



## CALCULATION OF CAPITAL GAINS DEDUCTION FOR 2007

Use this form if you disposed of **qualified farm property** or **qualified small business corporation shares** in 2007 or a previous year, or disposed of **qualified fishing property** after May 1, 2006. For the definitions of qualified farm property, qualified fishing property, and qualified small business corporation shares, see the Glossary in Guide T4037, *Capital Gains*.

### Note

You have to be a resident of Canada throughout 2007 to be eligible to claim the capital gains deduction on gains arising from dispositions in 2007 of the above properties. For the purpose of this deduction, we also consider you to be a resident throughout 2007 if you were a resident of Canada for part of 2007 and throughout 2006 or 2008.

Deferred capital gains from the disposition of qualified small business corporation shares do not qualify for the capital gains deduction.

If you have investment income or investment expenses in 2007, complete Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2007*, before you complete this form. Form T936 lists what we consider to be investment income and expenses.

If you are reporting a reserve claimed on your 2006 return or claiming a reserve in 2007, you also have to complete Form T2017, *Summary of Reserves on Dispositions of Capital Property*. Enter the amount of the reserve on line 192 of Schedule 3.

You can get these forms from our Web site at [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or by calling us at **1-800-959-2221**.

### What is the capital gains deduction limit?

If you disposed of qualified farm property or qualified small business corporation shares, or disposed of qualified fishing property after May 1, 2006, you may be eligible for the lifetime capital gains exemption. Because you only include 1/2 of a capital gain in your income, your cumulative capital gains deduction is 1/2 of the capital gains exemption.

The total of your capital gains deductions on dispositions from 1985 to March 18, 2007, for all types of capital property, cannot be more than \$250,000 (1/2 of the exemption of \$500,000). Under proposed changes, the capital gains deduction limit on gains arising from dispositions after March 18, 2007, has increased by \$125,000 to \$375,000 (1/2 of an increased exemption of \$750,000).

### What amount do you deduct?

When you sell or transfer qualified farm or fishing property or qualified small business corporation shares and have a capital gain, you can claim a capital gains deduction in 2007 that is equal to one of the following amounts, whichever is lowest:

- your annual gains limit for 2007 **minus** any capital gains deduction claimed in 2007;
- your cumulative gains limit for 2007 **minus** any capital gains deduction claimed in 2007;
- your net taxable capital gains in 2007 from dispositions of qualified farm property after 1984, from dispositions of qualified small business corporation shares after June 17, 1987, or from dispositions of qualified fishing property after May 1, 2006; or
- your maximum capital gains deduction available for 2007.

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

This election will allow you to report a taxable capital gain on your return and claim the 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 for Gains on Shares of a Corporation Becoming Public*.

You can get this form from our Web site at [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or by calling us at **1-800-959-2221**.

**Part 1 – Calculating your annual gains limit for 2007**

Total net capital gains (or losses): total of lines 107, 110, and 124 of Schedule 3 <b>plus</b> 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/fishing income eligible for the capital gains deduction (line 173 on Schedule 3) . . . +	+		_____	3
Eligible taxable capital gains or losses (line 2 <b>plus</b> 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 (if negative, enter "0") _____ X 1/2 . . . . .	-		_____	6
Line 5 <b>minus</b> line 6 . . . . .	=		_____	7
Enter the amount from line 3 above . . . . .	+		_____	8
Line 7 <b>plus</b> line 8 (if the amount is a loss, enter "0") . . . . .	=		_____	9
2007 eligible taxable capital gains (enter the amount from line 4 or 9, <b>whichever is less</b> ; if line 10 is zero, you cannot claim a capital gains deduction for 2007) . . . . .	_____		_____	10
Net capital losses of other years deducted in 2007 (line 253 of your 2007 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 2007 (line 7 in Part 1 of Form T936 for 2007) . . . . .	-		_____	b
Net capital losses of other years (line a <b>minus</b> line b; if negative, enter "0") . . . . .	=		_____	11
Allowable business investment losses (line 217 of your 2007 return) . . . . .	+		_____	12
Line 11 <b>plus</b> line 12 . . . . .	=		_____	13
<b>Annual gains limit for 2007</b> (line 10 <b>minus</b> 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 2007.

**Part 2 – Calculating your cumulative gains limit for 2007**

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 to 2007 eligible taxable capital gains (line 10 in Part 1 of Form T657 for those years) . . . . .	+		_____	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 2007 (line 217 on your 1985 to 2006 returns) . . . . .	+		_____	25
Net capital losses of other years claimed after 1984 and before 2007 (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 2007 (from line 13 of Part 1 above) . . . . .	+		_____	27
Cumulative net investment loss to December 31, 2007 (line C in Part 3 of Form T936 for 2007) . . . . .	+		_____	28
Total capital gains deductions claimed after 1984 and before 2007 (line 254 on your 1985 to 2006 returns) . . . . .	+		_____	29
Total of lines 24 to 29 . . . . .	=		_____	30
<b>Cumulative gains limit for 2007</b> (line 23 <b>minus</b> 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 2007.

**Part 3a – Calculating your capital gains deduction on qualified farm property, qualified fishing property, and qualified small business corporation shares**

Complete this part if:

- you disposed of qualified farm property, qualified fishing property, or qualified small business corporation shares in 2007; or
- you are reporting a reserve in 2007 on qualified farm property you disposed of after 1984, qualified small business corporation shares you disposed of after June 17, 1987, or qualified fishing property you disposed of after May 1, 2006.

Maximum capital gains deduction before March 19, 2007, for qualified farm property, qualified fishing property, and/or qualified small business corporation shares .....	\$250,000   00	32
Capital gains deductions from previous years (line k of Chart 2 on page 4) .....	-	33
Capital gains deduction available before March 19, 2007, for dispositions of qualified farm property, qualified fishing property, or qualified small business corporation shares (line 32 <b>minus</b> line 33; if negative, enter "0") .....	=	▶ 34

Taxable capital gains from the disposition in 2007 of qualified farm property, qualified fishing property, or qualified small business corporation shares:

Line 107 of Schedule 3 .....	_____	
Line 110 of Schedule 3 .....	+	_____
Line 124 of Schedule 3 .....	+	_____
Line 6683 of Form T2017 .....	+	_____
Line 6690 of Form T2017 .....	+	_____
<b>Total</b> .....	=	_____ X 1/2 ▶ 35

Farming/fishing income eligible for the capital gains deduction (line 173 of Schedule 3) ..

+	_____	36
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Total taxable capital gains from the disposition of qualified farm property, qualified fishing property, and qualified small business corporation shares (line 35 **plus** line 36) ...

=	_____	▶ 37
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**Capital gains deduction on qualified farm property, qualified fishing property, and/or qualified small business corporation shares** – The maximum amount you can enter on line 38 is the **lesser** of lines 14, 31, 34, and 37. ....

_____	38
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If each of line 14, line 31, and line 37 is greater than line 38 **and** you disposed of qualified farm property, qualified fishing property, or qualified small business corporation shares after March 18, 2007, complete Part 3b. If not, enter the amount from line 38 on line 49 of Part 3b.

**Part 3b – Calculating your capital gains deduction on qualified farm property, qualified fishing property, and qualified small business corporation shares**

Complete this part if:

- each of line 14, line 31, and line 37 is greater than line 38; and
- you disposed of qualified farm property, qualified fishing property, or qualified small business corporation shares after March 18, 2007.

Line 14 from Part 1. ....	_____	39
Line 38 from Part 3. ....	-	40
Line 39 <b>minus</b> Line 40 (if negative, enter "0") .....	=	▶ 41

Line 31 from Part 2. ....	_____	42
Line 38 from Part 3. ....	-	43
Line 42 <b>minus</b> Line 43 (if negative, enter "0") .....	=	▶ 44

Total of all dispositions of qualified farm property, qualified fishing property, or qualified small business corporation shares after March 18, 2007: .....

_____	45
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Increase to the capital gains deduction limit that applies to all dispositions **after** March 18, 2007, of qualified farm property, qualified fishing property, or qualified small business corporation shares .....

\$125,000   00	46
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Enter the **lesser** of lines 41, 44, 45, and 46 on line 47 .....

_____	47
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Enter the amount from line 38 on line 48 .....

+	_____	48
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Line 47 **plus** line 48. This is the maximum amount you can enter on line 254 of your 2007 income tax return. However, you can enter less than the maximum. ....

=	_____	49
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**Chart 1 – Calculating line 26 (net capital losses of other years)**

- Column A Enter the **total** 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 the **total** 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 the **total** reserves included in capital gains for capital property disposed of before 1985 (2/3 of the amounts entered on line 395 of Form T2017 for 1988 and 1989).  
 For 1990 and 1991, enter 3/4 of the **total** reserves included in capital gains for capital property disposed of before 1985 (3/4 of the amounts 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 to 1999, enter the **total** amount from line 17 in Chart A of Form T936 for 1996 to 1999.  
 For 2000, enter the amount from line 24 in Chart A of Form T936 for 2000.  
 For 2001 to 2004, enter the **total** amount from line 17 in Chart A of Form T936 for 2001 to 2004.  
 For 2005 and 2006, enter the **total** amount from line 15 in Chart A of Form T936 for 2005 and 2006.
- 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(s)	A	B	C	D	E	F	G
					(C - D) If negative, enter "0"	(B + E)	(A - F) If negative, enter "0"
1985 to 1987			N/A	N/A	N/A		
1988 and 1989			N/A	N/A	N/A		
1990 and 1991			N/A	N/A	N/A		
1992		N/A					
1993		N/A					
1994		N/A		N/A			
1995		N/A		N/A			
1996 to 1999		N/A		N/A			
2000		N/A		N/A			
2001 to 2006		N/A		N/A			

**Add** the amounts in column G and enter the result on line 26 in Part 2 of this form. Due to space restrictions, some years have been combined on a single row on this chart. However, to ensure a correct result, do the calculations **separately** for each year that applies to you.

**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 <b>minus</b> 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 <b>minus</b> 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. <b>Amount from line h × [1 - (1 ÷ (2 × IR))]</b> .....	-	i
Total capital gains deduction claimed in 2001 to 2006 (line 254 of your returns for these years) .....	+	j
Total of lines a to j .....	=	k

**Note:** IR represents your inclusion rate for 2000. This rate is from line 16 in Part 4 of Schedule 3 for 2000, or from your **Notice of Assessment** or latest **Notice of Reassessment** for 2000.