretation Bulletin IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*.

Line 53 – Capital gains deduction for resident spousal or common-law partner trust only

A spousal or common-law partner trust, if resident in Canada, can claim the unused portion of the beneficiary’s capital gains deduction in the year that the beneficiary spouse or common-law partner dies. To calculate the deduction, complete Schedule 5 and attach it to the return. Enter on line 53 the amount from line 10 of Schedule 5.

The deduction is not available to a pre-1972 spousal trust that filed Form T1015, *Election by a Trust to Defer the Deemed Realization Day*, or to a joint spousal or common-law partner trust or an alter ego trust.

Line 54 – Other deductions to arrive at taxable income

Enter other deductions, such as:

- prior-year limited partnership, farming, or fishing losses (see Note);
- the \$2,000 deduction allowed to a non-profit organization reporting income from property (subsection 149(5) deduction); and
- the amount of foreign income reported that is exempt from tax in Canada because of a tax treaty or convention (identify the exempt income amount, and the treaty or convention that applies).

If the trust is claiming more than one loss, or if a claim needs more explanation, attach a note to the return providing the details.

Note

The unused portion of a farming or fishing loss incurred in a year can be carried back 3 years and forward 20 years. There are restrictions on the amount of certain farm losses you can deduct each year. For information on restricted farm losses, see Guide T4003, *Farming Income*. For information on how to carry back this type of loss, see “Form T3A, Request for Loss Carryback by a Trust” on this page.

Step 5 – Summary of tax and credits: Lines 81 to 100

Line 81 – Total federal tax payable ▲

Enter the federal tax payable from line 44 of Schedule 11, or line 55 of Schedule 12.

Line 82 – Provincial or territorial tax payable ▲

For information on which provincial or territorial form to use, see “Provincial and territorial income tax” on page 55.

Line 85 – Tax paid by instalments ▲

Enter the total instalment payments made by the trust. If the account number on the trust's receipt is not the same as the one on page 1 of the return, enter the account number from the receipt to the right of line 85. If you received a refund of all or part of an instalment, **do not** include this amount on line 85.

Lines C, D, and 86 – Total tax deducted ▲

If tax was withheld on any income earned by the trust, enter the amount of tax withheld on line C. Attach information slips if they are available. If an information slip is not available, attach a statement from the issuer, indicating the income reported and the tax withheld. **Do not** allocate the tax that was withheld to the beneficiaries.

Transfer to Quebec – If the trust was resident in Quebec and earned income outside that province, tax may have been withheld for a province or territory other than Quebec. You can transfer up to 45% of this amount to the province of Quebec. Enter this amount on line D. If this does not apply to you, enter "0" on line D.

Subtract the transferred amount from total tax deducted, and enter the result on line 86.

Line 89 – Capital gains refund

This refund is available only to a mutual fund trust that has refundable capital gains tax on hand at the end of the year. To calculate the refund, complete Form T184, *2014 Capital Gains Refund to a Mutual Fund Trust*.

Line 90 – Part XII.2 tax credit

If the trust is the beneficiary of another trust and received a T3 slip from that trust with an amount in box 38, enter that amount on line 90.

Line 91 – Other credits

Certain provincial or territorial tax credits are available to a trust if the trust meets the following conditions:

- it was a resident of the province or territory at the end of the tax year; and
- it incurred eligible expenditures related to certain activities.

You can find specific information on the following forms:

- Form T1129, *Newfoundland and Labrador Research and Development Tax Credit (Individuals)* (for the Newfoundland and Labrador research and development tax credit);
- Form T1232, *Yukon Research and Development Tax Credit (Individuals)* (for the Yukon research and development tax credit);
- Form T88, *British Columbia Mining Exploration Tax Credit (Individuals)* (for the British Columbia mining exploration tax credit); and
- Form T1241, *Manitoba Mineral Exploration Tax Credit* (for the Manitoba mineral exploration tax credit).

Note

The mineral exploration tax credit scheduled to expire at the end of March 2014 will be extended for one year, to flow-through share agreements entered into on or before March 31, 2015.

Use the appropriate form to calculate the tax credit. Attach the form to the trust's return.

In the case of the research and development tax credits, the trust can designate some or all of these credits to beneficiaries of the trust. **Subtract** the amount designated to beneficiaries from the credit calculated on the form. Enter the result on line 91 of the trust's return.

Line 94 – Refund or balance owing ▲

The refund or balance owing is the difference between the total taxes payable on line 84 and the total credits on line 93. Generally, a difference that is \$2 or less does not have to be paid, nor will it be refunded.

Line 95 – Amount enclosed ▲

Attach to the front of the return, a cheque or money order payable to the Receiver General. **Do not mail cash.** To help us credit the correct account, write the trust's name and account number on the front of your payment. Enter on line 95, the amount of the payment.

If you make a payment that your financial institution does not honour, including a cheque on which you put a stop-payment, we will charge you a fee. Generally, this fee will be \$15 for each returned cheque, plus interest, if applicable.

If you or your representative does not have a bank account at a financial institution in Canada, you or your representative can send your payment:

- using a wire transfer;
- an international money order drawn in Canadian dollars;
- a bank draft in Canadian dollars drawn on a Canadian bank.

For more information, go to www.cra.gc.ca/payments or contact your financial institution.

Line 100 – Refund code ▲

If the trust is entitled to a refund, enter one of the following codes in the refund code box:

- 0 if you want us to refund the credit;
- 1 if you want us to keep the credit for next year; or
- 2 if you want us to hold the credit and apply it to an expected assessment of an additional amount to be paid. Attach a letter providing details.

To have your refund deposited directly into your account, complete the "Direct Deposit – Start or change" area on the T3RET, *Trust Income Tax and Information Return*.

We consider the credit to have been received on the date we assess your return. First, we will apply a credit to any outstanding balance. Then, we will direct any amount left

over according to the code you enter. If you do not enter a code, we will refund the credit.

Name and address of person or company who prepared this return

Complete this part if someone other than the trustee, executor, liquidator, or administrator prepared this return.

Certification ▲

The trustee, executor, liquidator, or administrator of the trust has to complete and sign this part.

Chapter 3 – Trust schedules and forms

Schedule 1 – Dispositions of Capital Property

If the trust disposed of capital property in the year, see Guide T4037, *Capital Gains*, for the general rules regarding capital gains and losses. We explain the rules that relate to trusts in this section.

Complete Schedule 1 and file it with the T3 return if the trust had dispositions of capital property during the year. **Do not** include any deemed dispositions that are reported on Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*. For more information, see “Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*” on page 36.

Transfer any taxable capital gains from line 23 of Schedule 1 to line 01 of the return.

A disposition of capital property includes:

- the sale of property;
- the distribution or exchange of property;
- the making of a gift;
- a redemption of shares;
- a debt settlement;
- a theft; or
- the destruction of property.

Note

We do not consider a disposition to have occurred if two corporations or a parent corporation and its subsidiary have amalgamated and there is no consideration for the redemption of shares. For more information, call 1-800-959-8281.

If the trust realized a capital gain from donating certain properties to a qualified donee, or made a gift of ecologically sensitive land to a qualified donee (other than a private foundation), complete Schedule 1A. For the definition of **qualified donee**, see Guide T4037, *Capital Gains*.

For donations of these properties made after May 1, 2006, the inclusion rate for capital gains is generally 0%.

For gifts (other than gifts of ecologically sensitive land) made after March 18, 2007, the capital gains inclusion rate of 0% on donations of certain capital property includes gifts to a private foundation.

For donations of certified cultural property made after February 10, 2014, special rules will apply when the property was acquired through a gifting arrangement that is a tax shelter. For more information about these new rules, see Pamphlet P113, *Gifts and Income Tax*.

The inclusion rate of 0% on capital gains arising from the donation of certain capital property may also apply to the capital gain realized on the exchange of shares of the capital stock of a corporation for those publicly listed securities donated after February 25, 2008. For more information, see the section called “Capital gains realized on gifts of certain capital property” in Pamphlet P113, *Gifts and Income Tax*.

Distribution of property to beneficiaries

If a personal trust distributes property to a beneficiary (to settle in whole or in part the beneficiary’s capital interest in the trust), attach a statement to the return that includes the following information about the distributed property:

- the name and address of the recipient or recipients;
- a description of the property;
- the fair market value (FMV) on the day it is distributed; and
- the cost amount on the day it is distributed.

For information regarding the distribution of property to a non-resident beneficiary, see “Capital dispositions – Rules for trusts” on page 31.

Estate elections (losses)

As the legal representative of a deceased person, you can elect to transfer certain losses from the deceased person’s estate to the deceased person’s final T1 return. These elections are:

- the 164(6) election, for capital or terminal losses; and
- the 164(6.1) election, for deemed losses from employment (from employee security options that expired, were disposed of, or were exercised).

These elections apply only to the first tax year of a deceased person’s estate. The elections do not affect the return of the deceased person for any year before the year of death.

To make either of these elections, attach a letter to the T3 return identifying the type of election. For the 164(6) election, the letter should contain the following:

- the amount of any capital or terminal loss to be transferred;
- a schedule with details of the capital loss, or a statement with details of the terminal loss; and
- a statement of the amount that would have been the capital or terminal loss, had the transfer not occurred.

File the election and an amended final T1 return by the later of:

- the filing due date of the deceased person's final T1 return that the legal representative is required to file or has elected to file; and
- the filing due date for the estate's T3 return for its first tax year.

Clearly identify the amended final T1 return of the deceased person as a "164(6) election" or a "164(6.1) election."

164(6) election

Generally, you can make this election for estate losses that occurred when the trust disposed of:

- the estate's capital property resulting in more capital losses than capital gains; or
- all the estate's depreciable property in a prescribed class, resulting in a terminal loss in that class at the end of the tax year.

The elected amount of a terminal loss cannot be more than the total of the trust's total non-capital loss and the farm loss calculated before the election.

The trust cannot claim a loss that you have elected to transfer to the deceased person's final return. However, you have to report the dispositions of the estate property on Schedule 1. If the total is a loss, enter the amount elected under subsection 164(6) on line 19.

Tax tip

If you know you want to apply a loss to the deceased person's final T1 return before that return is due to be filed, you can submit a request to apply the loss with the return. Clearly identify the return as a 164(6) election. Although we will not allow the claim on the initial assessment of the T1 return, we will hold your request until we assess the T3 return and verify your claim. If we accept your claim, we will adjust the T1 return, and issue a notice of reassessment.

164(6.1) election

You can make this election for employee security options that expired, or were exercised or disposed of, in the first tax year of the estate. You can elect to treat this reduction in value as a loss from employment in the year the person died.

Use the following calculation to determine the amount that can be carried back to the deceased person's final T1 return:

$$A - (B + C)$$

where:

- A** = the deemed benefit for the option included on the deceased person's final return
- B** = the amount by which the value of the option immediately before it expired, was exercised, or disposed of, is **more** than the amount the deceased person paid to acquire it
- C** = the amount by which A is **more** than B, if a security option deduction for this option was claimed on the deceased person's final return, multiplied by 50%

If you make this election, reduce the trust's adjusted cost base of the option by **A minus B**, without considering C.

Certain gifts

Generally, the inclusion rate for capital gains on certain gifts is 50%.

For gifts of certain capital property made to a qualified donee and for gifts of ecologically sensitive land to a qualified donee (other than a private foundation), the inclusion rate for capital gains is generally 0%.

For any gift made after December 20, 2002, only the capital gain on the **eligible amount** of the gift will qualify for the lower inclusion rate. The capital gain on the remainder of the proceeds of disposition, referred to as an **advantage**, will be subject to the inclusion rate of 50%.

For gifts (other than gifts of ecologically sensitive land) made after March 18, 2007, the capital gains inclusion rate of 0% on donations of certain capital property includes gifts to a private foundation.

Donations of certain flow-through share properties may give rise to a deemed capital gain that is subject to an inclusion rate of 50%. For more information, see Pamphlet P113, *Gifts and Income Tax*, and Schedule 1A, *Capital Gains on Gifts of Certain Capital Property*.

Capital dispositions – Rules for trusts

After March 22, 2004, a trust is considered to be affiliated with its majority interest beneficiary and any person who is affiliated with such a beneficiary. As a result, the rules that apply to affiliated persons may apply to a trust and its beneficiaries, settlors, or contributors. For more information, call **1-800-959-8281**.

After February 27, 2004, a trust that distributes property to a non-resident beneficiary in satisfaction of all or part of the beneficiary's capital interest in the trust, is deemed to have disposed of such property for proceeds equal to the property's fair market value (FMV) at that time. This rule does not apply to property that is:

- a share of the capital stock of a non-resident owned investment corporation;
 - real or immovable property situated in Canada, a Canadian resource property or a timber resource property;
 - capital property used in, eligible capital property in respect of or property described in the inventory of, a business carried on by the taxpayer through a permanent establishment in Canada at the particular time; or,
 - an excluded right or interest of the taxpayer,
- and the conditions in subsection 107(2) are met and subsection 107(4.1) is not applicable.

A trust that ceases to be resident in Canada is deemed to have disposed of all property, including certain taxable Canadian property, for proceeds equal to the property's fair market value (FMV) at that time, and reacquired the property, at the same value, immediately thereafter.

These rules do not apply to the following properties, among others:

- real property situated in Canada, Canadian resource property, or timber resource property;
- property of a business carried on by the trust through a permanent establishment in Canada, including capital property, eligible capital property, and property described in the inventory of the business;
- pension or other similar rights or interests; and
- payments out of an AgriInvest Fund 2.

The trust or beneficiary can defer paying tax resulting from the deemed disposition by providing acceptable security. To arrange security, call **1-800-959-8281**.

A trust that ceases to be resident in Canada, and that owns property with a total fair market value (FMV) of more than \$25,000 at that time, has to file Form T1161, *List of Properties by an Emigrant of Canada*, with its T3 return for that year, listing each property the trust owned at that time. For the purposes of determining whether Form T1161 is required, property **does not** include:

- money that is legal tender in Canada and all deposits of such money;
- pension or other similar rights or interests; or
- any item of personal-use property, with a FMV of less than \$10,000 at the time the trust ceased to be a resident in Canada.

Canadian cultural property

For information on dispositions of Canadian cultural property, see "Selling or donating certified Canadian cultural property" in Guide T4037, *Capital Gains*, Interpretation Bulletin IT-407, *Dispositions of Cultural Property to Designated Canadian Institutions*, and Pamphlet P113, *Gifts and Income Tax*.

Proceeds of disposition

This is usually the amount that the trust received or will receive for its property. In most cases, it refers to the sale price of the property. In certain situations, the proceeds of disposition are set by rules in the Act.

Personal trust – When this kind of trust distributes property to a beneficiary, and there is a resulting disposition of all or part of the beneficiary's capital interest in the trust, we generally consider the trust to have received proceeds of disposition equal to the "cost amount" of the property. The cost amount of a capital property (other than a depreciable property) is its adjusted cost base. We define "adjusted cost base" on this page.

The cost amount of a depreciable property is calculated as follows:

- If the property was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before the distribution.

- If there is more than one property in the class, the cost amount of each property is as follows:

Capital cost of the property	÷	Capital cost of all properties in the class that have not been previously disposed of	×	UCC of the class	=	Cost amount of the property
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Where a personal (or prescribed) trust distributes property to a beneficiary to settle all or part of the beneficiary's capital interest in the trust, the trust can elect under subsection 107(2.001) of the Act to **not** have the trust's proceeds of disposition equal to the cost amount of the property.

A subsection 107(2.001) trust election is applicable to distributions made after October 1, 1996 when:

- the trust was resident in Canada when it distributed the property;
- the property is taxable Canadian property; or
- the property is property of a business carried on by the trust through a permanent establishment in Canada. This includes capital property, eligible capital property, and property described in the inventory of the business, immediately before the time of distribution.

To elect under subsection 107(2.001) of the Act, the trust must attach a letter to its *T3 Trust Income Tax and Information Return* for the tax year in which the property was distributed.

The letter should include the following information:

- a declaration to elect under subsection 107(2.001) of the Act;
- name of the trust;
- trust account number;
- type of trust;
- trust's tax year end date;
- residency status of the trust, (resident trust or non-resident trust);
- if applicable, the date the trust became a resident of Canada in the year;
- if applicable, the date the trust became a non-resident of Canada in the year; **and**
- name, address and signature of trustee making the election.

If you file an election, we consider the trust, if resident in Canada, to have received proceeds of disposition equal to the fair market value (FMV) of the property at the time of distribution.

Effective for distribution of property after December 20, 2002, a personal (or prescribed) trust is deemed to have disposed of property for proceeds equal to the property's fair market value at the time of the distribution. If:

- at a particular time before December 21, 2002, there was a qualifying disposition (within the meaning assigned by subsection 107.4(1) of the Act) of the property, or of other property for which the property is substituted, by a particular partnership or a particular corporation, as the case may be, to the trust; and
- the beneficiary is neither the particular partnership nor the particular corporation.

Post-1971 spousal or common-law partner trust – When this kind of trust, whose beneficiary spouse or common-law partner is still alive, distributes property such as capital property, resource property, or land inventory to a person who is not the beneficiary spouse or common-law partner, we consider the trust to have received proceeds of disposition equal to the property's fair market value (FMV).

This also applies to:

- a **joint spousal or common-law partner trust** that distributes property to a person who is not the settlor, beneficiary spouse or common-law partner and the settlor, beneficiary spouse or common-law partner is still alive; and
- an **alter ego trust** that distributes property to a person who is not the settlor and the settlor is still alive.

Trust other than a personal trust – When this kind of trust distributes property to a beneficiary and there is a resulting disposition of all or part of the beneficiary's capital interest in the trust, we consider the trust to have received proceeds of disposition equal to the property's fair market value (FMV).

For more information, see Chapter 2 in Guide T4037, *Capital Gains*.

Adjusted cost base (ACB)

This is usually the cost of the property plus expenses incurred to obtain it. The adjusted cost base can differ from the original cost if changes have been made to the property between the time it was acquired and the time it was sold. For more information, see Guide T4037, *Capital Gains*, and Interpretation Bulletin IT-456, *Capital Property – Some Adjustments to Cost Base*, and its Special Release.

Generally effective after February 27, 2004, the cost of a capital interest in a trust that is not held by the taxpayer as capital property is deemed to be equal to the cost amount used for inventory valuation purposes less the total of all returns of capital and non-taxable capital gains payable to the taxpayer in respect of the interest, prior to the disposition. At any particular time, inventory valuation is deemed to be the fair market value of the capital interest plus the sum of all returns of capital and non-taxable capital gains payable before that time.

Beneficial interest in a trust – A trust may receive a T3 slip with an amount showing in box 42. Use this amount to determine the ACB of your interest in that trust. Reduce

the cost of your interest by the total of the positive amounts shown in box 42 of the T3 slips received from the trust for all tax years after 2003. Also reduce it by all amounts (other than amounts received as proceeds of disposition or as a distribution of income of the trust) received from the trust before 2004. If the amount in box 42 is in brackets, it will result in an increase in the ACB. You may want to contact the trustee of the trust to determine if there are any other adjustments required in calculating the ACB of your interest. For more information on how to account for box 42 amounts, see Information Sheet RC4169, *Tax Treatment of Mutual Funds for Individuals*.

Note

If your ACB is reduced to an amount below zero at any time in the tax year, we consider a deemed disposition to have occurred. The negative amount is deemed to be a capital gain. Your ACB is then reset to zero. For more information, see "Line 3 – Mutual fund units and other shares" on page 34.

Property acquired before 1972

Before 1972, capital gains were not taxed. If the trust sold property acquired before 1972, you have to use special rules when calculating the capital gain or capital loss to remove any capital gains accrued before 1972. These rules are found on Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972*. Use Form T1105 to calculate the gain or loss from selling property the trust owned before 1972.

Outlays and expenses

These are amounts incurred to sell a capital property such as finder's fees, commissions, broker's fees, legal fees, and advertising costs. You can deduct outlays and expenses from the proceeds of disposition when calculating the capital gain or capital loss.

In the case of depreciable property sold at a loss, these outlays and expenses reduce the proceeds from the sale to be credited to the class. **Do not** claim them as deductions from the trust's income.

Note

Outlays and expenses made or incurred in respect of deemed dispositions cannot be claimed.

Lines 1 and 2 – Qualified small business corporation shares and qualified farm or fishing property

Use these sections if you are filing a return for a personal trust reporting a capital gain or loss from the disposition of qualified small *business* corporation shares or qualified farm property.

Dispositions of qualified fishing property made on or after May 2, 2006, will receive the same treatment as qualified farm property. Such dispositions may qualify for the capital gains deduction. For more information, see Guide T4037, *Capital Gains*, and the definition of **qualified farm or fishing property** on the next page.

Do not report a loss the trust incurred in disposing of shares of, or debts owing by, a small business corporation in an arm's length transaction. For information on these

types of losses, see “Line 25 – Allowable business investment losses (ABIL)” on page 25.

Capital gains from the disposition of qualified small business corporation shares, or qualified farm property or fishing property may qualify for the capital gains deduction. If the spousal or common-law partner trust is claiming the deduction in the year that the beneficiary spouse or common-law partner died, use Schedules 3, 4, and 5 to calculate the deduction. If the trust is allocating and designating the eligible capital gains to a beneficiary, complete Schedules 3 and 4, and see “How to complete the T3 slip” on page 58.

A share in a small business corporation is considered to be a **qualified small business corporation share** if:

- at the time of disposition, it was a share of the capital stock of a small business corporation and was owned by the trust, or a partnership related to the trust;
- throughout the 24 months before the disposition, only the personal trust, or a person or a partnership related to the personal trust, owned the share; and
- throughout that part of the 24 months immediately before the disposition, while the personal trust or person or partnership related to the personal trust owned the share, it was the share of a Canadian-controlled private corporation (CCPC), and more than 50% of the fair market value of the assets of that corporation:
 - was used mainly in an active business carried on primarily in Canada by the CCPC, or by a related corporation;
 - was certain shares or debts of connected corporations; or
 - was a combination of the two.

For the purpose of a qualified small business corporation share, a person or a partnership is related to a personal trust if:

- the person or partnership is a beneficiary of the personal trust;
- the personal trust is a member of the partnership;
- the person is a member of a partnership that is a member of another partnership and is deemed to be a member of the second partnership; or
- when the personal trust disposes of the shares, all the beneficiaries are related to the person from whom the personal trust acquired the shares.

For more information, see “Qualified small business corporation shares” in Guide T4037, *Capital Gains*.

Qualified farm or fishing property of a personal trust includes the following property the personal trust owns:

- a share of the capital stock of a family farm or fishing corporation;
- an interest in a family farm or fishing partnership; or
- real or immovable property, or a fishing vessel, or an eligible capital property used in carrying on a farming or fishing business in Canada by:

- an individual beneficiary (who is entitled to receive directly from the trust any income or capital of the trust), or that beneficiary’s spouse or common-law partner, child, or parent; or
- a family farm or fishing corporation, or a family farm or fishing partnership in which either an individual beneficiary, or the beneficiary’s spouse or common-law partner, child, or parent own a share in the corporation or an interest in the partnership.

Note

In addition, certain conditions must be met for property to be considered to have been used in the course of carrying on a farming or fishing business in Canada. Special rules apply to the disposition of eligible capital property that is qualified farm property or fishing property. For more information, see “Chapter 5 – Eligible Capital Expenditures” and “Chapter 7 – Capital Gains” in Guide T4003, *Farming Income*, and Guide T4004, *Fishing Income*.

Line 3 – Mutual fund units and other shares

Use this section to report a capital gain or loss when the trust sells mutual fund units, shares, or securities that are not described in any other section of Schedule 1.

If you are deemed to have a capital gain as a result of a negative adjusted cost base (ACB), use this line to report the deemed gain. Complete the first two columns with the number of shares and the name of the fund or corporation. Enter the ACB in brackets in column 3 and the capital gain in column 5.

Line 4 – Bonds, debentures, promissory notes, and other similar properties

Use this section to report capital gains or losses when the trust sells these types of properties. The trust may receive Form T5008, *Statement of Securities Transactions*, or an account statement, showing details of the sale.

Also use this section to report capital gains or losses when the trust sells options. For information on disposing of options to sell or buy shares, see Interpretation Bulletin IT-96, *Options Granted by Corporations to Acquire Shares, Bonds, or Debentures and by Trusts to Acquire Trust Units*, and Interpretation Bulletin IT-479, *Transactions in Securities*, and its Special Release.

Line 5 – Real estate and depreciable property

Use this section if the trust sold real estate or depreciable property.

The trust cannot have a capital loss on the disposition of depreciable property. However, it can have a terminal loss under the capital cost allowance rules. For more information, see “Real estate, depreciable property and other properties” in Guide T4037, *Capital Gains*.

Line 6 – Personal-use property

Use this section if the trust disposed of property used primarily for the personal use or enjoyment of a beneficiary under the trust, or any person related to the beneficiary. Personal-use property includes personal residences,

cottages, automobiles, and other personal and household effects.

When you dispose of personal-use property, use the following rules to calculate the capital gain or loss:

- if the adjusted cost base (ACB) of the property is less than \$1,000, the ACB is considered to be \$1,000; and
- if the proceeds of disposition of the property are less than \$1,000, the proceeds are considered to be \$1,000.

If the trust disposed of personal-use property that has an ACB or proceeds of disposition of more than \$1,000, there may be a capital gain or loss. Report the capital gain on Schedule 1. If there is a capital loss, you usually cannot deduct the loss in the year. For more information, see “Personal-use property” in Guide T4037, *Capital Gains*.

Calculate the capital gain or loss using the actual ACB and proceeds of disposition if the trust, or a person with whom the trust does not deal at arm’s length, meets the following conditions:

- personal-use property, including listed personal property (LPP), was acquired after February 27, 2000;
- circumstances suggest that acquisition of the property relates to an arrangement, plan, or scheme promoted by another person or partnership; and
- the property will be donated to a qualified donee.

Principal residence

If a personal trust acquires a principal residence, it will usually be exempt from tax on any capital gain on the disposition or deemed disposition of that residence. To be exempt, the residence has to qualify **and** be designated by the trust as its principal residence. Usually a residence can be designated if a specified beneficiary, or that beneficiary’s spouse or common-law partner, former spouse or common-law partner, or child, lives in it. A specified beneficiary is one who had a beneficial interest in the trust, and who ordinarily lived, or has a spouse or common-law partner, former spouse or common-law partner, or child, who lived in the residence.

A personal trust can only designate one property as a principal residence. Also, the specified beneficiary cannot designate any other property as a principal residence. For more information, see Form T1079, *Designation of a Property as a Principal Residence by a Personal Trust*.

Make the trust’s designation on Form T1079. You have to file this form with the trust’s T3 return for the year in which the disposition or deemed disposition occurs.

When a personal trust’s principal residence is distributed to a beneficiary, the trust can elect to have a deemed disposition of the principal residence at its fair market value (FMV). Make this election on the trust’s return for the year of distribution. You can then apply the principal residence exemption to any gain on the trust’s deemed disposition. The beneficiary will acquire the property at its FMV.

For more information, see Form T1079 and Income Tax Folio S1-F3-C2, *Principal Residence*.

Lines 7 to 9 – Listed personal property

Use this section to report dispositions of listed personal property (LPP), including all or part of any interest in, or any right to, the following properties:

- prints, etchings, drawings, paintings, sculptures, or other similar works of art;
- jewellery;
- rare folios, rare manuscripts, and rare books;
- stamps; and
- coins.

Because an LPP is a type of personal-use property, the capital gain or loss on the sale of the LPP item, or set of items, is calculated the same way as for personal-use property. For more information, see “Line 6 – Personal-use property” on the previous page.

Line 10 – Information slips

Use this line to report the following amounts:

- capital gains from box 21 of a T3 slip;
- insurance segregated fund net capital losses from box 37 of a T3 slip;
- capital gains dividends from box 18 of a T5 slip;
- capital gains (or losses) from box 34 of a T4PS slip; and
- capital gains (or losses) from box 23 of a T5013 slip.

Note

If the T3 slip has an amount in box 42, use the amount to calculate the adjusted cost base of the property. Follow the instructions on the back of the T3 slip. Do this for every year you own the property. For more information, see Information Sheet RC4169, *Tax Treatment of Mutual Funds for Individuals*.

If a slip identifies amounts for “qualified small business corporation shares” or “qualified farm property or fishing property” in its footnote, details, or other information area, **do not** report these amounts on line 10. Enter them on line 1 or 2, whichever is applicable.

Line 12 – Capital losses from a reduction in business investment loss

Report a capital loss from a reduction in business investment loss on line 12. For more information, see “Reduction in business investment loss” on page 25.

Line 15 – Capital gains (losses) from reserves

If the trust sold capital property, but did not receive the full payment at the time of the sale, you can claim a reserve for the unpaid amount. Generally, the minimum amount of the trust’s capital gain you have to report each year is 20% of the taxable capital gain. If you claimed a reserve in 2013, you have to bring it back into the trust’s income in 2014. If any of the proceeds are to be paid after the end of the year, you may be able to claim a new reserve. If you are claiming a reserve on the trust’s return, you have to complete Schedule 2. For more information about reserves, see Guide T4037, *Capital Gains*.

Line 17 – Capital gains on gifts of certain capital property eligible for the 0% inclusion rate

Enter on this line the amount from line 3 of Schedule 1A. On line 18, enter the capital gains on gifts of capital property included in lines 1 and 2 of Schedule 1A, excluding amounts reported on line 17.

Line 19 – Total capital losses transferred under subsection 164(6)

Enter on this line the amount of capital losses you transferred under subsection 164(6) to the deceased person's final T1 return. For more information, see "164(6) election" on page 31.

Line 22 – Non-qualified investments for TFSA, RRSP, RRIF and RDSP trusts

Use this section if the funds in the tax-free savings account (TFSA) trust, registered retirement savings plan (RRSP), registered retirement income funds (RRIF), or registered disability savings plan (RDSP) trusts have been used to acquire non-qualified investments. In this case, the trust will be taxable on capital gains resulting from the disposition of those investments and they will be subject to a 100% inclusion rate.

Line 23 – Total taxable capital gains (or net capital losses)

Transfer the total taxable capital gains to line 01 of the trust's return. If the amount on this line is negative, and is not used to reduce your deemed dispositions on Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*, you have a net capital loss. **Do not** enter it on line 01 of the return. For more information, see "Form T3A, *Request for Loss Carryback by a Trust*" on page 28.

Note

If the amount on line 23 is a capital gain and you calculate a net capital loss on Form T1055, see the instructions on that form for a possible adjustment to line 23.

Capital gains deduction

When the beneficiary spouse or common-law partner dies, you may be able to reduce the trust's taxable capital gain. A post-1971 spousal or common-law partner trust can do this by claiming the unused portion of the beneficiary spouse's or common-law partner's capital gains deduction for capital gains reported from the disposition of:

- qualified small business corporation shares;
- qualified farm property; or
- qualified fishing property after May 1, 2006.

A pre-1972 spousal trust reporting a deemed disposition on the death of the beneficiary spouse can also claim the unused portion of the beneficiary spouse's capital gains deduction, but only if it did not make an election on Form T1015, *Election by a Trust to Defer the Deemed Realization Day*.

For 2001 and subsequent years, you generally only include 50% of the trust's taxable capital gains in its taxable income. The trust's cumulative capital gains deduction limit is \$250,000. For capital gains arising from the disposition of qualified property after March 18, 2007 and before 2014, the cumulative capital gains deduction limit is \$375,000.

The capital gains deduction limit is increased from \$375,000 to \$400,000 for dispositions in 2014, and will be indexed in 2015 and later years. For more information, see Guide T4037, *Capital Gains*.

Calculate the capital gains deduction on Schedule 5, and claim it on line 53 of the return. You will also have to complete Schedules 3 and 4.

Note

A joint spousal or common-law partner trust and an alter ego trust cannot claim a capital gains deduction.

Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*

Use Form T1055 to calculate the income, or the capital gain or loss, from deemed dispositions.

Deemed disposition

The trust is deemed to have disposed of its capital property (other than exempt property and certain excluded property), land inventory, and Canadian and foreign resource properties on specified dates called deemed disposition days. You have to report the resulting income, gains, or losses on the trust's return for the tax year in which the dispositions are considered to have occurred. For more information about the dates, see "Deemed disposition day" on this page.

In addition to the properties referred to above, if a post-1971 testamentary spousal or common-law partner trust holds an AgriInvest Fund 2 that was transferred to it on the death of the settlor, report a deemed payment out of the fund on the day the beneficiary spouse or common-law partner dies.

If, after a deemed disposition that was to be reported on Form T1055, the trust actually disposed of the property in the same tax year, use Schedule 1 to report the gain or loss from the actual disposition. If the trust is a post-1971 spousal or common-law partner trust, a joint spousal or common-law partner trust, or an alter ego trust, the gain or loss should instead be reported on Form T1055.

If a deemed disposition occurs, the trust is considered to have:

- disposed of its capital property (including depreciable property of a prescribed class), land inventory, and Canadian and foreign resource properties at the end of the deemed disposition day, at the fair market value (FMV); and
- reacquired them immediately after, at a cost equal to the same FMV.

For depreciable property, the trust has to report both capital gains and recapture of capital cost allowance.

Use Form T1055 to calculate:

- the adjustments to line 23 of Schedule 1;
- the amount of tax on which the trust can elect to defer payment; and
- the amount of taxable and deemed taxable capital gains to which you can apply the trust's net capital losses of other years.

Deemed disposition day

This is the day we consider the trust to have disposed of its capital property, land inventory, and Canadian and foreign resource properties.

Generally, it is one of the following:

- for a spousal or common-law partner trust, the day the beneficiary spouse or common-law partner died;
- for a joint spousal or common-law partner trust, the day the settlor or the beneficiary spouse or common-law partner died, whichever is later;
- for an alter ego trust, the day the settlor died, unless the trust filed an election not to be considered an alter ego trust (see the definition of alter ego trust in Chart 1 on page 9). If the trust has filed an election, the deemed disposition date will be 21 years after the day the trust was created;
- for a trust to which property was transferred by an individual (other than a trust) where the transfer did not result in a change in beneficial ownership of that property and no person (other than the individual) has any absolute or contingent right as a beneficiary under the trust, the day on which the individual died; or
- for other trusts, 21 years after the day the trust was created.

Subsequent deemed dispositions will occur every 21 years, on the anniversary of the day established above.

The following deemed disposition days will not result in another deemed disposition on the 21st anniversary of that deemed disposition day. Instead, the next deemed disposition for such trusts will occur 21 years after the day the trust was created or on the anniversary of a deemed disposition day otherwise established:

- where a trust distributes property after December 17, 1999, to a beneficiary in respect of the beneficiary's capital interest in the trust and it is reasonable to consider that the distribution was financed by a liability of the trust, and one of the reasons for incurring the liability was to avoid paying taxes because of the death of any individual, the day the property was distributed; or
- where an individual has transferred property (other than real property situated in Canada, Canadian resource property, or a timber resource property, property of a business carried on by the trust through a permanent establishment in Canada including capital property, eligible capital property, and property described in the inventory of the business, or certain pension or other similar rights or interests) after December 17, 1999, to a trust for the transferor's spouse or common-law partner,

and it is reasonable to conclude that the property was transferred knowing that the individual planned to emigrate from Canada, the day the individual ceases to be resident in Canada.

Exemption from Form T1055 deemed dispositions

The following trusts are **excluded** from the deemed dispositions reported on Form T1055:

- a specified trust (as described in Chart 1 on page 9);
- a unit trust; and
- a trust in which all interests have been permanently vested. This exception applies primarily to those commercial trusts (all trusts other than personal trusts) that do not qualify as unit trusts. This exception does not apply to:
 - a post 1971 spousal or common-law partner trust;
 - a joint spousal or common-law partner trust or an alter ego trust;
 - a trust to which property was transferred by an individual (other than a trust) where the transfer did not result in a change in beneficial ownership of that property and no person (other than the individual) has any absolute or contingent right as a beneficiary under the trust;
 - a trust that elects on its return not to apply this provision;
 - a trust resident in Canada that has non-resident beneficiaries, if the fair market value (FMV) of the non-resident beneficiaries' interests in the trust is more than 20% of the total FMV of all the interests in the trust;
 - a trust that distributed property after December 17, 1999, to a beneficiary in respect of the beneficiary's capital interest in the trust and it is reasonable to consider that the distribution was financed by a liability of the trust, and one of the reasons for incurring the liability was to avoid paying taxes because of the death of any individual; or
 - a trust under the terms of which, all or part of any person's interest is to be terminated with reference to a period of time otherwise than as a consequence of terms of the trust under which an interest in the trust is to be terminated as a result of a distribution to the person (or the person's estate) of property of the trust if the FMV of the property to be distributed is proportionate with the FMV of the person's interest immediately before the distribution.

Summary of Options Available for Deemed Dispositions Reported on Form T1055 (subject to the provisions of the will or trust document)				
Options	Post-1971 spousal or common-law partner trust	Pre-1972 spousal trust	Joint spousal or common-law partner and alter ego trust	Other trusts and spousal or common-law partner trusts 21 years after first deemed disposition
Gains or losses from the deemed dispositions taxed in the trust	yes	yes	yes	yes
Elect to defer tax (Form T2223)	yes	yes	yes	yes
Claim capital gains deduction in the year the beneficiary spouse or common-law partner dies (Schedule 5)	yes	yes (unless the trust previously filed Form T1015)	no	no
Designate capital gains (box 21 of the T3 slip)	no	yes	no	yes
Preferred beneficiary election	no – for the deemed disposition occurring on the death of the spouse or common-law partner yes – for subsequent dispositions	no – for the date the spouse died yes – for subsequent dispositions	no	yes

Form T2223, Election Under Subsection 159(6.1) of the Income Tax Act, by a Trust to Defer Payment of Income Tax

The trust can elect to pay its income tax arising from the deemed dispositions reported on Form T1055 in up to 10 annual instalments. Interest at the prescribed rate will apply. Use Form T2223 to make this election, and send it to your tax services office no later than the day the return is due for the tax year the deemed disposition occurs. For more information, call 1-800-959-8281.

Transfer of trust property to another trust

If one trust (Trust A) transfers capital property (other than excluded property), land inventory, or resource property to another trust (Trust B), the deemed disposition day for Trust B becomes the **earliest** of the following dates:

- Trust A's deemed disposition day that would have occurred if the transfer had not been made;
- Trust B's deemed disposition day that would have occurred if the transfer had not been made; or
- the day of the transfer if the original transfer to Trust A occurred on a rollover basis, for example, where Trust A is:
 - a spousal or common-law partner trust, and the beneficiary spouse or common-law partner is still alive at the time of the transfer;
 - a joint spousal or common-law partner trust, and the settlor or beneficiary spouse or common-law partner is still alive at the time of the transfer; or
 - an alter ego trust, and the settlor is still alive at the time of the transfer.

The last condition will not apply when the transfer is between two trusts of the same type. For example, from one alter ego trust to another alter ego trust.

Schedule 8 – Investment Income, Carrying Charges, and Gross-up Amount of Dividends Retained by the Trust ▲

Lines 1 to 3 – Dividends from taxable Canadian corporations

Attach a statement listing the actual amount of dividends the trust received from taxable Canadian corporations. In this statement, include actual and deemed taxable dividends. **Do not** include non-taxable dividends (see "Lines 7 to 12 – Other investment income" on this page), or capital gains dividends that you report on line 10 of Schedule 1. We consider dividends credited to the trust's account by a financial institution to have been received by the trust, even if the trust did not receive a T3 or T5 slip.

The gross-up amount of taxable dividends received from taxable Canadian corporations qualifies for the dividend tax credit. This may reduce the trust's tax payable. If the trust designated the taxable dividends to beneficiaries, the tax payable by the beneficiaries may be reduced.

The type of dividends the trust receives determines which dividend tax credit rate it will apply to the gross-up amount of the dividends. For **eligible dividends** received from qualifying taxable Canadian corporations, the rate is **15.0198%**.

For **dividends other than eligible dividends** received in 2014, the rate is **11.0169%**. For **dividends other than eligible dividends** received in 2013, the rate is **13.3333%**.

Use Schedule 8A for the calculation of the gross-up amount of dividends other than eligible dividends received in 2013 and retained or not designated by the trust. Enter the result of line 39 Schedule 8A on line 32 of Schedule 8.

Box 23 on a T3 slip and box 10 on a T5 slip show the actual amount of dividends other than eligible dividends. Enter these amounts on lines 1A for **dividends other than eligible dividends**, received in 2014 or 1B for **dividends other than eligible dividends**, received in 2013 of Schedule 8. Box 49 on a T3 slip and box 24 on a T5 slip show the actual amount of eligible dividends. Enter these amounts on line 2 of Schedule 8.

Lines 4 to 6 – Foreign investment income

Report investment income from foreign sources in Canadian dollars. Calculate how much to report by multiplying the foreign income by the exchange rate in effect on the day that the trust received the income. If the amount was paid at various times throughout the year, to get the applicable rate, go to www.cra.gc.ca/exchangerates, or call 1-800-959-8281. Report the full amount of the foreign income. **Do not** reduce it by the tax withheld by foreign authorities.

Lines 7 to 12 – Other investment income

Report bond interest, bank interest, mortgage interest, and other dividends (including dividends under a dividend rental arrangement). We consider interest and dividends credited to the trust's account by a financial institution to have been received by the trust.

Report interest on tax refunds received in the year on line 11.

Do not include the following:

- dividends the trust received from taxable Canadian corporations reported on lines 1A, 1B, and 2;
- capital gains dividends reported on line 10 of Schedule 1; and
- non-taxable dividends (see "Non-taxable dividends received by a trust" on this page).

For more information on the method of reporting interest and other investment income, see the *General Income Tax and Benefit Guide*, and Interpretation Bulletin IT-396, *Interest Income*.

Non-taxable dividends received by a trust

If the trust received a non-taxable dividend, **do not** include it in the trust's income. An example of a non-taxable dividend is a tax-free dividend that a Canadian private corporation pays from its capital dividend account.

Certain non-taxable dividends that the trust received, other than dividends paid out of the capital dividend account, may reduce the adjusted cost base of the shares on which the dividends were paid. Make this adjustment when calculating a capital gain or loss if the trust later disposes of the shares.

If the trust pays out non-taxable dividends to its beneficiaries, inform the beneficiaries that they should not include these dividends in income. You also have to file a

statement with the return containing the following information:

- the name of the payer corporation; and
- the names of the beneficiaries, and the amount of non-taxable dividends that each beneficiary received.

Lines 13 to 17 – Carrying charges and interest expenses

Carrying charges and interest expenses include:

- interest on money borrowed to earn investment income;
- fees for the management or safe custody of investments;
- accounting fees for recording investment income; and
- investment counsel fees.

Note

For tax years beginning after March 20, 2013, a deduction of an amount paid or payable in respect of the use of a safety deposit box of a financial institution will no longer be allowed. The change applies to all taxpayers, including corporations.

Do not include trustee fees paid by the trust or brokerage fees or commissions paid by the trust to buy or sell securities. If the trust paid these expenses to purchase a security, they are part of its cost. If the trust paid them to sell a security, claim them as "Outlays and expenses (from dispositions)" in column 4 of Schedule 1.

You can deduct interest expenses on a life insurance policy loan if the trust used the proceeds of the loan to earn income. If the trust elects to add the interest expense to the adjusted cost base of the policy, you cannot deduct it on line 21 of the return. If the trust is claiming interest paid on a policy loan during the year, the insurer has to complete Form T2210, *Verification of Policy Loan Interest by the Insurer*, no later than 90 days after the trust's tax year-end.

Lines 18 to 40 – Calculating the gross-up amount of dividends retained or not designated by the trust for the 2014 tax year

Use this section to calculate the gross-up amount of actual dividends from taxable Canadian corporations included on lines 1 and 2 that the trust retained.

The gross-up rate for **eligible dividends** received in the year is **38%** of the dividends received. This calculation is done on lines 18 to 24.

The gross-up rate for **dividends other than eligible dividends** received in 2014 is **18%**. This calculation is done on lines 25 to 31.

The gross-up rate for **dividends other than eligible dividends** received in 2013 is **25%**. This calculation is done on lines 33 to 39 of Schedule 8A and the total is reported on line 32 of Schedule 8.

The gross-up does not apply to taxable Canadian dividends received by the trust if they are allocated to a non-resident beneficiary.

If you have allocated dividends by including them in the amount on line 926 of Schedule 9, the dividends are not designated. **Do not** include them on line 19 or line 26.

Claim the carrying charges that relate to dividends on line 16 of Schedule 8.

Line 19 – Eligible dividends designated to beneficiaries

Enter the amount of net eligible dividends, after related expenses, that you designated to beneficiaries from line 949 of Schedule 9.

Line 21 – Eligible dividends allocated, but not designated, to non-resident beneficiaries

Enter the amount of net eligible dividends, after related expenses, included in Column 2, line 926 of Schedule 9. If the dividends have been allocated to non-resident beneficiaries on line 949, **do not** include them on line 21.

Line 24 – Gross-up amount of eligible dividends retained or not designated by the trust

Multiply the amount on line 22 by 38% to calculate the amount to enter on line 24. You have to apply the gross-up rate to actual eligible dividends that have been retained in the trust, other than those allocated but not designated to non-resident beneficiaries, before you deduct the related expenses.

Enter this amount in the calculation area for line 24 of Schedule 11.

Line 26 – Dividends other than eligible dividends designated to beneficiaries

Enter the amount of net dividends other than eligible dividends received in **2014**, after related expenses, that you designated to beneficiaries from line 923, Part A of Schedule 9. For dividends other than eligible dividends received in **2013**, see “Schedule 8A” on this page.

Line 28 – Dividends other than eligible dividends allocated, but not designated, to non-resident beneficiaries

Enter the amount of net dividends other than eligible dividends, after related expenses, included in Column 2, line 926, Part A of Schedule 9. If the dividends have been allocated to non-resident beneficiaries on line 923, **do not** include them on line 28. For dividends other than eligible dividends received in **2013**, see “Schedule 8A” on this page.

Line 31 – Gross-up amount of dividends other than eligible dividends received in 2014 and retained or not designated by the trust

Multiply the amount on line 29 by 18% for dividends other than eligible dividends received in **2014**, and enter the result on line 31. You have to apply the gross-up rate to actual dividends other than eligible dividends that have been retained in the trust, other than those allocated but not designated to non-resident beneficiaries, before you deduct the related expenses.

Enter this amount in the calculation area for line 25A of Schedule 11.

Line 32 – Gross-up amount of dividends other than eligible dividends received in 2013 and retained or not designated by the trust

Multiply the amount on line 37 of Schedule 8A by 25% for dividends other than eligible dividends received in **2013**, and enter the result on line 32. You have to apply the gross-up rate to actual dividends other than eligible dividends that have been retained in the trust, other than those allocated but not designated to non-resident beneficiaries, before you deduct the related expenses.

Enter this amount in the calculation area for line 25B of Schedule 11.

Line 40 – Total gross-up amount of dividends retained or not designated by the trust

Add the gross-up amount of both the eligible dividends and the dividends other than eligible dividends from lines 24, 31 and 32.

Enter the result on line 49 of the return and on line 19 of Schedule 12, if applicable.

For more information, see Interpretation Bulletin IT-524, *Trusts – Flow-Through of Taxable Dividends to a Beneficiary – After 1987*.

Schedule 8A – Calculation of the gross-up amount of dividends other than eligible dividends received in 2013 and retained or not designated by the trust ▲

Line 34 – Dividends other than eligible dividends designated to beneficiaries

Enter the amount of net dividends other than eligible dividends received in **2013**, after related expenses, that you designated to beneficiaries from line 952, Part A of Schedule 9.

Line 36 – Dividends other than eligible dividends allocated, but not designated, to non-resident beneficiaries

Enter the amount of net dividends other than eligible dividends, after related expenses, included in Column 2 line 926, Part A of Schedule 9. If the dividends have been allocated to non-resident beneficiaries on line 923, **do not** include them on line 36.

Line 37 – Gross-up amount of dividends other than eligible dividends received in 2013 and retained or not designated by the trust

Multiply the amount on line 37 of Schedule 8A by 25% for dividends other than eligible dividends received in **2013**, and enter the result on line 32 of Schedule 8. You have to apply the gross-up rate to actual dividends other than eligible dividends that have been retained in the trust, other

than those allocated but not designated to non-resident beneficiaries, before you deduct the related expenses.

Enter this amount in the calculation area for line 25B of Schedule 11.

Schedule 9 – Income Allocations and Designations to Beneficiaries ▲

Complete this schedule if the trust is allocating income to its beneficiaries. You also have to complete T3 slips and a T3 Summary if you are allocating income to resident beneficiaries, and NR4 slips and an NR4 Summary if you are allocating income to non-resident beneficiaries.

Allocations and designations ▲

Generally, you **allocate** income to the trust's beneficiaries according to the terms of the will or trust document. Depending on the type of income allocated, you may then **designate** all or part of the allocated amount. When you designate an amount to a beneficiary, the type of income keeps its identity. This may allow the beneficiary to take advantage of a deduction or credit that applies to that income (such as the capital gains deduction or the dividend tax credit).

We define “allocate, allocation” on page 6 and “designate, designation” on page 7.

You can choose to designate the following income amounts to a beneficiary:

- net taxable capital gains;
- certain lump-sum pension income;
- dividends from taxable Canadian corporations;
- foreign business income;
- foreign non-business income;
- pension income that qualifies for the pension income amount;
- pension income that qualifies for acquiring an eligible annuity for a minor beneficiary; and
- retiring allowances that qualify for a transfer to a registered pension plan (RPP) or a registered retirement savings plan (RRSP).

Note

An insurance segregated fund trust has to designate all of its capital gains and losses to its beneficiaries.

Use Part B of Schedule 9 to report designated amounts. This includes amounts such as foreign income tax paid, a retiring allowance qualifying for transfer to an RPP and an RRSP, a Part XII.2 tax credit, and other tax credits that flow through to the beneficiary.

Income allocated to a beneficiary that is not deductible should **not** be reported on Schedule 9.

For more information, see the following interpretation bulletins:

- IT-342, *Trusts – Income Payable to Beneficiaries*;

- IT-381, *Trusts – Capital Gains and Losses and the Flow-Through of Taxable Capital Gains to Beneficiaries*; and
- IT-524, *Trusts – Flow-Through of Taxable Dividends to a Beneficiary – After 1987*.

Split income of a minor beneficiary

If a trust (other than a communal organization or a mutual fund trust as described in Chart 1 on pages 10 and 11 respectively) allocates certain types of income to a beneficiary during the beneficiary's tax year and the beneficiary had not attained the age of 17 before the tax year, the beneficiary may have to pay a special tax.

The special tax applies to:

- taxable dividends allocated by the trust (other than dividends from shares of a class listed on a designated stock exchange and those of a mutual fund corporation);
- shareholder benefits allocated by the trust (other than from ownership of shares of a class listed on a designated stock exchange);
- income allocated by the trust that came from providing services or property to, or in support of, a business operated by:
 - a person who is related to the beneficiary at any time in the year;
 - a corporation that has a specified shareholder who is related to the beneficiary at any time in the year; or
 - a professional corporation that has a shareholder who is related to the beneficiary at any time in the year;

■ for 2014 and later years, income allocated by the trust from a business or the rental of property by a partnership or trust, if a person who is related to the beneficiary at any time in the year is actively engaged on a regular basis in the activity of the partnership or trust of earning that income; and

- deemed dividends that result from capital gains of a trust from the disposition of shares (other than shares of a class listed on a designated stock exchange or those of a mutual fund corporation) that are transferred to a person who is not at arm's length with the beneficiary.

This does not apply if:

- the income is from property inherited by the beneficiary and, during the year, he or she either studies full time in a post-secondary educational institution or qualifies for the disability amount;
- the income is from property the beneficiary inherits from a parent;
- the beneficiary was a non-resident of Canada at any time in the year; or
- neither of the beneficiary's parents lived in Canada at any time in the year.

Note

The split income rules do not apply to property that has to be included in the transferor's income.

How to report split income

If the trust is allocating “split income” to a beneficiary, you have to inform the beneficiary that he or she may have to pay the special tax. Follow the instructions for completing Schedule 9 on page 41 and the T3 slip on page 58. Attach a statement to the T3 slip showing the type and amount of the beneficiary’s share of the split income. Advise the beneficiary in writing that he or she must complete Form T1206, *Tax on Split Income*.

Transfers and loans of property

Special rules may apply to amounts from a property that, under certain conditions, is held by the trust or is transferred or loaned to the trust. We refer to a person who has loaned or transferred property as the “transferor.”

A transferor, who is alive and resident in Canada, may lend or transfer property to the trust for the benefit of:

- the transferor’s spouse or common-law partner, or a person who has since become the transferor’s spouse or common-law partner; or
- the transferor’s **related minor** (such as a child, grandchild, sister, brother, niece, or nephew under 18 years of age at the end of the year).

In either case, any income or loss from that property may have to be reported on the transferor’s return.

Note

The transferor does not have to report the income of the trust if the related minor turns 18 years of age before the end of the year.

The transferor may also have to report taxable capital gains or allowable capital losses from the disposition of property loaned or transferred to a trust for the benefit of the transferor’s spouse or common-law partner, or a person who has since become the transferor’s spouse or common-law partner.

The property may have been sold to the trust at its fair market value, or loaned to the trust at a prescribed rate of interest, which was paid within 30 days of the tax year-end. If this is the case, any income or loss, or any taxable capital gain or allowable capital loss, from that property is generally income of the trust. For this income, issue the T3 slip to the beneficiary, **not** to the transferor.

An individual can receive a low-interest or interest-free loan from a trust to which another individual transfers property. If the two individuals do not deal at arm’s length, you will normally be required to report the income from that loaned property or any property substituted for it on the trust’s return. This is not the case if the income is attributable to another individual. This also applies to an arm’s length commercial loan that the individual uses to repay the original low-interest or interest-free loan.

If the trust’s terms are such that the transferred property may revert to the transferor, or if the transferor keeps a certain degree of control over the property, see “Exceptions and limits to income allocations” on this page.

If the income from loaned or transferred property is to be included on the transferor’s return, you generally have to

report it on the trust’s return. Issue a T3 slip reporting the income as that of the transferor.

For more information about transfers and loans of property, see Guide T4037, *Capital Gains*, and the following interpretation bulletins:

- IT-286 *Trusts – Amount Payable*;
- IT-369 *Attribution of Trust Income to Settlor*, and its Special Release;
- IT-510 *Transfers and Loans of Property Made After May 22, 1985 to a Related Minor*; and
- IT-511 *Interspousal and Certain Other Transfers and Loans of Property*.

Exceptions and limits to income allocations

Generally, trust income is allocated to beneficiaries, or taxed in the trust, according to the provisions of the will or trust document, with the following exceptions and limits:

- A post-1971 spousal or common-law partner trust (other than one created before December 21, 1991), joint spousal or common-law partner trust, or alter ego trust cannot deduct amounts payable in a tax year to anyone except:
 - for a trust that was a post-1971 spousal or common-law partner trust on December 20, 1991, or a spousal or common-law partner trust created after December 20, 1991, the beneficiary spouse or common-law partner, while the beneficiary spouse or common-law partner is alive;
 - for a joint spousal or common-law partner trust, the settlor or the beneficiary spouse or common-law partner while either one of them is alive; or
 - for an alter ego trust, the settlor while the settlor is alive.
- A post-1971 spousal or common-law partner trust, joint spousal or common-law partner trust, or alter ego trust cannot deduct the allocation of any income realized from deemed dispositions of capital property, land inventory of the trust’s business, and Canadian and foreign resource property that arose on the death of:
 - for a post-1971 spousal or common-law partner trust, the beneficiary spouse or common-law partner;
 - for a joint spousal or common-law partner trust, the settlor or the beneficiary spouse or common-law partner, whichever is later;
 - for an alter ego trust, or a trust to which property was transferred by an individual (other than a trust) where the transfer did not result in a change in beneficial ownership of that property and no person (other than the individual) has any absolute or contingent right as a beneficiary under the trust, the day on which the death of the individual occurs; or
 - for the deemed payment from an AgriInvest Fund 2, the beneficiary spouse or common-law partner.

- The trust cannot deduct income from payments out of an AgriInvest Fund 2 unless:
 - the trust is a testamentary spousal or common-law partner trust and this income was received while the beneficiary spouse or common-law partner was alive; or
 - the trust is a communal organization.
- Under subsection 75(2) of the Act, certain inter vivos trusts resident in Canada and which were created after 1934 may have property (or property substituted for it) that:
 - may revert to the contributor;
 - may be distributed to beneficiaries determined by the contributor at a time after the trust was created; or
 - may only be disposed of with the consent of, or at the direction of, the contributor while the contributor is alive or exists.

Certain related amounts, including taxable capital gains and allowable capital losses from that property or the substituted property, are considered to belong to the contributor during the contributor's life or existence while a resident of Canada. The trust must still report the amount on the trust's T3 return and issue a T3 slip reporting the amount as that of the contributor of the property. For more information, see Interpretation Bulletin IT-369, *Attribution of Trust Income to Settlor*, and its Special Release.

The existing trust attribution rule only applies in respect of property held by a trust that is factually resident in Canada. For tax years ending after March 20, 2013, where conditions similar to those in subsection 75(2) apply to a non-resident trust, the trust will be deemed to be resident in Canada. Refer to the description of deemed resident trust in Chart 1 on page 10.

- A trust cannot allocate capital losses and non-capital losses to beneficiaries of a trust except:
 - capital losses, if it is an insurance-related segregated fund trust; and
 - losses of revocable trusts and from blind trusts. Report these losses in brackets in the appropriate box on a separate T3 slip for the beneficiary. Clearly indicate the type of loss in the footnote area below box 26 on the T3 slip.
- We consider income that was not paid or payable to a beneficiary to be allocated (as defined on page 6) to a beneficiary if he or she has a vested right to its income, and:
 - the trust is resident in Canada throughout the year;
 - the beneficiary is under 21 years of age at the end of the year; and
 - the beneficiary's right to income is vested by the end of the year, it did not become vested due to the exercise or non-exercise of a discretionary power by any person, and it is not subject to any future condition other than the condition that the beneficiary survive to an age of not more than 40 years.

- The amount of income that can be allocated to a beneficiary may be limited if:
 - a beneficiary's share of the income of the trust is less than his or her capital interest in the trust; or
 - the beneficiary is a designated beneficiary as described on page 49 and the trust was not resident in Canada throughout the tax year.
- When a trust resident in Canada distributes property to a beneficiary and the trust realizes a capital gain, the trust can elect to treat the income as taxable in the trust. That is, the taxable capital gain will not be considered payable to the beneficiary if:
 - the trust was resident in Canada when it distributed the property; and
 - the trust filed an election with its T3 return for the year, or a preceding tax year, in which the property was distributed.

The election can be made for distributions to all beneficiaries or only for distributions to non-resident beneficiaries. The trust may have filed such an election in the current year or any preceding year. If this is the case, calculate the trust's income available for allocation to a beneficiary without taking into consideration any gains realized on the distribution of property to beneficiaries covered by the election while the trust was resident in Canada.

- For tax years beginning after 2002, a deemed resident trust is limited in the amounts that it can allocate to non-resident beneficiaries. For more information, contact the International and Ottawa Tax Services Office at one of the numbers listed on page 18.
- For tax years that end after March 4, 2010, a resident contributor to a deemed resident trust may elect to include in computing their income, a portion of the income earned by the trust. Generally, this portion is equal to the amount of the resident contributor's contribution to the trust as a percentage of all contributions made by all resident and connected contributors. The amount included in the electing contributor's income will be deemed to be income from property from a source in Canada, unless the amount is designated by the trust under paragraph 94(16)(c).

A valid election must be filed in writing, on or before the contributor's filing due date for the first tax year for which the election is to take effect. A valid election must also include the trust's Canadian tax account number, and proof that the contributor has notified the trust of the contributor's intention to become an electing contributor no later than 30-days after the trust's tax year that ends in the initial year. This is an irrevocable election. Once a resident contributor has chosen to become an electing contributor, they will continue to be an electing contributor for all subsequent tax years.

The trust may deduct, from its income for the tax year, an amount equal to the amount included in calculating the electing contributor's income as a result of this election. The trust must still report the amount on the trust's T3 return and issue a T3 slip reporting the amount as that of the electing contributor of the property. For more

information, contact the International and Ottawa Tax Services Office at one of the numbers listed on page 18.

Income to be taxed in the trust ▲

You can choose to report income on the trust return, rather than report it in the hands of the beneficiaries, as long as the trust is:

- resident in Canada throughout the year;
- not exempt from tax; and
- not a specified trust (as defined in Chart 1 on page 9).

This applies to income paid or payable to beneficiaries.

You make this choice by indicating on line 472 of the return for the year that you are making a **designation under subsection 104(13.1)**. Once you make this choice, you cannot deduct on line 47 the income designated in the election. An example of when you might use this designation is in a year when a trust has taxable income and a non-capital loss carryforward.

Once you make the choice, you have to make it for each beneficiary. It reduces a beneficiary's income from the trust by that beneficiary's proportionate share of the income reported on the trust's return. We show you how to calculate the proportionate share in the following section.

You can make a similar **designation under subsection 104(13.2)** if taxable capital gains are included in the income reported on the trust's return. This will reduce the beneficiary's taxable capital gains from the trust by that beneficiary's proportionate share of taxable capital gains reported on the trust's return.

An example of when you might want to make the subsection 104(13.2) designation is when you are able to use the trust's non-capital loss or net capital loss carryforward to absorb the current-year taxable capital gain.

Generally, amounts designated under subsections 104(13.1) and 104(13.2) will reduce the adjusted cost base of a beneficiary's capital interest in the trust unless the interest was acquired for no consideration and the trust is a personal trust.

If you choose to designate any portion of the beneficiary's income to be reported on the trust return:

- enter the amount on line 472 of the return; and
- attach a statement to the return showing the income you are designating and the amounts you are designating for each beneficiary.

For more information, see Interpretation Bulletin IT-342, *Trusts – Income Payable to Beneficiaries*, and Interpretation Bulletin IT-381, *Trusts – Capital Gains and Losses and the Flow-Through of Taxable Capital Gains to Beneficiaries*.

Proportionate share formulas

Use the following formulas to calculate designations under subsections 104(13.1) and 104(13.2). You have to apply these formulas to each beneficiary. A trust cannot use these designations to tax one beneficiary's share in the trust and allocate another share to a beneficiary unless the trust

agreement entitles one beneficiary to the trust's income and another beneficiary to the trust's capital.

Subsection 104(13.1)

$$A \div B \times C$$

where:

A = beneficiary's share of trust income (calculated without reference to the Act)

B = total of amount A for all beneficiaries

C = trust income designated under subsection 104(13.1)

Subsection 104(13.2)

$$A \div B \times C$$

where:

A = beneficiary's share of the taxable capital gains of the trust calculated under the Act

B = total of amount A for all beneficiaries

C = net taxable capital gains designated under subsection 104(13.2)

Example

A trust's income is \$9,000: investment income of \$6,000 and taxable capital gains of \$3,000. Both are shared equally between the trust's two beneficiaries, Josh and Ashley. The trust has \$6,000 in losses from prior years to apply: a non-capital loss of \$5,000 and a net capital loss of \$1,000. Therefore, the trustee decides to report \$6,000 of income on the trust return by designating \$5,000 under subsection 104(13.1) and \$1,000 of taxable capital gains under subsection 104(13.2), against which the losses are applied.

Determine the amount designated under subsection 104(13.1) for Josh as follows:

$$A \div B \times C$$

$$\$3,000 \div \$6,000 \times \$5,000 = \$2,500$$

Therefore, the amount designated for Josh is \$2,500. Because Ashley shares equally, her calculation is the same.

Determine the amount designated under subsection 104(13.2) for Josh as follows:

$$A \div B \times C$$

$$\$1,500 \div \$3,000 \times \$1,000 = \$500$$

Therefore, the amount designated for Josh is \$500. Because Ashley shares equally, her calculation is the same.

Preferred beneficiary election

A trust and a preferred beneficiary can jointly elect, in the year, to include in a preferred beneficiary's income for that year, all or part of the trust's accumulating income for the year. You can deduct the elected amount from the trust's income, up to the amount of the accumulating income. The elected amount for a preferred beneficiary must not be more than the allocable amount of the trust's total accumulating income. We define "preferred beneficiary" on page 7.

The preferred beneficiary election cannot be made by the trusts listed under “Exemption from Form T1055 deemed dispositions” on page 36.

For the trusts listed below, you can only make the election:

- for a spousal or common-law partner trust, in respect of the beneficiary spouse or common-law partner while the beneficiary spouse or common-law partner is alive;
- for a joint spousal or common-law partner trust, in respect of the settlor or the beneficiary spouse or common-law partner while either of them is alive; and
- for an alter ego trust, in respect of the settlor while the settlor is still alive.

A trust’s accumulating income for the year is generally its income for the year after deductions, but without regard to amounts allocated under preferred beneficiary elections.

Accumulating income **does not** include the income from the deemed disposition of capital property, land inventory, or resource property on the death of:

- the beneficiary spouse or common-law partner, for a spousal or common-law partner trust;
- the settlor or the beneficiary spouse or common-law partner, whichever is later, for a joint spousal or common-law partner trust; and
- the settlor, for an alter ego trust.

Accumulating income also **does not** include income arising from the deemed disposition of property to a beneficiary that results in a disposition of all or part of the beneficiary’s capital interest in the trust, when the property is distributed to a beneficiary other than:

- the beneficiary spouse or common-law partner for a post-1971 spousal or common-law partner trust if the beneficiary spouse or common-law partner is alive;
- the settlor or the beneficiary spouse or common-law partner, for a joint spousal or common-law partner trust if either of them is alive; and
- the settlor, for an alter ego trust, if the settlor is alive.

Accumulating income of a trust **does not** include amounts paid or deemed to have been paid from an AgriInvest Fund 2. However, a preferred beneficiary election can include these amounts paid to a testamentary spousal or common-law partner trust while the beneficiary spouse or common-law partner was still alive.

Note

Accumulating income is calculated as if you have deducted the maximum amount of income that became payable in the year to the beneficiaries.

You can make a preferred beneficiary election for a tax year by filing the following:

- a statement making the election for the year, stating the part of the accumulating income on which you are making the election, and signed by both the preferred beneficiary (or guardian) and the trustee with the authority to make the election; and

- a statement signed by the trustee showing the calculation of the amount of the beneficiary’s share of the accumulating income, and indicating the beneficiary’s social insurance number, his or her relationship to the settlor of the trust, and whether:

- the beneficiary is claiming a disability amount;
- a supporting individual is claiming a disability amount for that beneficiary (if **yes**, provide the name, address, and social insurance number of the supporting individual); or
- the beneficiary is 18 years of age or older, and in the beneficiary’s tax year that ends in the trust’s tax year, another individual can claim an amount for an infirm dependant age 18 or older for that beneficiary, or could claim the amount if the beneficiary’s income is calculated before including the income from the preferred beneficiary election. If this is the case, provide a statement from the medical practitioner confirming the beneficiary’s impairment in the first year the claim is made.

File the election with the return or separately, no later than 90 days after the end of the trust’s tax year for which the election was made. For a preferred beneficiary election to be valid, you have to file it on time. If you file the election late, we will tax the accumulating income in the trust. For more information regarding late-filed or amended elections, see “Elections” on page 19.

If you are making a preferred beneficiary election, see Interpretation Bulletin IT-394, *Preferred Beneficiary Election*.

How to complete Schedule 9 ▲

Report allocated income using the columns provided:

Column 1 – income paid or payable to **resident** beneficiaries;

Column 2 – income paid or payable to **non-resident** beneficiaries; and

Column 3 – income allocated by a **preferred beneficiary election**.

For more information, see the appropriate column heading in the following sections. Any amounts allocated to a beneficiary on lines 921 to 926 and on line 949 are generally deducted from the trust’s income.

Before allocating income to the beneficiaries, you must first take into consideration the trust’s expenses. If the trust claimed expenses on line 41 of the return, deduct them from the specific source of income to which the expense relates. If the expense relates to more than one source of income, you must divide it between the applicable sources of income. The trust can then allocate the remaining income to the beneficiaries.

Column 1 – Resident ▲

Include in this column, allocations and designations of income paid or payable to resident beneficiaries. If the income is allocated, but no amounts are designated, enter the total amount on line 926. If you are designating the income, enter the amounts on the appropriate lines. In

addition, use Part B for other amounts you are designating to the beneficiaries.

For more information, see:

- “Allocations and designations” on page 41;
- Interpretation Bulletin IT-286, *Trusts – Amount Payable*; and
- Interpretation Bulletin IT-342, *Trusts – Income Payable to Beneficiaries*.

Column 2 – Non-resident ▲

Include in this column, allocations and designations of income paid or payable to non-resident beneficiaries. If the income is allocated, but no amounts are designated, enter the total amount on line 926. Report the total of the amounts in column 2 as estate or trust income on an NR4 slip, not on a T3 slip.

Most amounts paid or payable to non-resident beneficiaries are subject to a Part XIII withholding tax. For more information, see “Part B – Calculating Part XIII non-resident withholding tax” on page 50. Enter the total of column 2 on line 15 of Schedule 10.

If you allocate certain income to non-resident beneficiaries, the trust may also be subject to Part XII.2 tax. When allocating such income, include the full amount before deducting Part XII.2 tax. For more information, see “Schedule 10 – Part XII.2 Tax and Part XIII Non-Resident Withholding Tax” on page 49.

Column 3 – By preferred beneficiary election ▲

A trust and a preferred beneficiary can jointly elect to have the trust’s accumulating income taxed in the hands of the preferred beneficiary. Use column 3 to allocate and designate the elected accumulating income. Complete a separate T3 slip for this income.

You can designate the following types of income under a preferred beneficiary election:

- taxable capital gains (line 921);
- actual amount of dividends from taxable Canadian corporations, both eligible dividends (line 949) and dividends other than eligible dividends (line 923);
- foreign business income (line 924); and
- foreign non-business income (line 925).

You have to make the designations on the trust’s return for the year in which you include the relevant amounts in the trust’s income. If the income is allocated but no amounts are designated, enter the total amount on line 926. If you are designating the income, enter the amounts on the appropriate lines. In addition, use Part B for other amounts you are designating to the beneficiaries.

Part A – Total income allocations and designations to beneficiaries

Lines 921 to 952 ▲

Answer all four questions, and attach any necessary statements. For information about income attributed to the transferor, see “Transfers and loans of property” on page 42.

Line 921 – Taxable capital gains ▲

You can allocate all or part of a Canadian resident trust’s net taxable capital gains to a beneficiary. If you designate this amount, we consider it to be the beneficiary’s taxable capital gain.

A trust’s **net taxable capital gain** is the amount by which the total of the trust’s taxable capital gains for a tax year (which includes, amounts that are deemed to be taxable capital gains to the trust for the year), is **more** than the total of:

- the trust’s allowable capital losses for the tax year (except, allowable business investment losses); and
- net capital losses of other years deducted in calculating the trust’s taxable income for the tax year.

When calculating the maximum net taxable capital gains available for designation in the current year, you have to reduce the net taxable capital gains (as calculated above) by:

- any expenses the trust incurred to earn income included on line 01 of the return; and
- amounts designated under subsection 104(13.2) to be taxed in the trust, other than amounts for which a deduction has been claimed on line 52. For more information, see “Income to be taxed in the trust” on page 44.

Note

If the amount on line 01 includes any deemed taxable capital gains (including gifts of capital property), call **1-800-959-8281** for more information.

You have to include the following in the amounts you enter on line 921:

- capital gains distributions designated as payable by a mutual fund trust to a non-resident beneficiary; and
- net taxable capital gains allocated by a trust governed by an employee benefit plan.

If you complete line 921 and you are allocating capital gains eligible for the capital gains deduction, you also have to complete lines 929 and 930. The only taxable capital gains eligible for this deduction are from the disposition of qualified farm property or fishing property made after May 1, 2006, and qualified small business corporation shares.

Line 922 – Lump-sum pension income ▲

In a year throughout which a testamentary trust was a resident of Canada, it can designate, to a beneficiary:

- certain pension income;

- superannuation benefits; and
- amounts received from a deferred profit sharing plan.

Complete Schedule 7, *Pension Income Allocations and Designations*. Enter on line 922, those amounts from Schedule 7 that qualify for a transfer to a registered pension plan or a registered retirement savings plan.

Line 923 – Actual amount of dividends other than eligible dividends received in 2014 ▲

Enter on this line the trust's actual amount of dividends other than eligible dividends designated to beneficiaries of the trust in the year.

Line 924 – Foreign business income ▲

Enter on line 924 the trust's foreign business income designated to the beneficiaries in the year.

Line 925 – Foreign non-business income

Enter all foreign non-business income designated to beneficiaries. This may include income from a foreign pension or interest from foreign sources.

Line 926 – Other income ▲

Enter on this line all income allocated to beneficiaries that is not shown on lines 921 to 925. This includes business, farming, fishing, or rental income, interest or pension income (other than from foreign sources and lump-sum pension income included on line 922), death benefits, retiring allowances, and dividends under a dividend rental arrangement. Include the amount of any taxable benefits to resident beneficiaries under the trust, unless the amounts are included on lines 921 or 923.

Note

The total of the taxable benefits included on lines 921, 923, and 926 should be the same as the total taxable benefits reported on line 45 of the T3 return.

A testamentary trust may be able to designate, in a year throughout which it was a resident in Canada, a lump-sum payment out of a registered pension plan to a beneficiary to acquire an annuity. Include these amounts from Schedule 7, *Pension Income Allocations and Designations*, on line 926. Show on line 946 the amount that qualifies for a transfer.

Line 928 – Totals ▲

The total of lines 921 to 926, plus lines 949 and 952 is the income allocated to the beneficiaries. The amount cannot be more than "Income before allocations" on line 46 of the return.

Line 949 – Actual amount of eligible dividends ▲

Enter the actual amount of net eligible dividends, after related expenses, designated to beneficiaries in the year.

Line 952 – Actual amount of dividends other than eligible dividends received in 2013 ▲

Enter on this line the trust's actual amount of dividends other than eligible dividends designated to beneficiaries of the trust in the previous year.

**Part B – Summary of other amounts designated to beneficiaries
Lines 930 to 954 ▲**

Complete this area only when there are designations, such as dividends from taxable Canadian corporations, foreign taxes paid for credit purposes, and pension income or retiring allowances qualifying for a transfer.

Line 930 – Taxable capital gains eligible for deduction

A personal trust that makes a designation on line 921 and has eligible taxable capital gains, also has to designate a portion of the trust's eligible taxable capital gains to the beneficiary for the beneficiary's capital gains deduction.

Calculate the trust's eligible taxable capital gains on Schedule 3. Enter on line 930, the **lesser** of the following amounts:

- the amount on line 921; or
- the amount on line 34 of Schedule 3 **minus** the amount of business income allocated at line 926 from the disposition of eligible capital property that is qualified farm property or fishing property eligible for the capital gains deduction.

Line 931 – Qualifying pension income ▲

Enter those amounts from Schedule 7, *Pension Income Allocations and Designations*, that qualify for the pension income amount. You can make this designation only if the beneficiary was the spouse or common-law partner of the deceased, and if the trust received the benefits of a life annuity from a superannuation or pension plan.

Line 932 – Taxable amount of dividends other than eligible dividends received in 2014 ▲

If you are designating dividends other than eligible dividends to a beneficiary who is either an individual or a trust (other than a registered charity), enter the result of the amount from line 923 multiplied by 1.18.

Line 933 – Foreign business income tax paid

Enter the trust's foreign business income tax paid and designated to the beneficiaries of the trust in the year on line 933.

Line 934 – Foreign non-business income tax paid

If you are designating a foreign tax credit to a beneficiary, you have to submit an official receipt or information slip from the foreign country. This is necessary to support the claim that the trust paid foreign non-business income tax, or that it was withheld from foreign non-business income the trust earned.

The portion of foreign taxes you designate to a beneficiary has to be in proportion to the foreign income you designate to that beneficiary. You have to convert any foreign taxes paid in foreign currency to Canadian funds.

For more information, see Income Tax Folio S5-F2-C1, *Foreign Tax Credit*, Interpretation Bulletin IT-201, *Foreign Tax Credit – Trusts and Beneficiaries*, and see “Line 34 – Federal foreign tax credit” on page 53.

Line 935 – Eligible death benefits ▲

A testamentary trust may receive a payment as a result of the employee’s death to recognize the employee’s service in an office or employment. Such a payment is usually from the deceased person’s employer or from a trust fund the employer established. This payment may qualify as a **death benefit**, and the trust may be able to exclude up to \$10,000 of the amount from income.

If you allocate the total death benefit to a single beneficiary according to the provisions of the will, the beneficiary may be able to exclude up to \$10,000 of the payment from income. Enter on line 935, the amount from line 926 eligible for this exclusion.

If you allocate the total death benefit to more than one beneficiary, apportion the amount eligible for this exclusion among those beneficiaries. The total eligible amount apportioned cannot exceed \$10,000. The beneficiaries can use this information to calculate the taxable portion that they have to report on their T1 returns.

If you exclude the eligible death benefit from the trust’s income, only the taxable portion flows out to the beneficiary. Report only the taxable portion of the death benefit on line 19 of the T3 return. For more information, see “Line 19 – Other income” on page 24.

Line 937 – Insurance segregated fund net capital losses

Enter the designated portion of net capital losses from the disposition of property by an insurance segregated fund.

Line 938 – Part XII.2 tax credit

Calculate the amount for line 14 of Schedule 10, and enter it here. Generally, you can designate the Part XII.2 tax credit only to those resident beneficiaries to whom you allocated income in column 1 of line 928, Schedule 9.

Line 939 – Dividend tax credit for dividends other than eligible dividends received in 2014 ▲

Enter the result of the amount from line 932 multiplied by 11.0169%.

Lines 940 and 941 – Investment tax credit (ITC)

Only testamentary trusts and communal organizations that are deemed to be inter vivos trusts can designate an ITC to their beneficiaries.

Complete Part A of Form T2038(IND), *Investment Tax Credit (Individuals)*, to calculate the amount of the investment cost or expenditure and the ITC available. You will need the

eligible amounts the trust invested to acquire property and the eligible expenditures for this part of the form.

You have to reduce the trust’s ITC by any amount allocated to beneficiaries.

Enter the beneficiaries’ share of the trust’s investment cost or expenditures on line 940. You need this amount to determine the amount of the ITC you can designate to each beneficiary.

Enter on line 941, the amount of the trust’s ITC from Form T2038(IND) that you designated to a beneficiary and did not deduct on line 37 of the trust’s Schedule 11.

Line 942 – Amount resulting in cost base adjustment

Enter the amount by which the cost base of a beneficiary’s interest in the trust may be reduced or increased.

Note

If you issued new units to a beneficiary in satisfaction of a distribution of income, **do not** include that amount here. Instead, advise the beneficiary that you have issued these units, as well as the number of units and their value.

Line 945 – Other credits

Research and development tax credit

This credit is available to a trust resident in Newfoundland and Labrador, or Yukon. Enter the amount of this credit that you designated to a beneficiary and did not deduct on page 4 of the return. For more information, see “Line 91 – Other credits” on page 29.

Line 946 – Pension income qualifying for an eligible annuity for a minor ▲

Enter those amounts from Column D of Schedule 7, *Pension Income Allocations and Designations*, that qualify for an eligible annuity for a minor on line 946.

Line 947 – Retiring allowance qualifying for transfer to an RPP or an RRSP

Enter any retiring allowance eligible for a transfer to an RPP or an RRSP on line 947.

Line 948 – Eligible amount of charitable donations

Enter charitable donations designated to the beneficiaries of a communal organization on line 948.

Line 950 – Taxable amount of eligible dividends ▲

If you are designating eligible dividends to a beneficiary who is either an individual or a trust (other than a registered charity), enter the result of the amount from line 949 multiplied by 1.38.

Line 951 – Dividend tax credit for eligible dividends ▲

Enter the result of the amount from line 950 multiplied by 15.0198%.

Line 953 – Taxable amount of dividends other than eligible dividends received in 2013 ▲

If you are designating dividends other than eligible dividends to a beneficiary who is either an individual or a trust (other than a registered charity), enter the result of the amount from line 952 multiplied by 1.25

Line 954 – Dividend tax credit for dividends other than eligible dividends received in 2013 ▲

Enter the result of the amount from line 953 multiplied by 13.3333%.

Schedule 10 – Part XII.2 Tax and Part XIII Non-Resident Withholding Tax

Complete Schedule 10 if the trust is allocating income to designated beneficiaries where the trust has specified income (see the next section for details). The total of Part XII.2 and Part XIII tax is approximately equal to the Part I tax, plus provincial or territorial taxes, that would apply to the income if the beneficiaries were resident in Canada.

Tax tip

If the trust is a non-resident trust with investments in Canadian mutual funds, it may have paid Part XIII.2 tax during the tax year. The trust may be eligible to claim a refund of this tax. The trust may also qualify if it realized a Canadian mutual fund loss during the tax year. If this applies to you, see Form T1262, *Part XIII.2 Tax Return for Non-Resident's Investments in Canadian Mutual Funds*.

Part A – Calculating Part XII.2 tax and the refundable Part XII.2 tax credit Lines 1 to 14

Pay any Part XII.2 tax no later than 90 days after the trust's tax year-end.

Part XII.2 tax **applies** when a trust:

- has specified income as described on the next page;
- has a designated beneficiary as described on the next page; and
- allocates or designates any of its income.

Part XII.2 tax **does not** apply to a trust that was one of the following throughout the year:

- a testamentary trust;
- a mutual fund trust;
- a specified trust (as defined in Chart 1 on page 9), unless the trust is a related segregated fund trust, a retirement compensation arrangement trust, a trust whose direct beneficiaries are specified trusts, a trust governed by an eligible funeral arrangement, a cemetery care trust and, in certain circumstances, an amateur athlete trust;

- a trust that was exempt from Part I tax under subsection 149(1);
- a non-resident trust; or
- for tax years ending after 2002, a deemed resident trust.

Specified income

Specified income of a trust generally means its taxable capital gains or allowable capital losses from the disposition of taxable Canadian property, certain property transferred to a trust in contemplation of a person beneficially interested in the trust ceasing to be resident in Canada, **and** the total income (or loss) from the following sources:

- businesses carried on in Canada;
- real properties located in Canada, such as land or buildings;
- timber resource properties; and
- Canadian resource properties the trust acquired after 1971.

Note

Although the term **designated income** is used in Part XII.2 of the Act, we use specified income in this guide and on Schedule 10 to avoid confusion with the term "designated income" used in other parts of this guide.

Designated beneficiary

Subject to the exclusions listed below, a designated beneficiary for the purpose of Part XII.2 tax includes:

- a non-resident person or a non-resident owned investment corporation;
- an entity that is exempt from Part I tax under subsection 149(1), if the interest was ever previously held by a taxable entity;
- a trust if any of its beneficiaries is either a trust or a designated beneficiary; or
- a partnership if any of its members is either a partnership or would be a designated beneficiary if that member held an interest in a trust.

A designated beneficiary **does not** include:

- a mutual fund trust resident in Canada;
- a testamentary trust resident in Canada;
- an RRSP or RRIF that acquired its interest directly or indirectly from its beneficiary, the beneficiary's spouse or common-law partner, or former spouse or common-law partner;
- an entity that is exempt from Part I tax if its interest in the trust has been owned continuously since October 1, 1987, or the date on which the trust was created, by one or more entities that are exempt from Part I tax under subsection 149(1);
- a partnership, which would otherwise be a designated beneficiary, where no members of the partnership are designated beneficiaries and the partnership's interest

in the trust has never been held by anyone other than the partnership or an entity that is exempt from Part I tax under subsection 149(1); or

- a trust, the beneficiaries of which are all either trusts that have no designated beneficiaries, or persons who are not designated beneficiaries.

A designated beneficiary is usually not entitled to the refundable tax credit for Part XII.2 tax that the trust paid. This means that you will generally not complete box 38 on the T3 slip for a designated beneficiary who is a Canadian resident. Also, before you calculate Part XIII non-resident withholding tax, you have to reduce the income payable to a non-resident beneficiary by the non-resident's share of the Part XII.2 tax. For more information, see "Line 13 – (Adjustment for Part XIII tax purposes)" on this page.

Eligible beneficiary

This term is used for a beneficiary who is not a designated beneficiary as described on this page. An eligible beneficiary is generally a Canadian resident who is entitled to a refundable Part XII.2 tax credit in proportion to the share of allocated or designated trust income. You have to include an amount equal to the Part XII.2 tax credit in the income allocated to the beneficiary. In effect, this credit replaces the income that the beneficiary would have received if the trust did not have to pay Part XII.2 tax.

Line 6 – Total specified income

This is the total of lines 1 to 5, which represents the specified income of the trust. Part XII.2 tax does not apply if the amount on line 6 is negative.

Lines 7, 8, 10, and 11 – Adjusted amounts allocated and designated to beneficiaries

Enter on line 7, the amount from column 1 of line 928, Schedule 9. Enter on line 8, the amount from column 2 of line 928, Schedule 9. Enter on line 10, the taxable benefits you reported on line 44 of the return.

Line 11 represents the following amounts:

- the deduction from trust income for the portion of the trust's income you allocated to resident and non-resident beneficiaries, to be included in their income; and
- the deduction from trust income for the Part XII.2 tax the trust paid for the year.

Withhold the Part XII.2 tax from income you distribute to the beneficiaries.

Line 12 – Part XII.2 tax payable

Multiply by 36%, the lesser of the amount on line 6 and the amount on line 11. Enter the result on line 83 of the return.

Line 13 – (Adjustment for Part XIII tax purposes)

On this line, calculate the amount of Part XII.2 tax that you attribute to non-resident beneficiaries. Transfer the amount from line 13 to line 21 to reduce the income subject to Part XIII tax.

Line 14 – Part XII.2 refundable tax credit for eligible beneficiaries

This is the amount of Part XII.2 tax attributable to eligible beneficiaries. It is also the amount eligible for the Part XII.2 refundable tax credit for these beneficiaries.

If there is more than one eligible beneficiary, use the formula below to determine the amount of refundable tax credit to report in box 38 of the T3 slip for each eligible beneficiary:

$$A \times B \div C$$

where:

- A** = Part XII.2 tax paid by the trust (line 12)
- B** = each eligible beneficiary's share of the amount from line 11 (the trust income you allocated to the eligible beneficiaries)
- C** = adjusted allocations or designations for the year (line 11)

Part B – Calculating Part XIII non-resident withholding tax

Lines 15 to 27

Complete this part if the trust allocated income to non-resident beneficiaries.

Line 18 – Taxable capital gains distributions designated as payable by a mutual fund trust

After March 22, 2004, a mutual fund trust that designates more than 5% of its capital gains distributions to non-resident beneficiaries (including any partnership that is not a Canadian partnership) must do an additional calculation for line 18. If this applies to the trust, complete lines 28 to 47 at the bottom of Part B. Enter the amount from line 43 of Schedule 10 on line 18.

Line 20 – Amounts not subject to Part XIII tax: Other

One example of an amount to enter on this line is an amount you paid or credited to a beneficiary resident in the United States, when the amount is derived from income sources outside Canada and it is not subject to withholding tax under the *Canada – U.S. Tax Convention*.

Line 21 – (Part XII.2 tax amount)

On this line, enter the amount from line 13, which is the amount of Part XII.2 tax you attribute to designated beneficiaries.

Line 23 – Taxable Canadian property gains distributions for non-resident beneficiaries

A mutual fund trust that designates more than 5% of its capital gains distributions to non-resident beneficiaries (including any partnership that is not a Canadian partnership) must include a portion of the distributions when calculating Part XIII tax. Enter the amount calculated at line 42 of Schedule 10 on line 23.

Lines 25 to 27 – Non-resident tax payable

Complete the rest of this schedule by referring to the NR4 return for the trust.

Every non-resident person has to pay Canadian income tax of 25% under Part XIII of the Act, unless a tax treaty or convention provides a lower rate. Part XIII tax is paid on amounts that a Canadian trust paid or credited, or is considered to have paid or credited, to non-residents. You have to withhold and remit tax on these amounts. This tax has to be received by the Canada Revenue Agency or a Canadian financial institution on or before the 15th day of the month after the month during which the tax was withheld.

Calculate the amount of non-resident tax payable and any balance due by following the steps in Part B of Schedule 10. Send any balance due to us, with Form NR76, *Non-Resident Tax – Statement of Account*, which is a combined remittance statement and receipt.

If you are remitting Part XIII tax for the first time, send us a statement with the trust's name and address, the type of payment (Part XIII tax), and the month during which you withheld the tax. When we receive the payment, we will issue Form NR76. You can use the bottom portion for remitting future payments.

You also have to complete an NR4 Summary, *Summary of Amounts Paid or Credited to Non-Residents of Canada*, and an NR4 slip, *Statement of Amounts Paid or Credited to Non-Residents of Canada*.

For more information on non-resident income tax, see:

- Information Circular IC76-12, *Applicable rate of part XIII tax on amounts paid or credited to persons in countries with which Canada has a tax convention*;
- Information Circular IC77-16, *Non-Resident Income Tax*; and
- Interpretation Bulletin IT-465, *Non-Resident Beneficiaries of Trusts*.

Example

An inter vivos trust resident in Canada has two beneficiaries: Karson, a resident of Canada who is an **eligible** beneficiary, and Teagan, a non-resident who is a **designated** beneficiary. Each beneficiary is entitled to receive an equal share of the trust income that is distributed annually.

The trust has \$1,400 net income for the year, which includes net business income (from a business carried on in Canada) of \$1,000, and net interest income of \$400.

On Schedule 10, the trustee would:

- enter \$1,000 on lines 1 and 6, since there are no other sources of specified income (the \$400 interest is not specified income);
- enter \$1,400 on line 11, since this is the total amount from columns 1 and 2 of line 928 of Schedule 9;
- enter the **lesser** of lines 6 (\$1,000) and 11 (\$1,400) in the calculation area for line 12;

- multiply \$1,000 by 36%, and enter the result (\$360) on line 12;
- calculate the amount that is not subject to Part XIII non-resident tax by completing the calculation area for line 13 (divide \$700 by \$1,400 and multiply by \$360). Enter the result (\$180) on line 13 and on line 21; and
- calculate the amount of refundable Part XII.2 tax credit on line 14 by subtracting line 13 (\$180) from line 12 (\$360). Enter the result (\$180) in box 38 on the T3 slip.

Karson received \$520, but he will include \$700 (\$520 + \$180) in his income for the year. This amount, which is entered in box 26 on the T3 slip, is the 50% portion of the trust income distributed to him under the terms of the trust agreement. On his T1 return he will claim a refundable Part XII.2 tax credit of \$180.

Teagan received \$520. This amount, which is entered on the NR4 slip, is the 50% of the trust income distributed to her under the terms of the trust agreement. On Schedule 10, the trustee reduces the total income paid or payable to non-resident beneficiaries (line 15) by the Part XII.2 tax (line 21). Line 24 (\$700 – \$180 = \$520) is the amount subject to non-resident tax.

Completing the NR4 return

Guide T4061, *NR4 – Non-Resident Tax Withholding, Remitting, and Reporting*, explains how to report amounts the trust paid or credited to non-residents of Canada and how to complete and distribute the NR4 return.

Report the total trust income you allocated to a non-resident beneficiary as estate and trust income on the NR4 return. Types of income, except for taxable capital gains from a mutual fund trust, lose their identity when allocated to a non-resident beneficiary. Therefore, you have to total and report them as “Gross income” in box 16 of the NR4 slip. In box 14 or 24, enter an income code of “11” for estate or trust income. Enter a code of “58” if there were taxable Canadian property gains distributions to the non-resident.

File this return no later than 90 days after the end of the trust's tax year.

Schedule 11 – Federal Income Tax

Use Schedule 11 to determine the federal income tax payable by the trust.

Note

The trust may be subject to minimum tax. For more information, see “Schedule 12 – Minimum Tax” on page 55.

Lines 8 and 9 – Federal tax on taxable income

Testamentary and grandfathered inter vivos trusts ▲

Federal tax rates for individuals apply to all testamentary trusts and to grandfathered inter vivos trusts. For more information on grandfathered inter vivos trusts, see page 9.

Inter vivos trusts

An inter vivos trust, other than a grandfathered inter vivos trust, is taxed at 29% of its taxable income. For more information, see Interpretation Bulletin IT-406, *Tax Payable by an Inter Vivos Trust*.

In addition, include any tax payable by a specified investment flow-through (SIFT) trust. For more information on SIFT trusts and their tax calculation, go to www.cra.gc.ca/tx/trsts/sfts/menu-eng.html.

Line 10 – Total of lines A, B, and C

This is the eligible amount of all donations made after 2005, which has not been claimed in any previous year and is not included on line 16.

Donations and gifts

Donations or gifts include the following:

- donations made to registered charities, registered Canadian amateur athletic associations, and government gifts;
- donations made to prescribed universities outside Canada;
- donations made to qualified donees – see Pamphlet P113, *Gifts and Income Tax*, for the types of organizations that qualify;
- gifts made to the United Nations and its agencies, and certain charitable organizations, outside Canada;
- gifts to Canada, a province, or a territory;
- gifts of cultural property – attach both the official receipt from the institution and Form T871, *Cultural Property Income Tax Certificate*, issued by the Canadian Cultural Property Export Review Board; and
- gifts of ecological property – attach the official receipt and the *Certificate for Donation of Ecologically Sensitive Land* issued by the Minister of the Environment. If the land is located in Quebec, the certificate will be issued by the ministère du Développement durable, de l'Environnement et des Parcs.

Note

For gifts made after December 20, 2002, if the trust receives any form of compensation or advantage in exchange for the gift, only the **eligible amount** of the gift is included in determining the donations and gifts tax credit. For more information, see Pamphlet P113, *Gifts and Income Tax*.

Line 22 – Tax adjustments – Lump-sum payments under ITAR 40 ▲

Use this line to add items such as the reduced tax that applies to lump-sum payments under section 40 of the *Income Tax Application Rules* (ITAR). For more information, see "Line 02 – Pension income" on page 22.

Lines 24 to 26 – Federal dividend tax credit ▲

Complete these lines if the trust reported a gross-up amount on line 24, 31 or line 32 of Schedule 8 for dividends

received from a taxable Canadian corporation in the tax year.

Calculate the dividend tax credit for eligible dividends by multiplying the gross-up amount from line 24 of Schedule 8 by 54.5455%.

Calculate the dividend tax credit for dividends other than eligible dividends by multiplying the gross-up amount from line 31 of Schedule 8 by 72.2222%.

Calculate the dividend tax credit for dividends other than eligible dividends by multiplying the gross-up amount from line 32 of Schedule 8 by 66.6667%.

Enter the total of these amounts on line 26.

Note

Foreign dividends do not qualify for this credit.

Line 27 – Donations and gifts tax credit ▲

Enter the amount from line 20. Attach official receipts for all claims to the return.

Testamentary trust

If the donation is a one-time payment provided for in the deceased person's will, **do not** claim it on the T3 return. Claim the donation on the deceased person's T1 return, either in the year of death or in the year before the year of death, or claim part of the donation on each return.

If the donation is not a one-time payment (for example, a donation that will continue to be made according to the terms of the will), treat the recipient as an income beneficiary and deduct the donation as an allocation of trust income on line 47 of the return. You also have to include the donation on the appropriate line of Schedule 9.

If the will provides that a donation can be made at the discretion of the trustee, you can:

- choose to treat the recipient as an income beneficiary and deduct the amount on line 47 of the return; or
- claim a non-refundable tax credit on line 27 of Schedule 11.

When you are claiming a donation on the return, either as an income allocation or for a non-refundable tax credit, you should indicate on the return whether the donation is a one-time or periodic payment as provided in the will, or if it was made at your discretion.

Note

Include donations made prior to the death of the deceased on the deceased's T1 return. You **cannot** transfer them to the estate's T3 return.

Inter vivos trust

If the recipient is an income beneficiary according to the terms of the trust agreement, deduct the donation on line 47 of the return, and include it on the appropriate line of Schedule 9.

Note

In limited situations, a distribution by an inter vivos trust to a registered charity may instead qualify for a donation tax credit on line 27 of Schedule 11; for example, where an alter ego trust makes a distribution to a registered charity following the death of the settlor of the trust, and the trustee had discretion under the terms of the trust indenture to distribute the property either to the qualified donee or to someone else.

Maximum claim and carryover

The maximum claim for donations and gifts in the year is the sum of:

- 25% of the taxable capital gains from the donation of capital property, less any capital gains deduction claimed against that property;
- 25% of the recapture of capital cost allowance reported as a result of making the gift; and
- 75% of the trust's net income (line 50 of the return).

Note

The limit of 75% of net income does not apply to gifts to Canada, a province, or a territory, which were made or agreed to before February 19, 1997, or to gifts of cultural or ecological property.

For more information, see Pamphlet P113, *Gifts and Income Tax*.

Claim any portion of the trust's total donations, up to the maximum limit. Any unused portion can be carried forward for five years.

If the trust donates an obligation of the trust or of a related person, a share issued by a corporation related to the trust, or any other security issued by a person related to the trust, call **1-800-959-8281**.

A communal organization that made charitable donations can choose not to claim them and can elect to designate the donations to beneficiaries. For more information, see Information Circular IC78-5, *Communal Organizations*.

Line 30 – Minimum tax carryover from previous years

If the trust paid minimum tax in the 2007 to 2013 tax years, and does not have to pay minimum tax for the 2014 tax year, you may be able to claim a credit against the trust's 2014 taxes payable. Use Part 7 of Schedule 12, *Minimum Tax*, to calculate the total minimum tax carryover.

Tax tip

You can carry over minimum tax from the seven previous tax years.

Line 32 – Surtax on income not subject to provincial or territorial tax

A resident trust that carries on business through a permanent establishment in a foreign country has to pay a federal surtax of 48% of its basic federal tax attributable to the income earned in the foreign country.

A non-resident trust, or a deemed resident trust, pays this tax instead of provincial or territorial tax. However,

business income that the trust earned in a province or territory through a permanent establishment in that province or territory is subject to the provincial or territorial tax instead of this 48% surtax.

For more information, see Form T3MJ, *T3 Provincial and Territorial Taxes for 2014 – Multiple Jurisdictions*.

Line 34 – Federal foreign tax credit

This credit is available to a resident trust only for foreign income or profit taxes the trust paid on income it received from sources outside Canada. When you calculate the foreign tax credit, convert all amounts to Canadian currency. If the amount was paid at various times throughout the year, to get the applicable rate, go to www.cra.gc.ca/exchangerates, or call **1-800-959-8281**.

In general, the foreign tax credit you can claim for each foreign country is the **lesser** of:

- the tax the trust paid to a foreign country; or
- the tax payable to Canada on the portion of the income the trust earned in the foreign country.

Use Form T3 FFT, *T3 Federal Foreign Tax Credits*, to calculate the trust's foreign tax credit. When you complete Form T3 FFT, base the calculation of the credit on foreign income amounts that have been retained by the trust and not allocated to a beneficiary. **Do not** include any amounts relating to the designation of foreign income and foreign tax credits to the beneficiaries. Enter on line 34, the amount from line 10 of Form T3 FFT.

The trust's federal foreign tax credit may be less than the tax paid to a foreign country. The trust can carry unclaimed foreign tax paid on **business income** back 3 years and forward 10 years.

The trust cannot carry forward or carry back excess amounts of any foreign **non-business** income tax. You may be able to claim some or all of the excess as:

- a provincial or territorial foreign tax credit on Form T3 PFT, *T3 Provincial or Territorial Foreign Tax Credit* (a trust resident in Quebec should contact Revenu Québec about its entitlement to this credit); or
- a deduction on line 40 of the return (see Interpretation Bulletin IT-506, *Foreign Income Taxes as a Deduction from Income*).

Attach proof of the tax the trust paid to a foreign country.

For more information, see Income Tax Folio S5-F2-C1, *Foreign Tax Credit*, and Interpretation Bulletin IT-201, *Foreign Tax Credit – Trusts and Beneficiaries*.

Line 36 – Allowable federal political contribution tax credit

Claim this credit if the trust contributed to a registered federal political party or to a candidate for election to the House of Commons. Use the chart below to calculate the credit.

For political contributions made after December 20, 2002, you have to deduct any advantage the trust receives as a result of a contribution. This includes the total value at the

time the political contribution was made, of all property, services, compensation, or other benefits to which the trust, or a person not dealing at arm's length with the trust, is entitled as partial consideration for, or in gratitude for, the political contribution.

Note

After February 27, 2004, if a political contribution is made in the form of a non-cash contribution, the amount to be used as the proceeds of disposition in respect of the property contributed and the amount of the eligible contribution are considered to be the lesser of the property's fair market value and its adjusted cost base.

Enter the total allowable credit on line 36. If the trust's total eligible federal political contributions are \$1,275 or more, enter \$650 on line 36. Attach an official receipt to the return as proof of the contribution. You do not have to attach a receipt for an amount shown in box 36 of a T5013 slip, or in a financial statement showing an amount a partnership allocated to the trust. For more information, see Information Circular IC75-2, *Contributions to a Registered Party, a Registered Association or to a Candidate at a Federal Election*.

Federal Political Contribution Tax Credit			
Total eligible federal political contributions	_____		
Allowable credit:			
75% of first \$400 of eligible federal political contributions	_____		a
50% of next \$350 of eligible federal political contributions	+	_____	b
33 1/3% of eligible federal political contributions that are more than \$750	+	_____	c
Total credit (add lines a, b, and c).....	=	_____	d
Allowable credit: enter the lesser of line d or \$650 on line 36 of Schedule 11.			

Line 37 – Investment tax credit

A trust can claim an investment tax credit (ITC) on eligible investments and qualified expenditures that are listed on Form T2038(IND), *Investment Tax Credit (Individuals)*. For example, a trust can claim an ITC on certain buildings, machinery, or equipment to be used in certain areas of Canada in qualified activities such as farming, fishing, logging, or manufacturing.

To claim an ITC, you have to send us the completed Form T2038(IND) no later than 12 months after the due date of the return for the year the expenditure occurred.

Attach a completed copy of Form T2038(IND) to the T3 return if the trust:

- earned an ITC in the tax year;
- is carrying forward a credit;
- had an ITC recapture; or
- is claiming refundable ITC in the tax year (on line 88 of the T3 return).

Reduce the cost of eligible investments and qualified expenditures by the portion of the credit deducted or refunded. Reduce these costs in the year after the trust:

- claims the credit; or
- acquired the asset if it:
 - made the claim or refund in the year of acquisition; or
 - applied the claim to a previous year.

For example, the capital cost of property is reduced in 2014 by any ITC that the trust earned in 2013, and that was claimed or refunded on the 2013 return or applied to a previous year.

You will have to report an ITC recapture for the trust if the trust:

- acquired the property in this or any of the previous 11 tax years;
- claimed the cost, or a portion of the cost, of the property as a qualified expenditure for scientific research and experimental development;
- included the cost, or a portion of the cost, of the property in calculating the trust's ITC, or was the subject of an agreement to transfer qualified expenditures; and
- disposed of the property or converted it to commercial use after February 23, 1998.

Note

An ITC recapture on a portion of the cost of property as described above applies only to dispositions that occur after December 20, 2002.

Only a testamentary trust or a communal organization can designate an ITC to its beneficiaries. When you calculate the trust's ITC for the tax year, **do not** include the part that is designated on line 941 of Schedule 9, according to the terms and conditions of the trust agreement, or by choice of the trustee. Reduce the cost of the qualified property acquisitions or expenditures by the amount of any ITC that you designated to the beneficiaries in the tax year.

For more information, see Form T2038(IND).

Line 43 – Additional tax on RESP accumulated income payments

If you received an accumulated income payment from a registered education savings plan (RESP) in the year, you may have to pay an additional tax on all or part of the amount in box 40 of your T4A slip. If this is the case,

complete Form T1172, *Additional Tax on Accumulated Income Payments From RESPs*. Enter the amount from line 10 or line 13 (whichever applies) on line 43 of Schedule 11. For more information, see Information Sheet RC4092, *Registered Education Savings Plans (RESPs)*.

Line 45 – Refundable Quebec abatement ▲

A trust may be entitled to an abatement of 16.5% of its basic federal tax.

If the trust was resident in Quebec on the last day of its tax year and it did not have income from a business with a permanent establishment outside Quebec, complete line 45.

Use Form T3MJ, *T3 Provincial and Territorial Taxes for 2014 – Multiple Jurisdictions*, to calculate the refundable Quebec abatement if one of the following situations applies to the trust:

- the trust was a resident in Quebec and had income from a business with a permanent establishment outside Quebec; or
- the trust resided outside Quebec and had income from a business with a permanent establishment in Quebec.

Enter the result on line 45 of Schedule 11.

Schedule 12 – Minimum Tax

If the trust is subject to a minimum tax, it may have to pay minimum tax in the year. The following types of trusts are **not** subject to minimum tax and **do not** need to complete Schedule 12:

- a spousal or common-law partner trust, a joint spousal or common-law partner trust, or an alter ego trust if it reports in the year its first deemed disposition on Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*; or
- if the trust was throughout the tax year:
 - a mutual fund trust;
 - a related segregated fund trust;
 - a master trust; or
 - an employee life and health trust.

Minimum tax limits the tax advantage a trust can receive in a year from certain incentives. The most common situations that may make a trust liable to minimum tax are if it:

- reports taxable capital gains (line 01 of the return);
- reports taxable dividends (line 03 of the return);
- claims a loss resulting from, or increased by, resource expenditures, or claims resource and depletion allowances on resource properties (line 06 or line 19 of the return);
- makes an election on pension benefits under ITAR 40 (line 02 of the return and line 22 of Schedule 11);
- claims a loss resulting from, or increased by, capital cost allowance (CCA) or carrying charges claimed on a rental or leasing property (line 09 of the return), or certified films or videotapes (line 06 of the return);

- has certain losses that limited partners, specified members of a partnership, or partners of a registered tax shelter deduct for their partnership interest (for this purpose, losses allocated from a partnership are applied against gains from the same partnership source);

Note

For tax years ending after December 31, 2011, a trust's limited partnership loss is restricted only if the trust's interest in the partnership is a registered tax shelter. This treatment may also apply to the trust's 2006 to 2011 tax years, where the trust filed an election by March 11, 2014.

- has losses from an investment in a registered tax shelter; or
- has carrying charges for interests in limited partnerships, tax shelters, rental or leasing properties, or film or resource properties, that increase or create a loss from these sources.

Note

Net income from rental, leasing, and film property includes income from these investments (before CCA and related carrying charges) plus any net taxable capital gains from the disposition of these investments minus any losses from these investments (before CCA and related carrying charges). You also have to subtract allocated partnership losses from gains from the same partnership source.

The trust has to pay minimum tax if it is more than the federal tax calculated in the usual manner.

Provincial and territorial income tax ▲

Resident trusts

A trust is liable for provincial or territorial tax at the rate that applies for the province or territory of residence if it was a resident of a province or territory on the last day of its tax year. Use the applicable provincial or territorial tax form to calculate the provincial or territorial tax.

If the trust was resident in the province of Quebec on the last day of its tax year, see the note in the section called "Which tax package should you use?" on page 6.

A resident trust may carry on a business with a permanent establishment:

- in a province or territory other than the province or territory of residence; or
- in a foreign country.

In these cases, you have to calculate the trust's income from each source to determine the liability for:

- provincial or territorial income tax; or
- federal surtax for income not subject to provincial or territorial tax.

Report income from a business for each province, territory, or foreign country in which the business had a permanent establishment during the tax year. Attach a copy of this list to the return. In general, you should allocate all other income to the province or territory of residence. Use Form T3MJ, *T3 Provincial and Territorial Taxes for 2014 – Multiple Jurisdictions*, to report this income. To get this form, go to www.cra.gc.ca/forms, or call 1-800-959-8281.

A trust resident in a province other than Quebec, or in a territory, on the last day of its tax year may have a federal foreign tax credit that is less than the non-business income tax the trust paid to a foreign country. If this is the case, the trust can apply the excess of foreign non-business income tax paid against provincial and territorial tax. For more information, see “Line 34 – Federal foreign tax credit” on page 53.

Non-resident trusts and deemed resident trusts

A non-resident trust or a deemed resident trust that carries on a business with a permanent establishment in a province or territory is subject to provincial or territorial tax on the business income it earned in that province or territory.

A non-resident trust or a deemed resident trust may carry on a business in Canada without a permanent establishment in Canada. In this case, it may be subject to the federal surtax. For more information, see “Line 32 – Surtax on income not subject to provincial or territorial tax” on page 53.

Chapter 4 – T3 slip and summary

As trustee, you have to complete a T3 slip, *Statement of Trust Income Allocations and Designations*, for each resident beneficiary, including a preferred beneficiary, to whom the trust allocated income in the year. You must also do this for a trust that made any distributions of capital that would result in an adjustment to the adjusted cost base of the beneficiary’s interest in the trust. If you allocated income to a non-resident beneficiary, see “Column 2 – Non-resident,” on page 46.

This chapter provides information on how to complete the T3 slip. The T3 slip has three individual slips printed on each sheet. These are intended to be used for laser or ink jet printers, for typing, or to be completed by hand.

The T3 slip shows only the high-use boxes (boxes 12, 14, 16, 18, 21, 23, 26, 30, 32, 39, 49, 50, and 51). There are also six generic boxes with blank codes for less common amounts. If you have to use a generic box, enter the box number **and** the amount in the other information area.

If you need more than six boxes for the same beneficiary, use an additional T3 slip.

You can find a sample of the slip on page 62.

You do not have to complete a T3 slip for a beneficiary if the income allocated in the year to that beneficiary is less than \$100. However, you have to notify the beneficiary of the allocated income since it still has to be reported on the beneficiary’s return.

Note

For trusts having fiscal period straddling 2013 and 2014 and dividends, other than eligible dividends, see boxes 23, 32, and 39 under “How to complete the T3 slip” on page 58.

You have to complete a T3 Summary, *Summary of Trust Income Allocations and Designations*, even if you only prepare one T3 slip. This is the form you use to record the total of the more common amounts you reported on all related slips. File only one summary for the trust, unless it is a mutual fund trust.

See the back of the T3 Summary for information on how to complete it. You can find a sample of the form on pages 62 and 63.

How to file the T3 slip and summary ▲ Electronic filing methods

Internet filing will be available starting January 5, 2015.

You **must** file trust-related information returns by Internet **if you file more than 50 trust-related information returns (slips)** for a calendar year.

Filing by Web Forms

Our Web Forms application is free and secure. To use it, all you need is access to the Internet. With Web Forms you can complete a trust-related information return easily, following the step-by-step instructions.

Web Forms lets you:

- file up to 100 slips (original, additional, amended, or cancelled) from our website;
- calculate all of the totals for the summary;
- create an electronic trust-related information return containing slips and summary, which can be saved and imported at a later date;
- print all your slips and your summary; and
- validate data in real time.

After you submit your trust-related information return, you will receive a confirmation number that will be your proof that we received it.

To use the Web Forms application, you must have a web access code. If you do not have a web access code, you can easily get one online or by calling us. For more information, see “Web access code” on this page.

To start using this application or to get more information about Web Forms, go to www.cra.gc.ca/webforms.

Filing by Internet file transfer

Internet file transfer allows you to transmit an original or amended T3 return with a maximum file size of **150 MB**. All you need is a web browser to connect to the Internet, and your software will create, print, and save your electronic trust-related information return in XML format. For information about this filing method, contact your software publisher or go to www.cra.gc.ca/iref.

Web access code

To file a trust-related return over the Internet using either the Internet file transfer or Web Forms services, you will need a web access code (WAC). The CRA is no longer mailing web access code letters; as a result, you can use the WAC that was issued for the 2012 tax year to file future trust-related information returns. If you have misplaced or do not have a WAC, you can obtain one at www.cra.gc.ca/iref by selecting "Need a Web access code". If you cannot obtain your WAC online or would like to change it, you may call the *e-Services Helpdesk* at 1-877-322-7849.

Filing by CD, DVD, USB Key, or diskette

You will have to send your XML files by Internet file transfer or through our Web Forms application. We will no longer accept CDs, DVDs, USB keys, or diskettes.

For more information about filing trust-related information returns electronically, go to www.cra.gc.ca/iref.

Filing on paper

If you file 1 to 50 slips, we strongly encourage you to file over the Internet using Internet file transfer or Web Forms. We explain these options on page 56, under "Electronic filing methods". However, you can still file up to 50 slips on paper.

If you choose to file your return on paper, mail it to the following address:

Ottawa Technology Centre
875 Heron Road
Ottawa ON K1A 1G9

Complete **one copy** of the trust-related information slip for each recipient and send them with your T3 Summary. Enter the information for two different recipients on one sheet. This will let us process your information return faster. You must keep a copy of the trust-related slips and the T3 Summary for your files.

Filing using computer-printed (customized) forms

For those who complete a large number of T3 slips, we accept certain slips other than our own. In order to ensure accuracy, follow the guidelines for the production of customized forms at www.cra.gc.ca/customized or see Information Circular IC97-2, *Customized Forms*.

If you are a mutual fund trust that files T3 slips by Internet, you can combine the income and capital gains from several funds onto one T3 slip for each unit holder. However, when you combine the slips, you have to:

- submit a sample of the combined information slip requesting an approval number;

Notes

Send your electronic submission in either *.pdf or *.jpg format to customized-hors-series@cra.gc.ca.

Send your electronic submission to the following address:

Individual Returns Directorate

Information Returns Filers Services Section
750 Heron Road, 7th floor
Ottawa ON K1A 0L5

- prepare the Internet submission of summary forms and slips, which you submit to us at the individual fund level;
- write "Combined information slip" clearly on the T3 slip under the recipient name and address, and provide the unit holders with statements that allow them to reconcile the amounts reported on the combined information slips; and
- maintain an audit trail so the combined information slips can be verified if we audit these funds later.

Distributing the T3 slip ▲

Send us the T3 slip along with the T3 Summary no later than 90 days after the end of the trust's tax year.

Do not staple the summary and slips to the T3 return.

Send two copies of the T3 slip to the beneficiary. You do not have to keep a copy of the T3 slips. However, if you file electronically, you have to keep the information from which you prepared the slips in an accessible and readable format.

You can provide recipients with an electronic copy of their T3 slips only if the recipient gives you their consent in writing or by email.

If you fail to distribute the T3 slip or any other trust-related information slip to a recipient by the due date, you will be liable to a penalty. For more information, see "Penalties and interest" on page 18.

Amending, cancelling, adding, or replacing T3 slips

After filing your trust-related information slip, you may notice an error on a trust-related slip. If so, you will have to prepare an amended slip to correct the information. Provide copies to the recipient. **Do not** include slips that have no changes.

If you prepare and issue an amended T3 slip after you have filed the original slip with us, you may have to file an amended T3 Summary. If there is a change to the amounts in the boxes shown on the front of the summary, file an amended T3 Summary. If the amended T3 slip affects the amounts shown on the T3 Trust Income Tax and information Return, or on Schedule 9, *Income Allocations and Designations to Beneficiaries*, **do not** file another T3 return. Instead, send us a completed Form T3-ADJ, *T3 Adjustment Request*, or a letter providing the details of the change. Indicate the tax year you want us to change and attach any supporting documents. Include the trust's account number on the letter.

Amending or cancelling slips over the Internet

To amend a slip over the Internet, change only the information that is incorrect and retain all of the remaining information that was originally submitted.

Use summary report type code "A" and slip report type code "A".

To cancel a slip, do not change any information that was contained on the original slip. Use summary report type code "A" and slip report type code "C."

For more information about amending or cancelling trust-related information slips using the Internet, go to www.cra.gc.ca/iref.

Amending or cancelling slips on paper

If you choose to file your amended return on paper, clearly identify the slips as amended or cancelled by writing "AMENDED" or "CANCELLED" at the top of each slip. Make sure you fill in all the necessary boxes, including the information that was correct on the original slip. Send two copies of the slips to the recipient. Send one copy of the amended/cancelled slips to us with a letter explaining the reason for the amendment/cancellation.

Note

If you notice errors on the trust-related slips before you file them with us, you can correct them by preparing new information slips and removing any incorrect copies from the return. If you do not prepare a new slip, initial any changes you make on the slip. Be sure to also correct the T3 Summary.

Adding slips

After you file your trust-related information return, you may discover that you need to send us additional trust-related slips. If you have original slips that were not filed with your information return, file them separately either electronically or on paper.

To file additional slips electronically, see "Electronic filing methods" on page 56.

If you file additional slips on paper, clearly identify the new slips by writing "ADDITIONAL" at the top of each slip. Send one copy of the additional slips to any tax centre. See "Electronic filing methods" on page 56 for information on adding slips over the Internet or go to www.cra.gc.ca/iref.

Notes

If the total number of trust-related slips (including any additional slips) you file is more than 50 for the same calendar year, you have to file the additional slips over the Internet.

Any additional trust-related slips that are filed after the due date may result in a penalty. For more information, see "Penalty for failure to file an information return by the due date" at www.cra.gc.ca/penaltyinformationreturns.

Recipient identification number ▲

The recipient identification number is one of the following:

- the social insurance number (SIN), if the beneficiary is an individual (other than a trust);
- the business number (BN), if the beneficiary is a corporation or partnership; or
- the trust account number, if the beneficiary is a trust.

This section explains the special rules and penalties that apply to the use of the SIN and the BN.

Trustee – Anyone who prepares an information slip has to make a reasonable effort to get the SIN or BN from the person or partnership who will receive the slip. Unless you make a reasonable effort to get this information, you will be liable to a \$100 penalty each time you do not provide the SIN or BN on the information slip. This penalty does not apply if the person or partnership has applied for, but has not yet received, a SIN or BN when the return was filed.

Beneficiary – Persons or partnerships (other than trusts) have to give their SIN or BN on request to anyone who has to prepare an information slip for them.

If the person or partnership does not have a SIN or BN, the following rules apply:

- the person or partnership must apply for the number within 15 days of your request (the SIN from any Service Canada Centre, the BN from us); and
- once the person or partnership has received the number, they have 15 days to give it to you.

Persons or partnerships who, for any reason, do not comply with these requirements are liable to a penalty of \$100 for each failure to give their SIN or BN.

A beneficiary may indicate that a SIN or BN has been applied for, but has not yet been received, or the beneficiary may refuse to give you the number. In these cases, **do not** delay completing the information slip beyond the filing due date. If you have not received the SIN or BN by the time you prepare the T3 slip, enter "nil" in box 12.

If you have to prepare an information slip, you, or your employees, officers, or agents, cannot knowingly use, communicate, or allow a SIN or BN to be communicated, other than as required or authorized by law, without the written consent of the person or partnership. Any person who does so is guilty of an offence, and liable on summary conviction to a fine, imprisonment, or both.

For more information, see Information Circular IC82-2, *Social Insurance Number Legislation That Relates to the Preparation of Information Slips*.

How to complete the T3 slip ▲

Type or print the information on the slip. **Report all amounts in Canadian dollars.** If the amount was paid at various times throughout the year, to get the applicable rate, go to www.cra.gc.ca/exchangerates, or call 1-800-959-8281.

If there is a preferred beneficiary election and other income is also allocated to the same beneficiary, complete one T3 slip for the elected income and a separate slip for all other allocated income.

You can get the information needed to complete boxes 21 to 51 from Schedule 9, *Income Allocations and Designations to Beneficiaries*.

Recipient's name and address – Enter the information in the white area provided. If the payment is to an individual, enter the beneficiary's name. If the payment is to a joint

beneficiary, enter both names. If the payment is made to a trust, enter the name of the trust and not the names of the individual beneficiaries of that trust. If the payment is made to an association, organization, or institution, enter that name. Following the beneficiary's name, enter the beneficiary's full address including city and province or territory. Also include the postal code.

Year – Enter the applicable tax year at the top of the slip.

Trust year end – Use a four-digit number to indicate the year, and a two-digit number to indicate the month of the trust's tax year-end.

Note

For your convenience, we have put the instructions for the following boxes in numeric order, even though the order on the slip may be different. The high-use boxes appear first, followed by the generic boxes.

Box 12 – Recipient identification number ▲

You have to enter the beneficiary's social insurance number, business number, or trust account number. If you do not have the number, see the section titled "Recipient identification number" on this page. **Do not** leave this box blank.

Box 14 – Account number

You have to enter the trust's account number, if we have assigned one. **Do not** leave this box blank. For security purposes, **do not** include the trust account number on the copies you provide to the beneficiary.

1 alpha, 8 numeric:

- T3 slip, box 14, example: T00000000
- trust account number assigned by the CRA
- must correspond to the "Trust account number" on the related T3 Summary record
- If you have not been assigned such a number, enter T00000000 in the field.

Box 16 – Report code ▲

Enter one of the following codes:

Code Type of slip

1 alpha

- O** Originals;
- A** Amendments;
- C** Cancel.

Note

An amended return cannot contain an original T3 slip.

If you use code A or C, see "Amending, cancelling, adding, or replacing T3 slips" on page 57 for more information.

Box 18 – Beneficiary code ▲

You have to enter one of the following codes to identify the type of beneficiary (**do not** leave this box blank):

Code Type of beneficiary

1 numeric

- 1 if the beneficiary is an individual;
- 2 if the beneficiary is a joint beneficiary;
- 3 if the beneficiary is a corporation;
- 4 if the beneficiary is an association, a trust (fiduciary, trustee, nominee, or estate), a club, or a partnership; or
- 5 if the beneficiary is a government, a government enterprise, an international organization, a charity, a non-profit organization or other tax-exempt entity, or a deferred income plan that is exempt from tax.

Note

In some cases, you may have to enter information in the footnote area below box 26 on the T3 slip. If you need more room to include an explanation in this area, prepare a separate statement and attach a copy to each copy of the slip.

Box 21 – Capital gains

Enter the result of the beneficiary's share of the amount from line 921 of Schedule 9, multiplied by 2.

Note

If box 21 includes capital gains from foreign property, enter an asterisk (*) beside the amount in box 21. In the footnote area, identify each country, enter "non-business income for foreign tax credit" and the taxable portion of the amount included in box 21 that relates to the disposition of foreign property.

For more information, see "Line 921 – Taxable capital gains" on page 46.

Box 23 – Actual amount of dividends other than eligible dividends ▲

Enter the result of the beneficiary's share of the amount from line 923 of Schedule 9.

For trusts having fiscal period straddling 2013 and 2014, and dividends other than eligible dividends, enter the total amount from lines 923 and 952 of Schedule 9.

If the beneficiary is an individual or a trust (other than a registered charity), see box 32 and box 39 for more instructions.

Note

If the beneficiary is a resident of Newfoundland and Labrador, in the footnote area, enter "NLDIV pre-July 1, 2014," and the taxable amount of other than eligible dividends paid before July 1, 2014. On the **recipient copy** enter an asterisk (*) beside the amount in box 23. **Do not** enter an asterisk on the copy you send to us.

Box 26 – Other income ▲

Enter the beneficiary's share of the amount from line 926 of Schedule 9.

Include amounts such as the following in this box:

- death benefits;
- retiring allowances;

- pension income other than lump-sum pension benefits already included in box 22;
- net rental income;
- net business, farming, and fishing income; and
- interest income.

Notes

Enter an asterisk (*) beside the amount in box 26 if it includes any farming or fishing income from the disposition of eligible capital property that is qualified farm property or fishing property. In the footnote area, enter “eligible capital property – qualified farm or fishing property” or “eligible capital property,” and the amount of the beneficiary’s share.

Enter an asterisk (*) beside the amount in box 26 if it includes business, farming, or fishing income from a communal organization. In the footnote area, enter “self-employment earnings for CPP purposes,” and indicate the type of income—business, farming, or fishing—and the amount of the beneficiary’s share.

No other footnotes are required for box 26.

Box 30 – Capital gains eligible for deduction

Only personal trusts complete box 30.

Multiply the beneficiary’s share by 2, and enter the result on line 930, whichever applies, of Schedule 9. **Do not** include farming or fishing income from the disposition of eligible capital property identified in the footnote to box 26.

Note

Enter an asterisk (*) beside the amount in box 30. In the footnote area, enter either “qualified farm property or fishing property”, or “qualified small business corporation shares,” whichever applies.

For more information, see “Line 930 – Taxable capital gains eligible for deduction” on page 47.

Box 32 – Taxable amount of dividends other than eligible dividends ▲

If the beneficiary is an individual or a trust (other than a registered charity), enter the result of the amount of dividends other than eligible dividends from taxable Canadian corporations reported in box 23, multiplied by 1.18.

Box 39 – Dividend tax credit for dividends other than eligible dividends ▲

If the beneficiary is an individual or a trust (other than a registered charity), enter 11.0169% of the amount in box 32.

Box 49 – Actual amount of eligible dividends ▲
Enter the beneficiary’s share of the amount from line 949 of Schedule 9.

Box 50 – Taxable amount of eligible dividends ▲
If the beneficiary is an individual or a trust (other than a registered charity), enter the result of the amount of eligible dividends from taxable Canadian corporations reported in box 49, multiplied by 1.38.

Note

If the beneficiary is a resident of Newfoundland and Labrador, in the footnote area, enter “NLDIV pre-July 1, 2014,” and the taxable amount of eligible dividends paid before July 1, 2014. On the **recipient copy** enter an asterisk (*) beside the amount in box 50. **Do not** enter an asterisk on the copy you send to us.

Box 51 – Dividend tax credit for eligible dividends ▲

If the beneficiary is an individual or a trust (other than a registered charity), enter 15.0198% of the amount in box 50.

“Other information” area

This area on the T3 slip has boxes for you to enter codes and amounts for less common amounts, such as foreign business income, eligible death benefits, investment tax credits, and others.

The boxes are not pre-numbered as in the top part of the slip. Therefore, enter the codes that apply to the beneficiary.

If more than six codes apply to the same beneficiary, use an additional T3 slip. **Do not** repeat all the data on the additional slip. Enter only the beneficiary’s identification number and name, as well as the trust’s name and account number, and complete the required boxes in the “Other information” area.

Although the CRA’s position at this time is that we will not require the breakdown by country on the T3 slip, nor require the filing of multiple T3 slips, it is your obligation and responsibility to provide us with such information on request. Your records have to provide enough details to identify each foreign country and the amount of business income, in Canadian dollars, from each country.

Box 22 – Lump-sum pension income ▲

Enter the beneficiary spouse’s or common-law partner’s share of the amount from line 922 of Schedule 9.

Box 24 – Foreign business income

Enter the beneficiary’s share of the amount from line 924 of Schedule 9 (before withholding taxes).

Box 25 – Foreign non-business income

Enter the beneficiary’s share of the amount from line 925 of Schedule 9 (before withholding taxes).

Box 31 – Qualifying pension income ▲

Enter the beneficiary spouse’s or common-law partner’s share of the amount from line 931 of Schedule 9. This amount is included in box 26.

Box 33 – Foreign business income tax paid

Enter the beneficiary’s share of the amount from line 933 of Schedule 9.

Box 34 – Foreign non-business income tax paid

Enter the beneficiary’s share of the amount from line 934 of Schedule 9.

Box 35 – Eligible death benefits ▲

Enter the beneficiary's share of the amount from line 935 of Schedule 9. This amount is included in box 26.

For more information, see "Line 935 – Eligible death benefits" on page 48.

Box 37 – Insurance segregated fund net capital losses

Enter the result of the beneficiary's share of the amount from line 937 of Schedule 9, multiplied by 2.

Box 38 – Part XII.2 tax credit

Enter the beneficiary's share of the amount from line 938 of Schedule 9.

For more information, see "Schedule 10 – Part XII.2 Tax and Part XIII Non-Resident Withholding Tax" on page 49.

Boxes 40 and 41 – Investment tax credit

Only a testamentary trust or a communal organization can complete boxes 40 and 41.

If the trust made eligible expenditures in different regions, and the investment tax credit rates differ, prepare a separate T3 slip for each designation to beneficiaries.

Box 40 – Investment cost or expenditures

Enter the beneficiary's share of the amount from line 940 of Schedule 9.

Box 41 – Investment tax credit

Enter the beneficiary's share of the amount from line 941 of Schedule 9.

Note

Enter an asterisk (*) beside the amount in box 41. In the footnote area, enter the applicable investment code from Form T2038(IND), *Investment Tax Credit (Individuals)*.

For more information, see "Lines 940 and 941 – Investment tax credit (ITC)" on page 48.

Box 42 – Amount resulting in cost base adjustment

Enter the beneficiary's share of the amount from line 942 of Schedule 9. If this is a negative amount, put it in brackets.

Note

Enter an asterisk (*) beside any amount entered in box 42. In the footnote area, indicate whether the amount should be added to the adjusted cost base (ACB) of the property (for a negative amount), or subtracted from the ACB (for a positive amount).

Do not include new units issued to a beneficiary in satisfaction of a distribution of income. Instead, advise the beneficiary that you have issued these units, as well as the number of units and their value.

Box 45 – Other credits**Research and development tax credit**

Enter the beneficiary's share of the amount from line 945 of Schedule 9.

Note

Enter an asterisk (*) beside the amount in box 45. In the footnote area, enter "Newfoundland and Labrador R&D" or "Yukon R&D," whichever applies, and the amount of this credit from box 45.

Box 46 – Pension income qualifying for an eligible annuity for a minor ▲

Enter the beneficiary's share of the pension income that is eligible for a transfer to an eligible annuity for certain minors, from line 946 of Schedule 9 (also included in box 26).


Box 47 – Retiring allowance qualifying for transfer to an RPP or RRSP

Enter the beneficiary's share of the retiring allowance, which qualifies for a transfer to a registered pension plan or registered retirement savings plan, from line 947 of Schedule 9 (also included in box 26).

Box 48 – Eligible amount of charitable donations

Enter the beneficiary's share of the charitable donations or gifts of a communal organization, from line 948 of Schedule 9. For more information, see Information Circular IC78-5, *Communal Organizations*.

Appendix A – T3 slip and summary ▲

	Canada Revenue Agency Agence du revenu du Canada	Year Année	<input style="width: 80px; height: 20px;" type="text"/>	Statement of Trust Income Allocations and Designations État des revenus de fiducie (répartitions et attributions) T3	
Actual amount of eligible dividends Montant réel des dividendes déterminés	Taxable amount of eligible dividends Montant imposable des dividendes déterminés	Dividend tax credit for eligible dividends Crédit d'impôt pour dividendes déterminés	Capital gains Gains en capital	Capital gains eligible for deduction Gains en capital admissibles pour déduction	
49 <input style="width: 100px; height: 20px;" type="text"/>	50 <input style="width: 100px; height: 20px;" type="text"/>	51 <input style="width: 100px; height: 20px;" type="text"/>	21 <input style="width: 100px; height: 20px;" type="text"/>	30 <input style="width: 100px; height: 20px;" type="text"/>	
Actual amount of dividends other than eligible dividends Montant réel des dividendes autres que des dividendes déterminés	Taxable amount of dividends other than eligible dividends Montant imposable des dividendes autres que des dividendes déterminés	Dividend tax credit for dividends other than eligible dividends Crédit d'impôt pour dividendes autres que des dividendes déterminés	Other income Autres revenus		Trust year end Fin d'année de la fiducie
23 <input style="width: 100px; height: 20px;" type="text"/>	32 <input style="width: 100px; height: 20px;" type="text"/>	39 <input style="width: 100px; height: 20px;" type="text"/>	26 <input style="width: 100px; height: 20px;" type="text"/>		Year / Année <input style="width: 40px; height: 20px;" type="text"/> Month / Mois <input style="width: 40px; height: 20px;" type="text"/>
Other information (see the back) Autres renseignements (lisez le verso)	Box / Case <input style="width: 30px; height: 20px;" type="text"/> <input style="width: 30px; height: 20px;" type="text"/> <input style="width: 30px; height: 20px;" type="text"/>	Amount / Montant <input style="width: 100px; height: 20px;" type="text"/> <input style="width: 100px; height: 20px;" type="text"/>	Box / Case <input style="width: 30px; height: 20px;" type="text"/> <input style="width: 30px; height: 20px;" type="text"/> <input style="width: 30px; height: 20px;" type="text"/>	Amount / Montant <input style="width: 100px; height: 20px;" type="text"/> <input style="width: 100px; height: 20px;" type="text"/>	
Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire			Footnotes – Notes		
→			Trust's name and address – Nom et adresse de la fiducie		
Recipient identification number Numéro d'identification du bénéficiaire	Account number Numéro de compte	Report code Code du genre de feuillet	Beneficiary code Code du bénéficiaire	For information, see the back. Pour obtenir des renseignements, lisez le verso.	
12 <input style="width: 100px; height: 20px;" type="text"/>	14 <input style="width: 100px; height: 20px;" type="text" value="T"/>	16 <input style="width: 40px; height: 20px;" type="text"/>	18 <input style="width: 40px; height: 20px;" type="text"/>		

Protected B when completed / Protégé B une fois rempli



Summary of Trust Income Allocations and Designations
Sommaire des répartitions et attributions des revenus de la fiducie

1717 **T3** Summary / Sommaire

Complete this summary if the trust allocated income to a resident beneficiary, including a preferred beneficiary, in the year. Also complete it if the trust made any distribution of capital that would result in an adjustment to the adjusted cost base (ACB) of the beneficiary's interest in the trust.

Remplissez ce sommaire si, dans l'année, la fiducie a réparti des revenus au profit d'un bénéficiaire résident, y compris un bénéficiaire privilégié. Remplissez-le aussi si la fiducie a fait une distribution de capital nécessitant un rajustement du prix de base rajusté (PBR) de la participation du bénéficiaire dans la fiducie.

If you are filing your T3 slips electronically, see Chapter 4 of Guide T4013, *T3 – Trust Guide*.

Si vous produisez vos feuillets T3 par voie électronique, lisez le chapitre 4 du guide T4013, *T3 – Guide des fiducies*.

File this summary with one copy of the related T3 slips. See Guide T4013, *T3 – Trust Guide* for filing due dates and for the filing requirements for the *T3 Trust Income Tax and Information Return*. Do not staple the summary and slips to the return.

Envoyez ce sommaire et une copie de tous les feuillets T3 qui s'y rapportent. Consultez le guide T4013, *T3 – Guide des fiducies*, pour connaître les dates limites de production et les exigences concernant la production de la *Déclaration de renseignements et de revenus des fiducies – T3*. N'agrafez pas le sommaire ni les feuillets à la déclaration.

See the back of this summary for instructions.

Lisez le verso de ce formulaire pour obtenir des instructions.

Identification

Name of trust – Nom de la fiducie		Name and mailing address of trustee, executor, liquidator, or administrator – Nom et adresse postale du fiduciaire, de l'exécuteur, du liquidateur ou de l'administrateur	
Account number – Numéro de compte	Telephone number – Numéro de téléphone		
Summary for tax year – Sommaire pour l'année d'imposition		Name and mailing address of the person to contact, if different from above – Nom et adresse postale de la personne-ressource, s'ils sont différents de ceux qui précèdent	
From: / Du:	To: / Au:		
<p>Complete this area if you do not have an account number and you are submitting a paper return.</p> <p>If this is a testamentary trust, enter the social insurance number of the deceased.</p> <p>S'il s'agit d'une fiducie testamentaire, inscrivez le numéro d'assurance sociale de la personne décédée.</p>		<p>Remplissez cette section si vous n'avez pas de numéro de compte et que vous produisez une déclaration sur papier.</p> <p>Is this the first year for which the trust is filing a T3 return? / Est-ce la première année pour laquelle une déclaration T3 est produite?</p> <p>Yes / Oui <input type="checkbox"/> No / Non <input type="checkbox"/></p>	

T3 slip totals – Totaux des feuillets T3

Summary of amounts allocated and designated to resident beneficiaries (including preferred beneficiaries)
 Sommaire des revenus répartis et attribués aux bénéficiaires résidents (y compris les bénéficiaires privilégiés)

Do not use this area – N'inscrivez rien ici	Total number of T3 slips filed – Nombre de feuillets T3 produits	Capital gains – Gains en capital
	10	21
	Actual amount of dividends other than eligible dividends – Montant réel des dividendes autres que des dividendes déterminés	Capital gains eligible for deduction – Gains en capital admissibles pour déduction
	23	30
	Taxable amount of dividends other than eligible dividends – Montant imposable des dividendes autres que des dividendes déterminés	Actual amount of eligible dividends – Montant réel des dividendes déterminés
	32	49
Dividend tax credit for dividends other than eligible dividends – Crédit d'impôt pour dividendes autres que des dividendes déterminés	Taxable amount of eligible dividends – Montant imposable des dividendes déterminés	
39	50	
Date received – Date reçue	Other income – Autres revenus	Dividend tax credit for eligible dividends – Crédit d'impôt pour dividendes déterminés
093	26	51

Certification – Attestation

I certify that the information given on this T3 Summary and the related T3 slips is correct and complete.
 J'atteste que les renseignements fournis dans ce formulaire T3 *Sommaire* et les feuillets T3 qui s'y rapportent sont exacts et complets.

Date	Signature of authorized person – Signature d'une personne autorisée	Position or title – Poste ou titre
------	---	------------------------------------



Completing this T3 Summary

Identification

Complete this area using the same information that you entered in the identification area on the *T3 Trust Income Tax and Information Return*.

T3 slip totals

Line 10 – Enter the total number of T3 slips that you have included with this summary.

The other line numbers in this area are the same as the box numbers shown on a T3 slip. For each box number, add the amounts from all of the T3 slips filed with this summary, and enter the total on the corresponding line of this summary.

Certification

Ensure that you date and sign this area before sending us the summary.

Keep a copy of the T3 Summary with the trust records.

Comment remplir ce T3 Sommaire

Identification

Fournissez dans cette section les mêmes renseignements que vous avez indiqués dans la section d'identification de la *Déclaration de renseignements et de revenus des fiducies – T3*.

Totaux des feuillets T3

Ligne 10 – Inscrivez le nombre total de feuillets T3 que vous joignez à ce sommaire.

Les autres numéros de ligne dans cette section correspondent aux numéros de case du feuillet T3. Pour chaque numéro de case, additionnez les montants de tous les feuillets T3 joints à ce sommaire et inscrivez le total à la ligne correspondante.

Attestation

Assurez-vous d'indiquer la date et de signer cette section avant de nous envoyer le sommaire.

Conservez une copie du T3 *Sommaire* dans les dossiers de la fiducie.

Where to file this summary

Trusts resident in Canada

Ottawa Technology Centre
Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1A2

Non-resident trusts and deemed resident trusts

International and Ottawa Tax Services Office
Canada Revenue Agency
Post Office Box 9769, Station T
Ottawa ON K1A 1A8

Mandatory electronic filing

If you file more than 50 T3 slips for a calendar year, you **must** file the slips over the Internet.

You may choose one of the following electronic filing formats:

- Internet file transfer (XML); or
- Web Forms.

For more information about filing electronically, go to www.cra.gc.ca/iref/. You can also file T3 slips online using the "File a return" service and selecting the "Internet file transfer (XML)" option at:

- www.cra.gc.ca/representatives, if you are an authorized employee or representative; or
- www.cra.gc.ca/mybusinessaccount, if you are the business owner.

Web Forms

You can electronically file up to 100 T3 slips in a single submission using the Canada Revenue Agency (CRA) Web forms application. This service allows you to:

- create electronic T3 slips;
- validate data in real time, with prompts to correct errors before filing;
- calculate the totals for the T3 Summary;
- print T3 slips;
- securely submit encrypted T3 slips over the Internet; and
- save and import data to be retrieved at a later date.

For more information about Web Forms, go to www.cra.gc.ca/webforms.

Où devez-vous envoyer ce sommaire

Fiducies résidentes du Canada

Centre de technologie d'Ottawa
Agence du revenu du Canada
875, chemin Heron
Ottawa ON K1A 1A2

Fiducies non-résidentes et fiducies réputées résidentes

Bureau des services fiscaux international et d'Ottawa
Agence du revenu du Canada
Case postale 9769, succursale T
Ottawa ON K1A 1A8

Production obligatoire par voie électronique

Si vous produisez plus de 50 feuillets T3 pour une année civile, vous **devez** les transmettre par Internet. Vous pouvez choisir une des méthodes de transmission électronique suivantes :

- Transfert de fichiers par Internet (XML);
- Formulaires Web.

Pour obtenir plus de renseignements sur la façon de produire sur format électronique, allez à www.arc.gc.ca/tedr/. Vous pouvez aussi produire vos feuillets T3 au moyen du service « Produire une déclaration », en sélectionnant l'option « Transfert de fichiers par Internet (XML) », à l'une des adresses suivantes :

- www.arc.gc.ca/representants, si vous êtes un employé ou un représentant autorisé;
- www.arc.gc.ca/mondossierentreprise, si vous êtes le propriétaire de l'entreprise.

Formulaires Web

Vous pouvez transmettre par voie électronique jusqu'à 100 feuillets T3 en une seule fois à l'aide de l'application Formulaires Web de l'Agence du revenu du Canada (ARC). Ce service vous permet, entre autres, de faire ce qui suit :

- créer des feuillets T3 électroniques;
- valider les données en temps réel, avec des messages-guides vous avertissant des erreurs à corriger avant la transmission;
- calculer les totaux du T3 *Sommaire*;
- imprimer les feuillets T3;
- transmettre en toute sécurité vos feuillets T3 sous forme chiffrée par Internet;
- sauvegarder et importer les données pour récupération à une date ultérieure.

Pour en savoir plus sur les formulaires Web, allez à www.arc.gc.ca/formulairesweb.

Amending this T3 Summary

If you prepare and issue an amended T3 slip after you have filed the original slip with us, you may have to file an amended T3 Summary. If there is a change to the amounts in the boxes shown on the front of this summary, file an amended T3 Summary. If the amended T3 slip affects the amounts shown on the *T3 Trust Income Tax and Information Return*, or on Schedule 9, *Income Allocations and Designations to Beneficiaries*, **do not** file another T3 return. Instead, send us a completed Form T3-ADJ, *T3 Adjustment Request*, or a letter providing the details of the change. Indicate the tax year you want us to change and attach any supporting documents. Include the trust's account number on the letter.

Privacy Act, personal information bank number CRA PPU 015

Comment modifier ce T3 Sommaire

Si vous devez modifier un feuillet T3 après nous avoir fourni le feuillet original, vous devrez peut-être produire un T3 *Sommaire* modifié. Si vous devez modifier les montants inscrits dans les cases au recto de ce sommaire, produisez un T3 *Sommaire* modifié. Si le feuillet T3 modifié entraîne des changements des montants inscrits dans la *Déclaration de renseignements et de revenus des fiducies – T3*, ou dans l'annexe 9, *Revenus répartis et attribués aux bénéficiaires*, **ne produisez pas** une autre déclaration T3. Envoyez-nous plutôt le formulaire T3-ADJ, *Demande de redressement d'une T3*, dûment rempli, ou une lettre fournissant les détails de la modification. Indiquez l'année d'imposition visée par la modification et joignez toutes les pièces justificatives. Indiquez aussi le numéro de compte de la fiducie.

Loi sur la protection des renseignements personnels, fichier de renseignements personnels ARC PPU 015

For more information

What if you need help?

If you need more information after reading this guide, visit www.cra.gc.ca or call 1-800-959-8281.

Once a trust return is filed, the information on it becomes confidential. For this reason, we follow certain procedures before giving out information about the trust. Information can be given only to the trustee (or other legal representative who filed the return, such as an executor, administrator, assignee, receiver, or liquidator) or an authorized representative. The authorized representative could be an accountant, lawyer, or tax preparer acting for the trustee. Although beneficiaries are entitled to information related to their personal tax situation, they are not entitled to information from us about the tax affairs of the trust.

Direct deposit

Did you know... that the Government of Canada is switching to direct deposit for payments that it issues?

Direct deposit is faster, more convenient, reliable, and secure way to get the trust's refund directly into the trust's account at a financial institution in Canada.

For more information, go to www.cra.gc.ca/directdeposit.

Forms and publications

To get our forms and publications, go to www.cra.gc.ca/forms or call 1-800-959-8281.

Getting information by telephone

If you call us, we will ask:

- for your name and address, and the date you were appointed as trustee;
- whether a copy of the will, trust agreement, or letters of administration has been filed with us. If not filed, we will ask for a copy or for some other form of proof that will allow us to give you the information you need. If you have questions about the assessment of the trust's return, we may also ask you for information about the return; and
- for the date that your company was appointed as trustee, if you are an employee of a corporate trustee.

If your representative calls us, we will ask for evidence that you have authorized this person to get information for you, in addition to the trust-related identification.

Teletypewriter (TTY) users

TTY users can call 1-800-665-0354 for bilingual assistance during regular business hours.

Giving or cancelling an authorization

You can authorize a representative or cancel an authorization already given by writing to us, or by sending a completed Form T1013, *Authorizing or Cancelling a*

Representative. You can include this form with the trust's T3 return, but **do not** staple it to the return.

The authorization, or cancellation of an authorization, should include:

- the name, address, and account number of the trust;
- your representative's name (only the business name of a firm or partnership need appear, unless authorization is to be restricted to a certain member) and telephone number;
- the tax year or years to which the authorization, or cancellation of the authorization, applies; and
- your signature and title as the authorized signing person (trustee, executor, administrator, or liquidator), your telephone number, and the date.

You have to complete a separate written authorization or consent form for each representative appointed or cancelled for a tax year or years. Note that authorizing a new representative will **not** cancel your existing authorizations unless you ask us to cancel existing authorizations.

Our service complaint process

Step 1 – Talk to us

If you are not satisfied with the **service** that you have received from us, you can file a formal complaint. Before you do this, we recommend that you try to resolve the matter with the CRA employee you have been dealing with or call the telephone number that you were given.

If you are not pleased with the way your concerns are addressed, you can ask to discuss the matter with the employee's supervisor.

Step 2 – Contact the CRA Service Complaints Program

The Service Complaints Program is available to individuals and businesses. This program gives you another level of review if you are not pleased with the results from the **first step** of our complaint process. Generally, service-related complaints refer to the quality and timeliness of our work.

To file a complaint with the Service Complaints Program, complete Form RC193, *Service-Related Complaint*, which you can get by going to www.cra.gc.ca/complaints.

Step 3 – Contact the taxpayers' ombudsman

If, **after following steps 1 and 2**, you are still not satisfied with our service, you can file a complaint with the Office of the Taxpayers' Ombudsman.

For information about the taxpayers' ombudsman and how to file a complaint, visit www.oto-boc.gc.ca.

Reprisal complaint

If you believe that you have been subject to reprisal, complete Form RC459, *Reprisal Complaint*. For more information about reprisal complaints, go to www.cra.gc.ca/reprisalcomplaints.

Your opinion counts

If you have comments or suggestions that could help us improve our publications, send them to:

**Taxpayer Services Directorate
Canada Revenue Agency
395 Terminal Avenue
Ottawa ON K1A 0L5**

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