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Supplementary Guide

Capital Gains Tax Guide

1990

Your Guide

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Canada

WHAT'S NEW FOR 1990?

The major changes are outlined below and are highlighted in yellow throughout the Guide. If your situation is affected by any one of these items, please pay special attention to them when calculating your income.

- Beginning in 1990, the taxable part of a capital gain and the allowable part of a capital loss is increased from two-thirds to **three-quarters.**

- All box indicators on information slips have been changed from letters to numbers. For example, Box B on a T3 slip has become Box 21. For 1990, you may receive either the old or the new version of an information slip. We have shown both indicators where necessary.

In a news release dated July 13, 1990, the Department of Finance issued the following proposed amendments to the *Income Tax Act.*

- The calculation for applying a pre-May 23, 1985 net capital loss has been revised effective for 1985 and following years. The revised loss calculation is explained in Chapter 4 under the section "Net capital losses of other years, Line 253 — T1 Return."

- The calculation of the cumulative net investment loss (CNIL) has been revised effective for 1988 and following years. See Chapter 7 for information on these revisions.

In addition, the Guide has a new look for 1990. For example, the basic rules and special rules are in two different chapters to make it easier for you to find the information you need. There is also a new chapter which has most of the definitions for the Guide.

This Guide uses plain language to explain the most common income tax situations. It does not replace the laws found in the *Income Tax Act* and its related regulations. For more information, please refer to these laws or contact your district taxation office.

CONTENTS

INTRODUCTION

This Guide will help you if you have a capital gain or a capital loss in 1990. The *1990 General Tax Guide* will help you complete your 1990 return. To complete a return for a deceased person, get the *1990 Deceased Persons Income Tax Guide.*

Most people are not affected by the capital gains rules because the property they own is for their own personal use or enjoyment. The sale of personal property such as cars and boats seldom results in a capital gain because these types of property do not normally increase in value over the years. Instead, these sales usually result in a loss. Although a gain on the sale of personal-use property must be reported, a loss on the sale of personal-use property is usually not allowed. The rules for personal-use property are explained in Chapter 2.

Generally, you do not pay tax on any gain from the sale of your home as long as

- your home is your principal residence, and
- you did not choose any other house as your principal residence while you owned your home.

Note

If you sell property that you owned on December 31, 1971, there are special rules when calculating your capital gain or loss. These rules are not explained in this Guide. For information on these special rules get, Interpretation Bulletins 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-139R, Capital Property Owned on December 31, 1971 — Fair Market Value, IT-217 and Special Release, Capital Property Owned on December 31, 1971 — Depreciable Property, and Information Circular 73-27R, Capital Gains, Valuation Day Requirements — Real Estate; the Real Estate Data Bank.

General comments about capital gains and losses

Capital transaction versus income transaction

A gain or loss on the sale of property may be taxed as an income gain or loss, or as a capital gain or loss. Usually, the sale of capital property results in a capital gain or loss. However, in certain circumstances, you must find out whether the property is of a capital nature or an income nature. You report the sale of capital property on Schedule 3.

For more information on the difference between capital and income transactions, get 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.

What is a capital gain or a capital loss?

Generally, a capital gain or a capital loss occurs when you sell or are considered to sell **capital property.** For example, if you sell a share in a public corporation for more than it cost you, this results in a capital gain. On the other hand, a capital loss occurs if you sell that share for less than it cost you.

What is a taxable capital gain or an allowable capital loss?

Beginning in 1990, your taxable capital gain is three-quarters of your capital gain and your allowable capital loss is three-quarters of your capital loss.

If your taxable capital gains are greater than your allowable capital losses, you include the difference in your income for the year.

If your allowable capital losses are greater than your taxable capital gains, the difference is your net capital loss for the year. You cannot use this loss to reduce other income you have in 1990. Instead, you apply your net capital loss against taxable capital gains in other years. This is explained further in Chapter 4.

Note

In this Guide, the terms "capital gain" and "capital loss" are used to explain the rules. Remember, however, that you use your **taxable** capital gain or your **allowable** capital loss to calculate your income for the year.

What is capital property?

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

- your home;
- your cottage;
- securities, such as stocks and bonds; and
- land, buildings and equipment that you use in a business or a rental operation.

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

There are special rules that apply when you sell certain properties. These types of properties include insurance policies, Canadian resource properties, cultural properties given to designated institutions (see Chapter 3), eligible capital properties (see Chapter 3), foreign resource properties, timber resource properties and depreciable properties which are sold at a loss (see Chapter 3). For information on resource properties, get Interpretation Bulletin IT-125R3, Dispositions of Resource Properties.

When does a capital gain or loss occur?
Usually, a capital gain or loss occurs when you sell or are considered to sell a capital property. Some examples of when you are considered to sell a capital property are when

- you exchange one property for another;
- you give property, other than cash, as a gift;
- your property is expropriated;
- you convert shares you hold;
- you redeem or cancel shares or other securities you hold;
- an option you hold to buy or sell property expires;
- a debt owed to you is settled or cancelled;
- your property is stolen;
- your property is damaged or destroyed; and
- you transfer certain property to a trust.

There are other situations when a sale is considered to have taken place even though there is no change in the ownership of the property. This may occur when the owner of a property

- dies,
- leaves Canada, or
- changes the use of the property.

For example, you decide to convert your home from personal use to a rental or business-use property. Although you still own your home, you are considered to have sold it as your principal residence and bought it as a rental or a business property. This is explained in Chapter 6.

When do you report a capital gain or a capital loss?
You report the sale of capital property on a calendar-year basis.

If you have your own business that has a year-end other than December 31st, you still report the sale of any capital property you used in your business in the calendar year that the sale took place. For example, your business has a June 30, 1990 year-end. In November 1990, you sell a capital property that you used in your business. You report any capital gain from the sale in 1990 even though it took place after your business year-end.

If you are a member of a partnership that sells capital property in a fiscal period other than the calendar year, you report your share of any capital gain or loss for the year in which the partnership's fiscal period ends, rather than in the calendar year the sale took place.

Even if you do not have tax payable for 1990, you must still file a return

- when you have sold or are considered to have sold any capital property in 1990, whether or not the sale results in a capital gain or loss; or
- to report the taxable part of any capital gains reserve you deducted in 1989. Capital gains reserves are explained in Chapter 5.

This is important because if you have a capital gain in 1990 and do not file your 1990 return on or before April 30, 1992, you may not be allowed to claim the capital gains deduction. This deduction is explained in Chapter 7.

How do you report a capital gain or loss?
Do not include any capital gains or losses in your business or property income even if you used the property for your business. Instead, use Schedule 3, Summary of Dispositions of Capital Property in 1990, to calculate and report all of your taxable capital gains or allowable capital losses in 1990. See Chapters 2 and 3 for information on how to complete Schedule 3.

If you deducted a reserve in an earlier year or are deducting a reserve in 1990, use Form T2017, Summary of Reserves on Dispositions of Capital Property, to report your earlier year's reserve or to deduct a new reserve in 1990.

Your tax return package includes copies of Schedule 3. This Guide contains copies of Form T2017.

Keeping records
You will need the information on your records or vouchers to calculate your capital gains or losses for the year. You do not need to include these documents with your return to support any sale or purchase of capital property during the year. However, keep these documents in case we ask to see them later.

If you have investment income or expenses, keep a record of these amounts. You will need them to calculate your cumulative net investment loss when you calculate your capital gains deduction. The cumulative net investment loss is explained in Chapter 7.

Also, it is a good idea to 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.

If you need more information on keeping records, get Information Circular 78-10R2, Books and Records Retention/Destruction.

Contents of the Capital Gains Tax Guide

You only need to read the chapters in this Guide that relate to your situation. The following is a brief summary of the information in each chapter.

Chapter 1 — Definitions
To calculate your capital gains or losses, you will need to know the meaning of certain words and terms. This chapter will help you to understand the meaning of these words and terms.

Note
This chapter contains most of the definitions for this Guide. They will not be repeated in the other chapters. Therefore, as you read through the other chapters you may need to refer back to Chapter 1 to look up the meaning of a word or term.

Chapter 2 — Basic Rules and Transactions
This chapter explains the basic rules for calculating a capital gain and identifies some of the most common capital gains transactions.

Chapter 3 — Special Rules and Transactions
This chapter explains the least common capital gains transactions and the special rules for calculating your capital gains.

Chapter 4 — Capital Losses
The rules for calculating and applying capital losses are covered in this chapter.

Chapter 5 — Reserves
If you have a capital gain and do not receive all of your selling price, you may be entitled to deduct a reserve from your capital gain. This chapter explains when you may be entitled to a reserve and how to calculate it.

Chapter 6 — Principal Residence
In most situations, the home you live in is your principal residence. This chapter explains the capital gains rules that apply when you sell or are considered to sell your principal residence.

Chapter 7 — Capital Gains Deduction
If you report a capital gain, you may be entitled to offset all or a part of your gain by the capital gains deduction. This chapter explains this deduction.

Chapter 8 — Non-residents
This chapter explains the basic capital gains rules that apply when you enter or leave Canada.

References
This Guide refers to forms that you attach to your return and to publications that cover topics in greater detail. You can find a list of these forms and publications at the back of the Guide. As you read through this Guide, list the forms and publications you need. You may use the order form at the back of the Guide to order them.

Forms

This Guide has two copies of each form listed below. These forms are also available at your district office.

- **Form T1A — Request for Loss Carry-Back**
  You must use this form to request a loss carry-back.
- **Form T657 — Calculation of Capital Gains Deduction for 1990 on All Capital Property**
  Use this form to calculate your capital gains deduction for all capital property. However, use Form T657A instead if you did not sell qualified farm property or qualified small business corporation shares in 1990 or an earlier year.
- **Form T657A — Calculation of Capital Gains Deduction for 1990 on Other Capital Property**
  Use this form to calculate your capital gains deduction for other property. See Chapter 7 for more information on how to use this form.
- **Form T936 — Calculation of Cumulative Net Investment Loss to December 31, 1990**
  Use this form to calculate your cumulative net investment loss (CNIL) to December 31, 1990.
- **Form T2017 — Summary of Reserves on Dispositions of Capital Property**
  Use this form to deduct a capital gains reserve in 1990 or to include in your capital gains for 1990 a reserve deducted in 1989.

CHAPTER 1
DEFINITIONS

You will need to know the meaning of certain words and terms to calculate your capital gains and losses.

This chapter contains most of the definitions used in this Guide. These definitions will not be repeated in the other chapters.

Note
The definitions marked with an asterisk (*) are based on proposed legislation.

Business investment loss

A business investment loss is a capital loss from the actual disposition or deemed disposition of certain capital properties. It may arise from the actual sale 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.**

A **small business corporation** is defined later in this chapter. 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 before the disposition.

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

- a debt owing to you by a small business corporation (other than a debt from the sale of personal-use property), which is considered to be a bad debt at the end of the year; or
- a share of a small business corporation owned by you at the end of the year (other than a share for personal-use property), where the corporation
  - has become bankrupt in the year,
  - has become insolvent and a winding-up order has been made under the *Winding-up Act*, 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 is expected that the corporation will be dissolved or wound-up and will not carry on a business.

For more information on the definition of a business investment loss, get Interpretation Bulletin IT-484R, Business Investment Losses.

Based on proposed legislation, an election is available that may affect your claim for a business investment loss in the 1985 to 1989 taxation years. It is proposed that this election will be made by notifying the Department in writing before 1992. For more information, contact your district office.

Canadian-controlled private corporation (CCPC)

A Canadian-controlled private corporation is a private corporation that is a Canadian corporation that is not controlled directly or indirectly in any manner by one or more non-resident persons, by one or more public corporations, or by any combination of them. For more information, get Interpretation Bulletin IT-458, Canadian-Controlled Private Corporation.

Canadian securities (and Prescribed securities)

A Canadian security is

- a share of a corporation that is 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.

Prescribed securities are not considered to be Canadian securities. Prescribed securities include

- 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 with at arm's length at any time before disposing of the securities; and
- shares and securities of companies you acquired from a person with whom you do not deal at arm's length.

Depreciable property

Depreciable property is property against whose cost you may claim capital cost allowance.

Eligible capital property

Eligible capital property includes properties such as goodwill, milk quotas or other government rights for an unlimited period. The cost of these types of properties is an **eligible capital expenditure.**

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. The option allows the employee to acquire these shares for a price that may be less than the fair market value.

Fair market value

Fair market value is the price that you would purchase or sell a property for in a normal business transaction.

Non-arm's length transaction

A non-arm's length transaction includes a transaction between members of a family such as husband or wife or between a corporation and the shareholders that control the corporation.

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.

Qualified farm property (*)

Qualified farm property is property owned by you or your spouse or a family farm partnership in which you or your spouse hold an interest and includes property that is

- a share of the capital stock of a family farm corporation that you or your spouse owns,
- an interest in a family farm partnership that you or your spouse owns, or
- real property or eligible capital property.

Real property is immovable property such as land or buildings. Eligible capital property is defined in this chapter.

Real property or eligible capital property is qualified farm property only if it is used in **carrying on a farming business in Canada** by

- individuals that are:
  - you or your spouse,
  - any of your children, **
  - any of your parents;
- a family farm corporation where any of the above individuals own a share of the corporation; or
- a family farm partnership where any of the above individuals own an interest in the partnership.

****Note**

Child includes

- your child, adopted 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.

Real property or eligible capital property is considered to be used in carrying on a farming business in Canada if certain conditions are met.

Real property or eligible capital property purchased **before June 18, 1987** or after June 17, 1987, when a written agreement has been entered into on or before that date, will meet this requirement if either of the following conditions are met:

- in the year the property is sold, it or any replacement property is used in a farming business in Canada by either an individual, a partnership or a corporation; or
- the property was used in a farming business in Canada for at least five years during which time it was owned by either an individual or a partnership.

Real property or eligible capital property purchased **at any time** will meet this requirement if it is owned by an individual or partnership throughout the 24 months before the sale and

- if the property or a replacement property was used by an individual for at least two years in a farming business in Canada and the individual's gross income from the business is greater than the individual's income from all other sources in the years; or
- the property was used by a family farm corporation or partnership in a farming business in Canada for at least 24 months and during this time any individual is actively engaged in the farming business.

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 sold the interest, all or substantially all (90 per cent or more) of the fair market value of the partnership's property was used throughout any 24 month period before the sale by

- the partnership;
- you or your spouse;
- any of your children;
- any of your parents; or
- a family farm corporation, a share of which is owned by any of the individuals referred to above.

Also, the partnership's property must have been used in 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 sold the share, all or substantially all (90 per cent or more) of the fair market value of the corporation's property falls into one of the following two categories or is a combination of both.

1. The property was used in carrying on a farming business in Canada in which any of the individuals referred to below were actively engaged on a regular and continuous basis. The property must also have been used throughout any 24 month period before the disposition by
   - the corporation,
   - you or your spouse,
   - any of your children,
   - any of your parents, or
   - a family farm partnership in which any of the individuals referred to above owned an interest.
2. The property consists of shares of the capital stock or indebtedness of one or more corporations where all or most of its property is property described above, or a bond, debenture, bill, note, mortgage or similar obligation issued by such a corporation.

Small business corporation (*)

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

- used mainly 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 sale, 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 mainly 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 are considered to have been owned, immediately before their issue, by a person who was **not** related to you or the partnership. Consequently, you or a person or partnership related to you must hold the shares for 24 months after they are issued so that the shares 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 (90 per cent or more) of the assets used in an active business carried on by you or the members of a partnership, or an interest in a partnership where all or most of the partnership's assets were used in an active business carried on by the members of the partnership.

CHAPTER 2
BASIC RULES AND TRANSACTIONS

This chapter explains the basic rules for calculating a capital gain and identifies some of the most common capital gains transactions.

If you sell capital property in 1990, complete Schedule 3, Summary of Dispositions of Capital Property in 1990, and attach it to your return. The information in this chapter and Chapter 3 will help you complete Schedule 3.

Basic rules

Calculating your capital gain

You may have a capital gain when you sell or are considered to sell a **capital property.** The meaning of capital property is explained in the Introduction under "What is capital property?"

If you sold capital property in 1990, you will need to know the following three amounts to complete Schedule 3:

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

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

There are certain situations when a property is considered to be sold at its fair market value. This can happen, for example, when you give property to your spouse. See Chapter 3 for more information about these situations.

Adjusted cost base (ACB)
Your adjusted cost base (ACB) is usually the actual cost of your property plus or minus the additions and deductions provided in subsections 53(1) and (2) of the *Income Tax Act.*

The cost of a capital property you acquire after 1971 is its actual or deemed cost, depending on the type of property and how you acquire it.

The actual cost of your property is the purchase price of the property plus expenses to acquire it. Such expenses may include commissions and legal fees.

In some cases, special rules apply so that the cost of a property is considered to be an amount other than its actual cost. For instance, when you inherit or receive property as a gift, you are considered to have acquired the property at its fair market value on the date you acquired it. Similarly, when you win property as a prize from a lottery scheme, you are considered to have acquired the prize at its fair market value at that time. For more information, get Interpretation Bulletin IT-213R, Prizes from Lottery Schemes, Pool System Betting and Giveaway Contests.

You adjust the cost of your property to include capital expenditures such as the cost of additions and improvements to the property. You do not add current expenses such as maintenance and repair costs to the cost base of a property. For details on the difference between capital expenditures and current expenses, get Interpretation Bulletin IT-128R, Capital Cost Allowance — Depreciable Property.

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

Outlays and expenses
You may deduct expenses you incurred to sell a capital property from your proceeds of disposition. Examples of these types of expenses include

- fixing-up expenses,
- finders' fees,
- commissions,
- brokers' fees,
- surveyors' 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 you may use them to reduce your capital gain.

To calculate your capital gain, you subtract your adjusted cost base of the property from the proceeds of disposition. You then deduct any outlays and expenses not already included in your adjusted cost.

Example
Taxable capital gain for 1990:

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 (3/4 × $1,800)			$ 1,350

Canadian securities

You report capital gains (or losses) from the sale of Canadian securities or prescribed securities on Schedule 3. See Chapter 1 for the definition of Canadian securities and prescribed securities. To determine where on Schedule 3 you report these dispositions, see the sections called, "Qualified small business corporation shares" and "Qualified farm property" in Chapter 3 and "Other securities and properties" in this chapter.

A **special election** is available when you sell a **Canadian security**. You may choose to have any 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 your Canadian securities are considered to be capital properties from the time you make the election. As a result, you must treat all gains or losses on the sale of Canadian securities in 1990 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 it to your 1990 return. Please note that once you make this election, you cannot reverse your decision.

Note

This election is not available to traders or dealers in securities or individuals who were non-residents when the security was sold.

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

Other securities and properties

Capital gains and losses from the sale of **other securities and properties** in 1990 are reported on Schedule 3 under "Other Securities and Properties."

Shares

Use this section of Schedule 3 to report the sale of all securities that are not described under any other section of Schedule 3. This includes, for example

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

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

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

Example 1

In 1990, Marcel sold his 100 shares of ABC Public Corporation of Canada for $8,500 and paid brokerage fees of $500. When he bought the shares in 1984 for $3,800, he paid brokerage fees of $200.

To complete Schedule 3, Marcel needs to know his proceeds of disposition, his adjusted cost base and the amount of any related outlays and expenses.

Proceeds of disposition			$8,500
minus			
Adjusted cost base			
original cost	$3,800		
brokerage fees	200	$4,000	
Outlays and expenses			
brokerage fees		500	4,500
Capital gain			$4,000
Taxable capital gain (3/4 × $4,000)			$3,000

Marcel shows the sale in the section called "Other Securities and Properties" on Schedule 3. He enters his total proceeds on line 519 and his capital gain on line 520, as follows.

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	8,500	00	4,000	00	500	00	4,000	00
		Total Proceeds 519	8,500	00				Net Gain (or loss) 520	4,000	00

If Marcel has no other capital gains or losses in the year, he enters $3,000 (3/4 × $4,000) as his total taxable capital gains amount at the bottom of Schedule 3, and again on line 127 of his return. Marcel may also be entitled to the capital gains deduction (see Chapter 7).

Example 2

Using the situation outlined in **Example 1**, let's assume that Marcel sold the shares for only $3,700. As you can see from Schedule 3 that follows, Marcel has a capital loss of $800 from selling the shares. Marcel may use the loss to offset any capital gains he has in 1990. If his capital losses are more than his capital gains in that year, three-quarters of the difference becomes his net capital loss for 1990. For details of the treatment of this type of loss, see "1990 capital losses" in Chapter 4.

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	3,700	00	4,000	00	500	00	<800	00>
		Total Proceeds 519	3,700	00				Net Gain (or loss) 520	<800	00>

You may use Form T2082, Capital Dispositions Supplementary Schedule Re: Shares, to help you calculate your gains or losses from selling shares.

Bonds, debentures, promissory notes and other properties

Use the section called "Bonds, Debentures, Promissory Notes and Other Properties" on Schedule 3 to show the sale of these types of properties. You use this section to report capital gains and losses on the following:

- **Commodity futures** — For information on transactions in commodities, get Interpretation Bulletin IT-346R, Commodity Futures and Certain Commodities;
- **Options** — For information on disposing of options for the sale or purchase of shares, get 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 1990, you received any of these amounts for investments you hold, get 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 from disposing of bonds, debentures and promissory notes.

Employees' stock options

See Chapter 1 for the definition of **employees' stock options.**

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

Generally, you include the taxable benefit 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 sell the shares if you bought them 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 footnotes area of your T4 information slip.

You may be entitled to claim a deduction equal to one-quarter 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 shown on your T4 slip. For more information, see line 249, "Stock option and shares deductions" in the *1990 General Tax Guide.*

To calculate the adjusted cost base of your shares, you add any amount included in your income as an employee stock option benefit to your actual purchase price. This will be the case even if you claimed a stock option deduction for these shares.

Note

The amount included in your income as an employee stock option benefit is not eligible for the capital gains deduction.

In the year you exchange or sell the shares that you bought through an employee stock option agreement, report the capital gain or loss on Schedule 3 under the sections, "Qualified Small Business Corporation" or "Other Securities and Properties" whichever applies to you. You may be eligible to claim a capital gains deduction for part or all of any taxable capital gain.

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

Personal-use property

To calculate your gain or loss from selling personal-use property, the following rules apply:

- if the adjusted cost base (ACB) of the property is less than $1,000, its ACB is considered to be $1,000;
- if the proceeds of disposition are less than $1,000, the proceeds of disposition are considered 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 do not have to report the sale on Schedule 3 when you file your return.

You report any capital gain from disposing of personal-use property under "Personal Use Property" on Schedule 3. However, if you have a loss from selling personal-use property, you may not normally deduct that loss when you calculate your income for the year. Also, you may not use such a loss to decrease capital gains on other personal-use property.

These loss restrictions do **not** apply to

- dispositions of listed personal property, which are discussed in Chapter 3; or
- a bad debt owing to you by a person with whom you deal at arm's length for the sale of personal-use property. You normally deal at arm's length with an unrelated person. See "Other capital debts" in Chapter 3 for more information.

You were asking...?

Q. I sold an old china cabinet for $900 in 1990 The cabinet didn't cost me anything because 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 considered to be $1,000. Therefore, there is no gain or loss on the sale of the china cabinet for income tax purposes.

Example

Franco sold his motorcycle in 1990 for $1,200. He bought it in 1982 for $850. His only expense in selling the motorcycle was $15 for advertising. As the ACB of the motorcycle is less than $1,000 ($850), it is considered to have a cost of $1,000. Although Franco actually has a gain of $335 ($1,200 − $850 − $15), the capital gain he reports is only $185 ($1,200 − $1,000 − $15).

Personal Use Property (full description)

Motorcycle	1982	1,200 00	1,000 00	15 00	185 00
				Gain only **530**	185 00

Example

In 1990, Anna sold her lakefront property to a developer for $70,000. She bought the property in 1980 for $49,000 and had planned to build a cottage on it. Anna incurred expenses of $1,000 in connection with the sale. Anna also paid interest and property taxes of $9,000 during the period she owned the property. She paid interest on the money she borrowed to buy the property.

In calculating her capital gain on the property, Anna may deduct her $1,000 selling expenses. However, the interest and property taxes of $9,000 are considered personal expenses as she was not using the property to earn income. Therefore, Anna may not deduct the $9,000 from her income for any taxation year, nor may she use it to reduce her capital gain in 1990. Also, in calculating the adjusted cost base of the property, she may not add the $9,000 to her original $49,000 cost.

Anna shows the sale in the personal-use property section on Schedule 3. She uses this schedule to report her $20,000 capital gain.

Personal Use Property (full description)

Lot 119-120, Plan 2750	1980	70,000 00	49,000 00	1,000 00	20,000 00
City, Province, Country				Gain only **530**	20,000 00

Selling part of a personal-use property
A special rule applies if you sell part of a personal-use property and keep the other part. The proceeds of disposition and the adjusted cost base (ACB) of the part you sell cannot be less than the amount you obtain from the following calculation:

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

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

- the ACB of the property you sell is considered to be its ACB otherwise determined (¼ × $200 = $50) or the amount you get using the above calculation ($250), whichever is greater; and
- your proceeds of disposition of the property sold is considered to be your actual proceeds or the amount determined using the above calculation ($250), whichever is more.

Sets of personal-use property
Personal-use properties that you ordinarily sell as a set in one sale are considered to be a single personal-use-property if

- you sell them in more than one sale,
- they are bought by one person or a group of persons not dealing with each other at arm's length, and
- they have a total fair market value of more than $1,000 before the first sale.

In this case, the set is the whole property and each property you sell is considered to be a "sale of part of a personal-use property." You calculate the proceeds of disposition and the ACB for each property under the special rule previously explained.

For more information, get Interpretation Bulletin IT-332R, Personal-Use Property.

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

Information slips

If you receive a T3 slip that shows capital gains in Box 21 (or Box B), see "T3 Slip — Capital gains eligible for deduction" in Chapter 7. This section will give you information on how to calculate your 1990 capital gains deduction. If you receive a T3 slip with an asterisk (*) in Boxes 21, 26 or 30 (Boxes B, C, or I, respectively) you will need special instructions to complete Schedule 3 and calculate your capital gains deduction. If instructions are not attached to your slip, you should contact the issuer.

If you are a member of a partnership and your partnership has disposed of either qualified small business corporation shares or qualified farm property, you may receive a T5013 slip for your share of the capital gain. In this situation, report the capital gain on line 513 or 516 rather than under the section "Information slips — Capital Gains or Losses." You do this because capital gains from the disposal of qualified small business corporation shares and qualified farm property are eligible for the higher capital gains deduction limits. This is explained in Chapter 7.

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

CHAPTER 3
SPECIAL RULES AND TRANSACTIONS

This chapter explains some of the least common capital gains transactions and the special rules for calculating your capital gain or loss.

Real estate and depreciable property

If you sell real estate or depreciable property in 1990, report your capital gain or loss under the section "Real Estate and Depreciable Property" on Schedule 3.

Real estate

Examples of real estate transactions include the sale of

- 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 sale of personal-use property or the sale of mortgages and other similar debt obligations on real property.

If you sell real property in 1990 which includes land and a building,

- determine the part of your selling price that is for the land and the part that is for the building, and
- report the sale of your land and building separately.

Note

If you have a loss on the disposal of a building, a special rule may apply which deems your proceeds to be an amount other than the actual proceeds. This is explained in the section "The sale of a building in 1990."

If you convert a business or rental property to your principal residence in 1990, see "Changing your property's use from a rental or business operation" in Chapter 6.

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

Depreciable property

When you sell depreciable property, the sale could result in either a capital gain or a capital loss. If the sale results in a capital loss, your allowable capital loss is nil. Instead, you may be entitled to claim a terminal loss if you no longer own any property in that class at the end of your fiscal period. Unlike a capital loss, you deduct the full amount of the terminal loss from income.

You group depreciable properties into classes for capital cost allowance purposes. For example, you group together computer hardware and systems software, some automobiles and portable tools in Class 10.

Generally, the undepreciated capital cost (UCC) of a class is the total capital cost of all properties in the class **minus** the proceeds for property sold and the total capital cost allowance deducted over the years.

When you sell depreciable property for less than its original capital cost but for more than the UCC in the class, there is no capital gain. However, if the UCC of a class has a negative balance at the end of the year, the negative balance is a recapture of capital cost allowance. You include a recapture of capital cost allowance in income for that year.

If the UCC of a 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. You can deduct the terminal loss from income in that year.

Note

The above rules for recapture and terminal loss do not apply to "passenger vehicles" costing more than $24,000 included in Class 10.1.

Example

Jack bought a piece of machinery for $20,000. It is the only property in its class at the beginning of 1990. The class has a UCC of $11,000. Jack sold the piece of machinery in 1990:

	A	B	C
Selling price	$ 8,000	$16,000	$24,000
UCC	11,000	11,000	11,000
Terminal loss	3,000	0	0
Recapture of CCA	0	5,000	9,000
Capital gain	0	0	4,000

In example C, since the capital cost of the piece of machinery ($20,000) is less than the selling price ($24,000), the capital cost is used in calculating the amount of capital cost allowance recapture. Therefore, the $9,000 recapture is calculated by subtracting the UCC of $11,000 from the capital cost of $20,000. In addition to the recapture, there is also a capital gain of $4,000 ($24,000 − $20,000).

If you need more information on the recapture of CCA and terminal loss, get Interpretation Bulletin IT-478, Capital Cost Allowance — Recapture and Terminal Loss and the *1990 Business and Professional Income Tax Guide* or the *1990 Rental Income Tax Guide.*

The sale of a building in 1990

If you sell a building in 1990 and the building you sell is the only property in the class, its cost amount is the undepreciated capital cost (UCC) of the class before the sale.

If there is more than one property in the same class, you calculate the cost amount of each building 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 situations, special rules apply so that the selling price is considered to be an amount other than the actual selling price. This happens when you meet both of the following conditions:

- you or a person with whom you do not deal at arm's length own the land on which the building is located, or the land next to and necessary for the use of the building; and
- you sell the building for an amount that is less than both its cost amount (as calculated above), and its capital cost to you.

If you sell a building under these conditions and need more information, get Interpretation Bulletin IT-220R2, Capital Cost Allowance — Proceeds of Disposition of Depreciable Property.

You may use Form T2085, Capital Dispositions Supplementary Schedule Re: Depreciable Property, to help you calculate any capital gain or loss you have on the sale of depreciable property.

Eligible capital property

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

If the balance in your cumulative eligible capital account is negative at the end of your fiscal period, you will have an amount that you include in your business income and you may have an amount that is a taxable capital gain. For more information on this, get the *1990 Business and Professional Income Tax Guide,* the *1990 Farming Income Tax Guide,* the *1990 Fishing Income Tax Guide* and Interpretation Bulletin IT-123R4, Disposition of and Transactions Involving Eligible Capital Property.

Taxable capital gains from the disposal of eligible capital property that is qualified farm property are reported on line 543 of Schedule 3. Whereas, taxable capital gains from the disposal of any other type of eligible capital property are reported on line 544.

Any taxable capital gain from the disposal of eligible capital property qualifies for the lifetime capital gains deduction as discussed in Chapter 7. However, only taxable capital gains from the disposal of eligible capital property that is qualified farm property are eligible for the higher capital gains deduction limit. See Chapter 1 for the definition of qualified farm property.

Mortgages and other obligations

The person who holds a mortgage on a property is the mortgagee and the person who owes the money is the mortgagor.

Mortgagee

As a mortgagee, you may take possession of a property when the mortgagor has failed to pay money owed under the mortgage. In such a case, you are generally considered to have re-purchased the property for

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

  minus

- any reserve you deducted in the year before you repossessed the property for amounts that were not due until later years.

Since the adjusted cost base of the mortgage is considered to be zero, you cannot deduct a capital loss because of the repossession. This means there is no capital gain or loss at this time. Any capital gain or loss is postponed until you sell the repossessed property.

In calculating your income for the year you repossessed the property, you do not take into account any reserve you deducted in the year before for amounts not due on the mortgage. Note, however, you may not deduct any reserve for bad or doubtful debts that are for your claim in the year you repossessed or any following year.

Mortgagor
As a mortgagor who has lost property through repossession, generally you would have a capital loss. This capital loss is the difference between the

- principal amount you owe under the mortgage, and
- the cost to you of the repossessed property.

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

As a mortgagor, you are also entitled to treat any amount you paid to the mortgagee after the property was repossessed as a loss from disposing of the property. You may do so for the year in which you made the payment.

You may have a capital gain from a repossession. If the property is repossessed, the selling price may be more than the adjusted cost base of the property. This situation would create a capital gain. Such a gain may qualify for the capital gains deduction. The capital gains deduction is explained in Chapter 7.

These rules do not apply to mortgaged property if the mortgagee does not acquire or re-acquire beneficial ownership of the property because of the default. For example, the property might be sold to a third party under a power of sale clause in the agreement. In such a case, your selling price, as a mortgagor, is equal to the amount by which your liability is reduced as a result of the sale plus any excess amount you receive from the sale.

Example
Suzanne sold land to Brian in 1989 for $110,000. The sale price is made up of a $20,000 down payment and a three-year mortgage that is payable in yearly instalments of $30,000. In 1989, Brian paid the $20,000 down payment but was unable to pay his yearly instalment. Because of this, Suzanne was forced to take possession of the property in 1990. At the time she repossessed the property, the principal amount owing on the mortgage was $90,000. Suzanne did not deduct a reserve for the unpaid amount for the year before. The tax consequences of the repossession are as follows:

Brian (mortgagor)	
Selling price (principal of the mortgage)	$ 90,000
minus	
Cost of the property	110,000
Capital loss	$ 20,000

Suzanne is considered to have reacquired the property for the amount of the principal owing under the mortgage at the time of the reacquisition ($90,000). As the ACB of the mortgage is considered to be zero, she cannot deduct a capital loss. Any capital gain or loss is postponed until Suzanne again sells the property.

The above rules also apply when property is repossessed under a conditional sales contract.

If you need more information, get Interpretation Bulletin IT-505, Mortgage Foreclosures and Conditional Sales Repossessions.

Other capital debts

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

- to earn income from a business or property, or
- as consideration for a sale of capital property in an arm's length situation.

If the amount receivable is from the sale of personal-use property to a person with whom you deal at arm's length, you may claim the capital loss in the year the debt becomes bad. However, the capital loss cannot be more than 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 1990 by a small business corporation and which becomes a bad debt in the year, see "Allowable business investment losses (ABIL)" in Chapter 4.

If you need more information about capital debts, get 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.

Gifts

To persons other than your spouse
If you give property as a gift, you are considered to sell it at its fair market value at the time you give the gift. You must report any capital gain or loss in your income for the year you give the gift.

When you receive property as a gift, you are considered to purchase it at its fair market value at that time. If you sell the property, the purchase price is your cost when you calculate any capital gain or loss for the year of sale.

To your spouse or a trust for your spouse
If you give property to your spouse or to a trust for your spouse, there is normally no capital gain or loss at that time. Depending on the type of property you give, you are considered to receive an amount at the time you give the gift that is equal to

- the undepreciated capital cost for depreciable property, or
- the adjusted cost base for other types of property.

Your spouse or the trust is considered to have bought the property for the same amount that you are considered to have received. If your spouse or the trust sells the property during your lifetime, generally you report any capital gain or loss from the sale. You do so if

- you are still a Canadian resident, and
- the property is not sold during the time when you and your spouse are living apart because of a marriage breakdown.

However, if you choose, there is another way to show the sale or transfer of property that you give to your spouse or to a trust for your spouse. You show the sale at the property's fair market value and report any capital gain or loss for the year you make the gift. If you choose this method, attach a note to your return stating that you are electing to report the property as being sold or transferred to your spouse at fair market value rather than have the provisions of subsection 73(1) of the *Income Tax Act* apply.

Your spouse or the trust is considered to have bought the property at its fair market value at the time you made the gift. If your spouse or the trust later sells the property, your spouse or trust reports any capital gain or loss from the sale.

If you owned property (other than depreciable property or a partnership interest) on June 18, 1971, and you give it to your spouse after 1971, a special situation takes place when your spouse sells the property. For more information, get Interpretation Bulletin IT-209R, Inter-Vivos Gifts of Capital Property to Individuals Directly or Through Trusts.

If you need more information on gifts to a spouse, get Interpretation Bulletins IT-511, Interspousal Transfers and Loans of Property made after May 22, 1985, and IT-258R2 and Special Release, Transfer of Property to a Spouse.

Inheriting property

Generally, when you inherit property, your cost is considered to be the property's fair market value on the date you inherit it. When you sell the property, you may have a capital gain or loss for the year you sell it.

Property inherited by a spouse may not be affected by the above rule. To find out the rules that apply, see the *1990 Deceased Persons Income Tax Guide.*

Giving cultural property to a designated institution

You do not have to pay tax on any capital gain from selling or donating certified cultural property to an institution or public authority designated by the Minister of Communications. The Canadian Cultural Property Export Review Board certifies this property as being cultural property and provides certificates for tax purposes.

If you have a capital loss from cultural property you sell or donate to any such institution, you may deduct the loss as explained in Chapter 4. For example, you may not deduct a loss from selling or donating of personal-use property unless this property is listed personal property. Also, you can apply a loss from selling or donating listed personal property only against any gains from the sale of listed personal property.

This applies only to capital gains and not to income transactions by a dealer or trader.

For more information, get Interpretation Bulletins IT-407R2 Disposition of Canadian Cultural Property (1987 and prior taxation years) and IT-407R3, Disposition after 1987 of Canadian Cultural Property.

Qualified small business corporation shares

The definition of qualified small business corporation shares is in Chapter 1 under "Small business corporation."

Show the sale of qualified small business corporation shares under the section "Qualified Small Business Corporation" on Schedule 3.

Do **not** report the following transactions under this section:

- the sale of other shares such as **publicly traded shares** or shares of a foreign corporation, and
- losses on the sale of any shares of small business corporations. See "Allowable business investment losses (ABIL)" in Chapter 4 for more details.

Capital gains from selling qualified small business corporation shares are eligible for the higher capital gains deduction limit. See the section entitled, "Qualified small business corporation shares" in Chapter 7 for details.

Qualified farm property

Qualified farm property is defined in Chapter 1.

Generally, you report any capital gain or loss from disposing of qualified farm property under the section "Qualified Farm Property" on Schedule 3. However, if you are considered to have a taxable capital gain from the selling of eligible capital property which is "qualified farm property," you enter the gain on line 543 of Schedule 3. For more information, see "Eligible capital property" in this chapter.

Capital gains on the sale 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 7.

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 earlier in this chapter.

Reserves

If you are claiming a capital gains reserve in 1990, you have to file Form T2017, Summary of Reserves on Dispositions of Capital Property, with your return. You will find two copies of the form in this Guide.

You must include any reserve you claimed in 1989 in income for 1990. Enter your net reserve for 1990 on line 538 of Schedule 3. See Chapter 5 for more information on reserves and instructions on how to complete Form T2017.

The sale of part of a property

When you sell only part of a property, you divide the adjusted cost base (ACB) of the property between the part you sell and the part you keep.

Example

You own 100 hectares of vacant land of equal quality and sell 25 hectares. You calculate one-quarter of your total ACB as follows:

Total ACB	$100,000
minus	
ACB of the part you sell	25,000
ACB of the part you keep	$ 75,000

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

For more information, get Interpretation Bulletin IT-264R and Special Release, Part Dispositions.

Listed personal property

Listed personal properties (LPP) are the following personal-use properties which normally increase in value:

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

You can determine the value of many of these items by consulting dealers' catalogues or the art, coin, jewellery or stamp dealers themselves. All or any part 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. See "Personal-use property" in Chapter 2 for information on these rules.

You should report a sale of listed personal property on Schedule 3 only if you realized a gain from the sale. If you are applying a LPP loss from a previous year against your 1990 LPP gain, enter the loss amount on the appropriate line on Schedule 3, and deduct it from your LPP gain. You then enter your net gain on line 531 of Schedule 3.

If you have losses on the sale of listed personal property,

- you may deduct them only from your gains from selling other listed personal property,
- you may not use them to reduce your capital gains from the sale of other types of property, and
- the total amount of LPP losses you deduct in the year may not be more than the total LPP gains for that year.

If your LPP losses are more than your LPP gains in 1990, you may use the difference to reduce your net gains on listed personal property in any of the three preceding years and/or the seven following years. If you have unapplied LPP losses from previous years, you must fully apply them before you can apply the 1990 LPP loss to your net gains from disposing of listed personal property of other years.

If you wish to carry back your 1990 LPP loss to reduce your LPP net gains from 1987, 1988 or 1989, complete Form T1A, Request for Loss Carry-Back, and file it with your 1990 return.

If you have unapplied LPP losses from 1983 to 1989, you may use them to reduce any net gain from selling listed personal property in 1990.

Note

Do not complete the "Listed Personal Property" area of Schedule 3 if you have a loss from selling listed personal property in 1990, or your LPP losses are more than your LPP gains in that year. However, you should keep a record of your LPP losses because you may wish to apply such losses against future LPP gains.

Example

Marina bought some jewellery in 1980 for $5,800. In 1990, she sold it for $6,000 for a gain of $200. She also sold a coin collection for $2,000 in 1990. Marina bought this collection in 1983 for $1,700. Its sale results in a gain of $300. In addition, Marina sold a painting in 1990 for $8,000. Since she bought the painting in 1978 for $12,000, she has a loss of $4,000. She had no outlays or expenses for these transactions.

Marina's loss from selling listed personal property in 1990 was more than her gains by $3,500 ($200 + $300 — $4,000). Marina cannot use the difference to offset her capital gain in the year or any income from other sources. However, she may apply her LPP loss against her LPP net gains in any of the three years before or seven years following 1990.

Marina uses Form T2081, Capital Dispositions Supplementary Schedule Re: Listed Personal Property, to calculate her gains or losses from listed personal property for 1990.

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T2081
Rev. 90

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))
Jewellery	1980	6,000	5,800	Ø	200
Coin Collection	1983	2,000	1,700	Ø	300
Painting	1978	8,000	12,000	Ø	<4,000>

Identical properties

Properties of a group are identical if each property in the group is the same as all the others. The most common example of identical properties is shares of the same class of the capital stock of a corporation.

Identical properties purchased after 1971

A special situation takes place when you buy and sell several identical properties at different prices over a period of time. To determine the cost when you calculate your capital gain or loss, you calculate the average cost of each property in the group. This amount is then considered to be the cost of each identical property that you bought after 1971.

Example

Victor owns 100 common shares of a corporation. He bought these shares for $15 each. Victor later bought another 150 shares of the same class of that corporation at a cost of $20 each. In 1990, Victor sold 200 of these shares for $24 each.

Previously purchased shares	100	at $15	$1,500
Newly purchased shares	150	at $20	3,000
Total	250	Total cost	$4,500
Average cost of each share	$\frac{\$4,500}{250}$ = $18		
Calculation of capital gain			
Selling price	(200 at $24)		$4,800
minus			
Cost of shares sold	(200 at $18)		3,600
Capital gain			$1,200
Taxable capital gain ($1,200 × ¾)			$ 900

You calculate the average cost each time you buy another identical property. Sales do not affect the average cost since your cost considered for each property in the group is considered to be identical to the cost for every other property in the group.

Example

After selling the 200 shares in the corporation, Victor bought 350 more shares which are identical properties at a cost of $21 each. The average cost of the shares is recalculated as follows:

Cost of previously purchased shares	(250 − 200) 50	at $18	$ 900
Cost of newly purchased shares	350	at $21	7,350
Total shares	400	Total cost	$8,250
Average cost of each share	$\frac{\$8,250}{400}$ = $20.63		

You use this same method to calculate the average cost for identical bonds or debentures that you bought after 1971. However, the average cost is based on the principal amount for each identical property.

One bond, debenture or similar debt obligation issued by a debtor is considered to be identical to another if they are both issued by the same debtor and all their rights attached are the same. You do not take the principal amount of individual debt obligations into account when you are establishing whether these properties are identical.

Foreign exchange gains and losses

Foreign exchange gains or losses from capital transactions in foreign currencies are capital gains or losses. However, only the amount of your net gain or loss for the year that is more than $200 is taxable or deducted as a capital gain or loss. Show 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 do not have to report it on your return.

Form T2087, Capital Dispositions Supplementary Schedule Re: Foreign Exchange Transactions, will help you calculate any capital gain or loss from foreign exchange transactions. If you need more information, get Interpretation Bulletin IT-95R, Foreign Exchange Gains and Losses.

Rollovers

If you sell property to someone with whom you do not deal at arm's length and the selling price is less than its fair market value, your selling price is considered to be the fair market value.

Similarly, if you buy property in a non-arm's length transaction, and the purchase price is more than the fair market value, your purchase price is considered to be the fair market value.

For more information, get Interpretation Bulletin IT-405, Inadequate Considerations — Acquisitions and Dispositions.

There are special rules that allow you to transfer property at an amount other than the property's fair market value. If these rules apply, you may be able to postpone paying tax on any capital gains from the transfer. Some of the more common "rollovers" (transfers) are listed below.

Tax Tip

As you read through this chapter, you should keep in mind the capital gains deduction that is explained in Chapter 7. You may decide that the deduction is more beneficial than any of these transfers.

Farms

There are many special rules about capital gains from selling or transferring farm property. In certain situations, a farmer may transfer farm property to a spouse or child. If you need information on these types of transfers and other rules that apply to farm property, see the *1990 Farming Income Tax Guide.*

Other rollovers

You may choose to postpone the reporting of a capital gain when property is transferred from

- an individual to a corporation (using Form T2057, Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation);
- a partnership to a corporation (using Form T2058, Election on Disposition of Property by a Partnership to a Taxable Canadian Corporation); and
- an individual to a partnership (using Form T2059, Election on Disposition of Property by a Taxpayer to a Canadian Partnership).

For more information on rollovers to a corporation, get Information Circular 76-19R2, 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 information on rollovers to partnerships, get Interpretation Bulletin IT-413R, Election By Members of a Partnership under subsection 97(2).

Note

If you choose to postpone the reporting of a capital gain because you are using one of the above mentioned rollovers, you still have to report the capital gain on Schedule 3.

CHAPTER 4
CAPITAL LOSSES

Generally, a capital loss occurs when you sell or are considered to sell a capital property for less than it cost you. However, a capital loss cannot occur when you dispose of

- depreciable property (see Chapter 3); or
- personal-use property (see Chapter 2).

If you have a loss from the sale of listed personal property, see "Listed personal property losses" in this chapter.

1990 Capital losses

The allowable part you may claim for your 1990 capital losses is three-quarters.

You can apply allowable capital losses only against any taxable capital gains. Therefore, if you have taxable capital gains and allowable capital losses in 1990, you reduce the amount of your taxable capital gains by your allowable capital losses.

If your allowable capital losses are greater than your taxable capital gains, the difference is normally your **net capital loss** for 1990. You would also have a net capital loss if you have only allowable capital losses for 1990.

If you have a net capital loss in 1990, you can apply it against your taxable capital gains in any of the three previous years (1989, 1988 or 1987) or in any future year.

To apply your 1990 net capital loss back, ask us to adjust your 1987, 1988 or 1989 returns. To do so, complete Form T1A, Request for Loss Carry-Back. Attach one completed copy of this form to your 1990 return. Do not file an amended return for the year to which you want to apply your net capital loss. Also, **there may be interest charges on the reassessment of your returns.** This may happen for example if you carry-back your 1990 net capital loss to a year in which you claimed a capital gains deduction. For more information, contact your district office.

In addition, if you carry-back a net capital loss to a year in which you claimed the capital gains deduction, you may have to reduce the amount of your capital gains deduction for that year. See "Annual gains limit" and "Cumulative gains limit" in Chapter 7.

If you wish to carry forward all or part of your 1990 net capital loss to a future year, keep a record of the amount you have available.

If you wish to carry back a 1990 net capital loss to 1987, 1988 or 1989, you will need to adjust the amount carried back. This adjustment is necessary since the taxable part of capital gains is one-half in 1987 and two-thirds in 1988 and 1989. For more information, see "Net capital losses of other years, Line 253 — T1 Return" in this chapter.

Whether you decide to carry back your net capital loss or apply it to a year after 1990, you must complete and file Schedule 3 with your 1990 return to report any sale of capital property which results in a capital loss in 1990.

You were asking...?

Q. I owned some shares in a Canadian public corporation and sold them in 1990 at a loss. I had no capital gains in 1990. How do I show my capital loss?

A. Three-quarters of this capital loss is your allowable capital loss in 1990. Since you have no taxable capital gains in 1990, your allowable capital loss becomes a net capital loss for 1990. Show the sale on Schedule 3 and file the schedule with your 1990 return. Although you cannot deduct the net capital loss in 1990, you may carry the loss back three years or forward to any future year and apply it against your taxable capital gains.

Example

Arlene had a capital loss of $800 and a capital gain of $400 from selling securities in 1990.

Capital loss	($800)
Capital gain	400
Total capital loss	($400)
Allowable capital loss (¾ × $400)	($300)

The allowable capital loss of $300 becomes a net capital loss for 1990. Arlene may apply it against any taxable capital gains in any of the three previous years or in any future year.

Listed personal property losses (LPP)

The types of property that are listed personal property are described under "Listed personal property" in Chapter 3.

If you have LPP losses, you can apply them only against your LPP gains. You may carry your LPP losses back three years and forward seven years.

If you have LPP gains in 1990 and unapplied LPP losses from earlier years, you may apply these losses against your LPP gains when you calculate your net LPP gain on Schedule 3. Do not show a previous year's LPP loss on line 253 of your return.

Restricted farm losses

If you sell farm land in 1990 that results in a capital gain and you have unapplied restricted farm losses from previous years, you may be able to reduce your capital gain by a part of these losses. You may reduce your capital gain by the part of your unapplied restricted farm loss that makes up the property taxes and interest on money you borrowed or on an amount you owe from buying the land. To reduce the capital gain, you add these amounts to the adjusted cost base of your land.

In this case, you can use restricted farm losses only to reduce your capital gain. You cannot use them to create or increase a capital loss from selling farm land.

For more information, get 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 occurs from selling capital property and, during the period 30 days before the sale and ending 30 days after the sale, you, your spouse or a corporation you control directly or indirectly

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

If you have a superficial loss in 1990, you cannot deduct it when you calculate your income for the year. However, when you are the person that acquires the substituted property, you add the amount of the superficial loss to the adjusted cost base of the substituted property. This will decrease your capital gain or increase your capital loss when you sell the substituted property.

The above rule **does not apply** if

- you are considered to have sold property because you ceased to be a resident of Canada;
- the property is considered to have been sold because the owner died;
- you sold the property because an option expired; or
- you are considered to have sold the property because you changed its use.

If you need more information on superficial losses, get Interpretation Bulletin IT-387R2, Meaning of Identical Properties.

Allowable business investment losses (ABIL)

The definition of a business investment loss is in Chapter 1.

The allowable part of a business investment loss that occurred in 1990 is three-quarters. To calculate your allowable business investment loss for 1990, you may have to reduce this loss if you have claimed a capital gains deduction in a previous year. This is explained in the next section.

If you have an ABIL in 1990, you deduct this loss from your other sources of income for the year. If your other sources of income for the year are less than the amount of your ABIL, you include the difference as part of your non-capital loss for 1990. You may carry back your non-capital loss three years or carry it forward seven years and apply it against your income. For information on non-capital losses, 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.

If you are unable to deduct your ABIL as a non-capital loss within the allowed time frames, the unapplied part becomes a net capital loss in the seventh year. Since it becomes a net capital loss, you may use it to reduce your taxable capital gains in any future year.

For example, if you had an ABIL in 1983 and you were not able to deduct it in 1983 or any year after 1983, the loss becomes a net capital loss in 1990 and you may then use it to reduce your taxable capital gains in future years.

To claim your ABIL, enter the amount of your loss on line 217 of your return and attach a note stating the

- name of the small business corporation;
- number and class of shares or the type of debt you disposed of;

- insolvent, bankrupt or wind-up data;
- date that you bought the shares or acquired the debt;
- proceeds of disposition;
- adjusted cost base of the shares or debt;
- outlays or expenses on the disposition; and
- amount of the loss.

Note
Any ABIL you claimed in 1990 will reduce the capital gains deduction you are eligible to claim in 1990 and future years. See Chapter 7 for more information.

Reduction in business investment loss
If you have a business investment loss that occurred in 1990, the allowable part is normally three-quarters of your business investment loss. You may deduct the allowable part 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 part that you can deduct.

Use the following chart to determine the amount by which you must reduce your 1990 business investment loss. Complete a separate calculation for each business investment loss you incurred in 1990.

Total capital gains deductions claimed in 1985, 1986 or 1987 (from line 254 of your 1985, 1986 or 1987 returns)	$______ (1)		
Line (1) $______ × 2 =		$______	(2)
Capital gains deduction that you claimed in 1988 or 1989	______ (3)		
Line (3) $______ × 3/2 = (see note below)		______	(4)
Line (2) plus line (4)		______	(5)
Total amount you used to reduce your business investment losses in 1986, 1987, 1988 or 1989 (from line 535 of Schedule 3 of your 1986 through 1989 returns)	______ (6)		
Total amount you already used to reduce any **other** business investment loss in 1990	______ (7)		
Line (6) plus line (7)		______	(8)
Line (5) minus line (8)		$______	(9)
Business investment loss for 1990 (before reducing this loss)		$______	(10)

Reduction in business investment loss for 1990

Line (9) or line (10), whichever amount is less $______ (11)

Note
You multiply the capital gains deduction claimed in 1988 and 1989 by three-halves rather than two because the taxable part of a capital gain increased from one-half to two-thirds in 1988.

If this special rule applies, you treat the reduction to your business investment loss (from line (11)) as a capital loss for 1990. Enter this amount on line 535 of Schedule 3. Three-quarters of your remaining business investment loss is your allowable business investment loss. You enter this amount on line 217 of your return.

Note
Do not report a business investment loss on Schedule 3. You enter only the reduction discussed above on Schedule 3.

Net capital losses of other years, Line 253 — T1 Return

Generally, when your allowable capital losses are more than your taxable capital gains for a year the difference is your **net capital loss** for the year. You may carry back your net capital loss three years or carry it forward indefinitely and apply it against your taxable capital gains.

Note
If you have a taxable capital gain in 1990, you may wish to take advantage of the capital gains deduction instead of using your net capital losses from another year to reduce your taxable capital gain. See Chapter 7 for information about the capital gains deduction.

The taxable part of capital gains and the allowable part of capital losses is

- three-quarters for 1990,
- two-thirds for 1989 and 1988, and
- one-half for 1987 and earlier years.

Because there are different rates for different years, you may have to adjust your net capital loss. You have to do so to apply your net capital loss against your taxable capital gains if the rate for the year you have that loss is different from the rate for the year you have that gain.

The following information will help you to calculate the adjustment to your net capital loss before you apply it against your taxable capital gains.

Applying net capital losses of other years to 1990

You must apply net capital losses of earlier years before you apply net capital losses of later years. For example, if you have a net capital loss in 1986 and 1989, and you wish to apply these losses against your taxable capital gains in 1990, you must apply your 1986 net capital loss before you apply your 1989 net capital loss.

Applying a 1988 or 1989 net capital loss to 1990
Because there was a lower rate for 1988 and 1989, you must adjust your net capital losses for those years before you apply them against your taxable capital gains in 1990.

To apply a 1988 or 1989 net capital loss against your 1990 taxable capital gains, use the following chart.

Unapplied net capital losses for 1988 and/or 1989	$______	(1)
Adjusted net capital loss amount Line (1) ______ × 9/8	______	(2)
Taxable capital gains reported on line 127 of your 1990 return	______	(3)
Maximum deduction in 1990 for net capital losses for 1988 and/or 1989 Line (2) or line (3), whichever is less	$______	(4)

You may claim on line 253 of your return all or a part of the amount on line (4) as net capital losses of 1988 and/or 1989.

You may have a remaining balance of unapplied net capital losses for 1988 or 1989 after you apply them to your 1990 taxable capital gains. Use the following chart to calculate this balance. Note that you are adjusting back the amount applied to 1990 to reflect the lower rate **before** you deduct it from the balance of your unapplied net capital losses.

Total unapplied net capital losses from 1988 or 1989 at the beginning of 1990	$______	(1)
Amount claimed on line 253 of your 1990 return ______ (2)		
Line (2) ______ × 8/9	______	(3)
Balance of net capital losses in 1988 or 1989 available for carry-forward to a future year Line (1) minus line (3)	$______	(4)

Example

Dexter recorded the following information about his capital gains and losses.

1988

Capital loss	($ 700)
Capital gain	100
Total capital loss	($ 600)
Allowable capital loss (⅔ × $600)	($ 400)

1989

Capital loss	($ 2,100)
Capital gain	1,200
Total capital loss	($ 900)
Allowable capital loss (⅔ × $900)	($ 600)

1990

Capital gain	$ 1,467
Taxable capital gain ($1,467 × ¾)	$ 1,100

Since Dexter could not apply his 1988 and 1989 allowable capital losses, these amounts become net capital losses for 1988 and 1989. In 1990, Dexter wants to reduce his taxable capital gain of $1,100 by his 1988 and 1989 net capital losses. To do this, Dexter completes the following chart.

Unapplied net capital losses for 1988 and/or 1989 ($400 + $600)	$ 1,000	(1)
Adjusted net capital loss amount Line (1) $1,000 × 9/8	1,125	(2)
Taxable capital gain reported on line 127 of your 1990 return	1,100	(3)
Maximum deduction in 1990 for net capital losses for 1988 and/or 1989 Line (2) or line (3), whichever is less	1,100	(4)

Dexter may claim on line 253 of his return all or a part of the amount on line (4) as net capital losses of 1988 or 1989. Dexter chooses to claim the entire amount of $1,100. In calculating the balance of his unapplied net capital losses, Dexter completes the following chart.

Total unapplied net capital losses from 1988 or 1989 at the beginning of 1990	$ 1,000	(1)
Amount claimed on line 253 of your 1990 return $1,100 (2)		
Line (2) $1,100 × 8/9	978	(3)
Balance of net capital losses in 1988 or 1989 available for carry-forward to a future year Line (1) minus line (3)	$ 22	(4)

Applying net capital losses before 1988 to 1990
Because the rate was lower for years before 1988, you must adjust your net capital losses for those years before you apply them to 1990.

As explained earlier, generally you only use net capital losses to offset taxable capital gains. However, if you have any unapplied net capital losses from before May 23, 1985, you may deduct them from other sources of income. You may deduct up to $2,000 or your **pre-1986 capital loss balance,** whichever is less.

You may wish to apply a net capital loss that occurred after 1985 and before 1988 against your 1990 taxable capital gains. If so, use the following chart to calculate your maximum deduction for net capital losses.

Unapplied net capital losses after 1985 and before 1988	$______	(1)
Adjusted net capital loss amount Line (1) ______ × 3/2	______	(2)
Taxable capital gains reported on line 127 of your 1990 return	______	(3)
Maximum deduction in 1990 for net capital losses after 1985 and before 1988 Line (2) or line (3), whichever is less	$______	(4)

You may claim on line 253 of your return all or a part of the amount on line (4) as net capital losses after 1985 and before 1988.

You may have a remaining balance of unapplied net capital losses after 1985 and before 1988 after you apply them to your 1990 taxable capital gains. If this is the case, use the following chart to calculate this balance. Please note that you are adjusting back the amount applied to 1990 to reflect the lower rate **before** you deduct it from the balance of your unapplied net capital losses.

Total unapplied net capital losses after 1985 and before 1988 at the beginning of 1990	$______	(1)
Amount claimed on line 253 of your 1990 return ______ (2)		
Line (2) ______ × ⅔	______	(3)
Balance of net capital losses after 1985 and before 1988 available for carry-forward to a future year Line (1) minus line (3)	$______	(4)

As explained earlier, you may use any unapplied pre-May 23, 1985 net capital losses to offset taxable capital gains you realized in 1990. You may then deduct any remaining balance from other income, up to $2,000 or your **pre-1986 capital loss balance,** whichever is less.

In a news release dated July 13, 1990, the Department of Finance issued Draft legislation that proposes to revise the amount of a pre-1986 net capital loss that may be applied in 1985 and subsequent years.

The proposed legislation will not affect the amount of your pre-1986 net capital losses that you have applied before 1990 if

- you applied a pre-1986 net capital loss before 1988, or
- at the end of 1989 you have applied all your pre-1986 net capital losses and do not have a balance to carry forward to 1990.

Before you calculate the amount of your pre-1986 net capital loss that is available for 1990, first you will have to recalculate your balances for 1988 and 1989. To help you recalculate your balances for each year, use the following chart.

Note

You will only have to recalculate your pre-1986 net capital loss balance if you applied any part of it in 1988 and/or 1989 and have a balance remaining at the end of 1989. While the amount of your pre-1986 net capital loss that you applied in 1988 or 1989 will not change, the balance to be carried forward to 1990 will change.

Pre-1986 Capital Loss Balance for 1988/1989

Unapplied net capital losses you incurred before May 23, 1985		$______	(1)
Capital gains deductions you claimed:			
before 1988	$______		
*in 1988 $______ × ¾	$______		
*You enter an amount on this line only when recalculating your pre-1986 capital loss balance for 1989.			
Total capital gains deductions		______	(2)
Pre-1986 capital loss balance for 1988/1989 is line (1) minus line (2)		$______	(3)

Pre-1986 Adjusted net capital loss balance for 1988/1989

Unapplied net capital loss from line (1)	$______	(4)
Adjustment factor	× 4/3	
Adjusted pre-1986 net capital loss amount	$______	(5)

Pre-1986 Net capital loss applied in 1988/1989

Taxable capital gains reported on line 127		$______	(6)
Adjusted net capital loss amount from line (5)		______	(7)
Line (6) or line (7), whichever is less		______	(8)
		2,000	(9)
Amount from line (3)		______	(10)
Amount from line (1)	$______		

minus line (8)
$\$$____ × ¾ ______ ______ (11)

Line (9), (10) or (11), whichever is less ______ (12)

Maximum deduction for pre-1986 net capital losses line (8) plus line (12) $\$$______

Pre-1986 Net capital loss available for carry-forward

Amount from line (1) $\$$______ (13)

Amount from line (8)
$\$$____ × ¾ $\$$______ (14)
Amount from line (12) ______ (15)
Total of line (14) plus line (15) ______ (16)

Balance available for carry forward to 1989/1990 is line (13) minus line (16) $\$$______

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 he disposed of in 1984. In both 1986 and 1988, Allan claimed a capital gains deduction of $800. In 1989, Allan claimed the maximum deduction of $6,000 for his pre-1986 net capital loss on line 253 of his return. As a result, the balance of his pre-1986 net capital loss available for carry-forward to 1990 is $5,500.

Since Allan claimed a pre-1986 net capital loss in 1989, he will have to recalculate his loss balance. To do this, Allan completes the above chart as follows:

Pre-1986 Capital Loss Balance for 1988/1989

Unapplied net capital losses you incurred before May 23, 1985		$ 10,000	(1)
Capital gains deductions you claimed: before 1988	$ 800		
in 1988: $ 800 × ¾	600		
Total capital gains deductions		1,400	(2)
Pre-1986 capital loss balance for 1988/1989 is line (1) minus line (2)		$ 8,600	(3)

Pre-1986 Adjusted net capital loss balance for 1988/1989

Unapplied net capital loss from line (1)	$ 10,000	(4)
Adjustment factor	× 4/3	
Adjusted pre-1986 net capital loss amount	$ 13,333	(5)

Pre-1986 Net capital loss applied in 1988/1989

Taxable capital gains reported on line 127		$ 4,000	(6)
Adjusted net capital loss amount from line (5)		13,333	(7)
Line (6) or line (7), whichever is less		4,000	(8)
		2,000	(9)
Amount from line (3)		8,600	(10)
Amount from line (1) $ 10,000 minus line (8): $ 4,000 × ¾	3,000	7,000	(11)
Line (9), (10) or (11), whichever is less		2,000	(12)
Maximum deduction for pre-1986 net capital losses line (8) plus line (12)		$ 6,000	

Pre-1986 Net capital loss available for carry-forward

Amount from line (1)		$ 10,000	(13)
Amount from line (8): $ 4,000 × ¾	$ 3,000 (14)		
Amount from line (12)	2,000 (15)		
Total of line (14) plus line (15)		5,000	(16)
Balance available for carry forward to 1989/1990 is line (13) minus line (16)		$ 5,000	

Although Allan's recalculation does not change the amount of his pre-1986 net capital loss that he claimed in 1989, his loss amount available for carry-forward to 1990 changes from $5,500 to $5,000.

Your **pre-1986 capital loss balance** for 1990 basically refers to the balance of your total **unapplied** net capital losses that you incurred at any time before May 23, 1985 **minus** the total amount of capital gains deductions you claimed before 1990. When calculating the balance of your unapplied pre-May 23, 1985 net capital losses, please remember to reduce the balance by the amount you applied to years before 1990.

Note

If you claimed a capital gains deduction in 1988 and/or 1989, you must adjust the deduction to reflect the lower rate for years before 1988.

Use the following chart to calculate your pre-1986 capital loss balance for 1990.

Pre-1986 Capital Loss Balance for 1990

Unapplied net capital losses you incurred before May 23, 1985		$ ______	(1)
Capital gains deductions you claimed			
before 1988	$ ______		
in 1988 $ ______ × ¾	______		
in 1989 ______ × ¾	______		
Total capital gains deductions		______	(2)
Pre-1986 capital loss balance for 1990 is line (1) minus line (2)		______	(3)

If you had a net capital loss during the period from January 1, 1985 to May 22, 1985 and you realized capital gains later in 1985, your capital gains may reduce your pre-1986 capital loss balance. For more information, get 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 you to carry forward to 1990, you must adjust your losses to reflect the higher rate.

Pre-1986 Adjusted net capital loss balance for 1990

Unapplied net capital loss from line (1)	$ ______	(4)
Adjustment factor	× 3/2	
Adjusted pre-1986 net capital loss amount	$ ______	(5)

Once you have calculated your pre-1986 capital loss balance for 1990 and your adjusted pre-1986 net capital loss amount, you calculate your maximum 1990 deduction. To do this, use the following chart to calculate your maximum 1990 deduction for pre-1986 net capital losses of other years.

Pre-1986 Net capital loss applied in 1990

Taxable capital gains reported on line 127		$ ______	(6)
Adjusted net capital loss amount from line (5)		______	(7)
Line (6) or line (7), whichever is less		______	(8)
		2,000	(9)
Amount from line (3)		______	(10)
Amount from line (1)	$ ______		
minus line (8): $ ______ × ⅔	______	______	(11)
Line (9), (10) or (11), whichever is less		______	(12)
Maximum deduction for pre-1986 net capital losses line (8) plus line (12)		$ ______	

You may claim all or any part of your maximum deduction for your pre-1986 net capital losses on line 253 of your 1990 return.

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

Pre-1986 Net capital loss available for carry-forward

Amount from line (1)		$ ______	(13)
Amount from line (8): $ ______ × ⅔	$ ______ (14)		
Amount from line (12)	______ (15)		
Total of line (14) plus line (15)		______	(16)
Balance available for carry forward to 1991 is line (13) minus line (16)		$ ______	

Example

In the previous example, Allan did the necessary recalculations for 1988 and 1989. In 1990, Allan reported a taxable capital gain of $1,800 on line 127 of his 1990 return. Allan completes the following chart to calculate the maximum deduction for his pre-1986 net capital loss and the loss balance available for carry-forward to 1991.

Pre-1986 Capital Loss Balance for 1990

Unapplied net capital losses you incurred before May 23, 1985		$ 5,000	(1)
Capital gains deductions you claimed:			
before 1988	$ 800		
in 1988: $ 800 × ¾	600		

in 1989
______ × ¾ ______

Total capital gains deductions	$ 1,400	(2)
Pre-1986 capital loss balance for 1990 is line (1) minus line (2)	$ 3,600	(3)

Pre-1986 Adjusted net capital loss balance for 1990

Unapplied net capital loss from line (1)	$ 5,000	(4)
Adjustment factor	× 3/2	
Adjusted pre-1986 net capital loss amount	$ 7,500	(5)

Pre-1986 Net capital loss applied in 1990

Taxable capital gains reported on line 127		$ 1,800	(6)
Adjusted net capital loss amount from line (5)		7,500	(7)
Line (6) or line (7), whichever is less		1,800	(8)
		2,000	(9)
Amount from line (3)		3,600	(10)
Amount from line (1) $ 5,000 minus line (8) $ 1,800 × ⅔	1,200	3,800	(11)
Line (9), (10) or (11), whichever is less		2,000	(12)
Maximum deduction for pre-1986 net capital losses line (8) plus line (12)		$ 3,800	

Pre-1986 Net capital loss available for carry-forward

Amount from line (1)		$ 5,000	(13)
Amount from line (8): $ 1,800 × ⅔	$ 1,200 (14)		
Amount from line (12)	2,000 (15)		
Total of line (14) plus line (15)		3,200	(16)
Balance available for carry forward to 1991 is line (13) minus line (16)		$ 1,800	

The maximum deduction that Allan may claim on line 253 for pre-1986 net capital losses in 1990 is $3,800. His pre-1986 net capital loss balance that is available for carry-forward to 1991 is $1,800.

Applying a 1990 net capital loss to previous years

As explained under the section "1990 Capital losses" at the beginning of the chapter, you may carry a 1990 net capital loss back three years and use it to reduce your taxable capital gains. When carrying back your net capital loss, you have the choice as to which year you first want to apply the loss.

Note

Since there is one rate for 1987 and another rate for 1988 and 1989, you will have to do separate calculations for these years.

Applying a 1990 net capital loss to 1987

Because there were different rates for 1987 and 1990, you have to make an adjustment if you apply a 1990 net capital loss against your 1987 taxable capital gains. You must multiply the amount you wish to carry back by two-thirds (⅔).

Use the following chart to calculate your remaining balance of unapplied 1990 net capital loss.

1990 unapplied net capital loss	$______	(1)
1990 adjusted net capital loss amount available for carry-back Line (1) $______ × ⅔	______	(2)
Amount applied to 1987	______	(3)
1990 adjusted net capital loss amount unapplied Line (2) minus line (3)	______	(4)
Balance of 1990 net capital loss available for carry-back to 1988 or 1989 or for carry-forward to a future year Line (4) $______ × 3/2	$______	

Applying a 1990 net capital loss to 1988 and 1989

Because there were different rates for 1988, 1989 and 1990, you have to make an adjustment if you apply a 1990 net capital loss against your 1988 and 1989 taxable capital gains. You must multiply the amount you wish to carry back by 8/9.

Use the following chart to calculate your remaining balance of unapplied 1990 net capital losses.

1990 unapplied net capital loss	$______	(1)
1990 adjusted net capital loss amount available for carry-back Line (1) $________ × 8/9	______	(2)
Amount applied to 1988 $______ (3)		

Amount applied to 1989 ______ (4)

Line (3) plus line (4) ______ (5)

1990 adjusted net capital loss
amount unapplied
Line (2) minus line (5) ______ (6)

Balance of 1990 net capital loss available for carry-forward to a future year
Line (6) ______ × 9/8 $______

Note

To help you 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 1987, $1,000 in 1988 and $2,000 in 1989. She claimed a capital gains deduction of $1,000 in 1988. In 1990, Laura realized a net capital loss of $8,000. Laura would like to completely offset her taxable capital gains in 1987 and 1989 with her 1990 net capital loss. Laura chooses to first apply her net capital loss to 1987.

1990 unapplied net capital loss $ 8,000 (1)

1990 adjusted net capital loss
amount available for carry-back
Line (1) $ 8,000 × ⅔ 5,333 (2)

Amount applied to 1987 1,500 (3)

1990 adjusted net capital loss
amount unapplied
Line (2) minus line (3) 3,833 (4)

Balance of 1990 net capital loss available for carry-back to 1988 or 1989 or for carry-forward to a future year
Line (4) $ 3,833 × 3/2 $ 5,750

1990 unapplied net capital loss $ 5,750 (1)

1990 adjusted net capital loss
amount available for carry-back
Line (1) $ 5,750 × 8/9 5,111 (2)

Amount applied to 1988 $ 0 (3)

Amount applied to 1989 2,000 (4)

Line (3) plus line (4) 2,000 (5)

1990 adjusted net capital loss
amount unapplied
Line (2) minus line (5) 3,111 (6)

Balance of 1990 net capital loss available for carry-forward to a future year
Line (6) $ 3,111 × 9/8 $ 3,500

Laura must complete and attach Form T1A, Request for Loss Carry-Back, to her 1990 return.

CHAPTER 5
RESERVES

This chapter explains the capital gains rules when you sell property and only receive part of the selling price at the time of the sale. For example, you may sell some land for $50,000 and receive $10,000 at the time of the sale and the remaining $40,000 over the next few years.

In these situations and if you choose, you spread out the capital gain over a number of years. To do this, you claim a reserve for that part of the selling price that is not due until after the end of the year.

What is a reserve?

In general terms, a reserve is a deduction against a capital gain. You calculate your capital gain in the normal manner (proceeds of disposition minus adjusted cost base and selling expenses) and deduct your reserve for the year. This gives you the part of the capital gain you report for the year.

A reserve you claim in the previous year is included in the calculation of your capital gains for the current year. However, if an amount is still due at the end of the next year, you calculate and deduct a new reserve.

If you deduct a reserve in any year, use Form T2017, Summary of Reserves on Dispositions of Capital Property. Attach a completed copy with your return.

Who can claim a reserve?

Most individuals can claim a reserve. However, you cannot claim a reserve if

- you were not a resident in Canada at the end of the year or at any time in the next year or you were exempt from paying tax, or
- you sold the property to a corporation that you control in any manner.

Calculating a reserve

The method you use to calculate a reserve depends on when you sold the property.

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

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

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

Property sold after November 12, 1981
The formula you use to calculate your reserve depends on the type of property you sold. There is one formula for the sale of family farm property or small business corporation shares and another formula for other property.

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 or depreciable property in Canada used in your farming business by you, your spouse or any of your children, grandchildren or great-grandchildren.

For the definition of small business corporation shares, see "Small business corporation" in Chapter 1.

If you sell family farm property or shares of a small business corporation after November 12, 1981 **to your child** who lives in Canada at the time of the sale, your reserve is the following, **whichever is less:**

(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 sale, but not including the year of sale.

By using this calculation, you report at least one-tenth of the capital gain each year until you have reported the full capital gain.

Note

The meaning of a **child** is explained under the definition of "qualified farm property" in Chapter 1.

Other property
For all other property you sell after November 12, 1981, you spread out the capital gain over a maximum of five years. Your reserve in each year cannot be more than the following, **whichever is less:**

(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 sale, but not including the year of sale.

By using this calculation, you report at least one-fifth of the capital gain each year until you have reported the full capital gain.

Example

Stan sold his cottage in 1990 for $75,000. The adjusted cost base (ACB) of the cottage is $50,000 and his selling expenses are $5,000. Stan received a down payment of $30,000 at the time of sale and he will receive $5,000 a year for the next nine years.

Stan calculates his capital gain as follows:

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

Since Stan will not receive all of the selling price in the year of sale, he may claim a reserve. Even though he will not receive the total selling price for nine years, he cannot spread out the capital gain to be reported for more than five years.

Stan's reserve for 1990 is the following, **whichever is less:**

(a) $$\frac{\$20{,}000}{\$75{,}000} \times \$45{,}000 = \$12{,}000$$

and

(b) $$\frac{\$20{,}000}{5} \times (4 - 0)\ * = \$16{,}000$$

* No taxation years ended since the year of sale. Therefore, Stan does not have to reduce the 4 in this calculation.

Stan enters the $12,000 reserve on line 388 on Form T2017, Summary of Reserves on Dispositions of Capital Property.

When completing Schedule 3, Summary of Dispositions of Capital Property in 1990, Stan enters the following amounts:

Total capital gain on lines 530 and 537	$20,000
Total amount of reserves from Form T2017 on line 538	(12,000)
Total capital gain on line 539	$ 8,000
Taxable capital gain on line 540	$ 6,000

Stan reports the taxable capital gain of $6,000 on line 127 on page 1 of his return.

In 1991, Stan reports his 1990 reserve of $12,000 as a capital gain. Since there is still an amount due to him at the end of 1991 he calculates a new reserve and deducts it from the $12,000.

Capital gains deduction

The taxable part of any capital gains reserve may be eligible for the capital gains deduction. The capital gains deduction is explained in Chapter 7.

Form T2017

You must use Form T2017, Summary of Reserves on Dispositions of Capital Property, if you are claiming a capital gains reserve in 1990. This Guide includes two copies of this form.

Reserves you include in your 1990 capital gains qualify for the capital gains deduction if the sale took place after 1984. Form T2017 groups reserves according to the type of property and the year of sale. The form will help you to identify the amounts that qualify for the capital gains deduction.

If you need more information on reserves, get Interpretation Bulletin IT-236R2, Reserves — Disposition of Capital Property.

CHAPTER 6
PRINCIPAL RESIDENCE

When you sell your home that is your principal residence, you usually do not pay tax on any gain from the sale. However, you may have a **taxable capital gain** from selling your principal residence if you

- rented out part of it,
- used part of it to operate a business, or
- designated or chose another home as your principal residence.

This chapter explains the meaning of a principal residence, how to designate it, what happens when you sell it and some special situations. If you need more information after reading this chapter, get Interpretation Bulletin IT-120R3, Principal Residence.

What is your principal residence?

Your principal residence is the housing unit you normally live in. More specifically, a property will qualify as your principal residence for any year if it meets the following four conditions:

- 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;
- you own the property alone or jointly with another person;
- you, your spouse, your former spouse or any of your children lived in it at some time during the year; and
- you designate the property as your principal residence.

Types of property
Your principal residence may be

- a house,
- a cottage,
- a condominium,
- an apartment in an apartment building,
- an apartment in a duplex, or
- a trailer, mobile home, or houseboat.

Also, the land that your home is located can be part of your principal residence. The amount of land that may be considered as part of your principal residence is usually limited to one-half hectare (approximately one acre) unless you can show that you need more land to use and enjoy your home. This may be the case if, for instance, the minimum lot size imposed by a municipality at the time you bought the property is greater than one-half hectare.

Designating your principal residence

Each year that you own your home and use it as your principal residence, you may designate it as your principal residence. You do not have to make this designation for each year. You only do so in the year that you sell your principal residence. To do so, use Form T2091, Designation of a Principal Residence.

For **1982 and later years,** you may designate only one home as your family's principal residence for each year.

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

- you,
- your spouse (unless you were separated for the entire year under the terms of a court order or a written agreement), or
- your child (other than a child who was during the year married or was 18 years of age or over).

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

- your mother or father, or
- your brother or sister who was not during the years married or was 18 years of age or over.

For **years before 1982,** you can designate more than one home per family as a principal residence. Therefore, it is possible for a husband and wife to designate different principal residences for these years. A special rule applies if members of a family designate more than one home as a principal residence for years before 1982.

Disposing of your principal residence

You should complete Form T2091, Designation of a Principal Residence, if you

- sold your principal residence or any part of it,
- granted an option to buy your principal residence or any part of it, or
- were considered to have sold your principal residence or any part of it (see the section called "Special situations" in this chapter).

If your home is your principal residence for every year you owned it, when you sell it you do not pay tax on any gain.

If your home is not your principal residence for all the years you owned it, Form T2091 will help you to determine

- the number of years you designate your home as your principal residence, and
- the amount of capital gain you will have to report on your return.

Note

File Form T2091 with your return **only if you have to report a capital gain.** Report this amount on line 530 of Schedule 3. Also, your taxable capital gain may be eligible for the capital gains deduction. See Chapter 7 for more information.

Special situations

Changing your property's use to a rental or business operation

You change the use of your home if it is your principal residence when you buy it and at a later date you decide to rent it out or use it to operate a business. You are considered to have changed its use because your home was for your own personal use and you are now using it to earn or produce income.

When you change the use of your property, you are considered to have disposed of it at its fair market value and then to have reacquired it for the same amount. This may result in a capital gain. However, if your home is your principal residence for every year you owned it before you changed its use, you do not pay tax on the sale when you change its use.

You are considered to have sold the property again if, at a later date you stop using it to earn income but do not actually sell it. In this situation, your capital gain is the increase in the fair market value during the time you used the property to earn income.

You report any capital gain from the sale that you are considered to have made on Schedule 3 . You usually report such a gain in the calendar year that you changed the property's use.

Election

You may make a special election when you change your principal residence to a rental or business property. You may choose **not** to be considered as having started to use your principal residence as a rental or business property. This means you **do not** report any capital gain at the time you change its use.

To make this election, you attach a letter to your return which

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

This election is good until you either sell the property or cancel the election.

If you make this election, you may designate the property to be your principal residence for up to four years (even though you have not been using it as your principal residence) as long as

- you do not deduct capital cost allowance on the property, and
- you do not designate any other property to be your principal residence during the same period.

Also, you may **extend the four-year limit indefinitely** if

- you are absent because your employer or your spouse's employer requires you to relocate,

- you and your spouse are not related to the employer,
- you return to your original home while still with the same employer or before the end of the year following the year in which this employment ends, and
- your original home is at least 40 kilometres (25 miles) farther than your temporary residence from your or your spouse's new place of employment.

If you begin to use your principal residence as a rental or business property in 1990, get the *1990 Business and Professional Income Tax Guide* or the *1990 Rental Income Tax Guide* for information on reporting business or property income.

Changing your property's use from a rental or business operation
If you buy a home as a rental or business property and later begin to use it as your principal residence, you are considered to have sold it at the time you change its use at its fair market value. **However,** you may choose to postpone any capital gain until you actually sell the property.

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

To make this election, you attach a letter to your return which

- explains the situation, and
- states that you are making your election under Subsection 45(3) of the *Income Tax Act.*

You make this election on or before the earlier of the following dates.

- 90 days after the date the Department asks you to make the election, and
- April 30th following the year in which you actually sell 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.

This election applies to only a capital gain. Therefore, you include any recapture of capital cost allowance you deducted on the property before 1985 when you calculate your business or property income in the year you change its use. If you need more information on the recapture of capital cost allowance, get the *1990 Business and Professional Income Tax Guide* or the *1990 Rental Income Tax Guide.*

You were asking...?

Q. I started to use my business property as my principal residence in 1990. I understand that I am considered to have sold the property at the time I changed its use and that any capital gain is taxable. Is this gain eligible for the capital gains deduction?

A. Yes. You may usually claim the capital gains deduction when you sell capital property and have a taxable capital gain. This is the case when there is an actual sale or when you are considered to have sold the property. However, you may be able to postpone any taxable capital gain until you actually sell the property if you make an election under Subsection 45(3) of the *Income Tax Act.*

Using part of your principal residence for a rental or business operation
When you begin to use part of your principal residence for rental or business purposes, usually you are considered to have changed the use of that part of your residence and to have sold it at its fair market value. **However,** you are not considered to have changed its use if

- the part you use for rental or business purposes is minor in relation to the whole property,
- you do not make any major structural changes to the property to make it more suitable for rental or business purposes, and
- you do not deduct any capital cost allowance on the part you are using for rental or business.

If you meet all of the above conditions, the whole property may qualify as your principal residence even though you are using part of it for rental or business purposes.

If the property was your principal residence for every year since you owned it before the change in use, there is no capital gain at the time you changed its use.

However, when you actually sell the whole property,

- you split the selling price and the adjusted cost base between the principal residence part and the business part. You may use either square metres or number of rooms, as long as the split is reasonable; and
- you do not report any difference for the principal residence part as a capital gain. Any taxable capital gain on the rental or business part may qualify for the capital gains deduction. The capital gains deduction is explained in Chapter 7.

Farms

If you are a farmer and you sell farmland in 1990 that includes your principal residence, you have a choice of two methods in calculating your capital gain. These two methods are explained in the *1990 Farming Income Tax Guide.*

CHAPTER 7
CAPITAL GAINS DEDUCTION

If you reported a taxable capital gain for 1990, you may be able to offset all or a part of that gain with the capital gains deduction. If you are eligible for this deduction, you have the choice of claiming the maximum deduction for the year, part of the deduction or none at all.

Also, any capital gains reserve you report as capital gains in 1990 that relates to capital property that you sold after 1984 qualifies for the capital gains deduction.

Who is eligible for the capital gains deduction?

If you lived in Canada or were a "factual" or "deemed" resident of Canada throughout 1990, you are eligible to claim the capital gains deduction. If you were not a resident of Canada throughout 1990, see Chapter 8 to find out if you qualify for this deduction.

What type of property qualifies for the capital gains deduction?

All capital property qualifies for the capital gains deduction. For the meaning of capital property, see "What is capital property?" in the Introduction.

Capital gains deduction limits

There is a limit to the total amount of capital gains deduction that you may claim in your lifetime. This limit depends on the type of capital property you disposed of. If you disposed of **qualified farm property** or **qualified small business corporation shares,** you are eligible to claim up to $500,000 in capital gains deductions. For **all other capital properties** the maximum amount is $100,000.

Note

The definitions for **qualified farm property** and **qualified small business corporation shares** are in Chapter 1. The definition of a qualified small business corporation share is under "Small business corporation."

Since the taxable part of a capital gain is three-quarters in 1990,

- your lifetime cumulative deduction from selling qualified farm property and qualified small business corporation shares is $375,000 ($500,000 × ¾), and
- your lifetime cumulative deduction from selling all other types of capital property is $75,000 ($100,000 × ¾).

Note

The total of your capital gains deductions for the years 1985 to 1990 for **all** types of capital properties cannot be more than your lifetime cumulative deduction of $375,000.

Calculating the capital gains deduction Line 254 — T1 Return

To calculate your capital gains deduction for 1990, you will need to know the following amounts:

- your net taxable capital gains in 1990;
- the total of all capital gains deductions you claimed in previous years;
- your **annual gains limit** for 1990; and
- your **cumulative gains limit** for 1990, which includes calculating your **cumulative net investment loss.**

Note

When calculating your capital gains deduction for 1990, you must reduce your deduction by

- 3/2 of the total deductions you claimed before 1988, and
- 9/8 of the total deductions you claimed for 1988 and 1989.

This gross-up adjusts the rate from one-half for years before 1988 and two-thirds for 1988 and 1989 to the three-quarters rate for 1990.

To help you calculate your capital gains deduction, this Guide has the following forms that you may use:

- Form T657, Calculation of Capital Gains Deduction for 1990 on All Capital Property;
- Form T657A, Calculation of Capital Gains Deduction for 1990 on Other Capital Property; and
- Form T936, Calculation of Cumulative Net Investment Loss to December 31, 1990.

To calculate your capital gains deduction on the sale of qualified farm property and/or qualified small business corporation shares, use Form T657. For all other types of capital property, use Form T657A.

Use Form T936 to calculate your cumulative net investment loss which you will need in order to calculate your cumulative gains limit for 1990.

Annual gains limit

To calculate your annual gains limit for 1990, use Part 1 of either Form T657 or Form T657A, whichever is applicable.

Your **annual gains limit** for 1990 is the amount of your net taxable capital gains for the year minus the total of any allowable business investment losses and net capital losses of other years that you claimed in 1990.

Cumulative gains limit
To calculate your cumulative gains limit at the end of 1990, use Part 2 of either Form T657 or Form T657A, whichever is applicable.

Your **cumulative gains limit** for 1990 is the total of the net taxable capital gains for the years 1985 to 1990 **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 for the years 1985 to 1989;
- all net capital losses of other years you claimed for the years 1985 to 1989;
- your cumulative net investment loss to December 31, 1990; and
- all capital gains deductions you claimed for the years 1985 to 1989.

When you calculate the total of your net taxable capital gains for the years 1985 to 1990, you do not include all capital gains reserves reported for these years. Before 1988, only capital gains reserves from the sale of qualified farm property are eligible for the capital gains deduction. For 1988 and later years, capital gains reserves from the sale of all capital property are eligible. Therefore, when you calculate your cumulative gains limit, only include the following types of capital gains reserves in your calculation of net taxable capital gains:

- capital gains reserves reported after 1984 from the sale of qualified farm property after 1984, and
- capital gains reserves reported after 1987 from the sale of all capital property after 1984.

Another point to consider when calculating your cumulative gains limit is the meaning of "all net capital losses of other years." This applies to net capital losses carried forward as well as any net capital losses carried back to a given year. For example, if you carried back a 1989 net capital loss to 1987, you include that loss as part of your "net capital losses of other years" when calculating your cumulative gains limit for 1990.

All capital property (except qualified farm property and qualified small business corporation shares)
As previously mentioned, you may use Form T657A to calculate your 1990 capital gains deduction for the sale of all capital property except qualified farm property and qualified small business corporation shares. **However,** if you sold qualified farm property and/or qualified small business corporation shares in 1990 or a previous year, use Form T657.

For capital gains on all capital property (except qualified farm property and qualified small business corporation shares), you may claim a capital gains deduction in 1990 equal to the **lowest** of the following amounts:

- your annual gains limit for 1990 minus the total of your capital gains deduction you claimed in 1990 for qualified farm property and qualified small business corporation shares;
- your cumulative gains limit at the end of 1990 minus the total of your capital gains deduction you claimed in 1990 for qualified farm property and qualified small business corporation shares; and
- your maximum lifetime capital gains deduction available for 1990 for other capital property. To calculate this amount, use the following chart.

CHART 1

Maximum capital gains deduction			$ 75,000	(1)
All capital gains deductions claimed after 1984 and before 1988 for other capital property	$______	(2)		
Adjustment for increase in rates Line (2) ______ × 3/2	______	(3)		
All capital gains deductions claimed in 1988 and 1989 for other capital property	______	(4)		
Adjustment for increase in rates Line (4) ______ × 9/8	______	(5)		
Line (3) plus line (5)			______	(6)
Capital gains deduction available for 1990 for other capital property Line (1) minus line (6)			$______	(7)

Qualified farm property
If you sold qualified farm property, you calculate your capital gains deduction by completing Part 3 of Form T657. The following information will help you to complete this form.

For capital gains on qualified farm property, you may claim a capital gains deduction in 1990 equal to the **lowest** of the following amounts:

- your annual gains limit for 1990;
- your cumulative gains limit at the end of 1990;
- your net taxable capital gains in 1990 from selling qualified farm property after 1984; and
- your maximum lifetime capital gains deduction available for 1990. To calculate this amount, use the following chart.

CHART 2

Maximum capital gains deduction			$ 375,000	(1)
Capital gains deductions claimed after 1984 and before 1988 for all capital property	$______	(2)		
Adjustment for increase in rates Line (2) ______ × 3/2	______	(3)		
Capital gains deductions claimed in 1988 and 1989 for all capital property	______	(4)		
Adjustment for increase in rates Line (4) ______ × 9/8	______	(5)		
Line (3) plus line (5)			______	(6)
Maximum lifetime capital gains deduction available for 1990 Line (1) minus line (6)			$______	(7)

Qualified small business corporation shares
If you sold qualified small business corporation shares, you calculate your capital gains deduction by completing Part 4 of Form T657.

The maximum lifetime capital gains deduction that is available for net taxable capital gains from selling qualified small business corporation shares after **June 17, 1987** is $375,000.

For capital gains on qualified small business corporation shares in 1990, you may claim a capital gains deduction equal to the **lowest** of the following amounts:

- your annual gains limit for 1990 minus any capital gains deduction you claimed in 1990 for qualified farm property;
- your cumulative gains limit at the end of 1990 minus any capital gains deduction you claimed in 1990 for qualified farm property;
- your net taxable capital gains in 1990 for qualified small business corporation shares (excluding taxable capital gains that you included in your capital gains deduction for qualified farm property); and
- your maximum lifetime capital gains deduction available for 1990. To calculate this amount, use Chart 2 above.

Note
If you are including a reserve from a previous year's sale of qualified small business corporation shares in your 1990 capital gains, the taxable part of the reserve may qualify for the increased capital gains deduction. This is the case only if the sale occurred after June 17, 1987.

Cumulative net investment loss (CNIL)

Your cumulative net investment loss is the amount by which

- the total of your **investment expenses** for each year after 1987

  is more than

- the total of your **investment income** for each year after 1987.

As explained above, your capital gains deduction is affected by the amount of any CNIL. Any CNIL reduces the amount of your cumulative gains limit for the year.

While your CNIL may reduce the amount of your capital gains deduction in a certain year, it will not reduce your lifetime capital gains deduction. Since the balance in your CNIL account will vary from year to year, you may still claim the maximum lifetime capital gains deduction if your CNIL is offset by investment income you earn in a future year.

To calculate your CNIL for 1990, you need to set-up an account that includes your investment expenses and investment income for the years 1988, 1989 and 1990. To do this, you may use Form T936, Calculation of Cumulative Net Loss to December 31, 1990.

Note
Even if you are not claiming the capital gains deduction in 1990, you should still complete Form T936 for your own records since the balance in your CNIL account is a cumulative total and you may need this information in a future year.

In a news release dated July 13, 1990, the Department of Finance issued Draft Legislation that will change the calculation of the cumulative net investment loss. These changes are proposed to apply to the 1988 and following taxation years. The proposed changes are explained below after "Investment income." If you need more information about the proposed legislation or how it may affect your 1988 and 1989 returns, contact your district office.

Investment expenses
Generally, your investment expenses are amounts that relate to earning investment income and have been deducted in calculating your income from property. Investment expenses include:

- interest and carrying charges on property that you used to earn property income;
- net property or rental losses from the renting or leasing of rental properties or multiple-unit residential buildings (MURBS);

- 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 were a specified member, including limited partnership losses of other years that you deducted in the year;
- 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 were a specified member; and
- any other expenses you deducted in calculating your property income such as repayments of shareholder loans, repayments of inducements or capital cost allowance claimed on certified films and videotapes.

Note

You are a specified member of a partnership if you are a member who is a limited partner or a member who is not actively engaged in the partnership business or engaged in a similar business.

Investment income
Investment income used to calculate your CNIL may include

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

The proposed changes to investment expenses and investment income include:

- repayments of a shareholder loan that are deducted in calculating your income for the year **are not** included in investment expenses;
- the amount of any loans you receive as a shareholder of a corporation that are included in calculating your income for the year **are not** included in investment income;
- the amount of any taxable capital gains or allowable capital losses for a partnership of which you are a specified member **are not** included in each partners' share of the income or loss from that partnership; and
- the interest portion of certain annuity payments **is included** in investment income.

Example 1

Dan had the following types of income and expenses for 1989 and 1990:

	1989	1990
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

Dan's cumulative net investment loss (CNIL) at the end of 1989 and 1990 is calculated as follows

1989		
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, 1989		0

Dan's cumulative net investment loss at the end of 1989 is zero because a CNIL account cannot have a negative balance. Therefore, Dan's claim for the capital gains deduction in 1989 is not affected by his CNIL account. When Dan completes Form T657, Calculation of Capital Gains Deduction for 1989, he will enter zero on line 15.

1990

Investment expenses claimed in 1990		
Carrying charges	$ 600	
Net rental loss	2,000	
Total investment expenses claimed in 1990		$ 2,600
Add: Total investment expenses claimed in 1989		850
Cumulative investment expenses		$ 3,450 (A)
Investment income reported in 1990		
Grossed-up taxable dividends	$ 100	
Interest income	500	
Total investment income reported in 1990		$ 600
Add: Total investment income reported in 1989		2,400
Cumulative investment income		$ 3,000 (B)
CNIL to December 31, 1990 Line (A) minus line (B)		$ 450

Dan calculated his CNIL to the end of 1990 even though he did not have any taxable capital gains in 1990. By calculating his CNIL each year, it will be easier for Dan to determine his CNIL when he wishes to claim a capital gains deduction in a future year.

Example 2

In 1988, Helen realized taxable capital gains of $10,000. To offset this gain, she claimed a capital gains deduction of $10,000.

In 1989, 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 1990, Helen sold some publicly traded shares for a capital gain of $6,000. As this was her only sale of capital property in the year, Helen's net taxable capital gain for 1990 was $4,500. She also 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 1990.

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

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

PART 1 — CALCULATION OF ANNUAL GAINS LIMIT FOR 1990

(For dispositions of OTHER CAPITAL PROPERTY including reserves on dispositions after 1984, reported in 1990, complete Part 1)

(a) Total net capital gain (loss) for 1990 (total of line 537 (Schedule 3) and line 390 (form T2017))	(1)	6,000.00		
Taxable capital gains (allowable capital losses) (3/4 of amount at line (1) above)	(2)	4,500.00		
ADD: Taxable capital gain on disposition of eligible capital property (from line 544 on Schedule 3)	(3)			
Total taxable capital gains for 1990 (line (2) plus line (3))		4,500.00 ►	(4)	4,500.00
(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 1990 (line (5) plus line (6))		►	(7)	
ANNUAL GAINS LIMIT FOR 1990 (line (4) minus line (7): if negative, enter zero)			(8)	4,500.00

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 1990. Therefore, Helen completes Form T936.

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T936
Rev. 90

CALCULATION OF CUMULATIVE NET INVESTMENT LOSS TO DECEMBER 31, 1990

- Complete this form if you have any "investment expenses" and/or "investment income" for 1990 or previous years (after 1987). These amounts must be cumulated in 1990 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 the Notes below.
- For further information on the calculation of cumulative net investment loss refer to the ***1990 Capital Gains Tax Guide*** available at your District Taxation Office.

Name in Full (Print)	Social Insurance Number
HELEN	x x x x x x x x x

CUMULATIVE INVESTMENT EXPENSES

Investment expenses claimed on your 1990 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) other than allowable capital losses			
(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 1990 to earn property income (from line 232)*			
Total investment expenses claimed in 1990	200.00	▶	200.00
ADD: Total Investment Expenses claimed in previous years (For 1990 report the amount calculated at line (A) on form T936 in 1989. If you did not complete form T936 in 1989, report the expense amounts described in (a) to (f) above as claimed on your 1988 and 1989 returns.)			1,975.00
Cumulative Investment Expenses			2,175.00 (A)

CUMULATIVE INVESTMENT INCOME

Investment income reported on your 1990 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) other than taxable capital gains			
(d) 50% of income from the recovery of exploration and development expenses (from line 130)			
(e) Any other property income reported at line 130**			
(f) Annuity payments taxable under paragraphs 56(1)(d) or 56 (1)(d.1)			
Total investment income reported in 1990	1,100.00	▶	1,100.00
ADD: Total Investment Income reported in previous years (For 1990 report the amount calculated at line (B) on form T936 in 1989. If you did not complete form T936 in 1989, report the income amounts described in (a) to (f) above as reported on your 1988 and 1989 returns.)			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 1990 return.	400.00 (C)

NOTES

* Other expenses claimed to earn property income include repayments of inducements, repayments of refund interest, uncollectible portion of proceeds from disposition of depreciable property except passenger vehicles having a cost in excess of $24,000. or such other amounts prescribed, sale of agreement for sale or mortgage included in proceeds of disposition in a previous year under subsection 20(5), foreign non-business tax under subsections 20(11) and 20(12), life insurance premium against business or property income and capital cost allowance claimed on certified films and videotapes.

Do not include expenses incurred to earn business income, interest paid on money borrowed to acquire an income averaging annuity contract or to pay a premium under a registered retirement savings plan or make a contribution to a registered pension fund or plan or a deferred profit sharing plan.

** Other property income to be reported includes amounts from insurance proceeds in respect of depreciable property, home insultation or energy conservation grants under paragraph 12(1)(u) and payments received as an inducement or reimbursement. Also included are other income from a trust and appropriation of property.

Do not include income amounts that relate to business income or payments received under an income averaging annuity contract or annuity contracts purchased pursuant to deferred profit sharing plans.

Form authorized by the Minister of National Revenue

(FRANÇAIS AU VERSO)

Having calculated her CNIL to the end of 1990, Helen can now complete Part 2 of Form T657A.

PART 2 — CALCULATION OF CUMULATIVE GAINS LIMIT FOR 1990

(For dispositions of OTHER CAPITAL PROPERTY, including reserves on dispositions after 1984, reported in 1990, complete Part 2)

(a) Taxable capital gains reported after 1984 and before 1990 (do not include reserves reported before 1988)	(9)	10,000 00		
ADD : Total taxable capital gains reported in 1990 (line (4) in Part 1)	(10)	4,500 00		
Cumulative taxable capital gains reported after 1984		14,500 00 ▶	(11)	14,500 00
(b) **ADD :** Allowable capital loss claimed in 1985 (Maximum $2000.00) (from line 127 of your 1985 return, if a loss was claimed)	(12)			
Total allowable business investment losses after 1984 and before 1990 (from line 217 of your 1985 to 1989 returns)	(13)			
Total net capital losses of other years claimed after 1984 and before 1990 (from line 253 of your 1985 to 1989 returns and form T1A (Losses carried-back))	(14)			
Cumulative net investment loss (line (C) on form T936)	(15)	400 00		
Total losses claimed in 1990 (line (7) in Part 1)	(16)			
Total capital gains deductions claimed after 1984 and before 1990 (from line 254 of your 1985 to 1989 returns)	(17)	10,000 00		
Subtotal		10,400 00 ▶	(18)	10,400 00
CUMULATIVE GAINS LIMIT FOR 1990 (line (11) minus line (18): if negative, enter zero)			(19)	4,100 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 1990)

Maximum capital gains deduction for 1990			(20)	75,000 00
Total capital gains deductions claimed after 1984 and before 1988: other capital property only (from line 254 of your 1985 to 1987 returns)	(21)	Ø		
ADD: Adjustment of pre-1988 other capital property capital gains deductions (1/2 of amount at line (21))	(22)			
Total capital gains deductions claimed in 1988 and 1989: other capital property only (from line 254 of your 1988 and 1989 returns)	(23)	10,000 00		
Adjustment of 1988 and 1989 other capital property capital gains deductions (1/8 of amount at line (23))	(24)	1,250 00		
Subtotal		▶	(25)	11,250 00
Capital gains deduction available for 1990 (line (20) minus line (25): if negative, enter zero)			(A)	63,750 00
Annual gains limit (line (8) in Part 1: if negative, enter zero)			(B)	4,500 00
Cumulative gains limit (line (19) in Part 2)			(C)	4,100 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)	4,100 00

As shown, Helen is eligible to claim a capital gains deduction of $4,100 on line 254 on her 1990 return.

T3 Slip — Capital gains eligible for deduction

If you are the beneficiary of a trust, your T3 slip may show that the amount of capital gains in Box 21 (or Box B) is greater than the amount of capital gains eligible for deduction in Box 30 (or Box I). In this case, you should recalculate Schedule 3 to line 540 to determine your capital gains deduction for 1990. Enter the lesser amount from Box 30 (or 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 applies to you. If Box 30 (or Box I) is blank, the capital gains you are eligible to deduct are equal to the capital gains reported in Box 21 (or Box B). Therefore, you do not have to recalculate Schedule 3.

You may have received a T3 slip with an asterisk (*) in Boxes 21, 26, or 30 (Boxes B, C or I, respectively). If there are no instructions attached to your slip, contact the issuer of the slip for instructions on how to calculate your 1990 capital gains deduction.

CHAPTER 8
NON-RESIDENTS

Leaving Canada

If you emigrate (cease to be a resident of Canada), you are considered to have sold all your capital property **except** taxable Canadian property and your right to receive certain payments.

Taxable Canadian property includes

- real property located in Canada,
- shares of Canadian private corporations,
- capital property used in a business in Canada,
- certain shares of public corporations,
- capital interests in Canadian trusts except certain mutual fund trusts, and
- interests in certain partnerships.

Those payments you still have the right to receive include

- Old Age Security payments, Canada Pension Plan benefits, Quebec Pension Plan benefits and most other pensions,
- social benefits including Unemployment Insurance payments, workers' compensation and social assistance,
- retiring allowances, and
- income averaging annuity contracts, registered retirement savings plan and registered retirement income fund payments.

The properties mentioned above continue to be subject to Canadian tax even when you emigrate.

You are considered to have sold all other capital property at its fair market value at the time you emigrate. You report any capital gain or loss in the year you emigrate. You may also be eligible to claim the capital gains deduction which is explained later in this chapter.

You may choose to pay any tax from the previously-mentioned sales in up to six yearly 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 person residing in Canada is due.

Other options
When you emigrate, you may want to consider the following two options.

Option 1
You may choose to be considered to have sold your **taxable Canadian property** immediately before you emigrate. This allows you to take advantage of the capital gains deduction, if you are eligible to claim it, for any taxable capital gains you have at the time you emigrate. To do this,

- report the sale of the property on Schedule 3, Summary of Dispositions of Capital Property in 1990, and
- complete Form T657, Calculation of Capital Gains Deduction for 1990 on All Capital Property, or Form T657A, Calculation of Capital Gains Deduction for 1990 on Other Capital Property and Form T936, Calculation of Cumulative Net Investment Loss to December 31, 1990. Include these forms with your return for the year you emigrate.

For this option, file Form T2061A, Election by an Emigrant to Report Deemed Dispositions of Taxable Canadian Property and Capital Gains and/or Losses Thereon, on or before the day when your last return as a person residing in Canada is due.

Option 2
For any or all of your capital properties that are considered to be sold (as explained earlier in this chapter), you may choose as not having sold these properties at the time you emigrate. Such property is then considered to be taxable Canadian property. Therefore, you will not have a capital gain or loss until you actually sell the property or are considered to have sold it. To do this,

- 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 person residing in Canada is due; and
- provide acceptable security for the payment of any tax which you are postponing.

Entering Canada

When you immigrate (become a resident of Canada), you are considered to have bought all your capital property at its fair market value at that time. This rule does not apply to

- taxable Canadian property, or
- property considered to be taxable Canadian property because of an election you made when you previously emigrated.

Therefore, when you immigrate you should

- prepare a list of all properties you own, and

- note the fair market value of each property at that time.

When you calculate any capital gain or loss on a future sale of these properties, the cost of each property is its fair market value at the time you immigrated.

Capital gains deduction

You may claim the capital gains deduction when calculating taxable income only if you were residing in Canada for the entire taxation year. However, you are considered to be a resident of Canada for the whole year if you were resident in Canada at any time in the year and for

- the whole year before, or
- the whole year after.

The capital gains deduction applies to capital gains on actual sales or sales that are considered to have taken place.

The following shows the capital gains deduction available for persons either emigrating or immigrating:

- If you emigrated in 1990, the capital gains deduction is available for 1990 if you were residing in Canada at any time in 1990 and for all of 1989.
- If you immigrated in 1990, but were not residing in Canada for the entire year, the capital gains deduction is not available for 1990 to you until you reside in Canada for all of 1991.
- If you immigrated in 1989 and were residing in Canada for all of 1990, you may claim the capital gains deduction for 1989. If this is your situation and you wish to claim this deduction on your 1989 return, see "Changing your return after you mail it" in the *1990 General Tax Guide.*

You were asking...?

Q. I entered Canada as an immigrant from another country in May 1989. Later in 1989, I sold some shares and had a capital gain which I reported on my 1989 return. I knew that I was not eligible to claim the capital gains deduction at that time. However, I heard that I am now eligible for the deduction and that I can have my 1989 return adjusted. Is this correct?

A. If you continue to reside in Canada for all of 1990, you are considered to be a resident for all of 1989 for capital gains deduction purposes. This means that you are eligible to claim the capital gains deduction for 1989. For more information on the capital gains deduction, see Chapter 7.

If you need more information on the tax treatment of property when entering or leaving Canada, get the *1990 Tax Guide for New Canadians* or the *1990 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. A complete list of these publications is in Information Circular 90-1.

Listed below are publications which may be of help to you. If you need any of these publications, you can use the order form at the back of the Guide or you may order them by telephone 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 1990 on All Capital Property
T657A	Calculation of Capital Gains Deduction for 1990 on Other Capital Property
T936	Calculation of Cumulative Net Investment Loss to December 31, 1990
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
T2061A	Election by an Emigrant to Report Deemed Dispositions of Taxable Canadian Property and Capital Gains and/or Losses Thereon
T2074	Election Under Subsection 159(4) to Defer Payment of Income Tax on the Deemed Disposition of Property
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
T2089	Capital Dispositions Supplementary Schedule Re: Information Slips
T2091	Designation of a Principal Residence

Information Circulars

73-27R	Capital Gains, Valuation Day Requirements — Real Estate; the Real Estate Data Bank
76-19R2	Transfer of Property to a Corporation under Section 85
78-10R2	Books and Records Retention/Destruction
90-1	List of Forms and Publications Available For Use by the Public

Interpretation Bulletins

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-220R2	Capital Cost Allowance — Proceeds of Disposition of Depreciable Property
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 10, 1987
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-346R Commodity Futures and Certain Commodities
IT-387R2 Meaning of "Identical Properties"
IT-405 Inadequate Considerations — Acquisitions and Dispositions
IT-407R2 Disposition of Canadian Cultural Property (1987 and prior taxation years)
IT-407R3 Disposition after 1987 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-456R 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-505 Mortgage Foreclosures and Conditional Sales Repossessions
IT-511 Interspousal Transfers and Loans of Property made after May 22, 1985

Guides and other publications

1990 Business and Professional Income Tax Guide
1990 Deceased Persons Income Tax Guide
1990 Farming Income Tax Guide
1990 Fishing Income Tax Guide
1990 Instalment Guide for Individuals
1990 Instalment Guide for Farmers and Fishermen
1990 Rental Income Tax Guide
1990 Tax Guide for Emigrants
1990 Tax Guide for New Canadians

INDEX

Improving the Guide

This Guide is reviewed each year. If you have any comments or suggestions to improve the explanations in this Guide, we would like to hear from you.

Please send your comments to:

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

Throughout this Guide, we refer to forms that you must attach to your return. We also mention publications that cover certain topics in more detail. If you need any of these forms or publications, complete the order form below.

You can order this material from your district taxation office by mail, by telephone, or in person. Please see the 1990 *General Tax Guide* for the address and telephone number of your district office. If you mail the order form, allow three weeks for delivery.

cut-along-line

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T1-OF-S(E)

ORDER FORM

Please check (√) the boxes below or list the titles or numbers of the publications required in the spaces provided. Print your name and address at the bottom of the form and submit it to your district office.

NAMES OF REQUESTED GUIDES OR PAMPHLETS

☐ Business and Professional Income Tax Guide	☐ Northern Residents Deductions Tax Guide
☐ Capital Gains Tax Guide	☐ Pension and RRSP Tax Guide
☐ Child Care Expenses Tax Guide	☐ Rental Income Tax Guide
☐ Deceased Persons Income Tax Guide	☐ Tax Guide for Emigrants
☐ Employment Expenses Tax Guide	☐ Tax Guide for New Canadians
☐ Farming Income Tax Guide	☐ T3 Guide and Trust Return
☐ Fishing Income Tax Guide	

Other Guides or Publications

NUMBERS OF REQUESTED FORMS, CIRCULARS OR BULLETINS

NAME	
ADDRESS	
CITY	
PROVINCE	POSTAL CODE