

## Income Tax

IMP. 14-1/R3 Attribution of gross revenue to an establishment when a corporation owns land in a province

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Reference(s): *Taxation Act* (CQLR, c. I-3), ss. 14, 22, 27 and 771  
*Regulation respecting the Taxation Act* (CQLR, c. I-3, r. 1), ss. 771R4, 771R7, 771R14, 771R18 and 771R20

*This version of interpretation bulletin IMP. 14-1 supersedes the version dated August 31, 2005. The bulletin was revised to take into account changes to the numbering in the Regulation respecting the Taxation Act made under Order in Council 134-2009 of February 18, 2009 (2009, G.O. 2, 397). The interpretation remains unchanged.*

This bulletin establishes the gross revenue of a corporation that is attributable to an establishment, when the corporation owns land in a province and the land constitutes an establishment. The attribution of gross revenue is necessary to compute the proportion that the business carried on in Québec is of the aggregate of the business carried on in Québec and elsewhere, in cases where a corporation has an establishment in Québec and an establishment in another jurisdiction.

### APPLICATION OF THE ACT

1. A corporation that has an establishment in Canada under sections 12, 13 and 15 to 16.2 of the *Taxation Act* (TA) and that is the owner of land in a province is deemed to have, with respect to the land, an establishment in that province.
2. Where a corporation owns land in Canada and does not otherwise have an establishment in Canada, the land may constitute an establishment if it is a fixed place where the corporation carries on its business. In this regard, refer to the principles set forth in the current version of bulletin IMP. 12-1.
3. Where land is an establishment under 12 of the TA, the gross revenue derived from it is attributable to the establishment, in accordance with section 771R20 of the *Regulation respecting the Taxation Act* (RTA). For example, a corporation that earns only rental income from land that constitutes an establishment under section 12 of the TA must attribute this revenue to the establishment for the purpose of computing the proportion referred to in paragraph a of

section 771R4 of the RTA, since the land is property used in connection with the principal activity of the corporation, as required by section 771R7 of the RTA.

It should be noted that the capital gain resulting from the disposition of land that constitutes an establishment is not taken into account in computing the proportion referred to in paragraph a of section 771R4 of the RTA, since the capital gain does not constitute gross revenue in this respect.

4. The gross revenue derived from the following sources, for example, must be attributed to the establishment of the corporation constituted by the land:

(a) the sale of merchandise shipped into the jurisdiction where the land is situated, in accordance with section 771R14 of the RTA;

(b) services rendered in this jurisdiction, in accordance with section 771R18 of the RTA.

5. For example, a corporation that has an establishment in Ontario and owns land in Québec has, by virtue of this fact, an establishment in Québec under section 14 of the TA. If the corporation has gross revenue totalling \$100,000, \$40,000 of which is derived from the sale of merchandise shipped into Québec and \$10,000 of which is derived from leasing the land (which, hypothetically, constitutes property that is used in connection with the principal activity of the corporation), the proportion referred to in paragraph a of section 771R4 of the RTA is 50%, computed as follows:

$(\$40,000 + \$10,000) / \$100,000$ .