



Calculation of Part II Tax – Corporations Paying Dividends Out of Small Business Income

- For use by a corporation to calculate Part II tax payable and the preferred-earnings amount.
- Parts, subsections and paragraphs referred to herein are parts, subsections and paragraphs of the Income Tax Act.

NAME OF CORPORATION (PRINT)	
ACCOUNT NUMBER	TAXATION YEAR

- Part II Tax is applicable in respect of dividends paid after November 12, 1981 and before 1987; however, the preferred-earnings amount of a corporation at the end of taxation years commencing before 1983 is deemed to be nil.
- Tax payable under Part II is due and payable on or before the last day of the third month after the end of the corporation's taxation year.
- File one completed copy of this form with the Corporation Income Tax Return for every year in which a tax under Part II is payable or there are changes in the preferred-earnings amount.

(1) Calculation of Part II Tax Payable (Refer to Note 1 below)

Part II Tax determined pursuant to subsection 181(1) is the lesser of

(i) Taxable dividends subject to Part II tax, Amount (Y) below	_____	X 12 1/2%	_____		
(ii) Preferred-earnings amount at the end of the taxation year, Amount (Z) below	_____	X 1/9	_____	*	===== (X)

* Enter Amount (X) on line 136 on the front of the T2 return.

(2) Calculation of taxable dividends subject to Part II tax

Total taxable dividends paid in the year and before 1987 at a time when the corporation was not exempt from Part I tax	_____ 272 _____
Less: Dividends paid in the year and before 1987 in respect of a small business development bond to a person with whom the corporation was dealing at arm's length	_____ 273 _____
Taxable dividends subject to Part II Tax	_____ (Y)

(3) Calculation of preferred-earnings amount at the end of the year

(a) Preferred-earnings amount at the end of the immediately preceding taxation year	_____ 274 _____
(b) Where the corporation claims a Small Business Deduction	
(i) In 1985 and subsequent taxation years: The least of amounts (A), (B) and (C) in the Small Business Deduction calculation	_____ X 3/4
(ii) In taxation years commencing after 1982 and ending before 1985: Where the Small Business Deduction is claimed at the 21 % rate, the least of amounts (A), (B), (C) and (D) in that calculation	_____ X 3/4
(c) Preferred-earnings amount transfer from predecessor corporations upon amalgamation or from subsidiary corporations upon winding-up	_____ 277 _____
Sub-total	_____
Deduct	
(d) The lesser of	
(i) the aggregate of: Taxable dividends paid in the immediately preceding taxation year, and _____ 275 _____ Part II tax payable pursuant to subsection 181(1) for the immediately preceding taxation year _____	_____
(ii) the preferred-earnings amount at the end of the immediately preceding taxation year _____	_____
Preferred-earnings amount at the end of the year <i>(if negative, enter nil) (See Notes 2 and 3 below)</i>	_____ (Z)

Notes:

- Under certain limited circumstances Part II tax may be payable pursuant to subsections 181(4) or 181(5). Where there has been an amalgamation or a merger or a winding-up of a subsidiary, subsection 181(4) may apply. Part II tax, if any, calculated under subsection 181(4) should be entered on line 270 and included in Amount (X) above. Subsection 181(5) sets out circumstances under which certain transactions effected after November 12, 1981 may result in the assessment of Part II tax. Part II tax, if any, calculated under subsection 181(5) should be entered on line 271 and included in Amount (X) above. _____ **270** _____
- Where tax is paid for the year pursuant to subsection 181(4), deduct in computing Amount (Z) above the product obtained when the amount of tax is multiplied by 9. _____ **271** _____
- For taxation years ending before 1985: Where at any time in the year, subsection 190(1) applies, deduct in computing Amount (Z) above, the product obtained when the preferred rate amount of the corporation at that time, as defined under paragraph 190(2)(b), is multiplied by 3/4. Enter this amount on line 276. _____ **276** _____

(Français au verso)