

Note 25: Income Taxes

We report our provision for income taxes in our Consolidated Statement of Income based upon transactions recorded in our consolidated financial statements regardless of when they are recognized for income tax purposes, with the exception of repatriation of retained earnings from our foreign subsidiaries, as noted below.

In addition, we record income tax expense or benefit directly in shareholders' equity when the taxes relate to amounts recorded in shareholders' equity. For example, income tax expense (recovery) on hedging gains (losses) related to our net investment in foreign operations is recorded in shareholders' equity as part of accumulated other comprehensive income (loss) on translation of net foreign operations.

The future income tax balances included in other assets of \$405 million and other liabilities of \$nil as at October 31, 2008 (\$235 million and \$nil, respectively, in 2007) are the cumulative amount of tax applicable to temporary differences between the accounting and tax values of our assets and liabilities. Future income tax assets and liabilities are measured at the tax rates expected to apply when these differences reverse. Changes in future income tax assets and liabilities related to a change in tax rates are recorded in income in the period the tax rate change is substantively enacted. A valuation allowance is

established to reduce future income tax assets to the amount more likely than not to be realized.

Components of Future Income Tax Balances

(Canadian \$ in millions)

	2008	2007
Future Income Tax Assets		
Allowance for credit losses	\$ 537	\$ 374
Employee future benefits	215	233
Deferred compensation benefits	182	176
Other Comprehensive Income	22	67
Tax loss carryforwards	159	–
Other	4	13
Total future income tax assets	\$ 1,119	\$ 863
Future Income Tax Liabilities		
Premises and equipment	\$ (206)	\$ (168)
Pension benefits	(335)	(356)
Intangible assets	(122)	(81)
Other	(51)	(23)
Total future income tax liabilities	\$ (714)	\$ (628)

Certain comparative figures have been reclassified to conform with the current year's presentation.

The \$159 million of future income tax assets relate to tax loss carry-forwards that will expire in 2028.

Income that we earn in foreign countries through our branches or subsidiaries is generally subject to tax in those countries. We are also subject to Canadian taxation on the income earned in our foreign branches. Canada allows a credit for foreign taxes paid on this income. Upon repatriation of earnings from certain foreign subsidiaries, we

Provision for (Recovery of) Income Taxes	(Canadian \$ in millions)		
	2008	2007	2006
Consolidated Statement of Income			
Provision for (recovery of) income taxes			
– Current	\$ (56)	\$ 214	\$ 872
– Future	(15)	(25)	(155)
	(71)	189	717
Shareholders' Equity			
Income tax expense (recovery) related to:			
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	(53)	19	–
Gains (losses) on cash flow hedges	204	(86)	–
Hedging of unrealized (gain) loss on translation of net foreign operations	(881)	575	156
Other	(7)	(37)	–
Total	\$ (808)	\$ 660	\$ 873

would be required to pay tax on certain of these earnings. As repatriation of such earnings is not planned in the foreseeable future, we have not recorded the related future income tax liability. The Canadian and foreign taxes that would be payable, at existing tax rates, if all of our foreign subsidiaries' earnings were repatriated as at October 31, 2008, 2007 and 2006 are estimated to be \$711 million, \$599 million and \$583 million, respectively.

Components of Total Provision for (Recovery of) Income Taxes	(Canadian \$ in millions)		
	2008	2007	2006
Canada: Current income taxes			
Federal	\$ (525)	\$ 430	\$ 494
Provincial	(217)	214	266
	(742)	644	760
Canada: Future income taxes			
Federal	(16)	(70)	(110)
Provincial	(27)	(34)	(51)
	(43)	(104)	(161)
Total Canadian	(785)	540	599
Foreign: Current income taxes			
Future income taxes	(21)	133	268
	(2)	(13)	6
Total foreign	(23)	120	274
Total	\$ (808)	\$ 660	\$ 873

Certain 2007 comparative figures have been reclassified to conform with the current year's presentation.

Set out below is a reconciliation of our statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for (recovery of) income taxes that we have recorded in our Consolidated Statement of Income:

(Canadian \$ in millions, except as noted)	2008		2007		2006	
Combined Canadian federal and provincial income taxes at the statutory tax rate	\$ 648	32.7%	\$ 838	35.0%	\$ 1,206	34.9%
Increase (decrease) resulting from:						
Tax-exempt income	(197)	(9.9)	(116)	(4.9)	(91)	(2.6)
Foreign operations subject to different tax rates	(317)	(16.0)	(428)	(17.9)	(271)	(7.8)
Change in tax rate for future income taxes	5	0.2	2	0.1	(3)	(0.1)
Intangible assets not deductible for tax purposes	9	0.4	10	0.4	10	0.2
Other (1)	(219)	(11.0)	(117)	(4.8)	(134)	(3.9)
Provision for (recovery of) income taxes and effective tax rate	\$ (71)	(3.6)%	\$ 189	7.9%	\$ 717	20.7%

(1) Includes recovery of prior years' income taxes in the amount of \$160 million in 2008, \$87 million in 2007 and \$102 million in 2006.

Certain comparative figures have been reclassified to conform with the current year's presentation.