

VisualTax™

T2-2005 Release Notes Feb. 5 2005

Web site: [HTTP://www.visualtax.com](http://www.visualtax.com)

Introduction

This is the first release of the T2-2005 program.

The program can process fiscal periods starting on Jan. 1, 2002 and ending up to April 30, 2005.

CRA has set two software approval dates per year, one that allows processing up to April 30 and the second up to October 30 of each year.

Another version of the program will be issued after April 2005 that will process fiscal periods up to October 30, 2005.

Several changes issued in the Dec. 15, 2004 update were applicable only to the 2005 and as such they are also available now in the 2005 version. Some forms have been slightly modified by CRA since then. These changes are now reflected in the program.

Data directory: You can use Configure | Data directories to define a new data directory such as C:\T2-2005\data. However, you can also re-use your existing data directory such as C:\T2-2004\Data that already has the previous year's tax returns. In the Last Year's Data directory box you should enter again C:\T2-2004\Data or whatever you used with your T2-2004 version.

You can have 2003, 2004, 2004 tax returns of the same corporation in the same data directory.

Rollover: Once you defined the data directories as described above, you can roll-over the previous year's tax return (s).

Program Changes

Modified Forms: Several federal and provincial forms have been revised to comply with the latest versions officially released by CRA up to our program changes cut-off date of Jan. 27, 2005 (i.e. the T2 Jacket). There is no material change in the forms compared to the ones we included in the Dec 15, 2004 update. Any change if any, issued by CRA after Jan 27, 2005, will be included in a program update.

RC59-Consent form. The new form is redesigned and it consists of two pages now

Capital cost allowance (CCA) rates –
Added classes 45 and 46. For computer equipment acquired after March 22, 2004, the CCA rate has increased from 30% to 45% in new class 45. The current rule allowing a separate class election in respect of each piece of computer equipment is not available for equipment qualifying for the 45% rate, see “ Electronic office equipment” on page 31 of the Business and Professional Income Tax Guide. However, you may elect to have the current rule apply to computer equipment acquired before 2005. Data network infrastructure equipment acquired after March 22, 2004 (usually included in class 8 and eligible for CCA at 20%) are included in a new class 46 with a 30% CCA rate.

Federal political contribution tax credit

The calculation is changed for taxation years ending in 2004 and later.

For taxation years ending in 2004 and later

75% of the first \$400 contributed plus 50% of the next \$350 contributed; plus 33 1/3% of the next \$525 contributed, to a maximum of \$650.

For taxation years ending before 2004

75% of the first \$200 contributed; plus 50% of the next \$350 contributed; plus 33 1/3% of the next \$525 contributed, to a maximum of \$500

Business limit

The maximum allowable business limit is increased to \$300,000 for calendar years starting January 1, 2005 or later. See item 97.

Applying losses and credits

For the following losses and credits that arise in taxation years ending after March 22, 2004, the carry-forward period is ten years:

Non-capital losses (applied under Part I or Part IV). See item 70;

Life insurer's Canadian life investment losses (applied under Part XII.3); and

Unused foreign tax credits (applied under Part I). See item 115

S366-New Brunswick tax rate

The lower rate of New Brunswick income tax is reduced to 2.5% effective July 1, 2004. See item 139.

S366-New Brunswick business limit

The New Brunswick business limit is \$425,000 effective July 1, 2004. See item 139.

MCT-Manitoba Capital Tax

Page 2 and 3 give you the option to bring automatically relevant data from GIFL.

If you choose automatic transfer the following lines are affected.

Paid up capital stock Line 21

Earned Surplus Line 22

Appraisal Surplus Line 24

Contributed Surplus Line 25

Deferred income taxes and other deferred taxes payable Line 31

Lien notes Line 35

Mortgages Line 36

Goodwill Line 51

Trademarks Line 54

Total assets as per balance sheet Line 71

S383-Manitoba tax rate

The high rate of Manitoba income tax is reduced to 14.5% effective January 1, 2006. See item 140.

S384-Manitoba co-operative education tax credit

You can carry back an unclaimed credit to the three preceding taxation years ending after April 22, 2003. You can also carry forward the unclaimed credit to the ten taxation years that follow the taxation year in which the expenditures were incurred. See item 140.

S381-Manitoba manufacturing and processing tax credit

For credits earned in taxation years ending after 2003, the carry-forward period is extended to ten years. See item 140.

S380-Manitoba research and development tax credit

For credits earned in taxation years ending after 2003, the carry-forward period is extended to ten years. See item 140.

S385-Manitoba odour control tax credit

You can earn this credit on eligible depreciable capital property acquired and made available for use after April 19, 2004 and before January 1, 2007, to implement measures to prevent, reduce, or eliminate nuisance odours arising from activities which use or produce organic waste. See item 140.

Manitoba film and video production tax credit

This credit is extended to salaries paid before March 1, 2008, and introduces two new incentives. See item 140.

S342-Nova Scotia tax on large corporations

Effective April 1, 2004, the rate is increased to 0.6% where the taxable capital of all related corporations is less than \$10 million and to 0.3% if it is more. See item 147.

Saskatchewan political contribution tax credit

The calculation is changed for taxation years ending after 2003. See item 141.

For taxation years ending in 2004 and later

75% of the first \$400 contributed plus 50% of the next \$350 contributed plus 33 1/3% of the next \$525 contributed, to a maximum of \$650.

For taxation years ending before

2004

75% of the first \$200 contributed plus 50% of the next \$350 contributed plus 33 1/3% of the next \$525 contributed, to a maximum credit of \$500

S402 - Saskatchewan manufacturing and processing investment tax credit

The rate is increased to 7% on qualified property acquired after March 31, 2004. See item 141.

S425-British Columbia scientific research and experimental development tax credit

This credit is extended to expenditures made before September 1, 2009. See item 142.

Yukon tax rate

The lower rate of Yukon income tax is reduced to 4% effective January 1, 2005. See item 143.

Yukon business limit

The Yukon business limit will be \$400,000 effective January 1, 2007. See item 143.

Yukon mineral exploration tax credit

The credit is extended to expenses incurred before April 1, 2007. See item 143.

Northwest Territories tax rate

The higher rate of Northwest Territories income tax is increased to 14% effective January 1, 2004. See item 144.

MISCELLANEOUS PROGRAM CHANGES

Pick Lists: Pick lists can now be activated by double click. Last year it was activated only by hitting the space bar or any other character (i.e. Province codes, CCA classes, etc).

List of opened forms: The program keeps track of opened forms and it shows what forms have been opened during the session. This feature can be disabled via Config |

Other options. It can be cleared via Forms | Clear Opened forms list. This feature allows you to easily open a previously opened form. The F7 can still be used to open the previous page.

Automatic Web Update

The program includes a utility that checks the Internet for any new program update posted on our web site and at your option it can download and install the update. This eliminates the need for you to manually check our web site for any updates.

You can set the frequency of how often this automatic check should take place. By default the program sets the 'check update' frequency to once a day. See Configuration | How Often to check for update. i.e. you can configure it to check once a day when you start the program.

You can suppress the automatic check by specifying frequency of 0 days. If you do that, then you can manually check for updates by using the option under the Help item of the Menu called 'Check update via Web'.

If you choose automatic updates (via the frequency setting) the program will check our web site automatically when you start the program (logon screen) based on the frequency you defined and the last time you checked for an update. It is recommended that during the prime tax season you set the Update Frequency to 1 or 2 days and for the rest of the season to maybe once a week (every 7 days) or more. If you have fast Internet access, you can set the update to once a day. This way you know that you will be up-to-date constantly as the program will check for updates the first time you start the program in the day. Regardless of the update frequency you set, you can check for updates any time via the relevant option under the Help item of the main menu.

Users with Windows 98 will not be able to use the Automatic Web Updater.

TR – Tax Research

The TR has become separate software that works either on a stand-alone basis and/or in conjunction with the T1 and T2 software. The TR program should be installed in a directory preferably separate from T1 or T2.

The TR can be activated from the T1 or T2 as follows:

- a. Click on Configure and then TR folder. You need to specify the folder where the TR has been installed (Typically C:\TR-2004).
- b. Click on Help | Load TR. This loads the TR program.

Once the TR is loaded it can stay that way until you Exit from the TR program. Frequent TR users should not exit (close) the TR program. Instead, the TR should be minimized so every time you need the TR it will be readily available. In addition you can use the services of the TR program directly from the T1 or T2 program.

i.e. If you right click on a form it has an option to request TR. The same happens if you right click on any of the lines.

SUMMARY OF OTHER CRA ANNOUNCEMENTS AND PROPOSED LEGISLATION

Electronic payment of balance owing

You can pay your corporation's 2004 balance owing electronically by using your financial institution's telephone or Internet banking services. Most financial institutions allow a corporation to schedule a future-dated payment. For more information about this option, visit our Web site at www.cra.gc.ca/electronicpayments or contact your financial institution.

Fairness requests

Requests to waive or cancel penalties or interest made in a calendar year after 2004 are only considered for a taxation year that ended ten calendar years or less before the calendar year of the request. See item 6.

Association rules

Canadian controlled private corporations may be associated only because the same persons control the corporations even though these persons do not act together. If so, for taxation years ending after March 22, 2004, the corporations will not be considered associated for certain calculations. See items 30 and 122

Fines and penalties

Penalties and fines imposed after March 22, 2004, that are imposed by federal, provincial

or municipal governments in Canada or by a foreign country are not deductible.

Donations and gifts

Corporations may have undergone a change of control and have a carry-forward of donations or gifts that accrued before the change of control and after March 22, 2004. If so, these donations or gifts are not deductible after the change of control. See items 78 to 81.

Patronage dividends

Corporations other than credit unions and co-operative corporations cannot deduct patronage dividends if paid after March 22, 2004 to non-arms length persons. See item 61.

Foreign investment entities and non-resident trusts

The 1999 federal budget proposed changes to the existing rules for foreign investment entities (FIEs) and non-resident trusts (NRTs), which once they become law will have an effective date of, generally, the 2003 taxation year. These proposed rules require a corporation with an interest in a FIE to include an amount from the investment in its income; they will also deem NRTs with a connection to Canada to be resident here and will make a "contributor" to and a "beneficiary" under such trusts jointly and severally liable for the trust's Canadian tax liability. Therefore, any corporation that is a "contributor" or a "beneficiary" with respect to a NRT may be jointly liable with the NRT for the NRT's Canadian tax. For more information about the proposed changes, call us at one of the telephone numbers provided on page 9 of this guide.