



Revenue
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Farming Income

96



Before you start

Is this guide for you?

This guide is for you if you earned income as a self-employed farmer or as a member of a farm partnership. It will help you calculate the farming income you will report on your 1996 income tax return.

Forms and publications

In the middle of this guide, you will find duplicate copies of some of the forms you may have to complete. Throughout the guide, we also refer to other forms and publications. If you need any of these, you can call or visit your tax services office or tax centre. You can find the addresses and the

telephone numbers listed under "Revenue Canada" in the Government of Canada section of the telephone book.

If you have access to the Internet, many of our publications are available on line. Our Internet address is:

<http://www.rc.gc.ca/>

New Terminology

Human Resources Development Canada is implementing legislative changes to the Unemployment Insurance program. As a result "Unemployment Insurance" (UI) is now called "Employment Insurance" (EI).

What's new for 1996?

Below, we have outlined the major changes we have made to this guide. We include tax changes that had not yet become law at the time of printing. However, we are getting ready to apply these proposed changes.

In 1996, the Minister of Agriculture and Agri-Food made payments to assist farm owners whose land values may decrease due to the elimination of subsidized freight rates. These payments are called *Western Grain Transition Payment Plan* payments, and they are taxable. You will have to report them in one of the following three ways:

- If your farmland is capital property, you will have to reduce the adjusted cost base of the property by the amount of the payments. For details, see Chapter 6 of this guide.
- If your farmland is not capital property, the amount of the payment will affect your calculation of income from business or property. For details see "Farm owners" on page 11.

- If your farmland is rented, either the landlord or tenant will be taxed on the transition payment. See Chapter 2 of this guide for details.

If you were subject to the mandatory inventory adjustment between 1989 and 1995, there was a provision to reduce the impact of including in income the value of inventory purchased before 1989. This provision, known as transitional relief, was temporary, and is no longer in effect for 1996.

Notice

If you filed a capital gains election for qualified farm property (see the definition on page 43), we consider you to have sold the property and to have immediately reacquired it. If you filed the election for qualified farm property that you acquired before June 18, 1987, which you use or have used in your farming business, your property may not qualify for the capital gains deduction if you dispose of it in the future. If this is the case, you may be able to cancel your election before 1998.

Blind or visually impaired persons can get this publication in braille and large print, and on audio cassette and computer diskette. To order, please call ~~1-800-267-1267~~ weekdays between 8:15 a.m. and 5:00 p.m. (Eastern Time).

This guide uses plain language to explain the most common income tax situations. If you need help after reading this guide, please contact the General Enquiries Section of your tax services office. For more complex business enquiries, please contact the Business Enquiries Section of your tax services office. You can find the numbers listed under "Revenue Canada" in the Government of Canada section of the telephone book.

La version française de cette publication est intitulée *Revenus d'agriculture*.

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Chapter 1 – General information

What is farm income?

Farm income includes income you earned from the following activities:

- soil tilling;
- livestock raising or showing;
- race horse maintenance;
- poultry raising;
- dairy farming;
- fur farming;
- tree farming;
- fruit growing;
- beekeeping;
- Christmas tree growing;
- the operation of a wild-game reserve;
- chicken hatchery;
- the running of a feedlot;
- cultivation of crops in water; or
- hydroponics.

In certain factual circumstances, farm income may also include:

- the raising of fish;
- market gardening; or
- the operation of a nursery or greenhouse.

Farm income **does not include** income you earned from working as an employee in a farming business, or from trapping.

If you are not sure whether or not you earned income from a farming business, contact your Revenue Canada tax services office or tax centre.

You were asking...?

Q. When does a farming business start? Can I deduct the costs I incur before and during the start of my farming business?

A. We look at each case on its own merits. Generally, we consider that a farming business starts whenever you begin some significant activity that is a regular part of the business, or that is necessary to get the business going.

For example, suppose you decide to buy enough poultry for resale to start your farming business. At this point, we would consider that your business has started. You can usually deduct all of the expenses you have incurred to date to earn farming income. You could still deduct the expenses even if, despite all your efforts, your business wound up. On the other hand, if you review several different types of farming activities in the hope of going into a farming business of some

kind, we would not consider that your business has begun, and you cannot deduct any of the costs you incur.

For more details about the start of a business, see Interpretation Bulletin IT-364, *Commencement of Business Operations*.

How do you report your farming income?

You can earn farm income as a self-employed farmer or by being a member of a farm partnership. Most of the rules that apply to a self-employed farmer also apply to a partner. However, if you are a partner, you should also read the section called "Reporting partnership income" on page 6.

You report your farming income on a **fiscal period** basis. A fiscal period is the time covered from the day your farming business starts its business year, to the day your farming business ends its business year. For an existing business, the fiscal period is usually 12 months. A fiscal period cannot be longer than 12 months. However, it can be shorter than 12 months in some cases, such as when a new business starts or when a business stops.

For taxation years ending after 1994, self-employed individuals are generally required to use a December 31 year end. If you are an eligible individual, you may be able to use an alternative method of reporting your business income which allows you to keep a fiscal period that does not end on December 31. If you have a fiscal year end that is not December 31, you will need the publication called *Reconciliation of Business Income for Tax Purposes* in order to calculate the amount of farming income to report on your 1996 income tax return. The publication includes Form T1139, *Reconciliation of 1996 Business Income for Tax Purposes* and is available from your tax services office or tax centre.

If you filed Form T1139 to elect not to have a December 31 year end with your 1995 income tax return, you have to file Form T1139 again this year.

Reporting methods

There are two accounting methods you can use to report your farming income: the cash method and the accrual method.

When you use the **cash method**, you:

- report income in the fiscal period you receive it; and
- deduct expenses in the fiscal period you pay them.

For special rules regarding prepaid expenses, see the section called "Prepaid expenses" on page 13.

If you use the cash method and receive a postdated cheque as security for a debt, include the amount in income when the cheque is payable. However, if you receive a postdated cheque that is payable before the debt is due, include the amount in income on the earlier of the following dates:

- the date the debt is payable; or
- the date you cash or deposit the cheque.

If you receive a postdated cheque as an absolute payment for a debt, include the amount in income when you get the cheque. If the bank does not honour the cheque, you can adjust your income then. For more details, contact your tax services office or tax centre.

Note

The above postdated cheque rules apply to income-producing transactions, such as the sale of grain. They do not apply to transactions involving capital property, such as the sale of a tractor.

When you use the cash method, do not include inventory when you calculate your income. However, there are two exceptions to this rule. See the section called "Line 8240 – Mandatory inventory adjustment included in 1996" on page 19, and "Line 8239 – Optional inventory adjustment included in 1996" also on page 19, for details.

For more details on the cash method for farm income, see Interpretation Bulletin IT-433, *Farming or Fishing – Use of Cash Method*.

When you use the **accrual method** you:

- report income in the fiscal period you earn it, no matter when you receive it; and
- deduct expenses in the fiscal period you incur them, whether or not you pay them in that period.

When you calculate your income using the accrual method, include the value of all inventories, such as livestock, crops, feed, and fertilizer. Make a list of your inventory and count it at the end of your fiscal period. Keep this list as part of your business records.

There are three methods you can use to value your inventory:

- value all inventory at its fair market value (see page 25 for the definition of fair market value);
- value individual items at the lower of cost or fair market value (when you cannot easily tell one item from another, you can value the items as a group); and
- value livestock according to the unit price base. For this method, complete Form T2034, *Election to Establish Inventory Unit Prices for Animals*.

Use the same method you used in past years to value your inventory. The value of your inventory at the start of your 1996 fiscal period is the same as the value at the end of your 1995 fiscal period. If this is your first year of business, you will not have an opening inventory at the start of your fiscal period.

For more details on inventories, see Interpretation Bulletin IT-473, *Inventory Valuation*, and its Special Release.

Changing your method of reporting income

If you decide to change your method of reporting income from the accrual method to the cash method, use the cash method when you file your return. Make sure you include a

statement that shows each adjustment you had to make to your income and expenses because of the difference in methods.

If you decide to change from the cash method to the accrual method, you first have to get permission from the Director of your tax services office. Ask for this change in writing before the date you have to file your income tax return. In your letter, please explain why you want to change methods.

Because there is a difference between the cash and accrual methods, make sure you include a statement that shows each adjustment you had to make to your income and expenses, the first time you file your return using the accrual method.

Business records

Keep a record of your daily income and expenses. We do not issue record books or suggest any particular type of book or set of books. There are many record books and bookkeeping systems available. For example, you can use a book that has columns and separate pages for income and expenses. Please note that some provincial departments of agriculture provide bookkeeping records you can use.

Keep your books, along with your receipts, duplicate deposit slips, bank statements, and cancelled cheques. Keep separate records for each business you run. If you want to keep computerized records, make sure they are clear and easy to read.

Income records

Keep track of the gross income your business earns. Gross income is your total income before you deduct expenses. Your income records should show the date, the amount, and the source of the income. Record the income whether you received cash, property, or services.

If requested, you must be able to support all income entries with original documents. Original documents include such things as sales invoices, cash-register tapes, receipts, cash purchase tickets from the sale of grain, and cheque stubs from marketing boards.

Expense records

Always get receipts, invoices, or other vouchers when you buy something for your farming business. When you buy merchandise or services, the receipts have to show:

- the date of the purchase;
- the name and address of the seller or supplier;
- the name and address of the purchaser; and
- a full description of the goods or services.

Keep a record of the properties you bought and sold. This record should show who sold you the property, the cost, and the date you bought it. Chapter 3 explains how to calculate CCA.

If you sell or trade a property, show the date you sold or traded it, and the amount you got from the sale or trade-in.

Note

Do not send your records with your income tax return. However, you must keep them in case we ask to see them. If you do not keep the necessary information and you do not have any other proof, we may have to determine your income using other methods. We may also have to reduce the expenses you deducted.

Time limits

Depending on the situation, keep your records for the following lengths of time:

- If you file your return on time, keep your records for a minimum of six years after the end of the taxation year to which they relate.
- If you file your return late, keep your records for six years from the date you file that return.
- If you file an objection or an appeal, keep your records until either the issue is settled and the time for filing any further appeal expires, or the six-year period mentioned above expires, whichever is later. For more information on appeals, see your *General Income Tax Guide*.

If you want to destroy your records before the minimum six-year period is over, you must first get written permission from the Director of your tax services office. To do this, either use Form T137, *Request for Destruction of Books and Records*, or prepare your own written request. Information Circular 78-10, *Books and Records Retention/Destruction*, has more details.

Income tax instalment

As a self-employed farmer, you may have to make an annual instalment for 1997. Your 1997 instalment is due on December 31, 1997. If our records indicate that you have to pay tax by instalment in 1997, we will send you an *Instalment Reminder* in late November. However, in certain circumstances, you may not have to pay any instalments. For more information on paying tax by instalments, see the pamphlet called *Paying Your Income Tax by Instalments*. If you would like to calculate your instalment, get the Form T1033-WS, *Worksheet for Calculating 1997 Instalment Payments*. You can get the pamphlet and the worksheet from your tax services office or tax centre.

You may have to pay a penalty and interest if you do not pay your instalment on time, or if you do not pay the full instalment amount you owe.

Dates to remember

March 31, 1997 – Most farm partnerships will file a partnership information return, by March 31, 1997. However, there are exceptions. For details, see the *Guide for the Partnership Information Return* and Information Circular 89-5, *Partnership Information Return* and its Special Release.

April 30, 1997 – Payment of any balance owing is due.

You will have to file your 1996 income tax return by April 30, 1997, if the expenditures of your farming business are primarily connected with tax shelters.

File Form T581, *Forward Averaging Tax Credits*, if you would like to bring all or some of your accumulated averaging amount into your 1996 income. If you are a self-employed farmer you have until June 15, 1997 to file Form T581.

June 15, 1997 – If you have self-employment income or if you are the spouse of someone who does, you have until June 15, 1997, to file your 1996 income tax return, unless the expenditures of the business are primarily connected with tax shelters. However, any balance owing must be paid by April 30, 1997, to avoid interest charges.

December 31, 1997 – Pay your 1997 instalment for income tax and CPP contributions.

Note

You can file your annual GST and income tax returns at the same time by completing Form T1124, *GST and Income Tax Reconciliation Form*, and make one remittance for both taxes or offset a credit for one tax against a debit for the other. However, if you have a balance owing for 1996, your payment is due on or before April 30, 1997. We will calculate arrears interest on the balance owing after this date until the amount is paid in full. We calculate arrears interest separately on the GST and income tax owing.

Reporting partnership income

A partnership is a relationship between two or more people carrying on a business in common (with or without a written agreement) with the intent to make a profit. A partnership does not pay income tax on its income, and it does not file an income tax return. Instead, each partner files an income tax return to report his or her share of the partnership's net income or loss. The partners have to do this whether the share of income was received in cash, or as a credit to a capital account in the partnership.

Interpretation Bulletins IT-90, *What is a Partnership?*, and IT-138, *Computation and Flow-Through of Partnership Income*, have more details about partnerships.

Partnership information return

Partnerships of six or more members have to file a partnership information return (PIN). Partnerships of five or fewer members throughout the year also have to file a PIN, if one or more of the members is another partnership.

If you are a member of a partnership that has to file a PIN, you should get two copies of a T5013 Supplementary form, *Statement of Partnership Income*, from the partnership. If you do not receive this form, contact the person who prepares the forms for the partnership.

You may also need to adjust your share of the net partnership income or loss shown on your T5013 Supplementary form. You can use Form T2042, *Statement of Farming Activities*, to deduct any business expenses you incur for which the partnership did not repay you. See the section called "Other amounts deductible from your share of net partnership income (loss)" on page 23 for more information.

The income tax guide called *Guide for the Partnership Information Return* has more details about the PIN.

Information Circular 89-5, *Partnership Information Return*, also has more information. You can get these publications from your tax services office or tax centre.

Capital cost allowance (CCA)

A partnership can own depreciable property and claim CCA on it. As an individual partner, you cannot claim CCA on property the partnership owns.

From the capital cost of depreciable property, subtract any investment tax credit allocated to the individual partners. We consider this allocation to be made at the end of the partnership's fiscal period. You also reduce capital cost by any type of government assistance. See Chapter 3 for more details about CCA and the adjustments to capital cost.

Any capital gain or recapture from the sale of property the partnership owns is income of the partnership. Also, any capital or terminal loss from the sale of partnership-owned property is the loss of the partnership. See Chapter 6 for more details about capital gains and losses, and Chapter 3 for more details about recapture and terminal losses.

Eligible capital expenditures

A partnership can own eligible capital property and deduct an annual allowance. Any income from the sale of eligible capital property the partnership owns is income of the partnership. See Chapter 4 for more details about eligible capital expenditures.

Goods and services tax (GST) rebate

If you are a member of a partnership, and you claim expenses on your return, you may be able to get a GST rebate for any GST you paid on the expenses.

The GST rebate is available to you as long as you meet **both** of these conditions:

- you are a member of a GST registered partnership; and
- on your income tax return, you deduct expenses you incurred to earn partnership income and the partnership did not repay you for those expenses.

We base the rebate on the amount of the expenses subject to GST that you deduct on your income tax return. For more information, see the section called "Other amounts deductible from your share of net partnership income (loss)" on page 23.

For more details about the GST rebate, get Form GST 370, *Employee and Partner Goods and Services Tax Rebate*, from your tax services office or tax centre.

Chapter 2 – Calculating your farming income or loss

As a self-employed farmer, you have to give us a statement which accurately shows your farming activities for the year.

We have included Form T2042, *Statement of Farming Activities*, in the middle of this guide to help you calculate your farming

income and expenses for income tax purposes. Although we accept other types of financial statements, we encourage you to use Form T2042.

This chapter explains how to complete Form T2042. You have to complete a separate form for each business you operate. Interpretation Bulletin IT-206, *Separate Businesses*, has more details.

Form T2042, Statement of Farming Activities

If you use Form T2042 and you are:

- a sole proprietor of a farming business, you should complete all the areas and lines on Form T2042.
- a member of a partnership and you receive a T5013 Supplementary form, complete only the items in the "Identification" area that do not appear on your T5013 Supplementary form. Enter the amount from box 18 of your T5013 Supplementary form on line (d) on page 2 of Form T2042.

Complete the chart on page 4 of Form T2042 called "Other amounts deductible from your share of net partnership income (loss)" to claim any expenses for which the partnership did not reimburse you or other amounts you may be able to deduct. See page 23 for more information. If it applies to you, complete the "Calculation of business-use-of-home expenses" chart on page 4 of Form T2042. See page 23 for more information.

- a member of a partnership and you did not receive a T5013 Supplementary form, you should complete all the areas and lines on Form T2042. Report the income and the business portion of expenses for the partnership on Form T2042.

Complete the chart "Other amounts deductible from your share of the net partnership income (loss)" to claim any expenses for which the partnership did not reimburse you or any other amounts you may be able to deduct. See page 23 for more information. If it applies to you, complete the "Calculation of business-use-of-home expenses" chart on page 4 of Form T2042. See page 23 for more information.

Complete the "Details of other partners" chart, on page 4 of Form T2042.

To see if your partnership has to file a partnership information return, read the section called "Partnership information return" on page 6.

We explain in the following text how to complete each of the lines on Form T2042.

Identification

The "Identification" area on Form T2042 is self-explanatory. However, you will need details on the industry code and tax shelter identification number.

Enter the industry code which best describes your farming activity. If more than 50% of your farming business involved one specific activity, choose the code that identifies that main activity. However, if your farming operation involved more than one type of farming activity,

and none of these makes up more than 50% of your farming business, choose the appropriate code from the combination farms list. The following are lists of these codes for farming operations:

Livestock farm

- 0112 Cattle
- 0111 Dairy
- 0116 Feedlot operation
- 0113 Hog farm
- 0114 Poultry and eggs
- 0115 Sheep and goats

Other animal specialties farm

- 0123 Fur and skin ranch
- 0121 Honey and other apiary products
- 0122 Horses and other equine animals
- 0129 Other animal specialties

Field-crop farm

- 0136 Dry field peas or beans
- 0135 Forage crops, seed, or hay
- 0134 Grain corn
- 0133 Oilseeds (except corn)
- 0138 Potatoes
- 0132 Small grains (except wheat)
- 0137 Tobacco
- 0131 Wheat
- 0139 Other field crops

Fruit and other vegetable farm

- 0151 Fruit
- 0152 Other vegetables

Other specialty farm

- 0162 Greenhouse products
- 0161 Mushrooms
- 0163 Nursery products
- 0169 Other horticultural specialties

Combination farm

- 0141 Field-crop combinations
- 0159 Fruit and vegetable combinations
- 0119 Livestock combinations
- 0171 Livestock, field-crop, and horticultural combinations

Tax shelter identification number

If you have a tax shelter, enter its number on the appropriate line. A tax shelter is any property (including a

right to income, according to proposed changes) that you expect will result, based on statements or representations made, in losses or other deductible amounts in the first four years after you acquire it. These losses or amounts would be equal to or more than the cost of your interest in the property (minus prescribed benefits). The cost of your interest in the property has to be reduced by prescribed benefits you or a person with whom you do not deal at arm's length will receive or enjoy. Prescribed benefits include tax credits, revenue guarantees, contingent liabilities, limited-recourse debt, and rights of exchange or conversion. We define a non-arm's-length transaction on page 25.

Tax shelters do not include flow-through shares or prescribed property. Prescribed property means property that is a registered pension plan, a registered retirement savings plan, a deferred profit-sharing plan, a registered retirement income fund, or a registered education savings plan. If you want more details, see Information Circular 89-4, *Tax Shelter Reporting*.

If you invested in a tax shelter after August 31, 1989, and before 1991, you have to provide your tax shelter identification number to make a claim on your 1996 return. If you acquired a tax shelter after 1990 and are claiming a deduction for 1996, you have to file Form T5004, *Statement of Tax Shelter Loss or Deduction*, with your tax return. The identification number is for administrative purposes only, and does not confirm that an investor is entitled to claim any tax benefits associated with a tax shelter. Regardless of when you acquired a particular tax shelter, if this is the first year you are making a claim for it, include a copy of a T5003 Supplementary, *Statement of Tax Shelter Information*, with your income tax return.

Farming income

Line 8100 – Total grains and oilseeds

Enter the income from the sale of all your grains and oilseeds.

If you sold grain directly or through an agency, include in income all the amounts you received from these sales. For example, include any Wheat Board payments from the sale of wheat, oats, barley, rye, flaxseed, or canola.

When you delivered grain to a licensed public elevator or process elevator, you received a storage ticket, a cash purchase ticket, or a deferred cash purchase ticket.

If you received a **storage ticket**, a sale **did not** take place. Therefore, you do not have to include that amount in income.

However, if you received a **cash purchase ticket**, a sale **did** take place. Since we consider that you received a payment at the time you received the ticket, you have to include the amount in income.

If you received a **deferred cash purchase ticket**, you may be able to defer the income until a subsequent taxation year. You can do this if the ticket provides for payment after the end of the year in which you delivered the grain. This carry-over of income is only allowable in specific situations. For more details, see Interpretation Bulletin IT-184, *Deferred Cash Purchase Tickets Issued for Grain*.

Under the *Advance Payments for Crops Act*, and the *Prairie Grain Advance Payments Act*, you may be able to get advances for crops that someone stores in your name. We consider these advances to be loans. Do not include these payments in your income until the crops are sold. However, for the taxation year in which the sale occurs, include the full amount from the sale of your crops in your income.

Lines 8101 to 8104 (inclusive) – Other produce

On the applicable line, enter the total income from the sale of the identified produce. Whether you sold produce directly or through an agency, include in income all the amounts you received from these sales.

Do not include amounts received from the sale of greenhouse vegetables. See line 8106 for details on these vegetables.

Line 8105 – Other crops

Enter the total income from the sale of sugar beets, hops, or any other crops you have not specifically identified on another line.

Line 8106 – Greenhouse and nursery products

Enter the total income from the sale of such things as ornamental plants, shrubs, trees, cut and field-grown flowers, rooted cuttings, seeds and bulbs, sod and turf, and greenhouse vegetables.

Line 8107 – Forage crops

Enter the total income from the sale of hay, alfalfa, clover and clover seed, alsike, timothy, fescue, grass seed, or any other forage crops or seeds.

Lines 8108 to 8111 (inclusive) – Livestock sold

On the applicable line, enter the total income from the sale of the identified livestock. In some cases you can defer including some amounts in income, as explained below. These deferrals do not apply if you were a non-resident and were not carrying on a farming business in Canada at the end of the taxation year. They also do not apply in the year of the farmer's death.

Line 8112 – Other animal specialties

Enter on this line the total income from the sale of any other livestock not specifically identified on another line (for example, the sale of horses, ponies, or dogs). You also include amounts from the sale of fur-bearing animals you raised in captivity, such as fox, chinchilla, mink, or rabbit, as well as income from an apiary operation.

Prescribed drought region (PDR)

In some cases, you may be able to defer the applicable income received from the sale of breeding animals in your 1996 fiscal period to a subsequent fiscal period. To be able to do this, you have to meet these two conditions:

- Your farming business has to have been located in a PDR at any time during your 1996 fiscal period.
- You have to have reduced, by sale or other means, the number of breeding animals in your breeding herd by at least 15%.

A PDR is a region the Minister of Agriculture and Agri-Food identifies as suffering from drought conditions. For a list of PDRs, contact your local Department of Agriculture and Agri-Food office, or your tax services office or tax centre.

Breeding animals include cattle, bison, goats, sheep, deer, elk, and similar animals you keep for breeding. Breeding animals also include horses you breed to produce pregnant mare's urine that you sell. All your breeding animals must be older than 12 months.

To determine the size of your breeding herd for your 1996 fiscal period, complete Part I and II in the chart below.

Breeding herd chart	
Part I	
How many breeding animals did you have?	_____ A
How many breeding animals gave birth?	_____ B
How many breeding animals have never given birth?	_____ C
Enter one-half of the amount from line B	_____ D
Enter either the amount from line C or line D, whichever is less	_____ E
Part II	
Enter the amount from line A	_____ F
Enter the amount from line C	_____ G
Enter the amount from line E	_____ H
G minus H	_____ I
F minus I	_____ J
Line J is the number of breeding animals in your breeding herd for your 1996 fiscal period.	

If the figure from line J does not exceed 85% of the number of breeding animals in your breeding herd at the beginning of your 1996 fiscal period, you may defer part of the income received in 1996 from the sale of breeding animals.

Before you determine how much you can defer, you need to calculate a few amounts. First, determine your sales of breeding animals for your 1996 fiscal period minus any reserves you claimed for these sales.

A reserve is created when you sell property and do not receive the full proceeds at the time of the sale. Instead, the amount of proceeds is spread over a number of years, which allows you to defer reporting these proceeds to the year in which you receive them. For more details on reserves, see Interpretation Bulletin IT-154, *Special Reserves*, and IT-236, *Reserves – Disposition of Capital Property*.

After you have determined your sales, subtract from this amount the cost of breeding animals you bought in your 1996 fiscal period. The result is your net amount.

You then determine how much you can defer as follows:

- if you have reduced your breeding herd by at least 15% but less than 30%, you can defer up to 30% of the net amount; or
- if you have reduced your breeding herd by 30% or more, you can defer up to 90% of the net amount.

Note that you do not have to defer all of this income. You can include any part of it in your 1996 income.

If your farming business was not in a PDR at any time during your 1996 fiscal period, you cannot defer the amount you received when you sold breeding animals. You must also include in your 1996 income any unreported amounts you deferred in earlier years.

However, as long as your farming business was in a PDR at any time in your 1996 fiscal period, you do not have to include income you deferred in earlier years.

Lines 8113 and 8114 – Eggs, milk, and cream

On the applicable line, enter the total income from selling eggs, milk, and cream. Do not include any amount you may have received as dairy subsidies. See line 8119 for details on dairy subsidies.

Line 8115 – Other commodities

On this line, enter the total income from selling any other commodity not specifically identified on another line. Other commodities include the sale of semen, stud services, embryo transplants, artificial insemination, and pregnant mares' urine. You also include amounts from the sale of maple products, mushrooms, and ginseng.

Line 8116 – Custom or contract work, and machine rentals

Enter the total of your incidental farm income from such things as custom or contract work, hauling, custom trucking, harvesting, combining, crop dusting or spraying, seeding, drying, packing, cleaning, and treating seeds.

Line 8117 – Insurance proceeds

Enter the total amount of any insurance proceeds you received as compensation for loss or damage to certain types of property in the 1996 fiscal period. For example, you may have insurance proceeds for damage to a building due to fire, or for the loss of livestock to disease.

Enter the total of insurance proceeds on line 8117 if they are reimbursing you for:

- the cost of non-depreciable property which you previously deducted as a current expense, or
- the cost of property which was a saleable item, such as livestock.

If the insurance proceeds compensated you for damages to depreciable property, and you used all of them to repair the property within a reasonable period of time, then you include the proceeds as income on line 8117 and claim a deduction for the same amount in the "Expenses" area of Form T2042. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, then

you include the unexpended excess as proceeds of disposition. See the section called "Column 4 – Proceeds of dispositions in the year" on page 26 for more details.

Insurance proceeds which compensate you for replacement of lost or destroyed depreciable property are deemed to be proceeds of disposition for that depreciable property. Do not include this type of insurance proceeds on line 8117. See Chapter 3 for details. You can also refer to Chapter 6 for information about how insurance affects the adjusted cost base of capital property.

Do not include insurance proceeds from federal, provincial, or municipal government programs. See line 8120 or 8122 for details on government insurance programs.

Line 8121 – Patronage dividends

Include on this line all patronage dividends (other than those for consumer goods or services) you received during your 1996 fiscal period. We consider a patronage dividend that is a share or a certificate of indebtedness to be income at the time you received it.

Program payments

You should receive an AGR-1 Supplementary form, *Statement of Farm-Support Payments*, which will make it easier for you to identify and report your 1996 taxable farm-support payments. According to the *Income Tax Regulations*, you have to provide your social insurance number, when requested, to organizations that issue farm-support payments.

You should receive a statement for all farm-support programs from which you received payments of more than \$100. These include farm-support programs administered by the federal, provincial, and municipal governments, and by producer associations.

You have to include in income all taxable farm-support payments you received in your 1996 fiscal period, including amounts of less than \$100.

If your farm is operated as a partnership, only one partner should attach the AGR-1 slip to his or her income tax return. However, if your partnership has to file a partnership information return, you should file the statement with that return.

If the annual period of the statement is not the same as the fiscal period of your farming operation, report only the portion of the farm-support payments that you earned during your normal fiscal period. For example, if your farming business has a fiscal period ending June 30, 1996, and your AGR-1 slip shows income of \$10,000 in box 14, but you earned only \$6,000 of that income by June 30, 1996, you will include only \$6,000 in your income for your 1996 fiscal period. You will include the remaining \$4,000 in your following fiscal period. You should, however, include the AGR-1 issued for the 1996 calendar year, with your 1996 income tax return.

If you received an AGR-1 slip with a positive amount in box 18, report it as income on line 130 of your income tax return. The figure in box 18 represents taxable amounts paid out of the Net Income Stabilization Account (NISA). If you received an AGR-1 slip with a negative amount

showing in box 18, do not enter this amount on line 130 of your income tax return. Since a negative figure is not considered income, enter the amount on line 232, "Other deductions." Ensure that you attach the AGR-1 slip to support this deduction.

The back of the AGR-1 slip contains information about which line of your income tax return you use to report amounts that appear in the various boxes. If you need more assistance, contact your tax services office or tax centre.

Western Grain Transition Payments

You may have received a taxable payment under the *Western Grain Transition Act* in 1996. Transition payments were made in order to help offset possible decreases in land values resulting from the elimination of subsidized freight rates. The amount of the transition payment appears in box 14 of the AGR-1 slip. There will also be a footnote on the slip identifying the amount as a transition payment.

You will report the income from transition payments in one of several ways, depending on whether you own or rent your farm, and on whether it is a capital property.

Farm owners – If your farmland is **capital property**, reduce the adjusted cost base of your property by the amount of the payment you received. This adjustment will be important when you dispose of the property. For details, see Chapter 6.

You may have received a transition payment after selling farmland that was capital property. Under proposed changes, we consider such a payment to have been received immediately before the sale. It should be deducted from the adjusted cost base of the property.

If your farmland is **not capital property**, for instance if you hold it in inventory for future sale, you have two choices:

- when calculating your income from business or property on the sale of the farmland, you can subtract the payment from the cost of the property; or
- you can reduce the amounts of outlays and expenses in the cost of selling the property by the amount of your transition payment.

If you rented out a portion of your farmland, you may have allocated part of your transition payment to your tenant. If so, then you would adjust the cost base of your capital property by the amount of the payment you kept. Do not include the amount you gave your tenant.

If you allocated all of your transition payment to your tenant, do not adjust the cost base of your capital property.

Tenant farmers – You may have rented farmland from a land owner who passed part or all of the transition payment on to you, or who reduced your rent because of the payment. If you received the payment, it is income, and you report it as "Other income" on line 8118 of Form T2042. If your rent was reduced, you can claim only the actual amount of rent you paid as an expense on line 8222. You can only claim the full amount of rent you would have paid for the year without the reduction if you include the reduction as income on line 8118.

Tenant farmers will not receive an AGR-1 slip. It will be issued to the land owner who is the actual recipient of the transition payment.

Line 8119 – Dairy subsidies

Include in your income the dairy or milk subsidies you received in your 1996 fiscal period.

Line 8120 – Crop insurance

Include in your income any insurance proceeds you received in your 1996 fiscal period from federal, provincial, or joint federal/provincial programs, for loss of crops.

Line 8122 – Other payments

Include the total income you received in your 1996 fiscal period from all other stabilization and farm subsidy programs made to farm producers under federal, provincial, municipal, or joint programs.

Destroying livestock

You have to include in income any payments you received under the *Animal Contagious Diseases Act* for destroying animals. You can choose to deduct all or part of the payment as an expense in the year. However, if you choose to do this, you must include in your income for your next fiscal period the amount you deduct in your 1996 fiscal period. If you deferred payments in your 1995 fiscal period, you will have to include the deferred amounts as income in this fiscal period.

Line 8134 – Rebates

Include the total amount of the rebate, grant, or assistance you received on this line. You may be able to reduce an applicable expense by the amount of the rebate, grant, or assistance you received. Refer to page 12 under "Rebates" for more details.

Line 8118 – Other income

On this line, enter the total of any other farming income that you have not specifically identified on another line. The following paragraphs identify some of these income items.

Wood sales (including stumpage)

If you operated or regularly harvested a woodlot, include in your income the amounts from the sale of trees, lumber, logs, poles, or firewood.

From this income, you can deduct a type of capital cost allowance known as a depletion allowance. For details, see Interpretation Bulletin IT-481, *Timber Resource Property and Timber Limits*.

If you earned the income by letting other people remove standing timber from your woodlot, we consider this income to be a capital receipt. A taxable capital gain or an allowable capital loss may result. For more details on capital gains and losses, see Chapter 6 and the income tax guide called *Capital Gains*.

For more details on the sale of wood, see Interpretation Bulletin IT-373, *Farm Woodlots and Tree Farms*, and its Special Release.

Gifts

In your income, include the fair market value of livestock or other items you gave away that you would normally have sold. See page 25 for the definition of fair market value.

Note that, once you give the livestock or other items away, you cannot deduct any more costs for raising or maintaining them.

Payment in kind

A payment in kind occurs when you receive or give goods or services instead of money. For instance, to pay someone for a business expense, you may give them a side of beef instead of money. When you do this, include the value of the payment in income. Deduct the value of the payment as an expense.

If you received a payment in kind for a product you would normally have sold, include the fair market value of the product in income.

If you were a landlord renting out land involved in sharecropping, we consider any payment in kind you received as rental income.

Surface rental for petroleum or natural gas exploration

If you received payments for leasing your farmland for petroleum or natural gas exploration, these payments will be either income or a capital receipt.

In your income, include the yearly amounts for rental, severance, or inconvenience from a surface rental agreement.

The first payment from these agreements is often larger than the rest of the annual payments. However, the agreement may not specify how much of the first payment is for rental, severance, or inconvenience. When this happens, in the year you received the first payment, include in income an amount that is equal to the annual payment you will receive in the following years. The rest of the first payment is a payment for property. This may result in either a capital gain or loss. See Chapter 6 for details about capital gains.

Rental income

Except for the surface rental previously explained, you do not usually include rental income in your farm income. To determine your rental income, use Form T776, *Statement of Real Estate Rentals*. You will find this form in the income tax guide called *Rental Income*. You can get the guide or copies of the form from your tax services office or tax centre. Enter the amount of your net rental income on line 126 of your income tax return.

If you were a landlord renting out land involved in sharecropping, we consider the payments you received, whether in kind or cash, as rental income.

Recapture of capital cost allowance (CCA)

In your income, include the amount of any recapture of CCA you have from selling depreciable property such as tools and equipment.

Complete the applicable areas on Form T2042 to find out if you have any recapture. See Chapter 3 for details.

Miscellaneous

In your income, include amounts you receive from the sale of soil, sand, gravel, or stone. For some of these items, you can claim a depletion allowance. For more details, contact your tax services office or tax centre.

You can deduct the cost of property such as small tools as an expense if they cost less than \$200. If you did this and you later sold that property, you have to include in income the amount you received from the sale.

In your income, include prizes you won from fairs or exhibitions. For more details, see Interpretation Bulletin IT-213, *Prizes from Lottery Schemes, Pool System Betting and Giveaway Contests*.

Line 8124 – Gross income

Gross farming income is your total farming income before you deduct expenses. Enter your gross farming income on line 168 of your income tax return.

Farming expenses

The phrase “enter business portion only” on Form T2042 means that you cannot include any of the following as part of your expenses:

- salary, wages, or drawings paid to yourself, partner(s), or both;
- cost of saleable goods or services, you, your family, or your partners and their families used (saleable goods include items such as dairy products, eggs, fruit, vegetables, poultry, and meat);
- donations to charities and political contributions;
- interest and penalties you paid on your income tax;
- most life insurance premiums (see line 8213 for details on a limited exception);
- most fines and penalties (for more information on fines and penalties, see Interpretation Bulletin IT-104, *Deductibility of Fines or Penalties*); and
- the portion of any expenses that you can attribute to your personal use of farming business, or partnership property or services.

Rebates

You should subtract from the applicable expense any rebate, grant, or assistance you have received, and enter the net figure on the appropriate line on Form T2042.

If the rebate, grant, or assistance is for a depreciable asset, subtract the amount of the rebate from the property's capital cost. See Chapter 3 for details. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim. See Chapter 7 for details.

If you cannot apply the rebate, grant, or assistance you received to reduce a particular expense or a property's capital cost, include the total amount as income on line 8134.

You may also have received a GST rebate if you were a member of a GST-registered partnership. At Revenue Canada, we pay this rebate on the GST expenses you incur

to earn partnership income for which the partnership did not repay you. We base the rebate on the amount of expenses to which GST applies that you deducted on your income tax return. Expenses include vehicle costs, meals, entertainment, and certain business-use-of-home expenses. You may also have received a GST rebate for capital cost allowance you claimed on a vehicle you bought for your farming business.

If you think you may be eligible for this GST rebate, complete Form GST-370, *Employee and Partner Goods and Services Tax Rebate*, and attach it to your income tax return. You can get this form from your tax services office or tax centre.

When you claim the GST you paid on your farming business expenses as an input tax credit, reduce the amounts of the business expenses you show on Form T2042 by the amount of the input tax credit. Do this when the GST for which you are claiming the input tax credit was paid or became payable. Similarly, when you receive any GST rebate, subtract it from the applicable expense. Enter the net expense figure on the proper line on Form T2042.

Prepaid expenses

A prepaid expense is the cost of a service you paid for ahead of time. This could include insurance, property taxes, and rent you paid in one year, if you did not receive the benefits until the next year.

If you use the accrual method to determine your farm income, you can deduct the part of the prepaid expenses that applies to the year you receive the benefit.

Under proposed changes, farmers who use the cash method for reporting income cannot deduct a prepaid expense amount (other than for inventory) relating to a taxation year that is two or more years after the year the expense is paid. However, you can deduct the portion of an amount you paid in a previous year for benefits received in the current taxation year. These amounts are deductible as long as you have not previously deducted them.

For example, if you paid \$600 for a three-year fire insurance policy in 1996, you can deduct \$400 in 1996. This represents the part of the expense which applies to 1996 and 1997. On your 1998 tax return, you could then deduct the balance of \$200 for the portion of the prepaid insurance which applies to 1998.

These amendments apply to amounts paid after April 26, 1995, unless the amounts were paid according to a written agreement entered into by the payer on or before this date.

Line 8206 – Building and fence repairs

Deduct the amounts for repairs to fences, and to all buildings you used for farming, except your farmhouse. Do not include the value of your own labour. If the repairs improved a fence or building beyond its original condition, these costs are capital expenditures. This means you have to add the cost of the repairs to the cost of the fence or building on your capital cost allowance (CCA) charts on Form T2042. We explain the CCA chart in Chapter 3.

For more details on capital expenditures, see Interpretation Bulletin IT-128, *Capital Cost Allowance – Depreciable Property*.

If you used your farmhouse for business reasons, see “Line 8235 – Business-use-of-home expenses” on page 23.

Note

You may have received insurance proceeds to pay for the cost of repairs. If the insurance proceeds compensated you for damages to depreciable property such as buildings or fences, and you used all of them to repair the property within a reasonable period of time, you can claim a deduction for the amount spent on repairs at line 8206. Claim repairs to depreciable property which is machinery on line 8232 and repairs to motor vehicles on line 8218. You will, however, also have to include the insurance proceeds as income on line 8117. If you did not spend all of the insurance proceeds on repairs within a reasonable length of time, then you include the unexpended excess as proceeds of disposition in Column 4 of “Area E - Calculation of Capital Cost Allowance (CCA)” on Form T2042. See the section called “Column 4 – Proceeds of dispositions in the year” on page 26 for more details.

Line 8208 – Clearing, levelling, and draining land

Enter the total amount for the expenses listed below. In most cases, you can deduct the costs for:

- clearing the land of brush, trees, roots, stones, and so on;
- first ploughing the land for farm use;
- building an unpaved road; and
- installing land drainage.

You do not have to deduct all the costs in the year you paid them. If you paid all the costs, you can deduct any part of them in the year you paid them. You can carry forward any part of the costs you did not deduct to another year.

However, if you rented land to someone else, you cannot deduct the above costs. Instead, you can either:

- add these costs to the cost of the land; or
- if you plan on building on the land right away, you can add these costs to the cost of the building.

Note that, in this case, you add costs for land drainage to class 8 on your capital cost allowance charts on Form T2042. See Chapter 3 for details.

For more details, see Interpretation Bulletin IT-485, *Cost of Clearing or Levelling Land*.

Improving land

You cannot deduct the cost of a paved road. Instead, you have to add this cost to class 17 on your capital cost allowance (CCA) charts on Form T2042. See Chapter 3 for details.

You can deduct most of the cost to drill or dig water wells in the year you did the work. However, you have to add some of the costs to class 8 on your CCA charts. The costs you add to class 8 are those you incurred to purchase and install:

- the casing and cribwork for the well; and
- the system that distributes water, including the pump, pipes, and trenches.

You can deduct amounts you paid to have public utilities brought to your farm, as long as the installations remain the property of the utility.

You can deduct amounts you paid under *The Co-operative Associations Act* to build a distribution system under a gas service contract.

Line 8209 – Containers, twine, and baling wire

Enter the total amount you incurred for material to package, contain, or ship your farm produce or products.

If you operated a nursery or greenhouse, deduct the cost of your containers and pots for the plants you sold.

Line 8210 – Crop insurance, GRIP, and stabilization premiums

Enter the total amount of deductible premiums to the Crop Insurance Program, Gross Revenue Insurance Program (GRIP), or the National Tripartite Stabilization Program. Do not include any premiums for private, business-related, or motor-vehicle insurance. See lines 8232, 8213, and 8218 in this chapter for details on other types of insurance.

Machinery expenses

The total expenses of operating and maintaining your machinery are split into the two following lines:

Line 8212 – Gasoline, diesel fuel, and oil

Enter the total amount of fuel and lubricant expenses you incurred for your machinery.

Line 8232 – Repairs, licences, and insurance

Enter the total amount of repair, licence fee, and insurance premium expenses you incurred for your machinery. If you received insurance proceeds to help pay for repairs, see “Line 8117 – Insurance proceeds” on page 10 for more information.

Line 8213 – Other insurance

Enter the total amount of business-related insurance premiums you incurred to insure your farm buildings, farm equipment (excluding machinery and motor vehicles), livestock, and business interruption. Also include your premiums for any private crop insurance, such as hail insurance. Do not include any premiums for a farm support program. See line 8210 in this chapter for details.

In most cases, you cannot deduct your life insurance premiums. However, if you use your life insurance policy as collateral for a loan related to your farming business, you may be able to deduct a limited portion of the premiums you paid. For more details, see Interpretation Bulletin IT-309, *Premiums on Life Insurance Used as Collateral*.

In most cases, you cannot deduct the amounts you paid to insure personal property such as your home or car. However, if you used the personal property for your

farming business, you can deduct the business part of these costs. For more details, see “Line 8235 – Business-use-of-home expenses” on page 23 and “Line 8218 – Motor vehicle expenses” on this page.

Line 8214 – Interest

Enter the total amount of interest you paid on money you borrowed to earn farm income, such as interest on a loan you used to buy a baler. However, do not include the interest on money you borrowed to buy a passenger vehicle used in your farming business. Include this amount on “Line 8218 – Motor vehicle expenses,” as explained in the following section.

You might incur interest expenses for a property that you used for farming business purposes, but which you have stopped using for such purposes because you are no longer in business. Generally, these expenses are no longer deductible as business expenses. However, you may be able to deduct some of these expenses for property for which the use changed after 1993. For more information, contact your tax services office or tax centre.

You can deduct interest you paid on any real estate mortgage you incurred to earn farm income, but do not deduct the principal part of loan or mortgage payments. Do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes.

Line 8218 – Motor vehicle expenses

Enter the total amount of motor vehicle expenses, excluding the capital cost allowance (CCA). See line 8207 in this chapter for details on CCA.

The kind of vehicle you own can affect the expenses you can deduct. For income tax purposes, there are three types of vehicles you should know about. They are:

- motor vehicles;
- automobiles; and
- passenger vehicles.

If you owned or leased a passenger vehicle, there may be a limit on the amounts you can deduct for CCA, interest, and leasing costs. We cover the CCA limits in Chapter 3. You will find the limits on interest and leasing costs later in this section.

A **motor vehicle** is an automotive vehicle for use on streets or highways.

An **automobile** is a motor vehicle that is designed or adapted mainly to carry passengers on streets and highways, and seats no more than the driver and eight passengers. However, an automobile does not include:

- an ambulance;
- a motor vehicle you acquired that, for more than 50% of the distance travelled, was used as a taxi, a bus used in the business of transporting passengers, or a hearse in a funeral business;
- a motor vehicle you acquired to sell, rent, or lease in a motor vehicle sales, rental, or leasing business;

- a motor vehicle (except a hearse) you acquired to use in a funeral business to transport passengers;
- a van, pick-up truck, or similar vehicle that seats no more than the driver and two passengers that, in the tax year you acquired it, for more than 50% of the distance travelled, was used to transport goods or equipment to earn income;
- a van, pick-up truck, or similar vehicle that, in the tax year you acquired it, for 90% or more of the distance travelled, was used to transport goods, equipment, or passengers to earn income.

A **passenger vehicle** is generally any automobile you bought after June 17, 1987, or that you leased under an agreement you entered, extended, or renewed after June 17, 1987.

An automobile you bought or leased under the terms of a written agreement you entered before June 18, 1987, is not a passenger vehicle.

Business use of a motor vehicle

If you used your motor vehicle for personal and business reasons, you can deduct the part of your expenses that was for farming business use. Farming business use includes such things as trips to pick up parts and farm supplies, or to deliver grain. If you did not live on your farm, the travel between the farm and your home was not business travel.

Keep a record of the total kilometres you drive and the kilometres you drive for farming business use. Also, keep track of what it costs you to run and maintain the motor vehicle for your fiscal period.

Example

Murray's farming business has a December 31 year end. He owns a truck that is not a passenger vehicle. He uses the truck to pick up supplies and equipment. Murray wrote down the following for his 1996 fiscal period:

Farming business kilometres	27,000 km
Total kilometres	30,000 km
Gasoline and oil	\$ 3,500
Repairs and maintenance	500
Insurance	1,000
Interest (on loan to buy truck)	1,900
License and registration fees	100
Total expenses for the truck	<u>\$ 7,000</u>

This is how Murray determines the motor vehicle expenses he can deduct in his 1996 fiscal period:

$$\frac{27,000 \text{ (farming business kilometres)}}{30,000 \text{ (total kilometres)}} \times \$7,000 = \$6,300$$

Murray can deduct \$6,300, on line 8218 of Form T2042 as motor vehicle expenses in his 1996 fiscal period.

If you received insurance proceeds to help pay for repairs, see "Line 8117 – Insurance proceeds" on page 10 for more information.

Interest on the money you borrow for a passenger vehicle

When you used a passenger vehicle to earn farm income, there is a limit on the amount of interest you can deduct.

Whether you use the cash or accrual method to determine your income, complete the following chart to calculate the interest you can deduct. If you used your passenger vehicle for both personal and farming business use, complete the chart before you determine how much interest you can deduct as an expense.

Interest chart	
Write down the total interest you paid (cash method) or that is payable (accrual method) in your fiscal year	\$ _____ A
\$10.00 × _____ number of days in your fiscal year for which interest was paid or payable	\$ _____ B
Your available interest expense is either A or B, whichever amount is less.	

Example

Heather's farming business has a December 31 year end. In March 1994, she bought a new passenger vehicle that she uses for both personal and business use. She borrowed money to buy the vehicle, and the interest she paid in her 1996 fiscal period was \$2,200.

Since the car Heather bought is a passenger vehicle, there is a limit on the interest she can deduct. Heather's available interest is either of these two amounts, whichever is less:

- \$2,200 (the total interest she paid in her 1996 fiscal period); and
- \$3,650 (\$10 × 365 days).

Heather wrote down the following for her 1996 fiscal period:

Farming business kilometres	20,000 km
Total kilometres	25,000 km
Gasoline and oil	\$ 2,000
Repairs and maintenance	1,000
Insurance	1,900
Interest (on loan to buy vehicle)	2,200
License and registration	60
Total vehicle expenses	<u>\$ 7,160</u>

Here is how Heather determines the motor vehicle expenses she can deduct in her 1996 fiscal period:

$$\frac{20,000 \text{ (farming business kilometres)}}{25,000 \text{ (total kilometres)}} \times \$7,160 = \$5,728$$

Heather can deduct \$5,728, on line 8218 on Form T2042, as motor vehicle expenses for her 1996 fiscal period.

Leasing costs for a passenger vehicle

There is a limit on the leasing costs you can deduct as an expense if you leased a passenger vehicle to use in a farming business. Complete the following workchart to determine your deductible leasing costs.

Eligible leasing costs chart for passenger vehicles

Enter the total lease charges you paid (cash method) or that were payable (accrual method) for the vehicle in your 1996 fiscal period	\$ _____	A
Enter the total lease payments you deducted for the vehicle before your 1996 fiscal period	\$ _____	B
Enter the total number of days you leased the vehicle in your 1996 and previous fiscal periods	_____	C
Enter the manufacturer's list price	\$ _____	D
Enter either the amount on line D or (\$28,235 + (GST and PST on \$28,235)), whichever is more \$ _____ × 85% =	\$ _____	E
$\frac{((\$650 + \text{GST and PST on } \$650) \times \text{line C}) - \text{line B}}{30}$	\$ _____	F
$\frac{((\$24,000 + \text{GST and PST on } \$24,000) \times \text{line A})}{\text{line E}}$	\$ _____	G
Available leasing cost: line F or line G, whichever amount is less.	\$ _____	

More than one vehicle

If you used more than one motor vehicle for your farming business, keep a separate record that shows the total kilometres and farming business kilometres you drove, and the cost to run and maintain each vehicle. Calculate each vehicle's expenses separately.

Joint ownership of a passenger vehicle

If you and someone else owned or leased the same passenger vehicle, the limits on CCA, interest, and leasing costs still apply. The amount you can deduct as joint owners cannot be more than the amount one person owning or leasing the passenger vehicle could deduct. Each of you has to claim expenses in proportion to your share of the passenger vehicle. Your share is based on the portion of the purchase price or lease costs which you paid.

For more details on motor vehicle expenses, see Interpretation Bulletin IT-521, *Motor Vehicle Expenses Claimed by Self-Employed Individuals*.

Line 8219 – Office expenses

Enter the total amount of office expenses, such as stationery, invoices, receipt and accounting books, and any other office supplies.

Line 8220 – Legal and accounting fees

In most cases, you can deduct legal fees you incurred for your farming business. Also, you can deduct any accounting or bookkeeping fees you incurred to have someone maintain your books and records, and prepare your income tax return and GST returns.

If you paid accounting and legal fees to file an appeal against your assessment for income tax, Canada Pension Plan or Quebec Pension Plan contributions, or Employment Insurance premiums, deduct these fees on line 232 of your

income tax return. You should subtract any reimbursement from the applicable fees, and enter the result on line 232.

If you received a reimbursement in 1996 for these types of fees, which you deducted in a previous year, enter the amount of the reimbursement on line 130 of your income tax return.

Do not deduct any legal or other fees you incurred to buy property, such as land, buildings, and equipment. Add these fees to the adjusted cost base of the property.

For more details, see Interpretation Bulletin IT- 99, *Legal and Accounting Fees*.

Line 8221 – Property taxes

Enter the total amount of land, municipal, and realty taxes you incurred during your 1996 fiscal period for property used in your business.

If you are repaying a loan for land drainage through your property tax payments to your township, you cannot include the amount you repaid as part of your property tax expense.

Line 8222 – Rent (land, buildings, or pasture)

Enter the total amount of rent expenses you incurred for land, buildings, and pasture you used for your farming business.

If you farmed on a sharecrop basis and paid your landlord a share of the crop, you can do **one** of the following:

- to your income, add the fair market value of the crops you gave your landlord. Deduct the same amount as an expense (see page 25 for the definition of fair market value); or
- do not include the amount in income, and do not deduct the amount as an expense.

You may have reported an amount on line 8118 "Other income," for either a cash payment or a reduction in rent you received due to your landlord's *Western Grain Transition Payment*. If you received a cash payment, you include it in income on line 8118 and deduct your gross rental expenses as you normally would on line 8222.

If you received a reduction, you include it in income on line 8118, and on line 8222 you claim the full amount that would have been paid as a rental expense, without the reduction. If you did not include the amount of the reduction as income, then your claim for rental expenses at line 8222 should be only the amount you actually paid, exclusive of the reduction.

Line 8223 – Salaries, wages, and benefits (including employer's contributions)

Enter the total amount of gross wages you paid to your employees. Include the cost of board for hired help. However, do not include the cost of board for dependants.

As the employer, you also include in this total your share of the Canada Pension Plan or Quebec Pension Plan contributions and Employment Insurance premiums. Do not deduct the amounts you withheld from your

employees' remuneration, since you already deducted them in the amount you claimed as wages.

Keep a detailed record of the amounts you paid to each employee and the employee's name, address, and social insurance number.

You can deduct the wages you paid to your child, as long as you meet **all** these conditions:

- you paid the salary in cash or in kind;
- the work your child did was necessary for you to earn farm income; and
- the salary was reasonable when you consider your child's age, and the amount you paid is what you would have paid someone else.

Keep documents to support the salary you paid to your child. If you paid your child by cheque, keep the cancelled cheque. If you paid cash, have your child sign a receipt.

You may have paid wages in kind to your child. For example, you may have given your child livestock or grain instead of cash, and deducted the wages as an expense. If you did this:

- your child includes in income the value of the livestock or grain; and
- you include the same amount in your gross sales for the year.

You can also deduct wages you paid to your spouse, as long as you follow the same rules, and your spouse is not a partner. If you were a member of a partnership that employed your spouse, the partnership can deduct your spouse's wages if it incurred the expense to earn farming income, and the wages were reasonable.

The term **spouse** applies to a legally married spouse and a common-law spouse. Please see the "Identification" area of your *General Income Tax Guide* for the definition of a common-law spouse.

Line 8257 – Small tools

If a tool costs you less than \$200, deduct its full cost. If it costs you \$200 or more, add the cost to your capital cost allowance schedule as Class 8 property. See Chapter 3 for details.

Line 8226 – Custom or contract work, and machinery rental

Enter the expenses you incurred for custom and contract work, and machinery rental. For example, you could have had a contract with someone who cleaned, sorted, graded, and sprayed the eggs your hens produced, or someone who had the facilities to age the cheese you produced. You could have also contracted someone to do your harvesting, combining, or crop dusting.

Line 8227 – Electricity

Only the part of your electricity costs that relates to your farming business is deductible. To determine the part you can deduct, keep a separate record of the amounts that apply to the farmhouse, and to other farm properties.

For example, the business part of your electricity expense will depend on how much electricity you used for the barns and shops. Since the electricity for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in the section called "Line 8235 – Business-use-of-home expenses" on page 23.

Do not include on your statement of farming activities the electricity expense for a house that you rented to someone else. This is a rental expense, which you enter on a separate statement (Form T776, *Statement of Real Estate Rentals*). You can get this form from the income tax guide called *Rental Income*, which you can obtain from your tax services office or tax centre.

Line 8228 – Feed, supplements, straw, and bedding

Enter the total amount of the expenses you incurred for feed, supplements, straw, and bedding you purchased for your farming business. You cannot deduct the value of the feed, straw, or bedding you grew.

Line 8229 – Fertilizers and lime

Enter the total expenses you incurred in your 1996 fiscal period for fertilizers and lime you used in your farming business.

Line 8230 – Heating fuel

Enter the total expenses you incurred for natural gas, coal, or oil to heat farm buildings, fuel for curing tobacco, crop drying, or greenhouses.

You can deduct only the part of these costs that relates to your farming business. To determine the part you can deduct, keep a separate record of the amounts you paid for the farmhouse and for other farm properties.

For example, the business part of your heating fuel expense will depend on how much heating fuel you used for the barns and shops. Since the heating fuel for the farmhouse is a personal expense, you cannot deduct it unless you meet the conditions we explain in the section called "Line 8235 – Business-use-of-home expenses" on page 23.

Do not include on your statement of farming activities the heating fuel expenses for a house that you rented to someone else. This is a rental expense, which you enter on a separate statement (Form T776, *Statement of Real Estate Rentals*). You can get this form from the income tax guide called *Rental Income*, which you can obtain from your tax services office or tax centre.

Line 8231 – Livestock purchased

Enter the total expenses you incurred for all livestock you purchased in your 1996 fiscal period.

Line 8233 – Pesticides (herbicides, insecticides, fungicides)

Enter the total expenses you incurred for herbicides, insecticides, and fungicides in your 1996 fiscal period.

Line 8234 – Seeds and plants

Enter the total expenses you incurred for seeds and plants you purchased in your 1996 fiscal period. Do not include the cost of seeds and plants you used in your personal vegetable or flower garden.

Line 8255 – Insurance program overpayment recapture

Enter the total amount of any insurance program overpayment recapture you incurred in your 1996 fiscal period. You should receive an AGR-1 Supplementary form, *Statement of Farm-Support Payments*, identifying the amount of the recapture in box 17.

Line 8236 – Veterinary fees, medicine, and breeding fees

Enter the total of the expenses you incurred for medicine for your animals, and for veterinary and breeding fees. Examples of such fees include the cost of artificial insemination, stud service and semen, embryo transplants, disease testing, and neutering or spaying.

Line 8238 – Optional inventory adjustment included in 1995

If you included an amount for the optional inventory adjustment (OIA) in your 1995 fiscal period, deduct the amount as an expense in your 1996 fiscal period. For further details on OIA, see the explanation for line 8239 later in this chapter.

Line 8241 – Mandatory inventory adjustment included in 1995

If you included an amount for the mandatory inventory adjustment (MIA) in your 1995 fiscal period, deduct the amount as an expense in your 1996 fiscal period. For more details on MIA, see line 8240 later in this chapter.

Other expenses

You may have other expenses that are not specifically covered on Form T2042. We explain some of these other expenses in the following paragraphs. Deduct these other expenses on these lines.

You can pay some of your expenses by having them deducted from your cash grain tickets or grain stabilization payments. These expenses include seed, feed, sprays, or fertilizers. You can deduct these expenses if you include in your income the gross amount of the grain sale or stabilization payment.

Payment in kind

If you made a payment in kind for a farming business expense, include the value of the payment in income. Deduct the value of the payment as an expense. For more details, see the definition on page 12.

Leasing Costs

Enter the expenses you incurred in your 1996 fiscal period for leasing property used to earn your farming income. If

you lease a passenger vehicle, see “Line 8218 – Motor vehicle expenses” on page 14.

If you entered a lease agreement after April 26, 1989, you can choose to treat your lease payments as combined payments of principal and interest. However, you and the person from whom you are leasing have to agree to treat the payments this way. In this case, we consider that:

- you have bought the property rather than leased it; and
- you have borrowed an amount equal to the fair market value of the leased property. We define fair market value on page 25.

You can deduct the interest part of the payment as an expense. You can also claim capital cost allowance (CCA) on the property. See Chapter 3 for details on CCA.

You can make this choice as long as the property qualifies and the total fair market value (FMV) of all the property which is subject to the lease is more than \$25,000. For example, a combine that you lease with a FMV of \$35,000 qualifies. However, office furniture and automobiles often do not.

To treat your lease this way, complete **one** of the following forms and file it with your income tax return for the year you make the lease agreement:

- Form T2145, *Election in Respect of the Leasing of Property*; or
- Form T2146, *Election in Respect of Assigned Leases or Subleased Property*.

If you and the person you are leasing from have agreed to this kind of lease arrangement, and you need these forms, or if you want more details, contact your tax services office or tax centre.

Advertising

Deduct the cost of any advertising done for your farming business.

Telephone expenses

Do not deduct the basic monthly rate of your home telephone. However, you can deduct any farming business long-distance telephone calls you made on your home telephone.

If you have a separate telephone to use in your business and you use it for business calls only, you can deduct its basic monthly rate.

Memberships and subscriptions

Enter the total amount of fees you incurred for memberships in farming organizations and for subscriptions to farming publications used in your farming activities.

Freight and Trucking

Deduct the expenses you incurred for delivery, shipping, trucking, or other distribution costs related to your farming business.

Line 8207 – Capital cost allowance

Enter the total amount of capital cost allowance (CCA) you calculate on all the eligible assets used in your farming operation. To calculate your CCA claim, use the charts found on pages 2 and 3 of Form T2042, *Statement of Farming Activities*. See Chapter 3 for details on how to complete these charts.

Do not include your annual allowance on eligible capital property in your CCA total. See Chapter 4 for details.

Line 8246 – Allowance on eligible capital property

We explain how to determine this allowance in Chapter 4.

Line 8237 – Net income (loss) before adjustments

Enter on this line the gross income minus the deductible expenses. If you are a member of a partnership, this amount is the net farming business income of all partners. If you have a loss, enter the amount in brackets.

Line 8239 – Optional inventory adjustment included in 1996

If you want to include an inventory amount in income, read this section. By using the optional inventory adjustment (OIA), you can include in your income an amount up to the fair market value of your inventory minus the mandatory inventory adjustment (MIA). The OIA applies to you only if you use the cash method. See line 8240 below for definitions of inventory and fair market value.

Unlike with the MIA, the inventory **does not** have to be purchased inventory. It is all the inventory you still have at the end of your 1996 fiscal period.

Enter the amount of your OIA on line 8239. You can deduct this amount as an expense in your next fiscal period.

Line 8240 – Mandatory inventory adjustment included in 1996

Read this section, even if you do not have to make the mandatory income adjustment (MIA). This section will show you how to determine the value of the farm inventory you bought and still have at the end of your 1996 fiscal period. You will need to know this value if you have to make the MIA this year or in the future.

You have to make the MIA if all of the following apply to you:

- you use the cash method to report your income;
- you have a net loss on line 8237 of Form T2042; and
- you bought inventory and still have it at the end of your 1996 fiscal period. This does not refer only to inventory which you purchased in 1996. It includes inventory which you had previously purchased and still owned at the end of the 1996 fiscal period.

Your MIA is one of these two amounts, whichever is less:

- the net loss before adjustments on line 8237; or

- the value of the purchased inventory you still have at the end of your 1996 fiscal period.

In order to calculate your MIA, complete Charts 1, 2, 3, and 4 on pages 49 and 50. For additional information, see Interpretation Bulletin IT-526, *Farming – Cash Method Inventory Adjustments*.

Once you have completed Chart 4, enter the amount of your MIA on line 8240.

In your next fiscal period, you will deduct from your farm income the MIA you add to your net loss in your 1996 fiscal period.

Note

If you bought a specified animal in a non-arm's-length transaction, we consider that you bought the animal in the same year, and at the same price that the seller bought it. A non-arm's-length transaction is, for example, a transaction between members of a family, such as a husband and wife, or a parent and child.

Definitions

To value your inventory, you need to know the meaning of the following terms.

Inventory is a group of items a business holds that it intends to either consume or sell to its customers.

Farm inventory includes such things as livestock, fertilizer, chemicals, feed, seed, and fuel. Seeds that you have already planted, and fertilizer or chemicals that you have already applied, are not part of your inventory.

Purchased inventory is inventory you have bought and paid for.

Specified animals are horses. You may also choose to treat cattle you registered under the *Animal Pedigree Act* as specified animals. To make this choice, put a note on your return saying you want to treat the animal this way. If you treat an animal on a tax return as a specified animal, we will continue to treat it this way until you sell it.

Cash cost is the amount you paid to purchase your inventory.

Fair market value (FMV) is generally the highest dollar value you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller, who are dealing at arm's length with each other. We define non-arm's-length transaction on page 25.

Valuing your purchased inventory

To value your purchased inventory, read the text that follows and the example of how to complete the MIA charts. On pages 49 and 50 of this guide, there are blank charts for you to use. Keep these charts as part of your records. Except for specified animals, you have to value any purchased inventory you bought before or during your 1996 fiscal period, at one of the two following amounts, whichever is less:

- the cash cost; or
- the fair market value.

To determine which amount is less, separately compare each item or group of items in the inventory.

Value at one of the following amounts, the specified animals you bought in your 1996 fiscal period and still have at the end of this period:

- the cash cost;
- 70% of the cash cost; or
- any amount between these two amounts.

Value at one of the following amounts, the specified animals you bought before your 1996 fiscal period and still have at the end of this period:

- the cash cost;
- 70% of:
 - the total value of the specified animals as determined at the end of your 1995 fiscal period; plus
 - any amounts you paid in your 1996 fiscal period toward the purchase price; or
- any amount between these two amounts.

Example

Doug started his farming business in 1988, uses the cash method to report his income, and has a December 31 year end. Doug shows a net loss of \$55,000 on line 8237. Doug has purchased inventory at the end of his 1996 fiscal period. This means he has to decrease his net loss by the MIA. Doug made a chart for the cash cost of his purchased inventory at the end of his 1996 fiscal period.

Livestock		
Year of purchase	Cost of purchase	Amount Doug paid by the end of his 1996 fiscal period
1996	\$30,000	\$25,000
1995	\$26,000	\$26,000*
1994	\$22,000	\$22,000
1993	\$20,000	\$20,000

*For livestock bought in his 1995 fiscal period, Doug paid \$19,000 in 1995 and \$7,000 in 1996.

Doug's other inventory is fertilizer, seed, and fuel. The cash cost and fair market value for this inventory is the same amount. Its value is as follows:

- Bought in his 1996 fiscal period \$15,000
- Bought in his 1995 fiscal period \$ 6,000
- Bought in his 1994 fiscal period \$ 5,000

At the end of his 1996 fiscal period, Doug did not have any other inventory that he bought before his 1994 fiscal period. Doug has registered his livestock under the *Animal Pedigree Act*. He wants to treat these animals as specified animals. Doug completes Chart 1 as follows:

Chart 1 Cash cost of purchased inventory	
Doug enters the amount he paid by the end of his 1996 fiscal period for the specified animals he bought:	
Fiscal period	Cash cost
■ in his 1996 fiscal period	\$ <u>25,000</u> A
■ in his 1995 fiscal period	\$ <u>26,000</u> B
■ in his 1994 fiscal period	\$ <u>22,000</u> C
■ in his 1993 fiscal period	\$ <u>20,000</u> D
■ in his 1992 fiscal period	\$ <u> 0</u> E
■ in his 1991 fiscal period	\$ <u> 0</u> F
■ in his 1990 fiscal period	\$ <u> 0</u> G
■ in his 1989 fiscal period	\$ <u> 0</u> H
■ before his 1989 fiscal period	\$ <u> 0</u> I
Doug enters the amount he paid by the end of his 1996 fiscal period for all other inventory he bought:	
■ in his 1996 fiscal period	\$ <u>15,000</u> J
■ in his 1995 fiscal period	\$ <u> 6,000</u> K
■ in his 1994 fiscal period	\$ <u> 5,000</u> L
■ in his 1993 fiscal period	\$ <u> 0</u> M
■ in his 1992 fiscal period	\$ <u> 0</u> N
■ in his 1991 fiscal period	\$ <u> 0</u> O
■ in his 1990 fiscal period	\$ <u> 0</u> P
■ in his 1989 fiscal period	\$ <u> 0</u> Q
■ before his 1989 fiscal period	\$ <u> 0</u> R

Doug now knows the cash cost of his purchased inventory, including his specified animals. He uses these amounts to calculate the value of his purchased inventory at the end of his 1996 fiscal period. To do this, he completes Charts 2 and 3 as follows:

Chart 2

Value of purchased inventory for specified animals

The small letters in front of each line match the paragraphs at the end of this chart. These paragraphs explain how Doug calculates the number on each line.

Inventory bought in his 1996 fiscal period	
Doug enters an amount that is not more than the amount on line A but not less than 70% of this amount.	(a) \$ <u>20,000</u> S
Inventory bought in his 1995 fiscal period	
Doug enters an amount that is not more than the amount on line B but not less than 70% of the total of the value at the end of his 1995 fiscal period plus any amounts he paid in his 1996 fiscal period toward the purchase price.	(b) \$ <u>14,210</u> T
Inventory bought in his 1994 fiscal period	
Doug enters an amount that is not more than the amount on line C but not less than 70% of the total of the value at the end of his 1995 fiscal period plus any amounts he paid in his 1996 fiscal period toward the purchase price.	(c) \$ <u>7,546</u> U
Inventory bought in his 1993 fiscal period	
Doug enters an amount that is not more than the amount on line D but not less than 70% of the total of the value at the end of his 1995 fiscal period plus any amounts he paid in his 1996 fiscal period toward the purchase price.	(d) \$ <u>4,802</u> V
Inventory bought in his 1992 fiscal period	(e) \$ <u> 0</u> W
Inventory bought in his 1991 fiscal period	(e) \$ <u> 0</u> X
Inventory bought in his 1990 fiscal period	(e) \$ <u> 0</u> Y
Inventory bought in his 1989 fiscal period	(e) \$ <u> 0</u> Z
Inventory he bought before his 1989 fiscal period	(e) \$ <u> 0</u> AA

- (a) Doug chose \$20,000, which is between the cash cost of \$25,000 and \$17,500 (70% of the cash cost).
- (b) Doug chose to value the inventory he bought in his 1995 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1995 fiscal period was \$13,300 ($\$19,000 \times 70\%$). Remember, Doug paid \$19,000 for these specified animals in 1995. He paid \$7,000 in 1996.

For his 1996 fiscal period, Doug chose to value the inventory he bought in his 1995 fiscal period at 70% of the total of the value at the end of the 1995 fiscal period plus any amounts he paid in his 1996 fiscal period toward the purchase price. Therefore, the amount he enters on line T is \$14,210 [$70\% \times (\$13,300 + \$7,000)$]. He could choose any amount between the cash cost of \$26,000 and the lowest acceptable inventory value of \$14,210.

- (c) Doug chose to value the inventory he bought in his 1994 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1994 fiscal period was \$15,400 ($\$22,000 \times 70\%$).

For his 1995 fiscal period, Doug chose to value the inventory he bought in his 1994 fiscal period at 70% of the total of the value at the end of his 1994 fiscal period. Therefore, the value of this inventory at the end of his 1995 fiscal period was \$10,780 ($\$15,400 \times 70\%$).

For his 1996 fiscal period, Doug chose to value the inventory he bought in his 1994 fiscal period at 70% of the total of the value at the end of his 1995 fiscal period. Therefore, the amount he enters on line U is \$7,546 ($\$10,780 \times 70\%$). He could choose any amount between the cash cost of \$22,000 and the lowest acceptable inventory value of \$7,546.

- (d) Doug chose to value the inventory he bought in his 1993 fiscal period at 70% of the cash cost. Therefore, the value of this inventory at the end of his 1993 fiscal period was \$14,000 ($\$20,000 \times 70\%$).

For his 1994 fiscal period, Doug chose to value the inventory he bought in his 1993 fiscal period at 70% of the total of the value at the end of his 1993 fiscal period. Therefore, the value of this inventory at the end of his 1994 fiscal period was \$9,800 ($\$14,000 \times 70\%$).

For his 1995 fiscal period, Doug chose to value the inventory he bought in his 1993 fiscal period at 70% of the total of the value at the end of his 1994 fiscal period. Therefore, the value of this inventory at the end of his 1995 fiscal period was \$6,860 ($\$9,800 \times 70\%$).

For his 1996 fiscal period, Doug chose to value the inventory he bought in his 1993 fiscal period at 70% of the total of the value at the end of his 1995 fiscal period. Therefore, the amount he enters on line V is \$4,802 ($\$6,860 \times 70\%$). He could choose any amount between the cash cost of \$20,000 and the lowest acceptable inventory value of \$4,802.

- (e) Doug had not purchased any specified animals before his 1993 fiscal period.

Chart 3 Value of purchased inventory for all other inventory		
Inventory bought in his 1996 fiscal period: Doug enters the amount on line J or the fair market value, whichever is less.	\$ 15,000	BB
Inventory bought in his 1995 fiscal period: Doug enters the amount on line K or the fair market value, whichever is less.	6,000	CC
Inventory bought in his 1994 fiscal period: Doug enters the amount on line L or the fair market value, whichever is less.	5,000	DD
Inventory bought in his 1993 fiscal period: Doug enters the amount on line M or the fair market value, whichever is less.	0	EE
Inventory bought in his 1992 fiscal period: Doug enters the amount on line N or the fair market value, whichever is less.	0	FF
Inventory bought in his 1991 fiscal period: Doug enters the amount on line O or the fair market value, whichever is less.	0	GG
Inventory bought in his 1990 fiscal period: Doug enters the amount on line P or the fair market value, whichever is less.	0	HH
Inventory bought in his 1989 fiscal period: Doug enters the amount on line Q or the fair market value, whichever is less.	0	II
Inventory bought before his 1989 fiscal period: Doug enters the amount on line R or the fair market value, whichever is less.	0	JJ

Chart 4 Calculation of MIA		
Doug enters the amount of his net loss from line 8237 of Form T2042.		\$ 55,000 KK
Doug enters the value of his inventory from Charts 2 and 3:		
■ the amount on line S	\$ 20,000	
■ the amount on line T	14,210	
■ the amount on line U	7,546	
■ the amount on line V	4,802	
■ the amount on line W	0	
■ the amount on line X	0	
■ the amount on line Y	0	
■ the amount on line Z	0	
■ the amount on line AA	0	
■ the amount on line BB	15,000	
■ the amount on line CC	6,000	
■ the amount on line DD	5,000	
■ the amount on line EE	0	
■ the amount on line FF	0	
■ the amount on line GG	0	
■ the amount on line HH	0	
■ the amount on line II	0	
■ the amount on line JJ	0	
Total value of inventory	\$ 72,558	\$ 72,558 LL
MIA-Doug enters the amount on line KK or line LL, whichever is less.		\$ 55,000 MM

The MIA which Doug uses for his 1996 fiscal period will be the same amount he deducts from his farm income when he calculates his income for his next fiscal period.

The mandatory inventory adjustment began in taxation year 1989. Since then, you have been able to use "transitional relief." Transitional relief reduced the impact of including the value of inventory which you purchased before 1989. The transitional period ended in taxation year 1995, so relief is not available for 1996. Enter the figure from line MM of Chart 4 on line 8240 on Form T2042.

Your share of line (c)

On this line show your share of the total of line 8237, line 8239, and line 8240. This is the amount left after you subtract the amounts the other partners are responsible for reporting. In the chart called "Details of other partners" on page 4 of Form T2042, show the full names and addresses of the other partners, as well as a breakdown of their shares of the income and their percentages of the partnership.

Other amounts deductible from your share of net partnership income (loss)

You can use the chart on page 4 of Form T2042 to claim extra expenses you incurred to earn your share of the partnership income (loss), such as the farming business portion of allowable motor vehicle expenses. Claim these amounts only if the partnership did not repay you for them. You can also claim any other deductible amounts. The limits discussed in this chapter also apply to these expenses. Furthermore, you must not have claimed these expenses anywhere else on Form T2042.

You can also use this chart to claim a business income reduction if you are a member of a partnership which sold eligible capital property and you filed a capital gains election in 1994 in relation to your partnership interest. For more information see Chapter 4.

Line 8235 – Business-use-of-home expenses

You can deduct expenses for the farming business use of a work space in your home, as long as you meet **one** of these conditions:

- the work space is your principal place of business; or
- you use the space only to earn your farming business income, and you use it on a regular and ongoing basis to meet your clients or customers.

You can deduct part of your maintenance costs, such as heating, home insurance, electricity, and cleaning materials. You can also deduct part of your property taxes, mortgage interest, and capital cost allowance. To calculate the portion you can deduct, use a reasonable basis, such as the area of the work space divided by the total area.

The capital gain and recapture rules will apply if you deduct capital cost allowance on the business-use part of your home and you later sell your home. See Chapters 3 and 6 for more information about these rules.

If you rent your home, you can deduct the portion of the rent and any expenses you incur that relate to the work space.

The amount you can deduct for business-use-of-home expenses cannot be more than your net income from the farming business before you deduct these expenses. In other words, you cannot use these expenses to increase or create a business loss.

You can deduct whichever of the following amounts is less:

- any amount you carry forward from your 1995 fiscal period, plus the business-use-of-home expenses you incur in your 1996 fiscal period; or
- the income amount on line (f) on Form T2042.

In a future year, you can use any expense you could not deduct in your 1996 fiscal period, as long as you meet one of the two previous conditions. You also use the same rules.

You can use the chart on page 4 of Form T2042 to calculate your allowable claim for business-use-of-home expenses.

For more details, see Interpretation Bulletin IT-514, *Work Space in Home Expenses*.

Line 8243 – Your net income (loss)

Enter your net farming income or loss on line 141 of your income tax return. If you have a loss, enter the amount in brackets. See Chapter 5 for more information about losses.

Note

You may have to adjust the figure from line 8243 before entering it on your income tax return. You may have filed Form T1139, *Reconciliation of 1995 Business Income for Tax Purposes* with your 1995 return. If so you have to complete the same form for 1996. Refer to the publication called *Reconciliation of Business Income for Tax Purposes* to calculate the amount of farming income to report on your 1996 income tax return. The publication includes Form T1139 and is available from your tax services office or tax centre.

Details of equity (chart on page 4 of Form T2042)

Line 8313 – Total business liabilities

A liability is a debt or obligation of a business. Total business liabilities is the total of all amounts your farming business owes at the end of its fiscal period. This includes accounts payable, notes payable, taxes payable, unpaid salaries, wages and benefits, interest payable, deferred or unearned revenues, loans payable, mortgages payable, or any other outstanding balance.

Line 8400 – Drawings in 1996

A drawing is any withdrawal of cash or other assets and services of a business by the proprietor or partners. This includes such transactions by the proprietor or partners (or family members) as withdrawing cash for non-business use, and using business assets and services for personal use.

Line 8401 – Capital contributions in 1996

A capital contribution is an addition of cash or other assets to the farming business you made during its fiscal period. This includes adding personal funds to the business account, paying business debts with personal funds, and transferring personal assets to the farming business.

Details of other partners (chart on page 4 of Form T2042)

If you are a member of a partnership that does **not** have to file a partnership information return (see Chapter 1 for these requirements), you can complete the chart called "Details of other partners" on your Form T2042.

If you are a member of a partnership that **has** to file a PIN, you do not need to complete this chart.

Chapter 3 – Capital cost allowance (CCA)

What is capital cost allowance?

You might acquire a depreciable property, such as a building, machinery, or equipment, to use in your farming business. You cannot deduct the cost of the property when you calculate your net farming income for the year. However, since these properties may wear out or become outdated over time, you can deduct their cost over a period of several years. The deduction for this is called capital cost allowance (CCA).

How much CCA can you claim?

As an individual, you base your CCA claim on your fiscal period, and not the calendar year. The amount of CCA you can claim depends on the type of property you own, and the date you acquired it. You group the depreciable property you own into classes. A different rate of CCA applies to each class. The section called "Classes of depreciable property" on page 28, describes the most common classes of depreciable property. We list most of the classes of depreciable property and the rates for each class in the section called "Capital cost allowance (CCA) rates" on page 48.

For the most part, you should use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost of the property minus the CCA you claimed in previous years, if any. The remaining balance declines over the years as you claim CCA.

You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the amount of CCA available to you for future years.

Note

If you are a member of a partnership that provides you with a T5013 Supplementary form, *Statement of Partnership Income*, you cannot personally claim CCA for property owned by the partnership. The T5013 Supplementary slip you receive will have already allocated to you a share of the partnership's CCA on the depreciable farm property.

Limits on CCA

In the year you acquire a depreciable property, you can usually claim CCA only on one-half of your net additions to a class. We explain this 50% rule in the section called "Column 6 – Adjustment for current-year additions" on page 28. The available-for-use rules may also affect the amount of CCA you can claim. See the definition of available-for-use on this page.

You cannot claim CCA on land or on living things such as trees, shrubs, or animals. However, if you receive income from a quarry, sand or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance.

For more details about quarries, pits, and woodlots, read Interpretation Bulletins IT-373, *Farm Woodlots and Tree Farms*, and its Special Release, and IT-492, *Capital Cost Allowance – Industrial Mineral Mines*.

If you claim CCA, and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Alternatively, you may be able to deduct an additional amount from your income as a terminal loss. For more information, see the section called "Column 5 – UCC after additions and dispositions" on page 27.

If you used depreciable property in 1996 that you used in your farming business before January 1, 1972, complete "Area E – Part XVII properties" on page 3 of Form T2042. If you need information about how to claim capital cost allowance on that type of property, contact your tax services office or tax centre.

You were asking...?

- Q. If I start a farming business on June 1, 1996, how do I determine my CCA claim to December 31, 1996?
- A. Since the period is less than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules we discuss in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In your case, your fiscal period is 214 days. Suppose you calculate your CCA to be \$3,500. The amount of CCA you can claim is \$2,052 ($\$3,500 \times 214/365$).

Definitions

To calculate your CCA claim, you will need to know the meaning of the following terms:

Available-for-use

You can claim CCA on a depreciable property only when it becomes available for use.

Property, other than a building, generally becomes available for use on the earliest of the following dates:

- the date you first use the property to earn income;
- the second taxation year after you acquire the property;
- the time immediately before you dispose of the property; or
- the date the property is delivered or made available to you and is capable of producing a saleable product or service.

Example

If you buy a tractor and the seller delivers it to you in 1996, but it was not in working order until 1997, you cannot claim CCA on it until 1997. However, if you buy a tractor and the seller delivers it to you in working order in 1996, but you did not use it until 1997, you can still claim CCA in 1996 because it was available for use.

A building, or part of a building, usually becomes available for use on the earliest of the following dates:

- the date that you begin using 90% or more of the building for the purpose you acquired it;
- the date the construction is completed;
- the second taxation year after the year you acquire the building; or
- the time immediately before you dispose of the building.

We consider any **construction, renovation, or alteration** to a particular building to be a separate building for the purposes of applying the available for-use-rules. For more details, contact your tax services office or tax centre.

Capital cost

This is the amount on which you first claim CCA. The capital cost of a depreciable property is generally the total of:

- the purchase price (not including the cost of land, which is not depreciable -- see the section called "Land" on page 26);
- the part of your legal, accounting, engineering, installation, and other fees that relates to the purchase or construction of the depreciable property (not including the part that applies to land);
- the cost of any additions or improvements you made to the depreciable property after you acquired it, provided you have not claimed these costs as a current expense; and
- soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building.

Depreciable property

This is any property on which you can claim CCA. You usually group depreciable properties into classes. For example, diggers, drills, and tools that cost \$200 or more belong to Class 8. You have to base your CCA claim on a rate assigned to each class of property.

See the sections called "Classes of depreciable property" on page 28 for the most common classes of depreciable properties you could use in your farming operation and "Capital cost allowance (CCA) rates" on page 48. To determine the rate for depreciable property not listed, contact your tax services office or tax centre.

Fair market value (FMV)

Fair market value is generally the highest dollar value that you can get for your farm property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length with each other.

Non-arm's-length transaction

A non-arm's-length transaction includes a transaction between parties who are related, such as members of a family. An example of a non-arm's-length transaction would be the sale of property between a husband and wife, or a parent and child. For more details on non-arm's-length transactions, see Interpretation Bulletin IT-419, *Meaning of Arm's Length*, and its Special Release.

Proceeds of disposition

The proceeds of disposition are generally the sale price of a property. For more details about proceeds of disposition, read Interpretation Bulletins IT-220, *Capital Cost Allowance -- Proceeds of Disposition of Depreciable Property* and its Special Release, and IT-285, *Capital Cost Allowance -- General Comments*.

Undepreciated capital cost (UCC)

The UCC is generally the amount remaining after you deduct CCA from the capital cost of a depreciable property. The CCA you claim each year reduces the UCC of the property each year.

How do you make your claim?

Use Area E on page 3 of your Form T2042, *Statement of Farming Activities*, to calculate your CCA deduction for your 1996 fiscal period.

If you acquired or disposed of buildings or equipment during the year, you will need to complete Areas A, B, C, or D (whichever applies), before you complete Area E.

Even if you are not claiming a deduction for CCA for your 1996 fiscal period, you should still complete these areas to show any additions or disposals during the year. They are located on page 2 and 3 of Form T2042. For details on how to complete all these areas, see the following sections.

Column 1 – Class number

If this is the first year you are claiming CCA, read the sections called "Classes of depreciable property" on page 28 for the most common classes of depreciable properties you could use in your farming operation, and "Capital cost allowance (CCA) rates" on page 48. To determine the rate for depreciable property not listed, contact your tax services office or tax centre.

If you claimed CCA last year, you can get the class numbers from last year's Form T2042.

Generally, if you own several properties in the same CCA class, you combine the capital cost of all these properties in one class. You then enter the total in Area E.

Column 2 – Undepreciated capital cost (UCC) at the start of the year

If this is the first year you are claiming CCA, skip this column.

Otherwise, enter in this column the UCC for each class at the end of last year. If you completed Area E on Form T2042 last year, you will find these amounts in column 10.

From your UCC at the start of your 1996 fiscal period, subtract any investment tax credit you claimed or were refunded in 1995. Also, subtract any 1995 investment tax credit you carried back to a year before 1995.

You may have received a GST input tax credit in 1995 for a passenger vehicle you used less than 90% of the time in your business. In this case, subtract the amount of the credit from your beginning UCC for your 1996 fiscal period.

Note

In 1996, you may be claiming, carrying back, or getting a refund of an investment tax credit. If you still have depreciable property in the class, you have to adjust the UCC of the class to which the property belongs in 1997. To do this, subtract the amount of the credit from the UCC at the beginning of 1997. When there is no property left in the class, report the amount of the investment tax credit as income in 1997.

Column 3 – Cost of additions in the year

If you acquire or make improvements to depreciable property in the year, we consider them to be additions to the class in which the property belongs. Enter the details of your 1996 additions on your Form T2042 as explained below.

- complete Areas A and B (whichever applies) on Form T2042; and
- enter in column 3 of Area E for each class, the amounts from column 5 in each class in Areas A and B.

Do not include the value of your own labour in the cost of a property you build or improve. Include the cost of surveying or valuing a property you acquire in the capital cost of the property. Remember that a property normally has to be available for use before you can claim CCA. See the definition of available-for-use on page 24.

Note

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you spent to replace the property in Column 3 of Area E, and also in Area A or B, whichever applies. Include the amount of insurance proceeds as proceeds of disposition in Column 4 of Area E and also in Area C or D, whichever applies. For more information, see the section called "Line 8117 – Insurance proceeds" on page 10.

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. Refer to Interpretation Bulletin IT-259, *Exchanges of Property*, and its Special Release, as well as IT-491, *Former Business Property*, and its Special Release.

You should also refer to the sections "Changing from personal to business use" on page 30, "Non-arm's-length-transactions" on page 31, and "Grants and subsidies" on page 31, to find out if any special situations apply in your case when you acquire property.

Note

When completing Areas A and B (see below), in the column called "Personal portion," enter the part of the property that you use personally, separate from the part you use for business. For example, if you use 25% of the building in which you live for your farming business, your personal portion is the other 75%.

Area A – Details of equipment additions in the year

In this area, list the details of all equipment, machinery, or motor vehicles you acquired or improved in 1996. Group the equipment into the applicable classes, and put each class on a separate line. **Enter on line 8304** the total business portion of the cost of the equipment.

Area B – Details of building additions in the year

In this area, list the details of all buildings you acquired or improved in 1996. Group the buildings into the applicable classes, and put each class on a separate line. **Enter on line 8306**, the total business portion of the cost of the buildings. The cost includes the actual purchase price of the building, plus any related expenses that you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees.

Land

Land is not depreciable property. Therefore, you cannot claim CCA on its cost. If you acquire a farm property that includes both land and a building, enter in column 3 of Area B only the cost of the building. To work out the building's capital cost, you have to split any fees that relate to the purchase of the property between the land and the building. Related fees may include legal and accounting fees.

Calculate the part of the related fees you can include in the capital cost of the building as follows:

$$\begin{array}{l} \text{building value} \\ \text{total purchase} \\ \text{price} \end{array} \times \begin{array}{l} \text{legal,} \\ \text{accounting, or} \\ \text{other fees} \end{array} = \begin{array}{l} \text{the part of the fees} \\ \text{you can include in} \\ \text{the building's cost} \end{array}$$

You do not have to split a fee if it relates specifically to the land or the building. In this case, you would add the amount of the fee to the cost to which it relates, either the land or the building.

Area F – Details of land additions and dispositions in the year

In this area, enter the total cost of acquiring land in 1996. The cost includes the actual purchase price of the land, plus any related expenses that you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees. **Enter on line 8302** the total cost of all land additions in the year. You cannot claim CCA on land. Do **not** enter this amount in column 3 of Area E.

Area G – Details of quota additions and dispositions in the year

Enter on line 8308 the total cost of acquiring quotas in 1996.

Column 4 – Proceeds of dispositions in the year

If you disposed of a depreciable property during 1996:

- complete Areas C and D on Form T2042, if they apply; and
- enter in column 4 of Area E for each class, the amounts from column 5 in each class in Areas C and D.

When completing Areas C and D, enter in column 3 one of the following amounts, whichever is less:

- your proceeds of disposition, minus any related expenses; or
- the capital cost of your depreciable property.

Your **proceeds of disposition** are usually the amount you

receive, or that we consider you to have received, when you dispose of your depreciable property. This could include compensation you receive for depreciable property that someone destroys, expropriates, steals, or damages.

Note

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount of the proceeds in Column 4 of Area E, and in Area C or D, whichever applies. Enter the amount you spent to replace the property in Column 3 of Area E and also in Area A or B, whichever is applies. For more information, see the section called "Line 8117- Insurance proceeds" on page 10.

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. Refer to Interpretation Bulletin IT-259, *Exchanges of Property*, and its Special Release, as well as IT-491, *Former Business Property*, and its Special Release.

Special rules may apply if you dispose of a building for less than both its undepreciated capital cost and your capital cost. If this is the case, see "Special rules for disposing of a building in 1996" on page 32 for details.

If you dispose of a depreciable property for more than its cost, you will have a capital gain. See Chapter 6 for details on capital gains. You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. See the section called "Column 5 - UCC after additions and dispositions," on this page for an explanation of terminal losses.

Note

When completing Areas C and D (see below), in the column called "Personal portion," enter the part of the property that you use personally, separate from the part you use for business. For example, if you use 25% of the building in which you live for your farming business, your personal portion is the other 75%.

Area C - Details of equipment dispositions in the year
In this area, list the details of all equipment and motor vehicles you disposed of in 1996. Group the equipment into the applicable classes, and put each class on a separate line. **Enter on line 8305** the total business portion of the proceeds of disposition of the equipment and motor vehicles.

Area D - Details of building dispositions in the year
In this area, list the details of all buildings you disposed of in 1996. Group the buildings into the applicable classes, and put each class on a separate line. **Enter on line 8307** the total business portion of the proceeds of disposition of the buildings.

If all of the proceeds of disposition for equipment, motor vehicles, or for a building are not received in the year you dispose of such property, see Interpretation Bulletin IT-236, *Reserves - Disposition of Capital Property*.

Note

Completing the charts on Form T2042 will help you calculate your CCA claim for 1996. Even if you are not claiming a deduction for CCA for 1996, complete the appropriate areas to show any additions during the year.

If you need more details, get Interpretation Bulletin IT-220, *Capital Cost Allowance - Proceeds of Disposition of Depreciable Property*.

Area F - Details of land additions and dispositions in the year

Enter on line 8303 the total of all amounts you received or will receive for disposing of land in the year.

Area G - Details of quota additions and dispositions in the year

Enter on line 8309 the total of all amounts you received or will receive for disposing of quotas in the year.

Column 5 - UCC after additions and dispositions

Add the amount in column 2 to the amount in column 3. Then subtract the amount in column 4 from this total. Enter the result in column 5.

You cannot claim CCA when the amount in column 5 is:

- negative (see "Recapture of CCA" on this page); or
- positive, and you do not have any property left in that class at the end of your 1996 fiscal period (see "Terminal loss" on this page).

In either case, enter "0" in column 10.

Recapture of CCA

If the amount in column 5 is negative, you have a recapture of CCA. Include your recapture on the "Other income" line of your Form T2042. A recapture of CCA can occur, for example, when you get a government grant, or claim an investment tax credit. It can also happen if the proceeds from the sale of depreciable property are more than the total of:

- the UCC of the class at the beginning of the year; and
- the capital cost of any new additions during the year.

In some cases, you may be able to postpone a recapture of CCA. For example, you may sell a property and replace it with a similar one, someone may expropriate your property, or you may transfer property to a corporation, a partnership, or your child. For more details, contact your tax services office or tax centre.

Terminal loss

If the amount in column 5 is positive, and you no longer own any property in that class, you have a terminal loss. More precisely, you have a terminal loss when, at the end of your fiscal period, you have no more property in the class, but you still have an amount which you have not deducted as CCA. You can subtract this terminal loss from your gross farming income in the year you disposed of the depreciable property. Include your terminal loss on the "Other expenses" line of Form T2042.

For more information on recapture of CCA and terminal loss, see Interpretation Bulletin IT-478, *Capital Cost Allowance - Recapture and Terminal Loss*.

Note

The rules for recapture and terminal loss do not apply to passenger vehicles in class 10.1. However, see the comments in the section called, "Column 7 – Base amount for CCA" to calculate your CCA claim.

Column 6 – Adjustment for current-year additions

In the year you acquire or make additions to a property, you can usually claim CCA on only one-half of your net additions (the amount in column 3 minus the amount in column 4). We call this the **50% rule**.

Calculate your CCA claim only on the net adjusted amount. Do not reduce the cost of the additions in column 3, or the CCA rate in column 8. For example, if you acquired a property in 1996 for \$30,000, you would base your CCA claim on \$15,000 ($\$30,000 \times 50\%$).

If you acquired and disposed of depreciable property of the same class in 1996, the calculation in column 6 restricts your CCA claim. Calculate the CCA you can claim as follows:

- Determine which of the following amounts is less:
 - the proceeds of disposition of your property, minus any related costs or expenses; or
 - the capital cost.
- Subtract the above amount from the capital cost of your addition.
- In column 6, enter 50% of the result. If the result is negative, enter "0."

In some cases, you do not make an adjustment in column 6. For example, you may buy property in a non-arm's-length transaction and, until you buy it, the seller continuously owned the property for at least 364 days before the end of 1996.

Also, some properties are not subject to the 50% rule. Some examples are those in classes 13, 14, 23, 24, 27, 29, or 34, as well as some of those in class 12, such as small tools that cost less than \$200.

The 50% rule does not apply when the available-for-use rule denies a CCA claim until the second taxation year after you acquired a property.

If you need more details on the 50% rule, see Interpretation Bulletin IT-285, *Capital Cost Allowance – General Comments*, and its Special Release.

Column 7 – Base amount for CCA

Base your CCA claim on this amount.

For a class 10.1 vehicle you disposed of in your 1996 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of the year. This is known as the **half-year rule on sale**.

You can use the half-year rule on sale if, at the end of your 1995 fiscal period, you owned the class 10.1 vehicle you disposed of in 1996. If this applies to you, in column 7 enter 50% of the amount in column 2.

Column 8 – Rate (%)

Enter the rate in this column for each class of property in Area E of Form T2042. For a list of rates, see the section called "Capital cost allowance (CCA) rates" on page 48. For more detailed information on certain kinds of property, see the section called "Classes of depreciable property" on this page.

Column 9 – CCA for the year

In column 9, enter the CCA you would like to deduct for 1996. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See "You were asking ...?" on page 24.

Add up all the amounts in column 9 for all your classes of depreciable property. Enter the total on line 8207, "Capital cost allowance," on Form T2042. See the section called "Personal use of property" on page 31 to find out how to calculate your CCA claim if you are using the property for both business and personal use.

Column 10 – UCC at the end of the year

This is the UCC at the end of your 1996 fiscal period. It is the amount you will enter in column 2 when you calculate your CCA claim next year.

Enter "0" in column 10 if you have a terminal loss or a recapture of CCA. There will not be an amount in column 10 for a class 10.1 passenger vehicle you dispose of in the year.

The example at the end of this chapter sums up CCA.

Classes of depreciable property

Following are the most common classes of depreciable farm property and the rates that apply to each class.

Buildings

A building may belong to class 1, 3, or 6, depending on what the building is made of and the date you acquired it. You also include in these classes the parts that make up the building, such as:

- electrical wiring;
- lighting fixtures;
- plumbing;
- sprinkler systems;
- heating equipment;
- air-conditioning equipment (other than window units);
- elevators; and
- escalators.

Note

Land is not depreciable property. Therefore, when you acquire farm property, include in Areas B and E only the cost that relates to the building.

Class 1 (4%)

Class 1 includes most buildings acquired after 1987, unless they specifically belong in another class. Class 1 also includes the cost of certain additions or alterations you made after 1987 to a class 3 building. See the next section for more information.

Class 3 (5%)

Most buildings acquired before 1988 were added to class 3 or class 6. If you acquired a building before 1990 that does not fall into class 6, you can include it in class 3 if **one** of the following applies:

- you acquired the building under the terms of a written agreement entered into before June 18, 1987; or
- the building was under construction by you, or on your behalf, on June 18, 1987.

Do not transfer to class 1 property you previously included in class 3. However, there is a limit to how much you can include in class 3 for the cost of any additions or alterations made after 1987 to a class 3 building. This limit is one of the following amounts, whichever is less:

- \$500,000; and
- 25% of the building's capital cost (including the cost of additions or alterations to the building included in class 3, class 6, or class 20 before 1988).

Include the cost of any additions or alterations over this limit in class 1.

Class 6 (10%)

Include a building in class 6 if you acquired it before 1988, and it is made of frame, log, stucco on frame, galvanized iron, or corrugated iron. If you acquired the building after 1987, it has to be made of frame, log, stucco on frame, galvanized iron, or any corrugated metal. In addition, **one** of the following conditions has to apply:

- the building is used for farming or fishing; or
- the building has no footings or other base supports below ground level.

If either of the above conditions apply, you also add the full cost of all additions and alterations to the building, to class 6.

If neither of the above conditions applies, include the building in class 6 if **one** of the following conditions applies:

- you acquired the building before 1979;
- you entered into an agreement before 1979 to acquire the building, and footings or other base supports were started before 1979; or
- you started construction of the building before 1979 (or it was started under the terms of a written agreement you entered into before 1979), and footings or other base supports of the building were started before 1979.

For additions or alterations to such a building:

- Add to class 6:
 - all additions made before 1979; and
 - only the first \$100,000 of additions or alterations made after 1978.
- Add to class 3:
 - the part of the cost of all additions or alterations above \$100,000 made after 1978 and before 1988; and
 - the part of the cost of additions or alterations above \$100,000 made after 1987, but only up to \$500,000 or 25% of the cost of the building.
- Add to class 1 any additions or alterations above these limits.

If you need more information, see Interpretation Bulletin IT-79, *Capital Cost Allowance – Buildings or Other Structures*.

Other property – Class 8 (20%)

Class 8 includes property that is not included in any other class. For example, furniture, appliances, fixtures, machinery, and equipment you use in your business are all in this class.

Storage facilities for fresh fruit and vegetables – Class 8 (20%)

Include buildings you use to store fresh fruit or vegetables at a controlled temperature in Class 8 instead of Classes 1, 3, or 6. Also include in Class 8 any buildings you use to store silage.

Electronic office equipment – Class 8 (20%) and 10 (30%)

You can elect to include in a separate class, one or more properties that would otherwise be included in Class 8 or Class 10. This new class does not change the specified rate. However, it ensures that any part of the cost of the equipment that has not been deducted as CCA will be fully deductible as a terminal loss on the disposition of all the property in that class. For more information on terminal losses, see the section called "Column 5 – UCC after additions and dispositions" on page 27.

This election will apply to the following property acquired after April 26, 1993:

- general-purpose electronic data-processing equipment and systems software, including related data-processing equipment;
- computer software;
- photocopiers; and
- electronic communications equipment, such as a facsimile transmission device or telephone equipment.

This election will only apply to properties that each cost \$1,000 or more.

To make an election to include this property in a separate prescribed class, let us know by attaching a letter to your

income tax return for the taxation year in which you acquired the property.

Note

You might still own the electronic office equipment at the beginning of the fifth taxation year following the taxation year in which the property became available for use. If so, you will have to transfer the UCC of each separate class from the separate prescribed class to the general class in which it would otherwise belong. For more details, contact your tax services office or tax centre.

Passenger vehicles – Class 10.1

Your passenger vehicle can belong to either class 10 or class 10.1. We define a passenger vehicle on page 15. Include your passenger vehicle in class 10 unless it meets a class 10.1 condition. List each class 10.1 vehicle separately.

Include your passenger vehicle in class 10.1 if it meets **one** of these conditions:

- you bought it before September 1, 1989, and it cost more than \$20,000; or
- you bought it after August 31, 1989, and it cost more than \$24,000.

Note

If a passenger vehicle you bought before September 1, 1989, cost more than \$20,000, we consider the capital cost of that vehicle to be \$20,000.

If a passenger vehicle you bought after August 31, 1989, but before 1991, cost more than \$24,000, we consider the capital cost of that vehicle to be \$24,000.

If a passenger vehicle you bought after 1990 cost more than \$24,000, we consider the capital cost of that vehicle to be \$24,000, plus the related goods and services tax (GST) and the provincial sales tax (PST).

The \$20,000 and \$24,000 amounts are the capital cost limits for a passenger vehicle. To determine the class to which your passenger vehicle belongs, you have to use the cost of the vehicle before you add the GST and PST.

Example

Vivienne owns a farming business. On June 21, 1996, she bought two passenger vehicles to use in her farming business. The PST rate for her province is 8%. Vivienne wrote down these details for 1996:

	Cost	GST	PST	Total
Vehicle 1	\$25,000	\$1,750	\$2,000	\$28,750
Vehicle 2	\$23,000	\$1,610	\$1,840	\$26,450

Vivienne puts vehicle 1 in class 10.1, since she bought it after August 31, 1989, and it cost her more than \$24,000. Before Vivienne enters an amount in column 3 of Area A, she has to calculate the GST and PST on \$24,000. She does this as follows:

- GST at 7% of \$24,000 = \$1,680; and
- PST at 8% of \$24,000 = \$1,920.

Therefore, Vivienne’s capital cost is \$27,600 (\$24,000 + \$1,680 + \$1,920). She enters this amount in column 3 of Area A.

Vivienne puts vehicle 2 into class 10, since she bought it after August 31, 1989, and it did not cost her more than \$24,000. Vivienne’s capital cost is \$26,450 (\$23,000 + \$1,610 + \$1,840). She enters this amount in column 3 of Area A.

Note

The GST rate is 7% throughout the country while the PST rate is deemed to be 8% for the above example only. To determine the PST for your calculation, use the current rate that applies in your province. You would not calculate the Quebec PST in the same way as in the above example. For more information, contact your tax services office or tax centre.

Special rates for certain manure-handling equipment – Classes 24 and 27

If you buy certain manure-handling equipment that stops, reduces, or eliminates air or water pollution, it may qualify for an accelerated rate of CCA. This type of equipment includes pads, liquid manure tanks, pumps, other related items, and spreaders you buy when you install the equipment.

For this equipment to qualify for the accelerated CCA rate, it must meet certain conditions. It must be new, and the Minister of the Environment has to accept it as equipment you use solely to stop, reduce, or eliminate pollution. For more details, contact:

Manager, ACCA Program
 Environment Canada
 Ottawa ON K1A 0H3
 Telephone: (819) 997-2057

The accelerated CCA rate incentive will not apply for equipment acquired after 1998.

For more details on the special CCA rates, see Interpretation Bulletin IT-336, *Capital Cost Allowance – Pollution Control Property*.

Special situations

Changing from personal to business use

If you bought a property for personal use and then started using it in your farming business in your 1996 fiscal period, there is a change in use. You need to determine the capital cost for business purposes.

Note

The deemed capital cost of the land when you change its use is its fair market value (FMV).

Enter the FMV of the property in column 3 of Areas A and B, whichever applies, if, at the time of change in use, the FMV of the depreciable property is less than its original cost. Use the following chart to determine the amount to enter in column 3 when the FMV is more than its original cost.

Capital cost calculation

Actual cost of the property	\$ _____	A
FMV of the property	\$ _____	B
Amount on line A	\$ _____	C
Line B minus line C (if negative, enter "0")	\$ _____	D
Enter all capital gains deductions claimed for the amount on line D*	\$ _____	
\$ _____ × 4/3 =	\$ _____	E
Line D minus line E (if negative, enter "0")	\$ _____	F
\$ _____ × 3/4 =	\$ _____	F
Your capital cost is line A plus line F	\$ _____	G

* Enter the amount that relates to the depreciable property only.

Enter the capital cost of the property from line G in Column 3 of Area A or Area B.

Note

The capital cost limits on a Class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use. See the section called "Passenger vehicles - Class 10.1" on page 30 for more details.

Grants and subsidies

You may get a grant or subsidy from a government or a government agency to buy depreciable property. When this happens, subtract the amount of the grant from the property's capital cost. Do this before you enter the capital cost in column 3 of Area A or B.

See Interpretation Bulletin IT-273, *Government Assistance - General Comments*, and its Special Release, for more details about government assistance.

You may have incurred the GST on some of the depreciable property you acquired for your business. If so, you may have also received an input tax credit from Revenue Canada.

The input tax credit is government assistance. Therefore, subtract it from the property's capital cost. Do this before you enter the capital cost in column 3 of Area A or B, whichever applies. If you receive an input tax credit for a passenger vehicle you use in your business, use one of these methods:

- For a passenger vehicle you use 90% or more for your business, subtract the amount of the credit from the vehicle's cost before you enter its capital cost in column 3 of Area A.
- For a passenger vehicle you use less than 90% for your business, do not make an adjustment in 1996. In 1997, subtract the amount of the credit from your beginning UCC.

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can either include the amount in income, or subtract the amount from the capital cost of the property.

Personal use of property

If you buy property for both business and personal use, there are two ways to show the business portion of the property in Area A or B:

- If your business use stays the same from year to year, in Area A or Area B enter the total cost of the property in Column 3, the personal portion in Column 4, and the business portion in Column 5. Enter the amount from Column 5 in Column 3 of Area E to calculate the CCA you can claim.
- If your business use changes from year to year, in Area A or B enter the total cost of the property in Column 3 and Column 5, and enter "0" in Column 4. Enter the amount from Column 5 in Column 3 of Area E to calculate the CCA you can claim. When you claim CCA, you will have to calculate the allowable portion you can claim for business use.

Example

Jennifer owns a business. She bought a car in 1996 that she uses both for personal and for business use. The car cost \$20,000, including all charges and taxes. Therefore, she includes the car in class 10. Her business use varies from year to year. She calculates her CCA on the car for 1996 as follows:

She enters \$20,000 in Column 3 and Column 5 of Area A. She also enters \$20,000 in Column 3 of Area E. By completing the other columns in the chart, she calculates a CCA claim of \$3,000. Because Jennifer used her car partly for personal use, she calculates her CCA claim as follows:

$$\frac{12,000 \text{ (business kilometres)}}{18,000 \text{ (total kilometres)}} \times \$3,000 = \$2,000$$

Jennifer enters \$2,000 on line 8207, "Capital cost allowance," on her Form T2042.

Non-arm's-length transactions

When you acquire depreciable property in a non-arm's-length transaction, there are special rules to follow to determine the property's cost. These special rules will not apply if you get the property because of someone's death.

You can acquire depreciable property in a non-arm's-length transaction from:

- a resident of Canada;
- a partnership with at least one member who is an individual resident in Canada; or
- a partnership with at least one member that is another partnership.

If you pay more for the property than the seller paid for the same property, calculate the cost as follows:

Capital cost calculation	
The seller's cost or capital cost	\$ _____ A
The FMV of the property, or the seller's proceeds of disposition, whichever is more.	\$ _____ B
Amount from line A	\$ _____ C
Subtract line C from line B (if negative, enter "0")	\$ _____ D
Enter any capital gains deduction claimed for the amount on line D \$ _____ × 4/3 =	\$ _____ E
Subtract line E from line D (if negative, enter "0") \$ _____ × 3/4 =	\$ _____ F
Capital cost (line A plus line F)	\$ _____ G

Enter this amount in column 3 of either Area A or B of Form T2042, whichever applies.

Do not include the cost of the related land, which you have to include on line 8302, "Total cost of all land additions in the year," in Area F.

Capital cost calculation	
The seller's cost or capital cost	\$ _____ A
The FMV of the property, or the seller's proceeds of disposition, whichever is more.	\$ _____ B
Amount from line A	\$ _____ C
Subtract line C from line B (if negative, enter "0")	\$ _____ D
\$ _____ × 3/4 =	\$ _____ D
Capital cost (line A plus line D)	\$ _____ E

Enter this amount in column 3 of either Area A or B, whichever applies. Do not include the cost of the related land, which you have to include on line 8302, "Total cost of all land additions in the year," in Area F.

There is a limit on the cost of a passenger vehicle you buy in a non-arm's-length transaction. The cost is one of these three amounts, **whichever is less**:

- the FMV at the time you buy it;
- \$24,000 plus any GST and PST you would pay on \$24,000, if you buy it after 1990; or
- the seller's cost amount of the vehicle at the time you buy it.

The cost amount can vary, depending on what the seller used the vehicle for before you bought it. If the seller used the vehicle to earn income, the cost amount will be the UCC of the vehicle at the time you buy it. If the seller did not use the vehicle to earn income, the cost amount will usually be the original cost of the vehicle.

You can also buy depreciable property in a non-arm's-length transaction from an individual who is not a resident of Canada, or a partnership with no members who are individuals resident in Canada, or no members that are other partnerships. If you pay more for the property than the seller paid for the same property, calculate the capital cost as follows:

You might have bought depreciable property in a non-arm's-length transaction and paid less for it than the seller paid. If that is the case, your capital cost is the same amount as the seller paid. We consider you to have deducted as CCA the difference between what you paid and what the seller paid.

For more details on non-arm's-length transactions, see Interpretation Bulletin IT-405, *Inadequate Considerations – Acquisitions and Dispositions*, and IT-419, *Meaning of Arm's Length*, and its Special Release.

Special rules for disposing of a building in 1996

If you disposed of a building in 1996, special rules may apply that make the proceeds of disposition an amount other than the actual proceeds of disposition. This happens when you meet both of the following conditions:

- you disposed of the building for an amount less than both its cost amount, as calculated below, and its capital cost to you; and
- you, or a person with whom you do not deal at arm's length,* owned the land that the building is on, or the land next to it, that was necessary for the building's use.

* See the definition of non-arm's-length transaction on page 25.

Calculate the cost amount as follows:

- If the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before you disposed of the building.
- If there is more than one property in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{capital cost of the building}}{\text{capital cost of all the properties in the class that have not been previously disposed of}} \times \text{UCC of the class} = \text{cost amount of the building}$$

Note

The capital cost of depreciable property has to be recalculated in order to determine the cost amount if:

- any property in the class of the building was acquired at non-arm's-length;
- any property in the class of the building was previously used for a purpose other than gaining or producing income from property; or
- the portion of a property used for gaining or producing income has changed.

For more information about calculating the cost amount, contact your tax services office.

If you disposed of a building under these conditions and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A.

If you, or a person with whom you do not deal at arm's length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B, on page 34.

Calculation A	
Land and building sold in the same year	
FMV of the building at the time you disposed of it	\$ _____ A
FMV of the land immediately before you disposed of it	\$ _____ B
Line A plus line B	\$ _____ C
Seller's adjusted cost base of the land	\$ _____ D
Total capital gains (without reserves) from any disposition of the land (such as a change in use) in the three-year period before you disposed of the building, either by you or a person not dealing at arm's length with you, either to you or to another person not dealing at arm's length with you	\$ _____ E
Line D minus line E (if negative, enter "0")	\$ _____ F
Line B or line F, whichever amount is less	\$ _____ G
Line C minus line G (if negative, enter "0")	\$ _____ H
Cost amount of the building immediately before you disposed of it	\$ _____ I
Capital cost of the building immediately before you disposed of it	\$ _____ J
Line I or line J, whichever amount is less	\$ _____ K
Line A or line K, whichever amount is more	\$ _____ L
Deemed proceeds of disposition for the building – Line H or line L, whichever amount is less (enter this amount in column 3 of Area D, and include it in column 4 of Area E)	\$ _____ M
Deemed proceeds of disposition for the land – Proceeds of disposition of the building and the land	\$ _____ N
Amount from line M	\$ _____ O
Line N minus line O (include this amount on line 8303 of Area F)	\$ _____ P
If you have a terminal loss on the building, include it on the line "Other expenses" on your Form T2042.	

**Calculation B
Land and building sold in different years**

Cost amount of the building immediately before you disposed of it	\$ _____	A
FMV of the building immediately before you disposed of it	\$ _____	B
Line A or line B, whichever amount is more	\$ _____	C
Actual proceeds of disposition, if any	\$ _____	D
Line C minus line D	\$ _____	E
Line E \$ _____ × 1/4	\$ _____	F
Amount from line D	\$ _____	G

Deemed proceeds of disposition for the building

Line F plus line G (enter this amount in column 3 of Area D, and include it in column 4 of Area E)	\$ _____	H
--	----------	----------

If you have a terminal loss on the building, include it on the line "Other expenses" on your Form T2042.

Ordinarily, you can deduct 100% of a terminal loss, but only 75% of a capital loss. Calculation B ensures that you use the same percentage to calculate a terminal loss for a building as you use to calculate a capital loss on land. As a result of this calculation, you add 25% of the amount on line E to the actual proceeds of disposition from the building (see the section called "Terminal loss" on page 27).

Replacement property

In a few cases, you can postpone or defer adding a capital gain or recapture to income. For example, you might sell a property, and replace it with a similar one, or your property might be stolen, destroyed, or expropriated, and you replace it with a similar one.

Read Interpretation Bulletins IT-259, *Exchanges of Property*, and its Special Release, and IT-491, *Former Business Property*, and its Special Release, if you need more details.

You can also defer a capital gain or recapture when you transfer property to a corporation, a partnership, or your child. For more details on transferring property to your child see page 44. For information on transfers to a corporation or a partnership, see:

- Information Circular 76-19, *Transfer of Property to a Corporation Under Section 85*;
- Interpretation Bulletin IT-291, *Transfer of Property to a Corporation Under Subsection 85(1)*;
- Interpretation Bulletin IT-378, *Winding-up of a Partnership*; and
- Interpretation Bulletin IT-413, *Election by Members of a Partnership Under Subsection 97(2)*.

The following example summarizes this chapter on CCA.

Example

In 1996, Trevor bought a building to use for business purposes. The total cost was \$95,000 (the sum of the \$90,000 total purchase price and the \$5,000 total expenses connected with the purchase). The details are as follows:

Building value	\$75,000
Land value	\$15,000
Total purchase price	\$90,000
Expenses connected with the purchase:	
Legal fees	\$3,000
Land transfer taxes	\$2,000
Total fees	\$5,000

Trevor's farming business has a December 31 year end. In 1996, Trevor's farming income was \$6,000, and his expenses were \$4,900. Therefore, his net income before deducting CCA was \$1,100 (\$6,000 - \$4,900).

Before Trevor can complete his CCA schedule, he has to calculate the capital cost of the building. Since land is not depreciable farm property, he has to calculate the part of the expenses connected with the purchase that relates only to the building. To do this, he has to use the following formula, which we explain on page 26 under the heading, "Land."

$$\frac{\$75,000}{\$90,000} \times 5,000.00 = \$4,166.67$$

This \$4,166.67 represents the part of the \$5,000 in legal fees and land transfer taxes that relates to the purchase of the building, while the remaining \$833.33 relates to the purchase of the land. Therefore, the capital cost of the building is:

Building value	\$ 75,000.00
Related expenses	4,166.67
Capital cost of the building	\$79,166.67

Trevor enters \$79,166.67 in column 3 of Area B.

He includes \$15,833.33 (\$15,000 + \$833.33) on line 8302 of Area F as the capital cost of the land.

Note

Trevor never owned farm property before 1996. Therefore, he has no undepreciated capital cost to enter in column 2 of Area E.

Trevor acquired his farm property in 1996. Therefore, he is subject to the 50% rule that we explain under the heading "Column 6 - Adjustment for current-year additions" on page 28.

Chapter 4 – Eligible capital expenditures

What is an eligible capital expenditure?

You may buy property that has no physical existence, but gives you a lasting economic benefit. Some examples are milk and egg quotas. We call this kind of property **eligible capital property**. The price you pay to buy this kind of property is an **eligible capital expenditure**.

What is an annual allowance?

You cannot deduct the full cost of an eligible capital expenditure, since the cost is capital and the eligible capital property gives you a lasting economic benefit. However, you can deduct part of its cost each year. We call the amount you can deduct your **annual allowance**.

What is a cumulative eligible capital (CEC) account?

This is the bookkeeping record you set up to determine your annual allowance. You also use your CEC account to keep track of the property you buy and sell. We call the property in your CEC account your **eligible capital property**. You base your annual allowance on the balance in your account at the end of your fiscal period. Keep a separate account for each business.

How to calculate your annual allowance

Complete the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 1996 fiscal period.

Calculating your annual allowance and your CEC account at the end of your 1996 fiscal period	
Balance in the account at the start of your 1996 fiscal period	_____ A
Eligible capital expenditures you made in your 1996 fiscal period	_____ B
75% × B	_____ C
Line A plus line C	_____ D
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 1996 fiscal period	_____ E
All the amounts that became receivable in your 1996 fiscal period from the sale of eligible capital properties before June 18, 1987	_____ F
Line E plus line F	_____ G
75% × G	_____ H
Cumulative eligible capital account balance Line D minus line H	_____ I
Annual allowance 7% × I	_____ J

Note

For fiscal periods ending after February 22, 1994, your CEC account is reduced by 3/4 of the amount of any assistance received or receivable from a government. Also, if an amount of debt is forgiven on a debt obligation, your CEC account will be reduced. For more information on forgiveness of debt, contact your tax services office or tax centre.

You can deduct an annual allowance as long as there is a **positive** balance in your CEC account at the end of your 1996 fiscal period. You can deduct up to a maximum of 7% of the balance, but you do not have to deduct the maximum annual allowance. If there is a **negative** balance in your CEC account, see the section called "Sale of eligible capital property – Fiscal period ending in 1996" on page 36.

Example

Heather started her farming business on January 1, 1996. Her business has a December 31 year end. During 1996, she bought a milk quota for \$16,000. To calculate her annual allowance and her CEC account balance at the end of her fiscal year, she completes the chart as follows:

Balance at the start of Heather's 1996 fiscal period	\$ _____ 0 A
Heather's eligible capital expenditure: milk quota	\$ <u>16,000</u> B
75% × B	<u>12,000</u> C
Line A plus line C	<u>12,000</u> D
Heather does not have any amounts to include on lines E to H. Therefore, her cumulative eligible account balance is the amount on line D	<u>12,000</u> I
Heather's annual allowance is 7% × I	\$ _____ 840 J
Balance at the end of 1996 (line I minus line J)	\$ <u>11,160</u>

Did you own eligible capital property at the end of February 22, 1994?

The \$75,000 capital gains deduction is no longer available for dispositions of eligible capital property after February 22, 1994. However, if you owned this type of property at the end of February 22, 1994, and you have not used all of your \$75,000 capital gains deduction, there is a special election that may be available to you.

This election allows you to report an accrued capital gain on your income tax return and to claim a capital gains deduction, even though you did not actually sell your eligible capital property. To make this election, you have to complete and file Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*.

In most cases, this election was available only for the 1994 taxation year and you had to file it by April 30, 1995. If you did not file an election by April 30, 1995, and you would like to take advantage of it for the 1994 taxation year, we will accept a late election up to April 30, 1997, if you estimate and pay a penalty at the time you actually file it.

If you sold eligible capital property after February 22, 1994, and realized a capital gain, you can file this election to report the capital gain accrued up to February 22, 1994, and you can claim a capital gains deduction on your 1994 return.

For information on how to calculate the penalty, see the *Capital Gains Election Package*. The package includes Form T664. If you want to make a late election, do not submit an amended 1994 income tax return. Instead, complete and submit Form T664, together with payment of the estimated penalty, to the Enquiries and Adjustments Section at your tax centre.

Election available for the 1995 taxation year

The election described above was available for the 1995 taxation year if you owned eligible capital property at the end of February 22, 1994, and your **business fiscal year that included February 22, 1994, ended in 1995**. Generally, you had to file this election by June 15, 1996. If you did not file an election by June 15, 1996, and you would like to take advantage of it for the 1995 taxation year, we will accept a late election up to June 15, 1998. When you file Form T664, you will have to estimate and pay a penalty. For information about filing the election and calculating the penalty, see the *Capital Gains Election Package*.

How the election works

You cannot make the election on only one eligible capital property. You have to make the election for all eligible capital property of the business you operated at the end of the day on February 22, 1994. If you had more than one farming business at the end of the day on February 22, 1994, you may be able to elect for all eligible capital property of any one or more of the farming businesses you operated. However, you have to make a separate election for each farming business.

When you make the capital gains election, you will have to report a taxable capital gain on your income tax return as if you had disposed of all of the eligible capital property of the business on February 22, 1994, for an amount you designate in the election. This amount becomes your **designated proceeds of disposition**. Your designated proceeds of disposition should **not be more than** the fair market value (FMV) of the property at the end of February 22, 1994. This taxable capital gain calculation will also take into account all of the eligible capital property of the business sold earlier in the fiscal period. Before making this election, it is important that you know your **taxable capital gains limit** for the election. To calculate this amount, see the section called "Calculating your taxable gains limit for the election" in the *Capital Gains Election Package*. You can get this publication from your tax services office or your tax centre.

Your cumulative eligible capital account does not change as a result of your election. Instead your elected capital gains creates an **exempt gains balance** for your farming business. You can use your exempt gains balance to reduce your farming income from the disposition of eligible capital property (other than the recapture of the annual allowances deducted in previous years). The total amount of farming income from the disposition of the eligible capital property

(other than the recapture of annual allowance deducted in previous years) that you can reduce is limited to the extent of your exempt gains balance.

Note

If you filed a capital gains election for qualified farm property (see the definition on page 43), we consider you to have sold the property and to have immediately reacquired it. If you filed the election for qualified farm property that you acquired before June 18, 1987, which you use or have used in your farming business, your property may not qualify for the capital gains deduction if you dispose of the property in the future. If this is the case, you may be able to cancel your election before 1998.

Are you a member of a partnership?

If you are a member of a partnership and want to take advantage of the election described earlier, you can only make the election for your interest in the partnership. That election was available for the 1994 taxation year only. If you did not file an election by April 30, 1995, and you would like to take advantage of it for the 1994 taxation year, we will accept a late election up to April 30, 1997, provided you estimate and pay a penalty at the time you actually file it. For information on how to calculate the penalty, see the guide called the *Capital Gains Election Package*. You can get this publication from your tax services office or your tax centre.

We consider a partnership to be a **flow-through entity**. You will find the definition of flow-through entity in the guide called the *Capital Gains Election Package*. When you make this election on Form T664 for your partnership interest, you will create an **exempt capital gains balance**. You can use your exempt capital gains balance to reduce your share of the farming income that the partnership earns on the eventual sale of the eligible capital property (other than recapture of annual allowances deducted in previous years). You do this by claiming a **business income reduction**. To calculate this business income reduction, see Chapter 4 of the income tax guide called *Capital Gains*.

Sale of eligible capital property – fiscal period ending in 1996

When you sell eligible capital property, you have to subtract part of the proceeds of disposition from your cumulative eligible capital account.

You have to do this calculation if you sell eligible capital property:

- in your 1996 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 1996 fiscal period.

For 1996, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all eligible capital property you sell in your 1996 fiscal period (include the total amount from a sale even if you do not get any or all of the proceeds until after 1996); and

- the amount of any proceeds that become due to you in your 1996 fiscal period from eligible capital property you sold before June 18, 1987.

If you have a negative balance in your CEC account after you subtract the required amount, you have to include the balance in your farming income.

Example

Martin has operated a farming business since January 1993. He has a December 31 year end. In January 1993, Martin bought a milk quota for \$15,000. He deducted annual allowances each year as follows:

1993	\$ 788
1994	732
1995	<u>681</u>
Total	\$2,201

In January 1996, the balance in Martin's CEC account was \$9,049. In September 1996, he sold his milk quota for \$16,000. Martin's CEC account for his 1996 fiscal period is as follows:

Balance in Martin's CEC account at the beginning of his 1996 fiscal period	\$ <u>9,049</u>
minus	
Proceeds of disposition from the sale of his milk quota (\$16,000 × 75%)	<u>12,000</u>
Negative account balance	<u>(\$ 2,951)</u>
Martin will calculate the amount to include in his farming income as follows:	
Negative balance in CEC account	\$ <u>2,951</u> A
Annual allowances deducted in previous years	\$ <u>2,201</u> B
Recapture of allowances deducted in previous years (the lesser of lines A and B)	\$ <u>2,201</u> C
Farming income (other than recapture of allowances deducted in previous years) (line A minus line C)	\$ <u>750</u> D
Total farming income from the sale of eligible capital property (line C plus line D)	\$ <u>2,951</u> E

Martin did not file Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, for the 1994 taxation year for his eligible capital property. Had he filed Form T664 with respect to his eligible capital property, he may have been able to reduce all or part of his farming income (other than recapture of allowances deducted in previous years) on line D. For more details, read the section called "Did you own eligible property at the end of February 22, 1994?" on page 35. Martin will include \$2,951 as farming income from the sale of his milk quota on the line "Other income" of Form T2042.

If the property is considered a qualified farm property, part of the farming income may be eligible for the \$375,000 capital gains deduction. For more details, read the following section.

Farming income from the sale of eligible capital property eligible for the capital gains deduction

Part of your farming income from the sale of eligible capital property that is **qualified farm property** may be eligible for the \$375,000 capital gains deduction. You will find the definition of qualified farm property on page 43. If you have more than one business, make a separate calculation for each. If you are a sole proprietor, complete Chart 1 to calculate the amount eligible for the \$375,000 capital gains deduction from the sale of eligible capital property (ECP) that is qualified farm property (QFP). If your farming business is a partnership, complete Chart 2.

Note

If you do not wish to take advantage of the \$375,000 capital gains deduction for 1996, do not complete these charts.

**Chart 1 – Sole proprietor
Farming income eligible
for the capital gains deduction**

Farming income from the sale of ECP (other than recapture of annual allowances deducted in previous years) for 1996 before applying your exempt gains balance _____ **A**

All or part of your exempt gains balance for the business that you are using to reduce the amount on line A for 1996 _____ **B**

Line A **minus** line B _____ **C**

All proceeds of disposition after 1987 from the sale of ECP that is QFP _____ **D**

All eligible capital expenditures made or incurred for QFP sold after 1987 _____ **E**

Outlays and expenses related to dispositions described on line D not deducted in computing income _____ **F**

Line E **plus** line F _____ **G**

Line D **minus** line G _____ **H**

Amount from line H _____ x 3/4 = _____ **I**

All taxable capital gains from the dispositions of ECP of the farming business that is QFP for fiscal periods that began after 1987 and ended before February 23, 1994 _____ **J**

Farming income eligible for the capital gains deduction from the sale of ECP that is QFP for fiscal periods that began after February 22, 1994 _____ **K**

Line J **plus** line K _____ **L**

Line I **minus** line L _____ **M**

Farming income eligible for the capital gains deduction for 1996 (the lesser of line C and line M) _____ N

Enter the amount from line N above on line 529 of Schedule 3. To claim the \$375,000 capital gains deduction, use Form T657, *Calculation of Capital Gains Deduction for 1996 on All Capital Property*. You can get this form from your tax services office or tax centre.

**Chart 2 – Partnerships
Farming income eligible
for the capital gains deduction**

Farming income from the sale of ECP (other than recapture of annual allowances deducted in previous years) for 1996 _____ **A**

All proceeds of disposition after 1987 from the sale of ECP that is QFP _____ **B**

All eligible capital expenditures made or incurred for QFP sold after 1987 _____ **C**

Outlays and expenses related to dispositions described on line B not deducted in computing income _____ **D**

Line C **plus** line D _____ **E**

Line B **minus** line E _____ **F**

Amount from line F _____ x 3/4 = _____ **G**

All taxable capital gains from the disposition of ECP for the farming business that is QFP for fiscal periods that began after 1987 and ended before February 23, 1994 _____ **H**

Farming income eligible for the capital gains deduction from the sale of ECP that is QFP for fiscal periods that began after February 22, 1994 _____ **I**

Line H **plus** line I _____ **J**

Line G **minus** line J _____ **K**

Farming income eligible for the capital gains deduction for 1996 (the lesser of line A and line K) _____ **L**

Your share of the amount on line L _____ **M**

The amount you claimed as business income reduction for 1996 _____ **N**

Your share of the farming income eligible for the capital gains deduction (line M minus line N) _____ O

Enter the amount from line O above on line 529 of Schedule 3. To claim the \$375,000 capital gains deduction, use Form T657, *Calculation of Capital Gains Deduction for 1996 on All Capital Property*. You can get this form from your tax services office or tax centre.

Replacement property

If you sell an eligible capital property and replace it with another one, you can postpone all or part of any gain on the sale. To do this, you have to replace the property no later than one year after the end of the tax year in which you sell the original property.

In a few cases, you can postpone or defer adding a capital gain or recapture to income. Under proposed changes, this happens to the extent that the proceeds of disposition of the former property are reinvested by you in a replacement property within a certain period of time and it is reasonable to conclude that the property was acquired by you to replace the former property or it was acquired and used by you or a person related to you for the same or similar use to which you or the person related to you put the former property.

For more information about eligible capital expenditures, see:

- Interpretation Bulletin IT-123, *Transactions Involving Eligible Capital Property*, and its Special Release;
- Interpretation Bulletin IT-143, *Meaning of Eligible Capital Expenditure*, and its Special Release; and
- Interpretation Bulletin IT-259, *Exchanges of Property*, and its Special Release.

Chapter 5 – Farm losses

When the expenses for your farming business are more than the income for the year, you have a net operating loss. However, before you can calculate your net farm loss for the year, you may have to increase or decrease the loss by certain adjustments explained in the sections called “Line 8239 – Optional inventory adjustment included in 1996” and “Line 8240 – Mandatory inventory adjustment included in 1996” on page 19.

If you show a net farm loss for the year, read this chapter for information on how to treat your loss. For more details on farm losses, see Interpretation Bulletin IT-322, *Farm Losses*.

The amount of the net farm loss you can deduct depends on the nature and extent of your business. Your farm loss may be:

- fully deductible;
- partly deductible (restricted farm loss); or
- non-deductible.

If, after you read the parts that follow, you are not sure how to treat your farm loss, or if you are not sure whether farming was your chief source of income, contact the Business Enquiries Section of your tax services office. You can find the number listed under “Revenue Canada” in the Government of Canada section of the telephone book.

Fully deductible

If you made your living from farming, we consider farming as your chief source of income. As long as farming was

your chief source of income, you can deduct the full amount of your net farm loss from other income. Farming can still be your chief source of income even if your farm did not show a profit. Other income could come from investments, part-time employment, and so on.

To determine if farming was your chief source of income, you need to consider such factors as:

- gross income;
- net income;
- capital invested;
- cash flow;
- personal involvement;
- your farm’s ability to make a profit (both actual and potential); and
- plans to maintain or develop your farm and how you carried out these plans.

Although you may have been a partner in a farming business, you still have to determine if farming was your own chief source of income.

When farming is your chief source of income and you show a net farm loss in 1996, you may have to reduce the loss when you have other income (including any forward-averaging income) in 1996. Any loss that is left is your farm loss for 1996.

Example

Rick’s business has a December 31 fiscal year end. His farm loss before adjustments is \$50,000. He wants to reduce his loss by the optional inventory adjustment (OIA). Rick wrote down the following for 1996:

Net farm loss before adjustments	\$ 50,000
Optional inventory adjustment	\$ 15,000
Other income	\$ 2,000

To reduce the loss amount, Rick adds back his OIA. He determines his farm loss for 1996, as follows:

Farm loss before adjustments	(\$ 50,000)
Add optional inventory adjustment	\$ <u>15,000</u>
Farm loss after adjustments	(\$ 35,000)
Add other income	\$ <u>2,000</u>
Farm loss for 1996	(\$ <u>33,000</u>)

Carryback – 1996 farm loss

You can carry your 1996 farm loss back for up to three years. You can also carry it forward up to ten years. In both cases, you can deduct it from your income from all sources in those years.

If you choose to carry back your 1996 farm loss to your 1993, 1994, or 1995 income tax returns, complete Form T1A, *Request for Loss Carryback*. File one copy of the form with your 1996 income tax return. Do not file an amended return for the year in which you apply the loss.

Applying your farm losses from years before 1996

To your 1996 return, you may be able to apply farm losses you had in 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, or 1995. You can apply these losses if you did not already deduct them, and if you have net income in 1996. To apply these losses to 1996, you have to apply the loss from the earliest year first.

Non-capital loss

You may have incurred a loss in 1996 from a business that was not from farming. If this loss is more than your other income for the year, you may have a non-capital loss. Use Form T1A to calculate your 1996 non-capital loss.

You can carry back your 1996 non-capital loss up to three years and forward up to seven years.

If you choose to carry back your 1996 non-capital loss to your 1993, 1994, or 1995 income tax returns, complete Form T1A. File one copy of the form with your 1996 income tax return. Do not file an amended return for the year in which you apply the loss.

For more details about non-capital losses, see Interpretation Bulletin IT-232, *Non-Capital Losses, Net Capital Losses, Restricted Farm Losses, Farm Losses and Limited Partnership Losses – Their Composition and Deductibility in Computing Taxable Income*.

Partly deductible (restricted farm losses)

You may have run your farm as a business. For your farm to have been a business, it must have been able to either make a profit, or you must have expected it to make a profit in the near future.

However, if farming was not your chief source of income (for example, you did not rely on farming alone to make your living), you may be able to deduct only part of your net farm loss.

Each year you have a farm loss, check your situation carefully to see if farming was your chief source of income. It is important to do this, since a farming loss may be restricted in one year, while a farming loss in another year may not be restricted.

How to calculate your restricted farm loss

Farming may not have been your chief source of income and you may have had a net farm loss. The loss you can deduct depends on the amount of your net farm loss.

When your net farm loss is \$15,000 or more, you can deduct \$8,750 from your other income. The rest of your net farm loss is your restricted farm loss.

When your net farm loss is less than \$15,000, the amount you can deduct from your other income is one of the following two amounts, whichever is less:

- A. your net farm loss for the year; or
- B. \$2,500, plus $1/2 \times (\text{your net farm loss minus } \$2,500)$.

The amount remaining is your restricted farm loss.

Note

When the farm loss you deduct is different from your actual farm loss because of the restricted farm loss calculation, you should indicate this on your income tax return on the "Farming Income" line on page 1 of your income tax return. For example, you can do this by noting "restricted farm loss," "RFL," or "Section 31" to the left of line 168.

Example

Sharon ran a cattle farm which was capable of making a profit. However, farming was not her chief source of income in 1996. In 1996, she had a net farm loss of \$9,200, which she calculated on line 8243 of her Form T2042, *Statement of Farming Activities*. The part of Sharon's net farm loss she can deduct from her other income in 1996 is either amount A or amount B, whichever is less:

- A. \$9,200; or
- B. \$2,500 plus $1/2 \times (\$9,200 \text{ minus } \$2,500) = \$3,350$.

Therefore, $B = \$2,500 \text{ plus } \$3,350 = \$5,850$.

Since Sharon can only deduct either A or B, whichever amount is less, she enters \$5,850 on line 141 of her income tax return and deducts this amount from her other income in 1996. Her restricted farm loss is the amount that remains, which is \$3,350 (\$9,200 minus \$5,850). On her return, Sharon indicates that the loss she is deducting is the result of a restricted farm loss calculation by entering "Section 31" to the left of line 168.

Applying your 1996 restricted farm loss

You can carry back your 1996 restricted farm loss up to three years, and carry it forward up to ten years. The amount you deduct in any year cannot be more than your net farm income for that year. In other words, if you have no farm income in any of those years, you cannot deduct any restricted farm loss.

To carry back your 1996 restricted farm loss to your 1993, 1994 or 1995 income tax returns, use Form T1A. File one copy of the form with your 1996 income tax return. Do not file an amended return for the year you would like the loss applied to.

Applying your restricted farm losses from years before 1996

You may have net farm income in 1996. If so, you may be able to apply to your 1996 return restricted farm losses you had in 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, or 1995. You can apply these losses as long as you did not already deduct them from your farming income. Also, you can only apply them up to the amount of your net farm income in 1996. You have to apply the loss from the earliest year first, before you apply the losses from other years.

You may have sold farmland at a time when you had restricted farm losses that you did not claim. When this happens, you may be able to reduce the amount of your capital gain from the sale. For more details, see the section called "Restricted farm losses" on page 43.

Non-deductible

If you did not run your farm as a business, you cannot deduct any part of your net farm loss. For your farm to have been a business, it must have been able to make a profit. If it was not making a profit, you must show that it can reasonably be expected to make a profit in the near future.

The size and scope of your farm may make it impossible for the farm to make a profit, either now or in the near future. In this case, you cannot deduct your farm loss. We consider this kind of farm to be personal. Therefore, any farm expenses are personal expenses.

Chapter 6 – Capital gains

General information

This chapter explains the capital gains rules for people who farm. We cover the general capital gains rules in the income tax guide called *Capital Gains*.

Throughout this chapter, we use the terms "sell," "sold," "buy," or "bought." These words describe most capital transactions. However, the information in this chapter also applies to deemed dispositions or acquisitions. When reading this chapter, you can use the terms "sold" instead of "disposed of" and "bought" instead of "acquired," if they more clearly describe your situation.

List the dispositions of all your properties on Schedule 3, *Capital Gains (or Losses) in 1996*. You can get this schedule in the *General Income Tax Guide* package.

You may be a member of a partnership that provides you with a T5013 Supplementary slip, *Statement of Partnership Income*. If the partnership has a capital gain, the partnership will allocate part of that gain to you. The gain will show on the partnership's financial statements, or on your T5013 Supplementary slip.

What is a capital gain?

You have a capital gain when you sell, or are considered to have sold, a capital property for more than its adjusted cost base plus the expenses or outlays you incurred to sell the property. To calculate your capital gain, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

In most cases, capital property includes land, buildings, and equipment that you used in your farming business. Therefore, capital property includes depreciable and non-depreciable property.

Not all of your capital gain is taxable. For 1996, your taxable capital gain is 75% of your capital gain. You have to include your taxable capital gain in income.

A disposition of depreciable property may result in a capital cost allowance recapture. We explain recapture on page 27.

What is a capital loss?

You have a capital loss when you sell, or are considered to have sold, capital property for less than its adjusted cost base plus the expenses or outlays you incurred to sell the property. To calculate your capital loss, subtract the adjusted cost base of your property from the proceeds of disposition. From this amount, subtract any outlays or expenses you incurred when selling your property.

Not all of your capital loss is deductible. For 1996, your allowable capital loss is 75% of your capital loss. You can generally only deduct an allowable capital loss from a taxable capital gain.

A loss on a disposition of depreciable property may only result in a terminal loss. We explain terminal loss on page 27.

Definitions

Before you can determine your capital gain or capital loss, you will need to know the following terms.

Proceeds of disposition

In most cases, the proceeds of disposition is the sale price of the property. We define this term on page 25.

Adjusted cost base (ACB)

The ACB is the original cost of the property (including amounts you paid to buy it, such as commissions and legal fees). ACB includes other costs, such as the cost of any additions, or the cost to renovate or improve the property.

Selling expenses

Selling expenses include costs such as commissions, surveyors' fees, transfer taxes, and advertising costs.

Fair market value (FMV)

This is generally the highest dollar value you can get for your property in an open and unrestricted market between a willing and informed buyer and a willing and informed seller who are dealing at arm's length with each other. We define non-arm's-length transaction on page 25.

How to calculate your capital gain or loss

To calculate your capital gain or capital loss, use the following formula:

Proceeds of disposition	_____	A
Adjusted cost base	_____	B
A minus B	_____	C
Selling expenses	_____	D
C minus D = Capital gain (loss)	_____	E

Note

You have to separately calculate the capital gain or loss on each property.

Did you sell capital property in 1996 that you owned before 1972?

If you did, you have to apply a special set of rules when you calculate your capital gain or capital loss, since you did not have to pay tax on capital gains before 1972. To help you calculate your gain or loss from the sale of property you owned before 1972, use Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972*. You can get this form from your tax services office or tax centre.

Disposing of farmland that includes your principal residence

Your home is often your principal residence. If your home was your principal residence for every year you owned it, you generally do not pay tax on any capital gains when you dispose of it. Therefore, if you sold farmland that included your home in 1996, only part of the gain is taxable. You can choose one of two methods to determine your taxable capital gain. Try both methods so you can decide which one is best for you.

We usually consider one acre of land (1/2 hectare) on which your residence is situated to be part of your principal residence. We will allow you more if you can prove that you needed more land to use and enjoy your principal residence.

Method 1

Separately calculate the capital gain on your principal residence and each of your farm properties. To do this, apportion the proceeds of disposition, the ACB, and any selling expenses between:

- your principal residence; and
- each of your farm properties.

Then, calculate the taxable capital gain on your principal residence, if any, and each of the farm properties.

Value the land that is part of your principal residence at one of the following two amounts, whichever is more:

- the FMV of the land; or
- the FMV of a comparable residential building site in the area.

Example

Helena sold her 32-acre farm, which included her principal residence. One acre of land is part of her principal residence. Helena has these details:

Value of land when she purchased her farm

FMV of similar farmland per acre	\$ 7,500
FMV of a typical residential building site in the area	\$ 15,000

Value of land when she sold her farm

FMV of similar farmland per acre	\$ 12,000
FMV of a typical residential building site in the area	\$ 25,000

Adjusted cost base (ACB)

Land	\$120,000
House	60,000
Barn	16,000
Silo	<u>4,000</u>
Total	<u>\$200,000</u>

Proceeds of disposition

Land	\$200,000
House	75,000
Barn	20,000
Silo	<u>5,000</u>
Total	<u>\$300,000</u>

	Proceeds of disposition	Principal residence	Farm properties	Total
Land		\$ 25,000*	\$175,000	\$200,000
House		75,000		75,000
Barn			20,000	20,000
Silo			<u>5,000</u>	<u>5,000</u>
		<u>\$100,000</u>	<u>\$200,000</u>	<u>\$300,000</u>
Minus ACB				
Land		\$ 15,000*	\$105,000	\$120,000
House		60,000		60,000
Barn			16,000	16,000
Silo			<u>4,000</u>	<u>4,000</u>
		<u>\$ 75,000</u>	<u>\$125,000</u>	<u>\$200,000</u>
Gain on sale		\$ 25,000	\$ 75,000	\$100,000
Minus: Gain on principal residence**		<u>25,000</u>		<u>25,000</u>
Capital gain		<u>NIL</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>
Taxable capital gain (75% × \$75,000)				\$ 56,250

* Helena uses the value of a typical residential building site for the land that is part of her principal residence, since the FMV of a typical site in the area is more than the FMV of one acre of farmland.

**Because Helena's home was her principal residence during all the years she owned it, the capital gain is not taxable.

Note

If your home was **not** your principal residence for every year you owned it, there could be a capital gain on it that you have to include in your income. Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, will help you calculate the number of years for which you are entitled to designate your home as your principal residence and calculate the part of your gain, if any, that is taxable. You can get this form from your tax services office or tax centre.

Method 2

Determine the capital gain on your land and your principal residence. To the gain, then apply a reduction of \$1,000, plus \$1,000 for each year after 1971 the property was your principal residence and you were a resident of Canada. Using Method 2, you can reduce a gain to nil, but you cannot create a loss.

To calculate your capital gain, use the following formula:

Proceeds of disposition	_____	A
Adjusted cost base	_____	B
A minus B	_____	C
Selling expenses	_____	D
Capital gain before reduction - C minus D	_____	E
Method 2 reduction	_____	F
Capital gain after reduction - E minus F	_____	G

Note

Transfer the entries on lines A, B, D, and G to the relevant columns on Schedule 3, under "Qualified farm property" or "Real estate and depreciable property."

If you choose this method, attach a letter to your income tax return that includes the following information:

- you sold your farm and are electing under subparagraph 40(2)(c)(ii) of the *Income Tax Act*;
- a description of the property you sold; and
- the number of years after 1971 the farmhouse was your principal residence during which you were a resident of Canada (if you purchased your farm after 1971, give the date you purchased it).

To show the value of your property, in whichever of the two methods you choose, keep documents that have the following information:

- a description of the farm, including the size of the buildings and construction type;
- the cost and date of the purchase;
- the cost of any additions or improvements you made to the property;
- the assessment for property tax purposes;
- any insurance coverage;
- the type of land (arable, bush, or scrub); and
- your type of farm operation.

If you need more details, read Interpretation Bulletin IT-120, *Principal Residence*.

Restricted farm losses

You may have a capital gain from farmland you sell in 1996. You may also have restricted farm losses from previous years that you have not yet used. In this case, you can deduct part of these losses from the gain. The part you can deduct is the property taxes and the interest on money you borrowed to buy the land, if you included these amounts in the calculation of the restricted farm loss in question.

You cannot use the restricted farm loss to create or increase a capital loss on the sale of your farmland.

Qualified farm property and cumulative capital gains deduction

If you have a taxable capital gain from the sale of qualified farm property, you may be able to claim a capital gains deduction. We explain qualified farm property below. For details on how to calculate your capital gains deduction, see the income tax guide called *Capital Gains*.

Since only three-quarters of your gain is taxable, the maximum capital gains deduction you can claim for disposing of qualified farm property is \$375,000 ($\$500,000 \times 75\%$).

Note

If you filed a capital gains election for qualified farm property (see the definition below), we consider you to have sold the property and to have immediately reacquired it. If you filed the election for qualified farm property that you acquired before June 18, 1987, which you use or have used in your farming business, your property may not qualify for the capital gains deduction if you dispose of the property in the future. If this is the case, you may be able to cancel your election before 1998.

You may be a member of a partnership that sold capital property. In this case, the partnership includes any taxable capital gain in its income. However, as a partner, you can only claim the capital gains deduction for your share of the gain on qualified farm property.

What is qualified farm property?

Qualified farm property is certain property you or your spouse own. It is also certain property owned by a family-farm partnership in which you or your spouse holds an interest. We define spouse in *the General Income Tax Guide*.

Qualified farm property includes:

- a share of the capital stock of a family-farm corporation that you or your spouse owns;
- an interest in a family-farm partnership that you or your spouse owns;
- real property, such as land and buildings; and
- eligible capital property, such as milk and egg quotas.

Real property or eligible capital property as qualified farm property

Real property or eligible capital property is qualified farm property only if it is used to carry on a farming business in Canada by any one of the following:

- you, your spouse, or any of your parents or children (we define children on this page);
- the beneficiary of a personal trust, or the spouse, parent, or child of such a beneficiary;
- a family-farm corporation where any of the above persons owns a share of the corporation; or
- a family-farm partnership where any of the above persons (except a family-farm corporation) owns an interest in the partnership.

You may have bought or entered into an agreement to buy real or eligible capital property before June 18, 1987. We consider you to have used this property in carrying on a farming business in Canada if you meet one of these conditions:

- in the year you disposed of the property, it or the property it replaced was used principally in a farming business in Canada by any of the above persons or a family-farm partnership or corporation; or
- the property was used principally in a farming business in Canada for at least five years, during which the property was owned by any of the above persons or a family-farm partnership or corporation.

We will consider other real or eligible capital property to be used to carry on a farming business in Canada if you meet the following conditions:

- Throughout the 24 months before the sale, you, your spouse, any of your children, parents, a personal trust, or a family-farm partnership (in which any of these persons has an interest) must have owned the property.
- One of the following two conditions:
 - the property or the property it replaced was used mainly in a farming business in Canada in which any of the above persons was actively engaged on a regular and ongoing basis. Also, in any two years of ownership, the person's gross income from the farming business was larger than the person's income from all other sources in the year; or
 - a family-farm partnership or corporation used the property for at least 24 months, mainly to carry on a regular and continuous farming business in Canada. Also, during this time, you, your spouse, any of your children, or your parents must have been actively engaged in the farming business.

Transfer of farm property to a child

You may be able to transfer Canadian farm property to your child. When you do this, you can postpone tax on any taxable capital gain and any recapture of capital cost allowance until the child sells the property. To do this, **both** of these conditions have to be met:

- your child is a resident of Canada just before the transfer; and
- the farm property is used mainly in a farming business in which you, your spouse, or any of your children were actively engaged on a regular and ongoing basis before the transfer.

Your **children** include:

- your natural child, your adopted child, or your spouse's child;
- your grandchild or great-grandchild;
- your child's spouse; or
- another person who is wholly dependent on you for support and who is, or was immediately before the age of 19, in your custody and control.

The following types of properties qualify for this transfer:

- farmland;
- depreciable property, including buildings; and
- eligible capital property.

Furthermore, a share of the capital stock of a family farm corporation and an interest in a family farm partnership also qualify for this transfer if your child is a resident of Canada just before the transfer.

For most property, the transfer price can be any amount between the adjusted cost base (ACB) and its fair market value (FMV).

For depreciable property, the transfer price can be any amount between its undepreciated capital cost (UCC) and FMV. For eligible capital property, the transfer price can be any amount between:

- its FMV; and
- $4/3 \times$ your cumulative eligible capital property from the business \times $\frac{\text{FMV of the property}}{\text{FMV of all your eligible capital property from the farming business}}$

Example

Wade wants to transfer these farm properties to Vicky, his 19-year-old daughter.

Land	ACB	\$ 85,000
	FMV at the time of transfer	\$100,000
Combine	FMV	\$ 9,000
	UCC at the time of transfer	\$ 7,840

Therefore, Wade can transfer:

- the land at any amount between \$85,000 (ACB) and \$100,000 (FMV); and
- the combine at any amount between \$7,840 (UCC) and \$9,000 (FMV).

If Wade chooses to transfer the land at its ACB and the combine at its UCC, he postpones any taxable capital gain and any recapture of CCA. Also, if he does this, we consider that Vicky acquires the land at \$85,000 and the combine at \$7,840. When Vicky disposes of the land and the combine, she includes in her income any taxable capital gain and recapture that Wade postpones.

For more details, and for information about transfers of eligible capital property, see Interpretation Bulletin IT-268, *Inter Vivos Transfer of Farm Property to Child*, and its Special Releases.

Transfer of farm property to a child if a parent dies in 1996

We allow a tax-free transfer of a deceased taxpayer's Canadian farm property to a child if all of these conditions are met:

- the child was resident in Canada just before the parent's death;
- the property was used mainly in a farming business on a regular and ongoing basis by the deceased, the deceased's spouse, or any of the children, before the parent's death; and
- the property was transferred to the child no later than 36 months after the parent's death. (In some cases, we may allow the transfer, even if it took place later than 36 months after the parent's death. For more details, contact your tax services office or tax centre.)

The following types of farm property qualify for this transfer:

- land and buildings, or other depreciable property used in a farming business; and
- a share of the capital stock of a family-farm corporation, and an interest in a family-farm partnership, if the child was resident in Canada just before the parent's death and the property transfers to the child no later than 36 months after the parent's death. (In some cases, we may allow the transfer, even if it took place later than 36 months after the parent's death. For more details, contact your tax services office or tax centre.)

For most property, the transfer price can be any amount between the ACB and its FMV.

For depreciable property, the transfer price can be an amount between the property's FMV and a special amount. For more information, see Chapter 4, "Deemed Disposition of Property" in the income tax guide called *Preparing Returns for Deceased Persons*.

The deceased's legal representative will choose the amount in the year of death. We consider that the child acquires these properties at the amount chosen.

Similar rules also apply for property that a deceased person leased to the family-farm corporation or partnership.

If a child gets a farm from a parent and the child later dies, the property can be transferred to the surviving parent, based on the same rules.

Shares or other property of a family-farm holding corporation can also be transferred based on the same rules from a spouse trust to a child of the settlor.

For more details on these transfers, see Interpretation Bulletin IT-349, *Intergenerational Transfers of Farm Property on Death*, and its Special Release, and IT-449, *Meaning of "Vested Indefeasibly."*

Transfer of farm property to a spouse

A farmer can make a transfer of farm property to a spouse or a spouse trust during the farmer's lifetime. At the time of the transfer, the farmer can postpone any taxable capital gain or recapture of CCA.

If the spouse later disposes of the property, the farmer generally has to report any taxable capital gain, not the spouse. This rule applies to transfers made after 1971 where the farmer is living at the time the spouse sells the property. However, there are exceptions to this rule. For more details, see Interpretation Bulletin IT-511, *Interspousal and Certain Other Transfers and Loans of Property*.

A transfer of farm property can also occur after the farmer dies. For more information, see Chapter 4, "Deemed Disposition of Property" in the income tax guide called *Preparing Returns for Deceased Persons*.

Other special rules

You may also be able to postpone paying tax on capital gains under the following situations.

Reserves

When you dispose of a capital property, you usually receive full payment at that time. However, sometimes you receive the amount over a number of years. For example, you may sell a capital property for \$50,000 and receive \$10,000 at the time of the sale. You receive the remaining \$40,000 over four years. In this situation, you can claim a reserve. Generally, a reserve allows you to defer reporting part of the capital gain to the year in which you receive the proceeds. However, there is a limit to the number of years you can do this. For more information on reserves, see the income tax guide called *Capital Gains*.

Exchanges or expropriations of property

There are special rules that apply when you dispose of a property and replace it with a similar one, or when someone expropriates your property. For more details, see Interpretation Bulletin IT-259, *Exchanges of Property*, and its Special Release. You may also want to see IT-271, *Expropriations – Time and Proceeds of Disposition*, and IT-491, *Former Business Property*, and its Special Release.

Chapter 7 – Investment tax credit

The investment tax credit lets you subtract, from the taxes you owe, part of the cost of some types of property you acquired or expenditures you incurred. You may be able to claim this tax credit if you bought qualifying property or incurred qualifying expenditures in 1996. You may also be able to claim the credit if you have unused investment tax credits from years before 1996.

In 1994, the annual limit on investment tax credit claims was eliminated. This allows you to fully claim your investment tax credits against your federal tax and federal individual surtax payable, unless Alternative Minimum Tax applies. This change applies to current-year investment tax credits and those you previously earned but have not yet claimed. Investment tax credits being carried back to a year before 1994 will still be subject to the previous annual limit.

The specified percentages you use to calculate your investment tax credits are as follows:

- The rate for qualified expenditures for scientific research and experimental development to be carried out in the Atlantic provinces or the Gaspé Peninsula is 20%. Expenditures incurred according to a written agreement you entered into before February 22, 1994, will qualify for a 30% rate.
- The rate for qualified property to be used in the Atlantic provinces, the Gaspé Peninsula, or a prescribed offshore region is 10% for property acquired after 1994. Qualified property you acquired according to a written agreement of purchase you entered into before February 22, 1994, under construction by you or on your behalf on that date, or machinery or equipment that will be a fixed and integral part of property under construction by you or on your behalf on that date, will qualify for a 15% rate.
- The 30% rate for certified property has been discontinued for property you acquired after 1994. However, certain certified property you acquired according to a written agreement of purchase you entered into before February 22, 1994, under construction by you or on your behalf on that date, or machinery or equipment that will be a fixed and integral part of property under construction by you or on your behalf on that date, will still qualify for an investment tax credit.

What is a refundable investment tax credit?

Property purchased, or expenditures made, in 1996

You may be able to claim a refundable investment tax credit if you purchased one of the following types of property, or made the following expenditure, in 1996:

- qualified property;
- certain certified property; or
- qualified expenditure.

In all cases, the property you bought has to be new and available for use. A property is available for use when the seller delivers it and it is in working order. See page 24 for the definition of available-for-use.

Qualified property

This includes some types of new buildings, machinery, and equipment, which are prescribed in section 4600 of the *Income Tax Regulations*. You must acquire the property and use it for designated purposes in specific areas.

We cannot list all the properties that qualify in this guide. To determine if your property qualifies, contact your tax services office or tax centre.

Designated purposes include activities such as logging, storing grain, producing industrial minerals, manufacturing or processing goods for sale or lease, farming, and fishing. For a list of other designated purposes, contact your tax services office or tax centre.

The specific areas are Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, the Gaspé Peninsula, or a prescribed offshore region in the area off the east coast of Canada that we consider to be part of Canada.

Certified property

This is a particular type of qualified property. To determine if your property qualifies, contact your tax services office or tax centre.

To qualify, you have to acquire the property to use in a prescribed area. You will find a list of these areas in Information Circular 78-4, *Investment Tax Credit Rates*, and its Special Release.

The property must be part of a facility approved under the *Regional Development Incentives Act*. A facility means the structures, machinery, and equipment that make up the necessary parts of a manufacturing or processing operation. There are some limits for resource-based industries.

Qualified expenditure

To be a qualified expenditure, the amount has to be for scientific research and experimental development (SR&ED.)

If you are claiming an investment tax credit for a qualified expenditure in SR&ED, file Form T661, *Claim for Scientific Research and Experimental Development (SR&ED) Expenditures Carried on in Canada* with your income tax return.

Note

You do not have to file Form T661 if you are making your claim based on a credit allocated to you by a partnership on Form T5013 Supplementary, *Statement of Partnership Income*.

There are new rules for SR&ED expenditure pools for 1996. For more details, see the following publications:

- The guide to Form T661, *Claiming Scientific Research and Experimental Development Expenditures*;
- Information Circular 86-4, *Scientific Research and Experimental Development*; and

- Interpretation Bulletin IT-151, *Scientific Research and Experimental Development Expenditures*.

Property purchased or expenditures made before 1996

You may have purchased property or made expenditures before 1996 that are eligible for the credit. However, you may not have used all the credit in the year you earned it, or in the three previous years. In this case, you may be able to apply any unused credit in 1996. To do this, complete Part A of Form T2038 (IND.), *Investment Tax Credit (Individuals) 1996 and Subsequent Years*.

How to calculate your 1996 investment tax credit

Base the investment tax credit on a percentage of the investment cost (the cost of the property you purchased or the expenses you incurred). The specified percentage you use to calculate the credit is on Form T2038 (IND).

If you are a member of a partnership, you should only include your portion of the partnership's investment or expenditure.

In some cases, you may have to either increase or decrease your investment cost. You have to decrease your investment cost by the amount of any reimbursement, inducement, and government or non-government assistance (including grants, subsidies, forgivable loans, or deduction from tax and investment allowances) that we can reasonably consider as related to the property or expenditure. If you repay any of this assistance, add the repayment to the investment cost. Calculate the credit for any repayment using the same percentage you used for the original investment cost.

Determine your credit at the end of the calendar year. However, the fiscal year-end of your farming business may differ from the end of the calendar year. In this case, include any credit you earn on the property you buy in the part of the calendar year that is after your fiscal year end. For example, suppose your fiscal period ends on June 30, 1996, and you buy property that is eligible for a credit in November 1996. You can claim a credit for the property you bought in November when you file your 1996 income tax return.

How to claim your 1996 credit

You can use the credit that you earn in 1996 to reduce your federal tax and surtax for the year, for a previous year, or for a future year.

Current-year claim

To calculate your claim to reduce your federal tax for 1996, complete Section I of Form T2038 (IND.) Enter the amount of your credit on line 412 of your income tax return. If a partnership or trust made the investments, enter only your share.

To determine your claim to reduce your federal individual surtax for 1996, complete Section II of the form. Enter the amount of your credit on line 518 of Schedule 1 and include it with your income tax return.

Carry back to previous years

You can carry back the credit you earn in 1996 for up to three years and use it to reduce your federal tax and surtax in those years. To do this, complete Part B of Form T2038 (IND.)

Carry forward to future years

You can carry forward, for up to 10 years, a credit you earn in 1996 that you did not use to reduce taxes in 1996 or in a previous year. However, you lose any credits you do not use within 10 years of earning them.

Refund of investment tax credit

If you do not use all of your refundable investment tax credit to reduce your taxes in the year or in the three previous years, we may refund up to 40% of your unused credit to you in cash. You can only claim this refund in the year you buy property or make an expenditure that qualifies for the credit, unless the available-for-use rules, or other rules deeming the expenditure to have been made in a subsequent year, apply.

To calculate your refund, complete Part B of Form T2038 (IND.). Enter this amount on line 454 of your income tax return. If a partnership or trust made the investments, enter only your share of the amount.

Adjustments

The amount of the credit you claim or that we refund to you in 1996 will reduce the capital cost of the property. Any 1996 credit you carry back to a previous year will also reduce the capital cost of the property. Make this adjustment in 1997. This adjustment will reduce the amount of capital cost allowance you can claim for the property. It will also affect your capital gain when you dispose of the property.

You might have claimed a credit or received a refund for 1996 for a property that you already disposed of. In addition, you might still have other property in the same class. If so, you have to reduce the undepreciated capital cost of the class for 1997 by the amount of the credit you claimed or received as a refund. If, after the disposition, you do not have any property left in the same class, include in your 1997 income the amount of the credit you claimed or received as a refund.

You have to reduce your scientific research and development (SR&ED) pool by the amount you claim in 1996 as an investment tax credit for SR&ED. Make this adjustment in 1997.

Capital cost allowance (CCA) rates

In this list, you will find the more common depreciable properties a farming business may use. We show the CCA rates at the end of the list. (For details on the CCA rates for classes 13, 14, and 34, contact your tax services office or tax centre.)

		Part XI			Part XI
Depreciable property		Class no.	Depreciable property		Class no.
Aircraft – Acquired before May 26, 1976	.....	16	Harness	.....	10
Aircraft – Acquired after May 25, 1976	.....	9	Harrows	.....	8
Automobiles	.....	10	Hay balers and stokers		
Bee equipment	.....	8	Drawn	.....	8
Boats and component parts	.....	7	Self-propelled	.....	10
Breakwaters			Hay loaders	.....	8
Cement or stone	.....	3	Ice machines	.....	8
Wood	.....	6	Incubators	.....	8
Brooders	.....	8	Irrigation equipment – Overhead	.....	8
Buildings and component parts			Irrigation ponds	.....	6
Wood, galvanized, or portable	.....	6	Leasehold interest	.....	13
Other:			Manure spreaders	.....	8
Acquired after 1978 and before 1988*	.....	3	Milking machines	.....	8
Acquired after 1987	.....	1	Mixers	.....	8
Fruit and vegetable storage (after Feb. 19, 1973)	.....	8	Mowers	.....	8
Casing, cribwork for waterwells	.....	8	Nets	.....	8
Chain saws	.....	10	Office equipment	.....	8
Cleaners – rain or seed	.....	8	Outboard motors	.....	10
Combines			Passenger vehicles (see Chapter 3)	.....	10 or 10.1
Drawn	.....	8	Piping – Permanent	.....	2
Self-propelled	.....	10	Planters – All types	.....	8
Computer hardware and systems software	.....	10	Ploughs	.....	8
Coolers – Milk	.....	8	Pumps	.....	8
Cream separators	.....	8	Rakes	.....	8
Cultivators	.....	8	Roads or other surface areas – Paved or concrete	.....	17
Dams			Silo	.....	8
Cement, stone, or earth	.....	1	Silo fillers	.....	8
Wood	.....	1	Sleighs	.....	10
Discs	.....	8	Sprayers	.....	8
Diggers – All types	.....	8	Stable cleaners	.....	8
Docks	.....	3	Stalk cutters	.....	8
Drills – All types	.....	8	Swathers		
Dugouts, dikes, and lagoons	.....	6	Drawn	.....	8
Electric-generating equipment (not more than 15 kW)			Self-propelled	.....	10
Acquired after May 25, 1976	.....	8	Tile drainage – Acquired before 1965	.....	8
Acquired before May 26, 1976	.....	9	Tillers – All types	.....	8
Electric motors	.....	8	Threshers	.....	8
Elevators	.....	8	Tools		
Engines – Stationary	.....	8	Less than \$200	.....	12
Fences – All types	.....	6	\$200 and more	.....	8
Forage harvesters			Tractors	.....	10
Drawn	.....	8	Trailers	.....	10
Self-propelled	.....	10	Trucks	.....	10
Graders – Fruit or vegetable	.....	8	Trucks (freight)	.....	16
Grain-drying equipment	.....	8	Wagons	.....	10
Grain loaders	.....	8	Water towers	.....	6
Grain separators	.....	8	Weeder	.....	8
Grain-storage building			Welding equipment	.....	8
Wood, galvanized steel	.....	6	Well equipment	.....	8
Other	.....	1	Wharves		
Greenhouses (all except as noted below)	.....	6	Cement, steel, or stone	.....	3
Greenhouses of rigid frames covered with replaceable			Wood	.....	6
flexible plastic (this applies to tax years after			Windchargers	.....	8
1988 for greenhouses acquired after 1987)	.....	8	Wind-energy conversion equipment	.....	34
Grinder	.....	8			

* You may add to or alter a class 3 building after 1987. In this case, there is a limit on the amount you can include in class 3. The most you can include in class 3 is the lower of \$500,000 or 25% of the building's cost on December 31, 1987. In class 1, include any costs you incur that are over this limit.

Rates – Part XI

Class 1	.....	4%	Class 9	.....	25%
Class 2	.....	6%	Class 10	.....	30%
Class 3	.....	5%	Class 10.1	.....	30%
Class 6	.....	10%	Class 12	.....	100%
Class 7	.....	15%	Class 16	.....	40%
Class 8	.....	20%	Class 17	.....	8%

How to calculate the mandatory inventory adjustment (MIA)

See page 19 in Chapter 2 for instructions on how to complete the following charts.

Chart 1
Cash cost of purchased inventory

Enter the amount you paid by the end of your 1996 fiscal period for the specified animals you bought:

- in your 1996 fiscal period \$ _____ A
- in your 1995 fiscal period _____ B
- in your 1994 fiscal period _____ C
- in your 1993 fiscal period _____ D
- in your 1992 fiscal period _____ E
- in your 1991 fiscal period _____ F
- in your 1990 fiscal period _____ G
- in your 1989 fiscal period _____ H
- before your 1989 fiscal period _____ I*

* To determine the amount for line I, multiply the amount you paid by the percentage shown below, and enter the result in the "Cash cost" column. Then, total all the years and enter this total on line I.

Fiscal period of purchase	Amount paid	Percentage	Cash cost
1988	_____	100%	\$ _____
1987 & 1986	_____	50%	_____
1985 & previous	_____	25%	_____
Total			_____

Enter the amount you paid by the end of your 1996 fiscal period for all the other inventory you bought:

- in your 1996 fiscal period \$ _____ J
- in your 1995 fiscal period _____ K
- in your 1994 fiscal period _____ L
- in your 1993 fiscal period _____ M
- in your 1992 fiscal period _____ N
- in your 1991 fiscal period _____ O
- in your 1990 fiscal period _____ P
- in your 1989 fiscal period _____ Q
- before your 1989 fiscal period _____ R

Chart 2
Value of purchased inventory for specified animals

Inventory bought in your 1996 fiscal period

Enter an amount that is not more than the amount on line A, but not less than 70% of this amount.

_____ S

Inventory bought in your 1995 fiscal period

Enter an amount that is not more than the amount on line B, but not less than 70% of the total of the value at the end of your 1995 fiscal period, plus any amounts paid in your 1996 fiscal period toward the purchase price.

_____ T

Inventory bought in your 1994 fiscal period

Enter an amount that is not more than the amount on line C, but not less than 70% of the total of the value at the end of your 1995 fiscal period, plus any amounts paid in your 1996 fiscal period toward the purchase price.

_____ U

Inventory bought in your 1993 fiscal period

Enter an amount that is not more than the amount on line D, but not less than 70% of the total of the value at the end of your 1995 fiscal period, plus any amounts paid in your 1996 fiscal period toward the purchase price.

_____ V

Inventory bought in your 1992 fiscal period

Enter an amount that is not more than the amount on line E, but not less than 70% of the total of the value at the end of your 1995 fiscal period, plus any amounts paid in your 1996 fiscal period toward the purchase price.

_____ W

Inventory bought in your 1991 fiscal period

Enter an amount that is not more than the amount on line F, but not less than 70% of the total of the value at the end of your 1995 fiscal period, plus any amounts paid in your 1996 fiscal period toward the purchase price.

_____ X

Inventory bought in your 1990 fiscal period

Enter an amount that is not more than the amount on line G, but not less than 70% of the total of the value at the end of your 1995 fiscal period, plus any amounts paid in your 1996 fiscal period toward the purchase price.

_____ Y

Inventory bought in your 1989 fiscal period

Enter an amount that is not more than the amount on line H, but not less than 70% of the total of the value at the end of your 1995 fiscal period, plus any amounts paid in your 1996 fiscal period toward the purchase price.

_____ Z

Inventory bought before your 1989 fiscal period

Enter an amount that is not more than the amount on line I, but not less than 70% of the total of the value at the end of your 1995 fiscal period, plus any amounts paid in your 1996 fiscal period toward the purchase price.

_____ AA

Chart 3
Value of purchased inventory
for all other inventory

Inventory bought in your 1996 fiscal period
 Enter the amount on line J or the fair market value, whichever is less. \$ _____ **BB**

Inventory bought in your 1995 fiscal period
 Enter the amount on line K or the fair market value, whichever is less. _____ **CC**

Inventory bought in your 1994 fiscal period
 Enter the amount on line L or the fair market value, whichever is less. _____ **DD**

Inventory bought in your 1993 fiscal period
 Enter the amount on line M or the fair market value, whichever is less. _____ **EE**

Inventory bought in your 1992 fiscal period
 Enter the amount on line N or the fair market value, whichever is less. _____ **FF**

Inventory bought in your 1991 fiscal period
 Enter the amount on line O or the fair market value, whichever is less. _____ **GG**

Inventory bought in your 1990 fiscal period
 Enter the amount on line P or the fair market value, whichever is less. _____ **HH**

Inventory bought in your 1989 fiscal period
 Enter the amount on line Q or the fair market value, whichever is less. _____ **II**

Inventory bought before your 1989 fiscal period
 Enter the amount on line R or the fair market value, whichever is less. _____ **JJ**

Chart 4
Calculation of MIA

Enter the amount of your net loss from line 8237 of Form T2042 \$ _____ **KK**

Enter the value of your inventory from Charts 2 and 3:

- the amount on line S \$ _____
- the amount on line T _____
- the amount on line U _____
- the amount on line V _____
- the amount on line W _____
- the amount on line X _____
- the amount on line Y _____
- the amount on line Z _____
- the amount on line AA _____
- the amount on line BB _____
- the amount on line CC _____
- the amount on line DD _____
- the amount on line EE _____
- the amount on line FF _____
- the amount on line GG _____
- the amount on line HH _____
- the amount on line II _____
- the amount on line JJ _____

Total value of inventory \$ _____ \$ _____ **LL**

Enter the amount from line KK or line LL, whichever is less \$ _____ **MM**

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