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DOCNUM 2014-0539191E5

REFDATE 141104

SUBJECT ASPA under 34.2(2)

SECTION 34.2(2), "adjusted stub period accrual" 34.2(1), 87(2)(a)

Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the CRA. Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle de l'ARC.

PRINCIPAL ISSUES: Is there an income inclusion under subsection 34.2(2) for a corporation's taxation year in respect of a particular partnership **if no fiscal period of the partnership ends** in that taxation year?

POSITION: No.

REASONS: The amount required under subsection 34.2(2) to be included in a corporation's income for a taxation year is the corporation's "adjusted stub period accrual" (ASPA) in respect of the partnership which is defined under subsection 34.2(1) and determined by formula with reference to the corporation's share of income of the partnership for a fiscal period of the partnership that ends in the year. Further, both subsection 34.2(2) and the preamble to the ASPA definition require that (i) the corporation have a significant interest in the partnership at the end of the last fiscal period of the partnership that ends in the corporation's taxation year and (ii) another fiscal period of the partnership begins in the taxation year and ends after the taxation year. Thus, a corporation will **not have an income inclusion under subsection 34.2(2)** in respect of a particular partnership for a taxation year **if no fiscal period of the partnership ends in that taxation year**.

XXXXXXXXXX

2014-053919

Chrys Tzortzis, CPA, CA

November 4, 2014

Dear XXXXXXXXXX:

Re: Income inclusion under subsection 34.2(2)

This is in response to your email of July 8, 2014 wherein you enquire whether or not a corporate partner will have an income inclusion under subsection 34.2(2) of the Income Tax Act (the "Act") in a particular scenario.

You provide a hypothetical situation where a Canadian corporation (**Corp A**), with a taxation year-end of December 31, is a member of **a partnership with an established fiscal period end of December 31**. Corp A has a "significant interest" in the partnership, as defined in subsection 34.2(1) of the Act. You state that on August 1, 2014, **Corp A amalgamates with its wholly-owned subsidiary forming Amalco which results in a deemed year-end of July 31, 2014 for Corp A**. In addition, you state that Amalco will establish a December 31 year-end with its first taxation year ending December 31, 2014. Specifically, you **wonder whether Corp A** will have an income inclusion under subsection 34.2(2) in respect of the partnership for its taxation year ending July 31, 2014.

This technical interpretation provides general comments about the

provisions of the Act and related legislation (where referenced). It does not confirm the income tax treatment of a particular situation involving a specific taxpayer but is intended to assist you in making that determination. The income tax treatment of particular transactions proposed by a specific taxpayer will only be confirmed by this Directorate in the context of an advance income tax ruling request submitted in the manner set out in Information Circular IC 70-6R6, Advance Income Tax Rulings and Technical Interpretations.

Our Comments

Budget 2011 introduced a measure to limit the deferral of tax on income earned by a corporation through a partnership that arises if the partnership has a fiscal period that differs from the corporation's taxation year. The main rules implementing this measure are found in new sections 34.2 and 34.3, and amended section 249.1 of the Act. A main aspect of new section 34.2 is the rules related to adjusted stub period accrual (ASPA). As stated in the October 2011 Explanatory Notes, "A corporation may have adjusted stub period accruals in respect of more than one partnership and, in such cases, **the adjusted stub period accrual rules apply to the corporation on a partnership-by-partnership basis.**"

In general, under subsection 34.2(2), a corporation (other than a professional corporation) is required to include in its income for a taxation year its ASPA in respect of a partnership if:

- the corporation has a significant interest in the partnership at the end of the last fiscal period of the partnership that ends in the taxation year;

- another fiscal period of the partnership begins in the taxation year and ends after the taxation year; and
- at the end of the taxation year, the corporation is entitled to a share of an income, loss, taxable capital gain, or allowable capital loss of the partnership for the fiscal period referred to in the preceding bullet.

The amount required under subsection 34.2(2) to be included in a corporation's income for a taxation year is the corporation's ASPA in respect of the partnership, which is defined under subsection 34.2(1). Under the ASPA definition, the amount is determined by formula with reference to the corporation's share of income of the partnership for a fiscal period of the partnership that ends in the year. Additionally, both subsection 34.2(2) and the preamble to the ASPA definition require that (i) the corporation have a significant interest in the partnership at the end of the last fiscal period of the partnership that ends in the corporation's taxation year and (ii) another fiscal period of the partnership begins in the taxation year and ends after the taxation year. Accordingly, a corporation will not have an income inclusion under subsection 34.2(2) in respect of a particular partnership for a taxation year if no fiscal period of the partnership ends in that taxation year. Thus, in the situation described above, Corp A will not have an income inclusion under subsection 34.2(2) in respect of the partnership for its taxation year ending July 31, 2014 since no fiscal period of the partnership ends in that short taxation year. Furthermore, Amalco will not have an income inclusion under subsection 34.2(2) in respect of the partnership for its taxation year ending December 31, 2014 since there will be no misalignment between its taxation year-end and the partnership's fiscal period end (i.e. both end December 31, 2014). We

trust the above comments will be of assistance.

Yours truly,

G. Moore

for Director

Partnerships & Corporate Financing Section

International Division

Income Tax Rulings Directorate

Legislative Policy and Regulatory Affairs Branch