

This guide is for all corporate registrants under the International Financial Activity (IFA) program and accompanies the IFA Tax Refund of a Corporation (**FIN 578**) (IFA Return). In this guide we give you basic information on how to complete the IFA Return. This guide does not replace the *International Financial Activity Act* (Act) and Regulations. If you would like information on the Act, please refer to the *International Financial Activity Act* Overview Bulletin, **Bulletin IFA 001**, and the *International Financial Activity Act* and Regulations. These are available on our web site at www.sbr.gov.bc.ca/itb.

An international financial business (IFB) of a corporation is an active business, or part of an active business that is carried on through a fixed place of business in British Columbia, all the activities of which are international financial activities. A corporation may carry on several active businesses some of which may be partially or wholly an IFB.

To obtain a tax refund, a registered corporation must file an IFA Return with the Ministry of Small Business and Revenue within 18 months after the end of the taxation year.

A tax refund will only be paid to a registered corporation after all British Columbia and federal income taxes for the taxation year are paid. Income taxes payable for the taxation year must be paid within 3 years after the end of the taxation year. Please note a registered corporation is required to provide proof that all income taxes have been paid.

Your return will be considered complete only if all of the questions on the IFA Return are answered and all applicable supporting documentation is provided. Retain all documents that support how you derived the amounts reported.

HOW TO COMPLETE THE IFA RETURN

1. IDENTIFICATION

Enter the start and end date of the taxation year for which the claim is being made regardless of when the corporation was registered.

If this is the first year the corporation is registered under the Act, enter the date of the registration found on the corporation's Notice of Registration.

Enter the IFA account number issued to you by the Ministry of Small Business and Revenue and the corporation's nine digit federal business number supplied by the **Canada Revenue Agency** (CRA).

The location of the books and records for the IFB may not be located outside British Columbia without the consent of British Columbia's Commissioner of Income Tax. Consent may be obtained by mailing a request in writing to: Commissioner of Income Tax, PO Box 9444 Stn Prov Govt, Victoria BC V8W 9W8.

Please provide a list of each fixed place of business in British Columbia.

2. CONTACT INFORMATION

This is the contact information of a person in the corporation who is responsible for the IFA program. If you assign a person outside of the corporation as your business contact, for example your lawyer or accountant, you must fill out Schedule B – Authorization form (**FIN 564**). This form allows us to release information to them.

3. IS THIS THE FIRST YEAR OF FILING AFTER INCORPORATION OR AMALGAMATION?

If **YES**, attach a copy of Schedule 24, First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent, from your T2 Corporation Income Tax Return (T2).

4. IS THIS THE FINAL TAXATION YEAR BEFORE AMALGAMATION?

Amalgamated corporations must re-register under the IFA program. For additional information please refer to (**FIN 574G**), Guide to Filling Out the Application for Registration of a Corporation.

5. IS THIS YOUR FINAL IFA RETURN?

If you are filing your final IFA Return answer **YES**. This may be your final return as a result of an amalgamation, wind-up, dissolution or other reason. Please indicate the reason why this is your final IFA Return and provide all necessary supporting documents.

For example, if you are filing your final return due to dissolution or an amalgamation you should include any associated articles or applications to the government body that governs the affairs of your corporation that document the change in the corporation's legal structure.

You must ensure that the corporation has received all IFA tax refunds. Refunds cannot be issued to the corporation or its representatives once the corporation ceases to exist.

6. IS THIS CORPORATION A RESIDENT OF CANADA?

Answer *NO* if the corporation has been continued, amalgamated or otherwise transferred into a foreign jurisdiction. A corporation is only eligible to claim a tax refund if it was resident in Canada at any time in the taxation year.

7. IS THE CORPORATION EXEMPT FROM TAX UNDER SECTION 27 OF THE INCOME TAX ACT (BRITISH COLUMBIA)?

The corporation is not eligible to claim a tax refund under the Act if the corporation is exempt from tax under section 27 of the *Income Tax Act* (British Columbia). This includes any corporation exempt from tax by virtue of section 149(1) of the *Income Tax Act* (Canada) and non-resident owned investment corporations.

8. IS THIS AN AMENDED IFA RETURN?

If *YES*, you must attach the reasons for the amendment. This includes errors included in your previous IFA Return, a reassessment from the CRA, changes to taxable income as a result of losses being carried forward or back, or anything else that changes the calculation of the tax refund.

If a Notice of Assessment or Reassessment issued under the *Income Tax Act* (Canada) or the *Income Tax Act* (British Columbia) changes an amount relevant to calculating the corporation's tax refund for a taxation year, you must notify the Ministry of Small Business and Revenue within 90 days after the issuance of the notice.

If you are filing an amended IFA Return, you must provide the following documents with the amended return:

- a note explaining the amendment and providing reasons for the amendment;
- a copy of the revised financial statements, if applicable; and,
- a copy of your amended T2 return including T2 SCH 427 filed with CRA, if applicable.

If there is a balance owing, enter the amount of the cheque attached to the return. Make the cheque payable to the Minister of Finance.

9. TYPE OF CORPORATION

Check the Box that best applies to your business.

A savings institution is a bank, credit union, trust company or a corporation that is a subsidiary of a bank and is a loan company to which the *Trust and Loan Companies Act* (Canada) applies.

A corporation registered under the *Securities Act* is one that is listed as a dealer or underwriter under that act.

A foreign exchange business is a corporation whose primary business is dealing in foreign exchange.

An insurance company is a corporation that has authorization under the *Financial Institutions Act* to carry on an insurance business.

A captive insurance company is defined in the *Insurance (Captive Company) Act*.

If your corporation is not one of the types of corporations listed, check other.

10. SUPPORTING DOCUMENTATION

SCHEDULE A: STATEMENT OF ADJUSTED IFB INCOME (OPTION A OR OPTION B) (FIN 537 OR FIN 543)

This schedule calculates the adjusted IFB income recognized during the period of registration in the taxation year for each international financial business (IFB). Complete a separate Schedule A for each international financial business within the corporation using either Option A or Option B as required.

For further instructions see the [Appendix](#) – Completing Schedule A (Option A or Option B).

ATTACHMENTS

FINANCIAL STATEMENTS AND T2 CORPORATE INCOME TAX RETURNS

Provide a copy of the corporation's financial statements and T2. This includes all federal and British Columbia schedules including Schedule 427 British Columbia Corporation Tax Calculation (T2 SCH 427) and the corporation's General Index of Financial Information (GIFI), filed with CRA for the taxation year.

NOTICES OF ASSESSMENT OR REASSESSMENT

You must provide a copy of all Notices of Assessment or Reassessment issued by CRA for the taxation year. If you have not received a Notice of Assessment, you must still file an IFA Return with the Ministry of Small Business and Revenue within 18 months of the end of the taxation year in order to claim an IFA tax refund. If you are unable to provide a Notice of Assessment, please include a written explanation at the time you file your return.

STATEMENT OF ACCOUNT

You must provide a copy of the Statement of Account issued by CRA which provides proof that all amounts have been paid if there is a balance owing on your Notices of Assessment or Reassessment.

REVISED LISTS OF INFORMATION

Please provide updated lists if any of the following information has changed since the corporation registered or since the corporation last filed an IFA Return:

- list of directors and contact information.
- list of related or affiliated corporations.
- list of international financial activities.

11. CALCULATION OF ADJUSTED INCOME

This part calculates the adjusted income for the corporation. Adjusted income is generally the corporation's net income calculated for tax purposes, adjusted to remove certain losses and dividends. Adjusted income is used in the calculation of a corporation's eligible proportion of income.

Box D: Enter net capital losses of subsequent years carried back to the taxation year. To determine the net amount, apply the appropriate inclusion rate to the capital loss amount you requested to be carried back from Schedule 4 of the T2.

For example, if you requested a \$100 capital loss be carried back and applied to the 2005 taxation year, the appropriate inclusion rate is 50%. This results in a \$50 net capital loss that must be reported on your 2005 IFA Return.

For further information on capital gains and losses and the appropriate inclusion rate, please see CRA's publication T4037 Capital Gains.

12. CALCULATION OF BRITISH COLUMBIA PERCENTAGE OF FEDERAL TAXABLE INCOME

This part calculates the proportion of the corporation's taxable income that is allocated to British Columbia. A corporation's British Columbia percentage of federal taxable income is used in the calculation of a corporation's eligible proportion of income.

Box B: If paragraph 149(1)(t) of the *Income Tax Act* (Canada) applies, enter the net amount from line Z (line 360 minus line 370) of the T2.

Box C: Enter the percentage calculated to 6 decimal places.

13. CALCULATION OF ELIGIBLE PROPORTION OF INCOME

This part calculates the corporation's eligible proportion of income attributable to the IFB for the taxation year. This proportion is used in the tax refund calculation.

Box D: Enter the amount of total adjusted IFB income (loss) by adding together the Adjusted IFB Income from all Schedule A's (Statement of Adjusted IFB Income) for the corporation.

Box F: Enter:

- zero if the corporation's adjusted income, BC taxable income, federal taxable income or total adjusted IFB income is zero or less than zero, or
- one if the amount calculated as the corporation's eligible proportion of income is greater than one.

14. CALCULATION OF TAX REFUND

This part calculates the tax refund for the corporation.

Box B: Enter the amount of Net British Columbia tax payable or refundable credit from line 244 of Schedule 5 of the T2. Enter a credit as a negative number.

Schedule 5 is applicable if the corporation has income allocated to more than one jurisdiction or has provincial tax credits.

If Schedule 5 is not applicable, do not enter an amount in Box B and enter in Box D the amount entered in Box C.

Box C: If Schedule 5 does not apply, the determination of British Columbia net tax payable will be based on the amount found on Line G of T2 SCH 427.

Box D: Enter the net tax payable that is the lesser of Box B or Box C.

Box F: If this is an amended IFA Return, enter the amount of the tax refund previously determined for the taxation year. If this is not an amended return, enter zero.

Box G: An amount is owed if Box G is negative. Interest will be charged on all amounts owing. Please refer to section 8 of this guide for further instructions on amounts owing.

15. CERTIFICATION

You must have an authorized representative of the corporation certify that all the information provided is true, correct and complete.

MORE INFORMATION

If you need help, please contact the Income Taxation Branch at 250-953-3082 or by e-mail at ITBTaxQuestions@gems6.gov.bc.ca.

COMPLETING SCHEDULE A (OPTION A OR OPTION B)

Use Option B when your corporation's active business income is exclusively from IFA activities. Use Option A in all other cases.

You only need to provide the period of registration (e.g. from YYYY/MM/DD to YYYY/MM/DD) if it differs from the taxation year of the corporation.

OPTION A

When you use Option A you are calculating the IFB income by reporting the revenue and expenses as you would for income tax purposes.

List each of the IFB revenues and related expenses with the amount in the spaces provided. You must deduct all amounts that relate to the IFB and have been deducted in determining your business income or loss for income tax purposes for the taxation year. If the international financial business is only part of an active business then the deductions must be allocated in a reasonable manner.

Example 1:

Your corporation exclusively conducts IFA activities and 100% of income is from an IFB.

Capital cost allowance (CCA) claimed on the T2: \$100.

Amount of CCA to include as an IFB expense: \$100.

In this example, because the corporation exclusively operates as an IFB, the full amount of CCA should be included as an IFB expense in determining IFB income.

Example 2:

Your corporation conducts two businesses, only one of which is an IFB.

You have determined that 30% of your undepreciated capital cost (UCC) balance relates to the IFB and it is reasonable to allocate CCA on this basis.

CCA claimed on the T2: \$100

Amount of CCA to include as an IFB expense: \$30.

In this example, because the corporation does not exclusively operate as an IFB, a portion of the CCA must be included as an IFB expense in determining their IFB income.

OPTION B

When you use Option B you are reconciling net income for income tax purposes, as reported on your T2, to IFB income.

Itemize each applicable addition or deduction in the spaces provided.

Add any other losses or expenses that are included in determining the corporation's net income for tax purposes that were not part of your active business income.

Deduct any other income or gains that are included in determining the corporation's net income for tax purposes that were not part of your active business income.

OPTION A AND OPTION B

ADJUSTED INTEREST

The adjusted interest is the greater of zero and the amount calculated by the following formula:

$$(65\% \times \text{interest revenue}) - \text{interest expense}$$

where:

- interest revenue is the amount of interest included in computing the IFB income (loss) of the IFB for the taxation year;
- interest expense is the amount of interest deducted in computing the IFB income (loss) of the IFB for the taxation year.

DIVIDENDS FROM FOREIGN AFFILIATES

Dividends from foreign affiliates are amounts included under section 12(1)(k) of the *Income Tax Act* (Canada) in computing IFB income (loss) of the IFB for the taxation year, if the corporation makes a deduction under section 113 of the *Income Tax Act* (Canada).

INDUCEMENTS

Inducements (including government assistance) are amounts included under section 12(1)(x) of the *Income Tax Act* (Canada) in computing the IFB income (loss) of the IFB for the taxation year. Do not include any amounts elected under section 12(2.2) of the *Income Tax Act* (Canada).