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Supplementary Guide

Capital Gains Tax Guide

1989

Your Guide

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PLUS

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WHAT'S NEW FOR 1989?

The major changes are outlined below and are highlighted in yellow throughout this Guide.

- There is a new form you may use to calculate your capital gains deduction if you realized a taxable capital gain on the disposition of capital property **other** than qualified farm property and qualified small business corporation shares. Copies of form T657A, *Calculation of Capital Gains Deduction on Other Capital Property* are contained in this Guide. If you use form T657A, do not complete form T657, *Calculation of Capital Gains Deduction on All Capital Property*.
- The calculation for cumulative net investment loss is no longer contained on form T657. Instead, form T936, *Calculation of Cumulative Net Investment Loss* has been created specifically for this purpose. Copies of this new form are also contained in this Guide.

This Guide is not a legal document. It uses plain language to explain some of the laws about income tax. For official purposes, please consult the *Income Tax Act* and its related Regulations or contact your district office.

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INTRODUCTION

This Guide contains detailed information for individuals who realized a capital gain or incurred a capital loss in 1989. Information on how to complete your 1989 income tax return may be found in the *1989 General Tax Guide*. If you are completing a return for a deceased taxpayer, obtain the *1989 Deceased Persons Income Tax Guide*.

This Guide will help you understand what is meant by capital property, taxable capital gains, allowable capital losses, allowable business investment losses, capital gains deduction and cumulative net investment loss (CNIL). It

- defines key terms,
- identifies some transactions or events that result in taxable capital gains or allowable capital losses,
- explains the application of the lifetime capital gains deduction and other special rules, **and**
- provides examples and tax tips to clarify certain points.

The information provided should enable you to

- calculate the amount of your capital gains and losses,
- complete Schedule 3 which must be filed with your return,
- complete form T2017 to report a capital gains reserve claimed in a previous year or to claim a reserve in the current year, **and**
- determine your capital gains deduction.

References are made throughout this Guide to additional forms that are to be attached to your return and to departmental publications that cover topics in greater detail. As you read through this Guide, we suggest that you use the order form on the inside back cover to list the forms and publications you require.

What is a capital gain or a capital loss?

Generally, a capital gain or a capital loss arises whenever there is a disposition or deemed disposition of capital property. For example, if you sell a share in a public corporation for more than it cost you, a capital gain results. Similarly, a capital loss would occur if you sold that share for less than it cost you.

When do you report?

Even if no tax is payable for 1989, you must file a tax return

- to report the disposition of any capital property in 1989, whether it resulted in a gain or loss; **or**
- to report the taxable portion of any capital gains reserve you claimed in 1988.

If you realized a capital gain in 1989, and you do not file your 1989 return on or before April 30, 1991, your claim for the capital gains deduction may be denied. Please see Chapter 3 for a detailed explanation of this deduction.

Do not include any capital gains or losses when calculating your income from a business or property, even if the capital property you disposed of was used in a partnership or a proprietorship. Use Schedule 3, *Summary of Dispositions of Capital Property in 1989* to calculate and report all of your taxable capital gains or allowable capital losses for 1989, and form T2017, *Summary of Reserves on Dispositions of Capital Property* to report your previous year's reserve or to claim a new reserve in the current year. Schedule 3 is part of the package of schedules included with your return. Form T2017 is contained in this Guide.

You must report the disposition of capital property on a calendar-year basis. If you were the sole proprietor of a business, and you disposed of capital property that was used in your business, report any resulting capital gain or loss on Schedule 3 for the calendar year in which the disposition falls. However, if you were a member of a partnership that disposed of capital property in a fiscal period other than the calendar year, report your share of any capital gain or loss on Schedule 3 for the year in which the partnership's fiscal period ended, rather than the calendar year in which the disposition occurred.

How much do you report?

The taxable portion of a capital gain and the allowable portion of a capital loss in 1989 is **two-thirds** of the total capital gain or loss.

If you disposed of capital property in 1989, **or** if any portion of a capital gains reserve that you claimed in 1988 is taxable in 1989,

- two-thirds of any capital gain is your **taxable capital gain,** and
- two-thirds of any capital loss is your **allowable capital loss.**

If your taxable capital gains are more than your allowable capital losses, you must include the difference in your income.

If your taxable capital gains are less than your allowable capital losses, the difference basically represents your **net capital loss** for 1989. This loss may not be used to reduce your 1989 income from other sources. However, you may apply your 1989 net capital loss against taxable capital gains of other years. See Chapter 2, "Capital Losses" for more details on the treatment of net capital losses.

What is capital property?

In general, capital property is any property of value, including depreciable property. It is usually acquired for investment purposes or to earn income. Some common types of capital property include:

- principal residences;
- cottages;
- securities such as stocks and bonds; **and**
- land, buildings and equipment used in a business, including farming, or used in a rental operation.

Capital property does not include the trading assets of a business, such as inventory items purchased for resale.

Special rules apply to gains and losses from the disposition of certain properties. For instance, gains **and** losses from the disposition of an insurance policy, a Canadian resource property and an eligible capital property are subject to special treatment. Also, special treatment is accorded to gains from the disposition of a cultural property to a designated institution, a foreign resource property and a timber resource property, and losses from the disposition of depreciable property.

The disposition of eligible capital property may result in a deemed taxable capital gain which may qualify for the capital gains deduction. See "Eligible capital property" in Chapter 1 for additional information.

For more details on the disposition of certified cultural property and depreciable property, see Chapter 8. For information on resource properties, obtain Interpretation Bulletin IT-125R3, *Dispositions of Resource Properties.*

When does a capital gain or capital loss occur?

A capital gain or capital loss occurs when you dispose of a capital property. A capital disposition, however, is not restricted to the sale of property. The following transactions or events may also give rise to a capital disposition:

- the exchange of one property for another;
- giving property, other than cash, as a gift;
- expropriation of your property;
- the conversion of shares you hold;
- the redemption or cancellation of shares or other securities you hold;
- the expiry of an option you hold to acquire or dispose of property;
- the settlement or cancellation of a debt owed to you;
- theft of property;
- damage or destruction of property; **and**
- most transfers of property to trusts.

There are other situations when a disposition is **deemed** or considered to have occurred even though there has been no actual change in ownership. A deemed disposition may occur when the owner of a property

- dies,
- becomes a non-resident, **or**
- changes the use of the property.

For example, a change in use would occur if you moved from your house to an apartment and rented the house. Although the ownership of your house would not have changed, you would be deemed to have disposed of your principal residence and to have acquired a rental property. See Chapter 4, "Principal Residence" for more information on change in use.

Who is affected?

Most people are not affected by the capital gains provisions because the property they own is for their personal use or enjoyment. Dispositions of personal effects such as automobiles and boats seldom give rise to a capital gain as they do not normally increase in value. Instead, their disposition generally results in a loss. Please note that a loss incurred on the disposition of personal effects is not deductible unless the property is "listed personal property."

A gain on the sale of your home will not be taxable as long as you used the home as your principal residence and you did not designate any other residence as your principal residence during the period you owned your home.

Please see Chapter 4, "Principal Residence," and the sections, "Personal-use property" and "Listed personal property" in Chapter 1 for more details.

Keeping records

You do not need to include records or vouchers to support capital acquisitions or dispositions when you file your return. However, you should keep them and make them available for examination upon request.

You will need this information to calculate your capital gain or loss when you dispose of the property.

If you have investment income or investment expenses, you should keep a record of these amounts. You need them to determine your cumulative net investment loss when you calculate your capital gains deduction for a given year. Please see Chapter 3 of this Guide for more information on cumulative net investment loss.

In addition, you should keep a record of the fair market value of property on the date you

- inherit it,
- receive it as a gift, **or**
- change its use.

For more details on record-keeping, obtain Information Circular 78-10R2, *Books and Records Retention/Destruction.*

Forms

For your convenience, this Guide contains two copies of the following forms:

- T1A — *Request for Loss Carry-Back*
  You must use this form to request a net capital loss carry-back.
- T657 — *Calculation of Capital Gains Deduction for 1989 on All Capital Property*
  You may use this form to help you calculate your capital gains deduction for all capital property. However, if you did not dispose of qualified farm property or qualified small business corporation shares in 1989 or in previous years, you may use form T657A instead.
- T657A — *Calculation of Capital Gains Deduction for 1989 on Other Capital Property*
  You may use this new form to help you calculate your capital gains deduction for "other capital property." See Chapter 3 for more details on the use of this form.
- T936 — *Calculation of Cumulative Net Investment Loss to December 31, 1989*
  You may use this new form to calculate your cumulative net investment loss to December 31, 1989.
- T2017 — *Summary of Reserves on Dispositions of Capital Property*
  Complete this form if you wish to claim a capital gains reserve in 1989 or to include in income for 1989 a reserve claimed in 1988.

Improving the Guide

This Guide is reviewed each year and changes are made to improve the explanations provided. If you have problems with a particular explanation or you have comments or suggestions on the Guide, we would be pleased to hear from you.

Just write a short letter expressing your concerns to:

Tax Forms Directorate, 875 Heron Road, Ottawa, Ontario K1A 0L8.

CHAPTER 1 COMPLETING SCHEDULE 3

If you disposed of a capital property in 1989, or if you claimed a capital gains reserve in 1988, complete Schedule 3, *Summary of Dispositions of Capital Property in 1989*. If you have taxable capital gains for 1989, transfer your total taxable capital gains amount from Schedule 3 onto line 127 of your return. You may offset part or all of your gains by claiming the capital gains deduction that is explained in Chapter 3. If your allowable capital losses exceed your taxable capital gains, this excess is a net capital loss. See Chapter 2 for more details on net capital losses.

Capital transaction versus income transaction

A gain or loss on the disposition of property may be taxed as an income gain or loss, **or** as a capital gain or loss. Only the disposition of capital property can give rise to a capital gain or loss. In certain circumstances, you must determine whether the property is of a capital nature or an income nature. You only report dispositions of a capital nature on Schedule 3.

For more details on the distinction between capital and income transactions, obtain Interpretation Bulletins IT-459, *Adventure or Concern in the Nature of Trade*, IT-218R, *Profit, Capital Gains and Losses from the Sale of Real Estate, Including Farmland and Inherited Land and Conversion of Real Estate from Capital Property to Inventory and Vice Versa*, and IT-479R, *Transactions in Securities* and its Special Release.

Determining your capital gains or losses

You may realize a capital gain or incur a capital loss whenever you dispose of or are deemed to have disposed of capital property. In certain instances, a deemed taxable capital gain may result on the disposition of eligible capital property.

If you disposed of capital property in 1989, you will need to know the following three amounts to complete Schedule 3:

- proceeds of disposition,
- adjusted cost base, **and**
- outlays and expenses.

Proceeds of disposition

This usually refers to the selling price of the property. However, it also includes compensation you received for property that has been destroyed, expropriated, stolen or damaged.

In the case of a gift or a deemed disposition, the proceeds of disposition are generally deemed to be the fair market value of the property at the time its ownership or use changes.

Adjusted cost base (ACB)

The adjusted cost base (ACB) is the cost of a property plus or minus adjustments due to certain expenditures or events after it is acquired.

The cost of a capital property acquired after 1971 is its actual or deemed cost, depending on the nature of the property and the circumstances of acquisition. The cost of capital property acquired before 1972, however, may be its actual cost, deemed cost or Valuation Day value. See Chapter 6 for more details on capital property acquired before 1972 and disposed of after 1971.

The actual cost of a property is the purchase price of the property plus expenses you incurred to acquire the property. Such expenses include commissions, legal fees and other reasonable expenditures.

In certain instances, special rules apply to deem the cost of a property to be an amount other than its actual cost. For instance, when you inherit or receive property as a gift, you are normally deemed to have acquired the property at its fair market value on the date of acquisition. Similarly, when you win property as a prize from a lottery scheme, you are deemed to have acquired the prize at its fair market value on the date of acquisition. For more information, obtain Interpretation Bulletin IT-213R, *Prizes from Lottery Schemes, Pool System Betting and Giveaway Contests*.

Adjustments to the cost of a property include the cost of additions and improvements to a property which are capital in nature. Current expenses such as maintenance and repair costs are not added to the cost base of a property. Interpretation Bulletin IT-128R, *Capital Cost Allowance — Depreciable Property* gives a detailed description of the difference between capital expenditures and current expenses.

Obtain Interpretation Bulletin IT-456, *Capital Property — Some Adjustments to Cost Base* for more information on additions to and deductions from the cost of a property.

Outlays and expenses

Reasonable expenses you incurred to dispose of a capital property may be deducted from your proceeds of disposition. They include

- fixing-up expenses,
- finder's fees,
- commissions,
- broker's fees,

- surveyor's fees,
- legal fees,
- transfer taxes, **and**
- advertising costs.

You may not reduce your other income by claiming a deduction for these outlays and expenses but they will reduce your capital gain or increase your capital loss.

You calculate your capital gain or loss by subtracting the adjusted cost base of the property from the proceeds of disposition, and deducting any outlays and expenses.

Example 1

Taxable capital gain for 1989:

Proceeds of disposition			$20,000
minus			
Adjusted cost base			
purchase price	$13,000		
commission paid on purchase	500		
improvements after purchase	4,000	$17,500	
Outlays and expenses on disposition			
legal fees	500		
fixing-up expenses	200	700	18,200
Capital gain			$ 1,800
Taxable capital gain (2/3 × $1,800)			$ 1,200

Example 2

Allowable capital loss for 1989:

Proceeds of disposition			$ 5,000
minus			
Adjusted cost base			
purchase price	$6,000		
commission paid on purchase	200		
improvements after purchase	400	$6,600	
Outlays and expenses on disposition			
legal fees	400		
advertising costs	100	500	7,100
Capital loss			($2,100)
Allowable capital loss (2/3 × $2,100)			($1,400)

You were asking. . .?

Q. I sold a real estate property in 1988 and reported the resulting taxable capital gain on my 1988 return. Since the realtor's right to payment was in dispute, I did not pay the real estate commission until 1989 when the matter was finally settled by the courts. Do I deduct the amount of the payment from income in 1989?

A. The real estate commission is an outlay or expense incurred in connection with the disposition you made in 1988. You may not claim such an amount as a deduction from income in any year. However, you may apply it to reduce the capital gain you recognized on the disposition of the property in 1988. To request an adjustment to your 1988 return, please follow the instructions outlined in the section entitled, "Changing your return after you mail it" in the *1989 General Tax Guide*.

The rest of this chapter outlines the various types of capital dispositions reported on Schedule 3.

Canadian securities

A special election is available when you dispose of a **Canadian security.** A Canadian security is defined as

- a share of a corporation resident in Canada; **or**
- a unit of a mutual fund trust, or a bond, debenture, bill, note, mortgage, hypothec or similar obligation issued by a person resident in Canada.

Excluded from this definition are **prescribed securities** that include the following:

- shares of companies, other than public corporations, the value of which at the time you disposed of them is mainly derived from real estate or resource properties or both;
- securities of companies, other than public corporations, that you do not deal at arm's length with at any time before disposition of the securities; **and**
- shares and securities of companies acquired from a person with whom you do not deal at arm's length.

If you disposed of a **Canadian security** in 1989, you may elect to have the resulting gain or loss treated as a capital gain or loss even though it may actually be an income gain or loss. However, if you make this election, all Canadian securities owned by you in 1989 or in any subsequent year are deemed to be capital properties. As a result, you must treat all gains or losses on the disposition of Canadian securities in 1989 and in future years as capital gains or losses.

If you wish to make this election, complete and file form T123, *Election on Disposition of Canadian Securities*, and attach the form to your 1989 return. Please note that **this election cannot be rescinded.**

Note:

This election is not available to traders or dealers in securities or individuals who were non-residents at the time the security was disposed of.

Capital gains or losses arising from the disposition of Canadian securities or prescribed securities are reported on Schedule 3. To determine where on Schedule 3 to report these dispositions, see the sections, "Qualified small business corporation shares," "Qualified farm property" and "Other securities and properties" in this chapter.

For further information on Canadian securities, see Interpretation Bulletin IT-479R, *Transactions in Securities* and its Special Release.

Qualified small business corporation shares

You should only report on line 513 of Schedule 3 capital gains you realized on the disposition of **qualified small business corporation shares.**

Do **not** report the following transactions on this line:

- dispositions of other shares such as **publicly traded shares** or shares of a foreign corporation, **and**
- losses on the dispositions of any shares of small business corporations. See "Allowable business investment losses, Line 217 — T1 Return" in Chapter 2 for more details.

A **small business corporation** is a Canadian-controlled private corporation (CCPC) in which all or substantially all (90 per cent) of the fair market value of its assets are

- used in an active business carried on primarily in Canada, by the corporation or by a corporation related to it;
- shares or debts of connected corporations that were small business corporations; **or**
- a combination of the above two categories of assets.

A share of a corporation will be considered to be a **qualified** small business corporation share if

- at the time of disposition, it was a share of the capital stock of a small business corporation and it was owned by you, your spouse or a partnership related to you;
- throughout the 24 months immediately before disposition, the share was not owned by anyone other than you or a person or partnership related to you (see note below); **and**
- throughout that part of the 24 months immediately before disposition, while the share was owned by you or a person or partnership related to you, it was a share of a CCPC of which more than 50 per cent of the fair market value of the assets were
  - assets used in an active business carried on primarily in Canada by the CCPC or by a corporation related to it,
  - certain shares or debts of connected corporations, **or**
  - a combination of the above two categories of assets.

Note:

As a general rule, where a corporation issues shares to you or a partnership after June 13, 1988, the shares will be treated as if they have been owned, immediately before their issue, by a person who was ***not*** *related to you or the members of the partnership. Consequently, you or a person or partnership related to you must hold the shares for 24 months after the issue in order for the shares to meet the holding period requirement. However, this general rule does not apply to shares issued in the following circumstances:*

- *as consideration for other shares; or*
- *in connection with a disposition of property by you or a partnership to a corporation. The property disposed of must consist of either all or substantially all of the assets used in an active business carried on by you or the partnership, or an interest in a partnership where all or substantially all of the partnership's assets were used in an active business carried on by the members of the partnership.*

Capital gains that you realize on the disposition of qualified small business corporation shares qualify for the higher capital gains deduction limit. See the section entitled, "Qualified small business corporation shares" in Chapter 3 for more details.

For more information on a CCPC, please see Interpretation Bulletin IT-458, *Canadian-Controlled Private Corporation.* Interpretation Bulletin IT-73R4, *The Small Business Deduction — Income from an Active Business, a Specified Investment Business and a Personal Services Business* contains information on active business income.

Qualified farm property

Generally, you report any capital gain or loss arising from the disposition of qualified farm property on line 516 of Schedule 3. However, if a deemed taxable capital gain results from the disposition of eligible capital property which is a "qualified farm property," the gain is entered on line 543 of Schedule 3. For more information, see "Eligible capital property" in this chapter.

The definition of **qualified farm property** was recently revised. Beginning in 1988, qualified farm property means property owned by

- you or your spouse, **or**
- a family farm partnership in which you or your spouse holds an interest.

In addition, the property must be property that is

- a **share of the capital stock of a family farm corporation** that you or your spouse owned (see "Definitions" later in this section);
- an **interest in a family farm partnership** that you or your spouse owned (see "Definitions" later in this section); **or**
- real property or eligible capital property **used** in carrying on the business of farming in Canada by
  - you or your spouse,
  - any of your children (see "Definitions" later in this section),
  - any of your parents,
  - a family farm corporation in which any of the above individuals owned a share of that corporation, **or**
  - a family farm partnership in which any of the above individuals owned an interest.

Real property or eligible capital property will be considered to be **used** in carrying on the business of farming in Canada if certain conditions are met. The conditions depend on when you, your spouse or the family farm partnership acquired the property.

Property acquired before June 18, 1987

Real property or eligible capital property acquired before June 18, 1987 will be considered to have been used in carrying on a farming business in Canada if it or property for which it was substituted was so used by an individual, corporation or partnership referred to above

- in the year you disposed of the property, **or**
- in at least five years during which the property was owned by either an individual or partnership referred to above.

These conditions also apply to property acquired after June 17, 1987 under the terms of a written agreement entered into on or before that date.

Property acquired after June 17, 1987

Real property or eligible capital property acquired after June 17, 1987 will be considered to have been used in carrying on the business of farming in Canada if, **throughout the 24 months immediately before its disposition,** it or property for which it was substituted was **owned** by you, your spouse, any of your children, parents or a family farm partnership in which any of these individuals owned an interest, **and**

- for at least two years while the property was so owned, it was used by an individual whose gross revenue from the farming business in Canada in which the individual was actively engaged on a regular and continuous basis exceeded the individual's income from all other sources for the year; **or**
- the property was used by a family farm corporation or partnership in carrying on the business of farming in Canada for at least 24 months, during which time an individual referred to above was actively engaged in that farming business on a regular and continuous basis.

Qualified farm property may also include property owned by a "personal trust" and property used in a farming business by a beneficiary of a personal trust. For further information, contact your district office.

Capital gains you realize on the disposition of qualified farm property are eligible for the higher capital gains deduction limit. For more information on this deduction, see "Qualified farm property" in Chapter 3.

You should report the disposition of **non-qualified** farm property in the section, "Real estate and depreciable property" on Schedule 3. This section is explained later in this chapter.

Definitions

Child

For capital gains deduction purposes, the term **child** includes

- your child or step-child,
- your grandchild or great-grandchild,
- your son-in-law or daughter-in-law, **and**
- a person who, while under 19, was in your custody and control and was wholly dependent on you for support.

Interest in a family farm partnership

A partnership interest owned by you or by your spouse will qualify as an **interest in a family farm partnership** if, at the time you disposed of the interest, all or substantially all (90 per cent) of the partnership's property was used for at least 24 months before the disposition by

- the partnership;
- you or your spouse;
- any of your children (see "Child" above);
- any of your parents; **or**
- a family farm corporation, a share of which is owned by any of the individuals referred to above

in the course of carrying on a farming business in Canada in which any of the individuals referred to above was actively engaged on a regular and continuous basis.

Share of the capital stock of a family farm corporation

A share owned by you or by your spouse will qualify as a **share of the capital stock of a family farm corporation** if, at the time you disposed of the share, all or substantially all (90 per cent) of the corporation's property was

- property used for at least 24 months before the disposition by
  - the corporation,
  - you or your spouse,
  - any of your children (see "Child" above),
  - any of your parents, **or**
  - a family farm partnership in which any of the individuals referred to above owned an interest

  in carrying on a farming business in Canada in which any of the individuals referred to above were actively engaged on a regular and continuous basis;
- shares of the capital stock of one or more corporations where all or substantially all of its property is property described above, or a bond, debenture, bill, note, mortgage or similar obligation issued by such a corporation; **or**
- a combination of the above two categories of properties.

Other securities and properties

Capital gains and losses you realized on the disposition of **other securities and properties** in 1989 are reported in the next part of Schedule 3.

Shares

Use this section to report the disposition of all securities that are not described under any other section in this chapter. This includes

- publicly traded shares,
- shares qualifying as Canadian securities or prescribed securities (as previously described in this chapter) if they are **not** qualified small business corporation shares or qualified farm property, **and**
- shares issued by foreign corporations.

You should also report the disposition of units in a mutual fund trust in this area.

For a description of how to report profits on the sale of securities, see Interpretation Bulletin IT-479R, *Transactions in Securities* and its Special Release.

Example 1

In 1989, Marcel sold his 100 shares of ABC Public Corporation of Canada for $7,500 and paid brokerage fees of $500. When he purchased the shares in 1984 for $3,800, he paid brokerage fees of $200.

In reporting the disposition on Schedule 3, Marcel must determine the proceeds of disposition, the adjusted cost base of the property, and the amount of any outlays and expenses relating to the transaction.

Proceeds of disposition			$7,500
minus			
Adjusted cost base			
original cost	$3,800		
brokerage fees	200	$4,000	
Outlays and expenses			
brokerage fees		500	4,500
Capital gain			$3,000
Taxable capital gain (2/3 × $3,000)			$2,000

Marcel records the transaction in the "Shares" area of Schedule 3, and enters his total proceeds on line 519 and his capital gain on line 520, as indicated below.

Other Securities and Properties

Shares										
No. of shares	Name of corporation and class of shares								Gain (or loss)	
100	ABC Public Corporation Of Canada	1984	7,500	00	4,000	00			3,000	00
					4,000	00				
		Total Proceeds 519	7,500	00			Net Gain (or loss) 520		3,000	00

If Marcel has no other capital gains or losses in the year, he enters $2,000 (2/3 × $3,000) as his total taxable capital gains amount at the bottom of Schedule 3, and again on line 127 of his return. For details on claiming a capital gains deduction, please see Chapter 3.

Example 2

Assume in **Example 1** that Marcel sold the shares in 1989 for only $3,600. As you can see from the following illustration, Marcel incurred a capital loss of $900 on the disposition of the shares. Marcel may use the loss to offset any capital gains he realized in 1989. If his capital losses exceed his capital gains in that year, two-thirds of the excess becomes his net capital loss for 1989. For details of the treatment of this type of loss, see "1989 Capital losses" in Chapter 2.

Other Securities and Properties

Shares										
No. of shares	Name of corporation and class of shares								Gain (or loss)	
100	ABC Public Corporation Of Canada	1984	3,600	00	4,000	00	500	00	<900	00>
		Total Proceeds 519					Net Gain (or loss) 520		< 900	00>

You may use form T2082, *Capital Dispositions Supplementary Schedule Re: Shares* to help you calculate your gains or losses on the disposition of shares.

Real estate and depreciable property

If you disposed of real estate in 1989, you should record the resulting capital gain or loss on line 522 of Schedule 3. The types of real estate dispositions you can record on this line include

- vacant land,
- rental properties – land and buildings,
- farm property – land and buildings (other than **qualified farm property), and**
- commercial and industrial land and buildings.

Do not use this area to report the disposition of personal-use property or the disposition of mortgages and other similar debt obligations on real property.

When you dispose of depreciable property, there can be no capital loss. However, you may be entitled to claim a terminal loss if you no longer own any property in that class at the end of the taxation year. Unlike capital losses, terminal losses are fully deductible from income.

If you disposed of real property in 1989 which includes land and a building,

- allocate the proceeds of disposition between the land and the building, **and**
- report the disposition of the land and the building separately.

Note:

If you incur a loss on the disposal of a building, a special rule may apply to deem your proceeds to be an amount other than the actual proceeds. See "Disposition of depreciable property" in Chapter 8 for more details on this special rule and on terminal losses.

If you converted a business or rental property to your principal residence in 1989, please see "Change in use from rental or business operation" in Chapter 4.

To help you calculate your gains or losses on real estate, obtain form T2083, *Capital Dispositions Supplementary Schedule Re: Real Estate (except principal residence, other personal-use property and depreciable property).*

Bonds, debentures, promissory notes and other properties

Line 528 of Schedule 3 is used to record dispositions of any type of security not discussed in another section in this chapter. This includes capital gains and losses on

- **Commodity futures** – See Interpretation Bulletin IT-346R, *Commodity Futures and Certain Commodities* for information on transactions in commodities;
- **Options** – Dispositions of options for the sale or purchase of shares are discussed in Interpretation Bulletins IT-96R4, *Options Granted by Corporations to Acquire Shares, Bonds or Debentures*, and IT-479R, *Transactions in Securities* and its Special Release; **and**
- **Discounts, premiums and bonuses** – If, in 1989, you received any of these amounts in connection with investments you hold, obtain Interpretation Bulletin IT-114, *Discounts, Premiums and Bonuses on Debt Obligations*.

You may use form T2084, *Capital Dispositions Supplementary Schedule Re: Bonds and Other Obligations* to help you calculate your gains or losses on the disposition of bonds, debentures and promissory notes.

Employees' stock options

An **employee stock option** is an option granted to an employee by a corporation to acquire its shares or shares of a corporation with which it does not deal at arm's length at a price that is usually less than the fair market value of the shares.

There are no immediate tax consequences at the time you receive an employee stock option. However, the difference between the actual cost of the shares to you and their fair market value at the time you exercise the option is normally treated as a taxable benefit you received through your employment.

Generally, the taxable benefit is included in your income in the year you acquire the shares through the option. However, the taxable benefit is not included in your income until the year you dispose of the shares if the shares were acquired through an employee stock option granted by a Canadian-controlled private corporation with which you deal at arm's length. Your employer will report the amount of your stock option benefit in the footnote area of your T4 information slip.

You may be entitled to claim a deduction equal to one-third of the taxable employee stock option benefit included in your employment income if certain conditions are met. The amount of the benefit that qualifies for this deduction will be identified on your T4 slip. For more information, refer to line 249, "Stock option and shares deductions" in the *1989 General Tax Guide*.

Any amount included in your income as an employee stock option benefit is added to your actual purchase price to determine the adjusted cost base of your shares. This will be the case even if you claimed a stock option deduction pertaining to these shares.

Note:

The amount included in income as an employee stock option benefit does not qualify for the capital gains deduction.

In the year you exchange or dispose of the shares that you acquired through an employee stock option agreement, report the capital gain or loss arising from their disposition on line 513 or line 520 on Schedule 3, whichever is applicable. You may be entitled to claim a capital gains deduction for part or all of any taxable capital gain realized.

For more details, obtain Interpretation Bulletin IT-113R3, *Benefits to Employees — Stock Options*.

Personal-use property

Personal-use property refers to items which you own primarily for your own and your family's personal use or enjoyment. Personal-use property includes all personal and household effects such as furniture, automobiles, boats and other similar properties.

In calculating your gain or loss on the disposition of personal-use property, the following rules apply:

- if the adjusted cost base (ACB) of the property is less than $1,000, its ACB is deemed to be $1,000;
- if the proceeds of disposition are less than $1,000, the proceeds of disposition are deemed to be $1,000; **and**
- if both the ACB and the proceeds of disposition are $1,000 or less, there is no capital gain or loss and you are not required to report the disposition on your return.

Any capital gain arising from the disposition of personal-use property is reported on line 530 of Schedule 3. However, if you incurred a loss on the disposition of personal-use property, you may not normally deduct the loss when calculating your income for the year. In addition, you may not use such a loss to decrease capital gains realized on other personal-use property. The reason for this is simply that if the value of property decreases through personal use, the resulting loss on its disposition is personal.

These loss restrictions do **not** apply to

- dispositions of listed personal property, which is discussed in the next section; **or**
- a bad debt owing to you by a person with whom you deal at arm's length in respect of a disposition of personal-use property. You normally deal at arm's length with an unrelated person. See "Other capital debts" in Chapter 8 for more information.

You were asking. . .?

Q. I sold an old china cabinet for $900 in 1989. The cabinet didn't cost me anything as my grandmother gave it to me 10 years ago. She had a dealer appraise it at the time and the cabinet was valued at $500. Do I have to report the gain on my income tax return?

A. No. Since the china cabinet is considered a personal-use property, the adjusted cost base and the proceeds of disposition are both deemed to be $1,000. Therefore, there is no gain or loss on the disposition of the china cabinet for income tax purposes.

Example

Franco sold his motorcycle in 1989 for $1,200. He had purchased it in 1982 for $850. The only expense he incurred in selling the motorcycle was $15 for advertising in the local newspaper. As the ACB of the motorcycle is less than $1,000 ($850), it is deemed to have a cost of $1,000. Although Franco actually realized a gain of $335 ($1,200 − $850 − $15), the capital gain he reports on line 530 of Schedule 3 is only $185 ($1,200 − $1,000 − $15).

Personal Use Property (full description)					⊙
1974 Motorcycle	1982	1,200 00	1,000 00	15 00	185 00
				Gain only **530**	185 00

Personal-use property includes real estate that you own and use primarily for your own and your family's personal use and enjoyment. Examples include your cottage property and home. However, a gain on the disposition of your home will not be taxed if it was your principal residence. This is explained further in Chapter 4.

Example

In 1989, Anna sold her lakefront property to a developer for $70,000. She bought the property in 1980 for $50,000 and had planned to build a cottage on it. Anna incurred expenses of $1,000 in connection with the sale. In addition, Anna paid interest and property taxes in the amount of $10,000 during the period of her ownership. The interest was paid on money she borrowed to purchase the property.

In calculating her capital gain on the property, Anna may deduct the $1,000 selling costs. However, the interest and property taxes she incurred are considered personal expenses as they were not incurred for the purpose of earning income from a business or property. Therefore, Anna may not claim this amount in computing her income for any taxation year, nor may she apply them to reduce the capital gain that she realized on selling the property. Furthermore, in determining the adjusted cost base of the property, the amount of these expenses is not added to the original $50,000 cost.

Anna reports the disposition in the personal-use property area on Schedule 3, and enters her $19,000 capital gain on line 530.

Personal Use Property (full description)					
Lot 119-120, Plan 2750 City, Province, Country	1980	70,000 00	50,000 00	1,000 00	19,000 00
				Gain only **530**	19,000 00

Disposition of part of a personal-use property

A special rule applies if you dispose of part of a personal-use property and retain the other part. The proceeds of disposition and the ACB of the part you disposed of cannot be less than the result obtained from the following calculation:

$$\frac{\text{ACB of portion disposed of}}{\text{ACB of total property}} \times \$1{,}000$$

For instance, if the ACB of a property is $200 and you disposed of one-quarter of the property,

- the ACB of the property disposed of is deemed to be the greater of its ACB otherwise determined (1/4 × $200 = $50) and the amount determined under the above calculation ($250); **and**
- the proceeds of disposition of the property disposed of is deemed to be the greater of the actual proceeds and the amount determined under the above calculation ($250).

Sets of personal-use property

When a number of personal-use properties that would ordinarily be disposed of as a set in one disposition

- are disposed of in more than one disposition,
- are acquired by one person or a group of persons not dealing with each other at arm's length, **and**
- had a total fair market value greater than $1,000 before the first disposition,

the properties are deemed to be a single personal-use property. Thus, the set is the whole property and each property disposed of is considered to be a "disposition of part of a personal-use property." The proceeds of disposition and the ACB for each property are calculated under the special rule above.

For more details, please obtain Interpretation Bulletin IT-332R, *Personal-Use Property.*

To help you calculate your gains or losses from personal-use property, obtain form T2080, *Capital Dispositions Supplementary Schedule Re: Personal-Use Property (other than listed personal property and principal residence).*

Listed personal property

Listed personal property (LPP) consists of the following personal-use properties which normally tend to increase in value:

- any prints, etchings, drawings, paintings, sculptures or other similar works of art;
- jewellery;
- rare folios, rare manuscripts or rare books;
- stamps; **or**
- coins.

Many of these items can be valued by consulting dealers' catalogues or the art, coin, jewellery or stamp dealers themselves. All or any portion of such property, any interest in it or any right to it, is considered to be listed personal property.

Since listed personal property is a type of personal-use property, the $1,000 minimum proceeds of disposition and adjusted cost base rules also apply. Please see the previous section for an explanation of these rules.

You should only report a disposition of listed personal property on Schedule 3 if you realized a gain on the disposition. If you are applying an LPP loss from a previous year against your 1989 LPP gain, enter the loss amount on the appropriate line on Schedule 3, and deduct it from your LPP gain. The net gain is then entered on line 531 of Schedule 3.

If you incur losses on the disposition of listed personal property,

- you may only deduct them from gains realized on the disposition of other listed personal property,
- you may not use them to reduce capital gains arising from the disposition of other types of property, **and**
- the total amount of LPP losses you deduct in the year may not exceed the total amount of LPP gains for that year.

If your LPP losses exceed your LPP gains in 1989, you may use the excess to reduce your net gains on listed personal property in any of the three preceding years and/or any of the following seven years. If you have unapplied LPP losses from previous years, you must fully apply those losses first before you can apply the 1989 LPP loss to net gains from dispositions of listed personal property of other years.

If you wish to carry back your 1989 LPP loss to reduce LPP net gains realized in 1986, 1987 or 1988, complete form T1A, *Request for Loss Carry-Back* and file it with your 1989 return.

If you have unapplied LPP losses from 1982 to 1988, you may use such losses to reduce any net gain realized on the disposition of listed personal property in 1989.

Note:

Do not complete the "Listed Personal Property" area of Schedule 3 if you incurred a loss on the disposition of listed personal property in 1989, or your LPP losses exceed your LPP gains in that year. However, you should keep a record of your LPP losses as you may wish to apply such losses against future LPP gains.

Example

Marina purchased some jewellery in 1980 for $5,800. In 1989, she sold it for $6,000 and realized a gain of $200. She also sold a coin collection for $2,000 that year. Marina acquired this collection seven years ago at a cost of $1,700. She therefore realized a gain of $300 on its sale. In addition, Marina sold a painting in 1989 for $8,000. As she bought the painting in 1978 for $12,000, she incurred a loss of $4,000. There were no outlays or expenses relating to the transactions.

Marina's loss on disposition of listed personal property in 1989 exceeded her gains by $3,500 ($200 + $300 − $4,000). Marina cannot use this excess to offset any capital gain realized in the year or any income from other sources. However, she may apply the LPP loss against her LPP net gains in any of the three years preceding or seven years following 1989.

Marina used form T2081, *Capital Dispositions Supplementary Schedule Re: Listed Personal Property* to calculate her gains or losses from listed personal property for 1989.

Revenue Canada Taxation   Revenu Canada Impôt

T2081
Rev. 77

Capital Dispositions Supplementary Schedule

Re: Listed Personal Property (This form, when completed, should be retained in your permanent records.)

- Listed Personal Property consists of works of art such as prints, etchings, drawings, paintings and sculptures, jewellery, rare folios, manuscripts and books, stamps, coins. The gain on the sale of such an item (or a set of such items) is treated the same as Personal-Use Property. Losses on Listed Personal Property can be applied only against gains on other items of Listed Personal Property.

A. Particulars of Current Year Dispositions

Description of Property	(1) Date of Acquisition	(2) Proceeds (Greater of Actual or $1,000)	(3) Adjusted Cost Base (Greater of ACB or $1,000)	(4) Outlays and Expenses (re disposition)	(5) Gain (Col. (2) less Cols. (3) and (4))
Jewellry	1980	$6,000.00	$5,800.00	$	$200.00
Coin Collection	1982	2,000.00	1,700.00		300.00
Painting	1978	8,000.00	12,000.00		<4,000.00>

Information slips

Report any capital gains or losses indicated on the information slips you received for the 1989 taxation year. Record the net gain or loss on line 533 of Schedule 3.

If you are the beneficiary of a trust, you may have received a T3 slip with an asterisk (*) in Boxes B, C or I. If so, the issuer may have attached instructions on how to complete Schedule 3. If instructions are not attached to your slip, you should contact the issuer. If you received a T3 slip that indicates a capital gain in Box B, see "T3 Slip — Capital gains eligible for deduction" in Chapter 3 for information on how to calculate your 1989 capital gains deduction.

You may wish to use form T2089, *Capital Dispositions Supplementary Schedule Re: Information Slips* to calculate your net gain or loss.

Reduction in business investment loss

Capital losses may qualify as business investment losses if certain conditions are met. These conditions are discussed in more detail in Chapter 2 under the heading, "Allowable business investment losses, Line 217 — T1 Return."

If you incurred a capital loss in 1989 that qualifies as a business investment loss, the allowable portion is normally two-thirds of your business investment loss. The allowable portion is deductible from all sources of income in the year. However, if you claimed a capital gains deduction in a previous year, a special rule applies which may reduce the amount of the allowable portion that can be deducted.

Use the following chart to determine the amount by which you must reduce your 1989 business investment loss. Complete a separate calculation for each business investment loss incurred in 1989.

Total capital gains deductions claimed in 1985, 1986 and/or 1987 (from line 254 of your 1985 to 1987 returns)	$______(1)	
Line (1) $____ × 2 =		$______(2)
Capital gains deduction that you claimed in 1988	______(3)	
Line (3) $____ × 3/2 = (see note below)		______(4)
Line (2) plus line (4)		$______(5)
Total amount used to reduce business investment losses in 1986, 1987 and/or 1988 (from line 535 of Schedule 3 of your 1986 to 1988 returns)	$______(6)	
Total amount you already used to reduce any **other** business investment loss in 1989	______(7)	
Line (6) plus line (7)		______(8)
Line (5) minus line (8)		$______(9)
Business investment loss for 1989 (before reduction for this loss)		$______(10)
Reduction in business investment loss for 1989 Lesser of line (9) and line (10)		$______(11)

Note:

The capital gains deduction claimed in 1988 is multiplied by three-halves rather than two because the taxable portion of a capital gain increased from one-half to two-thirds in 1988.

Where this special rule applies, the reduction to your business investment loss (from line (11)) is treated as a capital loss for 1989. Record this amount on line 535 of Schedule 3. Two-thirds of your remaining business investment loss is your allowable business investment loss and is recorded on line 217 of your return.

Note:

Do not report a business investment loss on Schedule 3. Only the reduction discussed above is recorded on Schedule 3. For more information on the treatment of capital losses, refer to "1989 Capital losses" in Chapter 2.

Reserves

If you are claiming a capital gains reserve in 1989, you are required to file form T2017, *Summary of Reserves on Dispositions of Capital Property* with your return. You will find two copies of this form in this Guide.

Any reserve claimed in 1988 must be included in income in 1989. Enter your net reserve for 1989 on line 538 of Schedule 3. See Chapter 5 for further information on reserves and instructions on how to complete form T2017.

Eligible capital property

If you operate a business, you may make certain expenditures, known as **eligible capital expenditures.** Interpretation Bulletin IT-143R2, *Meaning of Eligible Capital Expenditure* comments on the types of expenditures that qualify as eligible capital expenditures. The more common types are goodwill, milk quotas and other government rights or licences.

If your cumulative eligible capital account has a negative balance at the end of the year, you must include as business income that portion of the negative balance that represents the recapture of previous years' deductions claimed in respect of eligible capital property. The remainder of the negative balance is deemed to be a taxable capital gain.

Any deemed taxable capital gain on the disposition of eligible capital property qualifies for the lifetime capital gains deduction discussed in Chapter 3. However, only deemed taxable capital gains from the disposition of eligible capital property that is qualified farm property are eligible for the higher capital gains deduction limit.

Deemed taxable capital gains resulting from the disposition of eligible capital property that is qualified farm property are reported on line 543 of Schedule 3. On line 544, enter the taxable capital gain that you are deemed to have realized on the disposition of any other type of eligible capital property.

For further information on deemed taxable capital gains on the disposition of eligible capital property, see the *1989 Farming Income Tax Guide*, the *1989 Fishing Income Tax Guide* or the *1989 Business and Professional Income Tax Guide*, and Interpretation Bulletin IT-123R4, *Disposition of and Transactions Involving Eligible Capital Property.*

Taxable capital gains
Line 127 — T1 Return

Complete Schedule 3 by calculating your total capital gain or loss for the year on line 539. Two-thirds of this amount is your taxable capital gains or allowable capital losses. Your total taxable capital gains amount is your taxable capital gains or allowable capital losses on line 540 plus your taxable capital gains on disposition of eligible capital property on lines 543 and 544.

If your total taxable capital gains amount for 1989 is positive, enter the amount on line 127 of your return. You should also refer to Chapter 3, "Capital Gains Deduction."

If your total taxable capital gains amount for 1989 is negative, the amount represents your net capital loss for 1989. Do not claim the loss on your return. The loss may be used to reduce your taxable capital gains of the three previous years or any future year. Capital losses are discussed in detail in Chapter 2.

CHAPTER 2
CAPITAL LOSSES

Generally, a capital loss occurs when you dispose of or are deemed to have disposed of capital property for an amount that is less than it cost you. A capital loss cannot occur when you dispose of

- a depreciable property (see "Disposition of depreciable property" in Chapter 8); **or**
- a personal-use property, unless the property is a debt which became a bad debt in 1989 owing to you by a person with whom you deal at arm's length and the debt arose from a disposition of personal-use property (see "Other capital debts" in Chapter 8).

If you incurred a loss on the disposition of listed personal property, see "Listed personal property losses (LPP)" in this chapter.

1989 Capital losses

The allowable portion of capital losses incurred in 1989 is two-thirds.

You may reduce your 1989 taxable capital gains by any allowable capital losses you incurred in 1989. If your allowable capital losses exceed your taxable capital gains, the excess is normally your **net capital loss** for 1989. You may **not** reduce your other sources of income by claiming this amount as a deduction in 1989. You may, however, use your 1989 net capital loss to reduce your taxable capital gains in any of the previous three years **or** in any future year.

- If you wish to apply any portion of a 1989 net capital loss to taxable capital gains realized in 1986, 1987 or 1988, complete form T1A, *Request for Loss Carry-Back* and file it with your 1989 return. Copies of this form are contained in this Guide.
- If you wish to carry forward all or any portion of your unapplied net capital loss to a future year, keep a record of the amount available.

Note:

The amount of a net capital loss you may apply to any one year may require adjustment if the inclusion rate for the year in which you wish to apply the loss is different from the year in which you incurred the loss. For further information, see the section in this chapter entitled, "Net capital losses of other years, Line 253 — T1 Return."

Whichever choice you make, you must complete and file Schedule 3 with your 1989 return to report any disposition of capital property which resulted in a capital loss in 1989.

You were asking. . .?

Q. I held shares in a Canadian public corporation and sold them in 1989 at a loss. I had no capital gains in that year. How do I claim my capital loss?

A. Two-thirds of this capital loss is your allowable capital loss for 1989. Since you have no taxable capital gains in 1989 to apply your loss to, your allowable capital loss becomes your net capital loss for 1989. Record the disposition on Schedule 3 and file it with your return. Although you cannot deduct the net capital loss in 1989, you may carry the loss back three years or carry it forward indefinitely until it is fully applied against taxable capital gains.

Example

Arlene incurred a capital loss of $600 and realized a capital gain of $300 on the sale of securities in 1989.

Capital loss	($600)
Capital gain	300
Total capital loss	($300)
Allowable capital loss (2/3 × $300)	($200)

The allowable capital loss of $200 becomes Arlene's net capital loss for 1989. She may use it to reduce her taxable capital gains in any of the three previous years or in any future year. For more details, see "Net capital losses of other years, Line 253 — T1 Return" in this chapter.

Listed personal property losses (LPP)

Listed personal property (LPP) is described under "Listed personal property" in Chapter 1. You may only deduct your LPP losses from your gains on other LPP. Any unapplied LPP losses may be carried back three years and forward seven years. If you have unapplied LPP losses from other years, you may apply them against your LPP gains when calculating your 1989 net LPP gain on Schedule 3. Do not claim a previous year's LPP loss on line 253 of your return.

Restricted farm losses

If you disposed of land used in your farming business, you may be able to reduce any resulting capital gain if you have restricted farm losses that you never deducted when calculating your income. Determine the portion of your unapplied restricted farm losses that represents

- property taxes on the land, **and**
- interest on money borrowed to purchase the land.

Add the total of these two amounts to the adjusted cost base of the land. This in turn reduces the amount of capital gain recognized on the disposition of the land.

Note:

You may add property taxes and interest to the adjusted cost base of farm land only to the extent that you do not create or increase a capital loss.

For further details, please obtain Interpretation Bulletin IT-232R2, *Non-Capital Losses, Net Capital Losses, Restricted Farm Losses, Farm Losses and Limited Partnership Losses — Their Composition and Deductibility in Computing Taxable Income.*

Superficial losses

A **superficial loss** is a loss that arises when you dispose of capital property and, during the period beginning 30 days before the disposition and ending 30 days after the disposition, you, your spouse or a corporation you control directly or indirectly

- acquires the same or identical property (referred to as "substituted property"), **and**
- still owns the substituted property 30 days after the disposition.

You may not deduct a superficial loss when calculating your income. However, you may add the amount of the loss to your adjusted cost base of the substituted property. This will decrease any capital gain or increase any capital loss when you dispose of the substituted property.

The above rule does **not** apply to losses incurred on certain types of dispositions. For example, losses incurred on the following types of dispositions do not constitute superficial losses:

- deemed disposition of property, if you cease to be a resident of Canada;
- deemed disposition of property upon death;
- disposition resulting from the expiry of an option; **and**
- deemed disposition arising from change in use.

Please obtain Interpretation Bulletin IT-387R2, *Meaning of "Identical Properties."*

Allowable business investment losses Line 217 — T1 Return

A **business investment loss** is a capital loss arising from the actual disposition or deemed disposition of certain capital properties. It may arise from the actual disposition to a person with whom you deal at arm's length of

- a share of a small business corporation, **or**
- a debt owing to you by a small business corporation.

Note:

The definition of a ***small business corporation*** *is provided in the section entitled, "Qualified small business corporation shares" in Chapter 1. However, for business investment loss purposes, a small business corporation includes a corporation that was a small business corporation at any time in the 12 months preceding the disposition.*

A business investment loss may also arise from the deemed disposition of

- a debt owing to you at the end of the year by a small business corporation, other than a debt from the disposition of personal-use property, and which you established to have become a bad debt in the year; **or**
- a share of a small business corporation owned by you at the end of the year, other than a share you received as consideration for a personal-use property, where the corporation
  - has become bankrupt under the Bankruptcy Act in the year,
  - is an insolvent corporation for which a winding-up order has been made under the Winding-up Act in the year, **or**
  - is an insolvent corporation that has ceased to operate in the year and will not commence to carry on a business in the year or within 24 months following the end of the year. Also, at the end of the year, the fair market value of your shares in the insolvent corporation must be zero and it must be reasonable to expect that the corporation will be dissolved or wound-up and will not commence to carry on any business.

Regarding the last type of situation, you are not required to wait until the 24-month period has passed before claiming a loss on the deemed disposition of the shares. As long as it was reasonable for you, at the end of 1989, to expect the insolvent corporation not to commence to carry on a business within 24 months following the end of 1989, you may report the deemed disposition when you file your 1989 return. As this rule was made retroactive to 1985, 1986 and 1987 when it was introduced in 1988, you may request an adjustment to any of your returns for those three years to claim the loss, provided the loss otherwise qualifies and the return in question is still open to reassessment. See "Changing your return after you mail it" in the *1989 General Tax Guide.*

If you are deemed to have disposed of a share or debt described above, you are deemed

- to have disposed of the debt or share at the end of the year for zero proceeds, **and**
- to have immediately reacquired the property at a cost of zero.

This special deemed disposition rule allows you to recognize a capital loss on the debt or share even though you may not actually have disposed of it. If you actually dispose of the property later, the proceeds will be taxed as capital gains.

For more details, obtain Interpretation Bulletins IT-484R, *Business Investment Losses* and IT-159R3, *Capital Debts Established to be Bad Debts.*

The allowable portion of a business investment loss incurred in 1989 is two-thirds. In determining your allowable business investment loss for 1989, you may be required to reduce the amount of your business investment loss if you have ever claimed a capital gains deduction in a previous year. See the section entitled, "Reduction in business investment loss" in Chapter 1 for more information.

Unlike allowable capital losses that can only be deducted against taxable capital gains, allowable business investment losses can be deducted from all sources of income in the year. If you do not have enough income in 1989 to absorb your allowable business investment losses, any unused balance becomes part of your non-capital loss for 1989. You may then apply this non-capital loss to reduce your income in the three preceding years (1986-1988) **or** in any of the seven subsequent years (1990-1996).

If you are unable to deduct your allowable business investment loss as a non-capital loss within the above time frames, the unapplied portion becomes a net capital loss in the seventh year. You may then use it to reduce your taxable capital gains in any future year.

For example, if you incurred an allowable business investment loss in 1982, and you were unable to deduct it in 1982 or in any year since 1982 as a non-capital loss, the unapplied loss becomes a net capital loss in 1989, and may be used to reduce a taxable capital gain in 1990 and subsequent years.

To claim your allowable business investment loss, enter the amount of your loss on line 217 of your return and attach a statement specifying the

- name of the small business corporation;
- number and class of shares or the type of debt disposed of;
- insolvent, bankrupt or wind-up data;
- date that you purchased the shares or acquired the debt;
- proceeds of disposition;
- adjusted cost base of the shares or debt;

- outlays and expenses on the disposition; **and**
- amount of the loss.

Note:
Any allowable business investment loss you claimed in 1989 will reduce the capital gains deduction you are eligible to claim in 1989 and subsequent years. See Chapter 3 for more details.

Net capital losses of other years Line 253 — T1 Return

If your allowable capital losses are more than your taxable capital gains in a year, the excess is normally your net capital loss for that year. You may carry net capital losses back three years or carry them forward indefinitely until they are fully applied against taxable capital gains.

Note:
If you realized a taxable capital gain in 1989, you may wish to take advantage of the capital gains deduction available in 1989 instead of applying net capital losses from previous years to reduce your 1989 taxable capital gain. See Chapter 3 for more information on the capital gains deduction.

The taxable portion of capital gains and the allowable portion of capital losses for 1988 and 1989 is two-thirds. The inclusion rate for the years before 1988 was one-half. As a result of this change in the inclusion rate, you may apply a net capital loss to a year in which the inclusion rate is different from the year in which you incurred the loss. Before net capital losses are applied under these circumstances, an adjustment is required so that your net capital loss offsets an equivalent amount of taxable capital gain.

The following information will help you determine if your net capital losses require adjustment before they are applied to another year. The information is divided into two categories:

- applying net capital losses of other years to 1989, **and**
- applying a 1989 net capital loss to previous years.

Refer to the category that applies to you.

Applying net capital losses of other years to 1989

You must apply net capital losses of earlier years before you apply net capital losses of later years. For example, if you had a net capital loss in both 1985 and 1988, and you wish to carry forward the losses to 1989, you must apply your 1985 net capital loss to 1989 before you apply your 1988 net capital loss.

Applying a 1988 net capital loss to 1989

If you are applying your unapplied 1988 net capital loss against taxable capital gains realized in 1989, no adjustment is required as the inclusion rate for both years is the same. To make this claim, enter the amount of the 1988 net capital loss you wish to apply on line 253 of your 1989 return. The amount claimed cannot exceed taxable capital gains realized in 1989.

Use the following chart to calculate your remaining balance of unapplied 1988 net capital loss.

Unapplied 1988 net capital loss at the beginning of 1989	$______(1)
Amount claimed on line 253 of your 1989 return	______(2)
Balance of 1988 net capital loss available for carry-forward to a future year Line (1) minus line (2)	$______(3)

Applying pre-1988 net capital losses to 1989

Due to the lower inclusion rate for years before 1988, you must adjust net capital losses incurred in 1987 and previous years before applying them to 1989.

Generally, net capital losses may be used only to reduce taxable capital gains. However, if any net capital losses that were incurred before May 23, 1985 remain unapplied, up to $2,000 or your **pre-1986 capital loss balance,** whichever is less, may be deducted from other sources of income.

If you are applying a net capital loss incurred after 1985 and before 1988 against taxable capital gains realized in 1989, use Chart 1. If you are applying a net capital loss incurred before 1986, use Chart 2.

Chart 1

Unapplied net capital losses incurred after 1985 and before 1988	$______(1)
Adjusted net capital loss amount Line (1)______ × 4/3	______(2)
Taxable capital gains reported on line 127 of your 1989 return	______(3)
Maximum deduction in 1989 for net capital losses incurred after 1985 and before 1988 Lesser of line (2) and line (3)	$______(4)

You may claim all or any portion of the amount on line (4) of Chart 1 as net capital losses of other years on line 253 of your 1989 return.

Use the following chart to determine your remaining balance of unapplied net capital losses. Please note that the amount applied to 1989 is adjusted back to reflect the lower inclusion rate before it is deducted from the balance of unapplied net capital losses.

Total unapplied net capital losses incurred after 1985 and before 1988 at the beginning of 1989		$______(1)
Amount claimed on line 253 of your 1989 return	______(2)	
Line (2) ______ × 3/4		______(3)
Balance of net capital losses incurred after 1985 and before 1988 available for carry-forward to a future year Line (1) minus line (3)		$______(4)

Chart 2

As explained earlier, any unapplied pre-May 23, 1985 net capital losses may be used to offset taxable capital gains realized in 1989. Any remaining balance may then be deducted from other income, up to $2,000 or your **pre-1986 capital loss balance,** whichever is less.

Your **pre-1986 capital loss balance** for 1989 basically refers to the balance of your total **unapplied** net capital losses incurred at any time before May 23, 1985 **minus** the total amount of capital gains deductions you claimed before 1989. When calculating the balance of your unapplied pre-May 23, 1985 net capital losses, please remember to reduce the balance by the amount applied to years before 1989.

Use the following chart to calculate your pre-1986 capital loss balance for 1989.

Pre-1986 Capital Loss Balance for 1989

Unapplied net capital losses incurred before May 23, 1985		$_____(1)
Capital gains deduction you claimed in 1988	$_____(2)	
1988 adjusted capital gains deduction Line (2) ____ × 3/4 (see note below)	_____(3)	
Total amount of capital gains deductions that you claimed **before** 1988	$_____(4)	
Line (3) plus line (4)		$_____(5)
Pre-1986 capital loss balance for 1989 Line (1) minus line (5)		$_____

Note:

If you claimed a capital gains deduction in 1988, you must adjust the deduction to reflect the lower inclusion rate applicable to the years before 1988.

If you had a net capital loss during the period January 1, 1985 to May 22, 1985 and realized capital gains in the latter part of 1985, the capital gains may reduce your pre-1986 capital loss balance. For more information, see Interpretation Bulletin IT-232R2, *Non-Capital Losses, Net Capital Losses, Restricted Farm Losses, Farm Losses and Limited Partnership Losses — Their Composition and Deductibility in Computing Taxable Income.*

Before you can determine the amount of your pre-1986 net capital losses that is available for carry-forward to 1989, you must adjust the losses to take into account the higher inclusion rate.

Unapplied pre-1986 net capital losses	$_____
Adjustment factor	× 4/3
Adjusted pre-1986 net capital loss amount	$_____

Once you have calculated your pre-1986 capital loss balance for 1989 and your adjusted pre-1986 net capital loss amount, use the following chart to determine your maximum 1989 deduction for pre-1986 net capital losses of other years.

Taxable capital gains reported on line 127 of your 1989 return		$_____(1)
	$2,000(2)	
Pre-1986 capital loss balance for 1989	_____(3)	
Lesser of line (2) and line (3)		_____(4)
Line (1) plus line (4)		$_____(5)
Adjusted pre-1986 net capital loss amount		_____(6)
Maximum deduction for pre-1986 net capital losses Lesser of line (5) and line (6)		$_____(7)

You may claim all or any portion of the amount at line (7) on line 253 of your 1989 return.

Use the following chart to calculate your remaining balance of pre-1986 net capital losses.

Unapplied pre-1986 net capital losses at the beginning of 1989		$_____(1)
Amount claimed on line 253 of your 1989 return	$_____(2)	
Line (2) ____ × 3/4		_____(3)
Balance of pre-1986 net capital losses available for carry-forward Line (1) minus line (3)		$_____

Example

Allan reported a taxable capital gain of $4,000 on line 127 of his 1989 return. He has an unapplied net capital loss of $10,000 from property disposed of in 1983. In both 1986 and 1988, Allan claimed a capital gains deduction of $800.

To determine the maximum amount he may deduct on line 253 of his 1989 return, Allan must first calculate both his pre-1986 capital loss balance and his adjusted pre-1986 net capital loss amount.

Calculation of Allan's pre-1986 capital loss balance for 1989:

Pre-1986 Capital Loss Balance for 1989

Unapplied net capital losses incurred before May 23, 1985		$10,000(1)
Capital gains deduction claimed in 1988	$ 800(2)	
1988 adjusted capital gains deduction Line (2) $800 × 3/4	600(3)	
Total amount of capital gains deductions that Allan claimed **before** 1988	$ 800(4)	
Line (3) plus line (4)		$ 1,400(5)
Pre-1986 capital loss balance for 1989 Line (1) minus line (5)		$ 8,600

Calculation of Allan's adjusted pre-1986 net capital loss amount:

Unapplied pre-1986 net capital losses	$10,000
Adjustment factor	× 4/3
Adjusted pre-1986 net capital loss amount	$13,333

Allan may now calculate his maximum claim for "net capital losses of other years" on line 253 of his 1989 return.

Taxable capital gains reported on line 127 of his 1989 return		$ 4,000(1)
	$ 2,000(2)	
Pre-1986 capital loss balance for 1989	8,600(3)	
Lesser of line (2) and line (3)		2,000(4)
Line (1) plus line (4)		$ 6,000(5)
Adjusted pre-1986 net capital loss amount		13,333(6)

Maximum deduction for pre-1986 net capital losses

Lesser of line (5) and line (6)		$ 6,000(7)

When he completes his 1989 income tax return, Allan may claim a $6,000 deduction for "net capital losses of other years" on line 253. For record keeping purposes, his balance of unapplied net capital losses is calculated as follows:

Unapplied pre-1986 net capital losses at the beginning of 1989		$10,000(1)
Amount claimed on line 253 of Allan's 1989 return	$ 6,000(2)	
Line (2) $6,000 × 3/4		4,500(3)
Balance of pre-1986 net capital losses available for carry-forward Line (1) minus line (3)		$ 5,500

Applying a 1989 net capital loss to previous years

If you are applying a 1989 net capital loss to 1986, 1987 or 1988, complete and attach form T1A, *Request for Loss Carry-Back* to your 1989 return.

Note:

If you carry back a net capital loss to a year in which you claimed a capital gains deduction, the amount of your capital gains deduction for that year may be reduced. See "Annual gains limit" and "Cumulative gains limit" in Chapter 3.

Applying a 1989 net capital loss to 1986 or 1987

Due to the different inclusion rates, an adjustment is required if you apply a 1989 net capital loss against taxable capital gains realized in 1986 or 1987. You must multiply the amount you wish to carry back by three-quarters.

You may use the following chart to calculate your remaining balance of unapplied 1989 net capital loss.

1989 net capital loss		\$_____(1)
1989 adjusted net capital loss amount available for carry-back Line (1) ____ × 3/4		\$_____(2)
Amount applied to 1986	_____(3)	
Amount applied to 1987	_____(4)	
Line (3) plus line (4)		_____(5)
1989 adjusted net capital loss amount unapplied Line (2) minus line (5)		\$_____(6)
Balance of 1989 net capital loss available for carry-back to 1988 or carry-forward to a future year Line (6) ____ × 4/3		\$_____

Applying a 1989 net capital loss to 1988

The amount of a 1989 net capital loss that you may carry back is limited to the amount of taxable capital gains realized in the year.

You were asking. . .?

Q. I incurred a net capital loss of $1,000 in 1989. As I had reported taxable capital gains totalling $700 in 1988, I would like to carry back $700 of my net capital loss to 1988 to offset my taxable capital gains. How do I make this claim?

A. As the inclusion rate for 1988 and 1989 is the same, the amount of your 1989 net capital loss that you carry back to 1988 does not require any adjustment. To make your claim, complete form T1A, *Request for Loss Carry-Back*, and file it with your 1989 return. Your 1988 return will be reassessed to allow the net capital loss carry-back of $700.

Use the following chart to determine your remaining balance of 1989 net capital loss.

Unapplied 1989 net capital loss	\$_____(1)
Amount applied to 1988	_____(2)
Balance of 1989 net capital loss available for carry-forward Line (1) minus line (2)	\$_____(3)

Note:

To assist with your record keeping, you should keep separate balances for unapplied net capital losses for each year.

Example

Laura reported taxable capital gains totalling $1,500 in 1986, $1,000 in 1987 and $2,000 in 1988. She claimed a capital gains deduction of $1,500 in 1986. In 1989, Laura realized a net capital loss of $8,000. Laura would like to completely offset her taxable capital gains in 1987 and 1988 with her 1989 net capital loss.

The inclusion rate for the years before 1988 was one-half. As a result, Laura must first adjust the amount of her unapplied 1989 net capital loss before applying it to 1987.

1989 net capital loss		$ 8,000(1)
1989 adjusted net capital loss amount available for carry-back Line (1) 8,000 × 3/4		$ 6,000(2)
Amount applied to 1986	Nil(3)	
Amount applied to 1987	1,000(4)	
Line (3) plus line (4)		1,000(5)
1989 adjusted net capital loss amount unapplied Line (2) minus line (5)		$ 5,000(6)
Balance of 1989 net capital loss available for carry-back to 1988 Line (6) $5,000 × 4/3		$ 6,667

Laura only needs to apply $2,000 of her remaining balance of $6,667 to completely offset her taxable capital gains in 1988.

Balance of 1989 net capital loss available for carry-back to 1988	$ 6,667(1)
Amount applied to 1988	2,000(2)
Balance of 1989 net capital loss available for carry-forward to a future year Line (1) minus line (2)	$ 4,667

Laura must complete and attach form T1A, *Request for Loss Carry-Back* to her 1989 return.

CHAPTER 3
CAPITAL GAINS DEDUCTION

If you lived in Canada or were a factual or deemed resident of Canada throughout 1989 and you reported a taxable capital gain on line 127 of your return, you may be able to claim a capital gains deduction on line 254. If you were not a resident of Canada throughout 1989, see Chapter 9 for details on the conditions you must meet to qualify for this deduction.

Note:

If you realized a capital gain in 1989 and knowingly or under circumstances amounting to gross negligence

- *you fail to file your 1989 return on or before April 30, 1991,* ***or***
- *you fail to report the capital gain in your 1989 return,*

you cannot claim a capital gains deduction for that capital gain.

There is a limit to the total amount of capital gains deductions that you may claim in your lifetime. Your maximum capital gains deduction limit depends on the type of capital property you dispose of. Up to $500,000 in capital gains realized on the disposition of qualified farm property and qualified small business corporation shares are eligible for the capital gains deduction. For capital gains realized on the disposition of all other types of capital properties, the maximum eligible amount is $100,000.

Since the taxable portion of a capital gain is two-thirds in 1989,

- your lifetime cumulative deduction for dispositions of qualified farm property and qualified small business corporation shares is $333,333 ($500,000 × 2/3); **and**
- your lifetime cumulative deduction for dispositions of all other types of capital properties is $66,667 ($100,000 x 2/3).

Note:

The total of your capital gains deductions for the years 1985 to 1989 for ***all*** *types of capital properties cannot exceed your lifetime cumulative deduction of $333,333.*

- For years before 1989, form T657, *Calculation of Capital Gains Deduction* was used to calculate the capital gains deduction for all types of capital dispositions. Beginning in 1989, you may use form T657A, *Calculation of Capital Gains Deduction on Other Capital Property* if you realize a taxable capital gain on the disposition of capital property other than qualified farm property and qualified small business corporation shares. This new form is shorter than form T657 as the calculations relating to dispositions of qualified farm property and qualified small business corporation shares have been removed. Do not use this new form if you disposed of qualified farm property and/or qualified small business corporation shares in 1989 **or** in any previous year. Instead, you should complete form T657, *Calculation of Capital Gains Deduction for 1989 on All Capital Property*.
- To calculate your capital gains deduction for any year after 1987, you will need to know your cumulative net investment loss (CNIL). In 1988, the CNIL calculation was contained on form T657. For 1989 and subsequent years, you may use form T936, *Calculation of Cumulative Net Investment Loss*. This new form is discussed further under "Cumulative net investment loss (CNIL)" in this chapter.

For your convenience, copies of forms T657, T657A and T936 are contained in this Guide.

Capital gains deduction
Line 254 — T1 Return

The capital gains deduction is a discretionary deduction. You have the choice of claiming your maximum capital gains deduction for the year, a portion thereof or none at all.

To calculate your capital gains deduction for 1989, you will need to know the following amounts:

- your net taxable capital gains in 1989,
- total of any capital gains deductions you claimed in previous years,
- your **annual gains limit** for 1989, **and**
- your **cumulative gains limit** for 1989.

Refer to the section entitled, "Definitions" later in this chapter for the meaning of the terms "annual gains limit" and "cumulative gains limit."

Please remember

- When calculating your capital gains deduction for 1989, you must reduce your deduction by 4/3 of the total deductions you claimed before 1988. This "gross-up" adjusts the one-half inclusion rate applicable to years before 1988 to the two-thirds inclusion rate for 1989.
- Any capital gains reserve you report as income in 1989 that relates to capital property you disposed of after 1984 qualifies for the capital gains deduction.

As discussed earlier, the amount of your lifetime capital gains deduction depends on the type of capital property you dispose of. Refer to the category that applies to you.

Qualified farm property

The definition of qualified farm property can be found under "Qualified farm property" in Chapter 1.

Deemed taxable capital gains resulting from the disposition of eligible capital property qualify for the capital gains deduction. If you disposed of eligible capital property that meets the conditions for qualified farm property, you may be entitled to the higher capital gains deduction limit. For more information, see "Qualified farm property" and "Eligible capital property" in Chapter 1.

For capital gains realized on qualified farm property, you may claim a capital gains deduction in 1989 equal to the **least** of the following amounts:

- your annual gains limit for 1989;
- your cumulative gains limit at the end of 1989;
- your net taxable capital gains in 1989 from the disposition of qualified farm property after 1984; **and**
- your maximum lifetime capital gains deduction available for 1989, as determined by using Chart 1.

Chart 1

Maximum capital gains deduction		$333,333(1)
All capital gains deductions that you claimed after 1984 and before 1988	$______(2)	
Adjustment for increase in inclusion rates Line (2) ____ × 4/3	______(3)	
Capital gains deduction claimed in 1988	______(4)	
Line (3) plus line (4)		______(5)
Maximum lifetime capital gains deduction available for 1989 Line (1) minus line (5)		$______(6)

Use Part 3 of form T657, *Calculation of Capital Gains Deduction for 1989 on All Capital Property* to calculate your capital gains deduction for qualified farm property.

Qualified small business corporation shares

For a detailed definition of qualified small business corporation shares, see ''Qualified small business corporation shares'' in Chapter 1.

The maximum lifetime capital gains deduction for net taxable capital gains realized on the disposition of qualified small business corporation shares **after June 17, 1987** is $333,333.

If you realized taxable capital gains on the disposition of such shares in 1989, you may claim a deduction equal to the **least** of

- your annual gains limit for 1989 minus any capital gains deduction you claimed for qualified farm property in 1989;
- your cumulative gains limit at the end of 1989 minus any capital gains deduction you claimed for qualified farm property in 1989;
- your net taxable capital gains in 1989 from the disposition of qualified small business corporation shares (excluding taxable capital gains included in your capital gains deduction for qualified farm property); **and**
- your maximum lifetime capital gains deduction available for 1989, as determined under Chart 1 above.

Note:

If you are reporting a reserve from a previous year's disposition of qualified small business corporation shares in 1989, the taxable portion of the reserve will qualify for the increased capital gains deduction only if the disposition occurred after June 17, 1987.

Use Part 4 of form T657, *Calculation of Capital Gains Deduction for 1989 on All Capital Property* to calculate your capital gains deduction for qualified small business corporation shares.

Other capital property

For capital gains realized on property other than qualified farm property and qualified small business corporation shares, you may claim a capital gains deduction in 1989 equal to the **least** of

- your annual gains limit for 1989 minus the total of any capital gains deductions you claimed in 1989 for qualified farm property and qualified small business corporation shares;
- your cumulative gains limit at the end of 1989 minus the total of any capital gains deductions you claimed in 1989 for qualified farm property and qualified small business corporation shares; **and**
- your maximum lifetime capital gains deduction available for 1989 for other capital property, as determined under Chart 2.

Chart 2

Maximum capital gains deduction		$66,667(1)
All capital gains deductions claimed after 1984 and before 1988 for other capital property	$______(2)	
Adjustment for increase in inclusion rates Line (2) ____ × 4/3	______(3)	
Capital gains deduction claimed in 1988 for other capital property	______(4)	
Line (3) plus line (4)		______(5)
Capital gains deduction available for 1989 for other capital property Line (1) minus line (5)		$______(6)

You may use form T657A, *Calculation of Capital Gains Deduction for 1989 on Other Capital Property* to calculate your capital gains deduction for 1989. However, if you disposed of qualified farm property or qualified small business corporation shares in 1989 or in any previous year, use form T657, *Calculation of Capital Gains Deduction for 1989 on All Capital Property.*

Definitions

Annual gains limit

Your annual gains limit for 1989 represents the extent to which your taxable capital gains for 1989 may qualify for the capital gains deduction. Basically, your annual gains limit for 1989 is your net taxable capital gains for 1989 **minus** the total of any allowable business investment losses and net capital losses of other years that you claimed in 1989.

To calculate your annual gains limit for 1989, use Part 1 of either form T657 or form T657A, whichever is applicable.

Cumulative gains limit

Your cumulative gains limit represents the extent to which the total of your taxable capital gains for the years 1985 to 1989 may qualify for the capital gains deduction.

Basically, your cumulative gains limit for 1989 is the total of the net taxable capital gains that you realized during the years 1985 to 1989 **minus** the total of

- any allowable capital loss you deducted from other income in 1985 (maximum $2,000);
- all allowable business investment losses you claimed during the years 1985 to 1989;
- all net capital losses of other years you claimed during the years 1985 to 1989;
- your **cumulative net investment loss to December 31, 1989; and**
- all capital gains deductions you claimed in 1985, 1986, 1987 and 1988.

When determining the total of your net taxable capital gains for the years 1985 to 1989, please note that not all capital gains reserves reported during those years are to be included. Before 1988, only capital gains reserves arising from the disposition of qualified farm property qualified for the capital gains deduction. For 1988 and subsequent years, capital gains reserves arising from the disposition of **all** capital property became eligible. Therefore, when calculating your cumulative gains limit, only include the following types of capital gains reserves in your calculation of net taxable capital gains:

- capital gains reserve reported after 1984 arising from the disposition of qualified farm property after 1984, **and**
- capital gains reserve reported after 1987 arising from the disposition of all capital property after 1984.

Another point to consider when calculating your cumulative gains limit is the term "all net capital losses of other years." It means any net capital loss carried forward as well as any net capital loss carried back to a particular year. For instance, if you carried back a 1988 net capital loss to 1986, you must include that loss as part of your net capital losses of other years when calculating your cumulative gains limit at the end of 1989.

To calculate your cumulative gains limit at the end of 1989, use Part 2 of either form T657 or form T657A, whichever is applicable.

Cumulative net investment loss (CNIL)

Your cumulative net investment loss (CNIL) is the amount by which the aggregate of your **investment expenses** for each year after 1987 exceeds the aggregate of your **investment income** for each year after 1987. This excess may reduce the amount of your net taxable capital gains otherwise eligible for the capital gains deduction.

While your CNIL may reduce the amount of your deduction in a given year, it will not reduce your lifetime capital gains deduction. Your CNIL account will fluctuate from year to year depending on the amount of your investment expenses and investment income for a particular year. Therefore, you may still claim the maximum lifetime capital gains if your CNIL is offset by investment income earned in a future year.

Since your CNIL is calculated on a cumulative basis, you should keep a record of your investment expenses and investment income for each year after 1987. You may use form T936, *Calculation of Cumulative Net Investment Loss* to December 31, 1989 to calculate your CNIL to the end of 1989. If you have investment expenses or investment income in 1989, you may wish to complete this form regardless of whether you are claiming a capital gains deduction in 1989. If you did not have such expenses or income in 1989, your CNIL at the end of 1988 becomes your CNIL at the end of 1989.

If you are claiming a capital gains deduction in 1989, complete and file with your 1989 return form T936, and either form T657 or form T657A, depending on your circumstances.

Investment income

Investment income is used to calculate your CNIL. It may include

- interest;
- grossed-up taxable dividends received from taxable Canadian corporations;
- net rental income from renting or leasing rental properties or multiple-unit residential buildings (MURBs), including any recaptured depreciation;
- 50 per cent of all amounts included in income that relate to recovered exploration and development expenses;
- your share of income from all partnerships of which you were a **specified member,** including recaptured depreciation; **and**
- any other property income including property, payments, benefits or loan you received as a shareholder.

Note:

*You are considered to be a **specified member** of a partnership if you are a member who is a limited partner of the partnership **or** a member who is neither actively engaged in the partnership business nor otherwise engaged in a similar business.*

Investment expenses

Your investment expenses are used to calculate your CNIL. Such expenses are amounts that relate to earning investment income described above and that you have deducted in calculating your income from property. Investment expenses include

- interest and carrying charges relating to property acquired to earn income from property;
- interest, carrying charges and certain other expenses deducted in calculating your share of income for the year from a partnership of which you were a **specified member;**
- your share of losses from a partnership of which you are a **specified member,** including limited partnership losses of other years that you deducted in the year;
- all your property losses or your rental losses from renting or leasing of rental properties or multiple-unit residential buildings (MURBs);
- 50 per cent of certain resource and exploration expenses you deducted that were
  - incurred and renounced by a corporation, **or**
  - incurred by a partnership of which you are a **specified member, and**
- any other expenses you deducted in calculating your property income such as repayments of shareholder loans and repayments of inducements.

Beginning in 1989, any capital cost allowance claimed for a certified production owned by you or a partnership of which you are a member is included in the calculation of "investment expenses."

Example 1

Dan had the following types of income and expenses for 1988 and 1989:

	1988	1989
Grossed-up taxable dividends	100	100
Interest income	1,000	500
Net rental income (loss)	1,300	(2,000)
Taxable capital gains	4,750	
Carrying charges	850	600

What is Dan's cumulative net investment loss (CNIL) at the end of 1988 and 1989?

1988		
Investment expenses		
Carrying charges	$ 850	
Total investment expenses		$ 850
Deduct:		
Investment income		
Grossed-up taxable dividends	$ 100	
Interest income	1,000	
Net rental income	1,300	
Total investment income		2,400
CNIL to December 31, 1988		Nil

Dan's cumulative net investment loss at the end of 1988 is nil because a CNIL account cannot have a negative balance. Accordingly, Dan's claim for the capital gains deduction in 1988 is unaffected by his CNIL account. When Dan completes form T657, *Calculation of Capital Gains Deduction for 1988*, he will enter zero on line 15. It should be noted that taxable capital gains are not to be included in "investment income" for CNIL purposes.

1989		
Investment expenses claimed in 1989		
Carrying charges	$ 600	
Net rental loss	2,000	
Total investment expenses claimed in 1989		$2,600
Add: Total investment expenses claimed in 1988		850
Cumulative investment expenses		$3,450(A)
Investment income reported in 1989		
Grossed-up taxable dividends	$ 100	
Interest income	500	
Total investment income reported in 1989		$ 600
Add: Total investment income reported in 1988		2,400
Cumulative investment income		$3,000(B)
CNIL to December 31, 1989 Line (A) minus line (B)		$ 450

Dan calculated his CNIL to the end of 1989 even though he did not have any taxable capital gains in 1989. By calculating his CNIL each year, it will be simpler for Dan to determine his CNIL when he wishes to claim a capital gains deduction in a future year.

Example 2

In 1987, Helen realized taxable capital gains of $10,000. To offset this gain, she claimed a capital gains deduction of $10,000.

In 1988, Helen received interest income of $550 and grossed-up taxable dividends of $125. She also incurred a net rental loss of $1,000, and carrying charges totalling $975 in that year.

In 1989, Helen disposed of some publicly traded shares for a capital gain of $6,000. As this was her only disposition of capital property in the year, Helen's net taxable capital gain for 1989 was $4,000. In addition, she received $1,100 in interest and incurred a net rental loss of $200.

As none of her capital dispositions arose from qualified farm property or qualified small business corporation shares, Helen may use form T657A to calculate her capital gains deduction for 1989.

To calculate her annual gains limit, Helen completes Part 1 of form T657A.

Name in Full (Print) Helen

Social Insurance Number XXX XXX XXX

PART 1 — **CALCULATION OF ANNUAL GAINS LIMIT FOR 1989**

(For dispositions of OTHER CAPITAL PROPERTY including reserves on dispositions after 1984, reported in 1989, complete Part 1)

(a) Total net capital gain (loss) for 1989 (total of line 537 (Schedule 3) and line 390 (form T2017))	(1)	6,000 00		
Taxable capital gains (allowable capital losses) (2/3 of amount at line (1) above)	(2)	4,000 00		
ADD: Taxable capital gain on disposition of eligible capital property (from line 544 on Schedule 3)	(3)			
Total taxable capital gains for 1989 (line (2) plus line (3))		4,000 00	(4)	4,000 00
(b) Net capital losses of other years (from line 253 on page 2 of your return)	(5)			
ADD: Allowable business investment losses (from line 217 on page 2 of your return)	(6)			
Total of above losses claimed in 1989 (line (5) plus line (6))			(7)	
ANNUAL GAINS LIMIT FOR 1989 (line (4) minus line (7): if negative, enter zero)			(8)	4,000 00

Helen's next step is to calculate her cumulative gains limit. However, before she can complete Part 2 of form T657A, Helen will need to know her CNIL to the end of 1989. As such, Helen completes form T936.

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T936

CALCULATION OF CUMULATIVE NET INVESTMENT LOSS TO DECEMBER 31, 1989

- Complete this form if you have any "investment expenses" and/or "investment income" for 1989 or previous years (after 1987). These amounts must be cumulated in 1989 and combined with all such amounts in subsequent years if a capital gains deduction is to be claimed in any year. Investment income and expenses are defined in subsection 110.6(1) of the Income Tax Act. They include amounts relating to taxable dividends, interest, rents, royalties, limited or non-active partnerships, exploration and development and other property as listed in Notes 1 and 2 below.
- For further information on the calculation of cumulative net investment loss refer to the ***1989 Capital Gains Tax Guide*** available at your District Taxation Office.

Name in Full (Print)	Social Insurance Number
Helen	XXX XXX XXX

CUMULATIVE INVESTMENT EXPENSES

Investment expenses claimed on your 1989 return.		
ADD: (a) Carrying charges and interest expenses (from line 221)		
(b) Net rental loss reported at line 126	200.00	
(c) Limited or non-active partnership loss (from line 122)		
(d) Limited partnership losses of other years (after 1985) (from line 251)		
(e) 50% of exploration and development expenses (from line 224)		
(f) Any other expenses claimed in 1989 to earn property income (from line 232)*		
Total investment expenses claimed in 1989	200.00 ▶	200.00
ADD: Total Investment Expenses claimed in previous years (For 1989, report the amount calculated at line (R) on form T657 in 1988. If you did not complete form T657 in 1988, report the expense amounts described in (a) to (f) above as claimed on your 1988 return.)		1,975.00
Cumulative Investment Expenses		2,175.00 (A)

CUMULATIVE INVESTMENT INCOME

Investment income reported on your 1989 return.		
ADD: (a) Investment income (from lines 120 and 121)	1,100.00	
(b) Net rental income, including recaptured depreciation (from line 126)		
(c) Net income from limited or non-active partnership (from line 122)		
(d) 50% of income from the recovery of exploration and development expenses (from line 130)		
(e) Any other property income reported at line 130**		
Total investment income reported in 1989	1,100.00 ▶	1,100.00
ADD: Total Investment Income reported in previous years (For 1989, report the amount calculated at line (S) on form T657 in 1988. If you did not complete form T657 in 1988, report the income amounts described in (a) to (e) above as reported on your 1988 return.)		675.00
Cumulative Investment Income		1,775.00 (B)

CUMULATIVE NET INVESTMENT LOSS

Cumulative Investment Expenses (line (A)) minus Cumulative Investment Income (line (B)): If negative (if income exceeds expenses) enter zero. This amount must be entered at line 15 on form T657 or form T657A if a capital gains deduction is being claimed on your 1989 return.	400.00 (C)

NOTES

* 1. Other expenses claimed to earn property income include repayments of shareholders' loans, repayments of inducements, repayments of refund interest, uncollectible portion of proceeds from disposition of depreciable property, sale of agreement for sale or mortgage included in proceeds of disposition in a previous year, foreign non-business tax under SS20(11) and SS20(12), annuity contract payments under SS20(19), debt obligations under SS20(21) and Capital Cost Allowance claimed on certified films and videotapes.

Do not include expenses incurred to earn business income, interest paid or money borrowed to acquire an Income Averaging Annuity Contract or installment interest paid on past service contributions to a Registered Pension Plan.

** 2. Other property income to be reported includes amounts from insurance proceeds in respect of depreciable property, home insulation or energy conservation grants and payments received as an inducement or reimbursement. Also included are other income from a trust and appropriation of property, payments, benefits or loan received as a shareholder.

Do not include income amounts that relate to business income or payments received under an Income Averaging Annuity Contract.

Having calculated her CNIL to the end of 1989, Helen can now complete Part 2 of form T657A.

PART 2 — CALCULATION OF CUMULATIVE GAINS LIMIT FOR 1989

(For dispositions of OTHER CAPITAL PROPERTY, including reserves on dispositions after 1984, reported in 1989, complete Part 2)

(a) Taxable capital gains reported after 1984 and before 1989 (do not include reserves reported before 1988)	(9)	10,000 00		
ADD: Total taxable capital gains reported in 1989 (line (4) in Part 1)	(10)	4,000 00		
Cumulative taxable capital gains reported after 1984		14,000 00	(11)	14,000 00
(b) ADD: Allowable capital loss claimed in 1985 (Maximum $2000.00)	(12)			
Total allowable business investment losses after 1984 and before 1989 (from line 217 of your 1985 to 1988 returns)	(13)			
Total net capital losses of other years claimed after 1984 and before 1989 (from line 253 of your 1985 to 1988 returns and form T1A (Losses carried-back))	(14)			
Cumulative net investment loss (line (C) on form T936)	(15)	400 00		
Total losses claimed in 1989 (line (7) in Part 1)	(16)			
Total capital gains deductions claimed after 1984 and before 1989 (from line 254 of your 1985 to 1988 returns)	(17)	10,000 00		
Subtotal		10,400 00	(18)	10,400 00
CUMULATIVE GAINS LIMIT FOR 1989 (line (11) minus line (18): if negative, enter zero)			(19)	3,600 00

Helen's final step is to complete Part 3 of form T657A.

PART 3 — CALCULATION OF CAPITAL GAINS DEDUCTION ON OTHER CAPITAL PROPERTY

(Complete this part if you disposed of OTHER CAPITAL PROPERTY or are reporting reserves on dispositions of OTHER CAPITAL PROPERTY in 1989)

Maximum capital gains deduction for 1989			(20)	66,667 00
Capital gains deductions claimed after 1984 and before 1988: other capital property only (from line 254 of your 1985 to 1987 returns)	(21)	10,000 00		
ADD: Adjustment of pre-1988 other capital property capital gains deductions (1/3 of amount reported at line (21))		3,333 00		
Capital gains deduction claimed in 1988: other capital property only (from line 254 of your 1988 return)				
Subtotal		13,333 00	(22)	13,333 00
Capital gains deduction available for 1989 (line (20) minus line (22): if negative, enter zero)			(A)	53,334 00
Annual gains limit (line (8) in Part 1: if negative, enter zero)			(B)	4,000 00
Cumulative gains limit (line (19) in Part 2)			(C)	3,600 00
CAPITAL GAINS DEDUCTION ON OTHER CAPITAL PROPERTY: The maximum amount to be entered at line (D) is the least of (A), (B) and (C), however, you may enter an amount that is less than the maximum. Enter this amount on line 254 on page 2 of your return			(D)	3,600 00

As indicated, Helen is eligible to claim a capital gains deduction of $3,600 on line 254 on her 1989 return.

T3 Slip — Capital gains eligible for deduction

If you are the beneficiary of a trust and you received a T3 slip with an asterisk (*) in Boxes B, C or I, contact the issuer of the slip for instructions on how to calculate your 1989 capital gains deduction, unless the instructions have been attached to your slip.

If there is no asterisk (*) in Boxes B, C or I, your T3 slip may indicate that the amount of capital gains allocated to you in Box B is different from the amount of capital gains eligible for deduction indicated in Box I. If so, to determine your capital gains deduction for 1989, you should recalculate Schedule 3 to line 540. Enter the amount in Box I on line 533 of Schedule 3, and use the new line 540 amount to calculate your annual gains limit in Part 1 of either form T657 or form T657A, whichever is applicable.

Note:

When Box I is blank, your capital gains eligible for deduction are equal to the capital gains reported in Box B. Therefore, a second calculation of Schedule 3 is not required.

CHAPTER 4
PRINCIPAL RESIDENCE

A gain from the sale of a home that was your principal residence is usually exempt from tax. This exemption is separate and distinct from the cumulative lifetime capital gains deduction. However, you may have a **taxable capital gain** if, during the period you owned your principal residence,

- you used any part of it to earn rental income or operate a business, **or**
- you had designated another residence as your principal residence.

See "Change in use" in this chapter for additional information.

What property qualifies as a principal residence?

A principal residence generally refers to a housing unit you own and ordinarily live in. More specifically, a property will qualify as your principal residence for a year if it is

- a housing unit, a leasehold interest in a housing unit or a share of the capital stock of a co-operative housing corporation;
- owned by you solely or jointly with another person;
- ordinarily inhabited in the year by you, your spouse, your former spouse or any of your children; **and**
- designated as your principal residence.

Note:
If you dispose of a residence that qualifies as a principal residence for each year since you acquired it, any resulting capital gain will be exempt from tax. For additional information, see "Designating your principal residence" and "Disposition of your principal residence" in this chapter.

Types of property

Your principal residence may be

- a house,
- an apartment,
- a duplex,
- a condominium,
- a trailer,
- a mobile home, **or**
- a houseboat.

In addition, land surrounding your principal residence that contributes to your use and enjoyment of the residence will qualify as part of your principal residence. The amount of qualifying land is normally limited to one-half hectare unless you can demonstrate that the portion in excess of one-half hectare was necessary for the use and enjoyment of your residence. For example, the excess land could be considered necessary for the use and enjoyment of your residence where the minimum lot size imposed by municipal authorities at the time you purchased the property was greater than one-half hectare.

Note:
Any taxable capital gain resulting on the disposition of your principal residence may qualify for the capital gains deduction. See Chapter 3 for more information.

Change in use

Generally, you use a residence you own either as your principal residence or as an income-producing property. In some instances, you may use part of your principal residence for income-producing purposes. You are considered to have used part or all of a property for income-producing purposes when you use it

- to earn rental income, **or**
- to operate a business.

Change in use to rental or business operation

If you acquired a residence to use as your home, and you begin to use it for income-producing purposes, you are deemed to have

- disposed of it at the time the change occurs for proceeds equal to its fair market value at that time, **and**
- immediately reacquired it at a cost equal to that fair market value.

If the property qualified as your principal residence every year since you acquired it, any gain you realized on the deemed disposition will be exempt from tax.

If you later stop using the property as an income-producing property, but do not sell it, a further deemed disposition occurs. Your capital gain is the increase in the value of the property during the time it was used for income-producing purposes.

You must report any capital gain arising from the deemed disposition of property on Schedule 3. Such a gain is normally reported in the calendar year of the change in use.

Election

A special **election** is available when you convert your principal residence to a rental or business property. You may elect to be deemed **not** to have commenced to use your principal residence as an income-producing property. As a result, you do not have to recognize any gain at the time of change in use.

To make this election, you must enclose with your return a signed letter which

- describes the property, **and**
- states that you are making your election under subsection 45(2) of the Income Tax Act.

This election remains in effect until you either dispose of the property or rescind the election.

If you make this election, you may designate the property to be your principal residence for up to four years, even though the property was not used as your principal residence, as long as

- you do not claim any capital cost allowance on the property, **and**

- you do not designate any other property as your principal residence during the same period.

You may extend the four year limitation indefinitely if

- your absence results from a relocation required by your employer or your spouse's employer,
- you and your spouse are not related to the employer,
- you return to the original house while still with the same employer or before the end of the year following the year in which such employment terminates, **and**
- the original house is located at least 40 kilometres (25 miles) farther than your temporary residence is from your or your spouse's new place of employment.

If you began to use your residence as an income-producing property in 1989, please obtain the *1989 Business and Professional Income Tax Guide* or the *1989 Rental Income Tax Guide* for details on reporting business or property income.

Change in use from rental or business operation

If you acquired a house to produce income and later begin to use it as your principal residence, you are deemed to have disposed of the property at the time you changed its use for proceeds equal to its fair market value at that time. However, you may elect to postpone recognition of any capital gain until there is an actual disposition of the property.

Note:

You may not make this election if you, your spouse, or a trust under which you or your spouse is a beneficiary have claimed capital cost allowance on the property for any taxation year after 1984, and on or before the change in use.

To make this election, you must

- attach a signed note to your return explaining the situation, **and**
- specify that you are making the election under subsection 45(3) of the Income Tax Act.

The election must be made on or before the earlier of

- 90 days after the Minister demands the election, **and**
- April 30 following the year in which you actually dispose of the property.

If you make this election, you may designate the property as your principal residence for up to four years before you begin to actually occupy it as your principal residence.

As this election applies only to a capital gain, you must include any recaptured capital cost allowance (CCA) you claimed on the property before 1985 when calculating your business or property income in the year the change in use occurs. For more information on recaptured CCA, please obtain the *1989 Business and Professional Income Tax Guide* or the *1989 Rental Income Tax Guide*.

You were asking. . .?

Q. I began to use my business property as my principal residence in 1989. I understand that I am deemed to have disposed of the property at the time that I changed its use, and that the resulting capital gain is taxable. Does this gain qualify for the capital gains deduction?

A. Yes. The capital gains deduction is normally available when a disposition of capital property results in a taxable capital gain. This is the case whether there is an actual disposition or a deemed disposition. However, you may be able to defer recognition of any taxable capital gain until you actually dispose of the property if you make an election under subsection 45(3) of the Income Tax Act.

Using part of your residence for a rental or business operation

When you begin to use part of your residence to earn rental or business income, there is normally a deemed disposition of the portion to be used for income-producing purposes for proceeds equal to its fair market value at that time. If that portion was part of a property that qualified as your principal residence every year since you acquired it, any gain realized on the deemed disposition will be exempt from tax. Later, when you actually dispose of the whole property,

- you must split the proceeds of disposition and the adjusted cost base between the personal and the income-producing portions. This split must be made on a reasonable basis such as square metres or number of rooms; **and**
- only the gain relating to the portion qualifying as a principal residence is exempt from tax. Any resulting taxable capital gain relating to the income-producing portion may qualify for the capital gains deduction discussed in Chapter 3.

However, you will not be considered to have changed the use of the portion used for income-producing purposes if

- the portion of the residence you use for income-producing purposes is minor in relation to the whole house,
- you do not make major structural changes to make the property more suitable for income-producing purposes, **and**
- you do not claim capital cost allowance on the income-producing portion.

If the above conditions are met, the entire residence may qualify as a principal residence even though a portion is used for income-producing purposes.

Designating your principal residence

For taxation years **before 1982,** more than one qualifying housing unit per family may be designated as a principal residence. Therefore, it is possible for a husband and wife to designate different principal residences for these years.

For **1982 and later years,** only one qualifying housing unit per family may be designated as a principal residence per year.

For any year after 1981 during which you were either married or 18 years of age or older, family includes

- you;
- your spouse, unless you were separated throughout the year pursuant to a court order or written agreement; **or**
- any child of yours who was under 18 and not married throughout the year.

For any year after 1981 during which you were neither married nor 18 years of age or older, family includes

- your mother or father, **or**
- a brother or sister of yours who was under 18 and not married throughout the year.

To make the designation, complete form T2091, *Designation of a Principal Residence* in the year you dispose or you are deemed to have disposed of your principal residence. Refer to the next section in this chapter, "Disposition of your principal residence" for further information.

A special rule applies if members of a family have designated more than one housing unit as a principal residence for 1981 and previous years. For further details, see Interpretation Bulletin IT-120R3, *Principal Residence*.

Disposition of your principal residence

You should complete form T2091, *Designation of a Principal Residence* if, in 1989 you

- disposed of your principal residence or any part of it,
- granted an option to acquire your principal residence or any part of it, **or**
- were deemed to have disposed of your principal residence or any part of it.

If your residence was not your principal residence for all the years that you owned it, the instructions on the form will help you determine

- the number of years that the property is designated as your principal residence, **and**
- the portion of your capital gain that is not exempt from tax.

Note:

You must file form T2091 with your return ***only*** *if a capital gain remains after you deduct the exempt portion. Report this amount on line 530 of Schedule 3.*

For more details on the principal residence exemption, obtain Interpretation Bulletins IT-120R3, *Principal Residence*, and IT-366R, *Principal Residence — Transfer to Spouse, Spouse Trust or Certain Other Individuals* and its Special Release.

Farms

If you are a farmer and in 1989 you disposed of farmland that included your principal residence, you have the choice of using one of two methods to determine the resulting capital gain. For details on these methods, please obtain the *1989 Farming Income Tax Guide*.

CHAPTER 5
RESERVES

Although you may not receive the full sales proceeds for property you sold in a year, you must still report the transaction on Schedule 3 in the normal manner. However, the taxation of any capital gain you realized may be spread over a number of years. This is done by claiming a reserve for proceeds not due until after the end of the year.

Who qualifies to claim a reserve?

Generally, any individual is eligible to claim a capital gains reserve in the year. However, you may not claim a reserve if

- at the end of the year or at any time in the immediately following year, you were not resident in Canada or were exempt from tax under Part 1 of the Income Tax Act, **or**
- you sold the property to a corporation that, immediately after the sale, was controlled directly or indirectly by you or by a person or a group of persons controlled directly or indirectly by you.

Individuals deducting a capital gains reserve must file form T2017, *Summary of Reserves on Dispositions of Capital Property* with their return. This form is discussed in more detail at the end of this chapter.

Calculating your reserve

The method you use to calculate a reserve depends on when the disposition of property occurred.

Dispositions before November 13, 1981

If you sold property before November 13, 1981, you may use the following formula to calculate your reserve for the year:

$$\frac{\text{Capital gain}}{\text{Proceeds of disposition}} \times \begin{array}{c}\text{Amount not due}\\ \text{until after}\\ \text{the end of the year}\end{array} = \text{Reserve}$$

Note:

You may use this formula for property you sold after November 12, 1981, if the disposition occurred under the terms of an offer or agreement in writing you made or entered into before November 13, 1981.

Dispositions after November 12, 1981

The reserve calculation for dispositions of family farm property and small business corporation shares is different than that for other property. Refer to the calculation that applies to you.

Family farm property or small business corporation shares

Family farm property includes

- shares of a family farm corporation;
- an interest in a family farm partnership; **or**
- land in Canada or depreciable property in Canada used in the business of farming by you, your spouse or any of your children, grandchildren or great-grandchildren.

Small business corporation shares are shares in a Canadian-controlled private corporation (CCPC) in which all or substantially all (90 per cent) of the fair market value of its assets are

- used in an active business carried on primarily in Canada by the corporation or by a corporation related to it,
- shares or debts in a connected small business corporation, **or**
- a combination of the above two categories of assets.

If you disposed of **family farm property** or **shares of a small business corporation** after November 12, 1981 to your children, grandchildren or great-grandchildren who lived in Canada at the time of the disposition, the maximum reserve you may claim is the **lesser** of

(a) $$\frac{\text{Capital gain}}{\text{Proceeds of disposition}} \times \text{Amount not due until after the end of the year}$$

and

(b) $$\frac{\text{Capital gain}}{10} \times (9 - X)^*$$

*X = the number of taxation years since the year of disposition, but not including the year of disposition.

This calculation ensures that you report a minimum of one-tenth or 10 per cent of the gain each year until the full capital gain is reported.

Other property

For dispositions of **all other types of property** after November 12, 1981, you may spread the taxation of a capital gain over a maximum of five years. Your reserve in each year may not exceed the **lesser** of

(a) $$\frac{\text{Capital gain}}{\text{Proceeds of disposition}} \times \text{Amount not due until after the end of the year}$$

and

(b) $$\frac{\text{Capital gain}}{5} \times (4 - X)^*$$

*X = the number of taxation years since the year of disposition, but not including the year of disposition.

This calculation ensures that you report at least one-fifth or 20 per cent of the gain each year until the full capital gain is reported.

Previous year's reserve

If you claimed a capital gains reserve in 1988, report the reserve on the appropriate line of form T2017 and on line 538 of Schedule 3 in 1989. If all the proceeds are not due in 1989, you may be able to claim a new reserve.

Capital gains deduction

The taxable portion of any capital gains reserve you include in income in 1989 that relates to a property disposed of after 1984 qualifies for the capital gains deduction. For more details, refer to Chapter 3 of this Guide.

You were asking. . .?

Q. In 1989, I sold a residential property that was not my principal residence and I realized a taxable capital gain of $50,000. I took a mortgage back on the property and plan to claim the maximum allowable reserve each year. It is my understanding that I can claim a capital gains deduction to offset the capital gain that is taxable in 1989. I also understand that I can claim a capital gains deduction when I report the taxable portion of the reserve in later years. Is this correct?

A. Yes. You may claim a capital gains deduction in 1989 to offset the amount of taxable capital gain reported in that year. You may also claim a capital gains deduction when you include the taxable portion of the reserve in income in later years. Alternatively, you may wish to include the entire taxable capital gain in income in 1989 and claim a capital gains deduction to offset the entire amount.

Example A

Juanita sold her cottage in 1989 for $75,000. The adjusted cost base (ACB) of the cottage was $50,000 and she incurred selling expenses of $5,000. Juanita received a down payment of $15,000 at the time of sale and will receive $10,000 a year for the next six years.

Juanita calculates her capital gain as follows:

Proceeds of disposition		$75,000
minus		
ACB	$50,000	
selling expenses	5,000	55,000
Capital gain		$20,000

As Juanita will not receive all the proceeds in the year of disposition, she may claim a reserve. Even though Juanita will not receive the total proceeds for six years, the taxation of her capital gain cannot be spread over more than five years.

Juanita's reserve for 1989 is the **lesser** of

(a) $$\frac{\$20{,}000}{\$75{,}000} \times \$60{,}000 = \$16{,}000$$

and

(b) $$\frac{\$20{,}000}{5} \times 4^* = \$\,16{,}000$$

* There are no taxation years which have ended since the year of disposition. Therefore, Juanita does not reduce the 4 in this calculation.

When Juanita completes her 1989 return, she reports the $20,000 capital gain on line 530 on Schedule 3. She enters the reserve of $16,000 on line 388 of form T2017, *Summary of Reserves on Dispositions of Capital Property*. As this is the only capital gains reserve she is claiming in 1989, Juanita enters the reserve of $16,000 as a deduction on line 538 on Schedule 3.

Example B

Assume that Juanita disposed of the property in the above example in **1988** rather than in 1989. In that case, in 1988 she would have reported a capital gain of $20,000, and deducted a reserve of $16,000.

Since Juanita would have collected an additional $10,000 of the sale price in 1989, she must calculate a new reserve. Her reserve for 1989 is calculated as the **lesser** of

(a) $$\frac{\$20{,}000}{\$75{,}000} \times \$50{,}000 = \$13{,}333$$

and

(b) $$\frac{\$20{,}000}{5} \times 3^* = \$12{,}000$$

* As 1989 is the only taxation year that has ended since the year of disposition (1988), Juanita reduces the number 4 by 1.

Juanita reports the 1988 reserve of $16,000 on line 386 and claims the 1989 reserve of $12,000 on line 388 of form T2017. She enters the reduction in her reserve of $4,000 ($16,000 − $12,000) as an addition on line 538 on Schedule 3. Juanita must file form T2017 and a Schedule 3 with her 1989 return.

For more details on reserves, obtain Interpretation Bulletin IT-236R2, *Reserves — Disposition of Capital Property*.

Form T2017

You are required to file form T2017, *Summary of Reserves on Dispositions of Capital Property* if you are claiming a capital gains reserve in 1989.

Since reserves you include in your 1989 income qualify for the capital gains deduction if they relate to dispositions after 1984, form T2017 groups reserves according to

- the type of property to which a reserve relates, **and**
- the year of disposition.

This will help you identify the amount that qualifies for the capital gains deduction.

Depending on whether your net reserve for 1989 increases or decreases your capital gains for the year, the amount calculated on form T2017 may either be an addition or a deduction on line 538 on Schedule 3.

For your convenience, two copies of form T2017 are enclosed in this Guide.

CHAPTER 6
VALUATION OF CAPITAL PROPERTY ACQUIRED BEFORE 1972

The calculation of capital gains and losses may be different when you dispose of capital property that was acquired before 1972. This chapter discusses these different calculations.

Valuation Day (V-Day)

Capital gains became taxable on January 1, 1972. To ensure that tax would not be assessed, or losses allowed, for any gain or loss that accrued before that date, a starting point called Valuation Day was established for determining the cost of a property acquired before 1972. This cost is used in calculating the capital gain or loss on the disposition of the property after 1971.

There are two Valuation Days:

- **December 22, 1971** is V-Day for publicly traded shares (common and preferred), rights and warrants.
- **December 31, 1971** is V-Day for all other capital properties including bonds.

Note:
Valuation Day is important only for property acquired before January 1, 1972 and disposed of after 1971. It does not apply to property acquired on or after that date.

V-Day values

The V-Day value of a capital property is its fair market value on Valuation Day.

V-Day will affect those who, on December 31, 1971, owned capital property including

- real estate such as cottages, land and rental property;
- personal-use property including listed personal property such as works of art, jewellery, rare folios, rare manuscripts or rare books, stamps or coins;
- investments, including shares and securities;
- land, buildings or equipment used in a business; **or**
- partnership interests.

You need to know the V-Day value of your property to determine your capital gain or loss but you do not have to establish or report the V-Day value of your property until you dispose of it. However, it is to your advantage to determine the V-Day value of the property today even though you may not be planning to dispose of your property for several years. If you wait, the value becomes increasingly more difficult to establish.

All property will eventually be disposed of for income tax purposes. Even if it is never sold or otherwise disposed of, disposal will be deemed to have occurred on the death of the owner.

Determining the V-Day value of your property

It is your responsibility to establish what the fair market value of your property was on V-Day. To avoid any possible conflict of interest, Revenue Canada, Taxation appraisers do not establish property values for owners.

You may not need to employ a professional appraiser. If determining the value of your property is a simple matter, you may wish to do it yourself. On the other hand, the size and type of your property may mean that you need a professional appraiser.

Note:
You cannot deduct the cost of appraisal fees from your income or from any capital gain when you eventually dispose of the property.

Real estate

If you employ the services of a professional appraiser, the appraiser will normally provide a fully documented appraisal with supporting data that adequately explains the investigation carried out. The appraisal should include a detailed explanation of the method used to arrive at the estimated value.

If you wish to establish the value yourself, you should collect information on sales of similar properties in the same area around December 31, 1971. This will help you to arrive at the fair market value of your property. To support your valuation, you should retain documents containing the following information:

- a brief description of the property, including location, lot, building size, and date and type of construction;
- the cost and date of purchase;
- the cost of any additions or improvements, including receipts for the cost of labour or materials;
- the property assessment for municipal tax purposes; **and**
- insurance coverage.

Additional information may be required for certain other types of property, such as

(a) farm property
  - the type of land (arable, bush or shrub), **and**
  - the type of farming done.

(b) rental property
  - the gross annual rental income, **and**
  - the net annual income before capital cost allowance.

(c) commercial and industrial property
  - the type of business for which the property is used,
  - the gross annual income derived from it, **and**
  - the net annual income before capital cost allowance.

Real estate data bank

Revenue Canada, Taxation has set up a computerized Real Estate Data Bank to assist in verifying values reported in income tax returns. It contains records of real estate transactions that took place in 1971 and 1972. Properties sold during this period are listed and pertinent information such as legal description, municipal address, assessed value, lot size and other data is noted. Taxpayers who are disposing of property may obtain information from the data bank by contacting their district office.

Investments

If you owned publicly traded shares or securities on December 31, 1971, please obtain the booklet entitled, *Valuation Day Prices of Publicly Traded Shares and Securities* from your district office. Publicly traded shares and securities are bought and sold through a stock exchange. This publication lists all publicly traded shares and securities and their V-Day value (December 22, 1971) if they were traded on a recognized stock exchange in Canada. We will accept only the prices in this publication, unless you can establish another fully documented value.

Any shares or securities not included in this publication have a December 31, 1971 V-Day value. You should be able to determine the V-Day value of such properties by consulting published listings of transactions on stock exchanges, investment publications or investment dealers.

Establishing a V-Day value for shares in a private company may be more difficult. There is no standard formula and you must value each holding on its own particular merits. This may require professional assistance.

Business property

Capital properties used in a business are valued in the same manner as other properties. However, the following do not require valuation for capital gains purposes:

- the trading assets of a business such as inventory and accounts receivable; **and**
- eligible capital property such as the goodwill of a business. Proceeds from the disposition of such property are subject to tax in a special manner. For information on how to calculate the taxable amount, obtain the *1989 Business and Professional Income Tax Guide*, the *1989 Farming Income Tax Guide* or the *1989 Fishing Income Tax Guide*.

Partnerships

Since January 1972, partnerships have been considered owners of property for tax purposes. Accordingly, when a partnership disposes of capital property, a capital gain or loss may result at the partnership level. A V-Day value is therefore required for all capital property of the partnership on December 31, 1971. Once the partnership's taxable capital gain or allowable capital loss has been calculated, individual partners must report their share of the disposition when they file their income tax returns for the year in which the partnership's fiscal period ends. Note that the capital gains deduction is available to individual partners but not to the partnership itself.

In addition, an interest in a partnership is a capital property. A partner who withdraws from or otherwise disposes of an interest in a partnership may realize a capital gain or loss.

For more details on partnerships, obtain Interpretation Bulletins IT-338R, *Partnership Interests - Effects on Adjusted Cost Base Resulting from the Admission or Retirement of a Partner* and Correction Sheet 8, IT-353R2, *Partnership Interest - Some Adjustments to Cost Base*, and IT-378R, *Winding-up of a Partnership*. If you disposed of part or all of a partnership interest in 1989 and were a member of the partnership continuously since before 1972, obtain form T2065, *Determination of Adjusted Cost Base of a Partnership Interest*.

For general information about the Department's role in evaluating securities, partnerships, goodwill and similar business equities, please obtain Information Circular 72-25R4, *Business Equity Valuations*.

Disposition of property owned on December 31, 1971

If you acquired property before 1972, and its actual cost is the same as its value on V-Day, this amount is its cost for capital gains purposes. However, if the actual cost and the V-Day value differ, you must use one of the following two methods to determine the cost of the property for capital gains purposes:

- you may elect to use the fair market value on V-Day as the cost of all such capital property you owned on December 31, 1971, **or**
- you may determine the cost using the "median rule."

These methods are explained below.

Tax Tip

You should carefully consider the pros and cons of both methods of valuing capital property you owned on December 31, 1971. Once you choose a method to calculate the capital gain or loss resulting from your first disposition of pre-1972 capital property, you must use that same method to report all dispositions of such property. For instance, once you use the V-Day value election, you may not change to the median rule. Nor may you use the median rule, then change and use the V-Day value on a later disposition.

Note:

These methods of determining the deemed cost of pre-1972 capital property do not apply to depreciable property or interests in partnerships.

If you dispose of depreciable or personal-use property, refer to "Personal-use property" in Chapter 1 or the section entitled, "Disposition of depreciable property" in Chapter 8 for more information.

The median rule

To determine the deemed cost under the median rule, three amounts are required:

- the actual cost,
- the V-Day value, **and**
- the proceeds of disposition.

The median amount is the amount that is neither the highest nor the lowest. That amount then becomes the deemed cost when calculating the capital gain or loss. When two or more of these amounts are the same, that amount will be the median.

The following examples demonstrate the median rule:

Example A

Matt acquired a cottage lot in 1968 for $10,000. He sold it in 1989 for $50,000, realizing a total gain of $40,000. However, in computing his income, Matt is only required to take into account the part of the gain that accrued after December 31, 1971.

The fair market value of the property on V-Day was $20,000. This was Matt's first disposition of a property he acquired before 1972. Applying the median rule, his deemed cost will be the median of the following three amounts:

Actual cost of acquisition	$10,000
V-Day value	$20,000
Proceeds of sale	$50,000

Matt's deemed cost of the property is $20,000. This figure becomes the base from which Matt calculates his gain or loss.

Selling price	$50,000
minus	
Deemed cost	20,000
Capital gain	$30,000
Taxable capital gain for 1989 ($30,000 × 2/3)	$20,000

Using the median amount, Matt reports a capital gain of $30,000 on line 530 of Schedule 3, and a taxable capital gain of $20,000 on line 127 of his 1989 return.

Example B

Assume that Matt had purchased the property for $20,000 and its fair market value on V-Day was $10,000. The facts are otherwise the same as in the above example.

When Matt applies the median rule, the result is as follows:

Actual cost of acquisition	$20,000
V-Day value	$10,000
Proceeds of sale	$50,000

The deemed cost of acquisition is the median amount or $20,000.

Selling price	$50,000
minus	
Deemed cost	20,000
Capital gain	$30,000
Taxable capital gain for 1989 ($30,000 × 2/3)	$20,000

Matt's capital gain is thus equal to his actual gain on the property.

Obtain Interpretation Bulletin IT-84, *Capital Property Owned on December 31, 1971 - Median Rule (Tax-Free Zone)* for more details.

Valuation Day value election

You may elect to use the V-Day value as the deemed cost of property owned on December 31, 1971. To make this election, you must file form T2076, *Valuation Day Value Election for Capital Properties Owned on December 31, 1971* with your return for the year in which you first dispose of pre-1972 capital property. You may postpone this election as long as your only dispositions of capital property are one or more of the following:

- capital property you disposed of for the same amount as its fair market value on V-Day;
- personal-use property other than listed personal property or real property;
- listed personal property, if there was no capital gain or loss as both the proceeds of disposition and the cost were $1,000 or less;
- your principal residence, if there was no taxable capital gain;
- other personal-use property that is real property, if there was no capital gain or loss as both proceeds and cost were $1,000 or less;
- property that you were deemed to own but did not actually own; **and**
- certain property you did not acquire in an arm's length transaction.

The following examples demonstrate the Valuation Day value election.

Example A

Esther purchased shares in 1968 for $10,000 and sold them in 1989 for $14,000. The shares had a value of $20,000 on December 31, 1971.

Using the Valuation Day value election, the deemed cost of Esther's shares is $20,000.

Selling price	$14,000
minus	
Deemed cost	20,000
Capital loss	($ 6,000)
Allowable capital loss for 1989 ($6,000 × 2/3)	($ 4,000)

Esther incurred an allowable capital loss of $4,000 in 1989. She may use this loss only to reduce taxable capital gains in 1989 and other years. See "1989 Capital losses" in Chapter 2. If Esther had used the median rule, her deemed cost and proceeds would have been the same amount ($14,000) and there would have been no taxable capital gain or allowable capital loss.

Example B

Jolene purchased a cottage in 1968 for $20,000. It had a V-Day value of $12,000. She sold the property in 1989 for $15,000. Jolene had elected to use the V-Day value on previous dispositions of property owned on December 31, 1971. Therefore, the deemed cost of Jolene's cottage is its V-Day value of $12,000.

Selling price	$15,000
minus	
Deemed cost	12,000
Capital gain	$ 3,000
Taxable capital gain for 1989 ($3,000 × 2/3)	$ 2,000

Although Jolene actually suffered a monetary loss of $5,000 ($20,000 - $15,000), she must report a taxable capital gain of $2,000 in 1989 using the Valuation Day value election. If she had been able to use the median rule, her deemed cost would equal her proceeds of disposition and there would be no resulting capital gain or loss.

For more details, obtain Interpretation Bulletin IT-139R, *Capital Property Owned on December 31, 1971 — Fair Market Value.*

CHAPTER 7
ROLLOVERS

If you dispose of property to someone with whom you do not deal at arm's length, and your proceeds of disposition are less than they would have been on the open market, your proceeds of disposition are deemed to be the fair market value of the property. Similarly, if you acquire property in a non-arm's length transaction, and your acquisition cost is more than the fair market value of the property, you are deemed to have acquired the property at its fair market value.

Interpretation Bulletin IT-405, *Inadequate Considerations — Acquisitions and Dispositions* contains additional information.

There are special rules that permit the transfer of property at an amount that is other than the property's fair market value. If these rules apply, you may be able to elect to defer tax on any capital gain resulting from the disposition. Some of the more common "rollovers" (transfers) are noted below.

> **Tax Tip**
>
> As you read through this chapter, you should keep in mind the capital gains deduction discussed in Chapter 3. You may decide that the deduction is more beneficial to you than the rollover provisions.

Farms

There are many special rules governing the treatment of capital gains arising from the disposition of farm property. In certain instances, farm property may be transferred to a farmer's child or spouse. For information on these types of rollovers and other rules applicable to farm property, refer to the *1989 Farming Income Tax Guide.*

Other rollovers

You may elect to defer the recognition of any capital gains which would otherwise be realized when property is transferred from

- an individual to a corporation. To make this election, you must file form T2057, *Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation*;
- a partnership to a corporation. To make this election, you must file form T2058, *Election on Disposition of Property by a Partnership to a Taxable Canadian Corporation*; **and**
- an individual to a partnership. To make this election, you must file form T2059, *Election on Disposition of Property by a Taxpayer to a Canadian Partnership.*

For more details on rollovers to a corporation, see Information Circular 76-19R, *Transfer of Property to a Corporation under Section 85*, and Interpretation Bulletin IT-291R, *Transfer of Property to a Corporation under Subsection 85(1).*

For more details on rollovers to partnerships, see Interpretation Bulletin IT-413R, *Election By Members of a Partnership under Subsection 97(2).*

Note:

If you elect to defer the recognition of any capital gains resulting on one of the above dispositions, you must still report the disposition on Schedule 3.

CHAPTER 8
OTHER SPECIAL RULES

Special rules for determining a capital gain or loss apply in some cases. The following are the more common situations affected by these rules:

- disposition of depreciable property,
- disposition of part of a property,
- identical properties,
- gifts,
- disposition of cultural property to designated institutions,
- replacement properties,
- mortgages and other obligations, **and**
- foreign exchange gains and losses.

Disposition of depreciable property

You may realize a capital gain on depreciable property only if you dispose of it for more than its adjusted cost base. For property you owned on December 31, 1971, any capital gain is limited to the gain since V-Day.

Examples

	A	B	C
Original capital cost before 1972	$2,000	$2,000	$2,000
V-Day value	1,500	2,600	2,800
Proceeds of disposition	1,000	2,400	3,000
Capital gain	0	0	200

In example A, since the property was sold for less than its capital cost, there is no capital gain. In B, although the property is sold for more than its capital cost, there is no capital gain for tax purposes since the capital gain really occurred before 1972. A capital gain occurs only in example C.

For more details about the disposition of depreciable property acquired before 1972, please obtain Interpretation Bulletin IT-217, *Capital Property Owned on December 31, 1971 — Depreciable Property* and its Special Release.

Depreciable properties are grouped into classes according to the Income Tax Regulations. Generally, the **undepreciated capital cost (UCC)** of a class is the total capital cost of all properties in the class, less proceeds of property disposed of, and less the total capital cost allowance (CCA) claimed in previous years.

When depreciable property is disposed of for less than its original capital cost but for more than its UCC, there is no capital gain. However, if the UCC of a particular class has a negative balance at the end of the year, the negative balance is a **recapture** of capital cost allowance and must be included in income in that year.

Also, there can be no capital loss on the disposition of depreciable property. If the UCC of a particular class has a positive balance at the end of the year, and there are no properties left in the class, the positive balance is a **terminal loss** and can be deducted from income in that year.

Note:

The above recapture and terminal loss provisions do not apply to Class 10.1 assets.

Examples

A piece of machinery was purchased for $20,000. It is the only property in its class. At the beginning of 1989, the class had a UCC of $11,000. The piece of machinery was sold in 1989.

	A	B	C
Proceeds	$ 8,000	$16,000	$24,000
UCC	11,000	11,000	11,000
Terminal loss	3,000	0	0
Recaptured CCA	0	5,000	9,000
Capital gain	0	0	4,000

Note:

In example C, the recaptured CCA is restricted to the difference between the UCC and the capital cost. The proceeds in excess of the original cost represent the capital gain.

Proceeds of disposition	$24,000
Capital cost	(20,000)
Capital gain	$ 4,000
Capital cost	$20,000
UCC	(11,000)
Recaptured CCA	$ 9,000

For more information on recaptured CCA and terminal losses, please obtain Interpretation Bulletin IT-478, *Capital Cost Allowance — Recapture and Terminal Loss* and the *1989 Business and Professional Income Tax Guide* or the *1989 Rental Income Tax Guide*.

Disposal of a building in 1989

If you disposed of a building in 1989 and the building disposed of was the only property in a class, its cost amount is the undepreciated capital cost (UCC) of the class before the disposal.

If there was more than one building in the same class, the cost amount of each building is calculated as follows:

$$\frac{\text{Capital cost of the building}}{\text{Capital cost of all buildings in the class}} \times \text{Undepreciated capital cost of the class} = \text{Cost amount of the building}$$

In certain instances, special rules apply to deem the proceeds of disposition to be an amount other than the actual proceeds of disposition. This is the case if you meet **both** of the following conditions:

1. You or a person with whom you do not deal at arm's length owned
   - the land on which the building was located, **or**
   - land next to and necessary for the use of the building.
2. You disposed of the building for an amount **less** than both
   - its cost amount as calculated above, **and**
   - its capital cost to you.

If you disposed of a building under these conditions, please obtain the *1989 Business and Professional Income Tax Guide* or the *1989 Rental Income Tax Guide*. These guides describe the special rules in detail and provide the necessary calculations for you to determine your deemed proceeds of disposition.

You may use form T2085, *Capital Dispositions Supplementary Schedule Re: Depreciable Property*, to help you calculate your gain or loss on the disposition of depreciable capital property.

Disposition of part of a property

When you only dispose of part of a property, you must divide the adjusted cost base (ACB) of the property proportionately between the part you dispose of and the part you retain. For instance, part of a property could be a portion of a parcel of land or part of an interest in a building. You must apportion the ACB on a reasonable basis.

Example

If you own 100 hectares of vacant land of equal quality and sell 25 hectares, you would normally calculate one-quarter of the total ACB as follows:

Total ACB	$100,000
minus	
ACB of part disposed of	25,000
ACB remainder	$ 75,000

You would then calculate your gain or loss using an ACB of $25,000 for the 25 hectares sold.

For more details on the disposition of part of a property, obtain Interpretation Bulletin IT-264R, *Part Dispositions* and its Special Release.

Identical properties

Properties of a group are identical if each property in the group is identical in every material respect with every other property in the group. Shares of the same class of the capital stock of a corporation are the most common example of identical properties.

Identical properties acquired after 1971

A special situation arises when you acquire several identical properties at different prices over a period of time. To overcome the problem of which cost to use when determining a capital gain or loss, you are required to calculate the average cost of each property in the group. This amount is then considered to be the cost of each identical property acquired after 1971.

Example

Boris owned 100 common shares of a corporation. He purchased these shares for $15 per share. Boris later purchased another 150 shares of the same class of the capital stock of that corporation at a cost of $20 per share. In 1989, Boris disposed of 200 of these shares at a selling price of $24 a share.

Previously acquired shares	100	at $15		$1,500
Newly acquired shares	150	at $20		3,000
Total shares	250		Total cost	$4,500

Average cost of each share $\frac{\$4{,}500}{250} = \$18$

Calculation of capital gain		
Selling price of shares	(200 at $24)	$4,800
minus		
Cost of shares sold	(200 at $18)	3,600
Capital gain		$1,200
Taxable capital gain ($1,200 × 2/3)		$ 800

You calculate the average cost each time you acquire another identical property. Dispositions do not affect the average cost since the deemed cost of each property in the group is identical to the deemed cost of every other identical property in the group.

If, after selling the 200 shares in the corporation, Boris purchased 350 more shares which were identical properties at a cost of $21 a share, the average cost of the shares would change.

Cost of previously acquired shares (250 − 200)	50	at $18		$ 900
Cost of newly acquired shares	350	at $21		7,350
Total shares	400		Total cost	$8,250

$8,250

Average cost of each share $\frac{\$8{,}250}{400} = \$\ 20.63$

Use the same method to determine the average cost of identical bonds or debentures acquired after 1971 as you would for shares. One bond, debenture or similar debt obligation issued by a debtor is deemed to be identical to another such obligation issued by the same debtor if all rights attached to each are the same. The principal amount of the individual debt obligations is not taken into account in establishing whether they are identical properties.

Identical properties held on December 31, 1971

Identical properties owned on December 31, 1971 are treated differently since their V-Day fair market value must be taken into account when determining gains or losses. If you use the median rule, you also need to know the actual cost of the properties. The actual cost of identical properties owned on December 31, 1971 is considered to be the average cost of such properties.

Refer to Chapter 6 for more information on the median rule.

Example

Purchased in 1969	200	shares at $ 5		$1,000
Purchased in 1970	100	shares at $ 8		800
Purchased in 1971	100	shares at $10		1,000
Total shares	400		Total cost	$2,800

Actual (average) cost of each share $\frac{\$2{,}800}{400} = \$7$

Fair market value on Valuation Day	$14 per share
Sold in 1989	100 shares at $17
Calculation of capital gain using the median rule	
Proceeds of sale	100 shares at $17 = $1,700

minus

Deemed cost per share is the median amount of		
proceeds	$17	
actual cost	$ 7	
Valuation Day value	$14	
Deemed cost	100 shares at $14	1,400
Capital gain		$ 300
Taxable capital gain ($300 × 2/3)		$ 200

Identical properties acquired before 1972 and after 1971

If you own a group of identical properties, some of which you purchased before 1972 and some after 1971, when you dispose of any or all of the properties

- you are considered to have first disposed of those purchased before 1972; **and**
- you must make a separate determination of the capital gain or loss on those purchased before 1972, and calculate a further gain or loss on those acquired after 1971.

For more details on the disposition of identical properties, please obtain Interpretation Bulletins IT-387R2, *Meaning of "Identical Properties"* and IT-78, *Capital Property Owned on December 31, 1971 — Identical Properties*.

Gifts

To persons other than your spouse

If you give property as a gift, you are deemed to have disposed of the property at proceeds equal to its fair market value at the time you give the gift. You must take any resulting capital gain or loss into account when calculating your income for the year the gift is given.

When you receive property as a gift, you are deemed to have acquired the property at its fair market value at that time. There are no immediate tax consequences. However, if you subsequently dispose of it, you will have to take into account any resulting capital gain or loss when calculating your income for the year of disposition.

Note:

If you acquired property before 1972, you will need to know the property's V-Day fair market value to report its disposition.

To your spouse or a trust for your spouse

If you make a gift of property to your spouse or to a trust for your spouse, there will not normally be a capital gain or loss at that time. Depending on the type of property gifted, your proceeds of disposition are deemed to be equal to the

- undepreciated capital cost of depreciable property at the time the gift is given, **or**
- adjusted cost base of other property at the time the gift is given.

Your spouse or the trust is considered to have acquired the property at the same amount as your deemed proceeds. If your spouse or the trust subsequently disposes of the property during your lifetime, generally you must take any resulting capital gain or loss on the property into account in calculating **your** income if

- you are still a Canadian resident, **and**
- the property was not disposed of during a period when you and your spouse were living apart due to marriage breakdown.

A special election is available if you made a gift of property to your spouse or to a trust for your spouse in 1989. You may elect to transfer the property at its fair market value rather than have it deemed to be transferred for proceeds equal to its undepreciated capital cost or its adjusted cost base. If you make this election, you must report the disposition and any resulting capital gain or loss on your 1989 return. If the property is subsequently disposed of by your spouse or the trust, any further capital gain or loss must be reported by your spouse or the trust, as the case may be.

You make the election by attaching a note to your return stipulating that you are making the election under subsection 73(1) of the *Income Tax Act*.

Note:

The above comments also apply to transfers of property to the following persons:

- *your former spouse in settlement of rights arising out of the marriage,* ***and***
- *an individual, such as your former common law spouse, pursuant to a decree, order or judgment of a competent tribunal if you had entered into a written agreement with that individual.*

If you owned property other than depreciable property or a partnership interest on June 18, 1971, and you gave it to your spouse after 1971, a special situation arises when your spouse disposes of the property. Provided that you have not elected to use the V-Day values of properties you owned on December 31, 1971, your spouse will be required to use the median rule to determine the capital gain or loss on the property. This rule applies even if your spouse had elected to use V-Day values on all property held on December 31, 1971. Under the median rule, your spouse will use the following amounts to determine the deemed cost of the property on December 31, 1971:

- your original cost,
- the V-Day value, **and**
- the proceeds of disposition.

If you have made the V-Day value election, your spouse will use the fair market value of the property on December 31, 1971, together with any adjustments to your adjusted cost base from 1972 to the transfer date, as the adjusted cost.

In calculating income, your spouse will take into account any capital gain or loss which occurs after 1971 on gifts of property received from you before January 1, 1972.

Refer to Chapter 6 for more information on V-Day value and the median rule.

For more details on transfers of property to a spouse, obtain Interpretation Bulletins IT-209R, *Inter-Vivos Gifts of Capital Property to Individuals Directly or Through Trusts*, IT-511, *Interspousal Transfers and Loans of Property made after May 22, 1985* and IT-258R2, *Transfer of Property to a Spouse* and its Special Release.

Inherited property

Generally, when you inherit property, your cost is deemed to be the property's fair market value on the date you acquired it. There are no tax consequences to you at that time. However, if you subsequently dispose of the property, a capital gain or loss could result. You must take any resulting capital gain or loss into account when calculating your income for the year of disposition.

Property inherited by a spouse may not be subject to this treatment. Please refer to the *1989 Deceased Persons Income Tax Guide* for further information.

Disposition of cultural property to designated institutions

If you sell or donate certified cultural property to an institution or public authority that is designated by the Minister of Communications at the time of the disposition, any capital gain you realize is exempt from taxation. This exemption is in addition to the lifetime capital gains deduction. The Canadian Cultural Property Export Review Board is responsible for the certification of cultural property and for providing certificates for tax purposes.

If you incur a capital loss on the disposition of a certified cultural property to a designated institution, you may deduct the loss within the limits described in Chapter 2. For instance, you may not deduct losses arising on the disposition of personal-use property that you donate to a designated institution unless the property donated was listed personal property. In addition, you can only offset losses on dispositions resulting from donations of listed personal property against gains on listed personal property.

This special treatment relates only to capital gains and not to profits or losses on dispositions by dealers and traders.

For more details, please obtain Interpretation Bulletin IT-407R2, *Disposition of Canadian Cultural Property*.

Election to defer gain on disposal of property

If certain requirements are met, you may elect to defer the recognition of a capital gain on the disposition of a capital property and a recapture of capital cost allowance on the disposition of a depreciable property. In addition, you may elect to defer the inclusion of all or part of the proceeds of disposition of an eligible capital property in the cumulative eligible capital account.

Depreciable property or capital property
Involuntary dispositions

You may elect to defer all or part of what would have been your capital gain or recapture of capital cost allowance on property that was stolen, destroyed or expropriated, if you

- received or were entitled to receive compensation;
- acquire a **replacement property** within two years from the end of the year in which you were entitled to receive compensation; **and**
- elect in your return for the year you acquired a **replacement property.**

Note:

Compensation is generally deemed to be receivable on the earliest of

- *the day the amount of full compensation is agreed to, or is finally determined by a tribunal or court;*
- *two years after the day of the loss, if proceedings have not been taken before a tribunal or court;* ***and***
- *the date you die or cease to be a resident of Canada.*

Voluntary dispositions

Voluntary dispositions refer to dispositions of property that was **not** stolen, destroyed or expropriated. You may elect to defer all of the capital gain or recapture of capital cost allowance realized on a voluntary disposition if

- you received or were entitled to receive compensation,
- the property involved is land or buildings used primarily to earn income from a business and **not** for rental purposes, **and**
- you acquire the replacement land or building within one year from the end of the year in which you disposed of the former land or building.

Eligible capital property

When you dispose of eligible capital property, you may elect to defer the recognition of your proceeds of disposition in the calculation of your cumulative eligible capital account, as long as you acquire a replacement property. In effect, you will be deferring the reporting of a taxable capital gain or business income that would have otherwise resulted from the disposition of eligible capital property. To qualify, you must obtain the replacement property before the end of the taxation year following the year you disposed of the former property.

Replacement property

Generally speaking, a property will qualify as a replacement property if it was acquired for the same or similar use as the former property. Where the property replaces a property used in your business, it must be acquired for use in the same or a similar business.

Accordingly, a capital property must be replaced by another capital property, depreciable property by another depreciable property, and eligible capital property by another eligible capital property. In addition, the replacement property must generally be of the same physical description as the former property such as land for land, building for building, etc.

General rules

Whether you elect with respect to a voluntary or an involuntary disposition of depreciable or capital property, or a disposition of eligible capital property, please note the following:

- You will generally realize a capital gain on the disposition of capital property only to the extent that the cost of the replacement property is less than the proceeds of disposition of the former property. You may defer the recognition of this gain when a portion of the proceeds of disposition is not due until a subsequent year. See Chapter 5 for information on reserves.
- If you elect to defer recognition of recapture of capital cost allowance on a depreciable property, you may reduce the proceeds of disposition by the amount that would otherwise be recaptured. Consequently, you will not include the recapture in income in the year. Instead, the recapture will reduce the undepreciated capital cost of the class of depreciable property containing the replacement property.
- If you elect to defer the recognition of either the capital gain or recapture of capital cost allowance on the disposition of a depreciable asset, you are deemed to have elected to defer both.

- The amount of proceeds of disposition of an eligible capital property that you may defer is restricted to the portion of the proceeds that you use to acquire the replacement property before the end of the following year.
- If you acquire a replacement property in a taxation year after the year of disposition, but within the specified time limit, you must
  - report any recaptured capital cost allowance on the disposition of depreciable property, capital gain on the disposition of capital property or taxable capital gain or business income arising from the disposition of eligible capital property in the year of disposal,
  - make the election to defer your recapture, capital gain or proceeds of disposition of eligible capital property in your return for the year you acquired the replacement property, **and**
  - request an adjustment to your return for the year of disposal to delete the portion of the recapture, capital gain or taxable capital gain or business income reported and that you are deferring with your election. Refer to the "Changing your return after you mail it" section in the *1989 General Tax Guide* for instructions on how to request an adjustment to your return.

For more details on the above elections and what constitutes replacement property, obtain Interpretation Bulletins IT-259R2, *Exchanges of Property* and its Special Release, and IT-491, *Former Business Property*.

Mortgages and other obligations

Mortgages and conditional sales agreements

The holder of a mortgage on a property is referred to as the mortgagee while a mortgagor is the person who owes the money to the mortgagee.

Mortgagee

As a mortgagee, you may take possession of the property securing a mortgage because of a default on the part of the mortgagor. In such cases, you are generally deemed to have reacquired the mortgaged property for

- the amount owing to you on account of principal under the mortgage

  minus
- any reserve that you deducted in the preceding year for amounts not due until later years.

As the adjusted cost base of the mortgage itself is deemed to be zero, you will not be able to deduct a capital loss by reason of the repossession. Therefore, there are no capital gain or loss implications at that time. Any capital gain or loss is deferred until you dispose of the repossessed property.

In calculating your income for the year of repossession, you are not required to take into account any reserve claimed in the preceding year for amounts not due on the mortgage. Note, however, you may not deduct any reserve for bad or doubtful debts related to the claim in the year of repossession or any subsequent year.

Mortgagor

As a mortgagor who has lost property through repossession by the mortgagee, generally you would incur a capital loss in an amount equal to the difference between the

- principal amount owing by you under the mortgage, **and**
- the cost to you of the forfeited property.

This loss could also be a terminal loss if the property is depreciable property. However, if the property is personal-use property, the loss is deemed to be zero.

The mortgagor is also entitled to treat any amount paid to the mortgagee after repossession to satisfy the claim as a loss from the disposition of the property for the year in which the payment is made.

You may realize a capital gain as a result of repossession. For instance, if property you owned before December 31, 1971 is mortgaged in 1982, the amount of money borrowed could be more than the property's adjusted cost base (V-Day value). A repossession could result in the proceeds of disposition being more than the adjusted cost base of the property. This situation would generate a capital gain. However, such gains may qualify for the capital gains deduction discussed in Chapter 3.

These rules do not apply to mortgaged property when the mortgagee does not acquire or reacquire beneficial ownership of the property as a result of the mortgagor's default. For instance, the property might be sold directly to a third party under a power of sale provision in the agreement. In such a case, your proceeds of disposition as a mortgagor are equal to the amount by which your liability is reduced as a result of the sale, plus any excess amount you received out of the sale proceeds.

Example

Suzanne sold land to Brian in 1988. The selling price was $110,000, consisting of a $20,000 down payment and a three-year mortgage payable in annual instalments of $30,000. In 1988, Brian made the $20,000 down payment but was unable to pay his annual instalment. Suzanne was forced to take possession of the property in 1989. At the time of repossession, the mortgage principal outstanding was $90,000. Suzanne did not claim a reserve for the unpaid proceeds in the preceding year. The tax consequences of the repossession are as follows:

Brian (mortgagor)

Proceeds of disposition (principal of the mortgage)	$ 90,000
minus	
Cost of the property	110,000
Capital loss	($ 20,000)

Suzanne is deemed to have acquired the property for the amount of principal owing under the mortgage at the time of reacquisition, or $90,000. As the ACB of the mortgage is deemed to be zero, she is not able to deduct a capital loss because of the repossession. The recognition of any capital gain or loss is deferred until Suzanne again disposes of the property.

The above rules also apply when property is repossessed under a conditional sales contract as a result of the purchaser's failure to pay all or any part of an amount owing under the agreement.

For additional information, see Interpretation Bulletin IT-505, *Mortgage Foreclosures and Conditional Sales Repossessions*.

Other capital debts

When you have a capital debt receivable, other than a debt or right under a mortgage or a conditional sales agreement, and the debt becomes a bad debt, you will generally have a capital loss equal to its adjusted cost base. The loss will not be allowed unless you acquired the debt

- to gain or produce income from a business or property, **or**
- as consideration for a disposition of capital property in an arm's length situation.

If the amount receivable arises from the disposition of a personal-use property to a person with whom you deal at arm's length, you may claim a capital loss in the year you establish the debt to be bad. However, this capital loss may not exceed the capital gain previously reported on the sale of the property which created the debt.

For the tax treatment of a debt that was owing to you at the end of 1989 by a small business corporation and which became a bad debt in the year, see "Allowable business investment loss" in Chapter 2.

For more information about capital debts, obtain Interpretation Bulletins IT-159R3, *Capital Debts Established to be Bad Debts* and IT-239R2, *Deductibility of Capital Losses from Guaranteeing Loans for Inadequate Consideration and from Loaning Funds at less than a Reasonable Rate of Interest in Non-Arm's Length Circumstances*.

Foreign exchange gains and losses

Foreign exchange gains or losses that result from capital transactions in foreign currencies are treated as capital gains or losses for tax purposes. However, only the amount of your net gain or loss for the year from transactions in foreign currency which exceeds $200 is taxable or deductible as a capital gain or loss. Record this amount on line 528 of Schedule 3. If the net amount is $200 or less

- there is no capital gain or loss, **and**
- you are not required to report the transaction(s) on your return.

Form T2087, *Capital Dispositions Supplementary Schedule Re: Foreign Exchange Transactions* is available to help you calculate your gains or losses from foreign exchange transactions. For more details about the nature of capital transactions resulting in foreign exchange gains or losses, obtain Interpretation Bulletin IT-95R, *Foreign Exchange Gains and Losses*.

CHAPTER 9
NON-RESIDENTS

Ceasing to be a resident of Canada

If you leave Canada to reside in another country, you are deemed to dispose of all of your capital property **except**

- **taxable Canadian property** which includes
  - real property situated in Canada;
  - shares of Canadian private corporations;
  - capital property used in carrying on a business in Canada;
  - certain shares of public corporations;
  - capital interests in Canadian trusts except certain mutual fund trusts; **and**
  - interests in certain partnerships.

and

- rights to receive certain Canadian source payments such as
  - Old Age Security payments, Canada Pension Plan benefits and most other pensions;
  - social benefits including Unemployment Insurance payments, workers' compensation and social assistance;
  - retiring allowances; **and**
  - IAAC, RRSP and RRIF payments.

The properties previously listed continue to be subject to Canadian tax even when you are not a resident of Canada.

All other capital property is deemed to be disposed of at its fair market value at the time of your departure. You must take into account any resulting capital gain or loss when you calculate your income for the year in which you ceased to be a resident. If you meet certain conditions, you may claim the capital gains deduction to offset any taxable capital gains recognized. For more information, see "Capital gains deduction" later in this Chapter.

You may elect to pay the tax arising from the deemed dispositions in up to six annual instalments if you

- provide acceptable security; **and**
- file form T2074, *Election Under Subsection 159(4) to Defer Payment of Income Tax on the Deemed Disposition of Property*, on or before the day when your last return as a resident of Canada is required to be filed.

Other options

When you cease to be a resident of Canada, you may want to consider the following two options.

1. You may elect to be deemed to have disposed of your **taxable Canadian property** immediately before emigrating from Canada. This enables you to take advantage of the capital gains deduction, provided you otherwise qualify, for any taxable capital gains that have accrued on such property to the time of your departure. To make the election and to take advantage of the capital gains deduction,
   - report the deemed disposition of the property on Schedule 3, *Summary of Dispositions of Capital Property in 1989*;
   - complete form T657, *Calculation of Capital Gains Deduction for 1989 on All Capital Property*, or form T657A, *Calculation of Capital Gains Deduction for 1989 on Other Capital Property*; **and**
   - include both items with your return for the year of departure.

OR

2. A second election is available for any or all of your capital properties that are subject to the deemed disposition rule explained earlier. Specifically, you may elect to treat any or all of these properties as not having been disposed of at the time of your departure. Such property is then deemed to be taxable Canadian property. Therefore, you will not realize any capital gain until the property to which the election relates is
   - actually disposed of, **or**
   - otherwise deemed to have been disposed of.

   To make this election, you
   - file form T2061, *Election by an Emigrant to Defer Deemed Disposition of Property and Capital Gains Thereon* on or before the day when your last return as a Canadian resident is required to be filed; **and**
   - furnish acceptable security for payment of any tax deferred by the election.

Becoming a resident of Canada

When you become a resident of Canada, you are deemed to have acquired all your capital property at its fair market value at the time of becoming resident. This rule does not apply to

- taxable Canadian property, **or**
- property deemed to be taxable Canadian property because of an election you made when you previously ceased to be a resident of Canada.

Therefore, upon becoming a resident of Canada, you should

- prepare a list of all properties you own, **and**
- note the fair market value of each property at that time.

For the purpose of determining any capital gain or loss on a subsequent disposal of such property, the cost of each property will be its fair market value at the time you became a Canadian resident.

Capital gains deduction

You may only claim the capital gains deduction when calculating taxable income if you were resident in Canada throughout the entire taxation year in question. However, you are deemed to have been resident in Canada throughout a particular taxation year if you were a resident at any time in the particular year and

- throughout the immediately preceding year, **or**
- throughout the immediately following year.

The capital gains deduction applies to capital gains realized on actual and deemed dispositions.

The following illustrates the availability of the capital gains deduction for individuals immigrating to and emigrating from Canada:

- If you emigrated from Canada in 1989, the capital gains deduction would be available to you if you were a resident of Canada at any time in 1989 **and** throughout 1988.
- If you immigrated to Canada in 1989, but were not resident here for the entire year, the capital gains deduction will not be available to you until you have lived in Canada **throughout** 1990.
- Immigrants who arrived in Canada in 1988 **and** were resident throughout 1989 may claim the deduction for the 1988 taxation year. If you are in this position and wish to claim this deduction on your 1988 return, please refer to "Changing your return after you mail it" in the *1989 General Tax Guide*.

You were asking. . .?

Q. I immigrated to Canada from another country in May 1988. Later in 1988, I sold some shares and realized a capital gain which I reported on my return for the year. I knew that I didn't qualify for the capital gains deduction at that time. However, I have heard that since I now qualify for the deduction I can have my 1988 return adjusted. Is this correct?

A. If you continued to be resident in Canada throughout 1989, you are deemed to have been a resident throughout 1988 for the purpose of claiming the capital gains deduction. Please refer to the section entitled, "Changing your return after you mail it" in the *1989 General Tax Guide* for instructions on how to request an adjustment to your 1988 return.

Chapter 3 of this Guide contains more information on the capital gains deduction.

For more information on the treatment of property when a person enters or leaves Canada, please obtain the *1989 Tax Guide for New Canadians* or the *1989 Tax Guide for Emigrants*, and Interpretation Bulletin IT-451R, *Deemed Disposition and Acquisition on Ceasing to be or Becoming Resident in Canada.*

REFERENCES

The Department issues a number of forms, guides and other publications for use by the public. A complete listing of these publications is contained in Information Circular 89-1.

Listed below are several of these publications which may be of assistance to you. Complete the order form located on the inside back cover of this Guide. You may order by phone, mail, or in person at your district office.

Forms

T1A	Request for Loss Carry-Back
T123	Election on Disposition of Canadian Securities
T657	Calculation of Capital Gains Deduction for 1989 on All Capital Property
T657A	Calculation of Capital Gains Deduction for 1989 on Other Capital Property
T936	Calculation of Cumulative Net Investment Loss to December 31, 1989
T2017	Summary of Reserves on Dispositions of Capital Property
T2057	Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation
T2058	Election on Disposition of Property by a Partnership to a Taxable Canadian Corporation
T2059	Election on Disposition of Property by a Taxpayer to a Canadian Partnership
T2061	Election by an Emigrant to Defer Deemed Disposition of Property and Capital Gains Thereon
T2065	Determination of Adjusted Cost Base of a Partnership Interest
T2074	Election Under Subsection 159(4) to Defer Payment of Income Tax on the Deemed Disposition of Property
T2076	Valuation Day Value Election for Capital Properties Owned on December 31, 1971
T2080	Capital Dispositions Supplementary Schedule Re: Personal-Use Property (other than listed personal property and principal residence)
T2081	Capital Dispositions Supplementary Schedule Re: Listed Personal Property
T2082	Capital Dispositions Supplementary Schedule Re: Shares
T2083	Capital Dispositions Supplementary Schedule Re: Real Estate (except principal residence, other personal-use property and depreciable property)
T2084	Capital Dispositions Supplementary Schedule Re: Bonds and Other Obligations
T2085	Capital Dispositions Supplementary Schedule Re: Depreciable Property
T2087	Capital Dispositions Supplementary Schedule Re: Foreign Exchange Transactions
T2088	Capital Dispositions Supplementary Schedule Re: A. Net Listed-Personal-Property Losses - Unapplied — B. Net Capital Losses - Unapplied
T2089	Capital Dispositions Supplementary Schedule Re: Information Slips
T2090	Election Available to Farmers Disposing of Farmland
T2091	Designation of a Principal Residence
T2211	Calculation of Deemed Proceeds and Capital Gain Deferral on Disposition of Shares of a Small Business Corporation

Information Circulars

72-25R4	Business Equity Valuations
76-19R	Transfer of Property to a Corporation under Section 85
78-10R2	Books and Records Retention/Destruction
89-1	List of Forms and Publications Available For Use by the Public

Interpretation Bulletins

IT-73R4	The Small Business Deduction — Income from an Active Business, a Specified Investment Business and a Personal Services Business
IT-78	Capital Property Owned on December 31, 1971 — Identical Properties
IT-84	Capital Property Owned on December 31, 1971 — Median Rule (Tax-Free Zone)
IT-95R	Foreign Exchange Gains and Losses
IT-96R4	Options Granted by Corporations to Acquire Shares, Bonds or Debentures
IT-113R3	Benefits to Employees — Stock Options
IT-114	Discounts, Premiums and Bonuses on Debt Obligations
IT-120R3	Principal Residence
IT-123R4	Disposition of and Transactions Involving Eligible Capital Property
IT-125R3	Dispositions of Resource Properties
IT-128R	Capital Cost Allowance — Depreciable Property
IT-139R	Capital Property Owned on December 31, 1971 — Fair Market Value
IT-143R2	Meaning of Eligible Capital Expenditure
IT-159R3	Capital Debts Established to be Bad Debts
IT-209R	Inter-Vivos Gifts of Capital Property to Individuals Directly or Through Trusts
IT-213R	Prizes from Lottery Schemes, Pool System Betting and Giveaway Contests
IT-217	Capital Property Owned on December 31, 1971 — Depreciable Property, and Special Release dated September 13, 1982
IT-218R	Profit, Capital Gains and Losses from the Sale of Real Estate, Including Farmland and Inherited Land and Conversion of Real Estate from Capital Property to Inventory and Vice Versa
IT-232R2	Non-Capital Losses, Net Capital Losses, Restricted Farm Losses, Farm Losses and Limited Partnership Losses — Their Composition and Deductibility in Computing Taxable Income
IT-236R2	Reserves — Disposition of Capital Property

IT-239R2 Deductibility of Capital Losses from Guaranteeing Loans for Inadequate Consideration and from Loaning Funds at less than a Reasonable Rate of Interest in Non-Arm's Length Circumstances
IT-258R2 Transfer of Property to a Spouse, and Special Release dated December 30, 1987
IT-259R2 Exchanges of Property, and Special Release dated November 7, 1986
IT-264R Part Dispositions, and Special Release dated October 19, 1984
IT-291R Transfer of Property to a Corporation under Subsection 85(1)
IT-332R Personal-Use Property
IT-338R Partnership Interests — Effects on Adjusted Cost Base Resulting from the Admission or Retirement of a Partner, and correction sheet 8
IT-346R Commodity Futures and Certain Commodities
IT-353R2 Partnership Interest — Some Adjustments to Cost Base
IT-366R Principal Residence — Transfer to Spouse, Spouse Trust or Certain Other Individuals, and Special Release dated May 8, 1987
IT-378R Winding-up of a Partnership
IT-387R2 Meaning of "Identical Properties"
IT-405 Inadequate Considerations — Acquisitions and Dispositions
IT-407R2 Disposition of Canadian Cultural Property
IT-413R Election By Members of a Partnership under subsection 97(2)
IT-451R Deemed Disposition and Acquisition on Ceasing to Be or Becoming Resident in Canada
IT-456 Capital Property — Some Adjustments to Cost Base
IT-458 Canadian-Controlled Private Corporation
IT-459 Adventure or Concern in the Nature of Trade
IT-478 Capital cost allowance — Recapture and Terminal Loss
IT-479R Transactions in Securities, and Special Release dated February 21, 1985
IT-484R Business Investment Losses
IT-486R Intergenerational Transfers of Shares of a Small Business Corporation
IT-491 Former Business Property
IT-505 Mortgage Foreclosures and Conditional Sales Repossessions
IT-511 Interspousal Transfers and Loans of Property made after May 22, 1985

Guides and Other Publications

1989 Business and Professional Income Tax Guide
1989 Deceased Persons Income Tax Guide
1989 Farming Income Tax Guide
1989 Fishing Income Tax Guide
1989 Rental Income Tax Guide
1989 Tax Guide for Emigrants
1989 Tax Guide for New Canadians
Valuation Day Prices of Publicly Traded Shares and Securities

AREA FOR YOUR NOTES AND CALCULATIONS

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Throughout the Guide, we direct you to forms that must be attached to your return. We also mention, where appropriate, other publications that cover topics in more detail.

If you need one of these forms or a publication, complete the order form below. Your order can be filled by your local district office by mail, telephone, or while you wait. Please refer to the *1989 General Tax Guide* for addresses and telephone numbers.

If you prefer to mail the order form or leave it in person, please print your name and address on it. If you mail the order form, allow **three weeks** for delivery.

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Please list the titles or numbers of the publications required in the boxes below. Print your name and address in the area provided and submit your completed form to your district office.

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