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Chapter History

S3-F8-C1: Principal-business corporations in the resource industries

Introduction

The purpose of this Chapter History page is to highlight any amendments to the information contained in an interpretation bulletin that is now reflected in a chapter of an income tax folio as well as to identify any subsequent amendments to a folio chapter. It outlines amendments that have been made as a result of legislative changes and proposed legislative changes, precedential court decisions, as well as new or revised interpretations of the Canada Revenue Agency (CRA).

Update April 3, 2015

General

[Income Tax Folio S3-F8-C1, Principal-business Corporations in the Resource Industries](#), replaces and cancels Interpretation Bulletin IT-400, *Exploration and Development Expenses - Meaning of Principal-Business Corporation* and its special release, IT-400SR, *Exploration and Development Expenses - Meaning of Principal-Business Corporation*.

In addition to consolidating the content of the former interpretation bulletins, general revisions have been made to improve readability. Any substantive technical and interpretive changes to the information outlined in the former interpretation bulletins are described below. Except as otherwise noted, all statutory references herein are references to provisions of the *Income Tax Act*, R.S.C., 1985, c.1 (5th Supp.), as amended.

Legislative and other changes

¶1.1 has been added to list the abbreviations and the definitions used in the Chapter.

¶1.2 (formerly ¶4 of IT-400) has been modified to reflect updates and changes to the **PBC** definition resulting from various legislative amendments. The most recent amendment was made by S.C. 2010, c. 25, s. 12(1) applicable to 2004 and subsequent tax years. Also, as a result of the restructuring of provisions by R.S.C. 1985 (5th Supp.), the PBC definition now appears in subsection 66(15) instead of in paragraph 66(15)(h), applicable to tax years ending after November 1991.

¶1.3 - 1.10 (formerly ¶7 to 11 of IT-400) have been expanded to list all qualifying business operations included in the PBC definition. ¶1.8 to 1.10 discuss new paragraphs (h) and (i) that were added to the PBC definition in subsection 66(15) by S.C. 1997, c. 25, s. 13(28), applicable after December 5, 1996, and which were subsequently amended, most recently by S.C. 2010, c. 25, s. 12(1), applicable to 2004 and subsequent tax years. The information on CRCE is new. Subsection 66.1(6) was amended by S.C. 1997, c. 25, s. 14(5), applicable after December 5, 1996, to add the definition of **CRCE**, as well as to add paragraph (g.1) to the **CEE** definition to make the CRCE part of the CEE.

¶1.19 has been added to clarify that based on the wording of the legislation, a non-resident corporation could qualify as a PBC provided it meets the PBC criteria.

¶1.20 (formerly ¶2 of IT-400) has been revised to remove the information previously contained in paragraphs 2(c) and 2(d) of IT-400. Paragraph 2(c) has been deleted because subsections 66(10), (10.1), (10.2) and (10.3), the provisions related to joint exploration corporations, were repealed by S.C. 1997, c. 25, s. 13(1), applicable to renunciations made after March 5, 1996, or 2006 if covered under the grandfathering provisions. Content formerly in paragraph 2(d) of IT-400 has also been deleted because S.C. 1985, c. 45 repealed old subsection 59(1.1) effective for property disposed of in tax years commencing after 1984.

¶1.21 (formerly ¶2(a) of IT-400) has been revised to clarify and specify that the subsection 66.1(2) restriction on the deduction of CEE only applies to certain PBCs in accordance with an amendment made by S.C. 1997, c. 25, s. 14(1). At the same time, subsection 66.1(3) was amended by S.C. 1997, c. 25, s. 14(2), to extend its application to the other PBCs. Both amendments are applicable to tax years that end after December 5, 1996. The reference to subsection 66(1), **Canadian exploration and development expenses**, has been removed as it is restricted to resource expenses incurred before May 7, 1974. As a result, related information formerly included in ¶3 of IT-400 has also been deleted.

¶1.22 (formerly ¶2(e) of IT-400) has been revised to reflect amendments to subsection 66(5) made by S.C. 2001, c. 17, s. 44(5), applicable to tax years that begin after 2000. These amendments added references to sections 66.21 (foreign resource expenses) and 66.7 (successor rules). Also, the reference to subsection 66(3) has been removed from the Chapter because that subsection is applicable to taxpayers other than PBCs. In addition,

the reference to section 64 has been deleted from the discussion because the original section 64 relating to dispositions of resource property was repealed by S.C. 1980-81-82-83, c. 140.

¶1.23 has been added to discuss the rule in subsection 66(11.4). This special rule was announced on January 15, 1987 [S.C. 1987, c. 46] and has been amended subsequently. Currently it applies to corporations and trusts, but does not apply to PBCs.

¶1.24 (formerly ¶2(b) of IT-400) and 1.25 have been revised in respect of flow-through shares (FTS) in order to refer to the legislation as reflected in the current version of the Act. The FTS definition is now in subsection 66(15). This definition has been amended various times, most recently by S.C. 2013, c. 34, s. 199(6), applicable to agreements made after December 20, 2002. Further to an amendment made by S.C. 1997, c. 25, s. 13(26), applicable to renunciations made after 1998, references in the FTS definition to renunciations of Canadian oil and gas property expenses were eliminated. The reference to subsection 66(12.64) that permitted a PBC to renounce Canadian oil and gas property expenses to flow-through shareholders has also been removed as this subsection was repealed by S.C. 1997, c. 25, s. 13(15), applicable to renunciations made after March 5, 1996, with grandfathering provisions for certain renunciations made before 1999. The revised content also includes references to subsection 66(12.601) that was introduced by S.C. 1994, c. 8, s. 5(5) and applies with respect to expenses incurred after December 2, 1992 and subsection 66(12.66), the **look-back rule** that was initially introduced by S.C. 1986, c. 55 and was most recently amended by S.C. 2013, c.40, s. 30(2).

¶1.26 - 1.30 are new and discuss information on investment tax credits (ITC) in respect of **pre-production mining expenditures** and **flow-through mining expenditures** in subsections 127(5) and (9).

¶1.27 – 1.29 discuss the ITC for **pre-production mining expenditure** that was added to subsection 127(9) by S.C. 2003, c. 28, s. 14(7), applicable to 2003 and subsequent tax years. In October 2012, S.C. 2012, c. 31, s. 27(7), phased out the 10% ITC for eligible pre-production mining expenditures with different rates of transitional relief up to 2015. The amendment applies with respect to expenditures incurred after March 28, 2012. Paragraph (b) of the definition of pre-production mining expenditure, was amended by S.C. 2013, c. 34, s. 269(9), applicable to the 2003 and subsequent tax years, to allow a PBC to claim the pre-production mining expenditure renounced by its wholly owned subsidiary.

¶1.30 discusses the definition of **flow-through mining expenditure**, which was added to subsection 127(9), by S.C. 2001, c. 17, s. 118(7), applicable, initially, from October 18, 2000, to 2003. Various amendments to the definition have extended the period to which it applies.

Date modified:

2015-04-02