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DOCNUM 2011-0431271E5
REFDATE 120110
SUBJECT Calculation of stub period income from JVs
SECTION 34.2, 34.3

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: Whether the revised administrative policy allows for participant taxpayers of joint ventures to compute income for a stub period based on a formulaic method as similarly provided under legislation for members of partnerships.

POSITION: No.

REASONS: Consultations took into account the administrative feasibility and tax policy considerations. It was concluded that the CRA's administrative policy would not include a formulaic approach.

XXXXXXXXXX

2011-043127
Rob Ferrari

January 10, 2012

Dear XXXXXXXXXXXX :

Re: Revised Administrative Policy for Participants in Joint Ventures

This is in reply to your email of December 15, 2011 wherein you requested confirmation as to the CRA's revised administrative policy as announced on November 29, 2011 in document number 2011-042958. Specifically, you ask whether the revised administrative policy allows for participant taxpayers of joint ventures to compute income for a stub period in a manner similar to that as provided to members of partnerships under section 34.2 of the Income Tax Act (the "Act").

Our Comments

Pursuant to new section 34.2 of the Act, for taxation years of a corporation that end after March 22, 2011, some corporations may have to accrue additional income from a partnership in which it is a member where the fiscal period of the partnership begins in the taxation year of the corporation and ends in a subsequent taxation year. The accrued income with respect to that fiscal period of the partnership will generally be for the portion of the fiscal period that falls in the corporation's taxation year (the stub period). Subsection 34.2(1) includes formulas in the definition of "adjusted stub period accrual" for the computation of adjusted stub period accrual. In general terms, these formulas provide for a computation of estimated income for the stub period based on a pro-rated amount of income that was allocated from the partnership for the

fiscal period of the partnership that ended in a partner's taxation year. This income is required to be included in the income of the corporation pursuant to the rules specified in subsection 34.2(2).

As a result of the 2011 Budget proposals to eliminate the deferral of income from partnerships, the CRA announced the withdrawal of the joint venture administrative policy and advised that taxpayers who had entered into joint venture arrangements would no longer be eligible to compute income as if the JV had a separate fiscal period. (See our document number 2011-040308, dated June 6, 2011.) The CRA also advised that for participants in joint ventures who had relied on the previous administrative position, transitional relief would be provided for the incremental income that would arise as a result of the change in the administrative policy in a manner that was consistent with the transitional relief that is available to members of a partnership.

A consultation process was undertaken in which consideration was given to the formulaic approach for the computation of stub period income for participants of joint ventures. This process took into account tax policy issues as well as the administrative feasibility of applying an administrative policy in a similar manner as provided with respect to partnerships under new sections 34.2 and 34.3 and amended section 249.1.

Document number 2011-042958 announced the CRA's administrative policy allowing for transitional relief that may be available with respect to the incremental income that arises as a result of the revised administrative policy. However, the revised administrative policy does not provide for a formulaic approach to compute stub period income for participants of joint ventures. The document confirmed the CRA's position that for taxation years ending after March 22, 2011, actual income earned through joint ventures is required to be calculated by each participant taxpayer based on the fiscal period of the particular taxpayer.

Yours truly,

G. Moore
for Director
Business and Trusts Division
Income Tax Rulings Directorate
Legislative Policy and Regulatory Affairs Branch