

REVENU  
QUÉBEC



2023

GUIDE

# BUSINESS AND PROFESSIONAL INCOME



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**AS THE SOLE PROPRIETOR  
OF A BUSINESS OR A MEMBER  
OF A PARTNERSHIP,  
YOU PLAY A VITAL ROLE  
IN QUÉBEC'S ECONOMY.**

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This guide will help you calculate the business income to report in your income tax return and claim all the deductions you are entitled to.

# CONTENTS

|   |           |
|---|-----------|
| <b>New for 2023</b>   | <b>9</b>  |
| <b>1 General information</b>                                      | <b>10</b> |
| 1.1 Is this guide for you? .....                                  | 10        |
| 1.2 Documents to enclose with the income tax return .....         | 10        |
| 1.2.1 You are a sole proprietor .....                             | 10        |
| 1.2.2 You are a member of a partnership .....                     | 10        |
| 1.3 Abbreviations .....   | 11        |
| 1.4 Assistance program .....                                      | 11        |
| <b>2 Business income, property income and capital gains</b>       | <b>12</b> |
| 2.1 Business income and property income .....                     | 12        |
| 2.2 Capital gain .....  | 12        |
| <b>3 Reporting business or professional income</b>                | <b>13</b> |
| 3.1 Fiscal period .....   | 13        |
| 3.1.1 Conversion to a fiscal period ending on December 31 .....   | 13        |
| 3.1.2 Fiscal period ending on a date other than December 31 ..... | 14        |
| 3.2 Method of accounting .....                                    | 15        |
| 3.3 GST/HST and QST .....   | 15        |
| <b>4 Carrying on a business</b>                                   | <b>16</b> |
| 4.1 Income .....  | 16        |
| 4.1.1 Sales .....   | 16        |
| 4.1.2 Reserves claimed in the previous year .....                 | 16        |
| 4.1.3 Other income .....  | 16        |
| 4.1.4 Family-type lodging resources .....                         | 17        |
| 4.1.5 Income from online activities .....                         | 17        |
| 4.1.6 Securities transactions .....                               | 19        |
| 4.2 Cost of goods sold .....                                      | 20        |
| 4.3 Inventory .....   | 20        |
| 4.3.1 Taking inventory .....                                      | 20        |
| 4.3.2 Inventory valuation methods .....                           | 20        |
| 4.3.3 Self-employed artists .....                                 | 20        |
| 4.4 Purchases .....   | 20        |
| 4.5 Subcontracting costs .....                                    | 20        |
| 4.6 Direct labour costs .....                                     | 20        |

|          |   |           |
|----------|---|-----------|
| <b>5</b> | <b>Practising a profession</b>  | <b>21</b> |
| 5.1      | Income  | 21        |
| 5.2      | Work in progress  | 21        |
| <b>6</b> | <b>Deductions</b>   | <b>22</b> |
| 6.1      | Expenses qualifying for a deduction   | 22        |
| 6.2      | Advertising   | 22        |
| 6.3      | Bad debts   | 22        |
| 6.4      | Business taxes and licences   | 22        |
| 6.5      | Delivery, freight and messenger services  | 22        |
| 6.6      | Fuel and oil (not used in motor vehicles)   | 22        |
| 6.7      | Insurance premiums  | 23        |
| 6.8      | Interest  | 23        |
| 6.9      | Maintenance and repairs   | 23        |
| 6.9.1    | Renovation or alteration of a building to meet the needs of mobility impaired or physically impaired people | 23        |
| 6.9.2    | Work on an immovable  | 23        |
| 6.10     | Management and administration fees  | 24        |
| 6.11     | Meal and entertainment expenses   | 24        |
| 6.11.1   | Deductible amount   | 24        |
| 6.11.2   | Deductible amount not subject to the ceiling based on sales   | 25        |
| 6.11.3   | Deductible amount not subject to the set limits   | 25        |
| 6.11.4   | Use of recreational property  | 26        |
| 6.12     | Motor vehicle and zero-emission vehicle expenses  | 26        |
| 6.12.1   | Expenses for travel between your home and your place of business  | 28        |
| 6.12.2   | Interest on a loan for the purchase of a motor vehicle or zero-emission vehicle                             | 28        |
| 6.12.3   | Repair costs following an accident  | 28        |
| 6.12.4   | Parking fees  | 28        |
| 6.12.5   | Supplementary insurance premiums  | 28        |
| 6.12.6   | Leasing expenses  | 28        |
| 6.12.7   | CCA of a motor vehicle or zero-emission vehicle   | 30        |
| 6.12.8   | Joint ownership or lease  | 30        |
| 6.13     | Office expenses   | 30        |
| 6.14     | Convention expenses   | 30        |
| 6.15     | Supplies  | 30        |
| 6.16     | Legal and accounting fees   | 31        |

|        |   |    |
|--------|---|----|
| 6.17   | Property taxes (municipal and school taxes)   | 31 |
| 6.18   | Rent  | 31 |
| 6.19   | Salaries or wages, benefits and employer contributions  | 31 |
| 6.20   | Travel expenses (other than motor vehicle or zero-emission vehicle expenses)                                    | 32 |
| 6.21   | Telecommunications  | 32 |
| 6.22   | Electricity, heat and water   | 32 |
| 6.23   | Capital cost allowance  | 32 |
| 6.23.1 | Grants and subsidies  | 33 |
| 6.23.2 | The available-for-use rule  | 33 |
| 6.23.3 | Non-arm's-length transactions   | 33 |
| 6.23.4 | Disposition of property   | 34 |
| 6.23.5 | Description of certain classes of property  | 34 |
| 6.23.6 | Accelerated investment incentive  | 40 |
| 6.23.7 | Immediate expensing incentive   | 42 |
| 6.24   | Other expenses  | 44 |
| 6.24.1 | Education expenses  | 44 |
| 6.24.2 | Reserves  | 45 |
| 6.24.3 | Shared transportation service organized by an employer  | 45 |
| 6.24.4 | Additional CCA for trucks and tractors designed for hauling freight   | 45 |
| 6.24.5 | Additional CCA of 35% for property used in manufacturing or processing or constituting computer equipment       | 45 |
| 6.24.6 | Additional CCA of up to 60% for property used in manufacturing or processing or constituting computer equipment | 45 |
| 6.24.7 | Additional CCA of 30% for certain property  | 46 |
| 6.25   | GST/HST or QST rebate received as a member of a partnership   | 46 |
| 6.26   | Expenses incurred to earn partnership income  | 46 |
| 6.27   | Expenses related to the business use of your home   | 46 |
| 6.27.1 | General expenses  | 46 |
| 6.27.2 | Expenses related to the office only   | 48 |
| 6.27.3 | Maximum amount deductible for a taxation year   | 48 |
| 6.27.4 | Partnerships  | 48 |

|           |   |           |
|-----------|---|-----------|
| <b>7</b>  | <b>Net income or net loss</b>   | <b>49</b> |
| 7.1       | Disability supports deduction . . . . .   | 49        |
| 7.2       | Loss respecting a tax shelter . . . . .   | 49        |
| <b>8</b>  | <b>records and supporting documents</b>   | <b>50</b> |
| 8.1       | Requirements for supporting documents in the metal recycling industry . . . . .   | 50        |
| 8.2       | Keeping records and supporting documents . . . . .  | 50        |
| 8.3       | Virtual currency transactions . . . . .   | 50        |
| <b>9</b>  | <b>Instalment payments</b>  | <b>51</b> |
| 9.1       | Calculation methods . . . . .   | 51        |
| 9.2       | Terms . . . . .   | 51        |
| 9.3       | Due dates . . . . .   | 51        |
| 9.4       | Interest charges . . . . .  | 51        |
| <b>10</b> | <b>Filing deadline</b>  | <b>52</b> |
| <b>11</b> | <b>North American Industry Classification System codes</b>  | <b>52</b> |
| <b>12</b> | <b>Work Charts</b>  | <b>53</b> |
| 12.1      | Additional CCA for property used in manufacturing or processing or constituting computer equipment (60% rate): Fiscal period including the date the property was put in use . . . . .                             | 53        |
| 12.2      | Additional CCA for property used in manufacturing or processing or constituting computer equipment (60% rate): Fiscal period following the fiscal period including the date the property was put in use . . . . . | 54        |

This is the version of the guide to use for 2023. It does not take into account legislative amendments announced after October 30, 2023. You must therefore make sure that the information in this guide complies with current tax legislation.

For information about changes announced after the publication of this document, go to [revenuquebec.ca](http://revenuquebec.ca).

The information in this guide does not constitute a legal interpretation of the *Taxation Act* or any other legislation. For more information, contact us at one of the numbers or addresses given at the end of this guide.



# NEW FOR 2023

This part of the guide explains the principal changes for a fiscal period that ends in 2023.

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## **New rule on flipping a property (home or rental property)**

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If, in 2023, you disposed of residential property (including rental property or a purchase option) you held for fewer than 365 consecutive days without a life event justifying it, we consider you to have flipped a property. The profit from flipping property is fully taxable as business income, and must be entered on lines 12 and 22 of Schedule L.

For more information on flipping property, go to [revenuquebec.ca](https://revenuquebec.ca).

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## **Increased maximum capital cost of class 10.1 and class 54 vehicles**

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For CCA calculations, the maximum capital cost for class 10.1 motor vehicles acquired after December 31, 2022, has been increased from \$34,000 plus tax to \$36,000 plus tax.

In addition, the maximum capital cost for class 54 zero-emission vehicles acquired after December 31, 2022, has been increased from \$59,000 plus tax to \$61,000 plus tax.

See section 6.23.5.

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## **Automobile leasing expenses**

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The amount of daily leasing expenses for an automobile used to earn business income has been increased from \$30 plus tax to \$31.67 plus tax for leasing contracts signed after December 31, 2022.

See section 6.12.6.



# 1 GENERAL INFORMATION

## 1.1 Is this guide for you?

If you carry on a business as a sole proprietor or as a member of a partnership, this guide will help you calculate the business income to be entered in your income tax return.

You are considered to be carrying on a business if you are engaged in an activity with a view to making a profit. This is the case, for example, if you:

- engage in commercial activities;
- earn income from online commercial activities;
- operate a manufacturing or service business;
- exercise a trade;
- practise a profession;
- are a self-employed person who works on a commission basis;
- mine cryptocurrency;
- dispose of property that is produced or acquired solely in order to make a profit from its sale or resale;
- are engaged in an adventure or concern in the nature of trade, undertaken for the sole purpose of making a profit;
- dispose of property that you held for fewer than 365 consecutive days without a life event justifying it;
- provide childcare services (see IN-189-V, *Home Childcare Providers*, which is available on our website);
- practise hunting and trapping;
- actively speculate in the stock market;
- regularly speculate on the value of virtual currency;
- repeatedly sell your personal residences.

To understand the distinction between business income, property income and capital gains, see Part 2.

The expression “carry on a business” is used for all situations covered in this guide. The expression “practise a profession” is used in more specific contexts.

This guide **is not intended** for individuals whose business income is derived from farming, fishing, insurance, lending money, mining operations, or (financial) market making.

## 1.2 Documents to enclose with the income tax return

### 1.2.1 You are a sole proprietor

If you are reporting business income in your income tax return, you must enclose form TP-80-V, *Business or Professional Income and Expenses*. A separate copy of form TP-80-V must be filed for each business and, where applicable, for each fiscal period ended in 2023. Note that you can also file your financial statements instead of form TP-80-V.

You must also enclose form TP-80.1-V, *Calculation of Business or Professional Income, Adjusted to December 31*, if:

- in 2023, the fiscal period of the business you carried on ended on a date other than December 31, 2023; or
- in 2023, you began carrying on a business and the first fiscal period for which you earn income from the business ends in 2024.

### 1.2.2 You are a member of a partnership

If you are a member of a partnership (other than a limited or silent partner), we recommend that you use form TP-80-V to calculate your income and expenses. However, the documents you are required to enclose with your income tax return and how you complete the form will vary according to whether or not you received an RL-15 slip from the partnership.

#### NOTE

You will receive an RL-15 slip if the partnership of which you are a member is required to file the *Partnership Information Return* (form TP-600-V) for the fiscal period. For more information about the filing requirement for this return, refer to the *Guide to Filing the Partnership Information Return* (TP-600.G-V).

**However, if you received an RL-15 slip**, you are not required to enclose form TP-80-V or the partnership’s financial statements with your income tax return. You must report in your return the partnership’s gross income and your share of the net income (or net loss) shown on the RL-15 slip.



If you are deducting expenses that you incurred to earn partnership income (and that were not reimbursed to you by the partnership), enclose form TP-80-V with your return. Complete form TP-80-V as follows:

- Complete Part 1.
- Enter the amount from box 1 of the RL-15 slip on line 252.
- Complete Part 7 and, if applicable, Part 8.
- Calculate your net income (or net loss) for the fiscal period.

**If you did not receive an RL-15 slip** and you are not submitting your financial statements with your income tax return, enclose form TP-80-V with your return. In this case, complete form TP-80-V as follows:

- Complete Part 1.
- Enter the additional information about the partnership in Part 2.
- In Part 3, calculate the partnership's income and expenses and your net income (or net loss) for the fiscal period.
- Complete Part 6 and any other parts that apply to your situation.

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### 1.3 Abbreviations

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|        |  |
|--------|--|
| ACB    | Adjusted cost base   |
| AIPP   | Accelerated investment incentive property                                    |
| CCA    | Capital cost allowance   |
| CCPC   | Canadian-controlled private corporation                                      |
| CNESST | Commission des normes, de l'équité, de la santé et de la sécurité du travail |
| CRA    | Canada Revenue Agency  |
| DIEP   | Designated immediate expensing property                                      |
| EPOP   | Eligible person or partnership   |
| FMV    | Fair market value  |
| GST    | Goods and services tax   |
| HST    | Harmonized sales tax   |
| IEP    | Immediate expensing property   |
| ITC    | Input tax credit   |
| ITR    | Input tax refund   |
| LNG    | Liquefied natural gas  |
| NEQ    | Québec enterprise number   |
| QPIP   | Québec parental insurance plan   |
| QPP    | Québec Pension Plan  |
| QST    | Québec sales tax   |
| UCC    | Undepreciated capital cost   |

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### 1.4 Assistance program

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Our assistance program helps self-employed people, particularly those who have recently started their business activities. The support is wide-ranging and tailored to your needs.

Participation in the program is voluntary. If you choose to participate, we can provide:

- a support meeting at your place of business or at our offices;
- a virtual meeting by videoconference;
- a telephone meeting.

To take part in the program, make a request by secure email at [revenuquebec.ca](mailto:revenuquebec.ca). You can also contact our client services as shown at the end of this guide.

# 2 BUSINESS INCOME, PROPERTY INCOME AND CAPITAL GAINS

It is important to distinguish between business income, property income and capital gains, as each has its own tax benefits (deductible expenses, deductions, exemptions, etc.) and is subject to different rules.

## 2.1 Business income and property income

**Business income** is earned when you devote time and effort to carrying on an activity, whereas **property income** is derived from earnings on invested capital. The most common types of property income are interest, dividends, royalties and rental income. However, short-term rental income may also be considered business income in some cases. See *Individuals and Rental Income* (IN-100-V) for more information.

### NOTE

Business income does not include income from an office or employment.

### Deducting a loss

Before deducting a business or property loss, you must consider whether the business or property income is derived from an activity sufficiently commercial to be considered a source of income. You can deduct a loss only if it is related to an activity that is a source of income.

An activity is **commercial** if you or persons related to you do not carry on the activity for personal or recreational purposes. If a portion of the activity is carried on for personal or recreational purposes, you must demonstrate that the commercial portion of the activity is predominant, with reference to all of the following criteria:

- the profit and loss situation in past years;
- your training;
- your intended course of action;
- the capacity of the business as capitalized to show a profit;
- your anticipated capital gain (not merely the potential capital gain);
- the reasonable expectation of profit.

To determine whether there is a **reasonable expectation of profit**, you must take into account the following criteria:

- the time required to make an activity of that nature profitable;
- the presence of the factors necessary to potentially realize profits;
- the profit and loss situation for the years subsequent to the years in question;

- the number of consecutive years during which losses were incurred;
- the increase in expenses and decrease in income in the course of the relevant periods;
- the persistence of the factors causing the losses;
- the absence of planning;
- ineffective business conduct;
- the scale of the activities;
- the persons involved;
- the context.

## 2.2 Capital gain

Generally, a **capital gain** is the proceeds of disposition (for example, the proceeds of a sale) of capital property **minus** the ACB of the property and any expenses incurred to dispose of it. Capital property is property not usually sold in the course of a business's activities (for example, land, buildings, equipment, debts, shares or virtual currency). The ACB of a property is, in general, its purchase price **plus** the expenses incurred to purchase it. Only a portion of the capital gain must be included when calculating income. For more information, consult the guide *Capital Gains and Losses* (IN-120-V).

In general, if an individual habitually carries on activities that require time or effort, the income or loss that results is considered business income or a business loss, not a capital gain or loss. Likewise, if an individual carries on such an activity infrequently, or even only once, if it can be shown that the individual is carrying on an adventure or concern in the nature of trade, the income or loss that results is considered business income or a business loss, not a capital gain or loss.

We use the criteria set forth by the CRA in order to determine whether a transaction is an adventure or concern in the nature of trade. These criteria, which are grouped under three main headings ("Taxpayer's Conduct", "Nature of the Property" and "Taxpayer's Intention"), are presented in interpretation bulletin IT-459, *Adventure or Concern in the Nature of Trade*, which is available at [canada.ca/taxes](http://canada.ca/taxes).

Starting January 1, 2023, a new rule stipulates that profits from flipping residential property (including rental property or a purchase option), meaning a property you held for fewer than 365 consecutive days and are disposing of without a life event justifying it, are fully taxable. Profits from flipping property are fully taxable as business income, and you cannot benefit from the capital gains inclusion rate of 50% or the principal residence exemption. For more information on flipping property, go to [revenuequebec.ca](http://revenuequebec.ca).



# 3 REPORTING BUSINESS OR PROFESSIONAL INCOME

## 3.1 Fiscal period

### Fiscal period

A period of no more than one year, at the end of which the person carrying on a business closes the books and prepares financial statements.

#### NOTE

A fiscal period cannot exceed 12 months, but can be shorter in the year in which a business begins or ceases its activities.

Normally, the fiscal period of a business must end on December 31 and you must report your business income in the calendar year in which you earned it (see section 3.2). This rule applies to businesses operated by individuals or by partnerships whose members include an individual or another partnership to which this rule applies.

You cannot, for the purposes of your **Québec income tax return**, elect a date other than December 31 as the end date of your fiscal period. However, if you elect to have a fiscal period end on a date other than December 31 for the purposes of your **federal income tax return**, such an election will also apply with respect to your Québec return, given that the end date of a fiscal period used for Québec income tax purposes must be the same as that used for federal income tax purposes.

#### NOTE

A change in the end date of your fiscal period may lead to a change in your QST reporting periods, filing deadlines and remittance dates.

### 3.1.1 Conversion to a fiscal period ending on December 31

The rules in this section apply only if you carried on a business whose fiscal period ended on a date other than December 31 and if, in 2023, you cancelled this election for the purposes of your federal income tax return. An election made for federal income tax purposes automatically applies for Québec income tax purposes.

If you changed your fiscal period so that it ends on December 31, 2023, your income and expenses for this fiscal period are calculated in the same way as your income and expenses for the previous fiscal period ending in 2023. However, please note the following:

- The income for the fiscal period ending on December 31, 2023, includes all the reserves you claimed for the previous fiscal period.
- Your opening inventory for the fiscal period ending on December 31, 2023, is the same as your closing inventory for the previous fiscal period. (Similarly, your closing inventory for the fiscal period ending on December 31, 2023, is the same as your opening inventory for the fiscal period that begins in 2024.)
- The value of your work in progress at the beginning of the fiscal period ending on December 31, 2023, is the same as its value at the end of the previous fiscal period.
- The UCC of the business's depreciable property at the beginning of the fiscal period ending on December 31, 2023, is the same as the UCC of this property at the end of the previous fiscal period. (The maximum CCA that can be claimed for the fiscal period ending on December 31, 2023, is prorated according to the ratio between the number of days in the period and 365.)
- For your fiscal period ending on December 31, 2023, you can claim all allowable expenses related to the business use of your home that you were unable to deduct for the previous fiscal period. (Any allowable expenses of this type that you are unable to claim for the fiscal period ending on December 31, 2023, can be carried forward to the following fiscal period.)

### Documents to file

If you elect to change the end date of your fiscal period, you must provide a separate copy of form TP-80-V for each fiscal period ended in 2023. You must also provide form TP-80.1-V to make adjustments for the fiscal period ended in 2023 on a date other than December 31, as well as a copy of business income reconciliation form T1139, which you filed with the CRA. You can also file financial statements instead of form TP-80-V.



### 3.1.2 Fiscal period ending on a date other than December 31

#### Fiscal period that ends in 2023 on a date other than December 31

If your business's fiscal period ends on a date other than December 31, and **you kept the same end date**, the business income you must report for a given year is the net income (or loss) for the year adjusted to December 31, using the following calculation found in form TP-80.1-V:

|   |   |   |   |  |
|---|---|---|---|--|
| Net income (or net loss) for the fiscal period(s) ending in the year on a date other than December 31 | + | Estimated additional income for the period between the end of the fiscal period(s) ended in the year and January 1 of the next year | - | Estimated additional income included in the previous year's income |
|---|---|---|---|--|

Calculate the estimated additional income for the year using the following formula:

$$A \times (C / D),$$

where

- A** is your net income for the fiscal period(s) ending during the year (if you are a member of a partnership, take into account any amounts deductible in the year from your share of the partnership's income);
- C** is the number of days you carried on the business after the fiscal period(s) ending in the year;
- D** is the number of days you carried on the business in the fiscal period(s) ending in the year.

#### First fiscal period beginning in 2023 and ending before December 31, 2023

If you began carrying on your business in 2023, and the first fiscal period for which you earned income **ended before December 31**, the adjustment consists only in adding the estimated additional income for the period that began after the end of the fiscal period and that ends on December 31.

#### First fiscal period beginning in 2023 and ending in 2024

If you began carrying on the business in 2023 but the first fiscal period for which you earn income **ends in 2024 and not on December 31, 2023**, you can elect to include an amount of estimated additional income in your business income for the period ending December 31, 2023. The amount included **must not exceed** the result of the following formula, found in form TP-80.1-V:

$$A \times (C / D),$$

where

- A** is your net business income for the first fiscal period ending during the following year (see the note below);
- C** is the number of days you carried on the business during the year that are included in the fiscal period ending the following year;
- D** is the number of days you carried on the business during the fiscal period.

#### NOTE

If you do not know what these amounts are, use estimates. Once you know the amounts, redo your calculations. If you obtain an amount that is not more than the amount already reported in your 2023 income tax return, amend your return using form TP-1.R-V, *Request for an Adjustment to an Income Tax Return*.

A negative result produced by either formula is considered to be equal to zero. Estimated additional income that is reported for a given year can be subtracted from business income for the following year.

#### Documents to file

If, for the purposes of your federal income tax return, you elect to have a fiscal period end on a date other than December 31, you must complete and submit form TP-80.1-V, along with a copy of the T1139 form filed for that purpose with your federal income tax return.

If you are a member of a partnership that makes such an election, you must complete form TP-80.1-V every year to calculate your net income (or net loss) adjusted to December 31. You must enclose with your Québec income tax return form TP-80.1-V and a copy of the T1139 form you filed with the CRA.

If the partnership's members include a **testamentary trust**, you must submit form TP-80.1-V and a copy of form T1139 to us no later than the earliest date on which a member of the partnership is required to file an income tax return.

If you are completing the return of a **person who died** in 2023, and that person carried on a business whose fiscal period ended on a date other than December 31, refer to the *Guide to Filing the Income Tax Return of a Deceased Person* (IN-117-V).



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### 3.2 Method of accounting

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You must use the **accrual method of accounting** to report your business income. This means:

- reporting all income in the fiscal period during which it was earned, regardless of whether you have actually received the income; and
- deducting all expenses in the fiscal period during which they were incurred, regardless of whether you have actually paid the expenses.

#### NOTE

If you are a **self-employed person who works on a commission basis**, you can use the **cash method of accounting** to report your income and expenses, provided this method gives an accurate account of your income for the year. This means:

- reporting all income in the fiscal period during which you received it; and
- deducting all expenses in the fiscal period during which you paid them.

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### 3.3 GST/HST and QST

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Do not include the GST/HST or the QST you collected in your gross income.

If you are registered for the GST/HST and the QST, you can claim ITCs and ITRs. The amounts paid or credited to you as ITCs and ITRs reduce the amount of the expense, or the capital cost of the property, on which you paid the tax.

If you are a merchant registered for the GST/HST and QST and you accept virtual currency as payment for a taxable good or service, the GST/HST and QST on the supply are calculated on the value, in Canadian dollars, of the virtual currency offered as consideration.

If you are not registered for the GST/HST and the QST, and your gross income reached \$30,000 during the past 12 months, contact us.



# 4 CARRYING ON A BUSINESS

## 4.1 Income

### 4.1.1 Sales

You must include in your business income the proceeds (including commissions) of **all** your sales, whether payment was made in money or an equivalent form (for example, points, credit units, tokens, virtual currency or coupons that have theoretical monetary value), or in property or services (as in a barter transaction). The value of the exchanged property or services must be included in your income if the exchange relates to the activity of your business.

#### Barter

The exchange of property or services for other property or services, without the use of money.

#### Barter of services

For example, an accountant prepares a person's income tax return in exchange for services performed by that person.

#### Barter of property

For example, a pharmacist gives a person products in exchange for items from the person's inventory.

### 4.1.2 Reserves claimed in the previous year

Your income for the year must also include any reserves you claimed in the previous year, such as:

- reserves for doubtful debts;
- reasonable reserves for property to be delivered or services to be rendered after the end of the fiscal period;
- reserves for warranties given to customers, if the amount of each warranty does not exceed the amount paid by the customer in advance;
- amounts receivable under an insurance policy or from any other source as compensation for damage done to your depreciable property, if the amounts are used to repair the damage;
- reserves for amounts received in advance as rent or remuneration for the possession or use of property;
- reserves for deposits received on returnable containers (other than bottles);
- reserves for accounts receivable, if all or part of the outstanding amount is not payable in the two years following the date of sale.

### 4.1.3 Other income

In the calculation of your business income, you must also take into account all amounts or benefits you received during the year, such as:

- the value of vacation trips or gifts offered as incentives or as remuneration for work carried out by your business;
- the assistance, grants, subsidies or other financial incentives that you received from a government, a government agency or a non-government agency, except:
  - an amount that you already included in your income or deducted in the calculation of a balance of expenses for the current taxation year or a previous taxation year,
  - an amount used to reduce the cost of property or the amount of an expense;
- profits from flipping residential property (including rental property or a purchase option), meaning a property you held for fewer than 365 consecutive days and are disposing of without a life event justifying it (see [revenuquebec.ca](http://revenuquebec.ca));
- amounts recovered in the year that were deducted as bad debts for a previous year;
- grants received in the year under a prescribed home insulation or energy conversion program;
- copyright income, if the copyright pertains to works created in the course of your professional activities; and
- interest.

When calculating your business income using the applicable method of accounting (see section 3.2), you must also include any amounts received from a Québec government department, agency or enterprise as a contract payment or as a grant or subsidy. Such amounts received during the calendar year are shown in boxes A and B of the RL-27 slip. Include the amount from box B only if it represents business income.

However, if you carry on your professional activities in a professional corporation of which you are a shareholder, you may not have to include the amounts shown on the RL-27 slip if they are already included in the corporation's income.

#### NOTE

If you normally deduct returns from your sales as soon as the articles are returned, and normally deduct discounts from your sales as soon as you give the discounts, you can enter the amount of net sales. Otherwise, you must enter returns and discounts separately.





#### 4.1.4 Family-type lodging resources

In the health and social services sector, there are various types of non-institutional living environments.

Some of these resources operate in a family-type setting, that is, foster families (which take in children) and foster homes (which take in adults or elderly people). There are also intermediate resources. Such resources must have reached an agreement with an institution in accordance with the provisions of the *Act respecting health services and social services* and the *Act to modify the organization and governance of the health and social services network, in particular by abolishing the regional agencies*.

Foster homes also take in offenders, so they may devote themselves to activities intended for their reintegration.

If you operate such a lodging resource, **do not include** the following amounts in the calculation of your income:

- amounts you received in accordance with the rates or the scale of rates of compensation determined under the *Act respecting health services and social services* or an Order in Council made under the *Act respecting health services and social services for Cree Native persons*, if:
  - you are an intermediate resource or family-type resource within the meaning of the *Act respecting health services and social services*, or you act as a foster family within the meaning of the *Act respecting health services and social services for Cree Native persons*, and
  - throughout the period for which you receive the amount, you take in at your principal place of residence a maximum of nine people referred to you by a public institution within the meaning of the *Act respecting health services and social services* or entrusted to you through a social service centre within the meaning of the *Act respecting health services and social services for Cree Native persons*, or you maintain your principal place of residence to be used as the residence of such people;
- amounts you received under a service contract entered into with the Minister of Public Security to establish a foster home and facilitate the reintegration of the people required to live there, if:
  - you maintain the foster home in your principal place of residence, and
  - a maximum of nine people live there.

#### NOTE

You cannot deduct, from your income, expenses incurred to receive amounts that you are not required to include in your income.

#### Insurable earnings under the QPIP and pensionable earnings under the QPP of a family-type resource or an intermediate resource

If you receive an RL-29 slip, enter on line 40 of Schedule L of your income tax return the amount of your insurable earnings and pensionable earnings that you calculated on form LM-53-V, *Insurable Earnings Under the QPIP and Pensionable Earnings Under the QPP of a Person Responsible for a Family-Type Resource or an Intermediate Resource*. You will not be required to pay income tax on this amount, as it is tax-exempt. You will, however, have to use the amount to calculate your Québec Pension Plan (QPP) contribution and Québec parental insurance plan (QPIP) premium on income from self-employment.

#### 4.1.5 Income from online activities

You must report income from your online activities in your tax return. See the definitions that follow.

##### Blockchain

Secure distributed database that stores transactions between users from the date of its creation, in a chronologically ordered sequence of blocks that are linked together.

##### Cryptocurrency

Virtual currency used as a peer-to-peer method of payment or medium of exchange, usually independently of the banking system and any monetary policy, whose issuance and transactions are based on blockchain technology.

##### Digital platform

A website that connects consumers and suppliers of goods and services and organizes and publicizes content.

##### E-commerce (or online commerce)

The sale of goods and services online through social media, transactional websites and digital platforms.

##### Influencer

A person whose social media presence is sufficient to influence followers' buying habits and opinions. Income earned from their online presence (whether monetary or non-monetary [bartering]) is considered business income.

##### Mining

Operation, based on a consensus mechanism, that enables blocks to be added to a cryptocurrency network in exchange for a block reward.



### Sharing economy

The exchange of goods, services or know-how between individuals over digital platforms, with or without any money changing hands.

### Virtual currency

Digital currency that can be used to buy goods or services or for speculation, whose legal value is not typically guaranteed by the government.

See the following sections for examples of online business activities.

#### 4.1.5.1 Influencers, sharing economy and e-commerce

If any of the following situations apply to you, you must report the income you earn from your online activities.

- You earn advertising or affiliate marketing income through your website (this can include income from static advertisements, affiliate programs, advertising programs or any type of website traffic program).
- You earn advertising or membership income, or you obtain commissions or sponsorships, through social media or blogs (this can include income from video monetization or the promotion of content on social media or blog posts).
- You receive remuneration other than cash for your online commercial activities (this can include a trip or gift received as consideration for social media or blog posts to promote a specific brand).

#### Example 1 – Influencer

You post videos of yourself dancing in various locations to social media. You now have a number of regular followers.

A popular sporting goods company wants you to promote its products in your videos. It sent you \$5,000 in products free of charge and paid you \$12,500 to wear its clothing in your videos.

Everything you receive from a business in exchange for promoting its products or services, including donations and gifts, is considered income. As a result, you must include the \$17,500 in your business income.

- You receive membership income from a content distribution platform.
- You receive gifts from platform subscribers.
- You operate a website or a digital platform that serves as an intermediary between sellers and consumers during a transaction.
- You earn income through sharing economy platforms (such as platforms used to offer remunerated passenger transportation or delivery or home-based services).

#### Example 2 – Meal delivery services offered through a digital platform

You deliver meals a few nights a week. You earn \$15,000/year from your services.

Since you provide services for profit, you must include the \$15,000 in your business income.

- You sell products or services on your own website, generally using a virtual shopping cart, and payments are processed by you or a third party.

#### Example 3 – Selling your creations online

In 2023, you sold \$25,000 in clothing you made. Given that you spend a significant amount of time designing, creating and selling clothing, you are considered to operate a business.

You must therefore include the \$25,000 in your business income.

- You sell products or services on auction or marketplace websites, or through digital platforms.
- You earn income from the distribution of applications via a download platform or in-app purchases.

#### 4.1.5.2 Virtual currency transactions

For income tax purposes, virtual currency transactions are generally considered barter transactions (see the definition in section 4.1.1).

Depending on the situation of the businesses involved and the nature of the things bartered, barter may generate income or give rise to an expense, or result in the acquisition or disposition of capital property or inventory on the same basis as if the transaction involved a cash consideration. For more information on the tax implications of barter, refer to interpretation bulletin IMP. 80-9, *Barter transactions*.

There may be tax consequences for your business if you:

- sell or exchange virtual currency;
- accept virtual currency as payment for a good or service.

There may also be tax consequences if you operate a mining business and receive a reward as consideration for your services.

To correctly report your income, you must determine whether the use of virtual currency generated a capital gain (or loss) or business or property income (or a business loss).

To establish the value of a virtual currency transaction if the market value cannot be determined, you must use a reasonable method. Keep records to show how you established the value.



Generally, our position is that the FMV is the highest price, expressed in Canadian dollars, that a willing buyer and a willing seller who are both knowledgeable, informed and prudent, and who are acting independently of each other, would agree to in an open and unrestricted market. For example, you could choose an exchange rate taken from the same exchange broker you are using or an average of midday values across a number of high-volume exchange brokers. Whichever method you choose, use it consistently. For more information on records, see Part 8.

#### **Example 1 – Sale of virtual currency**

You buy and sell virtual currency regularly to take advantage of increases in its value. You acquired virtual currency for \$200,000 in 2022 and sold it for \$240,000 in 2023. Since you spend a significant amount of time trading virtual currency, you are carrying on a business. As a result, you must report business income of \$40,000, which is 100% taxable.

However, if you acquired virtual currency for \$250,000 in 2022 and sold it for \$240,000 in 2023, you must report a business loss of \$10,000, which is 100% deductible.

#### **Example 2 – Exchange of one virtual currency for another**

In 2023, in the normal course of your business, you exchanged 3 bitcoins, which you had acquired in 2017 at a cost of \$25,000, for 75 ethers. At the time of the exchange, the FMV of the 3 bitcoins and the 75 ethers was \$30,000.

We consider you to have disposed of the 3 bitcoins at the time of the exchange. As a result, you earned \$5,000 (\$30,000 – \$25,000) in business income, which is 100% taxable.

However, if the price to purchase the bitcoins in 2017 was \$40,000, you should report a business loss of \$10,000 (\$30,000 – \$40,000), which is 100% deductible.

In addition, if you accept virtual currency as consideration for goods or services provided by your business, you must include in your business income the value of the goods or services when they are provided. The virtual currency you receive can be considered inventory or capital property, depending on the nature of your business activities.

#### **Example 3 – Virtual currency received as payment**

You carry on a business that sells cellphones.

A customer uses virtual currency to buy a \$600 cellphone.

You must therefore include \$600 in your business income.

In addition, if you are registered for the GST/HST and QST, you must collect and remit the GST/HST and QST on the value of the goods sold.

If you carry on a mining business and you receive cryptocurrency, you must include in your business income, for the taxation year in which the cryptocurrency was received, an amount corresponding to the cash price you would have normally charged for your mining services.

Since it can sometimes be hard to evaluate the value of a miner's monitoring and validation services, we will allow the value of the cryptocurrency when it was received in consideration for the services to be used to establish the value of the services.

#### **Example 4 – Cryptocurrency mining**

You operated a mining business in 2022 for which you received 6 bitcoins. The FMV of the bitcoins when you provided the mining service was \$10,000. You must include the FMV ( $\$10,000 \times 6 = \$60,000$ ) of the bitcoins in your business income.

You decide to sell the 6 bitcoins in 2023. The FMV of a bitcoin at the time of the transaction is \$10,500, for a total value of \$63,000. Since this is a commercial activity, you must report \$3,000 in business income ( $\$63,000 - \$60,000$ ), which is 100% taxable.

However, if the FMV of a bitcoin at the time of the transaction in 2023 was \$9,500, for a total value of \$57,000, you would have realized a business loss of \$3,000, which is 100% deductible.

### **4.1.6. Securities transactions**

You must report income from securities dealing or any commercial activity related to securities transactions in your tax return.

#### **Security**

A security or financial instrument is issued by a legal person. A security can generally be publicly traded and is normally a share, bond, investment fund or derivative product.

You can use the criteria established in Canadian case law to determine whether you are dealing in securities or conducting an activity in the nature of trade related to securities transactions. These criteria can be found in the interpretation bulletins *Transactions in securities* (IT-479-R) at [canada.ca](http://canada.ca), and *Election in respect of the disposition of Canadian securities* (IMP. 250.1/R2) at the Publications du Québec website.

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## 4.2 Cost of goods sold

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If you carry on a business that manufactures goods for sale or purchases goods for resale, you must deduct the cost of these goods in the fiscal period in which you sold or resold them.

To calculate the amount you can deduct respecting the cost of goods sold, you need to know:

- the value of your inventory at the beginning of the fiscal period (opening inventory, corresponding to the value of your inventory at the end of the previous fiscal period);
- the value of your inventory at the end of the fiscal period (closing inventory);
- the total cost of your purchases for the year (including GST/HST and QST, unless the taxes have been paid or credited to you as ITCs and ITRs).

Both the opening inventory and the closing inventory of a business that manufactures goods must include raw materials, goods in process and finished goods.

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## 4.3 Inventory

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### 4.3.1 Taking inventory

You must take inventory at the end of each fiscal period, unless you use a perpetual inventory system and periodically verify inventory.

You must also maintain an inventory record and keep it with your other books and records.

### 4.3.2 Inventory valuation methods

You can determine the value of your inventory using either of the following methods:

- You can value the entire inventory based on its FMV.
- You can value individual items or groups of items based on their cost or FMV, whichever is less.

#### FMV of an item

The amount it would cost to replace an item, or the amount the owner would receive if he or she sold the item in an ordinary commercial transaction.

#### Cost of an item

The price paid or billed for an item, plus any costs incurred to take the item to its current location and put it into its current condition.

For the first year in which you carry on your business, you can choose either of the aforementioned inventory valuation methods. You cannot change the method chosen in a subsequent fiscal period unless circumstances require that you do so. The value of

inventory at the beginning of a given fiscal period must be the same as its value at the end of the previous fiscal period. Note that you are not required to report an opening inventory in your first year of business.

If your business is an adventure or concern in the nature of trade, you cannot use these inventory valuation methods. Instead, you must determine the value of the items in your inventory on the basis of their acquisition cost.

### 4.3.3 Self-employed artists

If you are a self-employed artist who creates paintings, prints, etchings, drawings, sculptures or similar works of art, and you elect to value your year-end inventory at nil, for the purposes of your federal income tax return, your election will automatically apply for Québec income tax purposes.

Such an election remains in effect for all subsequent years, unless you revoke it. You must let us know that you have made or revoked such an election in a letter (or in your financial statements) enclosed with your Québec income tax return.

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## 4.4 Purchases

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The cost of goods purchased for resale or for use in manufacturing other goods intended for sale includes the cost of delivery, freight and messenger services. The amount of the net purchases is the amount of your purchases, **minus** returns and any discounts or rebates you received.

If you make personal use of goods purchased by the business, you must subtract the full cost of the goods from the amount of your purchases.

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## 4.5 Subcontracting costs

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The cost of goods intended for resale includes costs incurred to have a third party carry out, in accordance with the instructions received, work related to the manufacture of the goods.

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## 4.6 Direct labour costs

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In the case of a business that manufactures goods intended for sale, the cost of the goods must include direct labour costs (that is, the remuneration paid to employees who work directly in the manufacture of the goods). However, the cost of the goods does not include indirect labour costs, the salary of the owners or members of a partnership, or withdrawals of money or goods made by the owners or members of a partnership.



# 5 PRACTISING A PROFESSION

## 5.1 Income

In general, you must calculate professional income according to the rules that apply to any other business (see section 4.1). A separate income statement must be prepared for each profession you practise.

Your total professional income for the current year is equal to:

- all amounts received during the current year for professional services, whether the services were provided before or during the current year, or are to be provided after the current year;

### plus

- all amounts receivable at the end of the current year for professional services provided during the current year;

### minus

- all amounts that were receivable at the end of the previous year.

If your income includes an amount received during the current year for services to be provided after the end of the year, you can deduct a reasonable amount as a reserve for these services.

Your professional income includes all your professional fees, whether you receive payment in money or an equivalent form, or in property or services as in a barter transaction (see the definition of “barter” in section 4.1.1). Your income for the year must include any reserves you claimed in the previous year.

## 5.2 Work in progress

You must include in your income the value of work in progress at the end of the fiscal period and exclude the value of work in progress at the beginning of the fiscal period.

The value of work in progress is equal to:

- the amount that would have been charged for the services if the services had been billed; or
- the expenses incurred for the services provided.

### Professionals

If you are an accountant, dentist, lawyer, notary, physician, veterinarian or chiropractor, **you must include** in your income for the year the value of work in progress (see the note below) at the end of the year.

A transitional measure allowed professionals who had been excluding the value of their work in progress from their income for the year for federal income tax purposes, and whose election to do so was still in effect for the last taxation year that began before March 22, 2017, to begin including the total value of their work in progress in their income for the year in the fifth taxation year starting after March 21, 2017.

This transitional measure has ended. For taxation years ending in 2022 and later, the total value of your work in progress at the end of the year must be included in your income.

### NOTE

Work in progress is considered inventory. Therefore, you must use either of the following valuation methods to determine the value of your work in progress:

- You can value all of the work in progress based on its FMV.
- You can value individual work in progress based on its cost or FMV, whichever is less.

# 6 DEDUCTIONS

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## 6.1 Expenses qualifying for a deduction

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As a rule, if you carry on a business, you can deduct any reasonable expense incurred to earn business income for the taxation year, unless the expense does not qualify for a deduction under the *Taxation Act*.

The following are **non-deductible** expenses:

- investments;
- capital expenditures or capital losses;
- reserves (also called “contingent accounts” or “sinking funds”), unless their deduction is expressly permitted under the *Taxation Act*;
- expenses incurred to establish a business before operations actually begin.

You cannot deduct personal expenses. If an expense is incurred for both personal and business purposes, you must make a reasonable allocation between personal use and business use. Only the portion used for business purposes can be deducted.

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## 6.2 Advertising

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You can generally deduct advertising expenses such as the cost of:

- radio, television and newspaper ads;
- business cards;
- social media ads;
- search engine keywords.

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## 6.3 Bad debts

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You can deduct the amount of a debt only if:

- you included the amount in your income for the current year or a previous taxation year; and
- you have determined that the amount is a bad debt for the current year.

A debt is considered a bad debt when all prescribed collection measures have been used without success.

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## 6.4 Business taxes and licences

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You can deduct the fees paid for licences and permits required to carry on your business or professional practice.

However, you **cannot deduct** your contribution to the Office des professions du Québec, annual dues paid to a professional association for the purposes of maintaining a recognized professional status (except the portion that covers professional liability insurance), annual membership dues paid to a recognized artistic association, or dues paid to an association of home childcare providers recognized under the *Act respecting the representation of certain home childcare providers and the negotiation process for their group agreements*. These contributions and dues entitle you to non-refundable tax credits, which reduce the amount of income tax payable (line 397 of the income tax return). Amounts paid to a professional association for a purpose other than that of maintaining a legally recognized professional status remain deductible.

If the partnership of which you are a member pays the above-mentioned contributions or dues on your behalf, the share of the contributions or dues paid on your behalf is considered to be an amount incurred by you in the year in which the fiscal period of the partnership ended and entitles you to a non-refundable tax credit. The partnership cannot deduct the contributions or dues from its income. It can, however, deduct any portion of the professional dues that covers professional liability insurance.

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## 6.5 Delivery, freight and messenger services

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You can deduct all expenses for delivery, freight and messenger services that you paid in order to earn business income.

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## 6.6 Fuel and oil (not used in motor vehicles)

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You can deduct all costs incurred for fuels and lubricants required to operate your business’s equipment, such as gasoline, diesel fuel, propane or motor oil. For information on motor vehicle expenses, see section 6.12.





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## 6.7 Insurance premiums

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You can deduct all ordinary commercial insurance premiums respecting the buildings, machinery and equipment used in your business. You cannot deduct disability or life insurance premiums. However, you can deduct premiums on a term life insurance policy assigned to a lender as collateral on a loan contracted for business purposes. For information about insurance premiums respecting the portion of your home used for business purposes, see section 6.27.

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## 6.8 Interest

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As a rule, you can deduct interest that **you are required to pay** if you borrow money in order to carry on a business or in order to purchase property to be used in the business. For information about interest on a loan for the purchase of a motor vehicle or zero-emission vehicle, see section 6.12.2. For information about interest on a mortgage loan respecting the portion of your home used for business purposes, see section 6.27.

You can deduct the interest that **you paid** on a loan granted against an insurance policy, provided the interest was not added to the adjusted cost base of the policy.

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## 6.9 Maintenance and repairs

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You can deduct the cost of labour and equipment required for the maintenance and repair of property used to earn business income. However, you cannot deduct the value of work you do yourself.

**You cannot deduct** the cost of repairs carried out for the purpose of making an addition or improvement to property. Such costs are not considered deductible expenses in the calculation of business income. Instead, they must be added to the cost of the property. Each year you can claim capital cost allowance for a portion of the cost of the property (see section 6.23).

### 6.9.1 Renovation or alteration of a building to meet the needs of mobility impaired or physically impaired people

You can deduct (rather than add to capital cost) any amount paid in the year for eligible renovations or alterations of a building primarily used for earning business or property income, if the renovations or alterations ensure that people with a mobility impairment have access to the building or that such people are able to move about inside the building. The following are **eligible renovations or alterations**:

- installation of hand-activated power door openers, as well as indoor and outdoor ramps;
- alterations to washrooms and widening of elevators and doorways to facilitate their use by people in wheelchairs;
- renovations or alterations for which you hold an *Eligibility Certificate for Renovation or Alteration Expenses* (form TP-157-V) signed by an architect, an engineer or a professional technologist certifying that the renovations or alterations comply with the barrier-free design standards set out in the Québec's *Construction Code*.

The eligibility certificate must also specify the types of specialized or adapted equipment installed during the renovations or alterations (for example, a specialized sign device, adapted seating or a telecommunications system) and the portion, indicated as a percentage, of the renovations or alterations made to the building that is reasonably attributable to the execution of the barrier-free design (for example, to adapt the height of switches or widen access points).

You can also deduct any amount paid in the year to acquire or install the following **eligible devices and equipment** that meet the needs of people who have a physical impairment:

- elevator car-position indicators (such as braille panels and audio indicators);
- visual fire alarm indicators;
- telephone devices designed for people with a hearing impairment.

### 6.9.2 Work on an immovable

If you incurred labour costs (other than salaries or wages paid to your employees) to renovate, improve, maintain or repair a building, structure or land located in Québec and used to carry on a business, you must complete form TP-1086.R.23.12-V, *Costs Incurred for Work on an Immovable*. On the form, you must identify the person (other than an employee) who carried out the work, and enter the amounts this person billed. You are liable to a penalty if you do not complete the form.

If the labour costs were incurred by a partnership of which you are the designated member, you must complete the form on behalf of the partnership.

## 6.10 Management and administration fees

You can deduct management and administration fees, as well as bank charges, that you incurred to carry on your business. These costs do not include salaries or wages paid to employees, property taxes or rent.

## 6.11 Meal and entertainment expenses

You can deduct meal and entertainment expenses that you incurred to earn business income.

Meal expenses include costs incurred for food and beverages. Entertainment expenses include the cost of tickets or admission fees to a show or sporting event, gratuities and the cost of rooms rented for entertainment purposes (such as private boxes at sports facilities or hospitality suites).

### 6.11.1 Deductible amount

The deduction you can claim for meal and entertainment expenses is **limited** to the lesser of the following amounts:

- 50% of the amount actually incurred and reasonable under the circumstances (hereinafter the “50% limit”);
- the ceiling based on the business’s sales.

For meals purchased by certain truck drivers, the 50% limit is replaced by a specified percentage (see “Meal expenses of truck drivers” in section 6.11.2).

These limits also apply to the cost of meals taken while travelling to attend a convention (see section 6.14), seminar or other similar meeting.

However:

- in some cases, the deductible amount is not subject to the ceiling based on sales (see section 6.11.2); and
- in other cases, the deductible amount is not subject to the 50% limit nor to the ceiling based on the business’s sales (see section 6.11.3).

#### NOTE

If you are a member of a partnership and you incurred meal and entertainment expenses in the course of the partnership’s business, you cannot deduct these expenses if they are subject to the 50% limit (or the specified percentage).

The **ceiling** applicable to meal and entertainment expenses is based on the business’s annual sales. If you carry on more than one business, calculate the ceiling separately for each one.

**Sales** correspond to all revenues attributable to the business, other than capital gains. However, if your business is a sales agency or similar business (that is, a business whose sole activity is the sale of goods in inventory in exchange for a commission), the sales concerning the portion of the income that consists of commissions is calculated as follows:

$$\frac{\text{Amount of the commission}}{\text{Percentage of the commission}}$$

The ceiling based on sales corresponds to either a percentage of the **annual** sales or to a fixed amount of \$650, as shown in the table below.

| Annual sales                              | Ceiling |
|---|---------|
| \$32,500 or less                          | 2%      |
| More than \$32,500 but less than \$52,000 | \$650   |
| \$52,000 or more                          | 1.25%   |

#### Example

A business’s fiscal period is from January 1 through December 31. Its sales total \$50,000. The 50% limit applies to entertainment expenses of \$2,000.

The deductible amount for entertainment expenses is calculated as follows:

- 50% limit:  $\$2,000 \times 50\% = \$1,000$
- ceiling based on sales, determined using the table above: \$650

The amount that can be claimed for this period is the lesser of the following amounts:

- the 50% limit: \$1,000;
- the ceiling based on sales, determined using the table above: \$650.

The deductible amount for the fiscal period (from January 1 through December 31) is \$650.

Since you determine the ceiling on the basis of your annual sales, if your fiscal period is **shorter than 365 (or 366) days**, you must first calculate your sales on an annual basis. Then, you must determine the corresponding ceiling. If the ceiling is a percentage of sales, multiply the actual sales by the percentage. If the ceiling is \$650, prorate this amount on the basis of the number of days in the fiscal period.





### Example

A business's fiscal period is from December 1 through June 30 (212 days). Its actual sales for this period total \$32,000. The 50% limit applies to entertainment expenses of \$2,000. The deductible amount for entertainment expenses is calculated as follows:

- 50% limit:  $\$2,000 \times 50\% = \$1,000$
- amount of sales on an annual basis:  
 $\$32,000 \times (365 / 212) = \$55,094$
- the ceiling based on annual sales, determined using the table on the previous page: 1.25%
- ceiling as determined by the actual sales:  
 $1.25\% \times \$32,000 = \$400$

The amount that can be claimed is the lesser of the following amounts:

- the 50% limit: \$1,000;
- the ceiling based on actual sales: \$400.

The deductible amount for the fiscal period (from December 1 through June 30) is \$400.

### 6.11.2 Deductible amount not subject to the ceiling based on sales

The deduction of meal expenses you incurred in the course of activities related to your business is subject to the 50% limit, but not to the ceiling based on sales if the activities take place at least 40 km away from your place of business and are usually (that is, on a regular and ongoing basis) carried on at such a distance from your place of business.

#### Meal expenses of truck drivers

In general, the amount that can be deducted for meal expenses (food and beverages) incurred to earn business income, including meal expenses incurred by truck drivers, cannot be more than the lesser of the following amounts: the 50% limit and the ceiling based on sales.

However, the ceiling based on sales does not apply to truck drivers who normally travel to destinations at least 40 km away from their place of business.

In addition, if you are a long-haul truck driver, neither the ceiling based on sales nor the 50% limit apply to the amount that you can claim for meal expenses incurred to earn business income during eligible periods of travel. For meal expenses incurred in or after 2011, the specified percentage is 80%.

#### Long-haul truck driver

An individual whose principal business is to drive long-haul trucks for the purpose of transporting goods.

#### Long-haul truck

A truck or tractor that:

- is designed for hauling freight;
- has a gross vehicle weight rating (as specified by the manufacturer to be the loaded weight of the vehicle) that is over 11,788 kg.

#### Eligible periods of travel

A period of at least 24 hours during which the following conditions apply:

- the long-haul truck driver is away from the municipality where he or she resides; and
- the driver's trip is for the purpose of transporting goods to, or from, a location outside a radius of at least 160 km from the driver's residence.

### 6.11.3 Deductible amount not subject to the set limits

Neither the 50% limit nor the ceiling based on sales applies to the deduction of your meal and entertainment expenses in the following cases:

- You incurred the expenses in the ordinary course of your business, which consists in providing food, beverages or entertainment to customers for consideration (if you are in the restaurant or hotel business).
- You billed the expenses to a customer, as shown on the customer's bill.
- You included the expenses in one of your employees' salary or wages, or, if you did not include them, the employee received relief in relation to the gifts and rewards benefit or worked at a special work site or at a location so remote that the employee could not reasonably be expected to establish his or her home there (in this case, the expenses do not constitute a taxable benefit). The work site must be located in Canada, at least 30 km from a population centre of at least 40,000 inhabitants.

If you are a producer in the cultural field and you pay an allowance for meal expenses to an artist who is self-employed, the latter will be considered an employee for the purposes of the deduction for meal expenses (but only regarding you). Consequently, if, as an employee, the artist had to report the value of the benefit represented by the allowance as taxable income (or did not have to report it because he or she had to work at a special work site or at a remote location), no limit would apply to the amount you can deduct. However, this exception will apply only where the allowance is paid under a group or individual agreement binding an artist and a producer. The agreement must be entered into in compliance with the *Act respecting the professional status and conditions of engagement of performing, recording and film artists*.

The rules concerning the deductibility of meal and entertainment expenses remain unchanged for an artist who receives an allowance from a producer.

- You incurred the expenses to provide meals to an employee housed at a work camp so remote that the employee cannot reasonably be expected to return home daily. The camp must be temporary and must have been constructed or installed for the purpose of providing meals and accommodation to employees working at a construction site.
- You incurred the expenses to celebrate Christmas or a similar event, and all of your employees who work at a particular place of business were invited to the celebration. You cannot deduct expenses for more than six such events in a calendar year.
- You incurred the expenses in connection with an activity organized principally for the benefit of a registered charity.
- You incurred the expenses for the purchase of a subscription or for the bulk purchase of tickets to:
  - concerts of a symphony orchestra or a classical music or jazz ensemble;
  - opera performances;
  - concerts of a vocal artist (excluding concerts that take place in a venue normally used for sports);
  - dance performances;
  - plays;
  - various types of performing arts (for example, comedy shows and musical comedies); or
  - museum exhibits.

The subscription must include at least three different performances that take place in Québec, and the cost must not include expenses for food or beverages. As well, tickets purchased in bulk must represent all or almost all of the tickets for a performance.

#### 6.11.4 Use of recreational property

Unless the purpose of your business is to supply recreational property, you cannot deduct expenses incurred for the use or maintenance of the following property:

- a pleasure craft (such as a yacht);
- a lodge;
- a hunting or fishing camp;
- a golf course;
- a recreational facility.

You also cannot deduct membership dues or initiation fees paid to a club whose main purpose is to offer its members dining, recreational or sporting facilities.

However, the membership dues or initiation fees paid to a club are deductible and not subject to the 50% limit or the ceiling based on sales if they are offered to an employee:

- for a special occasion (such as Christmas, a birthday, a wedding or a similar occasion); or
- in recognition of certain accomplishments (such as reaching a certain number of years of service).

These gifts and rewards are taxable benefits for the employee. For more information about employee benefits, see IN-253-V, *Taxable Benefits*.

## 6.12 Motor vehicle and zero-emission vehicle expenses

You can deduct certain expenses related to a vehicle used for business purposes. However, if the vehicle you use is classed as an automobile, a limit may apply to the amounts you can deduct as interest, leasing expenses and capital cost allowance (see sections 6.12.2, 6.12.6 and 6.12.7). It is therefore important to determine the type of vehicle for which you are claiming a deduction. See the definitions listed in this section.

### Motor vehicle

An automotive vehicle designed or adapted for use on highways and streets.

### Automobile

A motor vehicle that is used to carry individuals and that has a seating capacity for not more than the driver and eight passengers.

The following vehicles are not considered to be automobiles:

- an ambulance;
- a clearly marked emergency medical response vehicle used to carry paramedics and their emergency medical equipment;
- a motor vehicle acquired or leased for use primarily (more than 50%) as a taxi;
- a bus used in a business of transporting passengers;
- a hearse used in a funeral home business;
- a motor vehicle used to transport passengers in a funeral home business;
- a motor vehicle acquired or leased to be sold or leased in a business that sells or leases motor vehicles;
- a pickup truck, SUV, van or similar vehicle that, in the taxation year in which it is acquired, is used entirely or almost entirely (90% or more) to transport goods, equipment or passengers in order to earn or produce income;
- a pickup truck, van or similar vehicle that has a seating capacity for not more than the driver and two passengers and that, in the taxation year in which it is acquired, is used primarily (more than 50%) to transport goods or equipment in order to earn or produce income; and



- an extended cab pickup truck that:
  - has seating for the driver and more than two passengers,
  - in the taxation year in which it is acquired or leased, is used primarily (more than 50%) to transport goods, equipment or passengers in the course of earning or producing income at one or more places in Canada, and
  - is used to transport at least one passenger who works at a special work site where he or she performs temporary duties, or at a location so remote that he or she cannot reasonably be expected to establish his or her home there (the work site or remote location must be at least 30 km from a population centre of at least 40,000 inhabitants).

### Zero-emission vehicle

A fully electric motor vehicle, a plug-in hybrid motor vehicle with a battery capacity of at least 7 kWh or a hydrogen-powered motor vehicle, with regard to which you have not received any assistance from the Government of Canada. If it was acquired before March 2, 2020, it must have been new (i.e. it was not used or acquired to be used for any purpose before you acquired it).

### Zero-emission automotive vehicle or equipment

An automotive vehicle or automotive equipment that is fully electric or powered by hydrogen and that is not included in class 54 or class 55, such as a vehicle designed or adapted for off-road use.

### Deductible vehicle expenses include:

- registration fees;
- the cost of a driver's licence;
- insurance premiums;
- interest (see section 6.12.2);
- fuel costs;
- charging costs;
- maintenance costs (for example, washing, lubrication and tune-ups);
- repair costs (see section 6.12.3);
- parking fees (see section 6.12.4);
- supplementary insurance premiums (see section 6.12.5);
- leasing expenses (see section 6.12.6);
- capital cost allowance (see section 6.12.7).

If you use more than one vehicle to earn business income, the expenses for each vehicle **must be calculated separately**. You must also determine the percentage of business use for each vehicle. This percentage is determined on the basis of the ratio between the number of kilometres travelled for business purposes in your fiscal period and the total kilometres travelled in that fiscal period.

To help with the calculations, you can keep a logbook containing the following information:

- the total number of days during the year that the automobile was made available to you (or to a person related to you);
- the total number of kilometres travelled (on a daily, weekly or monthly basis) during the number of days in question;
- in the case of an electric vehicle, the average energy cost per kilometer travelled (when determining the cost, take into consideration both pay-per-use and free recharging stations used).

You should also record the following information daily for each business trip:

- the points of departure and arrival;
- the number of kilometres travelled;
- any information establishing that the trip was made for business purposes.

### Simplified logbook

To make it easier to compile vehicle expenses, you can keep a logbook for each vehicle for a sample period of at least three consecutive months from which you can then extrapolate the percentage of business use for the entire year. To use a simplified logbook, the following conditions must be met:

- You kept a comprehensive logbook of your motor vehicle use over a typical 12-month period (known as the "base year"), which has since served as a reference period for subsequent years. This period does not have to correspond to a calendar year.
- The percentage of business use for the sample period for the year is within 10 percentage points of that determined for the same period in the base year (known as the "period in the base year").
- The percentage of business use for the year is within 10 percentage points of that determined for the base year.

The percentage of business use for the year is determined using the following formula:

$$\frac{\text{Percentage of business use (sample period)}}{\text{Percentage of business use (period in the base year)}} \times \text{Percentage of business use determined for the base year}$$



### Example

You use an automobile for both business and personal purposes. You kept a logbook of your motor vehicle use over a 12-month period in 2022 (the base year) and determined that you used the automobile for business purposes 60% of the time during that year.

In 2023, you kept a logbook during a three-month sample period (July, August and September), which revealed that you used the automobile for business purposes 65% of the time during that period. For the same three-month period in the base year, the automobile was used for business purposes 57% of the time. The percentage of business use for the sample period (65%) is therefore within 10 percentage points (not less than 47% and not more than 67%) of the percentage of business use determined for the period in the base year (57%).

The percentage of business use for the automobile for 2023 is determined using the formula on the previous page:

$$(65\% / 57\%) \times 60\% = 68\%.$$

The percentage of business use (68%) is **acceptable** because it lies within 10 percentage points (not less than 50% and not more than 70%) of the percentage of business use determined for the base year (60%).

### 6.12.1 Expenses for travel between your home and your place of business

You can deduct your travel expenses if you use a motor vehicle or zero-emission vehicle to travel between your various premises or places of business. However, you cannot deduct the expenses incurred to travel between your home and your various places of business, unless your principal place of business is your home. If you have a fixed office or place of business other than your home, your home is not usually considered your principal place of business.

**Your home** may be considered your principal place of business if you are in a situation similar to the following:

- You are an anesthetist and you receive all work-related telephone calls and do all clerical work connected with your profession at home. You do not have an office or other premises in a hospital or elsewhere, and you provide your services to patients in one or more hospitals.
- You are an independent real estate agent and you maintain an office in your home. You do not have any other business premises, and you provide your services to clients in their own homes or at the listed properties.
- You are a plumber, electrician or painter, you have an office in your home and you keep all your equipment in your home. You do not have any other business premises, and you carry out your work wherever customers require your services.

Your expenses for travel between businesses you operate are personal expenses and therefore do not qualify for a deduction.

### 6.12.2 Interest on a loan for the purchase of a motor vehicle or zero-emission vehicle

You can deduct the interest on a loan contracted to purchase a motor vehicle or zero-emission vehicle that you use to earn business income. However, in the case of an **automobile** (see the definition in section 6.12), the deduction of interest on the loan is limited. The amount you deduct cannot be more than \$10 multiplied by the number of days for which interest was paid or payable.

#### NOTE

To calculate the amount of interest you can deduct, you must take into account the percentage of use of the vehicle for business purposes.

### 6.12.3 Repair costs following an accident

Repair costs incurred following an accident, whether to repair damage to the vehicle you were driving or to the property of another person, are entirely deductible if the vehicle was being used for business purposes at the time of the accident. Repair costs do not include costs for which you were reimbursed or are entitled to be reimbursed pursuant to an insurance claim or a claim in damages, unless the amount of the reimbursement is included in your income.

Repair costs are **not deductible** if the vehicle was being used for personal purposes at the time of the accident.

### 6.12.4 Parking fees

Fees paid during a fiscal period to park or store an automobile used for business purposes are deductible for that period.

#### NOTE

Parking fees at your place of residence are considered a personal expense and are therefore not deductible, unless your residence is the main location at which you carry on your business.

### 6.12.5 Supplementary insurance premiums

You can deduct the entire cost of supplementary insurance premiums for the motor vehicle you use for business purposes.

### 6.12.6 Leasing expenses

You can deduct the cost of leasing a motor vehicle or zero-emission vehicle that you use to earn business income. However, if you lease an **automobile** (see the definition in section 6.12), the leasing expenses you can deduct are limited.

To determine the amount of eligible leasing expenses, complete the work chart on the next page for each automobile.

When calculating the deductible portion of eligible automobile leasing expenses, you must take into account the proportion in which the vehicle is used for business purposes.



## WORK CHART – Eligible automobile leasing expenses

|   |   |    |  |   |    |  |
|---|---|----|--|---|----|--|
| Amount of daily leasing expenses for the automobile <sup>1</sup>  |   |    |  | 1 |    |  |
| Number of days the vehicle was leased, from the date the contract took effect   |   |    |  | × | 2  |  |
| Multiply line 1 by line 2.  |   |    |  | = | 3  |  |
| Total leasing expenses deducted for previous fiscal periods   |   | 4  |  |   |    |  |
| Total interest considered to have been earned, concerning a refundable amount, from the date the contract took effect <sup>2</sup>            | + | 5  |  |   |    |  |
| Total refunds of leasing expenses (other than GST/HST or QST rebates) to which you have been entitled, from the date the contract took effect | + | 6  |  |   |    |  |
| Add lines 4 through 6.  | = |    |  |   | 7  |  |
| Subtract line 7 from line 3.  | = |    |  |   | 8  |  |
| Leasing expenses incurred for the automobile during the fiscal period <sup>3</sup>  |   |    |  |   | 9  |  |
| Manufacturer's suggested retail price <sup>4</sup> for the automobile (not including taxes)   |   |    |  | ÷ | 10 |  |
| Divide line 9 by line 10.   | = |    |  |   | 11 |  |
| Maximum price for the automobile <sup>5</sup>   |   |    |  | × | 12 |  |
| Multiply line 11 by line 12.  | = |    |  |   | 13 |  |
| Enter the amount from line 9 or 13, whichever is less.  |   |    |  |   | 14 |  |
| Total interest considered to have been earned during the fiscal period, concerning a refundable amount <sup>6</sup>                           |   | 15 |  |   |    |  |
| Total refunds of leasing expenses (other than GST/HST or QST rebates) to which you are entitled for the fiscal period                         | + | 16 |  |   |    |  |
| Add lines 15 and 16.  | = |    |  |   | 17 |  |
| Subtract line 17 from line 14.  | = |    |  |   | 18 |  |
| Enter the amount from line 8 or 18, whichever is less.  |   |    |  |   | 19 |  |
| <b>Eligible automobile leasing expenses</b>   |   |    |  |   |    |  |

- Add sales taxes to the following amount and enter the result on line 1: \$26.67, for a leasing contract signed after 2000 but before 2022, or \$30 for a leasing contract signed in 2022, or \$31.67 for a leasing contract signed after 2022.  
Sales taxes include GST/HST and QST (or any other provincial sales tax) calculated on the monthly payment at the rate in effect at the time the monthly payment is made.
- Enter the amount of interest that would be earned on refundable amounts, except on the first refundable \$1,000, if the interest was payable at a prescribed rate. The refundable amounts must be paid for leasing the automobile. They include all amounts that the lessor is required to repay you under the leasing contract (for example, a deposit that lowered the lease payments), but do not include GST/HST or QST rebates.  
To determine the amount of interest to enter on lines 5 and 15, calculate the interest at the prescribed rate (see the following list of rates for 2022 and 2023), either for all fiscal periods ended since the amount became refundable (line 5) or for the fiscal period concerned (line 15). To find out the interest rates in effect before January 1, 2022, contact us.

| Prescribed rate          | 2022  | 2023  |
|--------------------------|-------|-------|
| January 1 to March 31    | 0.6%  | 3.75% |
| April 1 to June 30       | 0.6%  | 4.25% |
| July 1 to September 30   | 2.25% | 4%    |
| October 1 to December 31 | 3%    | 4.5%  |

- Leasing expenses include taxes, insurance premiums and maintenance costs incurred during the fiscal period under the leasing contract.
- If the amount on line 10 is equal to or less than the maximum price for the automobile (see note 5), carry the amount from line 9 directly to line 14. Otherwise, complete lines 11 through 13.
- The maximum price for the leased automobile is \$42,353, plus sales taxes on this amount.  
Sales taxes include GST/HST and QST (or any other provincial sales tax) calculated on the amount at the rate in effect at the time the leasing contract was entered into.
- See note 2.



### 6.12.7 CCA of a motor vehicle or zero-emission vehicle

As with all other durable goods, you cannot deduct the cost of a vehicle used to earn business income in the year of purchase. However, given that vehicles depreciate over the years, you can claim an amount as CCA each year. The rules regarding CCA are explained in section 6.23.5.

#### Capital cost of a motor vehicle or zero-emission vehicle

The **capital cost** of a vehicle is generally the total purchase price, which includes:

- the trade-in amount granted by the vendor for a used vehicle;
- the cost of all accessories and equipment installed before or after delivery of the vehicle;
- the GST/HST and the QST (or any other provincial sales tax) paid on the vehicle, minus ITCs and ITRs paid or credited to you.

#### NOTE

If you use a vehicle less than 90% of the time for business purposes, you must calculate the ITCs and ITRs on the basis of the CCA for the vehicle and subtract them from the UCC at the beginning of the taxation year following the year for which CCA is being claimed.

#### Vehicle used for both business and personal purposes

If you use a vehicle for both business and personal purposes, the base amount used to calculate the CCA must include both the business portion and the personal portion of the capital cost or UCC, as applicable.

The CCA that can be claimed generally corresponds to the ratio between the distance travelled for business purposes in the fiscal period and the total distance travelled in that period.

#### Example

You operate a furniture-making business.

In 2023, you had an automobile that you used for business purposes 40% of the time (10,800 km for business purposes out of a total 27,000 km).

The CCA calculated according to the rules in section 6.23.5 is \$3,525.

The portion of the CCA related to personal use of the vehicle is \$2,115 ( $\$3,525 \times 60\%$ ). This amount must be entered on line 458 of form TP-80-V.

The portion of the CCA that can be deducted is \$1,410 ( $\$3,525 \times 40\%$ ).

### 6.12.8 Joint ownership or lease

If you and one or more other persons jointly own or lease a vehicle, the amount of CCA, interest and leasing expenses deducted by all the owners or lessees cannot be more than the maximum that one person owning or leasing the vehicle could deduct.

### 6.13 Office expenses

You can deduct the cost of your office supplies (for example, stationery, stamps, directories and magazines). Office supplies do not include articles such as calculators, filing cabinets and chairs. These are considered capital expenditures and are therefore not deductible in the year in which you purchase them (see section 6.23).

Office expenses do not include expenses related to the use of your home for business purposes (see section 6.27).

### 6.14 Convention expenses

You can deduct the cost (registration fees, living and travel expenses) of attending a maximum of two conventions during the year, provided the conventions:

- relate to your business; and
- are held by a business or professional organization at a place that can reasonably be considered to be in the geographical area in which the organization conducts its business.

The second condition does not apply if the convention is sponsored by an organization based in a country other than Canada and is related to your business or profession.

If convention expenses include food, beverages or entertainment, and the cost of these is not indicated separately on your supporting documents, subtract \$50 from the convention expenses for each day these items were provided.

The daily amount of \$50 can be deducted as meal and entertainment expenses, subject to the limits described in section 6.11.

### 6.15 Supplies

You can deduct the cost of items, products and materials used indirectly in the production of goods and services. For example, a veterinarian can deduct expenditures for medicine, syringes and other supplies, whereas an actor can deduct the cost of materials used to assist him or her in playing a role.

Note that if you are a self-employed performing artist, you can deduct the cost of clothing purchased for public performances. You can deduct 50% of the cost of clothing that may be worn for other purposes than performing and 100% of the cost of clothing that cannot be worn for other purposes than performing.

If you are not a performing artist, you can only deduct the cost of **clothing that you wear** to earn business income or a combination of business income and income from another source. In such a case, you can deduct clothing expenses from your business income.



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## 6.16 Legal and accounting fees

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You can deduct the fees you paid to an outside firm (such as a legal, accounting or architectural firm) for advice, services or assistance relating to your business.

Accounting or auditing fees paid to have your financial statements prepared or certified are deductible. You can also deduct legal, accounting or other fees incurred to have legislation reviewed or an objection or appeal prepared against a notice of assessment regarding QST, income tax payable, Employment Insurance or QPIP premiums, contributions to the Canada Pension Plan, the QPP or the health services fund, or contributions related to labour standards.

Legal fees are deductible, provided you incurred them to earn business income. Legal fees include amounts paid to have contracts prepared for the purpose of obtaining guarantees, and expenses incurred to recover accounts receivable or to prepare financial documents.

You cannot deduct legal fees and other expenses incurred to acquire capital property. Instead, add these expenses to the cost of the property.

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## 6.17 Property taxes (municipal and school taxes)

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You can deduct property taxes relating to property (land and buildings) used to carry on your business. Property taxes include municipal taxes and school taxes, minus any refundable portion of the taxes. Municipal taxes include:

- taxes for water, sewers, garbage collection and upkeep of roads and streets;
- taxes for a specific sector to cover public services and facilities; and
- financing taxes levied by municipalities and urban communities.

However, municipal taxes do not include transfer duties. For information about property taxes respecting the portion of your home used for business purposes, see section 6.27.

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## 6.18 Rent

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You can deduct rent relating to property (land and buildings) used to carry on your business. A partnership that uses an individual's home to carry on a business can also deduct as rent the expenses attributable to the use of the individual's home, subject to the limits applicable to an individual who is deducting an expense related to the business use of his or her home (see section 6.27.4).

If you are the sole proprietor, your rent does not include expenses related to the use of your home for business purposes (see section 6.27).

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## 6.19 Salaries or wages, benefits and employer contributions

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You can deduct salaries or wages (including commissions) paid to employees, as well as your share of premiums and contributions that you paid as an employer, such as Employment Insurance or QPIP premiums, QPP contributions, the contribution to the health services fund, the contribution related to labour standards and the employer contribution to the Commission des normes, de l'équité, de la santé et de la sécurité du travail (CNESST).

However, if you carry on a manufacturing business, do not include the remuneration paid to employees who work directly in the manufacture of goods (that is, direct labour costs). This remuneration must be included in the cost of goods sold.

You can also deduct premiums paid on behalf of your employees for a plan providing health insurance, accident insurance, disability insurance or wage loss insurance.

You can deduct **the salary or wages paid to your child**, provided:

- you actually paid the salary or wages;
- the work done by your child was necessary for you to earn business income (you would have had to hire someone else had you not hired your child); and
- the salary or wages were reasonable given your child's age and represent the amount you would have paid someone else.

You must keep all documents substantiating the salary or wages paid to your child. If you paid by cheque, keep the cancelled cheques. If you paid in cash, ask your child for a receipt.

If you paid your child with a product from the business rather than in cash, you can deduct as an expense the value of the product that replaced your child's salary or wages. In this case, your child is required to include the value of the product in his or her income, and you must add the same amount to your income.

**The salary or wages paid to your spouse** are also deductible. The rules applicable to the salary or wages paid to a child also apply to salary or wages paid to a spouse.

You must report the salary or wages paid to your child or spouse on an RL-1 slip, as you would for any other employee. However, **you cannot deduct** the value of meals or accommodation you provided to your child or spouse.

**You cannot deduct** any remuneration you paid to yourself. Such remuneration constitutes a withdrawal by the owner and is not a deductible expense.

If you organize a shared transportation service for your employees, see section 6.24.3.

For further information about your responsibilities as an employer, see the *Guide for Employers* (TP-1015.G-V).

## Transit passes for employees

Benefits granted to your employees are deductible in calculating your business income. You can deduct the amount you reimbursed your employees for expenses they incurred to use a public transit service to travel to their workplace or the cost of providing them with transit passes.

You can also deduct from your business income an additional amount equal to 100% of:

- any amount granted to one of your employees as a total or partial reimbursement of the cost of an eligible transit pass taking the form of a **subscription** for a period of at least one month or the cost of an eligible **paratransit pass**, if the employee purchased the pass to travel between his or her residence and workplace; or
- the cost for you of an eligible transit pass or paratransit pass, if the pass is provided to one of your employees primarily to travel between his or her residence and workplace.

### Eligible transit pass

A transit pass that allows the use of a public transit service, other than a paratransit service, provided by a public entity authorized by Québec law to organize such a service.\*

### Eligible paratransit pass

A transit pass that allows the use of a paratransit service provided by a public entity authorized by Québec law to organize such a service.\*

\* Public entities authorized by Québec law include municipal bodies, inter-municipal transit bodies, the Agence métropolitaine de transport and the authorities referred to in the *Act respecting public transit authorities*, such as the transit authorities of Laval, Lévis, Longueuil (RTL), Montréal, Outaouais, Québec (RTC), Saguenay, Sherbrooke and Trois-Rivières.

## 6.20 Travel expenses (other than motor vehicle or zero-emission vehicle expenses)

You can deduct travel expenses (including the cost of meals, accommodation and public transportation) incurred to earn business income.

The amount you deduct for expenses incurred for food, beverages and entertainment is generally subject to limits (for more information on these limits, see section 6.11).

However, these limits do not apply if you travel by plane, train or bus to earn business income and the food, beverages and entertainment provided on board are included in the price of the ticket. You can include the full price of the ticket in your travel expenses.

## 6.21 Telecommunications

You can deduct expenses for the following telecommunications expenses incurred **to earn business income**:

- charges for long-distance calls;
- charges for cellular calls (including costs incurred to acquire a package or prepaid air time, provided you calculate such costs in proportion to your use of the telephone for business purposes and that the charges are deducted in the fiscal period in which you receive the service);
- the part of charges related to an Internet package that is reasonably attributable to the needs of your business.

You can deduct the following expenses **only if** they were incurred **exclusively** for business purposes:

- the basic monthly charge for telephone service;
- the charges for an Internet connection;
- the cost of leasing a paging device;
- the cost of having a cellular telephone licensed or connected.

You **cannot deduct** the purchase price of a cell phone. However if you use the phone for business purposes **only**, you can claim a portion of its cost as capital cost allowance each year (see section 6.23).

## 6.22 Electricity, heat and water

You can deduct expenses for utilities (electricity, heat and water) that were incurred **to earn business income**.

## 6.23 Capital cost allowance

You cannot deduct the cost of property such as furniture, a building or a vehicle in the year of purchase. However, as such property wears out or becomes obsolete over time, you can deduct a portion of its cost each year (generally for as long as you own the property). This deduction is called capital cost allowance (CCA).

The amount on which you can initially (in the first year) claim CCA is called the capital cost of the property. It includes the purchase price of the property, legal and other fees related to the purchase of the property, transportation costs and the GST/HST and QST, minus the ITCs and ITRs received or credited. The result obtained when the CCA claimed is subtracted from the capital cost of the property constitutes the undepreciated capital cost (UCC).

Property on which you can claim CCA is called “depreciable property.” Depreciable property is normally grouped into classes, and a specific CCA rate generally applies to each class. For information on the principal classes of depreciable property, see section 6.23.5.





If, during the year, you started using depreciable property for your business that you had previously used only for personal purposes, the capital cost of the property corresponds to the lesser of the following amounts:

- the FMV of the property at the time you started using it for your business;
- the cost of the property.

If the FMV of a property that you start using for your business is greater than its cost, you may realize a capital gain (see section 2.2).

For more information about the **capital cost** of a motor vehicle or zero-emission vehicle or about calculating business use and personal use of a vehicle, see section 6.12.7.

You should also keep the following points in mind:

- You do not have to claim the maximum amount of CCA to which you are entitled in a given year. You can claim any amount up to the maximum.
- For most classes of property, CCA is generally calculated according to the declining balance method. This simply means that it is calculated on the UCC, which decreases over the years as CCA is claimed at the end of each fiscal period.
- As a rule, if you claim CCA in the year the property was purchased, you can calculate the CCA only on 50% of the capital cost of the property. This limit is called the “half-year rule.” The half-year rule may not apply for certain depreciable property (see section 6.23.5). For property to which the accelerated investment incentive applies, the half-year rule is suspended until the end of 2027 (see section 6.23.6).
- If your fiscal period is less than 12 months, the CCA claimed must be prorated to the length of the fiscal period.
- You cannot claim CCA with respect to land, plants (trees, shrubs, etc.) or animals. The only exception to this rule is that CCA can be claimed on timber limits, cutting rights and timber resource property.

### 6.23.1 Grants and subsidies

If you receive or are entitled to receive a grant, subsidy or other form of assistance from a government or a government agency for property you purchased, you must subtract the assistance, grant or subsidy from the capital cost of the property before calculating CCA.

If you receive an inducement or incentive from a non-government agency for the purchase of depreciable property, you must either include the amount in your income or subtract it from the capital cost of the property.

If you receive or are entitled to receive government assistance or a federal investment tax credit for property that belongs to a given class and that was disposed of in a previous year, recapture of CCA may occur (see section 6.23.4).

### 6.23.2 The available-for-use rule

Generally, you can claim CCA on property only when the property is considered available for use, that is, ready to be used to earn business or property income.

Property (other than an immovable) is generally considered to be available for use at the earliest of the following times:

- the time at which you first use the property to earn income;
- the beginning of the second taxation year following the taxation year in which you acquired the property (for example, in 2023, if you acquired the property in 2021);
- the time immediately prior to the time at which you dispose of the property;
- the time at which the property is delivered to you or placed at your disposal, provided it can be used to produce goods or supply a marketable service.

A building is generally considered to be available for use at the earliest of the following times:

- the time at which you begin to use all or substantially all (90% or more) of the building for the purposes for which it was acquired;
- the beginning of the second taxation year following the taxation year in which you acquired the property (for example, in 2023, if you acquired the property in 2021);
- the time at which construction of the building is completed;
- the time immediately before the time at which you dispose of the property.

#### NOTE

Where the available-for-use rule applies, a renovation, alteration or addition to a building is considered to be a separate property.

The half-year rule (see section 6.23) does not apply in the calculation of CCA if, because of the available-for-use rule, you cannot claim CCA before the second taxation year following the taxation year in which you acquired the property (for example, if you acquired the property in 2021 but were unable to use it to earn income until 2023).

### 6.23.3 Non-arm’s-length transactions

A non-arm’s-length transaction includes a transaction between members of the same family (between spouses or de facto spouses, between a parent and a child, etc.) or between a shareholder and a corporation controlled by the shareholder. If you purchase property in a non-arm’s-length transaction, special rules apply to the calculation of the capital cost of the property. For more information on how to calculate capital cost in such cases, contact us.



### 6.23.4 Disposition of property

As a rule, if you dispose of property, you must subtract from the property's class the capital cost of the property or the proceeds from its disposition, whichever is **less**. A special rule may apply to certain classes of depreciable property (see section 6.23.5).

If the proceeds from the disposition of the property are greater than the purchase price, you may realize a capital gain or a recapture of CCA. Note that you cannot incur a capital loss if you dispose of depreciable property, but you may incur a terminal loss. For more information about capital gains, see section 2.2.

#### Recapture of CCA

Generally, recapture of CCA occurs if the value of the UCC in the class (after purchases and dispositions for the fiscal period) is negative. You must include the recapture of CCA in your business income.

Recapture of CCA can occur if the proceeds from the disposition of depreciable property exceed the sum of:

- the UCC of the class of property at the beginning of the fiscal period; plus
- the capital cost of acquisitions during the fiscal period.

Recapture of CCA can also occur if you receive or are entitled to receive government assistance or a federal investment tax credit for the property and the amount of the assistance or tax credit received exceeds the total of the two above-mentioned amounts.

This rule does not apply to class 10.1 motor vehicles **that have never been designated immediate expensing property (DIEP)**, as there is no recapture of CCA for this type of property (see section 6.23.5).

#### Terminal loss

A terminal loss occurs if, at the end of a fiscal period, you have no more property in a given class, but an amount remains for which you have not claimed CCA. You can deduct the terminal loss from your business income.

This rule does not apply to class 10.1 motor vehicles, as there is no terminal loss for this type of property regardless of whether the vehicles are DIEP (see section 6.23.5).

### 6.23.5 Description of certain classes of property

The table below sets out the main classes of depreciable property and the CCA rate for each class.

| Class | Rate    | Class | Rate |
|-------|---------|-------|------|
| 1     | 4%      | 29    | 50%  |
| 3     | 5%      | 33    | 15%  |
| 6     | 10%     | 36    | 0%   |
| 7     | 15%     | 38    | 30%  |
| 8     | 20%     | 43    | 30%  |
| 8.1   | 33 1/3% | 43.1  | 30%  |
| 9     | 25%     | 43.2  | 50%  |
| 10    | 30%     | 44    | 25%  |
| 10.1  | 30%     | 46    | 30%  |
| 12    | 100%    | 50    | 55%  |
| 14.1  | 5%      | 53    | 50%  |
| 16    | 40%     | 54    | 30%  |
| 17    | 8%      | 55    | 40%  |
| 18    | 60%     | 56    | 30%  |

Note that CCA is calculated for property in classes 13, 14, 15 and 29 using the straight-line depreciation method.

#### IMPORTANT

If you acquired depreciable property after November 20, 2018, the accelerated investment incentive may apply. The incentive provides for enhanced CCA for the fiscal period in which the property is available for use. For more information, see section 6.23.6.

Further details about certain classes of property are provided on the pages that follow.

| Class    | Rate      |
|----------|-----------|
| <b>1</b> | <b>4%</b> |

Class 1 property includes most buildings acquired after 1987, including component parts such as electrical wiring, lighting fixtures, plumbing, sprinkler systems, heating and air-conditioning equipment, elevators and escalators.

Additions made to class 3 buildings must be included in class 1 if the cost of the additions exceeds the lesser of the following amounts:

- \$500,000;
- 25% of the building's capital cost on December 31, 1987, or, if the building was under construction on that date, 25% of the building's capital cost on the date construction was completed.



## Supplementary deduction

Class 1 buildings acquired after March 18, 2007 (including a new building if any portion of it was acquired after that date, where the building was under construction on March 19, 2007), and not used or acquired for use before that date, qualify for a supplementary deduction if:

- the building is a non-residential building, that is, at least 90% of the building (in surface area) is used for non-residential purposes at the end of the taxation year; and
- the building is included in a separate class.

The supplementary deduction is:

- 6% for a building where at least 90% (in surface area) is used for manufacturing or processing, in Canada, goods for sale or lease;
- 2% for other non-residential buildings.

Therefore, the total deduction rate is 10% for buildings used for manufacturing or processing and 6% for other non-residential buildings.

To be entitled to the supplementary deduction, you must also include the building in a separate class; otherwise, only the 4% CCA rate will apply.

| Class    | Rate      |
|----------|-----------|
| <b>3</b> | <b>5%</b> |

Class 3 property includes most buildings acquired after 1978 but before 1988, except those specifically included in another class. Also included are the component parts of these buildings: electrical wiring, lighting fixtures, plumbing, sprinkler systems, heating and air-conditioning equipment, elevators and escalators. Certain additions made after 1987 must be included in class 1.

| Class    | Rate       |
|----------|------------|
| <b>6</b> | <b>10%</b> |

Class 6 property includes buildings of frame, log, stucco on frame, galvanized sheet metal or corrugated metal, and their component parts, if the buildings were:

- acquired before 1979; or
- built without footings or other base support below ground level.

However, certain additions or alterations made to class 6 buildings after 1978 may be included in class 3 rather than class 6. If you acquired a building before 1979, you can include in class 6 the first \$100,000 of the cost of additions and alterations made after 1978, and any amount in excess of the first \$100,000 in class 3.

If the building has no footings or other base support below ground level, include the total cost of the additions and alterations in class 6.

| Class    | Rate       |
|----------|------------|
| <b>7</b> | <b>15%</b> |

Class 7 property includes canoes, rowboats and most other vessels, as well as the equipment attached to the property.

| Class    | Rate       |
|----------|------------|
| <b>8</b> | <b>20%</b> |

Class 8 includes property not included in any other class, for example, furniture, appliances, telephones, calculators, tools costing \$500 or more (\$200 or more if they were purchased before May 2, 2006), fixtures, advertising poster panels, bulletin boards, electric advertising signs, machinery and equipment (including data network infrastructure equipment acquired before March 23, 2004).

### NOTE

- Data network infrastructure equipment acquired after March 22, 2004, must be included in class 46.
- Works by artists who were Canadian when they created them that were acquired after April 21, 2005, for display at a place of business must be included in class 8.1.

## Election to have property included in a separate class

You may elect to include in a separate class certain class 8 property such as photocopiers, fax machines and telephone equipment, provided the unit cost of the property is at least \$400.

The creation of a separate class does not change the CCA rate applicable to the property in question, but it allows you to do a separate CCA calculation for the property belonging to that class over a period of no more than five taxation years. In this way, when the property is sold, the UCC of the class to which it belongs is fully deductible as a terminal loss.

Moreover, the half-year rule does not apply to property that you elected to include in a separate class. Such an election therefore allows you to increase the CCA claimed on the property for the year in which it is acquired.

To make the election, enclose a letter with your income tax return for the year in which the property is acquired.

### NOTE

If you still have the property in question at the beginning of the sixth taxation year, you must transfer the UCC to the class in which the property would normally have been included.

| Class      | Rate           |
|------------|----------------|
| <b>8.1</b> | <b>33 1/3%</b> |

Class 8.1 property includes property acquired after April 21, 2005, for display at a place of business, where such property consists of drawings, prints, etchings, sculptures, paintings or any other work of art of a similar nature created by an artist who was Canadian at the time he or she created the work of art.

| Class     | Rate       |
|-----------|------------|
| <b>10</b> | <b>30%</b> |

Class 10 includes all motor vehicles other than taxis, vehicles rented on a daily basis, heavy trucks, class 10.1 automobiles and class 54 zero-emission vehicles.

| Class       | Rate       |
|-------------|------------|
| <b>10.1</b> | <b>30%</b> |

Class 10.1 includes motor vehicles that are classed as automobiles (see section 6.12), other than class 54 zero-emission vehicles, whose capital cost exceeds:

- \$30,000 if they were acquired after 2000 but before 2022;
- \$34,000 if they were acquired in 2022;
- \$36,000 if they were acquired after 2022.

Each automobile must be included in a separate class.

Note that you must exclude sales tax (GST/HST and QST and any other provincial sales tax) from the purchase cost when determining whether a vehicle is a class 10.1 automobile.

The capital cost that you must use to calculate a class 10.1 automobile's CCA must not exceed \$30,000, \$34,000 or \$36,000, as applicable. However, the portion of sales tax (GST/HST and QST and any other provincial sales tax) for which you were not refunded that applies to the \$30,000 portion of the cost is to be included in the capital cost for the purpose of calculating CCA.

#### Example

You purchased an automobile that was not a class 54 zero emission vehicle for \$43,000 in 2023. The capital cost that you must take into account is \$36,000 plus any taxes calculated on \$36,000 that were not refunded.

If you sold a class 10.1 automobile that you owned at the end of the previous fiscal period, you can deduct, for the current fiscal period, 50% of the CCA that you would otherwise have been able to deduct had you not sold the automobile.

If the automobile has never been DIEP, do not include a recapture of CCA in your business income or deduct a terminal loss from your business income. Recapture of CCA rules do not apply to class 10.1 motor vehicles that have never been DIEP, and terminal loss rules do not apply to class 10.1 motor vehicles at all, whether they have been DIEP or not (see section 6.23.4).

However, if the automobile was DIEP at any point, the usual CCA recapture rules apply (see section 6.23.4) and you must adjust the proceeds of disposition in the year of the automobile's disposition by multiplying them by the following fraction: \$36,000 divided by the real cost of the automobile.

#### Example

In April 2023, you purchased a class 10.1 automobile for \$45,000 (including non-refunded taxes) and added it to your DIEP. You then sold the vehicle for \$42,000.

If the taxes on \$36,000 were refunded on the purchase, the proceeds of disposition must be adjusted from \$42,000 to \$33,600 ( $\$42,000 \times \$36,000 / \$45,000$ ).

| Class     | Rate        |
|-----------|-------------|
| <b>12</b> | <b>100%</b> |

Class 12 includes property not included in any other class, for example:

- software (other than system software) acquired after May 25, 1976;
- kitchen utensils, medical or dental instruments, and tools (except for electronic communication devices and electronic data processing equipment), if the cost is less than \$500 (less than \$200 if they were purchased before May 2, 2006);
- linens, uniforms, apparel and costumes.

The half-year rule applies only to property listed in point (a). It does not apply to class 12 property listed in points (b) and (c). Note that the accelerated investment incentive does not apply to class 12 property.

| Class     | Rate |
|-----------|------|
| <b>13</b> | —    |

Class 13 includes the capital cost of improvements to leased property, that is, the capital cost that a tenant incurs in order to make improvements or alterations to leased property.

However, class 13 does not include the cost of alterations made to a leased building or structure that substantially changed the nature of the property, the cost of a building or structure built on leased land, or the cost of an addition to a leased building or structure. This type of cost constitutes property that must be included in class 1, 3 or 6 as a building or structure.

The capital cost of improvements incurred in a particular year with respect to a particular leased property is considered to be a unit of capital cost. The capital cost incurred in a subsequent year with respect to the same property represents another unit of capital cost. The CCA for each unit must be calculated separately. Furthermore, costs incurred in the same year must also be calculated separately with respect to each property.



The maximum amount of CCA in a year for each unit of capital cost is equal to the lesser of the following amounts:

- 1/5 of the unit of capital cost;
- the amount determined by dividing the unit of capital cost by the number of 12-month periods (not more than 40 periods) in the period commencing at the beginning of the year in which the capital cost was incurred and ending on the day on which the lease is to end (or if the tenant has the right to renew the lease, the day on which the first renewal period ends).

Only 50% of the unit of capital cost is to be taken into account in the calculation of CCA for the year in which the improvements to leased property are made, except in the case of property to which the accelerated investment incentive applies (see section 6.23.6).

| Class | Rate |
|-------|------|
| 14    | —    |

Class 14 includes patents, franchises, concessions or licences of limited duration, but does not include:

- a concession or licence in respect of minerals, petroleum, natural gas, other related hydrocarbons or timber and related property;
- a leasehold interest in leased corporeal property;
- property included in either class 12 or class 44;
- a licence to use computer software.

The maximum amount of CCA in the year is equal to the lesser of the following amounts:

- the capital cost of the property spread out over the life of the property;
- the UCC of the property in the class at the end of the fiscal period.

The half-year rule does not apply to class 14 property.

#### NOTE

Qualified intellectual property in classes 14, 14.1 and 44 acquired **after December 3, 2018**, may give entitlement to an additional CCA of 30%.

For more information, see section 6.24.7.

| Class | Rate |
|-------|------|
| 14.1  | 5%   |

Class 14.1 includes incorporeal capital property acquired on or after January 1, 2017 and the UCC of incorporeal capital property you owned on January 1, 2017.

You must create only one class 14.1 for each of your businesses and include the goodwill.

“Incorporeal capital property” includes incorporeal property such as trademarks, patents, franchises, concessions or licences of **unlimited** duration, goodwill, customer lists and government issued permits and licenses.

## Goodwill and capital expenditures

Every business is deemed to have property that is goodwill. If, as part of your business operations, you acquired part of another business in operation, you are considered to have acquired the corresponding part of the business’s goodwill. This will affect the cost of the goodwill and therefore increase the UCC of your business’s class 14.1.

If you incur an expense or make a capital expenditure in order to earn business income, the expense or expenditure is equal to the cost of the acquired goodwill if it:

- does not represent the cost (or part of the cost) of property;
- cannot be deducted from your business income; and
- does not represent an amount paid or payable to a creditor because or in settlement of a debt.

Such a capital expenditure increases the UCC of class 14.1.

## Additional CCA with respect to the UCC of class 14.1 on January 1, 2017

Property acquired before January 1, 2017, entitles you to an additional CCA for taxation years ending before 2027. The additional CCA corresponds to 2% of the result of the following calculation:

- the UCC of class 14.1 as at January 1, 2017;
- **minus**
- total CCA and additional CCA respecting property in class 14.1 for previous years;
- **minus**
- three times all the amounts included in the UCC of class 14.1 further to the disposition of property you acquired before January 1, 2017 (see “Disposition of property acquired before January 1, 2017,” on the next page).

Moreover, if the **total** of the amount you can deduct as 5% CCA **and** the additional 2% CCA for property acquired before 2017 is less than \$500, you can increase the amount of the additional CCA such that total CCA for class 14.1 is \$500.

However, the additional CCA cannot exceed the result of the following calculation: the UCC of class 14.1 on January 1, 2017, **minus** the additional CCA of previous years.

The additional CCA cannot make the total CCA for all class 14.1 property exceed the UCC balance on January 1, 2017.



### Example

On January 1, 2017, the class 14.1 UCC balance for property acquired before 2017 was \$900. No CCA was claimed on this amount.

The total CCA for 2017 is the result of the following calculation:

$$(\$900 \times 5\%) + (\$900 \times 2\%) = \$45 + \$18 = \$63$$

Because it is less than \$500, the CCA can be increased. For 2017, the amount that can be claimed is \$500, which is the lesser of the following:

- \$500;
- \$900.

On January 1, 2018, the UCC is \$400, calculated by **subtracting** the total CCA claimed in 2017 from the UCC on January 1, 2017 (\$900 – \$500).

Total CCA for 2018 is calculated as follows:

$$(\$400 \times 5\%) + (\$400 \times 2\%) = \$20 + \$8 = \$28$$

Because it is less than \$500, the CCA can be increased. Therefore, for 2018, the amount that can be claimed is \$400, which is the lesser of the following:

- \$500;
- \$400.

### Disposition of property acquired before January 1, 2017

If you dispose of class 14.1 property that you acquired before January 1, 2017, you must add the following amount to the UCC of the class immediately before the disposition: either 25% of the property's capital cost or 25% of the proceeds of its disposition, whichever is **less**. The goal of this measure is to avoid excessive recapture of CCA resulting from the fact that the acquisition cost of the property was added to the eligible incorporeal capital amount at the rate of 75% instead of 100%. As is the case when disposing of other property, you must subtract from the UCC of the category the following amount: the property's capital cost or the proceeds of its disposition, whichever is **less**. Moreover, the rules pertaining to the recapture of CCA and capital gains apply to the disposition.

#### NOTE

Qualified intellectual property in classes 14, 14.1 and 44 acquired **after December 3, 2018**, may give entitlement to the additional CCA of 30%.

For more information, see section 6.24.7.

| Class     | Rate |
|-----------|------|
| <b>15</b> | —    |

Class 15 includes property:

- acquired for the purposes of cutting and removing merchantable timber from a timber limit;
- that will be of no further use after all the merchantable timber that you are entitled to cut and remove from the limit has been cut and removed.

The following property is excluded from class 15:

- property you elected not to include in the class in a previous fiscal period;
- timber resource property.

If you acquired class 15 property, you can claim CCA calculated according to a rate per cubic metre of timber cut in a fiscal period rather than on the basis of an established percentage of the UCC of the class.

The CCA for a given fiscal period cannot exceed the UCC of the class.

The half-year rule does not apply to class 15 property.

| Class     | Rate       |
|-----------|------------|
| <b>16</b> | <b>40%</b> |

Class 16 includes taxis and vehicles for lease or rent, if the lease provided for a same lessee is not more than 30 days within a 12-month period.

It also includes trucks and tractors acquired after December 6, 1991, that are designed and used to haul freight and whose gross vehicle weight is more than 11,788 kg. Such vehicles, if acquired after March 30, 2010, and if new at the time they were acquired, must be included in class 18.

A zero-emission vehicle that you acquired after March 18, 2019, must be included in class 55 where it would have been included in class 16 if it were acquired before March 19, 2019.

Coin-operated video games and pinball machines are also included in class 16.

| Class     | Rate      |
|-----------|-----------|
| <b>17</b> | <b>8%</b> |

Class 17 includes sidewalks and parking areas acquired after May 25, 1976.





| Class     | Rate       |
|-----------|------------|
| <b>18</b> | <b>60%</b> |

Class 18 includes trucks and tractors designed and used for hauling freight and whose gross vehicle weight is more than 11,788 kg, provided they were acquired after March 30, 2010, and were new at the time they were acquired. Class 18 also includes additions and modifications made to such a truck or tractor to enable it to run on liquefied natural gas (LNG).

A zero-emission vehicle that you acquired after March 18, 2019, must be included in class 55 where it would have been included in class 18 if it were acquired before March 19, 2019.

#### NOTE

Certain class 18 property acquired **before January 1, 2016**, can give entitlement to an additional CCA of 85%.

For more information, see section 6.24.4.

| Class     | Rate       |
|-----------|------------|
| <b>29</b> | <b>50%</b> |

Class 29 includes machinery and manufacturing or processing equipment acquired after March 18, 2007, but before January 1, 2016. The CCA rate for class 29 property is 50%, calculated using the straight-line depreciation method.

The maximum CCA in a year is equal to:

- 25% of the capital cost for the year of acquisition (the first year);
- 50% for the second year;
- 25% for the third year.

The half-year rule does not apply to class 29 property.

| Class       | Rate       |
|-------------|------------|
| <b>43.1</b> | <b>30%</b> |

Class 43.1 includes electric vehicle charging stations designed to provide between 10 and 90 kilowatts of continuous power that were acquired to be made available for use after March 21, 2016, and were not acquired or used before March 22, 2016.

#### NOTE

Certain class 43.1 and 43.2 property acquired **after December 3, 2018**, may give entitlement to an additional CCA of 30%.

For more information, see section 6.24.7.

| Class       | Rate       |
|-------------|------------|
| <b>43.2</b> | <b>50%</b> |

Class 43.2 includes electric vehicle charging stations designed to provide 90 kilowatts or more of continuous power that were acquired to be made available for use after March 21, 2016, and were not acquired or used before March 22, 2016.

#### NOTE

Certain class 43.1 and 43.2 property acquired **after December 3, 2018**, may give entitlement to an additional CCA of 30%.

For more information, see section 6.24.7.

| Class     | Rate       |
|-----------|------------|
| <b>44</b> | <b>25%</b> |

Class 44 includes patents or a right to use patented information for a limited or unlimited period, other than property included in class 12.

However, you can elect to include such property in class 14 if the period is limited or in class 14.1 if the period is unlimited.

#### NOTE

Certain class 14, 14.1 and 44 property that is qualified intellectual property acquired **after December 3, 2018**, may give entitlement to an additional CCA of 30%.

For more information, see section 6.24.7.

| Class     | Rate       |
|-----------|------------|
| <b>46</b> | <b>30%</b> |

Class 46 includes data network infrastructure equipment that controls, transfers, modulates or directs data, and that operates in support of advanced telecommunications applications, such as email, Web searching and Web hosting, instant messaging, and audio and video over Internet protocol, if such property is acquired after March 22, 2004. If such property was acquired before March 23, 2004, it must be included in class 8.

This equipment includes data switches, multiplexers, routers, hubs, modems and domain name servers used to control, transfer, modulate or direct data.

Not included are telephones, cell phones, fax machines, equipment such as Web servers (which are now considered computers) as well as wires, cables and structures.

| Class     | Rate       |
|-----------|------------|
| <b>50</b> | <b>55%</b> |

Class 50 includes general-purpose electronic data processing equipment (such as computers), related systems software, and ancillary data processing equipment.

#### NOTE

Certain class 50 property acquired **after March 27, 2018, but before December 4, 2018**, may give entitlement to an additional CCA of up to 60%. Property acquired **after December 3, 2018**, may give entitlement to an additional CCA of 30%.

For more information, see sections 6.24.6 and 6.24.7.



| Class     | Rate       |
|-----------|------------|
| <b>53</b> | <b>50%</b> |

Class 53 includes machinery and materials acquired after 2015 but before 2026 and used in Canada mainly to manufacture and process property intended for sale or lease.

#### NOTE

Certain class 53 property acquired **after March 27, 2018, but before December 4, 2018**, may give entitlement to an additional CCA of up to 60%. Property acquired **after December 3, 2018**, may give entitlement to an additional CCA of 30%.

For more information, see sections 6.24.6 and 6.24.7.

| Class     | Rate       |
|-----------|------------|
| <b>54</b> | <b>30%</b> |

Class 54 includes zero-emission vehicles (see the definition in section 6.12) that were acquired and available for use **after March 18, 2019, but before 2028**, and would have been included in class 10 or class 10.1 had they been acquired before March 19, 2019.

The capital cost used to calculate CCA with respect to a zero-emission vehicle cannot exceed:

- \$55,000 if the vehicle was acquired before 2022;
- \$59,000 if it was acquired in 2022;
- \$61,000 if it was acquired after 2022.

Add the portion of sales taxes applicable to the amount (GST/HST and QST or any other provincial sales tax) that was not refunded to this capital cost.

The half-year rule does not apply to class 54 property.

If you disposed of a zero-emission vehicle, you must adjust the proceeds of the disposition by multiplying the amount by the following fraction: \$55,000, \$59,000 or \$61,000, as applicable, divided by the real cost of the vehicle.

#### Example

You purchased a zero-emission vehicle in April 2023. The amount paid minus the taxes refunded to you was \$65,000. You then sold the vehicle for \$62,000.

If the taxes on \$61,000 were refunded on the purchase, the proceeds of disposition must be adjusted from \$62,000 to \$58,185 ( $\$62,000 \times \$61,000 / \$65,000$ ).

#### NOTE

You can elect to waive the tax treatment applicable to class 54 property and instead include a zero-emission vehicle in class 10 or 10.1, as applicable.

| Class     | Rate       |
|-----------|------------|
| <b>55</b> | <b>40%</b> |

Class 55 includes zero-emission vehicles (see the definition in section 6.12) that were acquired and available for use **after March 18, 2019, but before 2028**, and would have been included in class 16 or class 18 had they been acquired before March 19, 2019.

The half-year rule does not apply to class 55 property.

#### NOTE

You can elect to waive the tax treatment applicable to class 55 property and instead include a zero-emission vehicle in class 16 or 18, as applicable.

| Class     | Rate       |
|-----------|------------|
| <b>56</b> | <b>30%</b> |

Class 56 includes zero-emission automotive vehicles and equipment (see the definition in section 6.12) that were acquired and became available for use **after March 1, 2020, but before 2028**.

The half-year rule does not apply to class 56 property.

### 6.23.6 Accelerated investment incentive

Under the accelerated investment incentive, you can obtain enhanced CCA on property you acquired for the fiscal period in which the property becomes available for use. The incentive applies to accelerated investment incentive property (AIIP) and class 54, 55 and 56 property.

To be considered AIIP, the property must have been acquired after November 20, 2018, and be available for use before 2028. However, if the property is used and was acquired after March 1, 2020, it will be considered class 54 or 55 property.

The following are **not** considered AIIP:

- property acquired further to a rollover;
- property that has already been your property;
- property that was, at a given time, the property of a person or a partnership with which you were not dealing at arm's length at that time.

Note that the **half-year rule** is suspended for AIIP until the end of 2027.

#### 6.23.6.1 General rule

If you acquired property in a given class that is considered AIIP and that was available for use in a fiscal period before 2024, the accelerated investment incentive allows you to increase, by an amount equal to half of the net acquisitions cost, the UCC of the class for the purposes of calculating the CCA for the fiscal period. The CCA of the class in question can reach up to three times the amount that would otherwise have been calculated for the fiscal period with respect to the property acquired.





### Example

In 2023, you acquired class 8 property that is AIIP at a cost of \$20,000.

The UCC of the class was \$100,000 at the beginning of the fiscal period. No property in the class was disposed of in the fiscal period.

The UCC for the purposes of calculating the CCA is \$130,000 ( $\$100,000 + \$20,000 + [\$20,000 \times 50\%]$ ). The maximum CCA for the fiscal period is therefore \$26,000 ( $\$130,000 \times 20\%$ ). Of that amount, \$20,000 is from the UCC at the beginning of the fiscal period and \$6,000 is from the property acquired in the fiscal period.

Had the acquired property not been AIIP, the UCC for the purposes of calculating the CCA would be \$110,000

( $\$100,000 + \$20,000 - [\$20,000 \times 50\%]$ ) because the half year rule would apply. The maximum CCA that you could claim for the fiscal period would therefore be \$22,000

( $\$110,000 \times 20\%$ ). Of that amount, \$20,000 would be from the UCC at the beginning of the fiscal period and \$2,000 would be from the property acquired in the fiscal period.

The general rule does **not** apply to property in classes 12, 13, 14, 15, 43.1, 43.2, 53, 54, 55 and 56.

Moreover, the general rule does **not** apply to the following:

- class 50 property acquired after December 3, 2018, and used mainly in Québec (see “Rule for class 50 property acquired after December 3, 2018, and used mainly in Québec” on the next page);
- class 14.1 and 44 property that is qualified intellectual property (see “Rule for class 14, 14.1 or 44 property that is qualified intellectual property” opposite).

### 6.23.6.2 Specific rules

#### Rule for class 13 property

If you acquired class 13 property that is AIIP and its capital cost was incurred in a given fiscal period before 2024, the accelerated investment incentive allows you to increase by **150%** the CCA that you would otherwise be able to claim for the fiscal period.

In all cases, the CCA amount cannot exceed the UCC of the class at the end of the fiscal period (before CCA is taken into account).

#### Rule for class 14, 14.1 or 44 property that is qualified intellectual property

If you acquired class 14, 14.1 or 44 property that is qualified intellectual property and AIIP that became available for use in a fiscal period, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period. As a result, the CCA can reach 100% of the property’s net acquisition cost.

### Qualified intellectual property

Property that is a patent or a right to use patented information, a licence, a permit, know-how, a commercial secret or other similar property constituting knowledge and that meets **all** of the following conditions:

- it is acquired after December 3, 2018;
- it is class 14, 14.1 or 44 property;
- it is acquired in the course of a technology transfer or is developed with a view to enabling you to implement an innovation or invention concerning your business;
- it is used within a reasonable time after being acquired or after its development is completed;
- it is used only in Québec and primarily in the course of carrying on a business for the period covering the process of implementing the innovation or invention;
- it is **not** acquired from a person or a partnership with whom you were **not** dealing at arm’s length.

#### NOTE

“Qualified intellectual property” does not mean a trademark, an industrial design, a copyright or other similar property constituting the expression of knowledge.

For **class 14** property, you can increase the CCA by an amount corresponding to the result of the following calculation: the property’s capital cost **minus** the CCA that you would otherwise be able to claim with respect to the property.

For **class 14.1** property, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period by an amount equal to **19 times** the property’s net acquisition cost.

For **class 44** property, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period by an amount equal to **three times** the property’s net acquisition cost.

#### Rule for class 14 property that is not qualified intellectual property

If you acquired class 14 property that is AIIP but not qualified intellectual property and the property became available for use in the fiscal period before 2024, the accelerated investment incentive allows you to increase the CCA that you would otherwise be able to claim with respect to the property by **50%**.

In all cases, the CCA amount cannot exceed the UCC of the class at the end of the fiscal period (before CCA is taken into account).

#### Rule for class 15 property

If you acquired, in a fiscal period before 2024, class 15 property that is AIIP, the accelerated investment incentive allows you to increase the CCA that you would otherwise be able to claim with respect to the property by **50%**.

In all cases, the CCA amount cannot exceed the UCC of the class at the end of the fiscal period (before CCA is taken into account).

### Rule for class 43.1 property

If you acquired class 43.1 property that is AIIP and it became available for use in a fiscal period before 2024, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period by an amount equal to **7/3** of the net acquisition cost of the property and thus claim CCA of up to 100% of the property's cost.

### Rule for class 43.2 property

If you acquired class 43.2 property that is AIIP and it became available for use in a fiscal period before 2024, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period by an amount equal to the property's **net acquisition cost** and thus claim CCA of up to 100% of the property's cost.

### Rule for class 50 property acquired after December 3, 2018, and used mainly in Québec

If you acquired class 50 property after December 3, 2018, that became available for use in a fiscal period before 2024, that is used mainly in Québec and that is AIIP, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period by an amount equal to **9/11** of the property's net acquisition cost and thus claim CCA of up to 100% of the property's cost.

### Rule for class 53 property

If you acquired class 53 property that is AIIP and it became available for use in a fiscal period before 2024, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period by an amount equal to the property's **net acquisition cost** and thus claim CCA of up to 100% of the property's cost.

### Rule for class 54 and 55 property

If you acquired class 54 or 55 property after March 18, 2019, that became available for use in a fiscal period before 2024, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period by an amount equal to:

- **7/3** of the property's net acquisition cost for class 54 property;
- **150%** of the property's net acquisition cost for class 55 property.

You can thus claim CCA of up to 100% of the property's net acquisition cost.

### Rule for class 56 property

If you acquired class 56 property after March 1, 2020, that became available for use in a fiscal period before 2024, the accelerated investment incentive allows you to increase the UCC of the class for the fiscal period by an amount equal to **7/3** of the property's net acquisition cost. You can thus claim CCA of up to 100% of the property's net acquisition cost.

## 6.23.7 Immediate expensing incentive

Under the immediate expensing incentive, you can obtain enhanced CCA of up to 100% of the capital cost of qualified property for the fiscal period in which it becomes ready for use.

To get enhanced CCA, you must have been resident in Canada throughout the year.

### 6.23.7.1 Property that qualifies for immediate expensing

The immediate expensing incentive applies to designated immediate expensing property (DIEP), which must meet the following three conditions to qualify:

- It is immediate expensing property (IEP).
- It becomes ready for use in the fiscal period (meaning it can be considered a DIEP for one fiscal period only);
- It is designated in form TP-130.AD-V, *Capital Cost Allowance for Designated Immediate Expensing Property*, by the deadline for filing your income tax return for the fiscal period related to the designation.

Property is considered IEP if the following conditions are met:

- The property belongs to a prescribed class other than classes 1 through 6, 14.1, 17, 47, 49 and 51.
- You **acquired** the property **after December 31, 2021**.
- The property became ready **for use** by you **before 2025**.
- The property:
  - has never been used and no person or partnership claimed CCA (or a terminal loss) in respect of the property before it was acquired, **or**
  - was not subject to a rollover and was not previously owned or acquired by you or a non-arm's length person or partnership.

Note that, under the Québec tax system, the immediate expensing incentive does not apply to qualified intellectual property or general-purpose electronic data processing equipment (see section 6.23.7.4).

### 6.23.7.2 Maximum CCA you can claim

The **maximum** enhanced CCA you can claim for DIEP in a fiscal period is equal to the **least** of the following:

- the UCC of your DIEP at the end of the fiscal period (calculated before CCA);
- the immediate expensing limit (generally **\$1.5 million**, but may be different subject to the rules in section 6.23.7.3);
- the business or property income (calculated before CCA) earned using the DIEP in the fiscal period (the incentive cannot be used to create or increase a loss).



You cannot carry the unused portion of the immediate expensing limit from one fiscal period to another.

If you acquired DIEP from more than one CCA class in a given fiscal period and the total capital cost exceeds your immediate expensing limit, you can choose to which CCA class you attribute the immediate expensing incentive and claim the deduction under that class. The other CCA rules then apply to any remaining UCC.

The immediate expensing incentive is a tax deferral measure that allows you to claim greater CCA to reduce your taxable income for the fiscal period in which property becomes ready for use. However, any future sale of property from a class to which the incentive was applied may give rise to CCA recapture.

Note that the **half-year rule** is suspended for DIEP.

### Example

During your fiscal period that began on January 1, 2023, and ended on December 31, 2023, you acquired class 7, class 10 and class 53 property for \$3,000,000. The property became ready for use in 2023. Your business income for 2023 is over \$1.5 million and you do not have any other class 7, 10 or 53 property. Since the property is also AIIP property, it qualifies for the enhanced CCA covered in section 6.23.6.

The table below shows how the immediate expensing and CCA rules apply to this property.

| Class and CCA rate                                   | Capital cost of investments | Immediate expensing deduction | CCA that applies to the remaining investments for the first year  | Total CCA for the first year |
|--|-----------------------------|-------------------------------|---|------------------------------|
| Class 7: 15%<br>(The property is part of the DIEP.)  | \$1,000,000                 | \$1,000,000                   | \$0<br>The UCC is reduced to \$0 after the \$1,000,000 immediate expensing deduction, so no additional CCA is possible.   | \$1,000,000                  |
| Class 10: 30%<br>(The property is part of the DIEP.) | \$1,000,000                 | \$500,000                     | \$225,000<br>(30% × [\$500,000 + (\$500,000 × 50%)])<br>The UCC is reduced to \$500,000 after the \$500,000 immediate expensing deduction. The additional CCA is calculated using this UCC (see section 6.23.6.1).                      | \$725,000                    |
| Class 53: 50%  | \$1,000,000                 | \$0                           | \$1,000,000<br>The property does not have to be part of the DIEP, because you can already claim CCA for 100% of its capital cost under the accelerated investment incentive (see section 6.23.6.2). This is why the UCC is not reduced. | \$1,000,000                  |
| <b>Total</b>   | <b>\$3,000,000</b>          | <b>\$1,500,000</b>            | <b>\$1,225,000</b>  | <b>\$2,725,000</b>           |

### 6.23.7.3 Special rules for the immediate expensing limit

The immediate expensing limit is \$1.5 million, subject to the rules given below.

#### Fiscal period of fewer than 51 weeks

If you have a fiscal period that lasts fewer than 51 weeks, your immediate expensing limit is the immediate expensing limit you are entitled to (see section 6.23.7.3.2 if you are required to share the limit with associated eligible persons or partnerships [EPOPs]) multiplied by the following fraction: the number of days in your fiscal period over 365.

#### Sharing the immediate expensing limit with associated EPOPs

Under the immediate expensing incentive, the following are considered EPOPs:

- corporations that are Canadian-controlled private corporations (CCPCs) throughout the year;
- individuals (other than trusts) resident in Canada throughout the year;
- Canadian partnerships whose members were, throughout the year, CCPCs, individuals (other than trusts) resident in Canada or a combination thereof.



### Canadian-controlled private corporation

A private corporation that **is not**

- controlled, directly or indirectly in any manner whatsoever, by one or more persons not resident in Canada, by one or more public corporations (other than a prescribed corporation) or by any combination thereof;
- a corporation that would be controlled by a particular person if each share of the capital stock of the corporation that is owned by a person not resident in Canada or by a public corporation (other than a prescribed corporation) were owned by that particular person; or
- a corporation where a class of the shares of its capital stock is listed on a designated stock exchange.

If you are considered to be associated with one or more EPOPs, you must share the \$1.5 million limit with them. To do so, complete form TP-130.EN-V, *Immediate Expensing Limit Agreement*, and enter the percentage of the limit assigned to each EPOP.

### Notion of association extended

Generally, the association rules apply to corporations. However, for purposes of sharing the \$1.5 million immediate expensing limit, the notion of association is extended to individuals (other than trusts) and partnerships that are EPOPs. This means that an individual (other than a trust) that carries on a business or that acquired IEP is deemed to be a corporation controlled by the individual.

If you carry on a business directly and you own all the shares of a CCPC that carries on a separate business, you (as a deemed corporation due to the business you carry on directly) will be considered to be associated with the CCPC, since the deemed corporation and the CCPC are both controlled by the same person (you). You will therefore have to share the \$1,500,00 immediate expensing limit with the CCPC.

### 6.23.7.4 Property that the immediate expensing incentive does not apply to under the Québec tax system

Under the Québec tax system, the immediate expensing incentive does not apply to qualified intellectual property (class 14, 14.1 or 44) or general-purpose electronic data processing equipment used primarily in Québec (class 50), because you can already claim CCA of up to 100% of the acquisition cost for the period in which this property becomes ready for use (see section 6.23.6.2).

If you are associated with one or more EPOPs, this may mean that your immediate expensing limit is different for federal and Québec purposes.

### Example

You are associated with a CCPC in 2023. The \$1.5 million immediate expensing limit was evenly split between you and the CCPC, meaning \$750,000 was assigned to each of you.

In 2023, the CCPC acquired qualified property for \$2,000,000 and you acquired qualified property for \$1,000,000, including \$600,000 in qualified intellectual property.

The immediate expensing incentive applies to qualified intellectual property under the federal tax system, meaning that your entire \$750,000 limit will be used.

However, the incentive does not apply to qualified intellectual property under the Québec tax system, only to the other property valued at \$400,000. Therefore, \$350,000 of your \$750,000 limit will not be used (\$750,000 – \$400,000).

Since the limit under the Québec tax system cannot be more than that under the federal tax system, the \$350,000 that remains under the Québec tax system cannot be transferred to the CCPC.

## 6.24 Other expenses

The most common types of expenses qualifying for a deduction in calculating business income are described in the preceding pages and listed on form TP-80-V. On line 246 of the form, you can enter the deductions that you cannot deduct elsewhere on the form.

### 6.24.1 Education expenses

“Education” refers to any course taken in order to retain, update or improve an ability already acquired as part of the carrying on of business activities.

In general, expenses incurred to take education courses, such as registration fees, travel expenses and living expenses, constitute expenses giving entitlement to a deduction, provided:

- the expenses are reasonable;
- the courses do not lead to any particular degree or professional certification (if a course leads to a particular degree or certification, we consider the related expenses to be either capital expenditures or personal expenses and not current expenses);
- the duration of the course(s) allows you to continue carrying on your business;
- the course(s) are held in a place that generally corresponds to your geographical territory. If not, the course(s) must be for business purposes, such as to expand your network or contacts, and no similar course can be offered in your area.

You **cannot** deduct tuition fees paid to educational institutions such as universities or colleges. However, you can claim a non-refundable tax credit for these fees on line 398 of your income tax return.



## 6.24.2 Reserves

You can deduct reserves pertaining to amounts included in business income that can be regarded as unearned income or future liabilities. However, any reserves deducted in the year must be added to your income for the following year. For more information on reserves, see section 4.1.2.

## 6.24.3 Shared transportation service organized by an employer

If you are an employer that organizes, alone or jointly with other employers, a shared transportation service for employees whose place of residence is outside the local municipal territory where the establishment they ordinarily report for work is located, you can deduct, in calculating your income from a business for a given taxation year, an additional amount equal to 100% of the amount otherwise deductible for the setting up and operation of such a service, if you meet the following conditions:

- You provide the transportation service at least five days a week, except during holidays or a slowdown in the business's activities.
- You transport the employees in a vehicle with a design capacity of at least 15 people (coach, minibus or van).
- The employees can get on and off the vehicle only at predetermined places.

If you are an employer that owns the vehicle used to provide the intermunicipal shared transportation service to your employees, the portion of the additional amount of the deduction that is attributable to an amount deducted as depreciation of the vehicle will not be recaptured following the disposition of the property.

## 6.24.4 Additional CCA for trucks and tractors designed for hauling freight

Trucks and tractors that are class 18 property eligible for the 60% CCA rate may also be eligible for an **additional CCA equal to 85%** of the amount of CCA claimed for the year, provided the following conditions are met:

- The vehicle was acquired after March 30, 2010, but before January 1, 2016.
- The vehicle is fuelled by LNG at the time it is acquired, or additions or modifications are made to the vehicle to enable it to run on LNG within 12 months following its acquisition.
- For a period of 730 consecutive days following the day it is first used, you or a person with whom you do not deal at arm's length uses the vehicle mainly for hauling freight, except in the case of loss or involuntary destruction of the property by, for example, an accident or theft, or in the case of a major breakdown of the property.

Additions or modifications made to such a truck or tractor to enable it to run on LNG are eligible for the additional CCA only if the vehicle itself is eligible for the additional CCA.

You cannot, however, claim the additional 85% CCA in the case of eligible property acquired from a person or partnership with whom you are not dealing at arm's length at the time the property is acquired if the additional CCA has already been claimed with respect to the property.

All of your property giving entitlement to the additional CCA must be included in a separate class 18.

The additional CCA is not subject to recapture of CCA following the disposition (for example, the sale) of the property. However, a truck or tractor that is not fuelled by LNG at the end of the 12-month period following its acquisition is deemed to have never been included in the separate class 18. The same applies to a truck or tractor that does not meet the requirements pertaining to the 730-day minimum period of use.

## 6.24.5 Additional CCA of 35% for property used in manufacturing or processing or constituting computer equipment

Class 53 property used in manufacturing or processing or class 50 property constituting computer equipment may give entitlement to an additional CCA equal to 35% of the CCA claimed for the fiscal period with respect to the property, provided the following conditions are met:

- The property is acquired after March 28, 2017, but before March 28, 2018.
- The property is used within a reasonable time after being acquired.
- The property is new.
- The property is used mainly in Québec in the course of carrying on your business for a period of at least 730 consecutive days after the property's use began.

The additional CCA can be claimed for the fiscal period in which the property was put in use and the following fiscal period.

## 6.24.6 Additional CCA of up to 60% for property used in manufacturing or processing or constituting computer equipment

Class 53 property used in manufacturing or processing or class 50 property constituting computer equipment may give entitlement to an additional CCA of up to 60% of the CCA claimed for the fiscal period with respect to the property, provided the following conditions are met:

- The property is acquired after March 27, 2018, but before December 4, 2018.
- The property is used within a reasonable time after being acquired.
- The property is new.
- The property is used mainly in Québec in the course of carrying on your business for a period of at least 730 consecutive days after the property's use began.





The additional CCA can be claimed for the fiscal period in which the property was put in use and the following fiscal period.

The additional CCA is **reduced** to a rate below 60% if the property was acquired between November 21, 2018, and December 3, 2018. Note that property acquired after December 3, 2018, but before July 1, 2019, also gives entitlement to a reduced additional CCA if it was acquired in accordance with a written obligation entered into by December 3, 2018, or if its construction began before December 3, 2018.

To determine the amount of the reduced additional CCA that you can claim for the fiscal period including the date the property was put in use, refer to Work Chart 12.1 in Part 12 of this guide. To determine the reduced additional CCA that you can claim for the fiscal period following the fiscal period including the date the property was put in use, refer instead to Work Chart 12.2.

A separate class must be created for the property in the same class giving entitlement to an additional CCA.

### 6.24.7 Additional CCA of 30% for certain property

Class 53 property used in manufacturing or processing, class 43.1 or 43.2 equipment or class 50 property constituting computer equipment may give entitlement to an additional CCA equal to 30% of the amount of CCA claimed for the **preceding** fiscal period for the property, provided the following conditions are met:

- The property is acquired before December 3, 2018.
- The property is used within a reasonable time after being acquired.
- The property is new.
- The property is used mainly in Québec in the course of carrying on your business for a period of at least 730 consecutive days after the property's use began.

If you acquired class 14, 14.1 or 44 qualified intellectual property, you can also claim the additional CCA of 30%. See the definition of "qualified intellectual property" in section 6.23.6.2.

A separate class must be created for the property in the same class giving entitlement to the additional CCA of 30%.

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## 6.25 GST/HST or QST rebate received as a member of a partnership

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If, during the year, you received a GST/HST or QST rebate with respect to expenses you incurred personally in order to earn income from a partnership of which you are a member, you must include in your business income (line 253 of form TP-80-V) the portion of the rebate that pertains to expenses other than CCA. The portion of the rebate that pertains to the CCA of property must be subtracted from the UCC of the property in question as determined at the beginning of the year in which the rebate was received.

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## 6.26 Expenses incurred to earn partnership income

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You can deduct from your share of the partnership's income (or loss) the expenses you incurred with respect to that income (or loss), provided the expenses are not included in the partnership's expenses, are deductible only by you, and are not reimbursed to you. You cannot deduct entertainment expenses that you incurred if they are subject to the 50% limit or the specified percentage (see section 6.11).

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## 6.27 Expenses related to the business use of your home

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You can deduct expenses relating to the business use of a portion of your home, provided **one** of the following conditions is met:

- That portion of your home is your principal place of business.
- You use that portion of your home only to earn business income, and you meet clients, customers or patients there on a regular and ongoing basis.

These expenses are divided into general expenses, which apply to the entire home, and expenses related only to the portion of the home used for business purposes (referred to as the "office" in the sections below).

### 6.27.1 General expenses

These expenses, which apply to both the office and the rest of your home, include:

- heating;
- lighting;
- insurance premiums;
- maintenance and repairs;
- mortgage interest, property taxes and CCA related to the home, if you own or co-own the home;
- rent, if you rent the home.

Only the portion of the general expenses that relates to the office is deductible. If you are a co-owner or co-tenant, the only deductible portion of these expenses is the portion that you have personally incurred.

### Percentage of your home used as an office

To determine the deductible portion of an expense, you must first determine the portion of the expense that is for the office portion of your home. This must be done using a reasonable basis, such as the percentage of the total surface area occupied by the office. For instance, if your office occupies 20% of the surface area of your home, you can base the deduction for rent (or, if you own your home, the deduction for your property taxes and mortgage interest) on that percentage. However, your basis of calculation must take into account that your office (if it is your principal place of business) may be used for other purposes, such as personal purposes or carrying out another business.



You must then multiply the percentage so determined by 50% in the case of insurance premiums, maintenance and repair costs, mortgage interest, property taxes and rent. This is because, to a large extent, these expenses are incurred for personal purposes. In the case of expenses that are specifically related to the use of the office (in particular, the cost of heating and lighting), the **50% limit does not apply**.

### Capital cost allowance

If you own or co-own your home, you cannot deduct an amount with respect to the rental value of the office, since only expenses actually incurred are deductible. An expense related to the cost of your home (excluding the land) is referred to as a capital expenditure and qualifies for CCA. Such an expense may be incurred to acquire your home, to make an addition to it or to improve it.

#### NOTE

If you claim CCA on the office portion of your home, that portion is no longer considered part of your principal residence. When you sell your home, the **capital gain** realized on that portion of the home will be subject to income tax, and the rules respecting recapture of CCA will apply.

To determine the capital cost deemed related to your office, you must first determine the percentage of your home used as your office, using a reasonable basis of calculation (such as the surface area). The amount of capital expenditures qualifying for CCA is determined based on this percentage. However, capital expenditures that relate to both the office and the other portion of your home must be further reduced by half (the 50% reduction does not apply if the expenditures relate only to the office).

The capital cost for the office is **considered equal** to the result of the following formula:

$$(A \times 50\%) + B,$$

where

- A** is the amount of capital expenditures relating to both the office and the other portion of the home;
- B** is the amount of capital expenditures relating exclusively to the office.

| Example  |                     |
|--|---------------------|
| An office occupies 25% of the surface area of a home that was acquired at a cost of \$100,000 (excluding the land). The office is used exclusively (100%) for business purposes. Improvements were made only to the office at a cost of \$4,000. |                     |
| Amount of capital expenditures relating to both the office and the other portion of the home:<br>\$100,000 × 25%   | <b>A</b> = \$25,000 |
|  | × 50%               |
| Amount A multiplied by 50%   | = \$12,500          |
| Amount of capital expenditures relating exclusively to the office:<br>\$4,000 × 25%  | <b>B</b> + \$1,000  |
| <b>Capital cost considered related to the office</b>   | <b>= \$13,500</b>   |

If you claimed CCA and later sold the home, the portion of the selling price used to calculate the recapture of CCA is reduced by 50%, and takes into account the ratio between the amount of capital expenditures related to both the office and the other portion of the home, and the total amount of capital expenditures.

The proceeds of disposition considered related to the office are calculated as follows:

$$(C \times 50\%) + D$$

where

- C** is the portion of the proceeds of disposition related to the office multiplied by  $A / (A + B)$ , that is the ratio between the amount of capital expenditures related to both the office and the other portion of the home, and the total amount of capital expenditures;
- D** is the portion of the proceeds of disposition related to the office multiplied by  $B / (A + B)$ , that is the ratio between the amount of capital expenditures related exclusively to the office and the total amount of capital expenditures.

#### NOTE

The proceeds of disposition obtained in the above calculation must not be used to calculate the capital gain resulting from a disposition.

| Example (continued)   |                     |
|---|---------------------|
| Proceeds of disposition of the home   | \$102,000           |
| Portion of the proceeds of disposition related to the office (\$102,000 × 25%)  | \$25,500            |
| Accumulated CCA at the time of sale   | \$540               |
| Portion of the proceeds of disposition related to the office, multiplied by the result of $A / (A + B)$ :<br>\$25,500 × \$25,000 / \$26,000 | <b>C</b> = \$24,520 |
|   | × 50%               |
| Amount C multiplied by 50%  | = \$12,260          |
| Portion of the proceeds of disposition related to the office, multiplied by the result of $B / (A + B)$ :<br>\$25,500 × \$1,000 / \$26,000  | <b>D</b> + \$981    |
| <b>Proceeds of disposition considered related to the office</b>   | <b>= \$13,241</b>   |
| Capital cost considered related to the office   | \$13,500            |
| Accumulated CCA   | – \$540             |
| Undepreciated capital cost (UCC)  | = \$12,960          |
| Proceeds of disposition considered related to the office  | – \$13,241          |
| <b>Recapture of CCA related to the office</b>   | <b>= –\$281</b>     |



The above-mentioned 50% limit on current and capital expenditures applies to taxation years or fiscal periods that began after May 9, 1996. However, the limit does not apply if:

- you use a portion of your home as a private residential home; or
- you use a portion of your home to operate a tourist accommodation establishment, and either:
  - you hold a classification certificate of the appropriate class, issued under the *Act respecting tourist accommodation establishments*, that was valid on September 1, 2022 and has not yet expired, or
  - you have registered the accommodation establishment under the *Tourist Accommodation Act*.

If the 50% limit applies, the amount of CCA claimed (respecting a capital expenditure related to both the office and the other portion of the home) for a taxation year or fiscal period that began before May 10, 1996, is **considered to be equal** to 50% of the amount concerned for the purposes of calculating the UCC for a taxation year or fiscal period that began after May 9, 1996. This ensures that the disposition of the home does not give rise to a recapture of CCA resulting solely from the application of the 50% limit to the proceeds of disposition for the office portion of the home.

### 6.27.2 Expenses related to the office only

Current expenses pertaining **only** to the office portion of your home are fully deductible. For example, you can deduct 100% of the cost of having your office walls painted, if that room is used exclusively for work.

However, if the office portion of your home is also used for other purposes, you must adjust your calculations accordingly. For example, if the office mentioned in the previous paragraph is used 15% of the time for other purposes, you can only deduct up to 85% of the expenses.

### 6.27.3 Maximum amount deductible for a taxation year

The amount you deduct for a particular year as expenses related to the use of your home for business purposes (including expenses you could not deduct in previous years because of this limit) **must not exceed** your business income, calculated before deduction of the expenses and before taking into account the amount to be included or deducted as additional income. Consequently, you cannot use the expenses to create or increase a business loss. However, you can carry to subsequent taxation years any portion of the amount that you cannot deduct for a given taxation year because of this limit.

#### Example

For the fiscal period from January 1 to December 31,

- your income derived from childcare services was \$25,000;
- your expenses other than those related to the use of your home were \$19,500;

- your expenses related to the use of your home for the year were \$4,000;
- your expenses related to the use of your home for previous years, which you could not deduct, were \$2,000.

|   |                  |
|---|------------------|
| The maximum amount of expenses related to the use of your home that you can deduct for this fiscal period is calculated as follows:     |                  |
| Income derived from childcare   | \$25,000         |
| Expenses other than those related to the use of your home   | – \$19,500       |
| <b>Maximum amount of expenses related to the use of your home</b> (your business income, calculated before deduction of these expenses) | <b>= \$5,500</b> |

The amount that you cannot deduct, which here is \$500 (\$4,000 + \$2,000 – \$5,500), may be carried over to subsequent years.

### 6.27.4 Partnerships

If a partnership of which you are a member carries on a business in your home, pays you rent or incurs expenses for the use of your home, the aforementioned rules also apply.

The partnership of which you are a member can deduct the rent or the expenses paid relating to an office or other work space that it uses in your home if that portion of your home is the partnership's principal place of business or is used exclusively by the partnership to earn income from a business and to meet clients, customers or patients on a regular and ongoing basis. If you do not receive an RL-15 slip from the partnership, you can deduct the total of those expenses on line 232 of form TP-80-V.

As a rule, the deductible amount for the space used cannot exceed the **total** of the following amounts:

- 50% of any amount otherwise deductible, other than as CCA (rent, maintenance and repair costs, mortgage interest, property taxes, insurance premiums, etc.) where the expenditures relate to both the work space and the rest of the home;
- 100% of any amount otherwise deductible as CCA (if a capital expenditure cannot reasonably be considered to be entirely attributable to the work space, only 50% of the expenditure can be taken into account);
- 100% of any amount otherwise deductible for expenditures made entirely for the work space, **other than rent**.

Moreover, the deduction for a given fiscal period must not exceed the partnership's business income for that period, calculated before the deduction of rent or other office-related expenses. However, any portion of the rent or other office-related expenses that is non-deductible for a given fiscal period solely because of this rule can be carried to subsequent fiscal periods.



# 7 NET INCOME OR NET LOSS

Once you are familiar with the various types of deductible expenses, you must calculate your deductions and determine the net income of your business for the fiscal period.

Your business income must be reported in Schedule L of your income tax return. Enter your gross income on line 12, 15 or 16 of Schedule L and your net income (or net loss) on line 22, 25 or 26, as applicable. Furthermore, if your fiscal period ends on a date other than December 31, you must complete form TP-80.1-V to adjust your net income (or net loss). This is the case if:

- in 2022, you carried on a business whose fiscal period ended in 2023;
- in 2023, you began carrying on a new or existing business and the first fiscal period for which you earned income from the business ended in 2023, on a date other than December 31; or
- in 2023, you began carrying on a new or existing business and the first fiscal period for which you earned income from the business ends in 2024.

The amount of a loss must be entered following a minus sign (–) in your income tax return, and then subtracted rather than added. As a rule, if the amount of the loss is more than your total income from other sources, you can use all or part of the excess amount to reduce your income for previous or subsequent years. If you wish to use a loss to reduce your income from previous years, complete form TP-1012.A-V, *Carry-Back of a Loss*, and file it separately from your return.

## NOTE

A loss from flipping property will be rejected and deemed to be zero.

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## 7.1 Disability supports deduction

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If, in 2023, you paid disability supports expenses to enable you to actively carry on a business, alone or as a member of a partnership, you cannot subtract them from net business income but you can deduct them on line 250 of your return. Form TP-358.0.1-V, *Disability Supports Deduction*, which lists the requirements for claiming this deduction, must be completed to determine the amount that can be claimed.

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## 7.2 Loss respecting a tax shelter

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If you wish to claim a loss or deduction respecting a tax shelter or an investment in a tax shelter, you must enclose with your income tax return form TP-1079.6-V, *Statement of Losses, Deductions and Tax Credits Respecting a Tax Shelter*.

For more information on tax shelters as defined under the *Taxation Act*, contact us.



# 8 RECORDS AND SUPPORTING DOCUMENTS

If you carry on a business, you must keep records and supporting documents, and, in some cases, take an annual inventory. You may also have to keep a journal of receipts and disbursements.

Your records must contain the information we require to verify your business income and expenses and determine the amounts payable under a fiscal law.

This information should be supported by, for example:

- a daily statement of your income, along with your invoices and cash register tape;
- a daily statement of your expenses, along with your cancelled cheques and receipts;
- your credit card bills and monthly statements;
- ticket stubs for events and receipts for trips;
- a statement of kilometres travelled for each vehicle used for both business and personal purposes.

Always ask for a receipt or other supporting document when you incur business expenses.

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## 8.1 Requirements for supporting documents in the metal recycling industry

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If you carry on a metal recycling business, you cannot take into account the cost of a property in the calculation of the cost of goods sold unless:

- you acquire the property from a person (or partnership) registered for the QST and, at the time of the acquisition, you obtain the person's (or partnership's) registration number; or
- you complete, at the time of the acquisition, a document signed by the individual who delivered the property to you and containing the following information:
  - the name, address, date of birth and social insurance number of the individual who delivered the property to you, or who handed the property over to you if you went to pick it up, and
  - the precise nature of the property, the purchase price, and the method of payment.

The supporting document must name the piece of identification used to corroborate the information concerning the individual. If the individual who delivered the property is not the vendor, the supporting document **must also** indicate the vendor's name, address and social insurance number or Québec enterprise number (NEQ).

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## 8.2 Keeping records and supporting documents

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You must keep your records and supporting documents at your place of business, your residence or any other place we designate and make them available to us in the event of an audit. The records and documents must support all amounts that must be deducted, withheld, collected or paid under a tax law.

As a rule, you must keep your records and documents for at least **six years** after the last taxation year to which they apply. If you keep electronic records or documents, you must keep them in an intelligible form on the same medium for the same amount of time. You must also take the necessary steps to ensure and maintain their integrity throughout their lifecycle.

If your income tax return is filed late, you must keep all records and supporting documents for at least six years after the date on which your return is filed.

If you obtain tax relief under a tax law, you must keep the related supporting documents for six years after the last year to which they apply.

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## 8.3 Virtual currency transactions

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If you exchange, buy or sell virtual currency, or if you provide mining services, you must keep records and supporting documents. This rule also applies to businesses that accept virtual currency as payment for goods and services.

You must keep the following information and documents to track your virtual currency transactions:

- the date of the transactions;
- the receipts of purchase or transfer of virtual currency;
- the value of the virtual currency in Canadian dollars at the time of each transaction;
- the digital wallet records and cryptocurrency addresses;
- a description of the transaction and the other party (even if it is just their cryptocurrency address);
- the exchange records;
- any accounting and legal costs;
- the costs of the software used to manage your tax affairs.

If you provide mining services, you must also keep the following documents:

- receipts for the purchase of cryptocurrency mining software;
- receipts for the purchase of cryptocurrency mining hardware (computer, graphics card, servers, etc.);
- receipts to support your expenses and other records containing information about the mining operation (such as power costs, mining pool fees, hardware specifications, maintenance costs and hardware operation time);
- the mining pool records and supporting documents;
- documents showing payments to your cryptocurrency address.



# 9 INSTALMENT PAYMENTS

Instalment payments (also called “quarterly payments”) are remittances that an individual makes periodically to cover a portion of his or her income tax for the current year, contributions to the QPP and the health services fund, and the premiums payable under the Québec prescription drug insurance plan and the QPIP.

Normally, we send form TPZ-1026.A-V, *Instalment Payments Made by an Individual*, to the people concerned to notify them in writing of the amount of the payments.

Instalment payments are not affected by the transfer of retirement income between spouses.

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## 9.1 Calculation methods

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To calculate your payments yourself, complete form TP-1026-V, *Calculation of Instalment Payments to Be Made by Individuals – 2023*, using one of the methods below.

### Previous-year (2023) method

Under this method, you calculate your instalment payments for 2024 on the basis of your data for 2023. However, you must use estimated data for 2024 to calculate your refundable tax credits.

### Current-year (2024) method

Under this method, you calculate your instalment payments on the basis of your estimated income, deductions, non-refundable tax credits, income tax, source deductions and refundable tax credits for 2024. Use a copy of the 2023 income tax return to make the estimates.

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## 9.2 Terms

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You must make instalment payments if your **estimated net income tax payable** for 2024 is over \$1,800 and **one of the two** following situations applies to you:

- your net income tax payable for 2023 is over \$1,800; or
- your net income tax payable for 2022 was over \$1,800.

Your **net income tax payable** is the amount by which your income tax payable for the year exceeds the total, for the same year, of your income tax withheld at source and your refundable tax credits. However, in the calculation of net income payable, do not take into account the amount included or deducted in determining the retirement income or source deductions on retirement income transferred between spouses.

Farmers or fishers must make instalment payments if their estimated net income tax payable for 2024 is over \$1,800 and their net income tax payable was over \$1,800 in both 2022 and 2023.

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## 9.3 Due dates

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Instalment payments, if required, must be made four times a year—by March 15, June 15, September 15 and December 15 of the year concerned. **In February and August**, we send you form TPZ-1026.A-V, which shows the amount of your instalments. The amount of your instalments for March and June 2024 is based on your 2022 income tax return, whereas the amount of your instalments for September and December 2024 is based on your 2023 income tax return.

If you are a farmer or a fisher, you will receive form TPZ-1026.A-V in November and must make your payment in a **single instalment** no later than December 31.

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## 9.4 Interest charges

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We charge interest, compounded daily, on any instalment (or portion thereof) that is not paid by the due date. Furthermore, if you pay **less than 75%** of the required instalment, **additional interest of 10%** per year, compounded daily, is charged on the unpaid portion of the instalment.

### NOTE

If all your instalment payments are made on time and correspond to the amounts we estimated, you will not be required to pay interest, even if all your payments total less than your income tax payable for the year. For further information, refer to the document *Instalment Payments of Income Tax* (IN-105-V).

## 10 FILING DEADLINE

If you or your spouse carried on a business in 2023, you have until June 15, 2024, to file your 2023 income tax return; no late-filing penalty will be imposed with respect to returns filed by this date. Notwithstanding this extension, interest will be calculated as of May 1, 2024, on any balance owing on April 30, 2024.

If you or your spouse operated a family-type resource or an intermediate resource, you also have until June 15, 2024, to file your income tax return, but you must pay your QPP contribution and QPIP premium no later than April 30, 2024.

The extended filing deadline does not apply if the expenditures incurred in carrying on the business relate principally to tax shelters.

Be sure to enclose with your income tax return form TP-80-V, *Business or Professional Income and Expenses*, or your financial statements. Also enclose, as applicable, form TP-80.1-V, *Calculation of Business or Professional Income, Adjusted to December 31*, and form TP-1086.R.23.12-V, *Costs Incurred for Work on an Immovable*.

## 11 NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM CODES

The North American Industry Classification System (NAICS) is used to identify a business's sector of activity. The system is composed of five levels (sectors, subsectors, industry groups, industries and Canadian industries). Enter your business's Canadian industry code (six digits) on line 34 of form TP-80-V.

A full list of **NAICS code descriptions** are available on the Statistics Canada website.



# 12 WORK CHARTS

## 12.1 Additional CCA for property used in manufacturing or processing or constituting computer equipment (60% rate): Fiscal period including the date the property was put in use

Before completing this work chart, you must complete Part 5 of form TP-80-V, *Business or Professional Income and Expenses*, for the fiscal period concerned. Complete a work chart for each qualified property.

|  |   |    |     |    |
|--|---|----|-----|----|
| CCA entered in column 9 of Part 5 of form TP-80-V with respect to the property's class (class 50 or 53, as applicable)                               | 1 |    |     |    |
| Applicable rate  | × | 2  | 60% |    |
| Multiply line 1 by 60%.  | = | 3  |     |    |
| <b>Portion</b> of the amount entered in column 7 of Part 5 of form TP-80-V for the property's class <b>that is attributable to the property</b>      |   | 4  |     |    |
| Amount entered in column 7 of Part 5 of form TP-80-V for the property's class  | ÷ | 5  |     |    |
| Divide line 4 by line 5.   | = |    |     | ×  |
| Multiply line 3 by the rate on line 6.   |   |    |     | 6  |
|  |   |    |     | 7  |
| Property cost  |   |    |     | 8  |
| Applicable rate. Enter:  |   |    |     | ×  |
| <ul style="list-style-type: none"> <li>• 16.5%, if the property belongs to class 50;</li> <li>• 15%, if the property belongs to class 53.</li> </ul> |   |    |     | 9  |
| Multiply line 8 by the rate on line 9.   | = |    |     | 10 |
| Number of days in the fiscal period  |   | 11 |     |    |
|  | ÷ | 12 | 365 |    |
| Divide line 11 by 365.   | = |    |     | ×  |
| Multiply line 10 by the rate on line 13.   |   |    |     | 13 |
|  |   |    |     | 14 |
| Enter the amount from line 7 or line 14, <b>whichever is less</b> .<br>Carry this amount to line 246 of form TP-80-V.                                |   |    |     | 15 |
| <b>Additional CCA for the fiscal period in which the property was put in use</b>   |   |    |     |    |



## 12.2 Additional CCA for property used in manufacturing or processing or constituting computer equipment (60% rate): Fiscal period following the fiscal period including the date the property was put in use

Before completing the work chart, you must complete form TP-80-V, *Business or Professional Income and Expenses*, for the fiscal period concerned. You will also need to refer to Work Chart 12.1 and form TP-80-V for the previous fiscal period. Complete a work chart for each qualified property.

CCA entered in column 9 of Part 5 of form TP-80-V for the fiscal period concerned with respect to the property class (class 50 or 53, as applicable)

Applicable rate

Multiply line 1 by 60%.

|   |      |  |
|---|------|--|
| 1 |      |  |
| 2 | 60 % |  |
| 3 |      |  |

Property cost

**Portion** of the amount entered in column 9 of Part 5 of form TP-80-V for the previous fiscal period (CCA) **with respect to the qualified property**

Subtract line 5 from line 4.

Amount entered in column 7 of Part 5 of form TP-80-V for the property's class for the fiscal period concerned

Divide line 6 by line 7.

Multiply line 3 by the rate on line 8.

|   |  |  |
|---|--|--|
| 4 |  |  |
| 5 |  |  |
| 6 |  |  |
| 7 |  |  |
| 8 |  |  |
| 9 |  |  |

Amount from line 7 of Work Chart 12.1 for the previous fiscal period

Amount from line 14 of Work Chart 12.1 for the previous fiscal period

Subtract line 11 from line 10. If the result is negative, enter 0.

Add lines 9 and 12.

|    |  |  |
|----|--|--|
| 10 |  |  |
| 11 |  |  |
| 12 |  |  |
| 13 |  |  |

Amount from line 11

Amount from line 10

Subtract line 15 from line 14. If the result is negative, enter 0.

|    |  |  |
|----|--|--|
| 14 |  |  |
| 15 |  |  |
| 16 |  |  |

Amount from line 4

Applicable rate. Enter:

- 23.9%, if the property belongs to class 50;
- 22.5%, if the property belongs to class 53.

Multiply line 17 by the rate on line 18.

|    |   |  |
|----|---|--|
| 17 |   |  |
| 18 | % |  |
| 19 |   |  |

Number of days in the fiscal period

Divide line 20 by 365.

Multiply line 19 by the rate on line 22.

Add lines 16 and 23.

|    |     |  |
|----|-----|--|
| 20 |     |  |
| 21 | 365 |  |
| 22 |     |  |
| 23 |     |  |
| 24 |     |  |

Enter the amount from line 13 or line 24, **whichever is less**.

Carry this amount to line 264 of form TP-80-V.

**Additional CCA for the fiscal period following the fiscal period in which the property was put in use**

|    |  |  |
|----|--|--|
| 25 |  |  |
|----|--|--|







# TO CONTACT US

## ONLINE

revenuquebec.ca



## BY TELEPHONE

### Individuals and individuals in business

Monday to Friday: 8:30 a.m. to 4:30 p.m.

| Québec City  | Montréal     | Elsewhere                  |
|--------------|--------------|----------------------------|
| 418 659-6299 | 514 864-6299 | 1 800 267-6299 (toll-free) |

### Businesses, employers and agents for consumption taxes

Monday, Tuesday, Thursday and Friday: 8:30 a.m. to 4:30 p.m.

Wednesday: 10:00 a.m. to 4:30 p.m.

| Québec City  | Montréal     | Elsewhere                  |
|--------------|--------------|----------------------------|
| 418 659-4692 | 514 873-4692 | 1 800 567-4692 (toll-free) |

### Complaints – Bureau de la protection des droits de la clientèle

Monday to Friday: 8:30 a.m. to noon and 1:00 p.m. to 4:30 p.m.

| Québec City  | Elsewhere                  |
|--------------|----------------------------|
| 418 652-6159 | 1 800 827-6159 (toll-free) |

### Individuals with a hearing impairment

| Montréal     | Elsewhere                  |
|--------------|----------------------------|
| 514 873-4455 | 1 800 361-3795 (toll-free) |

## BY MAIL

### Individuals and individuals in business

#### Montréal, Laval, Laurentides, Lanaudière and Montérégie

Direction principale des relations avec la clientèle des particuliers

Revenu Québec  
C. P. 3000, succursale Place-Desjardins  
Montréal (Québec) H5B 1A4

#### Québec City and other regions

Direction principale des relations avec la clientèle des particuliers

Revenu Québec  
3800, rue de Marly  
Québec (Québec) G1X 4A5

### Businesses, employers and agents for consumption taxes

#### Montréal, Laval, Laurentides, Lanaudière, Montérégie, Estrie and Outaouais

Direction principale des relations avec la clientèle des entreprises

Revenu Québec  
C. P. 3000, succursale Place-Desjardins  
Montréal (Québec) H5B 1A4

#### Québec City and other regions

Direction principale des relations avec la clientèle des entreprises

Revenu Québec  
3800, rue de Marly  
Québec (Québec) G1X 4A5

### Complaints – Bureau de la protection des droits de la clientèle

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3800, rue de Marly  
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