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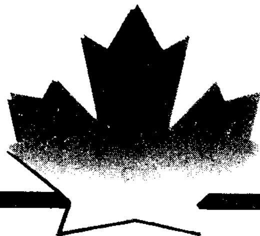
Supplementary Guide

Capital Gains Tax Guide

1991

Your Guide



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Canada

WHAT'S NEW FOR 1991?

This guide includes changes to the Income Tax Act introduced by the Minister of Finance on May 30, 1991. These had not yet become law at the time of printing. However, we are preparing to apply the proposed changes.

The principal changes throughout the guide are highlighted in yellow.

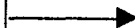
Also, in this year's guide we have included:

- In **Chapter 2**, you will find additional definitions to help you understand certain terms used throughout the guide.
- In **Chapter 3**, there is a brief section on treasury bills, with an accompanying example. The example shows you how to calculate a capital gain if you dispose of treasury bills before the date of maturity.
- In **Chapter 6**, there is an example which shows you where to enter amounts reported on T3 supplementaries. The example also shows you how to fill in the related forms.

Quick reference guide to capital gains

If you sold ...

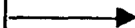
shares, bonds, real estate or depreciable property



Read Chapter 3 on page 10.

If you received ...

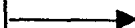
information slips such as a T3, with a capital gain indicated



Read Chapter 6 on page 29.

If you sold ...

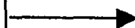
your principal residence



Read Chapter 8 on page 42.

If you sold ...

personal property, eligible capital property, qualified small business corporation shares or qualified farm property



Read Chapter 4 on page 15.

If you want to claim ...

the capital gains deduction read Chapter 6 on page 29.

OR

If you want to claim ...

reserves read Chapter 7 on page 41.

OR

If you have incurred ...

capital losses read Chapter 5 on page 20.

? ? ? Do you find some terms confusing?

Read Chapter 2 - *Definitions* on page 7.

Yellow.

Highlights significant changes for 1991.

This guide uses plain language to explain the most common income tax situations. If you need any help, please call your local district taxation office.

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CHAPTER 1
WHAT YOU NEED TO KNOW BEFORE YOU START

Who should read this guide?

You should read this guide if you had a capital gain or a capital loss in 1991. You generally have a capital gain or loss whenever you dispose of capital property. This guide will show you how to calculate this type of gain or loss. It will also show you how to calculate your capital gains deduction.

This guide refers to other forms that you may have to attach to your return. It also refers you to Interpretation Bulletins and Information Circulars. These publications are more technical than this guide and can give you more details on less common income tax situations. If you would like to order any of these publications, please use the order form on the inside back cover of this guide. You can also get copies by calling your district taxation office.

Did you sell personal-use property or your home?

Most people are not affected by capital gains rules because the property they own is for their own personal use or enjoyment. When you sell personal-use property such as cars and boats, generally you do not end up with a capital gain because this type of property usually does not increase in value over the years. As a result, you may end up with a loss. Although you have to report a gain on the sale of personal-use property, generally you are not allowed to claim a loss. The rules for personal-use property are explained on page 17 in Chapter 4 of this guide.

If you sell your home for more than what it cost you, you generally do not have to pay tax on any gain as long as:

- your home is your principal residence; and
- you did not designate any other house as your principal residence while you owned your home. For more information, see Chapter 8.

Do you have a capital transaction or an income transaction?

You need to know the answer to this question before you continue on in this guide. If you sell a property and end up with a gain or a loss, it may be taxed in one of two ways:

- as a **capital** gain or loss (capital transaction); or
- as an **income** gain or loss (income transaction).

You need to find out whether the disposition of a property is a transaction of a capital or income nature. The facts surrounding the transaction determine the nature of the gain or loss. You have to report the sale or disposition of capital property on Schedule 3 which is in the *General Tax Guide* and return package.

If you would like more information on the difference between capital and income transactions, get a copy of the following Interpretation Bulletins:

- IT-459 *Adventure or Concern in the Nature of Trade*
- IT-218 *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-479 *Transactions in Securities and its Special Release*

The information in the rest of this guide deals with capital transactions. Therefore, if you have an income transaction, you **do not** have to read any further in this guide. If you have an income transaction, get a copy of the *Business and Professional Income Tax Guide.*

Do you need to read all of this guide?

You may not need to read all of this guide to report your capital gains and capital losses. You should look through the table of contents before you start filling in your return. It will help you choose the chapters or sections that apply to your tax situation. In addition, refer to Chapter 2 for the definitions of terms used in this guide.

When do you have a capital gain or a capital loss?

Usually, you have a capital gain or capital loss when you sell or are considered to have sold a capital property. The following are examples of cases where you are considered to have sold capital property:

- you exchange one property for another;
- you give property (other than cash) as a gift;
- your property is expropriated;
- shares or other securities in your name were converted;
- shares or other securities that you hold were redeemed or cancelled;
- an option that you hold to buy or sell property expires;
- a debt owed to you is settled or cancelled;
- your property is stolen;
- your property is destroyed;
- you transfer certain property to a trust.

There are other situations when you are considered to have sold a capital property even though there is no change in the property's ownership. This can happen if:

- you change the property's use (see Chapter 8);
- you leave Canada (see Chapter 9); or
- the owner dies (see the *Guide For Preparing T1 Returns For Deceased Persons*).

How do you calculate a capital gain or a capital loss?

You may have a capital gain or a capital loss when you sell or are considered to have sold a capital property.

If you sold capital property in 1991, you will need to know the following three amounts to calculate any capital gain or capital loss:

- your proceeds of disposition;
- your adjusted cost base (ACB); and
- your outlays and expenses incurred for the purpose of selling your property.

To calculate your capital gain, subtract the ACB of your property from the proceeds of disposition. From this new amount, you subtract any outlays and expenses not already included in your ACB.

When do you report a capital gain or a capital loss?

When you sell or are considered to sell a capital property, you have to report the sale in the year that it takes place. If you end up with a capital gain, you include this gain in your income for that year. If you end up with a capital loss, you first apply the loss against any taxable capital gains you have in the year. If you do not have any capital gains in that year, or if your capital losses are more than your capital gains, you may be able to claim the loss against capital gains reported in years before, or after, the sale of the property. See Chapter 5 for more information.

You may not have to pay tax for 1991, however, you still have to file a return:

- when you have sold, or are considered to have sold, any capital property in 1991 (whether or not the sale results in a capital gain or capital loss); or
- to report the taxable part of any capital gains reserve you deducted in 1990 (capital gains reserves are explained in Chapter 7).

Tax Tip

It is important to remember this point: If you have a capital gain in 1991 and do not file your 1991 return reporting the gain on or before April 30, 1993, you may not be allowed to claim the capital gains deduction. For more information about the capital gains deduction, see Chapter 6.

Do you own a business?

If you own a business that has a fiscal year-end other than December 31, you still report the sale of a capital property in the calendar year the sale takes place.

Example

Nadia owns a construction firm. The fiscal year-end for her business is June 30, 1991. In November of 1991, she sold a capital property that she used in her business. As a result of the sale, she had a capital gain. Nadia has to report the capital gain on her income tax return for 1991. She does this even though the sale took place after her business' fiscal year-end date of June 30.

Are you a member of a partnership?

If you are, it is possible that your partnership has a fiscal year-end other than December 31. If the partnership sells capital property during its fiscal year, report your share of any capital gain or capital loss in the year in which the partnership's fiscal year ends, rather than in the calendar year the sale took place.

How do you report a capital gain or a capital loss?

Use Schedule 3, *Summary of Dispositions of Capital Property in 1991*, to calculate and report all of your taxable capital gains or allowable capital losses in 1991. Do not include any capital gains or capital losses in your business or property income, even if you used the property for your business. See Chapters 3 and 4 of this guide for information on how to complete Schedule 3. Please note that your tax return package includes two copies of Schedule 3.

You may have deducted a reserve in an earlier year, or you may be deducting a reserve in 1991. If either one of these applies to you, fill in Form T2017, *Summary of Reserves on Dispositions of Capital Property*. You do this to report the reserve for the earlier year, or to deduct a new reserve in 1991. For more information on reserves, see Chapter 7.

Did you sell capital property that you owned on or before December 31, 1971?

If you did, you have to apply a special set of rules when calculating your capital gain or capital loss. You have to use these special rules because before December 31, 1971, you did not have to pay tax on capital gains. If you would like more information, you can get the following Interpretation Bulletins and Information Circular:

- **Shares**
  IT-78, *Capital Property Owned on December 31, 1971 — Identical Properties*
- **Median rule**
  IT-84, *Capital Property Owned on December 31, 1971 — Median Rule (Tax-Free Zone)*
- **Election**
  IT-139, *Capital Property Owned on December 31, 1971 — Fair Market Value*
- **Special situations**
  IT-217 and Special Release, *Capital Property Owned on December 31, 1971 — Depreciable Property*, and Special Release dated September 13, 1982
- **Real estate data bank**
  Information Circular 73-27, *Capital Gains, Valuation Day Requirements — Real Estate; the Real Estate Data Bank*

What forms do you need?

In addition to Schedule 3, there are several other forms which you may need. This guide has two copies of each of the forms listed in the following section. Use one as a working copy and keep it for your records. Include the other form with your return. You can find these forms in the middle of this guide. You can also get these forms and other forms mentioned in this guide from your district taxation office.

- **Form T1A — Request for Loss Carry-Back**
  Use this form to request a loss carry-back. See Chapter 5 for more information.

- **Form T657 — Calculation of Capital Gains Deduction for 1991 on All Capital Property**
  Use this form to calculate your capital gains deduction if you sold qualified farm property or qualified small business corporation shares in 1991 or an earlier year. See Chapter 6 for more information.
- **Form T657A — Calculation of Capital Gains Deduction for 1991 on Other Capital Property**
  This form will help you calculate your capital gains deduction for capital property other than qualified farm property, and qualified small business corporation shares. See Chapter 6 for information on how to fill in this form.
- **Form T936 — Calculation of Cumulative Net Investment Loss to December 31, 1991**
  Use this form to calculate your cumulative net investment loss (CNIL) to December 31, 1991. See Chapter 6 for more information.
- **Form T2017 — Summary of Reserves on Dispositions of Capital Property**
  Use this form to deduct a capital gains reserve in 1991. You also use it to include a reserve deducted in 1990 in your capital gains for 1991. See Chapter 7 for more information.

What records do you have to keep?

You will need the information from your records or vouchers to calculate your capital gains or capital losses for the year. You do not need to include these documents with your return as proof of any sale or purchase of capital property. However, it is important that you keep these documents in case we ask to see them later.

If you have investment income or expenses, make sure you keep a record of these amounts. You will need them to calculate your CNIL when you calculate your capital gains deduction. The CNIL is explained on page 30 in Chapter 6.

In addition, it is a good idea to keep a record of the fair market value (FMV) of the property on the date you:

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

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

CHAPTER 2
DEFINITIONS

Note

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

Adjusted cost base (ACB) — The ACB is usually the cost of your property plus any expenses you incurred to acquire it. These expenses may include commissions and legal fees. The cost of a capital property is its actual or deemed cost depending on the type of property and how you acquired it.

You have to adjust the cost of your property to include capital expenditures such as the cost of additions and improvements to the property. You cannot add current expenses such as maintenance and repair costs to the cost base of a property. If you would like more detailed information on the difference between capital expenditures and current expenses, get Interpretation Bulletin IT-128, *Capital Cost Allowance — Depreciable Property.* For more information on additions to, and deductions from, the cost of a property, get Interpretation Bulletin IT-456, *Capital Property — Some Adjustments to Cost Base.*

In some cases, special rules may 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. If you would like more information, get Interpretation Bulletin IT-213, *Prizes from Lottery Schemes, Pool System Betting and Giveaway Contests.*

Allowable capital loss — This is the amount of your capital loss that you are entitled to deduct. For 1987 and previous taxation years, the allowable portion was **one-half (1/2)** of your capital loss. For 1988 and 1989, the allowable portion was **two-thirds (2/3)**. For 1990 and 1991, the allowable portion is **three-quarters (3/4)**.

Arm's length — This is a term usually used to describe a transaction between unrelated parties, each acting in his or her own self interest. Related persons are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, or adoption, such as a husband and wife, or a father and son. Also, a corporation and a shareholder who controls the corporation are related.

Unrelated parties may not be dealing with each other at arm's length if, for instance, one is under the influence or control of the other. If you would like more information on this, see Interpretation Bulletin IT-419, *Meaning of Arm's Length.*

Business investment loss — This is a capital loss that results from the actual or deemed disposition of certain capital properties. It can happen when you sell one of the following to a person you deal with at arm's length:

- a share of a **small business corporation**; or
- a debt owed to you by a **small business corporation.**

For business investment loss purposes, a small business corporation includes a corporation that was a small business corporation at any time during the 12 months before the disposition.

You may incur such a loss if you are deemed to have disposed of, for nil proceeds of disposition, a debt or share

of a small business corporation under the following circumstances:

- a debt that is owed to you from 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 that you own at the end of the year (other than a share for personal-use property). In this case, the corporation:
  - has gone bankrupt in the year;
  - is insolvent and a winding-up order has been made under the *Winding-up Act*; or
  - is insolvent at the end of the year and neither the corporation, nor a corporation it controls, carries on a business. Also, at that time, the shares in the corporation must have a fair market value of zero, and it is reasonable to expect that the corporation will be dissolved or wound-up and will not commence to carry on business. You must elect in your return to be deemed to have sold the shares in the corporation for nil proceeds of disposition and to have reacquired the shares immediately thereafter at a cost equal to nil.

Under proposed legislation, you or a person that you do not deal with at arm's length will be deemed to have realized an offsetting capital gain if the corporation, or a corporation it controls, carries on business within 24 months following the end of the year in which the disposition occurred. The above will apply if you or the person own the shares in the corporation at the time the business is commenced.

If you would like more information about business investment losses, see page 21 in Chapter 5. You can also get Interpretation Bulletin IT-484, *Business Investment Losses.*

Canadian-controlled private corporation (CCPC) — A CCPC is a private corporation that is a Canadian corporation that is not controlled directly or indirectly in any way by:

- one or more non-resident persons;
- one or more public corporations (other than a prescribed venture capital corporation); or
- any combination of the above.

For more information, get Interpretation Bulletin IT-458, *Canadian-Controlled Private Corporation.*

Canadian security — 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, or similar obligation issued by a person resident in Canada.

Prescribed securities are not considered to be Canadian securities.

Capital cost allowance (CCA) — This is an amount, usually based on a percentage of your undepreciated capital cost of property in a particular class, that may be deducted when you calculate your income.

Capital gain — You have a capital gain when you sell, or are considered to have sold, a capital property for **more** than its adjusted cost base and the expenses or outlays of selling the property. A capital gain is the difference between your proceeds of disposition and its adjusted cost base less the expenses or outlays of selling the property.

Capital loss — You have a capital loss when you sell, or are considered to have sold, a capital property for **less** than its adjusted cost base and the expenses or outlays of selling the property. The capital loss is the difference between the adjusted cost base of the property before you sold it, and your proceeds of disposition less any expenses or outlays of selling the property.

Capital property — This is any property which, if sold, would result in a capital gain or capital loss and includes 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; or
- 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 stock or inventory.

Special rules apply when you sell certain types of property. These types of property include:

- insurance policies;
- Canadian resource properties;
- cultural properties given to designated institutions (see page 18 in Chapter 4);
- eligible capital properties (see page 15 in Chapter 4);
- foreign resource properties;
- depreciable properties sold at a loss (see page 11 in Chapter 3); and
- timber resource properties.

If you would like detailed information on resource properties, get Interpretation Bulletin IT-125, *Dispositions of Resource Properties.*

Cumulative net investment loss (CNIL) — This is an 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.

You use your CNIL in the calculation of your capital gains deduction. See Chapter 6 for more information.

Deemed acquisition — This term is used when you are considered to have **acquired** property, even though an actual transaction did not take place.

Deemed disposition — This term is used when you are considered to have **disposed** of property, even though an actual transaction did not take place.

Deemed proceeds of disposition — This term is used when you are considered to have received an amount for property, even though you may not actually receive any funds.

Deemed resident — This term refers to a person who has not maintained residential ties with Canada, but is considered to be a resident for income tax purposes. It

includes a person who sojourned (stayed temporarily) in Canada for 183 days or more in a year. It also includes members of the Canadian Armed Forces and federal government employees (including their spouses, if they were resident in Canada in any previous year, and their children) who are serving abroad. These people are deemed to be residents of Canada throughout the year.

Depreciable property — This is usually capital property used to earn income from a business or property. The property deteriorates or becomes obsolete over time. You cannot deduct the full cost in one year. However, you can deduct the cost of the property over a period of several years. This means that you can deduct part of the cost each year. Each yearly deduction is known as capital cost allowance (CCA).

Disposition (dispose of) — This is usually an event or transaction where you give up possession, control, and all other aspects of property ownership.

Eligible capital property — This is usually intangible property of a capital nature, other than capital property acquired to produce business income. This includes items such as goodwill of a business, customer lists, trademarks, and any other intangible property of indefinite life used in a business. The cost of this type of property qualifies as an eligible capital expenditure, a portion of which you may deduct over a number of years.

Employees' stock options — This is an option that a corporation grants to an employee. By using this option, the employee can buy the corporation's shares, or the shares of a corporation with which it does not deal at arm's length, for a price that may be less than the fair market value.

Factual resident — This term refers to people who live outside Canada but keep residential ties with Canada. They are considered to be factual residents in Canada for provincial or territorial tax purposes if they maintain residential ties in a province or territory while posted abroad.

Fair market value — This is the highest price, in terms of dollar value, that you can get for your property in an open and unrestricted market.

Listed personal property (LPP) — This refers to 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 with art, coin, jewellery, and stamp dealers. You can also refer to these dealers' catalogues. All or any part of such property, any interest in it, or any right to it, is considered to be LPP.

Net capital loss — If your allowable capital loss is more than your taxable capital gain, the difference between the two is your net capital loss for the year. You cannot use this loss to reduce other income you had in 1991. Instead, apply your net capital loss against taxable capital gains in other years. This is explained in more detail in Chapter 5 on page 20. As a result, you are allowed to deduct three-quarters (3/4) of your 1991 capital loss against taxable capital gains.

Non-arm's length transaction — This is a transaction between people who are not dealing with each other at arm's length at the time of the transaction. Non-arm's length transactions are subject to a number of anti-avoidance provisions in the *Income Tax Act*. Please see the definition of "arm's length transaction" earlier in this chapter.

Outlays and expenses — These are amounts that you incurred to sell a capital property. You can deduct outlays and expenses from your proceeds of disposition. These types of expenses include:

- fixing-up expenses
- finders' fees
- commissions
- brokers' fees
- surveyors' fees
- legal fees
- transfer taxes
- advertising costs

You cannot reduce your other income by claiming a deduction for these outlays and expenses. However, you can use them to reduce your capital gain or increase your capital loss.

Personal-use property — This refers to items which you own primarily for the personal use or enjoyment of your family and yourself. Personal-use property includes all personal and household items such as furniture, automobiles, boats, and other similar properties.

Prescribed securities — These are not considered to be Canadian securities. Prescribed securities include:

- the shares of companies (other than public corporations) whose value, at the time you dispose of them, comes mainly from real estate, resource properties, or both;
- the securities of companies (other than public corporations) that you do not deal with at arm's length at any time before you dispose of the securities;
- the shares and securities of companies you acquire from a person with whom you do not deal at arm's length.

Proceeds of disposition — This is usually the amount that you received or will receive for your property. In most cases, it refers to the sales price of the property. This could include compensation you received for property that has been destroyed, expropriated, or stolen.

Qualified small business corporation shares — See the definition for "Small business corporation" in this chapter.

Real property — This is property that cannot be moved such as land or buildings.

Small business corporation (*) — This is a Canadian-controlled private corporation in which all or most (90% 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 related corporation;
- shares or debts of connected corporations that were small business corporations; **or**
- a combination of these two types of assets.

A share of a corporation is 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, no one other than you, or a person or partnership related to you, owned the share (see the following "Note"); **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% of the fair market value of the assets were:
  - used mainly in an active business carried on primarily in Canada by the CCPC, or by a related corporation;
  - certain shares or debts of connected corporations; **or**
  - a combination of these two types of assets.

Note

As a general rule, when a corporation issues shares to a person, or a partnership related to that person, after June 13, 1988, a special situation exists. The shares are considered to have been owned, immediately before their issue, by a person who was **not** related to the individual or the partnership. As a result, the individual, or a person or partnership related to the individual, cannot dispose of the shares for 24 months after they are issued to meet the holding-period requirement. However, this rule does not apply to shares issued:

- as payment for other shares; or
- in connection with a property that a person or the members of that partnership disposed of to a corporation. The property disposed of has to consist of **either**:
  - all or most (90% or more) of the assets used in an active business operated by that person or by the members of that partnership; **or**
  - an interest in a partnership where all or most (90% or more) of the partnership's assets were used in an active business operated by the members of the partnership.

Taxable capital gain — This is the amount of your capital gain that you have to report as income on your return. For 1987 and previous taxation years, the taxable part of a capital gain was **one-half (1/2)**. For 1988 and 1989, the taxable part was **two-thirds (2/3)**. For 1990 and 1991, the taxable part is **three-quarters (3/4)**.

If you have an allowable capital loss in the year, you can reduce your taxable capital gain. However, you cannot deduct from your income an amount which is greater than your taxable capital gain.

Terminal loss — This type of loss occurs when you have an undepreciated balance in a class of depreciable property at the end of the taxation year or fiscal year-end, and you no longer own any property in that class. You can deduct the terminal loss when you calculate your income for the year.

Undepreciated capital cost (UCC) — Generally, it is equal to the total capital cost of all the property of a class, **less** the proceeds of disposition of property disposed of **minus** the total deductions for CCA claimed in prior years.

CHAPTER 3
COMMON TRANSACTIONS

This chapter gives you information about some of the most common capital gains transactions.

If you sold capital property in 1991, you should fill in Schedule 3, *Summary of Dispositions of Capital Property in 1991*, and attach it to your return. You can find Schedule 3 in your *General Tax Guide* and return package. The information in this chapter and Chapter 4 will help you fill in this schedule.

Real estate and depreciable property

If you sold real estate or depreciable property in 1991, you have to report your capital gain or loss in the section called "Real Estate and Depreciable Property" on Schedule 3.

Real estate

A real estate transaction includes the sale of:

- vacant land;
- rental properties — both land and buildings;
- farm property — both land and buildings (other than qualified farm property — see page 19 in Chapter 4) and
- commercial and industrial land and buildings.

Note

Do not use this section of Schedule 3 to report the sale of personal-use property, or the sale of mortgages and other similar debt obligations on real property. You have to report this information on Schedule 3 under "Personal Use Property," and "Bonds, Debentures, Promissory Notes and Other Properties."

If you sold real property in 1991 which includes land and a building, you:

- first calculate how much of the selling price is for the land, and how much is for the building; then
- report the sale of your land and building separately on Schedule 3.

Note

If you dispose of a building and end up with a loss, a special rule may apply. Under the rule, you may be able to consider your proceeds from the building as an amount other than the actual proceeds. For more information, see the section called "Selling a building in 1991" on page 11 in this chapter.

To help you calculate your gains or losses from real estate, use Form T2083, *Capital Dispositions Supplementary Schedule Re: Real Estate*. However, do not use this form for your principal residence, depreciable property, or other personal-use property.

Depreciable property

When you dispose of depreciable property, you may end up with a capital gain or a loss. The loss on the sale of a depreciable property is not considered a capital loss. 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 can deduct the full amount of the terminal loss from your income.

For capital cost allowance (CCA) purposes, depreciable properties are grouped into "classes." There are a number of classes for a wide range of depreciable properties. For example, computer hardware and systems software, some automobiles, and certain portable tools, are grouped together in Class 10. You can find more detailed information about classes in Schedule II of the *Income Tax Regulations*.

The beginning undepreciated capital cost (UCC) for a class is the capital cost of the depreciable properties in that class. From this amount, you deduct:

- any proceeds that you received from selling property in that class; and
- the capital cost allowance deducted over the years.

The remaining amount is your ending UCC. This amount becomes your beginning UCC for the following year.

When you sell a depreciable property for **less** than its original capital cost, but for more than the UCC in the class, you do not have a capital gain. You subtract from the UCC of the property in that class the lesser of the following two amounts:

- the proceeds of disposition of the property minus related outlays and expenses; and
- the capital cost of the property.

However, if the UCC of a class has a negative balance at the end of the year, the negative balance is considered to be a recapture of capital cost allowance. You have to include this recapture in income for that year.

If the UCC of a class has a positive balance at the end of the year, and you do not have any properties left in that class, the positive balance is considered to be a terminal loss. You can deduct the terminal loss from income in that year. However, if the balance for the UCC of a class is zero at the end of the year, then you have neither a recapture of CCA, nor a terminal loss.

Note

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

Example

In 1986, Stefan bought a piece of machinery for $20,000. It is the only property in its class at the beginning of 1991. The class has a UCC of $11,000. He sold the piece of machinery in 1991 and purchased no other property in that class. The following chart gives you three different selling prices to show you how Stefan would handle a variety of situations.

	A	B	C
Capital cost	$20,000	$20,000	$20,000
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 A, the selling price ($8,000) is less than Stefan's capital cost ($20,000) and UCC ($11,000). Therefore, there is no capital gain, but he has a terminal loss of ($3,000) ($11,000 – $8,000). Stefan can deduct this terminal loss from his income.

In example B, the selling price ($16,000) is less than Stefan's capital cost ($20,000) but more than his UCC ($11,000). Therefore, he has no capital gain, but he has a recapture of CCA of $5,000 ($16,000 – $11,000). This recapture is included in his income.

In example C, the selling price ($24,000) is more than Stefan's capital cost ($20,000) and UCC ($11,000). Since the capital cost of the machinery is less than the selling price, Stefan has to use the capital cost to calculate the amount of CCA recapture. As a result, he has a recapture of $9,000 ($20,000 – $11,000). He also has a capital gain of $4,000 ($24,000 – $20,000). Stefan includes the recapture and three-quarters (3/4) of the capital gain in his income.

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

Selling a building in 1991

If you sold a building in 1991, and it was the only property in the class, the UCC of the class before the sale is considered to be its **cost amount.**

If there is more than one property in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{Capital cost of the building}}{\text{Capital cost of all properties in the class}} \times \text{UCC of the class} = \text{Cost amount of the building}$$

In certain situations, special rules apply which make the selling price 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 in the previous formula), and its capital cost to you.

If you sold a building under these conditions and would like more detailed information, get Interpretation Bulletin

IT-220, *Capital Cost Allowance — Proceeds of Disposition of Depreciable Property*.

You can use Form T2085, *Capital Dispositions Supplementary Schedule Re: Depreciable Property*, to calculate any capital gain or loss you have when you sell depreciable property.

Selling part of a property

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

Example

Sophia owns 100 hectares of vacant land. The land is all of equal quality. She decides to sell 25 hectares of this land. Since 25 is one-quarter of 100, Sophia calculates one-quarter of the total ACB as follows:

The total ACB	$100,000
minus	
the ACB of the part she sold	– 25,000
equals	
the ACB of the part she kept	$ 75,000

Sophia then calculates any capital gain or loss using an ACB of $25,000 for the 25 hectares she sold.

If you would like more information, get Interpretation Bulletin IT-264, *Part Dispositions*, and Special Release dated October 19, 1984.

Canadian securities

Use Schedule 3 in the *General Tax Guide* and return package to report capital gains or losses from the sale of Canadian securities or prescribed securities. To determine where on Schedule 3 you have to report this information, see "Qualified small business corporation shares" on page 19 in Chapter 4. You should also see "Other securities and properties," in the next section of this chapter.

You may be an individual who would normally have an **income** gain or loss from the sale of a Canadian security. If you are, there is a special election available to you in the year that you dispose of a Canadian security. This election is not available to traders or dealers in securities, or to anyone who was a non-resident of Canada when the security was sold.

You can elect to have any **income** gain or loss treated as a **capital** gain or loss even though it may actually be an income gain or loss. However, from the time you make the election, we will consider all your Canadian securities to be capital properties.

If you would like to make this special election, fill in Form T123, *Election on Disposition of Canadian Securities*, and attach it to your 1991 return. Please remember that once you make this election, you cannot reverse your decision.

For more information on Canadian securities, get Interpretation Bulletin IT-479, *Transactions in Securities*, and Special Release dated February 21, 1985.

Other securities and properties

This includes shares, bonds, debentures, promissory notes, and other such properties. If you sold any of these items in 1991, report any resulting capital gains and capital losses. You report the sale on Schedule 3 in your *General Tax Guide* and return package in the section called "Other Securities and Properties." This section is broken down into several subsections so that you can report different securities and properties separately.

Shares

Use this section to report a gain or loss when you sell shares or securities that are **not** described in any other section of Schedule 3. This includes:

- publicly traded shares;
- shares that qualify as Canadian securities or prescribed securities if they are not qualified small business corporation shares or qualified family farm property shares;
- shares issued by foreign corporations; and
- the sale of a unit in a mutual fund trust.

The following section has two related examples — Example 1 and Example 2. They share some common information. They show you two different situations and how you would fill in this part of Schedule 3 for each situation.

Example 1

In 1991, Franco sold 100 shares of ABC Public Corporation of Canada for $8,500. He paid brokerage fees of $500. When he bought the shares in 1985 for $3,800, Franco paid brokerage fees of $200.

To fill in Schedule 3, Franco needs to find out three things:

- his proceeds of disposition;
- his adjusted cost base; and
- the amount of any outlays and expenses that relate to the sale.

After he finds out these three amounts, Franco calculates his taxable capital gain as follows:

Proceeds of disposition			$8,500
minus			
the ACB			
• original cost	$3,800		
• brokerage fees on purchase	200	$4,000	
Outlays and expenses • brokerage fees on the sale		500	$4,500
Capital gain			$4,000
Taxable capital gain (3/4 x $4,000)			$3,000

Franco has to report the sale under "Shares" in the section called "Other securities and properties." He reports his total proceeds on line 519, and his capital gain on line 520.

Other Securities and Properties

Shares: No. of shares	Name of corporation and class of shares									Gain (or loss)	
100	ABC Public Corporation	1985	8,500	00	4,000	00	500	00		4,000	00
	of Canada										
		Total Proceeds 519	8,500	00					Net Gain (or loss) 520	4,000	00

If Franco has no other capital gains or capital losses in the year, he reports $3,000 (3/4 x $4,000) as his total taxable capital gains amount. He fills in this amount at the bottom of Schedule 3, and again on line 127 of his return. Franco may also be entitled to the capital gains deduction. If you would like more information about this deduction, see Chapter 6.

Example 2

Using the same situation in Example 1, assume that Franco had sold his shares for only $3,700. As you can see below, Franco would end up with a capital loss of $800. He could use the loss to offset any capital gains he had in 1991. If his capital losses were more than his capital gains in that year, his net capital loss for 1991 would be three-quarters of the difference between the two amounts. For more information about capital losses, see the section called "1991 Capital losses" on page 20 in Chapter 5.

Other Securities and Properties

Shares: No. of shares	Name of corporation and class of shares									Gain (or loss)	
100	ABC Public Corporation	1985	3,700	00	4,000	00	500	00		(800	00)
	of Canada										
		Total Proceeds 519	3,700	00					Net Gain (or loss) 520	(800	00)

You can use Form T2082, *Capital Dispositions Supplementary Schedule Re: Shares*, to help you calculate any gains or losses from the sale of shares.

Bonds, debentures, promissory notes, and other properties

If you sell any of these types of properties, report the sale on Schedule 3 in the section called "Bonds, Debentures, Promissory Notes and Other Properties." Use this section to report capital gains and capital losses on the following:

- **Options**. If you would like information on disposing of options to sell or buy shares, get Interpretation Bulletins IT-96, *Options Granted by Corporations to Acquire Shares, Bonds or Debentures*, and IT-479, *Transactions in Securities* and its Special Release;
- **Discounts, premiums, and bonuses.** If, in 1991, you received any of these amounts for investments that you have, you can get Interpretation Bulletin IT-114, *Discounts, Premiums and Bonuses on Debt Obligations.*

You can 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.

Identical properties

Properties of a group are considered to be identical if each property in the group is the same as all the others. The most common example of this is when you have shares of the same class of the capital stock of a corporation.

Average cost calculation

You may buy and sell several identical properties at different prices over a period of time. If you do this, you have to figure out the average cost of each property in the group at the time of each purchase. This allows you to determine your adjusted cost base (ACB). You need to know this amount before you can calculate any capital gain or loss.

Example

Blake owns 100 common shares of a corporation. He bought these shares for $15 each. He later bought another 150 shares of the same class of that corporation for $20 each. In 1991, he sold 200 of these shares for $24 each.

Previously purchased shares	100 x $15 =	$1,500
Newly purchased shares	150 x $20 =	$3,000
Total shares	**250** .... **Total cost**	**$4,500**
Average cost of each share	$4,500 / 250 = $18	
Calculation of capital gain		
Selling price	(200 x $24) =	$4,800
minus		
Adjusted cost base of shares sold	(200 x $18) =	3,600
Capital gain		$1,200
Taxable capital gain ($1,200 x 3/4)		$ 900

You have to calculate the average cost each time you buy another identical property.

Example

After selling the 200 shares in the corporation, Blake bought 350 more shares (which were identical properties) at $21 each. He has to recalculate the average cost of the shares as follows:

Cost of previously purchased shares	50(250 – 200) x $18 =	$ 900
Cost of newly purchased shares	350 x $21	7,350
Total shares	**400** .... **Total cost**	**$8,250**
Average cost of each share (recalculated amount)	$8,250 / 400 = **$20.63**	

You should 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.

A bond, debenture, or similar debt obligation that a debtor issues is considered to be identical to another if:

- they are both issued by the same debtor; and
- all the attached rights are the same.

You cannot take the principal amount of individual debt obligations into account when you are figuring out if these properties are identical.

Treasury Bills (T-Bills)

When a T-Bill is issued at a discount and is held to maturity, the interest deemed to accrue to the holder is the difference between the issue price and the redemption amount. However, if the T-Bill is disposed of before maturity, in addition to the interest accrued at that time, it is possible that an individual may realize a capital gain or capital loss.

Example

Ralph purchased a T-Bill on December 1, 1990 for $49,000. The date of maturity was March 1, 1991. However, Ralph sold the T-Bill on February 4, 1991 for $49,800. The effective yield rate was 8.28%.

You calculate interest on the T-Bill as follows:

$$\text{Effective yield rate} \times \frac{\text{No. of days T-Bill held}}{\text{No. of days in the year}} \times \text{Purchase price} = \text{Interest to be included in income}$$

$$8.28\% \times \frac{66}{365} \times \$49{,}000 = \$733$$

The capital gain that is realized as a result of disposing of the T-Bill before maturity is calculated as follows:

Proceeds	$49,800
Less: interest	733
Net proceeds	49,067
Adjusted cost base	49,000
Capital gain	$ 67

Note

The T-BD slip that used to be issued for treasury bills has been replaced with the new T5008 — *Statement of Securities Transactions*. This slip will be issued for transactions that take place after December 31, 1990.

Employees' stock options

When your employer grants you a stock option, there is no immediate effect on your tax situation. A stock option is an **opportunity** to buy stock at a certain price. It only affects your tax situation if you sell the option or exercise that

option and actually buy stocks. If you decide to buy stocks, and you buy them at **less-than-market value**, you will have a taxable benefit. The taxable benefit is the difference between what you paid for the stocks, and the higher fair market value at the time you exercised your option. This difference is a taxable benefit received through employment.

You have to include this taxable benefit in your income in the year you acquire the shares. Please note, however, that the amount of the benefit can be reduced by any amount you paid to acquire the stock option. Your employer includes this taxable benefit in boxes 14 and 38 on your T4 Supplementary.

However, if you buy stocks through an employee stock option granted to you by a Canadian-controlled private corporation with which you deal at arm's length, the situation is different. You **do not** include the taxable benefit in your income in the year you acquire the stocks. You wait until the year you **sell** the stocks.

If you meet certain conditions, you may be entitled to claim a special deduction. This deduction is equal to one-quarter (1/4) of the taxable employee stock option benefit included in your employment income. The amount of the benefit that qualifies for this deduction is shown in the "footnotes" area of your T4 slip. For more information about this deduction, see line 249, "Stock option and shares deductions," in the *General Tax Guide.*

To calculate the ACB of your stocks, add together the following two amounts:

- any amount included in your income as an employee stock option benefit; and
- the actual purchase price.

You have to do this even if you claimed a stock option deduction for these stocks.

Note

The taxable benefit 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. Depending on your situation, you can either use the section called "Qualified Small Business Corporation," or the one called "Other Securities and Properties." In addition, you may be eligible to claim a capital gains deduction for part, or all, of any taxable capital gain.

For more detailed information, get Interpretation Bulletin IT-113, *Benefits to Employees — Stock Options.*

Information slips (T3 and T5013)

If you receive a T3 slip that shows an amount for a capital gain in Box 21, see the section called "T3 Slip — capital gains eligible for deduction" on page 36 in Chapter 6. This chapter has information you will need to know to calculate your 1991 capital gains deduction. If you receive a T3 slip with an asterisk (*) in Boxes 21, 26, or 30, you need special instructions to complete Schedule 3 and to calculate your capital gains deduction. If these instructions are not attached to your slip, you should contact the person or institution that sent you the slip.

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, you have to include the capital gain on line 513 or 516 on Schedule 3. You do not include it in the section called "Information slips — Capital Gains or Losses" (line 533). You do this because a capital gain that you have when you dispose of qualified small business corporation shares or qualified farm property is eligible for the higher capital gains deduction limit. The capital gains deduction is explained in Chapter 6.

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

CHAPTER 4
OTHER TRANSACTIONS

This chapter explains some of the more complex capital gains transactions. It also explains the special rules for calculating your capital gain or capital loss.

Eligible capital property

If you operate a business, you may have certain expenditures called **eligible capital expenditures.** Among the most common types of these expenditures are goodwill, customer lists, trademarks, milk quotas, and other government rights or licenses. If you would like more detailed information about what type of expenditures qualify, you can get Interpretation Bulletin IT-143, *Meaning of Eligible Capital Expenditure.*

If the balance in your cumulative eligible capital account is less than zero at the end of your fiscal year, you will end up with an amount that you have to include in your business income. You may also have an amount that is a taxable capital gain. For more detailed information, get the *Business and Professional Income Tax Guide*, the *Farming Income Tax Guide*, or the *Fishing Income Tax Guide*, whichever applies to your situation. You may also want to get Interpretation Bulletin IT-123, *Disposition of and Transactions Involving Eligible Capital Property.*

If you dispose of eligible capital property that is considered to be qualified farm property, you report any taxable capital gain on line 543 of Schedule 3. However, if you dispose of any other type of eligible capital property, you report any taxable capital gain on line 544.

If you dispose of eligible capital property and end up with a taxable capital gain, the property qualifies for the lifetime capital gains deduction. See Chapter 6 for more information about this deduction. However, only a gain from the

disposal of eligible capital property that is qualified farm property is eligible for the higher capital gains deduction limit.

Mortgages

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

Mortgagee

If you are the mortgagee, you can repossess a property when the mortgagor has defaulted or failed to pay you money owed under the terms of the mortgage. If this happens, you are generally considered to have re-purchased the property for:

- the amount of the principal owed to you 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 when you repossess the property. As a result, you do not have a capital gain or capital loss at this time. Any capital gain or capital loss is postponed until you sell the repossessed property.

When you calculate your income for the year you repossessed the property, there are certain things you have to remember. You do not include in income any reserve claimed in the preceding year for amounts that are not due on the mortgage. However, you cannot deduct an amount for bad debts, or a reserve for doubtful debts:

- in the year you repossessed the property; or
- for any following year.

Mortgagor

If you are the mortgagor, a repossession of a property will constitute a disposition of property. The proceeds of disposition are equal to the total amount of the principal of all debt written off by the repossession. As the mortgagor, you usually have a capital loss or a terminal loss. However, if the property is a personal-use property, your loss is considered to be zero.

As the mortgagor, you may have paid an amount to the mortgagee after the property was repossessed. You are entitled to treat this amount as a capital loss from disposing of the property. You can do this for the year in which you paid the amount.

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 6.

These rules do not apply to mortgaged property if the mortgagee does not acquire or re-acquire beneficial ownership of the property because of a default. For instance, the property might be sold to a third party under a "power of sale" clause in the original mortgage agreement. In this case, the proceeds of disposition corresponds to the amount paid by the purchaser.

Example

Suzanne sold land to Brian in 1990 for $110,000. The sale price was made up of a down payment of $20,000, and a three-year mortgage payable in yearly instalments of $30,000. In 1991, Brian paid the $20,000 down payment but was unable to pay his yearly instalment. As a result, Suzanne was forced to repossess the property in 1991. At that time, the principal amount owing on the mortgage was $90,000. Suzanne did not deduct a reserve for the unpaid amount for the previous year. After the property was repossessed, Brian's tax situation was as follows:

Selling price of property (principal of mortgage)	$ 90,000
minus	
Adjusted cost base of property	$110,000
equals	
Capital loss	($ 20,000)

Suzanne is considered to have re-acquired the property for the amount of the principal that was still owed under the mortgage ($90,000) at the time of the reacquisition. Since 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 re-sells the property.

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

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

Other capital debts

If you have a capital debt that is owed to you (other than a debt under a mortgage, or a debt resulting from a conditional sales agreement), and it becomes a bad debt (someone fails to pay off the debt), you generally end up with a capital loss. This loss is equal to the adjusted cost base of the property. You are not allowed to claim the loss unless you acquired the debt:

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

If the amount that you are due to receive is from the sale of personal-use property to a person with whom you deal at arm's length, the situation is different. You can claim the capital loss in the year that the debt becomes a bad one. However, the capital loss cannot be more than the capital gain previously reported on the sale of personal-use property.

There are times when a bad debt involves a **small business corporation**. The section called "Allowable business investment losses (ABIL)" on page 21 in Chapter 5 explains what to do in this situation.

If you need more detailed information about capital debts, you can get Interpretation Bulletins IT-159, *Capital Debts Established to be Bad Debts*, and IT-239, *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 capital property as a gift, you are considered to have sold it at its fair market value at the time you give the gift. You include any resulting taxable capital gain or allowable capital loss in your income for the year that you gave the gift.

If you receive capital property as a gift, you are considered to have "purchased" it at its fair market value at the time you received it. If you sell the property later, this same "purchase" price is considered to be your cost when you calculate any capital gain or capital loss for the year.

To your spouse or a trust for your spouse

If you give capital property to your spouse, or to a trust for your spouse, you normally do not have a capital gain or capital loss at that time. At the time you give the gift, depending on the type of property you give, you are considered to receive an amount equal to:

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

Your spouse, or the trust for the spouse, is considered to have **bought** the capital property for the same amount that you are considered to have disposed of it for. If your spouse, or the trust, sells the property during your lifetime, you generally have to report any capital gain or capital loss from the sale. You have to do this as long as:

- you are a Canadian resident; and
- the property is not sold while the two of you are living apart because of a marriage breakdown.

However, there is another way to report the sale or transfer of capital property that you give to your spouse, or to a trust for your spouse. If you use this second method, you have to list the sale at the property's **fair market value**, and report any capital gain or capital loss for the year that you give the gift. You also have to attach a note to your tax return. The note should say that you are choosing to report the property as being sold or transferred to your spouse at fair market value.

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 has to report 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; **and**
- your spouse later sells the property;

a special situation exists. If you would like information about this situation, get Interpretation Bulletin IT-209, *Inter-Vivos Gifts of Capital Property to Individuals Directly or Through Trusts.*

If you need more detailed information about giving gifts to a spouse, get Interpretation Bulletins IT-511, *Interspousal Transfers and Loans of Property made after May 22, 1985*, and IT-258, *Transfer of Property to a Spouse,* and Special Release dated December 10, 1987.

Personal-use property

When you dispose of a personal-use property, you could end up with either a capital gain or a capital loss. To calculate this amount, follow these rules:

- if the 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, you do not have a capital gain or capital loss. You do not have to report the sale on Schedule 3 when you file your return.

When you dispose of personal-use property that has an ACB and proceeds of disposition **over $1,000**, you have to report any capital gain in the section called "Personal Use Property" on Schedule 3. However, if you end up with a capital loss, you usually **cannot** deduct that loss when you calculate your income for the year. In addition, you cannot use the loss to decrease capital gains on other personal-use property. However, these restrictions **do not** apply:

- to a bad debt owed 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 (for more information, see the section called "Other capital debts" on page 16 in this chapter); **or**
- if you disposed of listed personal property, as described on page 18 in this chapter.

You were asking...?

Q. In 1991, I sold an old china cabinet for $900. 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 to be a personal-use property, the ACB and the proceeds of disposition are both considered to be $1,000. Therefore, for income tax purposes, there is no gain or loss on the sale of the china cabinet.

Example

Samir sold his motorcycle in 1991 for $1,200. He bought it in 1983 for $850. The only expense he had in selling the motorcycle was $15 for advertising. Since the ACB of the motorcycle is less than $1,000 ($850), it is considered to have an adjusted cost base of $1,000. Although Samir actually had a gain of $335 ($1,200 minus $850 minus $15), the capital gain that he reports is only $185 ($1,200 minus $1,000 minus $15).

Personal Use Property (full description)

Motorcycle	1983	1,200.00	1,000.00	15.00	185.00
				Gain only 530	185.00

Example

In 1991, Chelsea sold her lakefront property and cottage to a developer for $100,000. She bought the property in 1981 for $49,000, and built a cottage on it for $30,000 in 1990. Chelsea incurred expenses of $1,000 in connection with the sale of the land and cottage. She paid $9,000 in interest and property taxes during the period she owned the property. In addition, she paid interest on the money she borrowed to buy the property and build the cottage.

When calculating her capital gain on the property and cottage, Chelsea can deduct the $1,000 selling expenses. However, the $9,000 in interest and property taxes is considered to be a personal expense since she was not using the property or cottage to earn income. As a result, Chelsea cannot deduct the $9,000 from her income for any taxation year. She also cannot use it to reduce her capital gain in 1991. In addition, when she calculates the ACB of the property, she cannot add the $9,000 to her original cost of $49,000 for the land.

Therefore, Chelsea has to show the sale of the property in the section called "Personal Use Property" on Schedule 3. She uses this schedule to report her capital gain of $20,000 ($100,000 – $49,000 – $30,000 – $1,000 = $20,000).

Personal Use Property (full description)

Lot 119-120, Plan 2750	1981	100,000.00	79,000.00	1,000.00	20,000.00
City, Province, Country				Gain only 530	20,000.00

If you want information on selling part of a personal-use property or sets of personal-use property, get Interpretation Bulletin IT-332, *Personal-Use Property*.

You can use Form T2080, *Capital Dispositions Supplementary Schedule Re: Personal-Use Property (other than listed personal property and principal residence)*, to calculate any gains or losses you have when you dispose of personal-use property.

Listed personal property (LPP)

Listed personal property (defined in Chapter 2) is a type of personal-use property. Therefore, the $1,000 minimum proceeds of disposition and ACB rules apply. For more information about these rules, see the section called "Personal-use property" on page 17 in this chapter.

You should report the sale of LPP on Schedule 3 only if you had a capital gain from the sale. If you are applying a LPP loss from a previous year against your 1991 LPP gain, make sure you:

- enter the amount of the loss on the appropriate line on Schedule 3;
- deduct this amount from your LPP gain; **and**
- report your net gain on line 531 of Schedule 3.

If you sell LPP and end up with a loss:

- you can only deduct the loss from the gain you had from selling other LPP;
- you cannot use this loss to reduce the amount of the capital gain you had from selling other types of property; **and**
- the total amount of the LPP loss you deduct in the year cannot be more than the total LPP gain for that year.

If your LPP loss is more than your LPP gain in 1991, you can use the difference between the two to reduce your net gain on LPP of other years. You can reduce a gain you had in any of the three years before, and/or the seven years after. If you have an unapplied LPP loss from previous years, you have to apply it fully before you can apply the 1991 LPP loss to your net gains from disposing of LPP of other years.

If you would like to carry back your 1991 LPP loss to reduce your LPP net gains from 1988, 1989, or 1990, fill in Form T1A, *Request for Loss Carry-Back*, and attach it to your 1991 tax return.

If you have unapplied LPP losses from 1984 to 1990, you can use them to reduce any net gain that you have from selling listed personal property in 1991.

Selling or donating cultural property to a designated institution

You do not have to pay tax on any capital gain that you have when you sell or donate certified cultural property to an institution or public authority designated by Communications Canada. The Canadian Cultural Property Export Review Board, which operates under Communications Canada, certifies this property as being cultural property and provides certificates for tax purposes.

If you sell or donate certified cultural property to a designated institution and end up with a capital loss, you

can deduct the loss. Please see Chapter 5 for more details on how to deduct a capital loss.

If you would like more information, get Interpretation Bulletins IT-407, *Disposition of Canadian Cultural Property (1987 and prior taxation years)*, and IT-407, *Disposition after 1987 of Canadian Cultural Property.*

Foreign exchange gains and losses

Foreign exchange gains or losses from capital transactions in foreign currencies are considered to be capital gains or capital 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. Report this amount on line 528 on Schedule 3. If the net amount is **$200 or less**:

- there is no capital gain or capital loss; and
- you do not have to report it on your tax return.

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

Qualified small business corporation shares

If you sell qualified small business corporation shares, report the sale on Schedule 3 in the section called "Qualified Small Business Corporation."

However, **do not** report the following transactions in this section:

- the sale of other shares such as **publicly traded shares**, or shares of a foreign corporation; and
- losses you have when you sell any shares of small business corporations to a person with whom you deal at arm's length. For more information, see "Allowable business investment losses (ABIL)" on page 21 in Chapter 5.

If you have a capital gain when you sell qualified small business corporation shares, you are eligible for the higher capital gains deduction limit. See the section called "Qualified small business corporation shares" on page 35 in Chapter 6, for more details.

Qualified farm property

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

If you have a capital gain when you sell qualified farm property, you are eligible for the higher capital gains deduction limit. For more information about this deduction, see "Qualified farm property" on page 35 in Chapter 6.

If you dispose of **non-qualified** farm property, report it on Schedule 3 in the section, "Real estate and depreciable property". You can find more details about this section on page 10 in Chapter 3.

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 from someone with whom you do not deal at arm's length, and the purchase price is **more** than the fair market value, your purchase price is considered to be the fair market value.

If you would like more detailed information, get Interpretation Bulletin IT-405, *Inadequate Considerations — Acquisitions and Dispositions.*

There are special rules that allow you to rollover (transfer) property at an amount other than the property's fair market value. If these rules apply to your situation, you may be able to postpone paying tax on any capital gains that you realize from the transfer. Some of the more common rollovers and their accompanying Interpretation Bulletins are listed in the section "Other rollovers," on this page. The Interpretation Bulletins give you detailed information about the rules.

Tax Tip

As you read about rollovers, remember the capital gains deduction that is explained in Chapter 6. The deduction may be more useful in your situation than any of these rollovers.

Farms

When you sell or transfer farm property, you may end up with a capital gain. There are many special rules for these types of capital gains. In certain situations, you can transfer farm property to a spouse or child. If you would like more information about these types of transfers, and other rules that apply to farm property, you can get the *Farming Income Tax Guide.*

Other rollovers

If you have a capital gain, you may choose to postpone reporting it when you transfer property:

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

If you would like information on a rollover to a corporation, get Information Circular 76-19, *Transfer of Property to a Corporation under Section 85*, and Interpretation Bulletin IT-291, *Transfer of Property to a Corporation under Subsection 85(1).*

For information on a rollover to a Canadian partnership, get Interpretation Bulletin IT-413, *Election By Members of a Partnership under subsection 97(2).*

Inheriting property

Generally, when you inherit property from a person, the property's fair market value on the date of that person's death is considered to be its cost to you. When you sell the property, you may have a capital gain or capital loss for the year you sell it. Property inherited by a spouse may not be affected by this rule. If you would like more information, see the *Guide For Preparing T1 Returns For Deceased Persons.*

CHAPTER 5
CAPITAL LOSSES

Who should read this chapter?

You should read this chapter if you sold or disposed of any capital property in 1991 or a prior year, and ended up with a capital loss.

When do you have a capital loss?

You generally have a capital loss when you sell, or are considered to have sold, a capital property for **less** than what it cost you. However, you **cannot** have a capital loss when you dispose of:

- depreciable property (see Chapter 3); or
- personal-use property (see Chapter 4).

If you sold listed personal property and ended up with a loss, see the section called "Listed personal property losses" later in this chapter.

1991 Capital losses

If you had a capital loss in 1991, the allowable part you can claim for your 1991 capital losses is three-quarters (3/4).

You can only apply an allowable capital loss against a taxable capital gain. This means that if you had a taxable capital gain in 1991, you can use an allowable capital loss to reduce the amount of the gain.

If your allowable capital losses in 1991 are **greater** than your taxable capital gains, the difference between the two is usually considered to be your **net capital loss** for 1991. If you only had allowable capital losses in 1991, and you had no taxable capital gains, this amount would also be considered to be your net capital loss. Report this loss on Schedule 3 and file the schedule with your 1991 return. You can apply this capital loss against your taxable capital gains in any of the three previous years (1990, 1989, or 1988). You can also apply it against a gain in any future year.

Example

In 1991, Sylvana sold some securities that she owned. As a result, she had a capital loss of ($800), and a capital gain of $400.

Capital loss	($800)
Capital gain	400
Net capital loss	($400)
Allowable capital loss (3/4 **x** $400)	($300)

The allowable capital loss of $300 is also considered to be Sylvana's net capital loss for 1991. She may now apply this loss against any taxable capital gains that she had in any of the three previous years, or in any future year.

In order to apply your 1991 net capital loss back to previous years, just ask Revenue Canada, Taxation to adjust your 1988, 1989, or 1990 return. To do this, you will need to fill in Form T1A, *Request for Loss Carry-Back*, and attach it to your 1991 tax return. You do not need to file an amended tax return for the prior year.

If you carry a net capital loss back 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. For more information, see the sections called "Annual gains limit" and "Cumulative gains limit" on page 30 in Chapter 6.

You will have to adjust the amount of a 1991 net capital loss that you would like to carry back to 1988 or 1989. You need to do this because the taxable part of a capital gain was two-thirds (2/3) in 1988 and 1989. You do not have to adjust the amount carried back to 1990 since the taxable part of a capital gain for that year is the same as 1991. For more information, see "Net capital losses of other years, Line 253 — T1 Return", later in this chapter.

If you would like to carry forward all or part of your 1991 net capital loss to a future year, make sure you keep a record of the amount you have available to carry forward.

Whether you decide to carry your net capital loss back to a previous year, or apply it to a year after 1991, you have to fill in Schedule 3 and attach it to your 1991 tax return. By using Schedule 3, you report any sale of capital property which results in a capital loss in 1991.

You were asking...?

Q. I owned some shares in a Canadian public corporation and sold them in 1991 at a loss. I had no capital gains in 1991. How do I show my capital loss on my tax return?

A. Since you have no taxable capital gains in 1991, your capital loss becomes a net capital loss for 1991. Three-quarters (3/4) of this capital loss is considered to be your allowable capital loss for 1991. Show the sale on Schedule 3, and attach the schedule to your 1991 tax return. You cannot deduct the net capital loss in 1991 because you did not have any taxable capital gains. You can, however, carry the loss back three years, or forward to any future year, and apply it against taxable capital gains.

Allowable business investment loss (ABIL)

If you had a business investment loss in 1991, the allowable part of this loss that you can deduct is three-quarters (3/4). When you calculate your ABIL for 1991, you may have to reduce this loss if you claimed a capital gains deduction in a previous year. This is explained in the next section called "Reduction in business investment loss."

If you have an ABIL in 1991, you can deduct this loss from your other sources of income for the year. If your other sources of income for the year are less than your ABIL, you have to include the difference as part of your non-capital loss for 1991. You can carry your non-capital loss back three years, or carry it forward seven years, and include it in the calculation of your taxable income. For information on non-capital losses, get Interpretation Bulletin IT-232, *Non-Capital Losses, Net Capital Losses, Restricted Farm Losses, Farm Losses and Limited Partnership Losses — Their Composition and Deductibility in Computing Taxable Income.*

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

For example, if you had an ABIL in 1984 and you could not deduct it in 1984, or any year after 1984, the loss becomes a net capital loss in 1991. You can then use it to reduce your taxable capital gains in future years.

To claim your ABIL, make sure you enter the amount of your loss on line 217 of your tax return, and attach a note which states 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 the date that you acquired the debt;
- amount of the 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 that you claim for 1991 will reduce the capital gains deduction you are eligible to claim in 1991 and in future years. See Chapter 6 for more information.

Reduction in business investment loss

If you have a business investment loss that occurred in 1991, the allowable part of this loss is usually three-quarters (3/4). However, if you claimed a capital gains deduction in a previous year, you may have to reduce the amount of the allowable part that you can deduct.

Use the following chart to calculate how much you have to reduce your 1991 business investment loss by. Make sure you do a separate calculation for each business investment loss that you had in 1991.

Note

Make sure you multiply the capital gains deduction claimed in 1988 and 1989 by three-halves (3/2) **rather than** by two (2). You do this because the **taxable** part of a capital gain increased from one-half (1/2) to two-thirds (2/3) for 1988. Also, any capital gains deduction claimed in 1990 has to be multiplied by four-thirds (4/3) because the taxable part of a capital gain increased to three-quarters (3/4).

Total capital gains deductions claimed in 1985, 1986, or 1987 (from line 254 of your 1985, 1986, or 1987 returns)	$______	(1)		
Line (1) $______ x 2 =			______	(2)
Capital gains deduction claimed in 1988 or 1989	______	(3)		
Line (3) $______ x 3/2 = (see note above)			______	(4)
Capital gains deduction claimed in 1990	______	(5)		
Line (5) $______ x 4/3			______	(6)
Line (2) plus lines (4) & (6)			______	(7)
Total amount you used to reduce your business investment losses in 1986, 1987, 1988, 1989, and 1990 (from line 535 of Schedule 3 of your 1986 through 1990 returns)	______	(8)		
Total amount already used to reduce any **other** business investment loss in 1991	______	(9)		
Line (8) plus line (9)			______	(10)
Line (7) minus line (10)			$______	(11)
Business investment loss for 1991 (before reducing this loss)			______	(12)
Reduction in a business investment loss for 1991 Line (11) or line (12), whichever amount is less			$______	(13)

You treat the reduction to your business investment loss from line (13), as a capital loss for 1991. Enter this amount on line 535 of Schedule 3. Three-quarters (3/4) of your remaining business investment loss is considered to be your ABIL. You enter this amount on line 217 of your tax return.

Note

When you are filling in Schedule 3, make sure you enter only the amount of the reduction explained in the previous section. Do not report a business investment loss on Schedule 3.

Listed personal property (LPP) losses

If you dispose of LPP and end up with a loss:

- you can only deduct this loss from any gains you had from selling other LPP;
- the total amount of LPP losses that you deduct in the year cannot be more than the total LPP gains for that year; and
- you cannot use this loss to reduce any capital gains you had from selling other types of property.

If your LPP losses are more than your LPP gains in 1991, you can use the difference between the two to reduce your net gains on LPP of other years. You can reduce a gain you had in any of the three years before and/or the seven years after. If you have unapplied LPP losses from previous years, you apply these losses fully before you can apply 1991 LPP losses to any net gains you had from disposing of LPP of other years.

If you would like to carry back your 1991 LPP loss to reduce your LPP net gains from 1988, 1989, or 1990, be sure to fill in Form T1A, *Request for Loss Carry-back*. Attach one copy to your 1991 tax return.

If you have unapplied LPP losses from 1984 to 1990, you can use these losses to reduce any net gain you had from selling LPP in 1991. Do not report a previous year's LPP loss on line 253 of your return.

Note

Do not complete the "Listed Personal Property" area of Schedule 3 if:

- you had a loss when you sold LPP in 1991; or
- your LPP losses were more than your LPP gains in that year.

However, you should keep a record of your LPP losses because you may wish to apply these losses against future LPP gains.

Example

Marina bought some jewellery in 1981 for $5,800. In 1991, she sold it for $6,000. She ended up with a gain of $200. She also sold a coin collection for $2,000 in 1991. Marina had originally bought this collection in 1985 for $1,700. She ended up with a gain of $300 when she sold the coin collection. In addition, she sold a painting in 1991 for $8,000. However, Marina bought the painting in 1980 for $12,000. Therefore, she had a loss of $4,000. She had no outlays or expenses for these three transactions.

Marina's loss from selling LPP in 1991 was more than her gain: her loss was $4,000, her total gain was $500 ($200 + $300). As a result, her net loss was $3,500 ($4,000 – $500). She cannot use the difference to offset her capital gain on the sale of a property other than on LPP in the year. Nor can she offset any income she had from other sources. However, she can apply her LPP loss against her LPP net gains in any of the three previous years, or the seven years following 1991.

To calculate her gains or losses from listed personal property for 1991, Marina may use Form T2081, *Capital Dispositions Supplementary Schedule Re: 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	1981	6,000	5,800	Ø	200
Coin Collection	1985	2,000	1,700	Ø	300
Painting	1980	8,000	12,000	Ø	(4000)

Superficial losses

You have a superficial loss when you dispose of capital property and, during the period starting 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 1991, you cannot deduct it when you calculate your income for the year. However, if you are the person who acquires the substituted property, you can add the amount of the superficial loss to the adjusted cost base of the substituted property. This will either decrease your capital gain, or increase your capital loss, when you sell the substituted property.

However, this rule **does not apply** if:

- you are considered to have sold the capital 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.

Restricted farm losses

You may have restricted farm losses that you incurred in your farming operation which were not deducted when you calculated your income for previous years. You can apply part of these restricted farm losses against any capital gain that you may have when you sell this farmland. The part of these restricted farm losses that you can apply cannot be more than the total of the property taxes and the interest on money borrowed to buy the farmland. You reduce your capital gain by adding these amounts to the ACB of your farmland. Please note that the part of these restricted farm losses that are added to the ACB of your farmland have to be deducted from your restricted farm loss balance.

You can only use restricted farm losses to reduce your capital gain. You cannot use this type of loss to create or increase a capital loss from selling farmland.

Example

Bob sold his farmland in 1991 for $200,000. The adjusted cost base of the property was $160,000. Bob has unapplied restricted farm losses of $20,000 from the previous year. This amount included $5,000 for property taxes, $5,000 for interest, and $10,000 for other expenses.

Bob wants to reduce his capital gain from selling his farmland by applying his restricted farm losses against the capital gain. He would calculate his capital gain as follows:

Proceeds of disposition		$200,000
Adjusted cost base	$160,000	
Plus: property taxes	5,000	
interest	5,000	170,000
Capital gain		$ 30,000
Taxable capital gain ($30,000 x 3/4)		$22,500

Bob can only apply the portion of his restricted farm losses that relate to property taxes and interest on the money borrowed to buy the farmland.

If you would like more information, get Interpretation Bulletin IT-232, *Non-Capital Losses, Net Capital Losses, Restricted Farm Losses, Farm Losses and Limited Partnership Losses — Their Composition and Deductibility in Computing Taxable Income.*

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.** You can carry your net capital loss back three years, and apply it against your taxable income to the extent of your net taxable capital gains for those years. You can also carry it forward indefinitely to a future year, and apply it against your taxable capital gains.

Tax Tip

If you had a taxable capital gain in 1991, you may decide to take advantage of the capital gains deduction. You can do this instead of using your net capital losses from another year. See Chapter 6 for more information about the capital gains deduction.

The taxable part of a capital gain, and the allowable part of a capital loss is:

- **one-half (1/2)** for 1987 and years before that;
- **two-thirds (2/3)** for 1988 and 1989; and
- **three-quarters (3/4)** for 1990 and 1991.

Since there are different inclusion rates for certain years, you may have to adjust your net capital loss. You have to adjust your net capital loss when you apply it against a taxable capital gain that has a different inclusion rate than the net capital loss.

The following information and charts will help you calculate the adjustment to your net capital loss. You do the adjustment before you apply the loss against your taxable capital gains. Depending on your own individual tax situation, you may or may not have to use all the information and charts.

How do you apply net capital losses of other years to 1991?

Make sure you apply net capital losses of earlier years before you apply net capital losses of later years. For instance, if you have a net capital loss in 1987 and also in 1990, and you would like to apply these losses against your taxable capital gains in 1991, you must follow a certain order. First, you apply your 1987 net capital loss against your taxable capital gain, then you apply your 1990 net capital loss against it.

Applying net capital losses of years before 1988 to 1991

Since the rate was lower for years before 1988, you adjust your net capital losses for those years, before you can apply these losses to 1991.

Generally, you can only use net capital losses to reduce the amount of your taxable capital gains. However, if you have any unapplied net capital losses from before May 23, 1985, you can deduct these losses from other sources of income. You can deduct up to $2,000, **or** the amount of your pre-1986 capital loss balance, whichever of the two is less.

Allowable capital losses incurred after May 22, 1985 may be applied only to offset taxable capital gains either in the same year or in years before or after unless you had disposed of the property pursuant to an agreement entered

into before May 23, 1985. In other words, capital losses incurred between May 23 and December 31, 1985 usually receive the same tax treatment as losses incurred in 1986 and later years.

You may have a net capital loss that occurred after 1985, but before 1988, that you want to claim against your 1991 taxable capital gains. If you do, be sure to use the following chart to calculate your maximum deduction for any net capital losses.

Unapplied net capital losses after 1985 and before 1988	$________	(1)
Adjusted net capital loss amount line (1)________ x 3/2	________	(2)
Taxable capital gains reported on line 127 of your 1991 return	________	(3)
Maximum deduction in 1991 for net capital losses after 1985 and before 1988 line (2) or line (3), whichever is less	$________	(4)

On line 253 of your tax return, you can claim all or a part of the amount on line (4) as a net capital loss after 1985 and before 1988.

You may end up with a remaining balance of **unapplied net capital losses,** after 1985 and before 1988, after you have applied these losses to your 1991 taxable capital gains. If this is the case, be sure to use the following chart to calculate this balance. Please remember that you are adjusting back the amount you applied to 1991 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 1991			$________	(1)
Amount claimed on line 253 of your 1991 return	________	(2)		
Line (2) ________ x 2/3			________	(3)
Balance of net capital losses after 1985 and before 1988 available to carry forward to a future year Line (1) minus line (3)			$________	(4)

Your **pre-1986 capital loss balance** for 1991 is:

- the balance of your total **unapplied** net capital losses that you had at any time before May 23, 1985,

  minus

- the total amount of capital gains deductions that you claimed before 1991.

When you calculate the balance of your unapplied pre-May 23, 1985 net capital losses, remember to reduce the balance by the amount you applied to years before 1991.

Note

If you claimed a capital gains deduction in 1988 and/or 1989, you have to 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 1991.

Pre-1986 capital loss balance for 1991

Unapplied net capital losses you had before May 23, 1985 .... $________ (1)

Capital gains deductions you claimed
before 1988 $________
in 1988 $________ x 3/4 ________
in 1989 $________ x 3/4 ________
in 1990 $________ x 2/3 ________

Total capital gains deductions after adjustment .... ________ (2)

Pre-1986 capital loss balance for 1991
line (1) minus line (2) .... $________ (3)

If you had a net capital loss during the period January 1, 1985 to May 22, 1985, and you had capital gains later in 1985, you may be able to use your capital gains to reduce your pre-1986 capital loss balance. If you would like more information, get Interpretation Bulletin IT-232, *Non-Capital Losses, Net Capital Losses, Restricted Farm Losses, Farm Losses and Limited Partnership Losses – Their Composition and Deductibility in Computing Taxable Income.*

Before you can figure out the amount of your pre-1986 net capital losses that you can carry forward to 1991, you have to adjust your losses to reflect the higher rate.

Pre-1986 adjusted net capital loss balance for 1991

Unapplied net capital loss from line (1) .... $________ (4)

Adjustment factor.................................... x 3/2

Adjusted pre-1986 net capital loss amount .... $________ (5)

Once you have calculated your pre-1986 capital loss balance for 1991, and your adjusted pre-1986 net capital loss amount, you can calculate your maximum 1991 deduction. To do this, use the following chart to calculate your maximum 1991 deduction for pre-1986 net capital losses of other years.

Pre-1986 net capital loss applied in 1991

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)

Pre-1986 deductible amount 2,000 (9)

Amount from line (3) .... ________ (10)

Amount from line (1) $________
Minus: line (8) $________ x 2/3 ________.................................... ________ (11)

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

Maximum deduction for pre-1986 net capital losses line (8) plus line (12) .... $________ (13)

You can claim all, or any part, of your maximum deduction for your pre-1986 net capital losses on line 253 of your 1991 tax 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) .... $________ (14)

Amount from line (8):
$________ x 2/3.................................... $________ (15)

Amount from line (12).................................... ________ (16)

Total of line (15) plus line (16) .... ________ (17)

Balance available for carry forward to 1992 is line (14) minus line (17) .... $________ (18)

Note

You can use these charts only if you are using your maximum deduction for pre-1986 net capital losses.

Example

Allan has a pre-1986 unapplied net capital loss of $5,000. He claimed a capital gains deduction of $800 in 1986 and in 1988. In 1991, Allan reported a taxable capital gain of $1,800 on line 127 of his 1991 return. He has to use the following chart to calculate the maximum deduction for his pre-1986 net capital loss, and the loss balance that is available for him to carry forward to 1992.

Pre-1986 capital loss balance for 1991

Unapplied net capital losses before May 23, 1985		$5,000	(1)
Capital gains deductions claimed before 1988:	$ 800		
in 1988 $ 800 x 3/4	600		
in 1989 ______ x 3/4			
in 1990 ______ x 2/3			
Total capital gains deductions		1,400	(2)
Pre-1986 capital loss balance for 1991 line (1) minus line (2)		$3,600	(3)

Pre-1986 adjusted net capital loss balance for 1991

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

Pre-1986 net capital loss applied in 1991

Taxable capital gain 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)
Pre-1986 deductible amount		2,000	(9)
Amount from line (3)		3,600	(10)
Amount from line (1)	$5,000		
Minus line (8): $ 1,800 x 2/3	1,200	3,800	(11)
Amount from 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	(13)

Pre-1986 net capital loss available for carry-forward

Amount from line (1)		$5,000	(14)
Amount from line (8): $ 1,800 x 2/3	$1,200 (15)		
Amount from line (12):	2,000 (16)		
Total of line (15) plus line (16)		3,200	(17)
Balance available for carry forward to 1992 — line (14) minus line (17)		1,800	(18)

The maximum deduction that Allan can claim on line 253 for pre-1986 net capital losses in 1991 is $3,800. His pre-1986 net capital loss balance that is available for carry-forward to 1992 is $1,800.

Note

Allan's carry forward of $5,000 was calculated using the chart in the 1990 *Capital Gains Tax Guide*. If you claimed any portion of your pre-1986 capital losses in 1988, 1989, or 1990, you should have followed this chart to recalculate your carry forward.

Applying a 1988 or 1989 net capital loss to 1991

Since there was a lower rate for 1988 and 1989, you have to adjust your net capital losses for those years before you apply them against your taxable capital gains in 1991.

To apply a 1988 or 1989 net capital loss against your 1991 taxable capital gains, use the following chart.

Unapplied net capital losses for 1988 and/or 1989	$______	(1)
Adjusted net capital loss amount line (1)______ x 9/8	______	(2)
Taxable capital gains reported on line 127 of your 1991 return	______	(3)
Maximum deduction in 1991 for net capital losses for 1988 and/or 1989 Line (2) or line (3), whichever is less	$______	(4)

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

After you apply your net capital losses of 1988 and 1989 to your 1991 taxable capital gains, you may have a remaining balance of unapplied net capital losses for 1988 or 1989. Use the following chart to calculate this balance. Please note that you are adjusting back the amount applied to 1991 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 1991		$______	(1)
Amount claimed on line 253 of 1991 return, for 1988 & 1989 losses	______ (2)		
Line (2) ______ x 8/9		______	(3)
Balance of net capital losses in 1988 or 1989 available to carry forward to a future year Line (1) minus line (3)		$______	(4)

Example

Dexter had the following capital gains and losses.

1988

Capital loss	($700)
Capital gain	100
Net capital loss	($600)
Allowable capital loss (2/3 x $600)	($400)

1989

Capital loss	($2,100)
Capital gain	1,200
Net capital loss	($900)
Allowable capital loss (2/3 x $900)	($600)

1991

Capital gain	$1,467
Taxable capital gain ($1,467 x 3/4)	$1,100

Since Dexter could not apply his 1988 and 1989 allowable capital losses, these amounts became net capital losses for 1988 and 1989. For 1991, Dexter wants to reduce his taxable capital gain of $1,100 by applying his 1988 and 1989 net capital losses to the gain. To do this, he has to use the following chart and fill it in as shown.

Unapplied net capital losses for 1988 and/or 1989 ($400 + $600)	$1,000	(1)
Adjusted net capital loss amount line (1) $1,000 x 9/8	1,125	(2)
Taxable capital gain reported on line 127 of his 1991 return	1,100	(3)
Maximum deduction in 1991 for net capital losses for 1988 and/or 1989 line (2) or line (3), whichever is less	1,100	(4)

On line 253 of his tax return, Dexter can claim all or part of the amount on line (4) as net capital losses for 1988 or 1989. He claims the entire amount of $1,100. In calculating the balance of his unapplied net capital losses, he has to use the following chart and fill it in as shown.

Total unapplied net capital losses from 1988 or 1989 at the beginning of 1991		$1,000	(1)
Amount claimed on line 253 of his 1991 return, for 1988 & 1989 losses	$1,100 (2)		
Line (2) $1,100 x 8/9		978	(3)
Balance of net capital losses in 1988 or 1989 available to carry forward to a future year Line (1) minus line (3)		$ 22	(4)

Applying a 1990 net capital loss to 1991

If you would like to apply your unapplied 1990 net capital loss against taxable capital gains you had in 1991, you do not have to do an adjustment since the inclusion rate for both years is the same. To make this claim, enter the amount of your 1990 net capital loss on line 253 of your return. The amount claimed cannot be more than the taxable capital gains you had in 1991.

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

Unapplied 1990 net capital loss at the beginning of 1991	$_________	(1)
Amount claimed on line 253 of your 1991 return for 1990 losses	_________	(2)
Balance of 1990 net capital loss available for carry forward to a future year Line (1) minus line (2)	_________	(3)

How do you apply a 1991 net capital loss to previous years?

As explained in the section called "1991 Capital losses" at the beginning of this chapter, you can carry a 1991 net capital loss back three years, and use it to reduce your taxable capital gains. When you carry back your net capital loss, you can choose to which year you first want to apply the loss.

Note

Since the rate for 1988 and 1989 is different from the rate for 1990, you will have to do separate calculations for these years.

Applying a 1991 net capital loss to 1988 and 1989

You have to make an adjustment if you apply a 1991 net capital loss against your 1988 and 1989 taxable capital gains as the rates were different for those years. You have to multiply the amount you would like to carry back by 8/9.

Use the following chart to calculate your remaining balance of unapplied 1991 net capital losses.

1991 unapplied net capital loss			$_________	(1)
1991 adjusted net capital loss amount available for carry-back to 1988 & 1989, line (1) $_________ x 8/9			_________	(2)
Amount applied to 1988	$_________	(3)		
Amount applied to 1989	_________	(4)		
Line (3) plus line (4)			_________	(5)
1991 adjusted net capital loss amount unapplied Line (2) minus line (5)			_________	(6)
Balance of 1991 net capital loss available to carry forward to a future year Line (6) $_________ x 9/8			$_________	(7)

Applying a 1991 net capital loss to 1990

The amount of a 1991 net capital loss that you can carry back is limited to the amount of taxable capital gains that you had in the year.

Use the following chart to calculate the remaining balance of your 1991 net capital loss.

Unapplied 1991 net capital loss	$_________	(1)
Amount applied to 1990	_________	(2)
Balance of 1991 net capital loss available to carry forward Line (1) minus line (2)	$_________	(3)

Note

To help you keep accurate records, make sure you keep separate balances for unapplied net capital losses for each year.

Example

Usha reported taxable capital gains totalling $1,500 in 1988, $1,000 in 1989, and $2,000 in 1990. She claimed a capital gains deduction of $1,000 in 1989. In 1991, Usha had a net capital loss of $8,000. She would like to use her 1991 net capital loss to completely offset her taxable capital gains in 1988 and 1990. As a result, Usha decides to first apply her net capital loss to 1988.

1991 unapplied net capital loss		$8,000 (1)
1991 adjusted net capital loss amount available for carry-back to 1988 & 1989, line (1) $8,000 x 8/9		7,111 (2)
Amount applied to 1988	1,500 (3)	
Amount applied to 1989	0 (4)	
Line (3) plus line (4)		1,500 (5)
1991 adjusted net capital loss amount unapplied Line (2) minus line (5)		5,611 (6)
Balance of 1991 net capital loss available to carry back to 1990, or to carry forward to a future year Line (6) $5,611 x 9/8		$6,312 (7)
1991 unapplied net capital loss	$6,312 (1)	
Amount applied to 1990	$2,000 (2)	
Balance of 1991 net capital loss available to carry forward to a future year Line (1) minus line (2)		$4,312 (3)

Usha has to fill in Form T1A, *Request for Loss Carry-Back*, and attach it to her 1991 income tax return.

CHAPTER 6
CAPITAL GAINS DEDUCTION

What is a capital gains deduction?

It is a deduction that you can claim against taxable capital gains. By claiming this deduction, you may reduce the amount of your taxable income.

When can you claim the capital gains deduction?

You can claim it in the year that you have a taxable capital gain. The amount that you can claim will be equal to, or less than, your gain. **In other words**, you claim the deduction to offset all or part of the net taxable capital gains that you may have in the year. If you are eligible to claim this deduction, you can choose to claim the maximum deduction for the year, claim part of the deduction, or claim no deduction at all.

Tax Tip

If you do not report your capital gain on your return for the year that you had the capital gain, you may not be allowed to claim the capital gains deduction.

Who is eligible for the capital gains deduction?

Anyone who was a resident of Canada throughout 1991 is eligible. For purposes of this deduction, you are considered to have been a resident throughout 1991 if you:

- were a resident of Canada for at least **part** of 1991; and
- were a resident of Canada **throughout** the year before, or the year after.

Residents of Canada include "factual" and "deemed" residents. If you were not a resident of Canada throughout 1991, see the section called "Are you entitled to claim the capital gains deduction?" on page 46 in Chapter 9 to find out if you qualify for this deduction.

What type of property qualifies for the capital gains deduction?

All capital property qualifies for this deduction. In addition, any capital gains reserve reported as a capital gain in 1991, that relates to capital property you sold after 1984, qualifies for the capital gains deduction. Reserves that relate to qualified small business corporation shares sold after June 17, 1987 qualify for the upper limit of the capital gains deduction.

What are the capital gains deduction limits?

There is a limit to the total amount of capital gains deductions that you can claim in your lifetime. This limit depends on the type of capital property that 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. Your lifetime cumulative capital gains deduction is $375,000 (3/4 of $500,000); or
- **any other capital properties,** you are eligible to claim up to $100,000 in capital gains deductions. Your lifetime cumulative capital gains deduction is $75,000 (3/4 of $100,000).

Note

The total of your capital gains deductions from 1985 to 1991, for **all** types of capital properties, cannot be more than your lifetime cumulative deduction of $375,000.

Note

Proposed legislation introduces an election for 1991 and later taxation years. The election is for people who own shares of a qualifying small business corporation that goes public by having its shares listed on a prescribed stock exchange in Canada. The election will allow these people to qualify for the $500,000 lifetime capital gains deduction. The deduction will be for any gains they had on these shares to the date the shares are listed. If you would like more information, contact your district office.

How do you calculate your capital gains deduction? line 254 — T1 return

To calculate your capital gains deduction for 1991, you need to know the following amounts:

- your **annual gains limit** for 1991;
- your **cumulative gains limit** for 1991, which includes calculating your **cumulative net investment loss**;
- your **net taxable capital gains** in 1991; and
- the total of all **capital gains deductions** you claimed in previous years.

The following sections explain how to calculate your annual gains limit, your cumulative gains limit, and your cumulative net investment loss.

1) Annual gains limit

Your **annual gains limit** for 1991 is the total 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 1991.

Depending on the type of property you disposed of, you can either use Form T657, *Calculation of Capital Gains Deduction For 1991 On All Capital Property*, or Part 1 of Form T657A, *Calculation Of Capital Gains Deduction For 1991 On Other Capital Property*, to calculate your annual gains limit.

2) Cumulative gains limit

Your **cumulative gains limit** for 1991 is the total of your net taxable capital gains (*) from 1985 to 1991, **minus** the total of any or all of the following:

- any allowable capital loss that you deducted from other income in 1985 (to a maximum of $2,000);
- all allowable business investment losses (ABILs) that you claimed from 1985 to 1990;
- all net capital losses of other years that you claimed from 1985 to 1990 in calculating your taxable income;
- your cumulative net investment loss to December 31, 1991; and
- all capital gains deductions that you claimed from 1985 to 1990.

Depending on the type of property you disposed of, you can use either Form T657A, or Part 2 of Form T657, to calculate your cumulative gains limit at the end of 1991.

When you calculate the total of your net taxable capital gains for the years 1985 to 1991, 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, 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.

When you calculate your cumulative gains limit, you also have to consider the meaning of "all net capital losses of other years." This applies to net capital losses that you carried **forward**, as well as to any net capital losses that you carried **back** to a given year. For example, if you carried a 1990 net capital loss back to 1988, you have to include that loss as part of your "net capital losses of other years" when you calculate your cumulative gains limit for 1991.

3) Cumulative net investment loss (CNIL)

Your CNIL 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.

Any CNIL reduces the amount of your cumulative gains limit for the year. Therefore, your capital gains deduction is affected by the amount of any CNIL. Your CNIL may reduce the amount of your capital gains deduction in a certain year, however, 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 figure out your CNIL for 1991, you have to set up an account that includes any investment expenses and investment income that you had in 1988, 1989, 1990, and 1991. To help you do this, use Form T936, *Calculation of Cumulative Net Loss to December 31, 1991.*

Note

Even if you are not claiming the capital gains deduction in 1991, you should still complete Form T936 and keep it for your own records. Since the balance in your CNIL account is a cumulative total, you may need this information in the future.

Note

In the following section, the investment expenses and investment income marked by an asterisk (*) are based on proposed legislation.

Investment expenses

These are amounts that you incur to earn investment income. You usually deduct them from your income. Investment expenses include:

- interest and carrying charges on property that you use to earn property income;
- (*) net property or net rental losses that you have when you rent out, or lease out, rental properties or multiple-unit residential buildings (MURBS), including your share of such losses from a partnership other than a partnership of which you are a specified member;
- (*) any other expenses that you deduct when you calculate your property income. This can include such things as repayments of inducements, capital cost allowance that you claimed on certified films and videotapes, or repayment of shareholder loans, except for the repayment of shareholder loans that you deducted when calculating your income for the year. However, you may elect to include in your investment income any shareholder loans that you included when calculating your 1988 and 1989 income. If you make this election, you must include in the calculation of your investment expenses the repayments of shareholder loans to the extent that these amounts were included in your investment income for 1988 and 1989;
- interest, carrying charges, and certain other expenses that you deduct when you calculate your share of income for the year from a partnership of which you were a specified member;
- (*) your share of losses (other than allowable capital losses) from a partnership of which you were a specified member. This includes limited partnership losses of other years that you deduct in the year; and
- one-half (1/2) of certain resource and exploration expenses that you deduct that were incurred and renounced by a corporation, or incurred by a partnership of which you were a specified member.

Note

You are considered to be 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 of the partnership.

Investment income

The investment income that you use to calculate your CNIL can include:

- interest;
- grossed-up taxable dividends that you received from taxable Canadian corporations;
- (*) net rental income that you received including your share of such income from a partnership other than a partnership of which you are a specified member, when you rented out or leased out rental properties or multiple-unit residential buildings (MURBs). This includes any capital cost allowance recapture;
- (*) your share of income (other than taxable capital gains) from partnerships of which you were a specified member, including any capital cost allowance recapture;
- one-half (1/2) of all amounts included in income that you had that are related to recovered exploration and development expenses;
- (*) any other property income which includes property, payments, and benefits, but does not include loans you received as a shareholder of a corporation that you include in your income in the year. However, as mentioned in the previous section called "Investment expenses", loans you received as a shareholder in 1988 and 1989 may be included in the calculation of your CNIL. You can elect to include these loans in the CNIL calculation provided you included the loans in your investment income for 1988 and 1989; and
- (*) the interest portion of annuity payments (other than an income-averaging annuity contract or an annuity purchased pursuant to a deferred profit sharing plan).

The following examples show you how you can use the information in this chapter in different tax situations.

Example 1

Jim had the following types of income and expenses for 1990 and 1991:

	1990	1991
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

He has to calculate his cumulative net investment loss (CNIL) at the end of 1990 and 1991 as follows:

1990

Investment expenses		
Carrying charges	$ 850	
Total investment expenses		$ 850
Deduct the following amounts:		
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, 1990		$ 0

Jim's CNIL at the end of 1990 is zero because a CNIL account cannot have a negative balance. Therefore, his CNIL account does not affect his claim for the capital gains deduction in 1990. When he fills in Form T657, *Calculation of Capital Gains Deduction for 1991*, he will put down a zero on line 15.

1991

Investment expenses that Jim claimed in 1991:		
Carrying charges	$ 600	
Net rental loss	2,000	
Total investment expenses claimed in 1991		$2,600
Add the following amounts:		
Total investment expenses claimed in 1990		850
Cumulative investment expenses		$3,450 (A)
Investment income reported in 1991		
Grossed-up taxable dividends	$ 100	
Interest income	500	
Total investment income reported in 1991		$ 600
Add the following amounts:		
Total investment income reported in 1990		2,400
Cumulative investment income		$3,000 (B)
CNIL to December 31, 1991 line (A) minus line (B)		$ 450

Jim calculated his CNIL to the end of 1991 even though he did not have any taxable capital gains in 1991. By calculating his CNIL each year, it will be easier for him to determine his CNIL when he claims a capital gains deduction in a later year.

Example 2

In 1989, Anne had taxable capital gains of $10,000. To offset this gain, she claimed a capital gains deduction of $10,000.

In 1990, Anne received interest income of $550, and grossed-up taxable dividends of $125. She also had a net rental loss of ($1,000), and carrying charges totalling $975 in that year.

In 1991, Anne sold some publicly traded shares, and ended up with a capital gain of $6,000. Since this was the only capital property she sold that year, her net taxable capital gain for 1991 was $4,500 ($6,000 x 3/4). She also received $1,100 in interest, and had a net rental loss of ($200).

Since she did not dispose of qualified farm property or qualified small business corporation shares, Anne can use Form T657A to calculate her capital gains deduction for 1991.

To calculate her annual gains limit, Anne has to fill in Part 1 of Form T657A as follows:

Name in Full (Print): Anne — Social Insurance Number: xxx xxx xxx

PART 1 — CALCULATION OF ANNUAL GAINS LIMIT FOR 1991

	Line	Amount	Line	Amount
(a) Total net capital gain (loss) for 1991 (total of line 537 Schedule 3 and line 390 on 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 1991 (line (2) plus line (3): if negative, enter zero)		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 1991 (line (5) plus line (6))			(7)	
ANNUAL GAINS LIMIT FOR 1991 (line (4) minus line (7): if negative, enter zero)			(8)	4,500 00

Anne's next step is to calculate her cumulative gains limit. However, before she can fill in Part 2 of Form T657A, she hàs to figure out her CNIL to the end of 1991. As a result, she has to fill in Form T936 as follows:

Revenue Canada Taxation   Revenu Canada Impôt

T936
Rev. 91

CALCULATION OF CUMULATIVE NET INVESTMENT LOSS TO DECEMBER 31, 1991

- Use this form if you have any "investment income" or "investment expenses" for 1991 or in any year after 1987. Investment income and expenses, defined in subsection 110.6(1) of the Income Tax Act, are outlined below.
- The cumulative net investment loss (CNIL) as determined below, reduces the amount of your cumulative gains limit for the year and may affect the allowable amount of your capital gains deduction.
- Even if you are not claiming the capital gains deduction in 1991, you should still complete this form 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.
- Refer to the 1991 **Capital Gains Tax Guide** for more information on cumulative net investment loss or contact your District Taxation Office.

Name in Full (Please Print)	Social Insurance Number
Anne	xxx xxx xxx

PART 1 — CUMULATIVE INVESTMENT EXPENSES

Investment expenses claimed on your 1991 return.

ADD: Carrying charges and interest expenses (from line 221)	(1)			
Net rental loss (from line 126 and/or related schedules or statements)	(2)	200 00		
Limited or non-active partnership loss (from line 122) other than allowable capital losses	(3)			
Limited partnership losses of other years after 1985 (from line 251) other than allowable capital losses	(4)			
50% of exploration and development expenses (from line 224)	(5)			
Any other expenses claimed in 1991 to earn property income (from line 232)*	(6)			
Total Investment Expenses claimed in 1991 (add lines (1) to (6) inclusive)		200 00 ▶	(7)	200 00
ADD: Investment Expenses claimed in prior years (after 1987) (Enter the amount from line (A) of your 1990 form T936. If you did not complete a form T936 for 1990, report the total expense amounts as described in lines (1) to (6) above, as claimed on your 1988, 1989 and 1990 returns.)			(8)	1,975 00
Cumulative Investment Expenses (add lines (7) and (8))				2,175 00 (A)

PART 2 — CUMULATIVE INVESTMENT INCOME

Investment income reported on your 1991 return.

ADD: Investment Income (from lines 120 and 121)	(9)	1,100 00		
Net rental income, including recaptured depreciation (from line 126)	(10)			
Net income from limited or non-active partnership (from line 122) other than taxable capital gains	(11)			
50% of income from the recovery of exploration and development expenses (from line 130)	(12)			
Any other property income reported in 1991 (from line 130)**	(13)			
Annuity payments taxable under paragraph 56(1)(d) less the capital portion deductible under paragraph 60(a)	(14)			
Total Investment Income reported in 1991 (add lines (9) to (14) inclusive)		1,100 00 ▶	(15)	1,100 00
ADD: Total Investment Income reported in prior years (after 1987) (Enter the amount from line (B) of your 1990 form T936. If you did not complete a form T936 for 1990, report the total income amounts described in lines (9) to (14) above, as reported on your 1988, 1989 and 1990 returns.)			(16)	675 00
Cumulative Investment Income (add lines (15) and (16))				1,775 00 (B)

PART 3 — CUMULATIVE NET INVESTMENT LOSS

Cumulative Investment Expenses (line (A) of Part 1) minus Cumulative Investment Income (line (B) of part 2): If negative (i.e. income is more than expenses), enter zero. This amount has to be entered on line 15 of form T657A or form T657(E), if you are claiming a capital gains deduction on your 1991 return .... 400 00 (C)

When she has determined her CNIL to the end of 1991, Anne can then fill in Part 2 of Form T657A:

PART 2 — CALCULATION OF CUMULATIVE GAINS LIMIT FOR 1991

(a) Taxable capital gains reported after 1984 and before 1991 (do not include reserves reported before 1988)	(9)	10,000 00	
ADD : Total taxable capital gains reported in 1991 (line (4) in Part 1 above)	(10)	4,500 00	
Cumulative taxable capital gains reported after 1984 (line (9) plus line (10))		14,500 00	▶ (11) 14,500 00
(b) Allowable capital loss claimed in 1985 (maximum $2000.00) (from line 127 of your 1985 return, if a loss was claimed)	(12)		
ADD : Total allowable business investment losses after 1984 and before 1991 (from line 217 of your 1985 to 1990 returns)	(13)		
Total net capital losses of other years claimed after 1984 and before 1991 (from line 253 of your 1985 to 1990 returns and form T1A (Request for loss carry-back)	(14)		
Cumulative net investment loss (line (C) on form T936)	(15)	400 00	
Total losses claimed in 1991 (line (7) in Part 1 above)	(16)		
Total capital gains deductions claimed after 1984 and before 1991 (from line 254 of your 1985 to 1990 returns)	(17)	10,000 00	
Subtotal (add lines (12) to (17) inclusive)		10,400 00	▶ (18) 10,400 00
CUMULATIVE GAINS LIMIT FOR 1991 (line (11) minus line (18): if negative, enter zero)			(19) 4,100 00

Anne's final step is to fill in Part 3 of Form T657A.

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

Maximum capital gains deduction for 1991			(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)	∅	
ADD: Adjustment of pre-1988 other capital property capital gains deductions (1/2 of amount at line (21))	(22)		
Capital gains deductions claimed in 1988 and 1989 on other capital property only: excluding eligible capital property (line 254 of your 1988 and 1989 returns less any amounts reported at line (544) on Schedule 3 for 1988 and 1989: if negative, enter zero)	(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	
Capital gains deductions claimed in 1988 and 1989 in respect of eligible capital property (not to exceed line 544 for 1988 and 1989)(total line 254 of your 1988 and 1989 returns less the amount at line (23) above)	(25)		
Total capital gains deduction claimed in 1990: other capital property only (from line 254 of your 1990 return)	(26)		
Subtotal (add lines (21) to (26) inclusive)		11,250 00	▶ (27) 11,250 00
CAPITAL GAINS DEDUCTION AVAILABLE FOR 1991 (line (20) minus line (27) if negative, enter zero)			(28) 63,750 00

PART 4 — DETERMINATION OF 1991 CAPITAL GAINS DEDUCTION ON OTHER CAPITAL PROPERTY

CAPITAL GAINS DEDUCTION ON OTHER CAPITAL PROPERTY: The maximum amount to be entered at line (29) is the least of lines (8), (19) **and (28)**; **however**, you may enter an amount that is less than the maximum. Enter this amount on line 254 on page 2 of your 1991 return	(29) 4,100 00

Anne is eligible to claim a capital gains deduction of $4,100. She can report this amount on line 254 of her 1991 return.

How do you apply your capital gains deduction?

As explained in the previous example, you should use Form T657A to calculate your 1991 capital gains deduction when you sell all types of capital property (except for qualified farm property, and qualified small business corporation shares). If you sold qualified farm property and/or qualified small business corporation shares in 1991 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 can claim a capital gains deduction which is equal to the **lowest** of the following amounts:

- your annual gains limit for 1991 **minus** the total of your capital gains deduction that you claimed in 1991 for qualified farm property, and qualified small business corporation shares;
- your cumulative gains limit at the end of 1991 **minus** the total of your capital gains deduction that you claimed in 1991 for qualified farm property, and qualified small business corporation shares; and
- your maximum lifetime capital gains deduction available for 1991 for **other** capital property. To calculate this amount, use Chart 1.

Note

When you calculate your maximum lifetime capital gains deduction available for 1991, you have to reduce your maximum deduction by:

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

This gross-up adjusts the rate from **one-half (1/2)** for years before 1988, and **two-thirds (2/3)** for 1988 and 1989, to **three-quarters (3/4)** for 1991. You do not have to adjust the amount for the 1990 taxation year as the inclusion rate is the same for 1991.

CHART 1

Maximum capital gains deduction ($100,000 x 3/4)			$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)______ x 3/2		$______ (3)	
All capital gains deductions claimed in 1988 and 1989 for other capital property	______ (4)		
Adjustment for increase in rates line (4) ______ x 9/8		______ (5)	
Capital gains deduction claimed in 1990		______ (6)	
Line (3) plus line (5) & (6)			______ (7)
Capital gains deduction available for 1991 for other capital property line (1) minus line (7)			$______ (8)

Qualified farm property

If you sold qualified farm property in 1991, you calculate your capital gains deduction by filling in Part 3 of Form T657. The following information will help you fill in the form.

When you dispose of qualified farm property and end up with a capital gain, you can claim a capital gains deduction in 1991 which is equal to the **lowest** of the following amounts:

- your annual gains limit for 1991;
- your cumulative gains limit at the end of 1991;
- your net taxable capital gains in 1991 from selling qualified farm property after 1984; and
- your maximum lifetime capital gains deduction available for 1991. To calculate this amount, use Chart 2.

Qualified small business corporation shares

If you sold qualified small business corporation shares in 1991, calculate your capital gains deduction by filling in Part 4 of Form T657.

When you sell qualified small business corporation shares after **June 17, 1987**, the maximum lifetime capital gains deduction that is available for this type of taxable capital gains is $375,000.

When you dispose of small business corporation shares in 1991 and end up with a capital gain, you can claim a capital gains deduction which is equal to the **lowest** of the following amounts:

- your annual gains limit for 1991 **minus** any capital gains deduction for qualified farm property claimed in 1991;
- your cumulative gains limit at the end of 1991 **minus** any capital gains deduction for qualified farm property claimed in 1991;
- your net taxable capital gains in 1991 for qualified small business corporation shares (excluding taxable capital gains included in your capital gains deduction for qualified farm property); and
- your maximum lifetime capital gains deduction available for 1991. To calculate this amount, use Chart 2.

Note

You may have a reserve from a previous year's sale of qualified small business corporation shares. If you include this reserve in your 1991 capital gains, the taxable part of the reserve may qualify for the increased capital gains deduction. This is so only if the sale took place after June 17, 1987.

CHART 2

Maximum capital gains deduction ($500,000 x 3/4)			$375,000 (1)
Capital gains deductions claimed after 1984, and before 1988, for all capital property	$______ (2)		
Adjustment for increase in rates line (2)______ x 3/2		$______ (3)	
Capital gains deductions claimed in 1988 and 1989 for all capital property	______ (4)		
Adjustment for increase in rates line (4)______ x 9/8		______ (5)	
All capital gains deductions claimed in 1990		______ (6)	
Line (3) plus line (5) & (6)			______ (7)
Maximum lifetime capital gains deduction available for 1991 line (1) minus line (7)			$______ (8)

T3 Slip — capital gains eligible for deduction

If you are the beneficiary of a trust, the capital gains reported in Box 21 may be **greater** than the capital gains eligible for deduction in Box 30. If this is the case, you have to re-calculate Schedule 3 up to line 540 to figure out your capital gains deduction for 1991. Report the amount from Box 30 on line 533 of Schedule 3, and use the resulting amount on line 540 to calculate your annual gains limit. Make sure you use Part 1 of either Form T657 or Form T657A (whichever applies to you). If Box 30 on your T3 slip is blank, the capital gains that you can deduct is the same as those reported in Box 21. 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. If there are no instructions attached to your slip, contact the person or institution that sent you the slip to find out how to calculate your capital gains deduction for 1991.

Example

Ryan received a T3 Supplementary from ABC Trust Company in 1991. A copy of the T3 is shown below. The amounts he received are shown in the boxes on the T3 Supplementary. Ryan had previously reported taxable capital gains of $200 in 1985 and $100 in 1988. He claimed a $100 capital gains deduction in both those years.

Box 21 → ENTER THIS AMOUNT ON LINE 533 ON SCHEDULE 3.

Box 23 → ENTER THIS AMOUNT IN PART 1 OF SCHEDULE 5 AND ON LINE 120 OF YOUR RETURN. FILL OUT FORM T936.

Box 23 → THIS AMOUNT IS NOT REPORTED ON YOUR TAX RETURN.

Box 25 → ENTER THIS AMOUNT IN PART II OF SCHEDULE 5 AND ON LINE 121 OF YOUR TAX RETURN AND ON LINE 508 ON SCHEDULE 1. FILL OUT FORM T936.

Box 34 → ENTER THIS AMOUNT ON LINE 507 ON SCHEDULE 1.

Box 26 → ENTER THIS AMOUNT ON LINE 130 OF YOUR RETURN.

Trust Year Ending							
Year 1991 Année	21 Capital Gains 250.00 Gains en capital	22 Pension Benefits Prestations de pension	23 Actual Amount Dividends - TCC 47.40 Montant réel dividendes de CCI	24 Foreign Business Income Revenu étranger tiré d'entreprises	25 Foreign Non-Business Income 3.54 Revenu étranger non tiré d'entreprises	26 Other Income 75.00 Autres revenus	27 Farming/Fishing Income Revenu de pêche/d'agriculture
Month Dec.	30 Capital Gains Eligible for Deduction 250.00 Gains en capital admissibles pour déduction	31 Eligible Pension Income Revenu de pensions admissible	32 Taxable Amount Dividends - TCC 59.25 Montant imposable dividendes de CCI	33 Foreign Business Income Tax Paid Imp. étranger payé sur rev. tiré d'entreprises	34 Foreign Non-Business Income Tax Paid .55 Imp. étranger payé sur rev. non tiré d'entreprises	35 Death Benefits Prestations consécutives au décès	36
Mois Fin d'année de la fiducie	37 Insur. Segregated Fund Losses (100.00) Pertes sur fonds réservé d'assureur	38 Part XII.2 Tax Credit Crédit d'impôt Partie XII.2	39 Federal Dividend Tax Credit - TCC 7.90 Crédit d'impôt fédéral pour dividendes de CCI	Investment Tax Credit - Crédit d'impôt à l'investissement: 40 Investment Investissement	41 Tax Credit Crédit d'impôt	Other Tax Credit - Autre crédit d'impôt: 42 Type Genre	Amount Montant
	12 Social Insurance Number Numéro d'assurance sociale	14 Account Number Numéro de compte T	16 Report Code Code de genre de feuillet	18 Beneficiary Code Code de bénéficiaire	Footnotes: — Notes:		

BENEFICIARY: SURNAME FIRST, AND FULL ADDRESS
BÉNÉFICIAIRE: NOM DE FAMILLE D'ABORD, ET ADRESSE COMPLÈTE

Ryan

NAME OF TRUST / MAILING ADDRESS OF TRUSTEE
NOM DE LA FIDUCIE / ADRESSE POSTALE DU FIDUCIAIRE

ABC Trust

• For Taxation Office
• *Pour le bureau d'impôt*

STATEMENT OF TRUST INCOME
ÉTAT DES REVENUS DE FIDUCIE

1

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T3 Supplementary - Supplémentaire Rev. 91

Box 39 → ENTER THIS AMOUNT ON LINE 502 OF SCHEDULE 1.

Box 30 → ENTER THIS AMOUNT ON LINE 533 ON SCHEDULE 3.

Box 37 → ENTER THIS AMOUNT ON LINE 254 OF YOUR RETURN. FILL OUT FORM T657A.

Ryan should first fill out Schedule 3, Schedule 1, and Schedule 5 and transfer the amounts to his return. Ryan had no other capital gains or other investment income in 1991. He did, however, have an investment expense of $25 for a safety deposit box in 1991.

Schedule 3 — Summary of Dispositions of Capital Property in 1991 (see "Line 127" in guide)

	Line	Amount
Information Slips – Capital Gains or Losses (attach T3, T5, T4PS slips) ($250.00 – $100.00)	533	150 00
Capital loss arising from reduction in Business Investment loss	535	(–)
Total of all net gains (or losses) in column (5) before reserves	537	150 00
Add: Total amount of Reserves from form T2017 (if negative, show in brackets and subtract)	538	–
Total Capital Gain (or loss)	539	150 00
Taxable Capital Gains (Allowable Capital Losses): 3/4 of the above "Total Capital Gain (or loss)"	540	112 50
Add: Taxable capital gain on disposition of eligible capital property - qualified farm property	543	–
Taxable capital gain on disposition of eligible capital property - other	544	–
Total Taxable Capital Gains (add lines 540 to 544 inclusive) (enter this amount on line 127 on page 1 of your return)		112 50

Schedule 1 — Detailed Tax Calculation (see guide) T1-1991

	Line	Amount	
Subtract: Total Non-Refundable Tax Credits from line 350 on page 3 of your return	501		
Federal Dividend Tax Credit: 13 1/3% of taxable amount of dividends from taxable Canadian corporations (line 120 on page 1 of your return)	502	7 90 •	
Minimum Tax Carry-over (see "line 504" in guide)	504	•	
Total of above credits			▶
Basic Federal Tax	506		
Subtract: Federal Foreign Tax Credit – make separate calculation for each foreign country.			
(a) Income Tax or Profits Tax paid to a foreign country	507	55 •	

(b) Net Foreign Income † 508 3 54 / Net Income†† X ("Basic Federal Tax"††† plus any Dividend Tax Credit) ______ = ______

Schedule 5 — Statement of Investment Income T1-1991

State names of payers in appropriate areas and enclose any information slips received. If space is insufficient attach a statement.

I - Taxable Amount of Dividends from Taxable Canadian Corporations (see "Line 120" in guide)
Include amounts credited through banks, trust companies, brokers and estates.

		Amount
ABC TRUST CO.		59 25
Total Dividends (enter on line 120 on page 1 of your return)	120	59 25

II - Interest and Other Investment Income (see "Line 121" in guide)

		Amount
Interest from bonds, Trust, Bank or other Deposits, Mortgages, Notes and other Securities (specify)		
Income from Foreign Sources		
ABC TRUST CO.		3 54
Total Interest and Other Investment Income (enter on line 121 on page 1 of your return)	121	3 54

IV - Carrying Charges and Interest Expenses (see "Line 221" in guide)

	Amount
Carrying Charges (specify)	
SAFETY DEPOSIT BOX	25 00
Interest on money borrowed to earn interest, dividend and royalty income	
Interest on money borrowed to acquire an interest in a limited partnership or a partnership in which you are not an active partner	25 00

Ryan would then complete Forms T936 and T657A. He should use Form T657A. He does not use Form T657 since he did not dispose of any qualified farm property or small business corporation shares. He would complete these forms as follows:

T936
Rev. 91

CALCULATION OF CUMULATIVE NET INVESTMENT LOSS TO DECEMBER 31, 1991

- Use this form if you have any "investment income" or "investment expenses" for 1991 or in any year after 1987. Investment income and expenses, defined in subsection 110.6(1) of the Income Tax Act, are outlined below.
- The cumulative net investment loss (CNIL) as determined below, reduces the amount of your cumulative gains limit for the year and may affect the allowable amount of your capital gains deduction.
- Even if you are not claiming the capital gains deduction in 1991, you should still complete this form 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.
- Refer to the 1991 **Capital Gains Tax Guide** for more information on cumulative net investment loss or contact your District Taxation Office.

Name in Full (Please Print)	Social Insurance Number
RYAN	XXX XXX XXX

PART 1 — CUMULATIVE INVESTMENT EXPENSES

Investment expenses claimed on your 1991 return.

	Line	Amount	Line	Total
ADD: Carrying charges and interest expenses (from line 221)	(1)	25 00		
Net rental loss (from line 126 and/or related schedules or statements)	(2)			
Limited or non-active partnership loss (from line 122) other than allowable capital losses	(3)			
Limited partnership losses of other years after 1985 (from line 251) other than allowable capital losses	(4)			
50% of exploration and development expenses (from line 224)	(5)			
Any other expenses claimed in 1991 to earn property income (from line 232)*	(6)			
Total Investment Expenses claimed in 1991 (add lines (1) to (6) inclusive)		25 00 ▶	(7)	25 00
ADD: Investment Expenses claimed in prior years (after 1987) (Enter the amount from line (A) of your 1990 form T936. If you did not complete a form T936 for 1990, report the total expense amounts as described in lines (1) to (6) above, as claimed on your 1988, 1989 and 1990 returns.)			(8)	
Cumulative Investment Expenses (add lines (7) and (8))			(A)	25 00

PART 2 — CUMULATIVE INVESTMENT INCOME

Investment Income reported on your 1991 return.

	Line	Amount	Line	Total
ADD: Investment Income (from lines 120 and 121) ($59.25 + $3.54)	(9)	62 79		
Net rental income, including recaptured depreciation (from line 126)	(10)			
Net income from limited or non-active partnership (from line 122) other than taxable capital gains	(11)			
50% of income from the recovery of exploration and development expenses (from line 130)	(12)			
Any other property income reported in 1991 (from line 130)**	(13)			
Annuity payments taxable under paragraph 56(1)(d) less the capital portion deductible under paragraph 60(a)	(14)			
Total Investment Income reported in 1991 (add lines (9) to (14) inclusive)		62 79 ▶	(15)	62 79
ADD: Total Investment Income reported in prior years (after 1987) (Enter the amount from line (B) of your 1990 form T936. If you did not complete a form T936 for 1990, report the total income amounts described in lines (9) to (14) above, as reported on your 1988, 1989 and 1990 returns.)			(16)	Ø
Cumulative Investment Income (add lines (15) and (16))			(B)	62 79

PART 3 — CUMULATIVE NET INVESTMENT LOSS

Cumulative Investment Expenses (line (A) of Part 1) minus Cumulative Investment Income (line (B) of part 2): If negative (i.e. income is more than expenses), enter zero. This amount has to be entered on line 15 of form T657A or form T657(E), if you are claiming a capital gains deduction on your 1991 return ..... Ø (C)

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T657A
Rev. 91

CALCULATION OF CAPITAL GAINS DEDUCTION FOR 1991 ON OTHER CAPITAL PROPERTY

- Use this form to determine the amount you may claim as a capital gains deduction for dispositions of other capital property included in income (including reserves on dispositions after 1984 of other capital property) in 1991, in accordance with section 110.6 of the Income Tax Act. If you disposed of capital property in 1991 OR IN PREVIOUS YEARS that was qualified farm property or qualified small business corporation shares, you must use form T657(E) rather than this form.
- You must be a resident of Canada for all of 1991 to be eligible for this deduction. Please note, you are considered a resident for the purposes of this deduction, if you left Canada permanently in 1991 but you had resided in Canada for all of 1990. You are also eligible for this deduction if you took up permanent residence in Canada in 1991 and you reside in Canada for all of 1992.
- Even if you have no tax payable, your gains from 1991 capital dispositions must be recorded on your 1991 income tax return. Failure to report a capital gain may result in the loss of the capital gains deduction for that disposition.
- Refer to the **1991 Capital Gains Tax Guide** for more information or contact your District Taxation Office.
- Please complete ALL parts of this form.

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

PART 1 — CALCULATION OF ANNUAL GAINS LIMIT FOR 1991

	Line	Amount	Line	Amount
(a) Total net capital gain (loss) for 1991 (total of line 537 Schedule 3 and line 390 on form T2017)	(1)	150.00		
Taxable capital gains (allowable capital losses) (3/4 of amount at line (1) above)	(2)	112.50		
ADD: Taxable capital gain on disposition of eligible capital property (from line 544 on Schedule 3)	(3)			
Total taxable capital gains for 1991 (line (2) plus line (3): if negative, enter zero)		112.50	(4)	112.50
(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 1991 (line (5) plus line (6))			(7)	
ANNUAL GAINS LIMIT FOR 1991 (line (4) minus line (7): if negative, enter zero)			(8)	112.50

PART 2 — CALCULATION OF CUMULATIVE GAINS LIMIT FOR 1991

	Line	Amount	Line	Amount
(a) Taxable capital gains reported after 1984 and before 1991 (do not include reserves reported before 1988)	(9)	300.00		
ADD: Total taxable capital gains reported in 1991 (line (4) in Part 1 above)	(10)	112.50		
Cumulative taxable capital gains reported after 1984 (line (9) plus line (10))		412.50	(11)	412.50
(b) Allowable capital loss claimed in 1985 (maximum $2000.00) (from line 127 of your 1985 return, if a loss was claimed)	(12)			
ADD: Total allowable business investment losses after 1984 and before 1991 (from line 217 of your 1985 to 1990 returns)	(13)			
Total net capital losses of other years claimed after 1984 and before 1991 (from line 253 of your 1985 to 1990 returns and form T1A (Request for loss carry-back)	(14)			
Cumulative net investment loss (line (C) on form T936)	(15)	Ø		
Total losses claimed in 1991 (line (7) in Part 1 above)	(16)			
Total capital gains deductions claimed after 1984 and before 1991 (from line 254 of your 1985 to 1990 returns)	(17)	200.00		
Subtotal (add lines (12) to (17) inclusive)		200.00	(18)	200.00
CUMULATIVE GAINS LIMIT FOR 1991 (line (11) minus line (18): if negative, enter zero)			(19)	212.50

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

	Line	Amount	Line	Amount
Maximum capital gains deduction for 1991			(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)	100.00		
ADD: Adjustment of pre-1988 other capital property capital gains deductions (1/2 of amount at line (21))	(22)	50.00		
Capital gains deductions claimed in 1988 and 1989 on other capital property only: excluding eligible capital property (line 254 of your 1988 and 1989 returns less any amounts reported at line (544) on Schedule 3 for 1988 and 1989: if negative, enter zero)	(23)	100.00		
Adjustment of 1988 and 1989 other capital property capital gains deductions (1/8 of amount at line (23))	(24)	12.50		
Capital gains deductions claimed in 1988 and 1989 in respect of eligible capital property (not to exceed line 544 for 1988 and 1989)(total line 254 of your 1988 and 1989 returns less the amount at line (23) above)	(25)			
Total capital gains deduction claimed in 1990: other capital property only (from line 254 of your 1990 return)	(26)			
Subtotal (add lines (21) to (26) inclusive)		262.50	(27)	262.50
CAPITAL GAINS DEDUCTION AVAILABLE FOR 1991 (line (20) minus line (27) if negative, enter zero)			(28)	74,737.50

PART 4 — DETERMINATION OF 1991 CAPITAL GAINS DEDUCTION ON OTHER CAPITAL PROPERTY

	Line	Amount
CAPITAL GAINS DEDUCTION ON OTHER CAPITAL PROPERTY: The maximum amount to be entered at line (29) is the least of lines (8), (19) and (28); however, you may enter an amount that is less than the maximum. Enter this amount on line 254 on page 2 of your 1991 return	(29)	112.50

Note

If Ryan had not claimed any capital gains deductions before 1991, he would not have had to complete lines 17 and 18 and lines 21 to 25 on Form T657A.

CHAPTER 7
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.

What is a reserve?

When you sell a capital property, you usually receive full payment at the time the property is sold. There may be a time, however, when you **do not** receive the full payment at the time of sale. Sometimes the amount is spread over a number of years. For instance, you may sell a capital property for $50,000 and receive $10,000 at the time of the sale. You receive the remaining $40,000 over a period of four years. In this type of situation, you would have a **reserve.** In other words, any part of the money that you do not receive in the same taxation year that you sell the capital property, qualifies for the reserve.

Even though you have a reserve, you still need to calculate your capital gain for the year. You do this in the regular way (the proceeds of disposition **minus** the adjusted cost base and the selling expenses). From this amount, you have to deduct the amount of your reserve for the year. The figure that you end up with is the part of the capital gain that you have to report in the year of sale.

If you claimed a reserve in a **previous year**, include that reserve when you calculate your capital gains for the **current year**. For instance, if you claimed a reserve in 1990, you have to include this amount in your capital gains for 1991. If you still have a reserve for 1991, you have to calculate and deduct a new reserve, and include it for the following year — 1992. Keep doing this until you have received full payment for the property. However, there is a limit to the number of years that you can do this. It depends on the type of property that you sold.

Since there was no capital gains deduction before 1985, a reserve qualifies for the **capital gains deduction** only if you sold the property after 1984. For information about the capital gains deduction, see the heading "What type of property qualifies for the capital gains deduction?" on page 29 of Chapter 6.

To deduct a reserve in any year, you have to fill in Form T2017, *Summary of Reserves on Dispositions of Capital Property*. You can find this form in the centre section of this guide.

Who can claim a reserve?

Most people can claim a reserve when they sell a capital property. However, you **cannot** claim a reserve if you:

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

How do you calculate a reserve?

There are two different ways to calculate a reserve. The one that you use depends on **when** you sold the property, and the type of property sold.

Property sold <u>on or before</u> November 12, 1981

If you sold property on or before November 12, 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 that you sold **after** November 12, 1981, if:

- the sale took place under the terms of an offer or an agreement in writing; and
- the offer or agreement was made, or entered into, on or before November 12, 1981.

Property sold <u>after</u> November 12, 1981

If you sold property after November 12, 1981, the formula you use to calculate your maximum reserve depends on the type of property you sold. There are two formulas: one formula for when you sell **other property**, and one formula for when you sell **family farm property or small business corporation shares.**

Note

You do not have to claim the maximum reserve in the taxation year. You may claim any amount up to the maximum. However, the amount of the reserve you claim in a later year for the disposition of a particular property may not be more than the amount you claimed for that property in the immediately preceding year.

Other property

For all other property that you sell after November 12, 1981, you can spread the capital gain over a maximum of five years. Your reserve in each year cannot be more than the lesser of the following:

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

or

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

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

By using this calculation, you end up reporting at least one-fifth of the capital gain each year until you have reported the entire amount.

Example

Raju sold his cottage in 1991 for $75,000. The adjusted cost base (ACB) of the cottage is $50,000, and his selling expenses were $5,000. Raju received a down payment of $30,000 at the time of sale. He will receive $5,000 a year for the following nine years.

Raju has to calculate his capital gain as follows:

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

Since Raju did not receive full payment for the sale in the year he sold the cottage, he may claim a reserve. However, even though he will not receive the total selling price for nine years, he cannot spread the capital gain that he has to report over more than five years.

Raju's maximum reserve for 1991 is (a) or (b), **whichever is less:**

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

or

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

* No taxation years have ended since the year of the sale. As a result, Raju does not have to reduce the number "4" in this calculation.

Raju enters the $12,000 reserve on line 388 on Form T2017, *Summary of Reserves on Dispositions of Capital Property*. When he completes Schedule 3, *Summary of Dispositions of Capital Property in 1991*, he enters the following amounts:

Line 530 and 537 — total capital gains	$20,000
Line 538 — total amount of reserves from Form T2017	(12,000)
Line 539 — total capital gain	$ 8,000
Line 540 — taxable capital gain (3/4 of $8,000)	$ 6,000

Raju reports the taxable capital gain of $6,000 on line 127 of his tax return.

In 1992, Raju has to report his 1991 reserve of $12,000 as a capital gain. Since there is still an amount due to him at the end of 1992, he may calculate a new reserve, and deduct it from the $12,000.

Family farm property or small business corporation shares

If you sell one of these two types of property after November 12, 1981, to your child (who lived in Canada at the time of the sale), you calculate your reserve in the following way. Remember that you can spread your capital gain over a maximum of 10 years. Also remember that your maximum reserve is the lesser of (a) or (b):

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

or

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

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

By using this calculation, you will end up reporting at least one-tenth (1/10) of the capital gain each year until you have reported the entire amount.

Family farm property includes:

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

CHAPTER 8
PRINCIPAL RESIDENCE

This chapter explains the meaning of a principal residence, how to designate it, and what happens when you sell it. It also explains what to do in other special tax situations.

When you sell your home, and if it was your principal residence for every year that you owned it, you usually do not have to pay tax on any gain from the sale. If you need more information after reading this chapter, get Interpretation Bulletin IT-120, *Principal Residence*.

What is your principal residence?

It is the housing unit you normally live in. 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.

A property qualifies 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.

The land on which your home is located can be part of your principal residence. Usually, the amount of land that you can consider as part of your principal residence is limited to **one-half hectare** (approximately one acre). However, if you can show that you need more land to use and enjoy your home, you can consider more than this amount as part of your principal residence. For example, this may happen if the minimum lot size imposed by a municipality at the time you bought the property is larger than one-half hectare.

How do you designate your home as your principal residence?

Each year you own your home and use it as your principal residence, you can designate it as your principal residence. However, you do not have to designate it each year. You only have to do it in the year that you **sell** your principal residence. To do this, just fill in Form T2091, *Designation of a Principal Residence.*

For 1982 and any years after, you can designate only one home as your family's principal residence for each year.

For 1982 and any years after, during which you were married, or were 18 years of age or older, **a family includes**:

- you;
- a person who throughout the year was 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 married during the year, or who was 18 years of age or older).

For 1982 and any years after, during which you were **not** married, or 18 years of age or older, **a family includes:**

- your mother or father; or
- your brother or sister (who was not during the year married or who was 18 years of age or older).

Note

Under proposed legislation, the principal residence exemption is being extended (for dispositions after 1990) to certain additional personal trusts if they meet certain conditions. If you would like more information on this proposed legislation, see Form T2091, *Designation of Principal Residence*, or contact your district taxation office.

For years before 1982, you can designate **more** than one home per family as a principal residence. As a result, it is possible for a husband and wife to designate different principal residences for these years. However, a special rule applies if members of a family designate more than one home as a principal residence for years before 1982. For more information, see Interpretation Bulletin IT-120, *Principal Residence.*

Did you dispose of all or a part of your principal residence?

You have to fill in Form T2091, *Designation of a Principal Residence*, if you:

- sold your principal residence, or any part of it;
- granted someone 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. For more information, see the next section in this chapter called "Special situations."

If your home **was not** your principal residence for every year that you owned it, Form T2091 will be able to determine:

- the number of years that you were entitled to designate your home as your principal residence; **and**
- the amount of capital gain that you have to report on your tax return.

Note

You only have to include Form T2091 with your tax return 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. For more information about this deduction, see Chapter 6.

Special situations

When you sell your principal residence, you may have a taxable capital gain if you:

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

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

You may be living in a home that you have designated as your principal residence. However, you may decide that you would like to change the use of your home. You might want to rent it out, or use it to operate a business. If you do this, your home would no longer be considered to be for your own personal use or enjoyment. You would be using it to earn or produce income.

At the time you change the use of your property, two things happen:

- you are considered to have disposed of the property at its fair market value; and
- you are considered to have re-acquired the property for this same fair market value.

By knowing the fair market value, you will be able to tell if you have any capital gain on the property. However, if your home was your principal residence for every year you owned it before you changed its use, you do not have to pay tax on any gain when you changed its use.

If at some point, you stop using the property to earn income but do not actually sell it, you are considered to have disposed of it again. In this case, your capital gain is considered to be the **increase** in the fair market value during the time you used the property to earn income.

You have to report any capital gain that you are considered to make from the property on line 521 of Schedule 3. You usually have to do this in the calendar year that you changed the property's use.

Elections

When you change your principal residence to a rental or business property, you can make a special election. With this election, you can choose **not** to be considered as having started to use your principal residence as a rental or business property. This means you **do not** have to report any capital gain when you change its use.

To make this election, you have to attach a letter to your tax 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 valid until you either sell the property, or cancel the election.

If you make this election, you can 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). You can do this as long as:

- you do not deduct capital cost allowance on the property; and
- you do not designate any other property as your principal residence during this time.

In addition, you can **extend** the four-year limit indefinitely if:

- you are absent from your principal residence because your employer, or your spouse's employer, wants 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 farther than your temporary residence from your, or your spouse's, new place of employment.

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

Using part of your principal residence for a rental or business operation

You are usually considered to have changed the use of part of your principal residence when you start to use that part for rental or business purposes. You are also considered to have sold that part at its fair market value at that time. However, you are **not** considered to have changed its use if:

- the part you use for rental or business purposes is small 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 purposes.

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

However, if all the previously mentioned conditions are not met, when you actually **sell** the property:

- you have to split the selling price and the adjusted cost base between the part used for the principal residence and the part used for the business. You can do this by using either square metres or the number of rooms, as long as the split is reasonable; and
- you do not have to report any capital gain for the part being used for the principal residence. Any capital gain on the part used for rental or business purposes may qualify for the capital gains deduction. See Chapter 6 for more information.

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

If you buy a property to use as a rental or business property, and later begin to use it as your principal residence, you are considered to have sold the property at its fair market value at the time you change its use.

You can elect to postpone the disposition of your property until you actually sell the property. However, this election **cannot** be made if:

- you;
- your spouse; or
- a trust under which you or your spouse is a beneficiary;

has deducted capital cost allowance on the property for any taxation year after 1984, and on or before the day you change its use.

To make this election, you have to 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.*

Make this election on or before one of the following two dates, whichever is **earlier**:

- 90 days after the date Revenue Canada, Taxation asks you to make the election; or
- April 30th following the year in which you actually sell the property.

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

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

You were asking...?

Q. I started to use my business property as my principal residence in 1991. 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. If I end up with a gain after I do all the calculations, is this gain eligible for the capital gains deduction?

A. Yes. When you sell capital property and have a taxable gain, you can usually claim the capital gains deduction. You can do this when you actually sell, 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. In this case, you have to make an election under subsection 45(3) of the *Income Tax Act.*

Farms

If you are a farmer and you sell farmland in 1991 that includes your principal residence, you have a choice of two methods to calculate your capital gain. These two methods are explained in Chapter 8 of the *Farming Income Tax Guide.*

CHAPTER 9
LEAVING OR ENTERING CANADA

Who should read this chapter?

You should read this chapter if you:

- entered Canada (became a resident of Canada) in 1991; or
- left Canada (ceased to be a resident of Canada) in 1991.

Did you leave Canada in 1991?

If you emigrate (cease to be a resident of Canada), you are considered to have sold all your capital property at the time you leave. However, this does not include **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;
- a capital interest in a Canadian trust, except certain mutual fund trusts; and
- an interest in certain partnerships.

Certain 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 benefits, Workers' Compensation Board benefits, and social assistance;
- retiring allowances; and
- income-averaging annuity contracts, registered retirement savings plans, and registered retirement income fund payments.

These properties and payments will continue to be subject to Canadian income tax even when you emigrate.

Other capital property

At the time you emigrate, you are considered to have sold all other capital property (such as publicly traded shares, listed personal property, and personal-use property) at its fair market value. You have to report any capital gain or loss in the year that you emigrate.

When you dispose of capital property, you usually have to pay income tax on the disposition by April 30 following the year you left Canada. However, you can make certain elections regarding the tax you have to pay and the deemed disposition of capital property.

When you emigrate and dispose of your capital property, you can elect to pay any resulting tax in **up to** six yearly instalments. You can do this if you:

- provide acceptable security (for more information, contact the Collections Section at your district taxation office); and
- fill in Form T2074, *Election Under Subsection 159(4) to Defer Payment of Income Tax on the Deemed Disposition of Property,* and file it on or before the day your last return (as a person residing in Canada) is due.

Note

If you elect to make yearly instalments, you will be charged interest on the unpaid balance until it is paid in full.

Options for disposing of property

If you are considered to have disposed of property when you emigrate, you may want to consider the following two options.

Option 1

You may choose to be considered as having 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, you have to:

- report the sale of the property on Schedule 3, *Summary of Dispositions of Capital Property in 1991,* in the *General Tax Guide* and return package; and
- fill in Form T657, *Calculation of Capital Gains Deduction for 1991 on All Capital Property,* or Form T657A, *Calculation of Capital Gains Deduction for 1991 on Other Capital Property.* You should also fill in Form T936, *Calculation of Cumulative Net Investment Loss to December 31, 1991.* Include these forms with your return for the year you emigrate.

If you use this option, you have to fill in 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

As previously explained in this chapter, at the time you emigrate from Canada you are considered to have sold all your capital property. However, it is possible for you to have some, or all, of your capital property considered as **not** having been sold at the time you emigrate. This property would be considered **taxable Canadian property**. As a result, you would not have a capital gain or loss until you actually sold, or are considered to have sold, the property. To do this, you have to:

- provide acceptable security for the payment of any tax you are postponing (for more information, contact the Collections Section at your district taxation office); and
- fill in Form T2061, *Election by an Emigrant to Defer Deemed Disposition of Property and Capital Gains Thereon*, on or before the day your last return (as a person residing in Canada) is due.

If you chose to follow one of the options, the amount of the allowable capital losses from the deemed dispositions that you may deduct is limited to the **lesser** of:

- the total of the allowable capital losses from the deemed dispositions; and
- taxable capital gains arising from the deemed dispositions of such property.

You may be eligible to claim the capital gains deduction, which is explained later in this chapter.

Tax Tip

Before you decide whether or not you would like to consider these options, you should carefully assess your situation. Take into consideration your taxable capital gains, allowable capital losses, capital gains deduction, and your cumulative net investment loss.

Did you enter Canada in 1991?

When you immigrate (become a resident of Canada), you are considered to have bought all your capital property at its fair market value at the time you enter. However, 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.

As a result, when you immigrate you have to:

- make a list of all the property you own; and
- note the fair market value of each property at that time.

If you later decide to dispose of any of your property, be sure to keep in mind that the cost of each property is its fair market value at the time you immigrated. You will need to know this amount when you calculate any capital gain or loss.

Are you entitled to claim the capital gains deduction?

When you calculate your taxable income, you can claim the capital gains deduction only if you resided in Canada for the entire taxation year. However, you are considered to be a resident of Canada for the entire 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 any capital gains that you had on actual sales, or on sales that are considered to have taken place.

If you emigrated or immigrated, there are several situations you may find yourself in. In each situation, you may or may not be entitled to claim the capital gains deduction. If you:

- **emigrated** in 1991, you **can** claim the capital gains deduction for 1991 **if** you resided in Canada at any time in 1991, and for all of 1990;
- **immigrated** in 1991, but did not reside in Canada for the entire year, you **cannot** claim the capital gains deduction for 1991 until you reside in Canada for all of 1992;
- **immigrated** in 1990, and resided in Canada for all of 1991, you **can** claim the capital gains deduction for 1990. If you would like to claim this deduction on your 1990 return, see the section called "Changing your return after you mail it" in the *General Tax Guide*.

You were asking...?

Q. I entered Canada as an immigrant from another country in May 1990. Later in 1990, I sold some shares and had a capital gain which I reported on my 1990 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 1990 return adjusted. Is this correct?

A. If you continue to reside in Canada for all of 1991, for the purpose of the capital gains deduction, you are considered to have been a resident for all of 1990. This means that you are eligible to claim the capital gains deduction for 1990.

For more information about the capital gains deduction, see Chapter 6.

If you would like more information about capital property and what happens to it when you leave or enter Canada, get the *Tax Guide for New Canadians*, or the *Tax Guide for Emigrants*. You can also get Interpretation Bulletin IT-451, *Deemed Disposition and Acquisition on Ceasing to be or Becoming Resident in Canada*.

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Your opinion counts!

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:

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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 1991 *General Tax Guide* for the address and telephone number of your district office. If you mail the order form, allow three weeks for delivery.

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