

CALCULATION OF CAPITAL GAINS DEDUCTION FOR 1998

- Use this form if you disposed of **qualified farm property** or **qualified small business corporation shares** in 1998 or a previous year. For the definition of qualified farm property, get the income tax guide called *Farming Income* or the income tax guide called *Farming Income and NISA*. For the definition of qualified small business corporation shares, get the income tax guide called *Capital Gains*.

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 1998 to be eligible to claim the capital gains deduction. For the purposes of this deduction, we also consider you to be a resident throughout 1998 if you were a resident of Canada for part of 1998 and throughout 1997 or 1999.
- If you have investment income or investment expenses in 1998, you should complete Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 1998*, before you complete this form. Form T936 lists what is considered to be investment income and expenses. You can get this form from your tax services office.

What is the capital gains deduction limit?

There is a limit to the total amount of capital gains deduction that you can claim. 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 may be eligible for the \$500,000 capital gains exemption. Since you only include three-quarters of a capital gain in your taxable income, your cumulative capital gains deduction is \$375,000 (three-quarters of \$500,000). The total of your capital gains deductions from 1985 to 1998 for all types of capital property cannot be more than your cumulative deduction of \$375,000.

Qualified farm property

When you dispose of qualified farm property and have a capital gain, you can claim a capital gains deduction in 1998 that is equal to one of the following amounts, whichever is **lowest**:

- your annual gains limit for 1998;
- your cumulative gains limit for 1998;
- your net taxable capital gains in 1998, from dispositions of qualified farm property after 1984; or
- your maximum capital gains deduction available for 1998.

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 1998 that is equal to one of the following amounts, whichever is **lowest**:

- your annual gains limit for 1998, **minus** any capital gains deduction for qualified farm property claimed in 1998;
- your cumulative gains limit for 1998, **minus** any capital gains deduction for qualified farm property claimed in 1998;
- your net taxable capital gains in 1998 from dispositions of qualified small business corporation shares after June 17, 1987; or
- your maximum capital gains deduction available for 1998.

If you own shares of a qualifying small business corporation that, after 1995, ceases to be a small business corporation because a class of its shares is listed on a prescribed stock exchange, there is an election available to you. The election is an option that will allow you to report a capital gain on your return and take advantage of the \$375,000 capital gains deduction, even though you did not actually sell your shares. The deduction will apply to any gains 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 your tax services office.

Part 1 – Calculating your annual gains limit for 1998

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): 3/4 of the amount on line 1	_____		_____	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			
Enter the amount from line 3 above	+	_____		_____	6		
Line 5 plus line 6 (if the amount is a loss, enter "0")	=	_____		_____	7		
1998 eligible taxable capital gains (enter the amount from line 4 or 7, whichever is less ; if line 8 is zero, you cannot claim a capital gains deduction for 1998)	_____		_____	▶	_____	8	
Net capital losses of other years deducted in 1998 (line 253 of your 1998 return)	_____		_____	(a)			
Net capital losses of other years applied against net non-eligible taxable capital gains in 1998 (line 7 in Part 1 of Form T936 for 1998)	-	_____		_____	(b)		
Net capital losses of other years (line (a) minus line (b); if negative, enter "0")	=	_____		_____	▶	9	
Allowable business investment losses (line 217 of your 1998 return)	+	_____		_____	10		
Line 9 plus line 10	=	_____		_____	▶	-	11
Annual gains limit for 1998 (line 8 minus line 11; if negative, enter "0")	=	_____		_____	▶	12	

If line 12 is zero, do not complete the rest of this form, since you cannot claim a capital gains deduction for 1998.

Part 2 – Calculating your cumulative gains limit for 1998

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	_____		_____	13			
1992 and 1993 eligible taxable capital gains (line 3 in Part 1 of Form T657 or T657A for 1992 and 1993)	+	_____		_____	14		
1994 eligible taxable capital gains (line 5 in Part 1 of Form T657 or T657A for 1994)	+	_____		_____	15		
1995 eligible taxable capital gains (line 7 in Part 1 of Form T657 or line 3 of Form T657A for 1995)	+	_____		_____	16		
1996 and 1997 eligible taxable capital gains (line 8 in Part 1 of Form T657)	+	_____		_____	17		
1998 eligible taxable capital gains (line 8 in Part 1 above)	+	_____		_____	18		
Cumulative eligible taxable capital gains (total of lines 13 to 18)	=	_____		_____	▶	19	
Allowable capital losses claimed in 1985 (amount shown in brackets on line 127 of your 1985 return; maximum of \$2,000)	_____		_____	20			
Allowable business investment losses claimed after 1984 and before 1998 (line 217 on your 1985 to 1997 returns)	+	_____		_____	21		
Net capital losses of other years claimed after 1984 and before 1998 (enter the total of amounts in column G of Chart 1 on page 4)	+	_____		_____	22		
Total losses used to calculate your annual gains limit for 1998 (from line 11 of Part 1 above)	+	_____		_____	23		
Cumulative net investment loss to December 31, 1998 (line C in Part 3 of Form T936 for 1998)	+	_____		_____	24		
Total capital gains deductions claimed after 1984 and before 1998 (line 254 on your 1985 to 1997 returns)	+	_____		_____	25		
Total of lines 20 to 25	=	_____		_____	▶	-	26
Cumulative gains limit for 1998 (line 19 minus line 26; if negative, enter "0")	=	_____		_____	▶	27	

If line 27 is zero, do not complete the rest of this form, since you cannot claim a capital gains deduction for 1998.

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

Complete this part if:

- you disposed of qualified farm property in 1998; or
- you are reporting a reserve in 1998 on qualified farm property you disposed of after 1984.

Maximum capital gains deduction for qualified farm property for 1998	\$375,000 00	28
Capital gains deductions from previous years (line g of Chart 2 on page 4)	-	29
Capital gains deduction available for qualified farm property for 1998 (line 28 minus line 29; if negative, enter "0")	=	▶ 30
Taxable capital gains from the disposition of qualified farm property in 1998: 3/4 x (lines 110 and 124 of Schedule 3 plus line 6683 of Form T2017)		31
Farming income eligible for the capital gains deduction (line 173 of Schedule 3)	+	32
Total taxable capital gains from the disposition of qualified farm property (line 31 plus line 32)	=	▶ 33
Capital gains deduction on qualified farm property – The maximum amount that you can enter on line 34 is the least of lines 12, 27, 30, and 33. However, you can enter an amount that is less than the maximum		34

If, in 1998, 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 1998; or
- you are reporting a reserve in 1998 on qualified small business corporation shares you disposed of after June 17, 1987.

Maximum capital gains deduction for qualified small business corporation shares for 1998	\$375,000 00	35
Capital gains deductions from previous years (line g of Chart 2 on page 4)	-	36
Capital gains deduction available for qualified small business corporation shares for 1998 (line 35 minus line 36; if negative, enter "0")	=	▶ 37
Taxable capital gains from the disposition of qualified small business corporation shares in 1998: 3/4 x (line 107 of Schedule 3 plus line 6690 of Form T2017)		38
Annual gains limit (from line 12 in Part 1 on page 2)		39
Capital gains deduction on qualified farm property (line 34 in Part 3 above)	-	40
Net annual gains limit (line 39 minus line 40)	=	▶ 41
Cumulative gains limit (line 27 in Part 2 on page 2)		42
Capital gains deduction on qualified farm property (line 34 in Part 3 above)	-	43
Net cumulative gains limit (line 42 minus line 43)	=	▶ 44
Capital gains deduction on qualified small business corporation shares – The maximum amount that you can enter on line 45 is the least of lines 37, 38, 41, and 44. However, you can enter an amount that is less than the maximum		45

Part 5 – Calculating your maximum capital gains deduction for 1998

Maximum capital gains deduction on all capital property	\$375,000 00	46
Capital gains deductions from previous years (line g of Chart 2 on page 4)	-	47
Capital gains deduction available for 1998 (line 46 minus line 47; if negative, enter "0")	=	48
Capital gains deduction on qualified farm property (line 34 in Part 3 above)		49
Capital gains deduction on qualified small business corporation shares (line 45 in Part 4 above)	+	50
Line 49 plus line 50	=	▶ 51
The maximum amount you can enter on line 52 is the lesser of lines 48 and 51. However, you can enter an amount that is less than the maximum. Enter this amount on line 254 of your 1998 return		52

Chart 1 – Calculating line 22, 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 and 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 and 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 and 1997, enter the amount from line (17) in Chart A of Form T936 for 1996 and 1997.
- 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				
Add the amounts in column G (enter the result on line 22 of Part 2)								

Chart 2 – Calculating lines 29, 36, and 47

Total capital gains deductions claimed after 1984 and before 1988 (line 254 of your 1985 to 1987 returns)	_____	a
Adjustment of pre-1988 capital gains deductions (enter 1/2 of amount on line a)	+ _____	b
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")	+ _____	c
Adjustment of 1988 and 1989 capital gains deductions (enter 1/8 of amount on line c)	+ _____	d
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 c above; not to exceed the total of lines 543 and 544 on Schedule 3 for 1988 and 1989)	+ _____	e
Total capital gains deductions claimed in 1990 to 1997 (line 254 of your returns for these years)	+ _____	f
Total of lines a to f	= _____	g