



CALCULATION OF CAPITAL GAINS DEDUCTION FOR 2002

Use this form if you disposed of **qualified farm property** or **qualified small business corporation shares** in 2002 or a previous year. For the definitions of qualified farm property and qualified small business corporation shares, see the Glossary in the *Capital Gains* guide.

Note

Any capital gains realized from the disposition of qualified farm property or qualified small business corporation shares while you were a non-resident of Canada, are not eligible for the capital gains deduction.

You have to be a resident of Canada throughout 2002 to be eligible to claim the capital gains deduction. For the purpose of this deduction, we also consider you to be a resident throughout 2002 if you were a resident of Canada for part of 2002 and throughout 2001 or 2003.

If you have investment income or investment expenses in 2002, complete Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2002*, before you complete this form. Form T936 lists what we consider to be investment income and expenses. You can get this form from our Web site at www.ccra.gc.ca or by calling us at **1-800-959-2221**.

What is the capital gains deduction limit?

There is a limit to the amount of capital gains deduction you can claim. This limit depends on the type of capital property you disposed of. If you disposed of qualified farm property or qualified small business corporation shares, you may be eligible for the \$500,000 capital gains exemption. Because you only include half of a capital gain in your income, your cumulative capital gains deduction is \$250,000 ($1/2 \times \$500,000$). The total of your capital gains deductions from 1985 to 2002 for all types of capital property cannot be more than your cumulative deduction of \$250,000. For more information, see the section called "Claiming a capital gains deduction" in the *Capital Gains* guide.

Qualified farm property

When you dispose of qualified farm property and have a capital gain, you can claim a capital gains deduction in 2002 that is equal to one of the following amounts, whichever is **lowest**:

- your annual gains limit for 2002;
- your cumulative gains limit for 2002;
- your net taxable capital gains in 2002 from dispositions of qualified farm property after 1984; or
- your maximum capital gains deduction available for 2002.

Qualified small business corporation shares

When you dispose of qualified small business corporation shares and have a capital gain, you can claim a capital gains deduction in 2002 equal to one of the following amounts, whichever is **lowest**:

- your annual gains limit for 2002 **minus** any capital gains deduction for qualified farm property claimed in 2002;
- your cumulative gains limit for 2002 **minus** any capital gains deduction for qualified farm property claimed in 2002;
- your net taxable capital gains in 2002 from dispositions of qualified small business corporation shares after June 17, 1987; or
- your maximum capital gains deduction available for 2002.

There is an election available to you if you own shares of a qualifying small business corporation that stops being a small business corporation because:

- a class of its shares is listed on a prescribed stock exchange; or
- after 1999, a class of another corporation's shares is listed on a prescribed stock exchange.

This election will allow you to report a capital gain on your return and claim the \$250,000 capital gains deduction, even though you did not actually sell your shares. The deduction applies to any gain you have on these shares to the date the shares are listed. To make this election, complete Form T2101, *Election in Respect of Gains on Shares of a Corporation Becoming Public*. You can get this form from our Web site, by calling us, or from your tax services office or tax centre.

Part 1 – Calculating your annual gains limit for 2002

Total net capital gains (or losses): total of lines 107, 110, and 124 of Schedule 3 plus lines 6683 and 6690 of Form T2017 (if the amount is a loss, show it in brackets)	_____		_____	1
Total taxable capital gains (or losses): Amount from line 1 _____ X 1/2 .. =	_____		_____	2
Farming income eligible for the capital gains deduction (line 173 on Schedule 3)	+		_____	3
Eligible taxable capital gains or losses (line 2 plus line 3; if negative, enter "0")	=		_____	4
Total taxable capital gains or net capital losses from line 199 of Schedule 3 (if the amount is a loss, show it in brackets)	_____		_____	5
Amount from line 176 on Schedule 3 _____ X 1/2	-		_____	6
Line 5 minus line 6	=		_____	7
Enter the amount from line 3 above	+		_____	8
Line 7 plus line 8 (if the amount is a loss, enter "0")	=		_____	9
2002 eligible taxable capital gains (enter the amount from line 4 or 9, whichever is less ; if line 10 is zero, you cannot claim a capital gains deduction for 2002)	=		_____	10
Net capital losses of other years deducted in 2002 (line 253 of your 2002 return). The amount cannot exceed the amount from line 7 above.	_____		_____	a
Net capital losses of other years applied against net non-eligible taxable capital gains in 2002 (line 7 in Part 1 of Form T936 for 2002)	-		_____	b
Net capital losses of other years (line a minus line b; if negative, enter "0").	=		_____	11
Allowable business investment losses (line 217 of your 2002 return)	+		_____	12
Line 11 plus line 12	=		_____	13
Annual gains limit for 2002 (line 10 minus line 13; if negative, enter "0")	=		_____	14

If line 14 is zero, do not complete the rest of this form, because you cannot claim a capital gains deduction for 2002.

Part 2 – Calculating your cumulative gains limit for 2002

Total taxable capital gains reported after 1984 and before 1992 (line 127 of your returns for these years). Do not include reserves reported on property disposed of before 1985.	_____		_____	15
1992 and 1993 eligible taxable capital gains (line 3 in Part 1 of Form T657 or T657A for 1992 and 1993)	+		_____	16
1994 eligible taxable capital gains (line 5 in Part 1 of Form T657 or T657A for 1994)	+		_____	17
1995 eligible taxable capital gains (line 7 in Part 1 of Form T657 or line 3 of Form T657A for 1995)	+		_____	18
1996 to 1999 eligible taxable capital gains (line 8 in Part 1 of Form T657 for those years)	+		_____	19
2000 eligible taxable capital gains (line 7 in Part 1 of Form T657 for 2000)	+		_____	20
2001 eligible taxable capital gains (line 8 in Part 1 of Form T657 for 2001)	+		_____	21
2002 eligible taxable capital gains (line 10 in Part 1 above)	+		_____	22
Cumulative eligible taxable capital gains (total of lines 15 to 22)	=		_____	23
Allowable capital losses claimed in 1985 (amount shown in brackets on line 127 of your 1985 return; maximum of \$2,000)	_____		_____	24
Allowable business investment losses claimed after 1984 and before 2002 (line 217 on your 1985 to 2001 returns)	+		_____	25
Net capital losses of other years claimed after 1984 and before 2002 (enter the total of amounts in column G of Chart 1 on page 4)	+		_____	26
Total losses used to calculate your annual gains limit for 2002 (from line 13 of Part 1 above)	+		_____	27
Cumulative net investment loss to December 31, 2002 (line C in Part 3 of Form T936 for 2002)	+		_____	28
Total capital gains deductions claimed after 1984 and before 2002 (line 254 on your 1985 to 2001 returns)	+		_____	29
Total of lines 24 to 29	=		_____	30
Cumulative gains limit for 2002 (line 23 minus line 30; if negative, enter "0")	=		_____	31

If line 31 is zero, do not complete the rest of this form, because you cannot claim a capital gains deduction for 2002.

Part 3 – Calculating your capital gains deduction on qualified farm property

Complete this part if:

- you disposed of qualified farm property in 2002; or
- you are reporting a reserve in 2002 on qualified farm property you disposed of after 1984.

Maximum capital gains deduction for qualified farm property for 2002	\$250,000 00	32
Capital gains deductions from previous years (line k of Chart 2 on page 4)	-	33
Capital gains deduction available for qualified farm property for 2002 (line 32 minus line 33; if negative, enter "0")	=	▶ 34
Taxable capital gains from the disposition of qualified farm property in 2002:		
Line 110 of Schedule 3		
Line 124 of Schedule 3	+	
Line 6683 of Form T2017	+	
Total	=	X 1/2 ▶ 35
Farming income eligible for the capital gains deduction (line 173 of Schedule 3)	+	36
Total taxable capital gains from the disposition of qualified farm property (line 35 plus line 36)	=	▶ 37
Capital gains deduction on qualified farm property – The maximum amount you can enter on line 38 is the least of lines 14, 31, 34, and 37. However, you can enter an amount that is less than the maximum.	=	38
If, in 2002, you disposed of qualified small business corporation shares or reported a reserve from a previous year for such shares, complete Part 4. Otherwise, complete Part 5.		

Part 4 – Calculating your capital gains deduction on qualified small business corporation shares

Complete this part if:

- you disposed of qualified small business corporation shares in 2002; or
- you are reporting a reserve in 2002 on qualified small business corporation shares you disposed of after June 17, 1987.

Maximum capital gains deduction for qualified small business corporation shares for 2002	\$250,000 00	39
Capital gains deductions from previous years (line k of Chart 2 on page 4)	-	40
Capital gains deduction available for qualified small business corporation shares for 2002 (line 39 minus line 40; if negative, enter "0")	=	▶ 41
Taxable capital gains from the disposition of qualified small business corporation shares in 2002:		
Line 107 of Schedule 3		
Line 6690 of Form T2017	+	
Total	=	X 1/2 ▶ 42
Annual gains limit (from line 14 in Part 1 on page 2)		43
Capital gains deduction on qualified farm property (line 38 in Part 3 above)	-	44
Net annual gains limit (line 43 minus line 44)	=	▶ 45
Cumulative gains limit (line 31 in Part 2 on page 2)		46
Capital gains deduction on qualified farm property (line 38 in Part 3 above)	-	47
Net cumulative gains limit (line 46 minus line 47)	=	▶ 48
Capital gains deduction on qualified small business corporation shares – The maximum amount you can enter on line 49 is the least of lines 41, 42, 45, and 48. However, you can enter an amount that is less than the maximum.	=	49

Part 5 – Calculating your maximum capital gains deduction for 2002

Maximum capital gains deduction on all capital property	\$250,000 00	50
Capital gains deductions from previous years (line k of Chart 2 on page 4)	-	51
Capital gains deduction available for 2002 (line 50 minus line 51; if negative, enter "0")	=	52
Capital gains deduction on qualified farm property (line 38 in Part 3 above)		53
Capital gains deduction on qualified small business corporation shares (line 49 in Part 4 above)	+	54
Line 53 plus line 54	=	▶ 55
The maximum amount you can enter on line 56 is the lesser of lines 52 and 55. However, you can enter an amount that is less than the maximum. Enter this amount on line 254 of your 2002 return.	=	56

Chart 1 – Calculating line 26 (net capital losses of other years)

- Column A Enter the amount of net capital losses from other years claimed for each year indicated (amount from line 253 of each return).
- Column B For 1985, 1986, and 1987, enter 1/2 of reserves included in capital gains for capital property disposed of before 1985 (1/2 of those reserves reported on your Schedule 3 for 1985, 1986, and 1987).
For 1988 and 1989, enter 2/3 of reserves included in capital gains for capital property disposed of before 1985 (2/3 of the amount entered on line 395 of Form T2017 for 1988 and 1989).
For 1990 and 1991, enter 3/4 of reserves included in capital gains for capital property disposed of before 1985 (3/4 of the amount entered on line 395 of Form T2017 for 1990 and 1991).
- Column C For 1992, enter the **lesser** of the amount from line 127 of your 1992 return or the amount from line (f) in Part A of Form T936 for 1992.
For 1993, enter the **lesser** of the amount from line 127 of your 1993 return or the amount from line (d) in Chart A of Form T936 for 1993.
For 1994, enter the amount from line (p) in Chart B of Form T936 for 1994.
For 1995, enter the amount from line (m) in Chart B of Form T936 for 1995.
For 1996, 1997, 1998, and 1999, enter the amount from line 17 in Chart A of Form T936 for 1996, 1997, 1998, and 1999.
For 2000, enter the amount from line 24 in Chart A of Form T936 for 2000.
For 2001, enter the amount from line 17 in Chart A of Form T936 for 2001.
- Column D For 1992, enter the amount from line (k) in Part B of Form T936 for 1992.
For 1993, enter the amount from line (k) in Chart B of Form T936 for 1993.

Year	A	B	C	D	E	F	G
					(C - D) If negative, enter "0"	(B + E)	(A - F) If negative, enter "0"
1985			N/A	N/A	N/A		
1986			N/A	N/A	N/A		
1987			N/A	N/A	N/A		
1988			N/A	N/A	N/A		
1989			N/A	N/A	N/A		
1990			N/A	N/A	N/A		
1991			N/A	N/A	N/A		
1992		N/A					
1993		N/A					
1994		N/A		N/A			
1995		N/A		N/A			
1996		N/A		N/A			
1997		N/A		N/A			
1998		N/A		N/A			
1999		N/A		N/A			
2000		N/A		N/A			
2001		N/A		N/A			

Add the amounts in column G and enter the result on line 26 in Part 2 of this form.

Chart 2 – Calculating lines 33, 40, and 51 (capital gains deductions from previous years)

Total capital gains deductions claimed after 1984 and before 1988 (line 254 of your 1985 to 1987 returns)	_____	a
Capital gains deductions claimed in 1988 and 1989 excluding eligible capital property (line 254 of your 1988 and 1989 returns minus any amounts reported on lines 543 and 544 on Schedule 3 for 1988 and 1989; if negative, enter "0")	+ _____	b
Adjustment of 1988 and 1989 capital gains deductions excluding eligible capital property (enter 1/4 of amount on line b)	- _____	c
Capital gains deductions claimed in 1988 and 1989 for eligible capital property (total of lines 254 of your 1988 and 1989 returns minus the amount on line b above; not to exceed the total of lines 543 and 544 on Schedule 3 for 1988 and 1989)	+ _____	d
Adjustment of 1988 and 1989 capital gains deductions for eligible capital property (enter 1/3 of amount on line d) ..	- _____	e
Total capital gains deductions claimed in 1990 to 1999 (line 254 of your returns for these years)	+ _____	f
Adjustment of 1990 to 1999 capital gains deductions (enter 1/3 of amount on line f)	- _____	g
Total capital gains deduction claimed in 2000 (line 254 of your 2000 return)	+ _____	h
Adjustment of 2000 capital gains deduction. Amount from line h × [1 - (1 ÷ (2 × IR))]	- _____	i
Total capital gains deduction claimed in 2001 (line 254 of your 2001 return)	+ _____	j
Total of lines a to j	= _____	k

Note: IR represents your inclusion rate for 2000. This rate was determined on line 16 in Part 4 of your Schedule 3 for 2000.