

## Income Tax

IMP. 87-4/R1      Amounts received as assistance or as an inducement  
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Reference(s):      *Taxation Act* (R.S.Q., c. I-3), ss. 87 (par. w), 87.3, 87.4, 101, 101.6, 157 (par. o),  
157.2.1, 257 (par. d and f.2) and 257.2

*This bulletin supersedes bulletin IMP. 87-4 dated February 28, 1995.*

### APPLICATION OF THE ACT

#### AMOUNTS RECEIVED AS ASSISTANCE OR AS AN INDUCEMENT

1. Paragraph w of section 87 of the *Taxation Act* (TA) provides that a taxpayer must include, in computing income from a business or property for a taxation year, any particular amount, other than a prescribed amount, received by the taxpayer in the year as assistance or as an inducement in the course of earning income from a business or property.

#### Source of the payment

2. The amounts must be received from

- (a) a government, municipality or other public authority;
- (b) a person or partnership, hereinafter referred to as the “particular person”, that pays the particular amount in the course of earning income from a business or property or in order to obtain a benefit for the particular person or for persons with which the particular person does not deal at arm’s length; or
- (c) a person in circumstances such that it may reasonably be concluded that the person would not have paid the particular amount were it not for an amount the person received from a particular person or an entity contemplated in this point.

Subparagraph (c) refers to the notion of “indirect assistance” which applies in respect of an amount received after February 23, 1998, other than an amount received before January 1, 1999, pursuant to an agreement in writing entered into before February 24, 1998. For example, if a taxpayer received amounts from a non-profit organization that is financed by a government, the amounts received could be included in the taxpayer’s income in the same manner as assistance provided

directly by the government if it is reasonable to conclude that the organization would not have paid the amounts had it not received money from the government.

### **Nature of the payment**

3. The particular amount may reasonably be considered as having been received

- (a) as a refund, reimbursement, contribution or allowance, or as assistance, whether as a grant, subsidy, forgivable loan, deduction from tax, allowance or any other form, in respect of an amount included in, or deducted as, the cost of property, or in respect of an outlay or expense; or
- (b) as an inducement, whether as a grant, subsidy, forgivable loan, deduction from tax, allowance or any other form.

### **Amounts expressly excluded**

4. The following amounts are expressly excluded from the application of paragraph *w* of section 87 of the TA:

- (a) a prescribed amount (refer to point 8 below);
- (b) an amount already included in computing the taxpayer's income or deducted in computing, for the purposes of Part I of the TA, any balance of undeducted outlays, expenses or other amounts, for the year or a preceding taxation year;
- (c) except as provided by any provision of Chapter III.1 of Title III of Book IX of Part I of the TA (the chapter pertaining to refundable tax credits), an amount that reduces the cost or capital cost of the property or the amount of the outlay or expense, as the case may be, for the purposes of Part I of the TA;
- (d) an amount that reduces the cost or capital cost of the property or the amount of the outlay or expense, as the case may be, pursuant to paragraph *f.2* of section 257 of the TA, section 87.4 of the TA, or section 101.6 of the TA; and
- (e) an amount that may reasonably be considered to be a payment made in respect of the acquisition by the particular person or the entity of an interest in the taxpayer or in the business or property of the taxpayer.

### **Beneficiary of a trust or member of a partnership**

5. Under section 87.3 of the TA and for the purposes of paragraph *w* of section 87 of the TA, where a taxpayer who is a beneficiary of a trust or a member of a partnership receives at a particular time an amount in respect of the activities of the trust or partnership, in respect of the cost of property owned by the trust or partnership, or in respect of an outlay or expense of the trust or partnership, on any basis contemplated in that paragraph *w*, the amount is deemed to have been received at that time by the trust or partnership on that same basis.

## **OTHER BULLETINS PERTAINING TO THE NOTION OF ASSISTANCE**

6. The current version of bulletin IMP. 87-6 pertains to refundable tax credits received as assistance or as an inducement. In Appendix A, the bulletin lists certain credits that are deemed not to be an amount of assistance or an inducement for the purposes of Part I of the TA.

7. Under section 101 of the TA, an amount received or receivable in a taxation year by a taxpayer as assistance in respect of depreciable property or for the acquisition of such property, other than a prescribed amount, reduces the capital cost of the property in question. Refer to the current version of bulletin IMP. 101-1, *Government assistance in respect of depreciable property*.

8. For the purposes of paragraph w of section 87 of the TA, section 101 of the TA, and paragraph d of section 257 of the TA, the prescribed amounts are listed in the current version of bulletin IMP. 87-7, *Prescribed amounts of assistance*.

9. Under section 87.4, 101.6 or 257.2 of the TA, a taxpayer may elect to reduce, respectively, the amount of an expense incurred, the capital cost of depreciable property, or the adjusted cost base of non-depreciable property by all or part of an amount of assistance received in the year in respect of the expense or in respect of the cost of the depreciable or non-depreciable property, as applicable, that was acquired by the taxpayer in the year and that would otherwise have been included in computing income under paragraph w of section 87 of the TA. In this respect, refer to the current version of bulletins IMP. 87.4, *Election concerning an amount of assistance or an inducement received by a taxpayer in respect of an outlay or expense*, IMP. 101.6-1, *Election concerning an amount of assistance or an inducement received by a taxpayer in respect of depreciable property*, and IMP. 257.2-1, *Election concerning an amount of assistance or an inducement received by a taxpayer in respect of capital property other than depreciable property*.

10. Paragraph d of section 257 of the TA provides that the adjusted cost base of property, other than depreciable property, must be reduced by the amount of assistance received or receivable. Refer to the current version of bulletin IMP. 257-2, *Government assistance in respect of capital property other than depreciable property*.

## **REPAYMENT BY A TAXPAYER IN RESPECT OF AN OUTLAY OR EXPENSE, OTHER THAN AN OUTLAY OR AN EXPENSE RELATED TO THE COST OF THE TAXPAYER'S PROPERTY**

11. Under paragraph o of section 157 of the TA, a taxpayer may deduct, in computing income from a business or property for a taxation year, an amount repaid by the taxpayer in the taxation year pursuant to a legal obligation to repay all or part of the particular amount included, under paragraph w of section 87 of the TA, in computing income for the year or a preceding taxation year.

12. Paragraph o of section 157 of the TA also allows a deduction in computing the taxpayer's income where an amount is repaid pursuant to a legal obligation to repay all or part of a particular amount that, by reason of subparagraph ii of paragraph w of section 87 of the TA or by reason of the election provided for in section 87.4 of the TA, was not included in computing the taxpayer's income under that paragraph w, for the year or a preceding taxation year, if the particular amount relates to an outlay or expense, other than an outlay or expense described in section 157.2.1 of

the TA, that would have been deductible in computing the taxpayer's income for the year or a preceding taxation year had the particular amount not been received.

**13.** For example, a taxpayer reduced, by reason of the election made by the taxpayer under section 87.4 of the TA, current expenses deductible in computing income for the taxation year X1 by an amount of assistance received in respect of those expenses in that taxation year. In the taxation year X2, the taxpayer repaid the full amount of that assistance. Under paragraph o of section 157 of the TA, the taxpayer would be entitled to deduct the amount of assistance repaid in computing income for the taxation year X2.

**14.** For the purposes of the rules described in point 12, section 157.2.1 of the TA provides that an outlay or expense does not include

- (a) an outlay or expense related to the cost of the taxpayer's property; or
- (b) an outlay or expense that is deductible under any of Divisions II to IV.1 of Chapter X of Title VI of Part I of the TA (sections 360 to 418.14 of the TA dealing with depletion, exploration and development expenses, Canadian exploration and development expenses, Canadian oil and gas property expenses), except sections 360 and 361 of the TA (which deal, in particular, with a depletion allowance in respect of a natural accumulation of petroleum or natural gas, an oil or gas well, or a mineral resource), or would be deductible if the amounts so deducted by the taxpayer were not limited by reason of
  - i. paragraph *b* of section 371 of the TA (specified foreign exploration and development expenses),
  - ii. section 400 of the TA (cumulative Canadian exploration expenses),
  - iii. subparagraph ii of subparagraph *a* of the first paragraph of section 413 of the TA (cumulative Canadian development expenses – oil business),
  - iv. the percentage (30%) provided for in subparagraph 2 of subparagraph ii of paragraph *a* of section 418.1.10 of the TA (deduction for cumulative foreign resource expenses),
  - v. subparagraph 3 or 4 of subparagraph ii of paragraph *a* of section 418.1.10 of the TA (deduction for adjusted cumulative foreign resource expenses), or
  - vi. subparagraph ii of paragraph *a* of section 418.7 of the TA (reserve for unpaid amounts (acquisition cost or expenses) related to a share forming part of an inventory of Canadian oil and gas property).

## **REPAYMENT BY A TAXPAYER IN RESPECT OF CAPITAL PROPERTY**

**15.** Where the taxpayer repays, pursuant to a legal obligation, an amount of assistance or an inducement received in respect of capital property and in respect of which the taxpayer has made an election under section 257.2 or 101.6 of the TA, as applicable, the rules described in the current version of bulletin IMP. 257.2-1 or IMP. 101.6-1 may apply, as applicable.

## MISCELLANEOUS

### **Income tax deduction related to a registered gain-sharing plan that is part of a quality approach**

16. For the purposes of paragraph *w* of section 87 of the TA, the amount that a corporation deducted in computing its income tax under sections 776.1.5.4 and 776.1.5.5 of the TA is assistance or an inducement received from a government.

### **Goods and services tax and Québec sales tax**

17. Under the provisions of Chapter XII of Title II of Book I of Part I of the TA (sections 21.34 to 21.38 of the TA), an amount received by a taxpayer under Part IX of the *Excise Tax Act* (R.S.C., 1985, c. E-15) (the goods and services tax) or under the *Act respecting the Québec sales tax* (R.S.Q., c. T-0.1) (the Québec sales tax) in relation to property or a service as an input tax credit or refund, or in respect of one of those taxes, is deemed to be an amount of assistance that the taxpayer receives from a government in respect of the property or service. Those provisions also specify the time when the taxpayer is deemed to receive the amount in question. That time corresponds to the end of a reporting period in which the taxes related to property or a service were claimed as an input tax credit or refund, as applicable, under the *Excise Tax Act* or the *Act respecting the Québec sales tax*, if no such tax was paid nor became payable in respect of the credit or refund, as applicable, during that reporting period. However, if those taxes were paid or became payable in that reporting period, that time will correspond to the time when the taxes were paid or became payable. As for an amount claimed as a refund in respect of the goods and services tax or the Québec sales tax, that time will be the time when the amount is received by or credited to the taxpayer.

### **Mining duties**

18. An amount received under section 32 of the *Mining Duties Act* (R.S.Q., c. D-15) as a credit on duties refundable for losses is not considered to be assistance or an inducement received from a government within the meaning of paragraph *w* of section 87 of the TA.

### **Deduction in computing taxable income**

19. The Ministère du Revenu considers that, for the purposes of Part I of the TA, an amount that an individual deducts in computing his or her taxable income in a taxation year under section 726.0.1 of the TA (savings and credit union permanent shares savings plan), section 726.1 of the TA (stock savings plan), section 726.3 of the TA (Québec business investment companies) or section 726.4 of the TA (co-operative investment plan) is not assistance or an inducement received from a government.

20. For the purposes of Part I of the TA, an additional deduction for Québec resources claimed by an individual in computing his or her taxable income is not assistance or an inducement received from a government.

### **Interest-free loan**

**21.** Where a taxpayer contracts a loan with a financial institution in the course of earning income from the taxpayer's business and a government reimburses the interest arising from that loan as assistance or financial support that the government wishes to grant the taxpayer, the amount of interest paid is, for the purposes of paragraph *w* of section 87 of the TA, an amount of assistance or an inducement received from a government. However, if a government grants an interest-free loan to a corporation and the loan is not a forgivable loan, the loan is not, for the purposes of paragraph *w* of section 87 of the TA, an amount received by the corporation as assistance or an inducement.

### **Property tax refund**

**22.** The Ministère du Revenu considers that the part of a property tax refund received by a taxpayer and related to a property tax expense that is deductible as an expense related to an office in the home in computing business income is an amount of assistance contemplated in paragraph *w* of section 87 of the TA.

### **Cash remittance from a financial institution upon obtaining financing**

**23.** Where a financial institution, in the course of financing rental property, grants a borrower a cash remittance determined on the basis of the borrower's hypothecary loan, the Ministère du Revenu considers that the cash remittance is an inducement contemplated in paragraph *w* of section 87 of the TA.