2023

CAPITAL GAINS AND LOSSES

revenuquebec.ca

WE CREATED THIS GUIDE TO HELP YOU CALCULATE AND REPORT YOUR TAXABLE CAPITAL GAINS OR DEDUCTIBLE CAPITAL LOSSES FROM THE DISPOSITION OF PROPERTY.

CONTENTS

IMPORTANT

The information in this guide does not constitute a legal interpretation of the *Taxation Act* or any other legislation.

This version of the guide is valid for the 2023 taxation year. It does not contain the tax changes announced for 2024. You must ensure that the information in this guide complies with current tax legislation.

For more information, contact us at the numbers or addresses at the end of this guide.

Abbreviations

ACB	Adjusted cost base
CCA	Capital cost allowance
CCPC	Canadian-controlled private corporation
CNIL	Cumulative net investment loss
CRA	Canada Revenue Agency
FMV	Fair market value
GST	Goods and services tax
QST	Québec sales tax
SIFT	Specified investment flow-through
UCC	Undepreciated capital cost

MAIN CHANGE

Property flipping (home or residential complex)

As of January 1, 2023, if you dispose of (sell, transfer, exchange, give, etc.) a residential property (including rental property or a right to purchase) that you owned for less than 365 consecutive days and no life event justified the disposition, we will consider that you flipped the property.

For more information, see section 2.4.10.

Increase in the cumulative maximum of the capital gains deduction

Because of annual indexation, the lifetime capital gains exemption has increased from $913,630 to $971,190 with respect to qualified small business corporation shares disposed of in 2023.

For more information, see Part 6.

1 GENERAL INFORMATION

This guide is for **individuals** (including trusts) who disposed of capital property (including property in class 14.1 of Schedule B to the *Regulation respecting the Taxation Act*) during their taxation year, or who are members of a partnership that disposed of such property during a fiscal period that ended during their taxation year.

This guide is also intended for trustees acting on behalf of trusts.

Barter
Exchange of goods or services for other goods or services without the use of money.

Blockchain
Secure, distributed database that stores transactions between users, from the date of its creation, in a chronologically ordered sequence of blocks that are linked together.

Capital property
Depreciable property or any other property whose disposition results in a capital gain (or loss).

Capital property may be depreciable property of a prescribed class that you use to earn income (for example, buildings, furniture, equipment, machinery or property that was incorporeal capital property before January 1, 2017), or non-depreciable property that you use to earn income or for other purposes (for example, shares, bonds, debts or land).

Cryptocurrency
Virtual currency used as a peer-to-peer method of payment or medium of exchange, usually independently of the banking system and any monetary policy, whose issuance and transactions are based on blockchain technology.

Deemed disposition (also called a "deemed sale")
The hypothetical transfer of property by an individual or trust, as a result of certain events provided for by law, whereby the individual or trust is considered to have actually disposed of the property.

A deemed disposition can occur if, for example:
- a debt is determined to be a bad debt (see section 3.3.2.1);
- property is expropriated, damaged, stolen, destroyed, etc. (see section 5.8);
- a person leaves Canada (see section 5.6);
- a person who owns property dies;
- there is a change in the use of property.

NOTE
To calculate the capital gain (or loss) on the deemed disposition of property that a person owned at the time of their death, see the *Guide to Filing the Income Tax Return of a Deceased Person* (IN-117-V).

Disposition
A transaction in which an individual or a trust disposes of capital property voluntarily (by way of sale, transfer, exchange, donation, etc.) or involuntarily (where property is expropriated, stolen, etc.). The term "transfer" is sometimes used to designate such a transaction where you (as transferor) are not dealing at arm's length with the transferee (the person to whom the property is assigned). See section 5.1.

Mining
Operation, based on a consensus mechanism, that enables blocks to be added to a cryptocurrency network in exchange for a block reward.

Virtual currency
Digital currency that can be used to buy goods or services or for speculation, whose legal value is not typically guaranteed by the government.

A disposition of property may result in a capital gain (or loss), only a portion of which is taxable (or deductible), or in business income (or a business loss), which is fully taxable (or deductible).

In order for a disposition of property to result in business income (or a business loss), the disposition must be a commercial transaction. This is the case, for example, if you regularly purchase and sell buildings for profit (see section 1.1 of IN-155-V, *Business and Professional Income*). However, if you dispose of a building that you acquired and used for personal purposes or to earn rental income, we consider you to have made a capital transaction, resulting in a capital gain or, under certain conditions, in a capital loss (subject to the rules applicable to property flipping [see section 2.4.10]).

This guide describes and contains examples of various capital transactions for which you have to report a capital gain (or loss). It also provides instructions for entering this gain (or loss) on the appropriate line of the personal income tax return (TP-1-V) or Schedule G of the return.

2 CAPITAL GAIN OR LOSS

This part explains how you, as **transferor**, must calculate the capital gain (or capital loss) that you realize when you **dispose of property**, and will help you determine in which year you are required to report the gain or loss.

You are not required to report a capital gain realized on personal-use property unless the proceeds of disposition are over $1,000. You cannot deduct a capital loss on such property unless it is precious property (see section 3.4).

In addition, if you dispose of cultural property, you may not have to report a capital gain (see section 3.6).

2.1 Calculating a capital gain or loss

To calculate a capital gain or loss, use the formula **A – B – C**, where:

A is the proceeds of disposition of the property;

B is the adjusted cost base (ACB) of the property; and

C is the amount of the expenses incurred to dispose of the property.

Proceeds of disposition

- the actual proceeds of disposition;
- the deemed proceeds of disposition (generally, the FMV of the property at the time of the deemed disposition or the transfer); or
- the compensation received for property that was expropriated, destroyed, damaged or stolen (see section 5.8).

Fair market value (FMV)

The **highest price** that could be obtained on an open market for a property, where the transferor and transferee consent to the transaction, are well-informed and are dealing at arm's length.

Adjusted cost base (ACB)

Generally, the acquisition cost of a property, plus the expenses incurred for its acquisition (such as legal fees, surveying costs, evaluation fees, brokerage fees, delivery and installation costs, and any GST or QST payable) and the cost of any additions (that is, capital expenditures for additions or improvements made to the property).

> NOTE
> For depreciable property, the ACB is the capital cost of the property.

Expenses incurred to dispose of a property

Repair, landscaping, land clearing and surveying costs, evaluation fees, brokerage fees, advertising costs, finders' fees, commissions, legal fees, transfer taxes, etc., where these expenses are incurred to dispose of a property.

2.2 Reporting a capital gain or loss

A disposition of property **must be reported in the taxation year in which the transaction occurs** (the taxation year is usually the calendar year). This rule applies to all property disposed of, whether personal-use property, property used to generate property income, or property used in carrying on a business (regardless of the end date of the business's fiscal period).

However, if you are a member of a partnership that disposed of property in a given fiscal period, the transaction **must be reported in the taxation year in which the fiscal period ended**. For example, if the partnership's fiscal period began on July 1, 2022, and ended on June 30, 2023, and the disposition took place after July 1, 2022, but before 2023, you must report your share of the capital gains (or capital losses) in your 2023 income tax return.

To report capital gains (or losses) for the year, complete Schedule G of the personal income tax return if you are the transferor or, if the transferor is a trust, Schedule A of the *Trust Income Tax Return* (TP-646-V). For instructions on how to report your capital gains (or losses) on the appropriate lines of Schedule G of the personal income tax return, see parts 3 and 4 of this guide. More specifically, Part 3 explains how to report capital gains (or losses) based on the type of property disposed of, and Part 4 explains how to calculate a reserve and deduct it from a capital gain.

If the result obtained in Schedule G of the personal income tax return or Schedule A of the trust return is **negative**, it constitutes a net capital loss that can be deducted from the taxable capital gains realized in another year (see Part 7, in particular section 7.2).

If the result obtained in Schedule G or Schedule A is **positive**, it constitutes a taxable capital gain, and you must carry it to the appropriate line of your personal income tax return or the trust return.

The amount of the taxable capital gains for the taxation year corresponds to:

- the amount by which the total of the following amounts:
  - taxable capital gains realized on dispositions of property during the year (that is, 50% of the capital gains realized on dispositions of property during the year, minus the reserve you can deduct for the year in respect of the property), **and**
  - the reserve for the year in respect of dispositions of property in a previous year (that is, 50% of the reserve deducted for the previous year, **minus** the reserve you can deduct for the year in respect of the property);

exceeds

- allowable capital losses sustained on dispositions of property during the year (that is, 50% of the capital losses sustained on the property).

NOTE

If you are an individual (other than a trust) and you disposed of eligible shares of a corporation as part of the **transfer of a family business**, the amount of your allowable capital losses sustained during the year may be reduced. No capital loss sustained in the year can be used to reduce the amount you designated as a deemed capital gain by completing form TP-517.5.5-V, *Designating a Deemed Capital Gain Further to the Transfer of a Family Business*.

As a result, for the year you disposed of the shares, you must report taxable capital gains (minimum: 50% of the amount on line 55.1 of Schedule G of your income tax return) on line 139 of the return. In this case, the amount on line 98 of Schedule G must be positive and be equal to or greater than 50% of the amount on line 55.1 of the schedule.

However, if all or part of the capital losses sustained in the year could not be deducted in the year because of a deemed capital gain you designated and entered on line 55.1 of Schedule G of your income tax return, you must also report the unused amount as a capital loss on line 96.1 of Schedule G. In this case, the amount of the net capital loss for the year that you can deduct from taxable capital gains from another year corresponds to 50% of the amount entered on line 96.1 of Schedule G.

Taxable capital gains related to certain types of property may entitle you to a capital gains deduction. See Part 6 for more information.

Failure to report a capital gain or to file an income tax return

You will not be entitled to the **capital gains deduction** for a capital gain, either for the year in which the capital gain was realized or for a subsequent year, if you knowingly, or under circumstances constituting gross negligence:

- fail to report the capital gain in your income tax return for the year in which you realize the gain; or
- fail to file your income tax return for that year within one year after the filing deadline (in the case of the 2023 income tax return, by April 30, 2025, or June 15, 2025).

> NOTE
>
> For taxation years **ending after October 2, 2016**, we may issue a notice of reassessment with respect to an income tax return at any time **after** the expiry of the normal reassessment period if:
>
> - you do not report the disposition of immovable property (including a property that you can designate as a principal residence) in your income tax return for the year of disposition;
> - you do not file an income tax return for the taxation year in which you disposed of real or immovable property and we determine that you have a balance due for that year; or
> - you owned property, directly or indirectly, through a partnership you are a member of, and the partnership has not reported the disposition in the partnership information return.
>
> In the above cases, the notice of reassessment will concern only the amounts that reasonably relate to the disposition that was not reported in the year or in a previous year.
>
> If the disposition is made by a corporation or partnership, a notice of reassessment may be issued after the expiry of the reassessment period only if the property is capital property of the corporation or partnership.

2.3 Tax treatment overview

This section gives only an overview of the tax treatment of capital gains; more detailed information is contained in other parts, as indicated.

For information about capital losses, see Part 7.

Reserve for an amount payable after the end of the taxation year

If you realized a capital gain on a property in a taxation year, and part of the proceeds of disposition may be paid after the end of the taxation year, you can deduct a reserve in respect of the capital gain. The following year, you must report this reserve as a capital gain and, if part of the proceeds of disposition remains payable, you can deduct a new reserve. For more information, see Part 4.

Disposition of property followed by the acquisition of replacement property

You can elect to defer reporting a capital gain realized on a deemed disposition of property (resulting from expropriation, theft, damage, etc.) or on the disposition of property used to carry on your business, provided you acquire replacement property within the prescribed time. For more information, see section 5.2.

Deferral of the capital gain realized on the disposition of qualified small business corporation shares

You can defer reporting a capital gain realized on the disposition of qualified small business corporation shares if you acquired other qualified small business corporation shares and certain other conditions are met (for example, with regard to the issuing corporation, the time limit for acquiring the new shares, or the length of time the new shares are held). For more information, see section 5.3.

Tax-exempt capital gains: Donation of certain property

You do not need to report capital gains realized on the donation of the following property:

- certain securities (in particular, listed securities and mutual fund units), if the donee is a registered charity or any other qualified donee;
- ecological gifts (gifts of land with ecological value, a real servitude encumbering such land or, for a gift made after March 21, 2017, a personal servitude lasting at least 100 years and encumbering land situated in Québec), if the donee is a registered charity or any other qualified donee that is not a private foundation;
- a musical instrument, if the donee is a recognized educational institution.

You are also not required to report the capital gain realized on unlisted securities you exchange for certain property (namely listed securities) that you then donate to a registered charity or any other qualified donee, provided the following conditions are met:

- At the time the unlisted securities were issued or disposed of, they included a condition allowing the holder to exchange them for the property received as consideration.
- The property received is the only consideration received in the exchange and it is donated within 30 days of the exchange.

Capital gains deemed to be taxable dividends

In some cases, a capital gain that a minor child must report is deemed to be a taxable dividend and is subject to the tax on split income. For more information, see section 5.4.

Capital gains deductions

The capital gains realized on certain **qualified property** give entitlement to a deduction. You can claim a deduction with regard to capital gains realized on the disposition of qualified farm or fishing property, or qualified small business corporation shares.

You can also claim a deduction for capital gains realized on **resource property**.

For more information, see Part 6.

2.4 Property subject to special taxation rules

2.4.1 Property received as a gift or an inheritance, or through a transfer

The acquisition cost (called the "deemed acquisition cost") that you must use to calculate the capital gain (or loss) on the disposition of a property may differ from the actual acquisition cost of the property. This is the case, for example, if you received the property for **no consideration** (as a gift or an inheritance) or the property was transferred to you by a person with whom you were not dealing at arm's length, for **consideration greater than its FMV** at the time of the transfer.

In these cases, the deemed acquisition cost is equal to the FMV of the property at the time of the gift or transfer or immediately before the death (as applicable). However, this rule does not apply in the following cases:

- You received the property from your spouse (or former spouse, in settlement of a right resulting from the marriage, civil union or de facto union), and you and your spouse (or former spouse) were both resident in Canada at the time of the gift or transfer. In such a case, your spouse (or former spouse) is deemed to have transferred the property to you for proceeds equal to the ACB of the property immediately prior to the transfer (rollover rule), except where your spouse or former spouse makes an election whereby the FMV of the property is considered to be their proceeds of disposition and your acquisition cost.
- You received the property further to the death of your spouse, and you and your spouse were both resident in Canada immediately before the time of death, except where the deceased's legal representative made an election whereby the FMV of the property is considered to be the deceased's proceeds of disposition and your acquisition cost.

Not dealing at arm's length

Related persons, such as the following, are deemed not to deal with each other at arm's length:

- individuals related by blood, marriage, civil union, de facto union or adoption (such as parents and their children, grandparents and their grandchildren, brothers and sisters);
- an individual and:
  - a trust under which the individual, as beneficiary, is entitled to receive all or a portion of the trust's income or capital,
  - a corporation that the individual controls.

2.4.2 Property for which an election was made on February 22, 1994

The acquisition cost that you must use to calculate the capital gain on the deemed disposition of a property may differ from the actual acquisition cost of the property if you filed form TP-726.18-V, *Election to Report a Capital Gain Deemed to Have Been Realized*. In this case, we consider you to have disposed of the property at the end of the day on February 22, 1994, for an amount equal to the designated proceeds of disposition, and to have reacquired it immediately thereafter for the same amount (called the "acquisition cost on February 23, 1994").

The exceptions to this rule are as follows:

- If the property is non-qualifying immovable property (such as a cottage or rental property), its acquisition cost on February 23, 1994, is equal to the designated proceeds of disposition **minus** the reduction for non-qualifying immovable property (the reduction is calculated when the election is made).

  However, if you or your spouse designated the non-qualifying immovable property as your principal residence at the time of the election or at the time it was disposed of, the property is not deemed to have been disposed of on February 22, 1994, nor to have been reacquired immediately thereafter; consequently, the ACB of the property must not be adjusted. The reduction for non-qualifying immovable property must be calculated (using form TP-274.S-V, *Reduction of the Capital Gain Deemed to Have Been Realized on a Principal Residence*) only after the disposition of the property, and serves to reduce the capital gain realized at that time.
- If the property is a security held in a flow-through entity, the acquisition cost on February 23, 1994, is equal to the ACB (calculated in the usual way) and is not affected by the election. However, in such cases an "exempt capital gains balance" is created. Through 2004, you were able to use this balance to reduce not only the capital gains allocated to you by the flow-through entity, but also the capital gain you realized on the disposition of a portion of the property. As of 2004, any unused amount can be used to increase the ACB of the property or, if a portion of the property has already been disposed of, to increase the ACB of the residual portion of the property.

In addition, if the proceeds of disposition designated on form TP-726.18-V exceed the FMV of the property as at the end of the day on February 22, 1994, the acquisition cost determined previously may be reduced. In the case of a principal residence, a reduction of the capital gain realized or deemed to have been realized may apply at the time of the disposition or deemed disposition of the residence. To calculate the reduction, complete form TP-274.S-V.

2.4.3 Property used in part to earn income

If you have always used part of a property to earn income, the cost of the property and the proceeds of disposition must be determined based on the percentage of use for the purposes of earning income.

Example

You acquired equipment for $20,000 in 2021 and disposed of it for $12,000 in 2023. While you owned the property, you used it 40% of the time to earn business income.

The portion of the proceeds of disposition in 2023 that is attributable to the **business use of the property** is $4,800 (40% of $12,000). The capital cost on which you were entitled to claim capital cost allowance (CCA) annually is $8,000 (40% of $20,000). Because this portion of the property is depreciable, you cannot report a capital loss if the proceeds from disposal are less than the undepreciated capital cost (UCC), but you may be able to report a terminal loss (see section 3.2).

The portion of the proceeds of disposition that is attributable to the **personal use of the property** is $7,200 (60% of $12,000). The capital cost is $12,000 (60% of $20,000). You cannot report a capital loss on this portion of the property because it was used for personal purposes (see section 3.4.2).

2.4.4 Disposition of part of a property

If only part of a property is disposed of, the ACB of this portion is equal to the ACB of the entire property, **multiplied** by the fraction that represents the part of the property that is disposed of. For example, if 1/5 of a property is disposed of, the ACB of the portion disposed of is equal to the total ACB multiplied by 1/5.

2.4.5 Securities acquired under an option granted to employees

If you dispose of securities (shares or mutual fund units) that you acquired under an option granted by your employer (or by the employer of a person who transferred the security option rights to you in a non-arm's-length transaction), or by a corporation or a mutual fund trust that was not dealing at arm's length with such an employer, you must calculate the capital gain (or loss) by adding the value of the **taxable benefit** resulting from the granting of the option to the ACB of the securities.

The value of the benefit is shown on your RL-1 slip. As a rule, it must be reported:

- for the year in which you dispose of or exchange the securities, if the securities are:
  - shares of a CCPC acquired under an option granted by a CCPC that is your employer or that is not dealing at arm's length with your employer, and you were dealing at arm's length with the corporation (or corporations) in question immediately after the option was granted,
  - shares of a corporation other than a CCPC (or mutual fund units) acquired under an option exercised before March 4, 2010, or before 4:00 p.m. (Eastern Standard Time) on that date, for which you made the election to defer taxation of the benefit (this election must be made with the CRA and automatically applies for purposes of Québec legislation);
- for the year in which the option is exercised, in all other cases.

NOTE

- This section does not provide information about the treatment of a qualifying exchange of securities since the employee is not deemed to have disposed of securities or acquired new securities, and the new securities are deemed to be the same as, and a continuation of, the old securities. To be considered a qualifying exchange of securities, the following conditions must be met:
  - The employee received only the new securities in exchange for the old securities.
  - The securities (new and old) were issued by the same issuer (or the two issuers were not dealing at arm's length immediately following the exchange).
  - The value of the new securities does not exceed the value of the old securities.
- Where the employee dies before the option is exercised, the value of the benefit will be shown on their RL-1 slip for the year of death and must be included in their income for that year. If the option rights were transferred before the employee's death to a person not dealing at arm's length with the employee, that person must report the value of the benefit for the year they exercise the option.

Deductions related to taxable benefits

If you were granted security options, you can generally claim a security option deduction, in calculating taxable income, that is equal to 25% or 50% (as applicable) of the value of the resulting taxable benefit.

IMPORTANT

New rules apply to some security options granted under an agreement entered into after June 2021. The underlying securities of these security options may be non-qualified securities. In this case, the security option deduction and the additional deduction for the donation of securities cannot be claimed for benefits related to security options for non-qualified securities. Contact your employer to find out whether the underlying securities of the security options granted are non-qualified securities.

NOTE

An additional deduction may be claimed if the securities in question are listed shares or mutual fund units donated to a qualified donee within 30 days after their acquisition, in the same year they were acquired under the option. However, this deduction cannot be claimed where the donee is a private foundation unless the listed shares were donated to the private foundation after March 18, 2007. For more information, contact us.

2.4.6 Identical properties

Identical properties (see the definition in section 7.3.1) are primarily shares of a same class of capital stock of a corporation or units of a mutual fund trust. They may also be units of the same virtual currency.

If the property disposed of belongs to a group of identical properties that were acquired at different prices, its ACB is equal to the **average ACB** of the properties.

You must calculate the average ACB of the property in each of your mutual funds with each new acquisition of shares (including reinvested distributions) and with any change that could have an impact on the capital of the corporation or the mutual fund trust (such as a capital repayment with respect to the shares of the mutual fund corporation or an adjustment of the ACB of an interest in the trust).

When you dispose of property, you must use its average ACB calculated immediately before the disposition to calculate the capital gain (or loss) from the disposition. The disposition of property in a group of identical properties has no effect on the calculation of the average ACB of the other properties of the fund.

When a distribution is reinvested, you must first report the distribution amount on the appropriate line of your income tax return (the amount can be, for example, a capital gain shown in box I of an RL-3 slip for a corporation or in box A of an RL-16 slip for a trust). You must then recalculate the average ACB for the mutual fund properties after the acquisition of identical properties that occurred with the reinvestment of all or part of the distribution amount.

If the property disposed of is a **share of a corporation**, including a mutual fund corporation, any amount that relates to the share and was distributed as a capital repayment while you held the share will reduce its average ACB (this reduction is similar to the one applied when calculating the average ACB of a unit of a mutual fund trust, as shown in the example below). Therefore, despite the fact that no information about the distributed amount is shown on an RL-3 slip, you must nevertheless take the amount into account to correctly calculate the share's average ACB.

Example – Disposition of shares of a corporation

In 2020, you acquired 150 common shares that belonged to a group of identical properties. The acquisition cost was $15 per share for the first 100 shares and $24 per share for the remaining 50 shares.

In 2021, you disposed of 80 shares that belonged to a group of identical properties. You subsequently acquired another 170 shares at a cost of $30 per share.

You disposed of 80 common shares in 2023. You also received $1,040, which is a capital repayment not shown on an RL-3 slip.

	Number of shares	Cost per share	Total ACB
Acquisition in 2020	100	$15	$1,500
Acquisition in 2020	50	$24	$1,200
	150		$2,700

Average ACB: $2,700 ÷ 150 = $18

Disposition in 2021	(80)	$18	($1,440)
Remaining shares	70		$1,260
Acquisition in 2021	170	$30	$5,100
	240		$6,360

Average ACB: $6,360 ÷ 240 = $26.50

Disposition in 2023	(80)	$26.50	($2,120)
Remaining shares	160		$4,240
Capital repayment in 2023			($1,040)
	160		$3,200

In this example, the shares disposed of in 2021 have an ACB of $18 each, for a total ACB of $1,440 (80 × $18). The shares disposed of in 2023 have an ACB of $26.50 each, for a total ACB of $2,120 (80 × $26.50).

If no new acquisition of shares and no capital repayment takes place before the next disposition in 2024, the ACB of each share will be $20 ($3,200 ÷ 160), that is, the average ACB as at December 31, 2023.

If the property disposed of is a **unit of a mutual fund trust**, any change that could have had an impact on the capital of the trust and that occurred while you held the unit will be shown in box M of the RL-16 slip as a cost base adjustment of capital interest. If the amount in box M is **positive**, you must subtract it from the ACB of the unit. If the amount is **negative**, you must add it to the ACB (see the example below).

Although you are not required to annually report the amount in box M of the RL-16 slip, you must take it into account over the years in the calculation of the average ACB of the mutual fund trust units that you hold, because the calculation is used to determine the capital gain (or loss) realized on the disposition of the units.

Moreover, the total ACB of the trust's units may become negative after a positive amount in box M of the RL-16 slip is subtracted. In such a case, the negative total ACB will be considered a capital gain that you must report in the taxation year in which it became negative. This will reduce the ACB to zero, as no units will actually have been disposed of.

Example – Disposition of units of a mutual fund trust

In 2020, you acquired 150 units of a mutual fund trust that belonged to a group of identical properties. The acquisition cost was $15 per unit for the first 100 units and $24 per unit for the remaining 50 units.

In 2021, you disposed of 80 units. You subsequently acquired another 170 units at a cost of $30 per unit. You also received an RL-16 slip for 2020 showing the amount of –$600 in box M.

You disposed of 80 units in 2023. You subsequently reinvested the amount of capital distributions you received, that is, $1,725 (50 units at $34.50 each). You also received an RL-16 slip showing the amount of $1,115, which corresponds to a distribution of capital, in box M.

	Number of units	Cost per unit	Total ACB
Acquisition in 2020	100	$15	$1,500
Acquisition in 2020	50	$24	$1,200
	150		$2,700
Average ACB: $2,700 ÷ 150 = $18			
Disposition in 2021	(80)	$18	($1,440)
Remaining units	70		$1,260
Acquisition in 2021	170	$30	$5,100
	240		$6,360
Adjustment in 2021 (box M)			$600
	240		$6,960
Average ACB: $6,960 ÷ 240 = $29			
Disposition in 2023	(80)	$29	($2,320)
Remaining units	160		$4,640
Distribution reinvested in 2023	50	$34.50	$1,725
	210		$6,365
Adjustment in 2023 (box M)			($1,115)
	210		$5,250

In this example, the units disposed of in 2021 have an ACB of $18 each, for a total ACB of $1,440. The units disposed of in 2023 have an ACB of $29 each, for a total ACB of $2,320.

If no new acquisition (including reinvested distribution) of units takes place before the next disposition in 2024, the ACB of these units will be $25 each ($5,250 ÷ 210), that is, the average ACB as at December 31, 2023.

We consider **virtual currency** to be property, not currency, as it is not legal tender in Canada. If you hold various virtual currencies (Bitcoin, Ethereum, Litecoin, etc.), each unit of the same virtual currency is considered identical property, and you must determine the average ACB of these units.

NOTE

In the following circumstances, if you dispose of one of your identical securities, the security is deemed not to be identical to the other securities, and the average ACB rule does **not** apply to the calculation of the capital gain (or loss) resulting from the disposition:

- You acquired a security after February 27, 2000, under an option agreement entered into as part of your employment and:
  - the reporting of the value of the benefit resulting from the option is deferred to the year in which the security is disposed of or exchanged; or
  - within 30 days after the acquisition, you disposed of an identical security and you designate it in your income tax return as being the same as the security acquired. You must not make a similar designation with respect to the same security for another disposition, nor acquire another identical security between this acquisition and this disposition. If you want to make such a designation, you must first notify the CRA of your intention. A notice of designation submitted to the CRA is considered to have been submitted to us as well. You must therefore attach to your Québec income tax return a copy of every document submitted to the CRA regarding this designation.
- The security is a share that is part of a single payment that you, as the beneficiary of a deferred profit-sharing plan (DPSP), received after February 27, 2000, on your withdrawal from the plan or retirement from employment, or on the death of an employee or former employee. You must send us a copy of the *Election Under Subsection 147(10.1) in Respect of a Single Payment Received from a Deferred Profit Sharing Plan* (form T2078) that you filed with the CRA.

2.4.7 Shares received further to a demutualization

If, further to the demutualization of an insurance corporation, you received a benefit consisting of shares of the capital stock of the insurance corporation or of a holding company, the value of the benefit is not immediately taxable. You are therefore not required to include the amount of the benefit in your income for the year in which you received the benefit. However, the ACB of the shares is deemed equal to zero, and you will therefore have a capital gain when you dispose of them.

2.4.8 Redemption of Capital régional et coopératif Desjardins shares after seven years

If you sustain a capital loss on the redemption or purchase by agreement of Capital régional et coopératif Desjardins shares, subtract from the loss the amount by which:

- the tax credit(s) granted to you for the acquisition or exchange of the shares

exceeds

- the special tax you must pay if the redemption or purchase by agreement of the shares happens within seven years of their having been issued.

If the shares are redeemed seven years or more after they were issued, the capital loss **is reduced** to zero, as long as the capital loss is less than the tax credit(s).

2.4.9 Property acquired before 1972 and held without interruption since December 31, 1971

Because capital gains were not taxed before 1972, special rules apply to the calculation of capital gains realized (or capital losses sustained) on the disposition of property that you acquired (or are deemed to have acquired) before 1972 and held without interruption from December 31, 1971, to the date of disposition. These rules vary depending on whether or not they apply to depreciable property.

You are deemed to have acquired property before 1972 if you acquired it:

- directly from the holder of the property on December 31, 1971, if you are related to the holder; or
- from a future acquirer who was also related to the holder.

Non-depreciable property

You must use the **median rule** method to determine the deemed ACB of non-depreciable property as at the beginning of 1972. The median (middle) value corresponds to the amount that is neither the greatest nor the least of the following amounts:

- the actual cost of the property;
- the FMV of the property on valuation day (in general, December 31, 1971); and
- the proceeds of disposition (with any necessary adjustments).

The **actual cost** of the property corresponds to its average cost if the property is identical property (see section 2.4.6), or its depreciated cost if the property consists of bonds.

However, you can elect to use the **valuation day value** to have the ACB of **all** the property you owned on December 31, 1971, considered as its FMV on valuation day by completing form DT-72-V, *Election Respecting the Fair Market Value of Capital Property on Valuation Day*.

Depreciable property

In the case of depreciable property, the capital gain is generally equivalent to the amount by which the proceeds of disposition **exceed** the capital cost of the property.

However, if the capital cost of the property is less than both its FMV on valuation day and the proceeds of its disposition, the deemed proceeds of disposition are equal to the total of the following amounts:

- the capital cost of the property;
- the amount by which the actual proceeds of the disposition of the property **exceed** its FMV on valuation day (typically December 31, 1971).

2.4.10 Property flipping (home or residential complex)

If, in 2023, you disposed of (sold, transferred, exchanged, gave, etc.) a residential property (including rental property or a right to purchase) that you owned for less than 365 consecutive days and no life event justified the disposition, we consider that you flipped the property. The profit on the sale is therefore fully taxable as business income.

For more information, go to **revenuquebec.ca**.

3 TAX TREATMENT BASED ON THE TYPE OF PROPERTY DISPOSED OF

This part describes the tax treatment applicable to the different types of property you disposed of or are deemed to have disposed of. It provides information on:

- reporting capital gains (or losses);
- how to obtain tax benefits through certain elections you can make under the *Taxation Act*;
- elections you can make with the CRA that automatically apply under Québec law.

Before reading this part, we suggest you refer to Part 5 to find out whether any of the special cases described in that part apply to you. That way, you will know whether you have to calculate a capital gain (or loss) for the year or whether you can make certain elections. The special cases are the following:

- the transfer of property to a person with whom you are not dealing at arm's length (section 5.1);
- the disposition of property followed by the acquisition of replacement property, in carrying on a business or further to a deemed disposition of property (resulting from expropriation, damage, theft, etc.) (section 5.2);
- the disposition of qualified small business corporation common shares coupled with the acquisition of replacement shares (section 5.3);
- the splitting of certain types of income (called "split income") in favour of a specified individual following the disposition of certain property (section 5.4);
- the donation of an immovable to a qualified donee (section 5.5);
- the deemed disposition of certain property immediately before you cease to reside in Canada (section 5.6);
- the disposition of property by a partnership you are a member of (section 5.7);
- the deemed disposition of property as a result of a disaster (section 5.8).

3.1 Immovable property

Immovable property (also sometimes referred to as immovables, real property or real estate) comprises land and buildings. When reporting capital gains or losses on the disposition of immovable property, you must take into account whether the property gives entitlement to a capital gains deduction. You must enter the net capital gain (or net capital loss) on one of the following lines of Schedule G of the personal income tax return:

- line 14, if the immovable property does not give entitlement to a capital gains deduction;
- line 54, if the immovable property (qualified farm or fishing property) gives entitlement to a capital gains deduction.

However, capital gains on immovable property that is also personal-use property are subject to special rules and must therefore be reported on line 16 of Schedule G. For more information, see section 3.4.

If the immovable property is also depreciable property (property of a prescribed class that was used to earn business or property income), read section 3.2 below.

3.2 Depreciable property

Unlike a current expenditure, the capital cost of a property cannot be deducted for the taxation year in which you acquire the property. However, if the property belongs to a class prescribed by the *Regulation respecting the Taxation Act*, you can deduct its cost over time by claiming CCA. Depreciable property is divided into different classes, each with its own rules concerning the CCA rate, calculation method and maximum depreciable amount.

The elements that make up the cost of a depreciable property constitute its capital cost. However, if you use only a portion of the property to carry on a business or to earn rental income, the cost of the property, prorated on the basis of the portion used, constitutes its capital cost.

The amount that can be claimed as CCA for a taxation year for a given class of property equals:

- the capital cost of all the property in the class (if the calculation is being done for the first time) or the UCC of all the property in the class (for subsequent calculations)

multiplied by

- the CCA rate for the class.

Undepreciated capital cost (UCC)
Generally, for property of a given class, the undepreciated capital cost (UCC) is equal to the amount by which the capital cost of all the property in the class **exceeds** the total amount claimed as CCA for previous years.

Disposition of depreciable property

The ACB of a depreciable property is always equal to its capital cost. When such a property is disposed of, the amount by which the proceeds of disposition exceed the capital cost constitutes a capital gain.

Once depreciable property is disposed of, the UCC for the class to which the property belongs must be reduced, either by the capital cost of the property or by the proceeds of disposition of the property **minus** any expenses incurred to dispose of the property, whichever is **less**.

If, further to the disposition of a depreciable property, the UCC for the class to which the property belongs is a **negative amount** at the end of the year, that amount constitutes a recapture of capital cost allowance. You must include the total amount representing the recapture of CCA in your business or rental income for the year.

If the property was the last property in its class and the UCC for that class is a **positive amount** at the end of the year further to the disposition of the property, you can deduct that amount from your business or rental income as a terminal loss.

If you are required to report a capital gain on depreciable property, enter the amount of the gain on one of the following lines of Schedule G of the personal income tax return:

- line 14, if the depreciable property does not give entitlement to a capital gains deduction;
- line 54, if the depreciable property (qualified farm or fishing property) gives entitlement to a capital gains deduction.

NOTE

- If you disposed of property in class 14.1 of Schedule B to the *Regulation respecting the Taxation Act* that was **incorporeal capital property** that you acquired (or are deemed to have acquired) **on or after January 1, 2017**, you must treat the disposition as a disposition of depreciable property and report the capital gain realized on the property.

  If the property is qualified farm or fishing property, you can claim a capital gains deduction on it (see Part 6).

  However, as of 2017, receipts that do not relate to a specific property reduce the capital cost of the business's **goodwill** and, consequently, the UCC of class 14.1 property. You must therefore subtract the **lesser** of the following amounts from the UCC of class 14.1 property:
  - the amount of the receipts; or
  - the cost of goodwill.

  If the amount of the receipts is greater than the cost of goodwill, the excess is a capital gain.
- If, after December 3, 2018, you acquired **qualified intellectual property** belonging to class 14.1, you may be entitled to an **additional deduction** equal to 30% of the amount of CCA for the property for the preceding taxation year.

  "Qualified intellectual property" means property acquired after December 3, 2018, that is a patent or a right to use patented information, a licence, a permit, know-how, a commercial secret or other similar property constituting knowledge and that:
  - is property included in class 14, 14.1 or 44;
  - is used within a reasonable time after being acquired or after its development is completed;
  - is used only in Québec and primarily in carrying on a business for the period covering the process of implementing the innovation or invention;
  - is not property acquired from a person or partnership that does not deal at arm's length with the purchaser.

  Property of a same class that gives entitlement to the additional CCA of 30% must be included in a separate class (such as a class other than 14.1). The additional CCA **does not reduce the UCC** of the property in the class to which the property belongs (for example, property in class 14.1) and **cannot be recaptured** when the property that gives entitlement to the additional CCA is disposed of.

For more information on depreciable property, see the guides *Business and Professional Income* (IN-155-V) and *Capital Cost Allowance: Property Acquired after November 20, 2018* (IN-191-V).

3.3 Securities and other property

Sections 3.3.1 and 3.3.2 explain how to report capital gains and losses realized on the disposition of securities and other property.

3.3.1 Shares and mutual fund units

The net amounts of capital gains (and losses) resulting from the disposition of shares and mutual fund units must be reported on the following lines of Schedule G of the personal income tax return:

- line 10, **unless** the shares are qualified farm or fishing property, qualified small business corporation shares or resource property;
- line 46, if the shares are classed as resource property (and are not qualified farm or fishing property or qualified small business corporation shares);
- if the shares are qualified farm or fishing property (including eligible shares in a family farm or fishing corporation disposed of as part of the transfer of a family business):
  - on line 54, if the shares were owned by you or your spouse,
  - on lines 56 or 58, if the shares were owned by a family farm or fishing partnership you or your spouse was a member of;

- if the shares are qualified small business corporation shares (including eligible shares in a corporation that are disposed of as part of the transfer of a family business, other than shares in a family farm or fishing corporation):
  - on line 54, if the shares were owned by you or your spouse,
  - on lines 56 or 58, if the shares were owned by a partnership related to you (see the note below).

See section 6.1 for the definitions of "qualified farm or fishing property" and "qualified small business corporation share" as well as the note regarding qualified farm or fishing property.

> NOTE
> If a loss sustained on such shares is considered a business investment loss, it can be deducted from your income from all sources. Enter the loss on line 234 of your income tax return. For more information, see Part 8.

Shares of a bankrupt or insolvent corporation

If, in a previous year, you or a person with whom you were not dealing at arm's length sustained a capital loss or a business investment loss on a share of a corporation that went bankrupt or became insolvent, and the corporation (or a corporation it controlled) resumed its activities within 24 months after the date on which you or the other person sustained the loss, you must report a capital gain equal to the amount of the loss in question if you were holding the share at the time the corporation resumed its activities.

3.3.2 Bonds and other securities or property

Capital gains (and losses) on the disposition of bonds, debentures or similar securities—such as a bill, note, an interest in a trust (including a unit of a unit trust that is not a mutual fund trust) or an interest in a partnership—must be reported on **line 12 of Schedule G** of the personal income tax return.

For **publicly traded securities**, refer to the information on your RL-18 slip and your other account statements or transaction records.

For a **partnership interest**, a special rule may apply to part of the capital gain that results from the disposition of such an interest to a non-resident or a tax-exempt corporation, or to a partnership or trust composed of such members or beneficiaries. In this case, part of the capital gain may be taxable at 50% and another part at 100%.

The portion of the capital gain for the year from the disposition that can reasonably be attributed to increases in the value of capital property (other than depreciable property) held directly by the partnership (or held indirectly by the partnership through one or more other partnerships) is taxable at the 50% inclusion rate, and the rest is taxable at 100%. As a result, if all the partnership assets are inventory, depreciable property or resource property, then the capital gain would be taxable at 100% unless an exception applies. If the assets also include capital property (other than depreciable property), you must make an apportionment in order to apply the appropriate inclusion rate.

If you report an amount as a capital gain taxable at 100% following the disposition of such an interest and:

- you are filing your return using software, you must enter this amount on the line provided (select "interest in a partnership" and confirm that there is capital property resulting in a capital gain that is taxable at the 100% inclusion rate under subparagraph (b) of the first paragraph of section 637 of the *Taxation Act*);
- you are filing your return on paper, you must include this amount on line 98 of Schedule G. Also enter "100%" in the margin on line 98 of Schedule G and line 139 of your income tax return.

NOTE

The disposition of a **linked note** will not result in a capital gain. A linked note is a debt obligation that is usually issued by a financial institution and the return on which is linked to the performance of one or more underlying assets or indexes over the term of the obligation.

Any gain realized on the disposition (assignment or transfer) of a linked note after 2016 is deemed interest accrued on the debt obligation for the period beginning before the disposition (which may take place at or before maturity of the debt obligation) and ending on the date of the disposition. This interest may be shown in box K of the RL-3 slip and must be reported on line 130 of the income tax return filed for the taxation year in which the disposition took place. The disposition of the linked note will be indicated on the RL-18 slip (code BLA or ELN entered in box 15).

3.3.2.1 Bad debts

A loss sustained on a bad debt may be considered a capital loss or a business investment loss; in the latter case, the loss can be deducted on line 234 of your income tax return. For more information, see section 7.1.4 and Part 8.

If the debt resulted from a disposition of personal-use property and you were dealing at arm's length with the person acquiring the property, the loss claimed must not exceed the capital gain reported for the property.

3.3.2.2 Other property

Other property
Includes (in this section) security options, futures contracts, foreign currency, discounts, premiums and bonuses, provided the disposition of the property gives rise to a capital gain or loss.

Security options

A security option that is exercised is not disposed of, and therefore does not result in a capital gain (or loss).

However, if you transfer to another person your right to a security option, the difference between the proceeds of disposition and the ACB of the option constitutes a capital gain (or loss) for you.

If the option you held expires during the year, we consider you to have disposed of it and to have sustained a capital loss equal to the ACB of the option on the expiration date.

Futures contracts

You can realize a capital gain or loss when a futures contract matures or is disposed of if it is used to hedge against exposure to an underlying capital asset, liability or transaction (e.g. if a futures contract is used to hedge against fluctuations in the value of the shares you hold).

In some cases, a futures contract that matures or is disposed of results in taxable income or a fully deductible loss (e.g. if the futures contract is speculative).

Foreign currency

If you made foreign currency transactions that resulted in capital gains (or losses), report only the portion of the net gain (or net loss) that exceeds $200.

To determine the net gain (or net loss), **subtract** total losses sustained from total gains realized, where both amounts resulted from the exchange differential between Canadian and foreign currencies.

Discounts, premiums and bonuses

Some debt obligations include a discount when they are issued, a premium when they are redeemed, or a bonus payable before or at maturity. A security is issued at a discount if the issue price is less than the face amount. A security may also entitle the holder to a premium or bonus (an amount payable in addition to the face amount).

If you acquired securities as an investor or if you made an election identical to that described in section 3.3.3, the amount of the discounts, premiums or bonuses granted to you constitutes a capital gain. You must report this gain for the taxation year in which the security matures or the year of disposition.

The following special rules concern the reporting of discounts and premiums:

- If you receive a cash premium when a Québec or Canada savings bond reaches maturity, you must report one-half of it as interest.
- If you have a Treasury bill that was issued at a discount and you redeem it at maturity, the amount by which the redemption price **exceeds** the issue price constitutes interest. However, if you dispose of the bill before it matures, you may have to report a capital gain or loss (as well as interest). The capital gain or loss is calculated by subtracting the total of the ACB and the interest from the proceeds of disposition.

3.3.3 Election concerning the disposition of Canadian securities

Before reporting a capital gain (or loss) from the disposition of Canadian securities, you must determine whether the securities are deemed to be the capital property of the person disposing of them and not property in inventory.

If the securities are Canadian securities, you can make an election under federal legislation for the tax authorities to treat the disposition of the securities for the year and subsequent years as a disposition of capital property.

Unless this election has been filed with the CRA, no such election is possible under Québec legislation. However, once this election has been made with the CRA, it automatically applies under Québec legislation.

If you file this election with the CRA as a member of a partnership, you must inform us in writing and provide supporting documents. Enclose with your Québec income tax return a **copy of any document you sent the CRA** regarding the election—including federal form T123, *Election on Disposition of Canadian Securities*, and your federal income tax return—and send everything to us no later than:

- the deadline for filing your income tax return for the taxation year for which the election must be filed with the CRA; or
- 30 days after making the election with the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of $25 per day, to a maximum of $2,500.

You cannot make the election if, at the time of the disposition, you were acting as a broker or dealer in securities (see the definition below), or you were not resident in Canada. If you were a member of a partnership that disposed of Canadian securities it owned, you are deemed to have disposed of the securities yourself. You can make the election individually, without the other members of the partnership being required to do so.

Canadian security
A security (other than a prescribed security) that is a share of the capital stock of a corporation resident in Canada, a mutual fund unit, or a bond, bill, note, hypothecary claim, mortgage or similar obligation issued by a person resident in Canada.

Prescribed security
Includes:

- a share of the capital stock of a corporation (other than a public corporation) whose value, at the time you dispose of it, is primarily attributable to immovable (real) property, Canadian or foreign resource property, or a combination of immovable and resource property;
- a bond, bill, note, hypothecary claim, mortgage or similar obligation issued by a corporation (other than a public corporation) with which you are not dealing at arm's length at any time before you dispose of the security;
- a share, bond, bill, note, hypothecary claim, mortgage or similar obligation that you acquired from a person with whom you are not dealing at arm's length.

Broker or dealer in securities

Any of the following persons:

- a person who participates in the promotion or underwriting of a particular issue of shares, bonds, or other securities; or
- a person who publicly presents themself as a broker of shares, bonds or other securities.

NOTE

If you serve as an officer or employee of a person described above, you are not included in this definition, unless you handle securities transactions as part of the promotional or underwriting activities of the employer concerned.

3.3.4 Virtual currency transactions

For income tax purposes, virtual currency transactions are generally considered barter transactions.

Depending on the situation of the persons involved and the nature of the things bartered, barter may generate income or give rise to an expense, or result in the acquisition or disposition of capital property or inventory on the same basis as if the transaction involved a cash consideration. For more information on the tax implications of barter, refer to interpretation bulletin IMP. 80-9/R1, *Barter transactions*.

For this reason, determining the tax implications of a virtual currency transaction is a factual exercise that is different for each individual. Consequently, there may be tax implications if you:

- use virtual currency to acquire goods or services;
- convert virtual currency to monetary currency;
- exchange one virtual currency for another;
- sell or make a gift of virtual currency.

Similarly, there may be tax consequences if you mine cryptocurrency.

To establish the value of a virtual currency transaction if the market value cannot be determined, you must use a reasonable method. Keep records to show how you established the value. Generally, our position is that the FMV is the highest price, expressed in Canadian dollars, that a willing buyer and a willing seller who are both knowledgeable, informed and prudent, and who are acting independently of each other, would agree to in an open and unrestricted market. For example, you could choose an exchange rate taken from the same exchange broker you are using or an average of midday values across a number of high-volume exchange brokers. Whichever method you choose, use it consistently. For more information on records, see Part 9.

Example 1 – Acquisition of property in exchange for virtual currency

In 2022, you acquired virtual currency at a cost of $300. In 2023, you used it to buy a cellphone from someone who accepts virtual currency. The FMV of the virtual currency at the time of the transaction was $500. Because you do not carry on a business, you must report a capital gain of $200, half (50%) of which is taxable.

However, if the FMV of the virtual currency at the time of the transaction in 2023 was $200 instead, you must report a capital loss of $100, half (50%) of which is deductible.

Example 2 – Conversion of virtual currency to monetary currency

In 2021, you acquired virtual currency at a cost of $150. In 2023, you decided to convert it into Canadian dollars, and you received $300. You must report a capital gain of $150, half (50%) of which is taxable.

However, if you received $75 in 2023, you should report a capital loss of $75, half (50%) of which is deductible.

Example 3 – Exchange of one virtual currency for another

In 2023, you exchanged 3 bitcoins, which you had acquired in 2020 at a cost of $25,000, for 75 ethers. At the time of the exchange, the FMV of the 3 bitcoins and the 75 ethers was $30,000.

We consider you to have disposed of the 3 bitcoins at the time of the exchange. As a result, a capital gain of $5,000 ($30,000 – $25,000) is realized, half (50%) of which is taxable.

However, if the price to purchase the bitcoins in 2020 was $40,000, you should report a capital loss of $10,000 ($30,000 – $40,000), half (50%) of which is deductible.

Example 4 – Sale of virtual currency

You acquired virtual currency for $200,000 in 2022 and sold it for $240,000 in 2023. Because you do not carry on a business, you must report a capital gain of $40,000, half (50%) of which is taxable.

However, if the cost of the virtual currency you acquired in 2022 was $250,000 instead, you must report a capital loss of $10,000, half (50%) of which is deductible.

Example 5 – Gift of cryptocurrency

In 2023, you decide to make a gift of virtual currency, which you had acquired for $400, to a registered charity. The FMV of the virtual currency at the time the gift was made was $500. The eligible amount of the gift, for the purposes of calculating the tax credit for donations and gifts, is $500.

However, because you are deemed to have disposed of the virtual currency in 2023, you must report a capital gain of $100 ($500 – $400), half (50%) of which is taxable.

If the FMV of the virtual currency at the time the gift was made was $350 instead, the eligible amount of the gift, for the purposes of calculating the tax credit, is $350. You should also report a capital loss of $50 ($350 – $400), half (50%) of which is deductible.

3.4 Personal-use property

Personal-use property

Property that you own in whole or in part and that serves primarily for your personal use or enjoyment, or for the personal use or enjoyment of one or more persons who form part of a group to which you and persons related to you belong.

NOTE

- Personal-use property may include personal or household items, furniture, automobiles, houses, boats, antiques, etc., as well as debts owed to you further to the disposition of such property or an option to purchase such property.
- The following personal-use property is considered **precious property**: prints, etchings, drawings, paintings, sculptures and other similar works of art, jewelry, stamps, coins, and rare folios, books and manuscripts.

If you disposed of cultural property, you may not have to report the capital gain. For more information, see section 3.6.

3.4.1 Capital gain

You are required to report a capital gain realized on the disposition of personal-use property only if the proceeds of disposition are over $1,000. In this case, the ACB of the property is deemed to be equal to $1,000 or to the actual ACB, whichever is **greater**. This presumption is not applicable to property acquired as part of a gifting arrangement considered to be a tax shelter.

If you are required to report a capital gain realized on the disposition of personal-use property, enter the amount of the gain on line 16 of Schedule G of the personal income tax return or, if the personal-use property is deemed to be precious property, enter the amount of the gain on line 18 of Schedule G. The special rules applicable in the case of a principal residence (concerning change of use, transfer to a spouse, and the type of property that may be designated as a principal residence) are explained in section 3.5 below.

3.4.2 Capital losses

A capital loss resulting from the disposition of personal-use property is not deductible, unless:

- the property is a bad debt (see section 3.3.2.1) that was owed to you as a result of a disposition of personal-use property to a person with whom you were dealing at arm's length at the time of the disposition;
- the property is precious property (see section 7.1.2).

3.5 Principal residence

Since a residence is personal-use property, we suggest you first read the definition of "personal-use property" in section 3.4.

See below for information on the designation of a principal residence when the residence is disposed of or there is a change in its use or when a real servitude encumbering the residence is established.

3.5.1 Designation

You can designate as principal residence for a given year a property that is:

- a housing unit;
- a leasehold interest in a housing unit; or
- a share of the capital stock of a housing cooperative.

Housing unit
A house; a dwelling in a rental building, in a duplex or in a condominium; a cottage; a mobile home; a trailer; or a floating home.

Leasehold interest
A tenant's right to a rented property.

Share in the capital stock of a housing cooperative
Interest held by a member in a housing cooperative, giving them the right to rent and live in a dwelling owned by the cooperative.

NOTE
If you disposed of, or are deemed to have disposed of, your principal residence after October 2, 2016, and you resided outside Canada while you owned or co-owned it, contact us.

3.5.1.1 Land of a principal residence

A principal residence includes the land on which it is built as well as the adjoining land reasonably necessary for the use of the residence. However, any portion of the total area of the lot exceeding one-half hectare is not considered part of the principal residence, unless the owner can show that they would not be able to use the residence without that excess land. Lots larger than one-half hectare may be necessary, for example, if:

- a municipal bylaw or provincial law requires residential lots to be larger than one-half hectare;
- the location of a building makes a larger lot necessary in order to have access to public roads.

3.5.1.2 Calculating capital gain

You do not have to calculate any capital gain if you elect to designate your residence as your principal residence for **all the years** you owned or co-owned it. However, if you do not designate your residence as your principal residence for all the years you owned it, you may have to report a portion of the capital gain. This portion of the capital gain may be reduced if you or your spouse made an election to report a capital gain deemed to have been realized on your principal residence on February 22, 1994. To calculate this reduction, complete form TP-274.S-V, *Reduction of the Capital Gain Deemed to Have Been Realized on a Principal Residence*. Carry the amount of the reduction to form TP-274-V, *Designation of Property as a Principal Residence*.

In all cases, you must complete form TP-274-V and enclose it with your income tax return for the taxation year in which you:

- disposed or are deemed to have disposed of all or part of your principal residence;
- granted an option to purchase all or part of your principal residence; or
- established a real servitude encumbering your principal residence.

NOTE

An immovable property is normally considered a single property. However, immovable property can include one or more housing units for the purposes of its designation as a principal residence (see the example below). If multiple housing units can be designated as the principal residence for different years, you must complete a copy of form TP-274-V for each of the housing units, and enclose the completed forms with your income tax return for the taxation year in which the property was actually disposed of.

Example

In January 2014, Jacob acquired a duplex consisting of two housing units. He rented one housing unit (the “first unit”), which represented 40% of the area of the immovable property, out to one person, and used the other unit (the “second unit”), which represented 60% of the area of the immovable property, as his principal residence.

In July 2022, Jacob stopped renting out the first unit and made changes to the duplex so that the entire area became one housing unit (the “third unit”), where he would live. Despite the change in the use of the property, he elected not to report the capital gain on his 2022 income tax return.

In December 2023, he disposed of his duplex.

To determine the capital gain (or loss) he must report on his 2023 income tax return, Jacob must divide the ACB and the proceeds of disposition of the property among each of the three units comprising the duplex based on the area of each. If he realizes a capital gain, he can elect to designate as his principal residence each of the duplex units that he used for personal purposes during the 10 years he owned the duplex, as follows:

- the second unit (60% of the area of the immovable property) for 2014 to 2022 (the first eight and a half years of use);
- the third unit (100% of the area of the immovable property) for 2022 and 2023 (the last 18 months of use).

3.5.1.3 Conditions for designation

You may designate a property as your principal residence for a given year only if you, your spouse, your former spouse or your child ordinarily used the property as a housing unit during the year.

You may also elect to designate property as your principal residence if there was a change in the use of the property (see section 3.5.2) **and** you elected to defer taxation of the resulting capital gain to the taxation year in which you actually disposed of the property.

You can designate a property as your principal residence even if the time of occupation was short. This may be the case for a secondary residence, for example, provided it was not acquired mainly for the purpose of earning income. A property that occasionally produces rental income is not considered to have been acquired for the purpose of earning income (see section 3.5.2.3).

You can designate a property as your principal residence for a given year only if **all** the following conditions are met:

- You own or co-own the property (see the note below).
- You designate the property as your principal residence for the year to the exclusion of any other property.
- No other property has been designated as a principal residence for the year (for years after 1981) by you or any of the following people:
  - your spouse (unless they lived apart from you throughout the year, pursuant to a judicial separation or a written separation agreement);
  - your child (unless, during the year, they had a spouse or was 18 or over);
  - your father or mother, or your brother or sister (unless, during the year, the brother or sister had a spouse or was 18 or over), if you yourself did not have a spouse and were not 18 or over during the year.
- If the disposition took place in a taxation year ending after October 2, 2016, you **first designated** the property as your principal residence for the year with the CRA (you must keep proof that such a designation was made with the CRA in case we ask for it).

Exceptions

We may allow you to designate a given property as your principal residence for a given year in cases where you are not required to designate the property as such for federal income tax purposes, if we deem the circumstances acceptable and **all** the following conditions are met:

- In a taxation year ending before October 3, 2016 (the year of the previous disposition), you disposed of a property that you were able to designate as a principal residence for Québec income tax purposes.
- You were resident in Québec at the end of the year of the previous disposition.
- You designated the given property as your principal residence for the given year for federal income tax purposes, but did not designate the property as such for Québec income tax purposes for that year.

We may also allow you to designate a given property as your principal residence for a given year for Québec income tax purposes, even if you were not able to designate the property as such for that year for federal income tax purposes, if:

- you disposed of another property before the disposition of the given property;
- you designated the other property as your principal residence for the given year for federal income tax purposes;
- you were not able to designate the other property as your principal residence for the given year for Québec income tax purposes because we concluded, contrary to the CRA's position, that either:
  - the other property could not otherwise be designated as your principal residence, or
  - the income resulting from the disposition of the other property was business income.

Other than the exceptions above, a property cannot be designated as a principal residence for the given year for Québec income tax purposes unless it is first designated as a principal residence for the year for federal income tax purposes.

NOTE

If a person's principal residence is transferred to that person's spouse or to a trust and the rollover rule applies to the transfer (such as in one of the situations described in section 5.1.1), the residence is deemed to have been the spouse's or trust's principal residence, as applicable, for all the years:

- for which the residence was the person's principal residence, if the transfer took place while the person was living;
- with respect to which the person could have designated the residence as their principal residence, if the transfer was made subsequent to the person's death.

You must keep this in mind when completing form TP-274-V (or form TP-274.F-V, *Designation of Property as a Principal Residence of a Personal Trust*, if you are a trustee).

3.5.2 Change in use and election

There is a change in use if you convert all or part of a property that you use as your principal residence into rental or business income-producing property or, conversely, you start using income-producing property as your principal residence. A change in use takes place every time the percentage of use changes.

At the time of the change in use, you are deemed to have disposed of the converted property (or part of the property) for proceeds equal to its FMV and to have reacquired the property immediately thereafter at a cost equal to its FMV. A capital gain (or loss) may result, which you must report for the taxation year in which the change in use took place. A capital loss on property used for personal purposes is not deductible (see part 3.4).

You can choose to report the capital gain in the taxation year in which you actually disposed of the property provided you have **previously** made the election to do so under federal law. Such an election applies automatically under Québec law. If you do not make this election with the CRA, no such election is possible for Québec tax purposes.

Note that as of March 19, 2019, you can make this election if there is a change in use of part of the property.

The sections below explain how electing to change the use of a property affects the property's designation as your principal residence.

3.5.2.1 Converting your principal residence into income-producing property

You must normally report the capital gain resulting from the conversion of your principal residence into rental or business income-producing property **in the taxation year in which the change in use occurred.** However, you can elect to defer the capital gain and report it **in the taxation year in which you actually disposed of the property**. If you make this election, you can designate the property as your principal residence while you used it to earn income for a **period of four years** following the year of change in use if the conditions below are met. Note that the four-year period can be extended in some cases (see the note below).

- You were resident in Canada or were deemed resident in Canada.
- Neither you nor a family member has designated another property as your principal residence for each of the years in question (for any year after 1981).

NOTE

A property can be designated as a principal residence for a period of more than four years if **all the following conditions** are met:

- You are not living in your principal residence because of a change in the location of your or your spouse's place of work, and you or your spouse, as applicable, is dealing at arm's length with the employer.
- You move into a new dwelling that is at least 40 kilometres closer to your or your spouse's new place of work.
- You resume living in your principal residence while you or your spouse holds the same employment, or before the end of the year following the year in which the employment ends.

Once the election has been made for the purposes of federal legislation (subsection 45(2) of the federal *Income Tax Act*), it automatically applies under Québec legislation (section 284 of the *Taxation Act*). Unless this election has been filed with the CRA, no such election is possible for Québec income tax purposes.

If you make this election with the CRA, you must inform us in a signed letter enclosed with your income tax return for the taxation year in which the change in use takes place.

The letter must include the following information:

- a description of the property concerned by the change in use;
- the date and details of the change in use (for example, you rented out 60% of your residence);
- a statement that you are making an election under subsection 45(2) of the federal *Income Tax Act* and section 284 of the *Taxation Act*.

Note that you can only make the election to defer taxation of a capital gain to a future taxation year. Once you start using your residence to earn income, you must report that income. However, you cannot claim capital cost allowance for the part of your residence concerned by the change in use.

3.5.2.2 Converting income-producing property into your principal residence

You must normally report the capital gain resulting from the conversion of rental or business income-producing property into your principal residence **in the taxation year in which the change in use occurred**.

However, you can elect to defer the capital gain and report it **in the taxation year in which you actually disposed of the property**. If you make this election, you can designate the property as your principal residence while you used it to earn income for a **period of four years** preceding the year of change in use. The following conditions must be met:

- You were resident in Canada or were deemed resident in Canada.
- Neither you nor a family member has designated another property as your principal residence for each of the years in question (for any year after 1981).

Once the election has been made for the purposes of federal legislation (subsection 45(3) of the federal *Income Tax Act*), it automatically applies under Québec legislation (section 286.1 of the *Taxation Act*). Unless this election has been filed with the CRA, no such election is possible for Québec income tax purposes. Note that this election cannot be made for federal purposes if you have claimed capital cost allowance on the property.

To inform us of your election with the CRA, send us a signed letter no later than:

- the deadline for filing your income tax return for the taxation year in which you actually disposed of the property; or
- 30 days after making the election with the CRA.

The letter must include the following information:

- a description of the property concerned by the change in use;
- the date and details of the change in use (for example, you converted 55% of a property you used to earn business income into your principal residence);
- a statement that you are making an election under subsection 45(3) of the federal *Income Tax Act* and section 286.1 of the *Taxation Act*.

Note that even if you make the election to defer taxation of a capital gain, you must report a recapture of capital cost allowance that could result from the change in use. You must report the recapture in the taxation year in which the change in use took place.

3.5.2.3 Rental not resulting in a change in use

Renting out part of your principal residence results in a change in use. However, in some situations you can rent out part of your residence without causing a change in use. You can then designate the property as your principal residence while it is being rented.

For example, you can rent out one or two rooms in your residence. In this case, you must include the rental income in your total income but cannot claim capital cost allowance for the rented portion.

You can also occasionally rent out rooms (during an annual festival, for example) without having to include the rental income in your total income, provided the following **two** conditions are met:

- The rooms are not rented for more than 20 days in the same year.
- You have no other income from the rental of rooms.

For more information on rental income, see *Individuals and Rental Income* (IN-100-V).

3.5.3 Documents to send and deadline

The documents you need to send us and the deadline for sending them vary according to your situation.

Disposition of property

If you disposed of or are deemed to have disposed of all or part of your residence, or if you have granted an option to purchase your residence, you must send us form TP-274-V no later than the deadline for filing your income tax return for the taxation year in which the disposition took place.

Establishment of a real servitude encumbering a property

If you established a real servitude encumbering your residence, you must send us form TP-274-V no later than the deadline for filing your income tax return for the taxation year in which the real servitude encumbering the property was established.

> NOTE
> In both cases, you must keep the following documents as proof that you have also designated the property as your principal residence with the CRA, so that you can provide them to us on request:
> - form T2091, *Designation of a Property as a Principal Residence by an Individual (Other than a Personal Trust)*, or, for a deceased individual, form T1255, *Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual*;
> - the federal income tax return.

Change in use

Converting your principal residence into income-producing property

If you **make a change-in-use election** under subsection 45(2) of the federal *Income Tax Act* (for the purposes of section 284 of the *Taxation Act*), you must send us a letter indicating that you have made this election, along with the required information mentioned in section 3.5.2.1. Send the letter and information no later than:

- the deadline for filing your income tax return for the taxation year in which the change in use occurred; or
- 30 days after making the election with the CRA.

> NOTE
> You must also send us a copy of the letter you sent to the CRA indicating that you have made the change-in-use election under subsection 45(2) of the federal *Income Tax Act*.

If you **do not make the election** under subsection 45(2) of the federal *Income Tax Act* (for the purposes of section 284 of the *Taxation Act*) and you **designate the property as your principal residence** (see note below), you must send us form TP-274-V no later than the deadline for filing your income tax return for the taxation year in which the change of use occurred.

> NOTE
>
> You must keep the following documents as proof that you have designated the property as your principal residence with the CRA, so that you can provide them to us upon request:
>
> - form T2091, *Designation of a Property as a Principal Residence by an Individual (Other than a Personal Trust)*, or, for a deceased individual, form T1255, *Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual*;
> - the federal income tax return.

Converting income-producing property into your principal residence

If you **make a change-in-use election** under subsection 45(3) of the federal *Income Tax Act* (for the purposes of section 286.1 of the *Taxation Act*) and you **designate the property as your principal place of residence**, you must send us form TP-274-V, as well as a letter indicating that you have made this election and the required information mentioned in section 3.5.2.2. Send the documents no later than:

- the deadline for filing your income tax return for the taxation year in which you actually disposed of the property; or
- 30 days after making the election with the CRA.

> NOTE
>
> You must also send us the following documents:
>
> - a copy of the letter you sent to the CRA indicating that you have made the change-in-use election under subsection 45(3) of the federal *Income Tax Act*;
> - form T2091, *Designation of a Property as a Principal Residence by an Individual (Other than a Personal Trust)*, or, for a deceased individual, form T1255, *Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual*;
> - the federal income tax return

If you **do not make the election** under subsection 45(3) of the federal *Income Tax Act* (for the purposes of section 286.1 of the *Taxation Act*), you have no documents that need to be sent to us for the year in which the change of use occurred.

3.5.4 Penalties

If you do not file **form TP-274-V** on time, you are liable to a **penalty of $100 for each complete month** you are late, to a maximum of $5,000.

If you do not send us a copy of the **documents you sent the CRA** concerning the change-of-use election by the deadline, you are liable to a **penalty** of **$25 per day**, to a maximum of $2,500.

Furthermore, if the CRA agrees to extend the deadline for making a change-of-use election, or to modify or revoke a previous election, **you must notify us in writing and send us a copy of the documents you sent the CRA**. If you fail to do so, you are liable to a **penalty of $100 for each complete month** in the period beginning on the day on which the late, amended or revoked election should have been made and ending on the day on which the form and copies of the documents submitted to the CRA are sent to us, to a maximum of $5,000.

3.6 Cultural property

If you dispose of cultural property (with or without consideration), and the donee has provided you with a *Cultural Property Income Tax Certificate* (T871) issued by the Canadian Cultural Property Export Review Board or a *Certificate of Disposition of Cultural Property* (TPF-712.0.1-V) issued by the Conseil du patrimoine culturel du Québec, you do not have to report the capital gain realized on the disposition of the property.

In addition, if you dispose of Quebec cultural property (i.e., property that is listed in the Registre des biens culturels du Québec), and the donee is an institution or public authority located in Canada, you do not have to report the capital gain realized on the disposition of this property.

If you have incurred a capital loss, you must assess whether it is deductible, depending on whether the property disposed of is personal-use property other than precious property or precious property. For more information, see sections 3.4 and 7.1.

4 RESERVES

If a portion of the proceeds of disposition of one of your properties is payable after the end of the taxation year, you can claim a reserve for the capital gain reported on the property for the year. See section 4.1 to find out how to calculate the reserve. If a partnership you were a member of allocated a reserve to you, see section 4.2.

The amount of the reserve you can deduct in respect of a particular property depends on the reserve amount you are deducting for federal income tax purposes in respect of that property. See section 4.3 to determine the amount you can deduct.

> NOTE
> You cannot deduct a reserve for a particular taxation year if, at the end of that year or at any time in the following year, you were not resident in Canada or were exempt from income tax.

4.1 Calculating a reserve

A reserve can be calculated over a maximum of **five years**. For a given taxation year, the reserve is therefore equal to A or B, whichever is **less**, calculated as follows:

$$A = \text{Capital gain} \times \frac{\text{Portion of proceeds of disposition payable after the end of the year}}{\text{Proceeds of disposition}}$$

$$B = \text{Capital gain} \times (4 - C) \div 5$$

The capital gain used to calculate variables A and B is the capital gain determined when the property was disposed of, before the reserve was calculated.

Variable C corresponds to the number of taxation years, including the year of disposition, that precede the taxation year in question. Variable C equals 0 if the calculation is for the year in which the disposition occurred, 1 if it is for the following year, and so on.

The reserve may be calculated over a maximum of **10 years** if you dispose of property to your child and they are resident in Canada immediately before the disposition. The property must be:

- land or depreciable property located in Canada that you, your spouse or one of your children used in the operation of a farming or fishing business;
- a share of the capital stock of a family farm or fishing corporation;
- an interest in a family farm or fishing partnership;
- qualified small business corporation shares (see the definition in Part 6).

If you calculate the reserve over 10 years, replace “4” by “9” and “5” by “10” in variable B.

4.2 Reserve claimed by a member of a partnership

A partnership you were a member of may have determined a reserve in respect of capital gains that it realized during the partnership’s fiscal period that ended during your taxation year, or during a previous fiscal period.

If the partnership is **required** to file form TP-600-V, *Partnership Information Return*, for that fiscal period, your share of the reserve will be shown in box 11 of your RL-15 slip. The partnership must enter the amount of the reserve that corresponds to each type of property in boxes 11-1, 11-2, 11-3 and 11-4 of the RL-15 slip. Use this information to reduce the capital gains (or, if applicable, to increase the capital losses) shown in box 10 or 12, and carry the result to Schedule G of the personal income tax return.

If the partnership is **not required** to file a partnership information return, you must use the information the partnership is required to give you to determine your share of the partnership's reserve. To see, in respect of a particular property, how much of the reserve you can deduct and how much of the reserve you must report as a capital gain, refer to section 4.3.

For more information on the disposition of property by a partnership, see section 5.7.

4.3 Amount that can be deducted and amount that must be reported as a capital gain

The amount of the reserve that you can deduct for Québec income tax purposes (hereinafter called the "provincial reserve amount") in respect of a particular property usually depends on the amount of the reserve you are deducting for federal income tax purposes (hereinafter called the "federal reserve amount deducted") in respect of that property.

If the federal reserve amount deducted is less than the maximum amount you were allowed to deduct, the provincial reserve amount must be equal to the **lesser** of the following amounts:

- the federal reserve amount deducted; or
- the result of the calculation given in section 4.1 (or your share of a partnership's reserve for the year).

However, if the federal reserve amount deducted is equal to the maximum amount you were allowed to deduct and:

- exceeds the result of the calculation given in section 4.1 (or your share of a partnership's reserve for the year), the provincial reserve amount must be equal to the result of that calculation (or your share of the reserve);
- does not exceed the result of the calculation given in section 4.1 (or your share of a partnership's reserve for the year), the provincial reserve amount must be equal to an amount that is neither less than the federal reserve amount deducted nor greater than the result of the calculation given in section 4.1 (or your share of the partnership's reserve).

Example

For federal income tax purposes, you deduct $3,000, which is the maximum federal reserve amount you can deduct. The result of the calculation given in section 4.1 (or your share of a partnership's reserve for the year) is $5,000.

In this case, the provincial reserve amount must be neither less than $3,000 nor greater than $5,000. You can therefore deduct, for example, $4,000 as a reserve.

If the federal reserve amount deducted had been $2,000 (i.e., less than the maximum federal reserve amount), the provincial reserve amount would have been $2,000.

NOTE

If, in the year, you disposed of eligible shares of a corporation as part of the **transfer of a family business** and realized a capital gain on that disposition, you can elect to designate an amount as a deemed capital gain by completing form TP-517.5.5-V, *Designating a Deemed Capital Gain Further to the Transfer of a Family Business*. You can also claim a reserve for this deemed capital gain if a portion of the proceeds of disposition is payable after the end of the year.

Since the provincial reserve amount usually depends on the federal reserve amount deducted, you must send us a **copy of any document you sent the CRA** regarding the federal reserve amount deducted—including federal form T2017, *Summary of Reserves on Dispositions of Capital Property*, and your federal income tax return—no later than:

- the deadline for filing your income tax return for the taxation year for which the reserve must be claimed with the CRA; or
- 30 days after filing your claim for a reserve with the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of $25 per day, to a maximum of $2,500.

You do not have to send any documents to the CRA regarding:

- the determination of the provincial reserve amount that is attributable to the deemed capital gain that you designated further to the disposition of eligible shares in a corporation as part of the transfer of a family business; or
- a reserve resulting from the disposition of such shares in a previous year.

With the exception of reserves deducted as a member of a partnership, you can deduct reserves on the following lines of Schedule G of the personal income tax return:

- lines 32 or 38, for property other than qualified farm or fishing property, qualified small business corporation shares, or resource property (see the note below);
- lines 63 or 77, for qualified farm or fishing property (including eligible shares in a family farm or fishing corporation disposed of as part of the transfer of a family business) or qualified small business corporation shares (including those disposed of as part of the transfer of a family business).

A reserve deducted for a given year **must be reported** as a capital gain for **the following year**. This gain must be entered on lines 36 or 74 of Schedule G. Under certain circumstances, a reserve that is treated as a capital gain entitles you to a capital gains deduction (see Part 6).

If you are deducting a reserve as a **member of a partnership** that is not required to file an information return, you must take the reserve into account in calculating the amounts to be entered on the following lines of Schedule G of the personal income tax return:

- line 24, for property other than qualified farm or fishing property, qualified small business corporation shares or resource property;
- line 48, for resource property that is not classed as qualified farm or fishing property or qualified small business corporation shares;
- line 58, for qualified farm or fishing property (except eligible shares in a family farm or fishing corporation disposed of as part of the transfer of a family business) and qualified small business corporation shares (except those disposed of as part of the transfer of a family business).

Where applicable, you must add your share of any reserve the partnership claimed for the previous year (reported as a capital gain in box 10 or 12 of the RL-15 slip, if the partnership sent you one) to your share of the capital gains for the current year, before subtracting your share of any reserve the partnership is claiming for the current year (reported as a capital gain in box 11 of the RL-15 slip, if the partnership sent you one). However, if the partnership allocated part of its capital losses to you, you must do the opposite operation: subtract your share of the partnership's reserve for the previous year from the losses allocated to you before adding your share of the partnership's reserve for the current year.

NOTE

In the case of resource property that is not classed as qualified farm or fishing property or qualified small business corporation shares, the reserve that you are required to report as a capital gain or that you deduct must be taken into account in calculating the amount on line 46 of Schedule G.

5 SPECIAL CASES

This part explains the tax treatment of the following transactions and events:

- the transfer of property between persons not dealing at arm's length with each other;
- the transfer of a family business;
- the disposition of property followed by the acquisition of replacement property;
- the disposition of qualified small business corporation shares and the acquisition of replacement shares;
- the splitting of income in favour of a specified individual further to the disposition of certain property;
- the donation of property to a registered charity or other qualified donee;
- a change in the use of property;
- emigration from Canada;
- the disposition of property by a partnership you were a member of;
- the deemed disposition of property as a result of a disaster.

5.1 Transfer of property between persons not dealing at arm's length with each other

If you transfer property to a person with whom you are not dealing at arm's length (see the definition of "not dealing at arm's length" in section 2.4.1), for proceeds equal to zero or for consideration that is less than the FMV of the property at the time of the transfer, you are deemed to have transferred the property for its FMV at that time. The resulting capital gain (or loss) must be reported in your income tax return for the year of the transfer.

However, the *Taxation Act* provides for special rules and elections for the transfers discussed below.

5.1.1 Inter vivos transfer to a spouse, a former spouse or a personal trust

If you transfer property directly or indirectly, through a trust or otherwise, to a person who is your spouse or former spouse, or to a personal trust, there are no immediate tax consequences for you, provided you and the transferee are both resident in Canada at the time of the transfer. You can apply the **rollover rule**, whose consequences are explained below. In the case of a former spouse, the transfer must be made in settlement of a right resulting from the marriage or de facto union. "Personal trust" is defined below in the section entitled "Transfer of property to a personal trust."

If you transfer **non-depreciable property**, the deemed proceeds of disposition of the property are equal to its ACB immediately before the transfer.

If you transfer **depreciable property**, the deemed proceeds of disposition of the property are equal to the UCC attributable to the property. The UCC is the result of the calculation **A × B ÷ C**, where:

A is the UCC of all the property in the same class;
B is the FMV of the property transferred; and
C is the FMV of all the property in the same class.

For the transferee, the **deemed acquisition cost** of the property is equal to the deemed proceeds of disposition of the property. Furthermore, for depreciable property, the transferee is deemed to have claimed the same amount of CCA as you claimed. These considerations will affect the amounts to be reported or deducted by you or the transferee when the property is disposed of.

Transfer of property to a personal trust

If you transfer capital property to a personal trust, you can apply the rollover rule only if:

- for a self-benefit trust, the transfer does not change the beneficial ownership of the property and, immediately following the transfer, no other person or partnership has an absolute or conditional right as a beneficiary of the trust;
- for an alter ego trust or a self-benefit trust, the trust did not make an election, in the trust income tax return filed for its first taxation year, whereby the first date of deemed sale would be (under the 21-year rule) the 21st anniversary of the creation of the trust, rather than the date of the beneficiary's death. See the *Guide to Filing the Trust Income Tax Return* (TP-646.G-V).

To simplify, we use the term "personal trust" to refer to a spousal trust, an alter ego trust, a self-benefit trust or a joint spousal trust.

Spousal trust
A trust created for the benefit of a spouse where, under the trust deed, the spouse is exclusively entitled to receive all the income of the trust and no one other than the spouse can receive or otherwise obtain the enjoyment of the trust's income or capital during the spouse's lifetime.

Alter ego trust
A trust created after 1999 by an individual who is at least 65 where, under the trust deed, the individual is exclusively entitled to receive all the income of the trust and no other person can receive or otherwise obtain the use of any portion of the trust's income or capital during the individual's lifetime.

Self-benefit trust
A trust created after 1999 by an individual who is under 65 where, under the trust deed, the individual is exclusively entitled to receive all the income of the trust and no other person can receive or otherwise obtain the use of any portion of the trust's income or capital during the individual's lifetime.

Joint spousal trust
A trust created after 1999 by an individual or by the individual and their spouse (where at least one of these people is 65 or older), for their joint benefit during their lifetimes where, under the trust deed, no one other than the individual or the spouse can receive or otherwise obtain the use of any portion of the trust's income or capital while at least one of the spouses is alive.

Impact of the income allocation rule on the transferor

You must comply with the income allocation rule if you transferred or lent property directly or indirectly, through a trust or otherwise, to your spouse or a person who subsequently became your spouse. Under this rule, the capital gain (or capital loss) that your spouse realizes on the future disposition of the property is considered your capital gain or loss. Likewise, in the case of depreciable property that generates property income, any terminal loss or recapture of CCA that this person realizes on the disposition is considered your CCA recapture or terminal loss. The income allocation rule applies if, at the time of the future disposition, you were still resident in Canada and were still the transferee's spouse. However, the rule does not apply to a deemed capital gain (or loss) that results from your spouse's emigration from Canada, unless you and your spouse decide otherwise by making a joint election under federal legislation.

This election automatically applies under Québec legislation. Unless the election has been filed with the CRA, no such election is possible for Québec income tax purposes.

If you file this election with the CRA, you must inform us in writing and provide supporting documents. Enclose with your Québec income tax return a **copy of any document you sent the CRA** regarding the election—in particular your federal income tax return—and send everything to us no later than:

- the deadline for filing your income tax return for the first taxation year ending after the year of emigration; or
- 30 days after making the election with the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of $25 per day, to a maximum of $2,500.

Election not to apply the rollover rule

The rollover rule does not apply if you make an election under subsection 73(1) of the federal *Income Tax Act*. In such a case, your deemed proceeds of disposition and the transferee's deemed acquisition cost are each considered equal to the FMV of the property at the time of transfer. You must then report the capital gain (or capital loss) and any resulting recapture of CCA (or any terminal loss) for the year in which the transfer took place. If there is a capital gain, you may be entitled to a capital gains deduction (see Part 6). You must enclose with your income tax return for the year in question a document proving that you filed the election with the CRA.

5.1.2 Inter vivos transfer of farm or fishing property to a child

If you transfer farm or fishing property to one of your children, grandchildren or great-grandchildren who are resident in Canada at the time of the transfer, the resulting tax consequences for you are generally reduced. You can calculate your capital gain or loss based on the deemed proceeds of disposition of the property.

The deemed proceeds of disposition are equal to the **median** of the following elements (neither the least nor the greatest of the three):

- for non-depreciable property:
  - the property's ACB immediately before the transfer,
  - the property's FMV immediately before the transfer, and
  - the consideration received;
- for depreciable property:
  - the capital cost of the property or the UCC attributable to the property, whichever is **less**,
  - the FMV of the property at the time of the transfer, and
  - the consideration received.

For the transferee, the **deemed acquisition cost** of the property is equal to the deemed proceeds of disposition of the property. Furthermore, for depreciable property, the transferee is deemed to have claimed the same amount of CCA as you claimed. These considerations will affect the amounts to be reported or deducted by you or the transferee when the property is disposed of.

The examples below illustrate the consequences of this rule for the transfer of farm property that is land.

Example 1

You receive consideration exceeding both the ACB and the FMV of the land.

ACB	FMV	Consideration	Deemed proceeds of disposition
$17,000	$20,000	$24,000	$20,000

You are deemed to have realized a capital gain of $3,000 ($20,000 – $17,000 = $3,000), instead of $7,000 ($24,000 – $17,000 = $7,000).

Example 2

You receive no consideration.

ACB	FMV	Consideration	Deemed proceeds of disposition
$17,000	$20,000	$0	$17,000

You are deemed not to have realized a capital gain in this case ($17,000 – $17,000 = $0). If you had followed the general rule given in the first paragraph of section 5.1, you would have had a capital gain of $3,000 ($20,000 – $17,000 = $3,000).

Example 3

The property's ACB and FMV both exceed the consideration received.

ACB	FMV	Consideration	Deemed proceeds of disposition
$24,000	$20,000	$19,000	$20,000

You are deemed to have sustained a capital loss of $4,000 ($20,000 – $24,000 = –$4,000). You would have obtained the same result if you had followed the general rule given in the first paragraph of section 5.1.

Contact us for more information.

Farm or fishing property

One of the following properties that belongs to you:

- land or depreciable property, if such property is primarily used to carry on a farm or fishing business in Canada in which you, your spouse, your father, your mother or one of your children, grandchildren or great-grandchildren is actively engaged on a regular and continuous basis;
- land or depreciable property, if such property is primarily used to carry on a business in Canada by:
  - a family farm or fishing corporation of which you, your spouse, your father, your mother or one of your children, grandchildren or great-grandchildren is a shareholder,
  - a family farm or fishing partnership you, your spouse, your father, your mother or one of your children, grandchildren or great-grandchildren is a member of;
- a share of the capital stock of a family farm or fishing corporation, if substantially all of the FMV of the corporation's property is attributable to property primarily used to carry on a farm or fishing business in Canada in which you, your spouse, your father, your mother or one of your children, grandchildren or great-grandchildren is actively engaged on a regular and continuous basis;
- an interest in a family farm or fishing partnership, if substantially all of the FMV of the partnership's property is attributable to property primarily used to carry on a farm or fishing business in Canada in which you, your spouse, your father, your mother or one of your children, grandchildren or great-grandchildren is actively engaged on a regular and continuous basis.

Impact of the income allocation rule on the transferor

If the consideration you received is less than the FMV, the capital gain (or capital loss) that the transferee may realize on the future disposition of the property is considered your capital gain (or capital loss) as long as the transferee is under 18 and you are still resident in Canada.

Transfer of your interest in a family farm or fishing partnership for no consideration

If you filed an election with the CRA to have paragraph 73(4.1)(c) of the federal *Income Tax Act* apply to this transfer:

- you are deemed **not** to have disposed of your interest in the partnership at the time of the transfer;
- the transferee is deemed to have received the interest in the partnership at the time of the transfer, for an acquisition cost that is deemed to be equal to the ACB to you of that interest immediately before the transfer.

5.1.3 Transfer of a family business

If you are an individual (other than a trust) and you disposed of eligible shares of a corporation as part of the transfer of a family business, the gain resulting from the disposition is generally considered a deemed dividend and must be included in your income.

Eligible share

An eligible share refers to:

- a share of the capital stock of a family farm or fishing corporation;
- a qualified small business corporation share (see the definition in section 6.1).

However, if the transfer of the family business is considered an **eligible business transfer** and the eligible shares are disposed of after March 17, 2016, you can designate all or part of the gain realized on the disposition of the shares as a **deemed capital gain** by completing form TP-517.5.5-V, *Designating a Deemed Capital Gain Further to the Transfer of a Family Business*. You must report the amount of this deemed capital gain on line 55.1 of Schedule G of your income tax return.

In such a case, you **must** claim a capital gains deduction for the taxable amount of the deemed capital gain in your Québec income tax return. The amount of the deduction you must claim corresponds to 50% of the amount entered on line 55.1 of Schedule G.

When calculating your capital gains deduction for 2023, the deemed capital gain resulting from the disposition of eligible shares is deemed to have been deducted, under the federal *Income Tax Act*, in calculating your taxable income.

To calculate the amount of the capital gains deduction you can claim for 2023, complete form TP-726.7-V, *Capital Gains Deduction on Qualified Property*, and enclose it with your income tax return.

Eligible business transfer

The transfer of a family business is considered to be an eligible business transfer if **all** the following conditions are met:

- During the 24-month period immediately preceding the disposition of the shares of the corporation in question, you or your spouse held the shares concerned and played an active role in a business carried on by the corporation, or by a corporation in which the corporation in question held a substantial interest while you or your spouse held the shares concerned.
- After disposing of the shares concerned, you or your spouse definitively ceased playing an active role in a business carried on by the acquirer, by the corporation in question or by a corporation in which the corporation in question holds a substantial interest, except for an active role to transfer knowledge during a transition period.
- During the period beginning 30 days after the disposition of the shares concerned and ending after a series of transactions to transfer the business, you or your spouse did not have de jure control of the corporation in question or of a corporation in which the corporation in question had a substantial interest, or you or your spouse did not belong to a partnership controlling such a corporation (see the exceptions below).
- During the period beginning 30 days after the disposition of the shares concerned and ending after a series of transactions to transfer the business, you or your spouse did not hold, directly or indirectly, common shares of the capital stock of the corporation in question or a corporation in which the corporation in question had a substantial interest immediately preceding the disposition of the shares (see the exceptions below).

- The residual financial interests (specifically the FMV of all the shares of the capital stock and all the debts of the corporation in question, the acquirer or a corporation in which the corporation in question held a substantial interest) that you or your spouse held, during the period beginning 30 days after the disposition of the shares concerned and ending after a series of transactions to transfer the business, do not exceed 60% (80% in the case of a farming or fishing business) of the FMV of the shares of the capital stock of the corporation in question, the acquirer or another corporation in which the particular corporation held a substantial interest, before their disposition.
- For the period beginning immediately after the disposition of the shares concerned and ending after a series of transactions to transfer the business, at least one person participating in the body of shareholders of the acquirer (or the spouse of such a person) plays an active role in the business carried on by the corporation in question or a business carried on by a corporation in which the corporation in question had a significant interest.

The above conditions are subject to certain rules. Contact us for more information.

Exceptions

You or your spouse can have de jure control of a corporation or hold common shares of the capital stock of or residual financial interests (shares or debts) in a corporation if it:

- carries on a business for which substantially all of the income **is not derived** from activities similar to those of the business carried on by the corporation in question or by a corporation in which the acquirer or the corporation in question held an interest, directly or indirectly;
- is not carrying on an eligible business.

Capital loss

In the **year you disposed of** eligible shares as part of the transfer of a family business, you cannot use any capital loss to reduce the amount designated as a deemed capital gain (see section 7.1.5).

5.1.4 Transfer to a taxable Canadian corporation or a Canadian partnership

You can elect to be exempted from the rule under which the proceeds of disposition of a property are equal to its FMV on the date of transfer if you transfer property to:

- a taxable Canadian corporation for consideration that includes a share of the capital stock of the corporation; or
- a Canadian partnership you become or remain a member of immediately following the transfer.

To be exempted, you and the transferee (the corporation or partnership in question) must first make an **election** with the CRA in order **to agree on an amount** (the "agreed amount") to be deemed the proceeds of disposition of the property. You must then complete form TP-518-V, *Transfer of Property by a Taxpayer to a Taxable Canadian Corporation*, or form TP-614-V, *Transfer of Property to a Canadian Partnership*. As a rule, you must enter the agreed amount shown in the election form you filed with the CRA (form T2057 or T2059). You can, however, agree on a different amount if the conditions mentioned in form TP-518-V or form TP-614-V are met.

If the transfer of depreciable property to a partnership is considered to be a transaction involving a person affiliated with you (see section 7.3.2), make sure section 93.3.1 of the *Taxation Act* does not apply.

NOTE

Section 93.3.1 of the *Taxation Act* applies if the following three conditions are met:

- The transferor is disposing of depreciable property.
- The proceeds of disposition of the property are less than the lesser of the following amounts:
  - the property's capital cost,
  - the UCC for the property's class, multiplied by the ratio between the FMV of the property and the FMV of all property in the class;
- The 30th day following the transfer, the transferor or a person affiliated with the transferor owns or is entitled to acquire the property.

By completing and filing form TP-518-V or form TP-614-V, you can also make an **application to the Minister** to amend a previously filed form in order:

- to agree on an amount (if this has not already been done);
- to be deemed to have never agreed on an amount; or
- to agree on a new amount.

You must file form TP-518-V or form TP-614-V separately from any tax return and before the later of the following dates:

- the filing deadline for your tax return or the filing deadline for the corporation's tax return (or the partnership's information return) for the taxation year in which the transfer occurred, whichever is earlier; and
- the last day of the two-month period following the end of your taxation year or following the end of the corporation's taxation year (or the partnership's fiscal period), whichever ends later.

You must enclose with this form a copy of **every document filed with the CRA** in accordance with subsection 85(1) or 97(2) of the federal *Income Tax Act*.

If you do not file the required form and documents by the specified deadlines, you are liable to a **penalty** for each month or part of a month they are late.

5.2 Disposition of property followed by the acquisition of replacement property

Property is considered replacement property only if it is reasonable to conclude that you acquired it to replace former property and you intend the same use for it.

If you acquire replacement property, **you can elect** under federal legislation to defer taxation of the capital gain realized on the former property. The full amount of the capital gain can be deferred if the ACB of the replacement property is equal to or greater than the proceeds of disposition of the former property; if this is not the case, only a portion of the gain can be deferred. The deferred capital gain will be taken into account in the taxation year in which the replacement property is disposed of, as you must use the amount of the deferred capital gain to reduce the cost of the replacement property or, if the replacement property is depreciable property, to reduce its capital cost.

For depreciable property, the election also allows you to defer taxation of an amount of CCA recapture or a negative UCC amount for the class.

The election you make under federal legislation to defer taxation of the capital gain automatically applies under Québec legislation. Unless this election has been filed with the CRA, no such election is possible for Québec income tax purposes.

If you file this election with the CRA, you must inform us in writing and provide supporting documents. Enclose with your income tax return a **copy of any document you sent the CRA** regarding the election—including your federal income tax return—and send everything to us no later than:

- the deadline for filing your income tax return for the taxation year for which the election must be filed with the CRA; or
- 30 days after making the election with the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of $25 per day, to a maximum of $2,500.

If you acquire the replacement property after reporting a capital gain on the former property, we will adjust the income tax return for the year in which you reported the capital gain to take the election into account.

Replacement property acquired further to the deemed disposition of former property

If you are entitled to compensation following a deemed disposition (expropriation, theft or destruction; see section 5.8 if the destruction is the result of a disaster) of your property, the compensation is considered the deemed proceeds of disposition of the property. If this deemed disposition results in a capital gain, you can make the above-mentioned election provided you acquire replacement property within the specified time limit (see "Time limit for acquiring replacement property" below).

Replacement property acquired for business purposes

If you disposed of former business property and thereby realized a capital gain, you can elect to defer taxation of the gain provided you acquire replacement property within the specified time limit (see "Time limit for acquiring replacement property" below).

Time limit for acquiring replacement property

For a deemed disposition of former property, the period for acquiring replacement property expires:

- at the end of the second taxation year following:
  - the taxation year in which you agreed on an amount as final compensation for the property,
  - the taxation year in which compensation is definitively determined by a court or tribunal, or
  - the second anniversary of the deemed disposition, provided no proceedings were undertaken before a court or tribunal in the two years following the deemed disposition; or
- the last day of the 24-month period following the end of the year of the deemed disposition, if that date is later than the others referred to above.

For a disposition for business purposes, the period for acquiring replacement property expires on the later of the following dates:

- the end of the first taxation year following the year in which the proceeds of disposition became due; or
- the last day of the 12-month period following the end of the year of disposition.

> NOTE
> If you were unable to acquire the replacement property within the time limit referred to above, but can show that you took all the necessary measures to acquire the property within the time limit, you can elect to defer taxation of the capital gain realized on the former property.

5.3 Disposition of qualified small business corporation shares and acquisition of replacement shares

If you disposed of qualified small business corporation shares, **you can defer** the taxation of your capital gain provided you acquired other qualified small business corporation shares within the specified time limit. The shares disposed of are called the "original shares" and the shares you subsequently acquire are called the "replacement shares." Your capital gain does not have to be included in your income for the year of disposition, but must be used to reduce the ACB of the replacement shares. This will increase your capital gain (or reduce your capital loss) when you dispose of the replacement shares. To simplify the explanations that follow, the deferral of capital gains will be referred to as the "rollover rule." Note that the rollover rule applies to the disposition of shares by an individual that is not a trust.

To use the rollover rule, you must meet the following conditions:

- You held the original shares for a period of at least 185 days immediately prior to their disposition, and during the entire period of your ownership, the shares were common shares of a qualified small business corporation.
- You acquired the replacement shares during the year in which the original shares were disposed of or within 120 days after the end of that year.

For the year in which the original shares were disposed of, you must enclose with your Québec income tax return a copy of any document submitted with the federal income tax return in which you designated the replacement shares.

Qualified small business corporation shares have **all** of the following characteristics:

- They are common shares issued by a qualified small business corporation.
- The carrying value of all the assets of this corporation and any related corporations does not exceed $50 million immediately before and immediately after the shares are issued.

Qualified small business corporation

A Canadian-controlled private corporation (CCPC) all or substantially all of the FMV of whose assets is attributable to:

- assets used principally in a business carried on primarily in Canada by the corporation or by a qualified small business corporation that is related to the corporation;
- shares issued by or debt owing by other qualified small business corporations that are related to the corporation.

> NOTE
>
> To be eligible, the corporation must carry on business primarily in Canada for at least 730 days within the period from the time the original shares were acquired to the time they were disposed of (or for the entire period, if it was shorter than 730 days). However, a qualified small business corporation does not include the following:
>
> - a professional corporation;
> - a specified financial institution;
> - a corporation whose principal business is the leasing, rental, development or sale of its immovable property;
> - a corporation for which the FMV of immovable property makes up more than 50% of the total FMV of all its property (after any debts incurred to acquire the property are subtracted).

Canadian-controlled private corporation (CCPC)

A CCPC is a private corporation that is a Canadian corporation other than a corporation controlled by one or more persons not resident in Canada or by one or more public corporations (other than prescribed corporations).

The rollover rule applies even if, at the time of disposition, the corporation that issued the original shares is no longer a private corporation and the value of its assets has changed.

The rollover rule also applies where the acquisition of the shares is already covered by another rollover rule, such as the transfer of shares further to the death of a person's mother, father or spouse, or in settlement of a right resulting from a marriage, civil union or de facto union. In such cases, the person is deemed to have acquired the shares on the same date and under the same conditions as the father, mother, spouse or former spouse.

Calculating the deferrable capital gain and the ACB reduction for replacement shares

The deferrable capital gain is equal to:

- **A**, if B is **greater than or equal to** C; or
- the result of **A × B ÷ C**, if B is **less than** C.

  A is the capital gain realized on the original shares.

  B is the cost of the replacement shares.

  C is the proceeds of disposition of the original shares.

Enter the amount of the gain you want to defer on line 94 of Schedule G of the personal income tax return.

The ACB reduction for replacement shares is equal to **D × E ÷ F**, where:

D is the deferred capital gain;

E is the cost of one replacement share; and

F is the cost of all of the replacement shares.

5.4 Splitting of income in favour of a specified individual further to the disposition of certain property

If you are a specified individual and you included certain types of income (called "split income") in your income—in particular a capital gain that you realized directly or were allocated by a trust (other than a mutual fund trust) or a partnership—you may have to pay a tax at the rate of 25.75%.

A "specified individual" is an individual who:

- was resident in Canada at the end of the taxation year or, if the individual died in the year, was resident immediately before the death; and
- if the individual had not turned 17 before the taxation year concerned, had a parent resident in Canada at any time in the year.

If split income is a taxable capital gain, you must:

- report the income on line 139 of your income tax return (or of the deceased person's principal return);
- claim a deduction for the split income on line 295 of the return; and
- pay the tax on split income, which is calculated in form TP-766.3.4-V, *Income Tax on Split Income* (line 443 of the return).

Excluded amounts

Under certain conditions, certain amounts (called "excluded amounts") that were received in the year that would otherwise be considered a specified individual's split income are not subject to the tax on split income. This applies to a taxable capital gain realized **after 2017**:

- on the disposition of property that a specified individual who was **under 25** at the end of the year (or immediately before their death if they died in the year) inherited further to the death of another person, provided the following conditions are met:
  - The property was acquired from the other person either directly by the specified individual or on the individual's account.
  - The other person was either:
    - the individual's father or mother, or
    - any other person if, during that year, the specified individual was enrolled as a full-time student at a post-secondary educational institution or if a tax credit could be claimed in respect of the specified individual for a severe and prolonged impairment in mental or physical functions;
- on the disposition of **excluded shares** (see the definition below) by a specified individual **25 or older** at the end of the year (or immediately before their death if they died in the year);
- on the disposition of property that a specified individual acquired from their spouse due to the breakdown of their marriage, civil union or common-law partnership;
- on the **deemed disposition** of capital property belonging to a specified individual immediately before their **death**;
- on the disposition of property that is, at the time of disposition, **qualified farm or fishing property** or **qualified small business corporation shares,** provided the taxable capital gain gives entitlement to the capital gains deduction and twice the amount of the taxable capital gain is not considered a dividend.

Note that a specified individual that is **at least 18 years old but under 25** is considered to have reached age 24 before the taxation year concerned if they acquired the **excluded shares** (or if they were acquired on their behalf) further to the death of another person and the other person had reached age 24 before the year concerned.

Some types of income that are subject to the tax on split income may be shown on the RL-15 or RL-16 slip.

Minor children

A "minor child" is a person 17 or under on December 31 of the calendar year in which they receive income or gains.

Twice the amount of a taxable capital gain (except for an excluded amount) realized by a minor child must be reported by the minor child as a taxable dividend (other than an eligible dividend). This taxable dividend is subject to the tax on split income if the following **three** conditions are met:

- The minor child was resident in Canada at the end of the taxation year, and one of child's parents was resident in Canada at any time in the year.
- The capital gain results from a transfer of shares made, directly or indirectly, in any manner whatsoever, to a person not dealing at arm's length with the minor child (more specifically, the capital gain results from a transfer of shares by the minor child, by a trust the minor child is the beneficiary of or by a partnership the child is a member of).
- The shares transferred are shares of a corporation (except shares of a class listed on a stock exchange and shares of a mutual fund corporation), and the dividends that would have been paid on the shares (if the shares had not been transferred) would have been subject to the tax on split income.

If the above conditions are met, the minor child must:

- report twice the amount of the taxable capital gain as a dividend in their income tax return (on line 167 in the case of shares transferred from a taxable Canadian corporation, or on line 130 in all other cases);
- deduct, on line 295 of their return, the amount entered in respect of such a dividend on either line 128 (in the case of shares from a taxable Canadian corporation) or line 130 (in all other cases);
- pay the tax on split income, which is calculated in form TP-766.3.4-V, *Income Tax on Split Income* (line 443 of the return).

NOTE
A capital gain that is considered a taxable dividend is not taken into account when calculating the capital gains deduction.

The tax on split income is equal to 25.75% of the amount entered on line 128 (for 2023, this amount corresponds to 115% of the dividend entered on line 167) or of the amount entered on line 130, as applicable.

In some cases, the father or mother is solidarily liable with the minor child for the payment of this tax. See "Solidary liability for the tax on split income" below.

If a minor child turns 17 before the taxation year concerned and the above-mentioned shares do not give entitlement to the capital gains deduction, the capital gain on the disposition of the shares may be subject to the tax on split income.

Adults

Since 2018, the income splitting rules apply to specified individuals who are adults 18 or older, are resident in Canada and receive split income (except for excluded amounts), such as taxable capital gains. This income is subject to the tax on split income.

These adults must report taxable capital gains as split income if the taxable capital gains are:

- derived directly or indirectly from a related business (see the definition below); or
- not derived directly or indirectly from an excluded business (see the definition below).

"Excluded amounts" include the amounts listed under "Excluded amounts" (see above) as well as income derived from a **related business**, if it is:

- the amount received by the surviving spouse of a deceased person, if the amount was an excluded amount for the deceased; or
- the amount received by the spouse of a person who turned 65 during or before the year, if the amount was an excluded amount for that person.

Excluded business

For a given taxation year, the business of a specified individual if the individual is actively engaged on a regular, continuous and substantial basis in the activities of the business in either the taxation year or any five prior taxation years.

Excluded shares

Shares of the capital stock of a corporation owned by a specified individual, if **all** the following conditions are met:

- Less than 90% of the corporation's business income for its last taxation year is from the provision of services.
- The corporation is not a professional corporation (a corporation in which a person carries on the professional practice of an accountant, chiropractor, dentist, lawyer, medical doctor or veterinarian).
- The specified individual holds 10% or more of the FMV of the capital stock of the corporation and of the votes that could be cast at an annual meeting of the shareholders of the corporation.
- All or substantially all of the income of the corporation is not derived, directly or indirectly, from one or more related businesses that are not carried on by the corporation.

Related business

As applicable:

- a business carried on by a source individual (see the definition below) in respect of a specified individual at any time in the year or by a partnership, corporation or trust if the source individual is actively engaged on a regular basis in the activities of the business;
- a business of a partnership, if a source individual in respect of a specified individual has an interest (including an interest held directly or indirectly through one or more partnerships) in the partnership in question; or
- a business operated by a corporation, if a source individual in respect of a specified individual owns shares of the capital stock of the corporation or property that derives, directly or indirectly, all or part of its FMV from this capital stock, and the total FMV of these shares or this property is equal to 10% or more of the total FMV of the capital stock of the corporation.

Source individual

An individual who, at any time in the year, is resident in Canada and related to a specified individual.

NOTE

An individual is related to a specified individual if the two are related by blood, marriage, de facto union or adoption.

Solidary liability for the tax on split income

The age of a specified individual determines who is solidarily liable for the payment of the tax on split income. If the specified individual did not reach age 17 before the year concerned, the individual and the individual's parents are solidarily liable for the payment of the tax. If the specified individual reached age 17 before the year concerned and the income is from a related business, the tax on this income is the solidary liability of the individual and of each source individual who is sufficiently related to the related business (see the above definition of "related business" for the various ways in which source individuals can be sufficiently related to the related business).

The liability of the parents and of each source individual is limited to the amounts included in the specified individual's split income. However, the liability of the specified individual, the individual's parents and of each source individual is not limited with respect to interest payable under the measures applicable to the tax on split income.

If you received split income from a trust, see section 3.2 of the *Guide to Filing the Trust Income Tax Return* (TP-646.G-V).

For more information about the special rules that apply when a deceased person received split income, see the *Guide to Filing the Income Tax Return of a Deceased Person* (IN-117-V).

To calculate the income tax on split income, complete form TP-766.3.4-V, *Income Tax on Split Income*. The form also contains more information about the types of income that are generally subject to the tax on split income and those that are exempt from it.

For more information about the tax on split income, contact us.

5.5 Gifts of capital property to a registered charity or other qualified donee

This section deals with gifts of capital property (gifts resulting in a capital gain or loss) that qualify for a tax credit because they are made to a registered charity, a government or another qualified donee (such as a registered Québec or Canadian amateur athletic association, a recognized arts organization, or the United Nations and its agencies).

For the purposes of calculating the tax credit, the **eligible amount of the gift** is equal to the value of the gift (that is, the FMV of the property at the time of the gift) **minus**, where applicable, the amount of the advantage resulting from the gift.

The **advantage** resulting from a gift generally corresponds to the total value of any property or service, of any compensation, or of any use or other benefit that you (or a person or partnership with which you are not dealing at arm's length) are entitled to receive, either immediately or in the future and either absolutely or contingently, in consideration for or recognition of the gift.

The description and value of the gift, the amount of the advantage and the eligible amount of the gift must be provided on the official receipt given to the registered charity or other qualified donee.

Calculating the capital gain (or loss)

In general, in calculating the capital gain (or loss) arising from the gift, the deemed proceeds of disposition correspond to the FMV of the property at the time of the gift. If the FMV is greater than the ACB of the property, you must report a capital gain. If the property is subject to depreciation and its FMV is greater than its UCC, you must report a CCA recapture.

However, you can elect under federal legislation to use an amount that is **less** than the FMV of the property at the time of the gift but equal to or greater than the ACB of the property (hereinafter called the "designated amount") as both the deemed proceeds of disposition of the property and the value of the gift. The proceeds of disposition and the FMV of the gift are then each deemed to be equal to the lowest of the following:

- the **greatest** of the following amounts:
  - the amount of the advantage resulting from the gift,
  - the ACB of the property at the time the gift is made or, in the case of depreciable property, the UCC at the end of the year during which the gift was made (meaning the UCC of the class to which the property belongs, calculated as though the property had not been donated), if the UCC is less than the ACB at the time the gift is made, and
  - the designated amount; or
- the FMV of the property at the time the gift is made.

If you made such an election regarding the amount of the gift, you must inform us in writing and provide proof, either within 30 days after filing your federal income tax return or by the deadline for filing your Québec income tax return, whichever is later.

Tax shelter

The value of a gift made under a gifting arrangement that is a tax shelter (or the amount designated as such) is deemed to be equal to the **lesser** of the following amounts:

- the cost of the property (or its ACB, as applicable) immediately before the donation;
- the property's FMV determined otherwise.

The same rule applies if you acquired the property less than three years before the date of the gift, or if you acquired the property less than 10 years before the date of the gift and already intended to donate it to a qualified donee at that time.

The rule does not apply if the gift is made by reason of death or certain assets. For example, it does not apply to a gift of any of the following property:

- property described in an inventory;
- real property located in Canada;
- a work of art donated to a Québec museum;
- a musical instrument donated to a recognized educational institution;
- cultural property for which a *Cultural Property Income Tax Certificate* (T871) has been issued by the Canadian Cultural Property Export Review Board, or an *Attestation d'aliénation de biens culturels* (TPF-712.0.1) by the Conseil du patrimoine culturel du Québec;
- a work of public art whose FMV is set by Québec's Minister of Culture and Communications.

If you are an investor and you want to claim a deduction or tax credit for a tax shelter that is a gifting arrangement, you must complete the *Statement of Losses, Deductions and Tax Credits Respecting a Tax Shelter* (TP-1079.6-V). This form is also used to claim a loss, deduction or tax credit related to a tax shelter or tax shelter investment.

Cultural property

For information concerning the rules applicable to gifts of cultural property, see section 3.6.

Gifts of certain types of property are subject to special rules for tax purposes, in particular the rules described in sections 5.5.1, 5.5.2 and 5.5.3.

5.5.1 Works of art

If you donated a work of art (other than a work of art you created that is listed in your inventory), you must report the resulting capital gain (or loss) in the year you made the donation. The rules described in section 5.5 apply. You can also elect under federal legislation to use a designated amount.

Work of art acquired by a donee otherwise than as part of its primary mission

Under Québec legislation, a donee can issue a receipt on receiving a gift of a work of art only if it is a museum or if it received the gift as part of its primary mission. If a donee does not acquire a work of art as part of its primary mission, the following rules apply:

- You can claim a tax credit for the gift only after the donee organization has disposed of the work of art, and only if it was disposed of before December 31 of the fifth calendar year following the year of the gift. Only then can the donee organization issue you an official receipt for the gift.
- The FMV of the property at the time the gift is made is deemed to be equal to the **lesser** of the following amounts:
  - the amount that can reasonably be deemed to be the consideration the donee received on disposing of the work of art;
  - the FMV of the work of art at the time the donee disposed of it.

The **deemed FMV** constitutes both the deemed proceeds of disposition of the work of art for the purposes of calculating your capital gain (or loss) and the value of the gift, which is used to determine the eligible amount of the gift. However, if the work of art is capital property, and you have elected to use a designated amount as the deemed proceeds of disposition and as the value of the gift, and the deemed FMV exceeds the ACB of the artwork, see section 5.5.

Since the donee organization must dispose of the work of art in order for the deemed FMV to be determined, the deemed proceeds of disposition of the work of art for purposes of calculating the capital gain (or loss) and the value of the gift for purposes of calculating the tax credit for donations and gifts can be determined only when the work is disposed of. If the disposition does not occur in the year in which the gift is made, but rather in one of the following five years, you must:

- for the year the gift is made:
  - calculate the capital gain (or loss) as if you had disposed of the work of art for a price equal to its FMV at the time the gift was made, and
  - inform us that you are using a designated amount in your federal income tax return and provide proof either within 30 days after filing your federal income tax return, or by the deadline for filing your Québec income tax return, whichever is later;
- for the year in which the donee organization disposes of the property, submit form TP-1.R-V, *Request for an Adjustment to an Income Tax Return*, for the year of the donation to claim the tax credit for donations and gifts and to recalculate your capital gain (or loss) on the property, if applicable.

5.5.2 Ecological gifts, gifts of certain securities and gifts of musical instruments

The capital gain realized on the donation of ecological property, certain securities and musical instruments is exempt from income tax. Note that the rules given in section 5.5 apply to the property below.

Ecological property

Ecological property is:

- land in or adjacent to Québec;
- a real servitude or a personal servitude lasting at least 100 years that encumbers all or part of a piece of land in or adjacent to Québec; or
- property with an undedianble ecological value according to the Ministère de l'Environnement, de la Lutte contre les changements climatiques, de la Faune et des Parcs.

NOTE

- If the ecological property is a **personal servitude**, the donation must be made after March 21, 2017.
- The donation of ecological property entitles the donor to a tax benefit if it is made to an eligible donee.
- For a donation of ecological property, an eligible donee includes a registered charitable organization (other than a private foundation, if the donation is made after March 21, 2017) that is an appropriate donee in the opinion of the Québec Minister of the Environment, the Fight Against Climate Change, Wildlife and Parks, and whose mission in Québec at the time of the donation is primarily the conservation of ecological heritage in the opinion of the Minister.

If you donate ecological property to a registered charity or any other qualified donee that is not a private foundation, you must enclose with your income tax return a certificate attesting to the FMV of the property, issued by the Ministère de l'Environnement, de la Lutte contre les changements climatiques, de la Faune et des Parcs.

NOTE

The deemed proceeds of disposition of a real servitude (or, for a gift made after March 21, 2017, a personal servitude of at least 100 years and encumbering ecological property) and the value of the gift are each equal to the **greater** of the following amounts: the FMV of the servitude or the amount of the decrease in the market value of the land after the gift is made.

The deemed ACB of the servitude is equal to the ACB of the land prior to making the gift, multiplied by the ratio between the deemed proceeds of disposition (or the value of the gift) and the FMV of the land prior to making the gift.

The FMV is set by the Minister of the Environment, the Fight Against Climate Change, Wildlife and Parks.

Securities

A security is any of the following that you donate to a registered charity or any other qualified donee:

- a bond, debenture, note, hypothecary claim, mortgage or similar obligation, either issued or guaranteed by the Government of Canada, or issued by a provincial government or its mandatary;
- a share, a debt obligation or a right listed on a designated stock exchange (for a flow-through share or a share included in a flow-through share class of property, see section 5.5.3);
- a share of the capital stock of a mutual fund corporation;
- a mutual fund unit;
- an interest in an insurance segregated fund trust; or
- a prescribed debt obligation that is not a linked note.

> NOTE
> If you received an advantage resulting from a gift of one of the above, the portion of the capital gain that corresponds to the value of the advantage is not exempt from income tax. In this case, contact us to find out how to calculate the capital gain you must report.

Musical instruments

The capital gain realized on the gift of a musical instrument is normally exempt from income tax if the instrument is donated to a recognized educational institution in Québec.

Recognized educational institution
An educational institution that is:

- an elementary-level or secondary-level institution subject to the *Education Act* (c. I-13.3) or the *Act respecting Cree, Inuit and Naskapi Native Persons* (c. I-14);
- a college-level institution subject to the *General and Vocational Colleges Act* (c. C-29);
- a private institution accredited for the purposes of subsidies under the *Act respecting private education* (c. E-9.1);
- a university-level institution within the meaning of the *Act respecting educational institutions at the university level* (c. E-14.1);
- an institution providing instruction in music that is part of the network of the Conservatoire de musique et d'art dramatique du Québec.

5.5.3 Shares listed on a designated stock exchange: flow-through shares or shares included in a flow-through share class of property

This section concerns flow-through shares that are listed on a designated stock exchange (including the right to acquire such shares) that were acquired under an agreement entered into before March 22, 2011, and that are donated to a registered charity or any other qualified donee.

This section also concerns any shares included in a flow-through share class of property that are listed on a designated stock exchange and donated after March 21, 2011.

Donation of flow-through shares acquired under an agreement entered into before March 22, 2011

A capital gain realized on the donation of flow-through shares acquired under an agreement entered into before March 22, 2011, is exempt from income tax.

Donation of shares included in a flow-through share class of property

A capital gain realized on a donation of shares included in a flow-through share class of property (hereinafter called the "class") may be exempt from income tax (in whole or in part) only if the capital gain is greater than the taxpayer's exemption threshold in respect of the class at the time of the donation. In such a case, the tax exemption applies only to that portion of the capital gain that exceeds the exemption threshold. The capital gain to be reported in Schedule G is therefore equal to the exemption threshold.

Flow-through share class of property

A group of property comprised either:

- entirely of shares of a class of shares of the capital stock of a corporation if at any time all the shares of that class are flow-through shares; a right to acquire such shares; or property that is identical to such shares or to such a right; or
- entirely of interests in a partnership, if at any time over 50% of the total assets of the partnership are composed of property included in a flow-through share class of property.

The exemption threshold of the class at the time a donation is made is equal to the amount by which **A exceeds B**, where:

- **A** is, as applicable:
  - the actual cost (without taking into account the deemed zero cost of the flow-through shares) of all flow-through shares that were included in the class and that you acquired after March 21, 2011, but before the donation was made; or
  - the ACB (determined without taking into account your share of any expenses incurred by a partnership in respect of flow-through shares, such as Canadian exploration or development expenses) of all interests in a partnership that were included in the class and that you acquired after August 15, 2011 (or in respect of which a contribution was made to a partnership after that date), but before the date of the donation; and
- **B** is the **lesser** of the following amounts:
  - the exemption threshold for the class calculated immediately before the donation was made;
  - the total capital gains you realized on the disposition of property of the class before the date on which the donation was made but after the date on which you acquired property in the class (flow-through shares or interests in a partnership, as applicable) for the first time after March 21, 2011.

NOTE

- The exemption threshold for a flow-through share class of property is nil once you no longer hold any property of that class.
- If a capital gain must be reported, it does not give entitlement to a capital gains deduction on qualified property; however, it may give entitlement to a deduction for capital gains on resource property.

If you received an advantage resulting from a donation of flow-through shares listed on a designated stock exchange, contact us for information on how to calculate the capital gain you must report.

For details about a donation of flow-through shares as part of a tax shelter arrangement, see the information under "Tax shelter" in section 5.5.

5.5.4 Life insurance policies

A life insurance policy is not capital property. If you donated a life insurance policy that had a redemption value, you must include in your income the amount by which the proceeds of disposition exceed the adjusted cost base of the policy immediately prior to the donation. Do not report this amount as a capital gain.

5.5.5 Virtual currency

You have to report the capital gain (or loss) on the gift of virtual currency (cryptocurrency, tokens, etc.). If the virtual currency is given to a registered charity or any other qualified donee, the eligible amount of the gift, for the purposes of calculating the tax credit, is the amount by which the FMV of the virtual currency at the time the gift is made exceeds the amount of the advantage, if any, in respect of the gift.

5.6 Emigration

If you ceased to be resident in Canada **at any time in the year**, you are deemed to have disposed of your property immediately before that time for a sale price equal to its FMV, and to have reacquired the property at that time at the same price. The capital gain (or loss) resulting from the deemed disposition must be reported in your income tax return for the taxation year in which you ceased to be resident in Canada.

This rule does not apply to the following property:

- immovables situated in Canada, Canadian resource property and timber resource property;
- capital property (including property in class 14.1 of Schedule B to the *Regulation respecting the Taxation Act*) used in carrying on a business in Canada and the inventory of the business;
- the right to receive pension benefits and similar rights (under a registered retirement savings plan [RRSP], a registered retirement income fund [RRIF], a deferred profit-sharing plan [DPSP], etc.), and rights respecting Canadian life insurance policies (except segregated fund policies);
- security options (options to purchase shares of the capital stock of a corporation or mutual fund units) if the options were granted by an employer or by a corporation with which the employer was not dealing at arm's length.

If you are required to pay income tax on a deemed disposition of property because you ceased to be resident in Canada, you can elect to defer payment of the tax until the property concerned is actually disposed of, as long as you provide security sufficient for the amount of income tax payable.

You must complete and enclose the following form(s) with your income tax return for the year of emigration:

- TP-1033.2.A-V, *Deemed Disposition of Property by an Emigrant*;
- TP-1033.2-V, *Election to Defer the Payment of Income Tax on Income Relating to the Deemed Disposition of Property* (if applicable).

However, you can elect to report a deemed disposition of the property (if it is mentioned in the first two points of the list above) under paragraph 128.1(4)(*d*) of the federal *Income Tax Act*. If you make this election under federal legislation, it automatically applies under Québec legislation, specifically subparagraph *d* of the first paragraph of section 785.2 of the *Taxation Act*. Note that, unless this election has been filed with the CRA, no such election is possible for Québec income tax purposes.

To make this election, send us a signed letter mentioning the election is being made under paragraph 128.1(4)(*d*) of the federal *Income Tax Act* and subparagraph *d* of the first paragraph of section 785.2 of the *Taxation Act*. You must include proof that you have already made the election with the CRA. Enclose with your Québec income tax return a **copy of any document you sent the CRA** regarding the election—including federal form T2061A, *Election by an Emigrant to Report Deemed Dispositions of Property and any Resulting Capital Gain or Loss*, and your federal income tax return—and send everything to us no later than:

- the deadline for filing your income tax return for the taxation year for which the election must be filed with the CRA; or
- 30 days after making the election with the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of $25 per day, to a maximum of $2,500.

Contact us for more information.

5.7 Disposition of property by a partnership of which you were a member

This section does not apply to you if you received an RL-15 slip from the partnership you were a member of. If you received an RL-15 slip, refer to the document entitled *Instructions pour les membres de la société de personnes* (RL-15.EX) (see courtesy translation RL-15.EX-T, *Amounts Allocated to Members of a Partnership*).

This section applies to you if the partnership you were a member of did not issue an RL-15 slip because it is not required to file the *Partnership Information Return* (form TP-600-V).

5.7.1 Capital property

As a member of a partnership, you must calculate your share of the capital gains (or losses) realized on the disposition of any capital property by the partnership. If you deducted a reserve for the previous year with respect to your share of the capital gains realized by the partnership, or if you are deducting a reserve in this regard for the current year, see section 4.3 to find out how to report the reserve.

You must report your share of the partnership's capital gains (or losses) on the following lines of Schedule G of the personal income tax return:

- line 24, for property other than qualified farm or fishing property, qualified small business corporation shares or resource property;
- line 48, for resource property that is not classed as qualified farm or fishing property or qualified small business corporation shares;
- line 58, for qualified farm or fishing property and qualified small business corporation shares.

NOTE
- The amount on line 58 entitles you to a capital gains deduction on qualified property. The amount on line 48 entitles you to another deduction (for capital gains realized on resource property). If a portion of the amount on line 58 relates to property that is both qualified property and resource property, that portion also entitles you to this other deduction, provided you have used up the capital gains deduction on qualified property (see section 6.2).
- For a minor child, the child's share of the capital gains realized on the disposition of shares by the partnership could be deemed to be a taxable dividend (see section 5.4).

5.7.2 Canadian securities

If, during the fiscal period, you were a member of the partnership when the partnership disposed of Canadian securities (see the definition in section 3.3.3) that it owned, **you can elect** individually, under federal legislation, to report as a capital gain (or loss) your share of any income or loss resulting from the disposition of these securities and of all other Canadian securities the partnership owns or will own. Further to this election, each Canadian security that the partnership disposed of during the fiscal period is deemed to have been disposed of by you at the end of that fiscal period.

NOTE
For a minor child, the child's share of the capital gains realized on the disposition of shares that are Canadian securities by the partnership may be deemed to be a taxable dividend (see section 5.4).

5.8 Deemed disposition of property as a result of a disaster

If a disaster causes damage to your property that results in total loss or destruction, you are deemed to have disposed of the property. The same is true if the property is damaged but not completely destroyed and the damage is not repaired within a reasonable time.

The **time of deemed disposition** of the property is the earliest of:

- the day on which you agreed on an amount as final compensation;
- the day on which compensation is definitively determined by a court or tribunal, if proceedings were undertaken; and
- the day corresponding to the second anniversary of the deemed disposition, provided no proceedings were undertaken before a court or tribunal.

The amount of compensation you received in respect of the property is the proceeds of disposition. You must report the capital gain or loss resulting from this deemed disposition in the taxation year corresponding to the calendar year in which the disposition took place.

However, if you acquire property to replace the property that was totally lost or destroyed, see section 5.2.

For more information, see *The Tax Effects of Financial Assistance Received as a Result of a Disaster* (IN-125-V).

6 CAPITAL GAINS DEDUCTIONS

If you are reporting a capital gain, you may be entitled to a deduction in the calculation of your taxable income, depending on the type of property disposed of. A capital gains deduction can be claimed on qualified property or on resource property. Sections 6.1 and 6.2 provide information on the deductions, eligibility requirements and calculation methods.

If you are entitled to such deductions, you must report them on line 292 of your income tax return.

6.1 Capital gains deduction on qualified property

The deduction for capital gains realized on qualified property is a lifetime deduction. The cumulative maximum is:

- $750,000 for property disposed of after March 18, 2007, but before January 1, 2014;
- $800,000 for property disposed of in the 2014 taxation year or for a reserve included in income in respect of qualified farm or fishing property disposed of after December 31, 2013, but before December 3, 2014;
- $813,600 for qualified small business corporation shares disposed of after December 31, 2014, but before January 1, 2016;
- $824,176 for qualified small business corporation shares disposed of after December 31, 2015, but before January 1, 2017;
- $835,716 for qualified small business corporation shares disposed of after December 31, 2016, but before January 1, 2018;
- $848,252 for qualified small business corporation shares disposed of after December 31, 2017, but before January 1, 2019;
- $866,912 for qualified small business corporation shares disposed of after December 31, 2018, but before January 1, 2020;
- $883,384 for qualified small business corporation shares disposed of after December 31, 2019, but before January 1, 2021;
- $892,218 for qualified small business corporation shares disposed of after December 31, 2020, but before January 1, 2022;
- $913,630 for qualified small business corporation shares disposed of after December 31, 2021, but before January 1, 2023;
- $971,190 for qualified small business corporation shares disposed of after December 31, 2022, but before January 1, 2024;
- $1,000,000 for qualified farm or fishing property disposed of after December 31, 2014, or for a reserve included in income in respect of such property disposed of after December 2, 2014.

Since the capital gains inclusion rate is typically 1/2, the cumulative maximum deduction for taxable capital gains is respectively:

- $375,000
- $400,000
- $406,800
- $412,088
- $417,858
- $424,126
- $433,456
- $441,692

- $446,109
- $456,815
- $485,595
- $500,000

NOTE

- In 2014, the term "qualified farm or fishing property" replaced the terms "qualified farm property" and "qualified fishing property." As a result, a capital gains deduction applies to property disposed of after 2013 and **used primarily** in carrying on a farming business, a fishing business, or both.
- Inflation-based indexation of the cumulative maximum of the capital gains deduction that was to apply to years after 2014 has been temporarily suspended for qualified farm or fishing property. Instead, the maximum deduction for such property disposed of after December 31, 2014, has been increased to $1 million. The deduction will be maintained as long as the cumulative maximum of the capital gains deduction that is applicable to gains resulting from the disposition of qualified small business corporation shares does not exceed $1 million. Once the limit for such shares exceeds $1 million, the cumulative maximum deduction for all types of qualified property will again be the same.
- If you report a **reserve as a capital gain** for the year (the reserve for the previous year included in the given taxation year minus, as applicable, the reserve deducted for that taxation year) and the reserve is attributable to qualified property disposed of in a previous year, you cannot claim a deduction exceeding the unused portion of the cumulative maximum deduction in effect on the date the property was disposed of.

  For example, if, for 2022, you include a reserve for property disposed of after December 31, 2018, but before January 1, 2020, but you previously claimed a cumulative deduction of $440,000, you cannot claim a deduction for the reserve since the cumulative maximum deduction in effect on the date of disposition of the property was $433,456 (an amount less than the $440,000 claimed as a deduction). However, if the property had been disposed of after December 31, 2020, but before January 1, 2022, you could have claimed a deduction of $6,109 (unused portion) since the cumulative maximum deduction in effect on the date of disposition of the property was $446,109.
- If, for the taxation year, you report (on line 74 of Schedule G of your income tax return) a reserve for property disposed of after **March 18, 2007**, you must also enter the date of disposition of the property on line 75 of Schedule G. You need the date to determine the cumulative maximum deduction you can claim for the reserve.
- If, in the **year of disposition** of eligible shares of a corporation as part of the **transfer of a family business**, you claim a reserve to offset the amount you designated as a deemed capital gain, the amount of the capital gains deduction that you **must** claim for this deemed capital gain (after deducting the reserve) has to correspond to **at least** 50% of the amount on line 55.1 of Schedule G of your income tax return. The amount on line 55.1 of Schedule G corresponds to the amount by which the amount of the deemed capital gain before the reserve (included on line 54 of Schedule G) **exceeds** the amount of the reserve (included on line 63 of Schedule G), as calculated on form TP-517.5.5-V, *Designating a Deemed Capital Gain Further to the Transfer of a Family Business.*

  For the taxation year following the year of disposition of the shares and each subsequent year, you **must** include on line 74 of Schedule G of your income tax return the reserve (see Part 4) you claimed for the year of disposition of the shares, until the amount of the deemed capital gain is completely included in your income. However, the amount of the deemed capital gain that is included as a reserve in your income for any taxation year following the year of disposition of the shares will be treated like any other capital gain. The capital gains deduction that you can claim for such a year can therefore be reduced by a net capital loss that is sustained in the same year or carried forward from another year.

Qualified property is:

- qualified farm or fishing property (if disposed of after 2013), including property in class 14.1 of Schedule B to the *Regulation respecting the Taxation Act* classed as farm or fishing property (property acquired or deemed to have been acquired on January 1, 2017, and disposed of after 2016); or
- qualified small business corporation shares.

The capital gains deduction on qualified property applies to capital gains reported in Part C of Schedule G of your income tax return.

You **cannot claim** the capital gains deduction for a taxable capital gain resulting from the disposition of shares of a **public corporation**.

Qualified farm or fishing property

Any of the following property that, at the time of the disposition, belonged to you, to your spouse, or to a family farm or fishing partnership you or your spouse was a member of:

- immovable property (land or buildings), a fishing vessel or property in class 14.1 of Schedule B to the *Regulation respecting the Taxation Act* (milk or egg production quota, fishing licence, etc.), if such property was used primarily to carry on a farming or fishing business in Canada:
  - by you, your spouse, your child, your grandchild, your great-grandchild, your father or your mother ("designated persons"), or
  - by a family farm or fishing corporation or a family farm or fishing partnership in which any of the designated persons held a share or an interest;
- a share of the capital stock of a family farm or fishing corporation;
- an interest in a family farm or fishing partnership.

NOTE

- The immovable or the property in class 14.1 of Schedule B to the *Regulation respecting the Taxation Act* must have been held and used principally for carrying on the farming or fishing business for at least 24 months immediately preceding its disposition and:
  - if the property belonged to a designated person, the person must have been actively engaged in the business on a regular and continuous basis, and the gross income of the person from such a business must exceed the income from all other sources for a period of at least two years during which the person held the property;
  - if the property was used by a family farm or fishing corporation or a family farm or fishing partnership, the designated person must have been actively engaged in the business on a regular and continuous basis.
- A real servitude encumbering qualified farm or fishing property is considered qualified farm or fishing property. The capital gain realized on the establishment of such a servitude may entitle you to a deduction.

Qualified small business corporation share

A share of a small business corporation (see the definition of "small business corporation" in Part 8) that, at the time of its disposition, belonged to you, to your spouse, or to a partnership of which you were a member, and that had the following characteristics throughout the 24-month period immediately preceding its disposition:

- It was owned by no one other than you, a person related to you or a partnership you were a member of.
- It was part of the capital stock of a CCPC and more than 50% of the FMV of the assets of the corporation was attributable to:
  - assets used principally in an eligible business carried on actively and primarily in Canada by the CCPC or a related corporation;
  - certain shares or debts of related corporations; or
  - a combination of the previous two categories.

NOTE

You are considered to be related to:

- any person connected to you by blood, marriage, civil union, de facto union or adoption; and
- any corporation controlled by you or by a member of a group connected to you.

Eligibility requirements and calculation of the deduction

You are entitled to a capital gains deduction on qualified property if you meet **all** of the following requirements:

- You were resident in Canada throughout the year for which you are reporting a taxable capital gain on qualified property or:
  - you ceased living in Canada at some point during that year, but you were resident in Canada throughout the preceding year, or
  - you began living in Canada at some point during that year, and you expect to be resident in Canada throughout the following year.
- You report the capital gain on qualified property in your income tax return for the year in which the gain is realized.
- You file your income tax return no later than one year after the filing deadline.

To calculate the deduction, complete form TP-726.7-V, *Capital Gains Deduction on Qualified Property*.

NOTE

To calculate the capital gains deduction for the **year of disposition** of eligible shares of a corporation as part of the **transfer of a family business after March 17, 2016, but before January 1, 2024**, you must:

- complete Schedule G of your income tax return as if no transfer of a family business had taken place in the year of disposition;
- complete form TP-517.5.5-V, *Designating a Deemed Capital Gain Further to the Transfer of a Family Business*, to determine the amount of the deemed capital gain that you can designate (this capital gain corresponds to twice the amount of the capital gains deduction that you must claim for the shares) and carry the calculated amounts to the appropriate lines of Schedule G;
- redo the calculations on Schedule G after carrying the amounts determined in form TP-517.5.5-V;
- complete form TP-726.7-V to calculate the capital gains deduction on all of the qualified property disposed of in the year.

CRA documents to be submitted with form TP-726.7-V

The requirement to file a copy of the documents sent to the CRA regarding the disposition of eligible shares of a corporation in connection with the **transfer of a family business** depends on the date of disposition. For example:

- If the disposition occurred after March 17, 2016, but before June 29, 2021, you do not have to file any documents with the CRA, because in this case, the gain resulting from the disposition constitutes a deemed dividend because of the anti-avoidance rule in section 84.1 of the federal *Income Tax Act*.
- If the disposition occurs after June 28, 2021, but before January 1, 2024:
  - you do not have to file any documents with the CRA if the gain resulting from the disposition is a deemed dividend because of the anti-avoidance rule in section 84.1 of the federal *Income Tax Act*;
  - you must send us a **copy of any documents filed with the CRA** relating to the capital gains deduction on qualified property, including the form *Calculation of Capital Gains Deduction* (T657) and your federal income tax return, where the anti-avoidance rule under section 84.1 of the federal *Income Tax Act* does not apply. In this case, you must send us these documents no later than:
    - the deadline for filing your income tax return for the taxation year for which the deduction must be claimed from the CRA, or
    - 30 days after filing your capital gains claim with the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of $25 per day, to a maximum of $2,500.

Note that the above rules also apply to any **reserve** claimed on such a deemed capital gain that is taxed in a year following the year of disposition of the shares.

If, at the end of the calendar year, you sustained a **cumulative net investment loss** (CNIL), the deduction to which you are entitled may be reduced. Your CNIL is the amount by which the expenses you incurred after 1987 to earn investment income exceed your investment income after 1987. Even if you are not claiming a capital gains deduction in a given year, you might claim one in a subsequent year. It is therefore a good idea to determine your CNIL every year. To determine your CNIL at the end of the year, complete form TP-726.6-V, *Cumulative Net Investment Loss*.

6.2 Capital gains deduction on resource property

You may be entitled to another lifetime deduction if you realized a capital gain on the disposition of resource property. You must report this gain in Schedule G. Trusts cannot claim this deduction.

To be entitled to this deduction, you must meet all of the requirements listed in the first three points in section 6.1 under "Eligibility requirements and calculation of the deduction." If the property disposed of is qualified farm property, qualified fishing property, qualified farm or fishing property or qualified small business corporation shares, you cannot claim this other deduction unless you have used up the capital gains deduction on qualified property.

Resource property

Property that, as the case may be, is:

- a flow-through share issued before June 13, 2003 (or after June 12, 2003, as part of a public issue further to an investment made no later than June 12, 2003, or further to an application for a receipt for a prospectus [or for an exemption from filing a prospectus] made no later than that date), or after March 30, 2004;
- an interest in a partnership that invested in such flow-through shares, or an interest in a partnership that incurred Canadian exploration expenses or Canadian development expenses (except where the interest was acquired by an individual before March 31, 2004, as part of a public issue of securities further to an investment made after June 12, 2003, or further to an application for a receipt for a preliminary prospectus [or for an exemption from filing a prospectus] made after that date);
- property substituted for a flow-through share or for an interest in a partnership described in the first and second points above (see the definition of "substituted property" that follows).

Substituted property

Property:

- that was acquired by an individual:
  - pursuant to an election made upon the transfer of property to a corporation or partnership, or upon the dissolution of a partnership,
  - pursuant to the winding-up of a subsidiary of a Canadian corporation, or
  - by reason of the amalgamation of Canadian corporations; and
- that the individual has elected to designate as resource property. The election must be made in a letter enclosed with the individual's income tax return for the year in which the substituted property was acquired.

Calculate the deduction on form TP-726.20.2-V, *Capital Gains Deduction on Resource Property*.

7 DEDUCTION OF CAPITAL LOSSES

Read section 7.1 to determine whether the capital loss you sustained is deductible. If it is, read section 7.2 for information about how to deduct the loss.

7.1 Deductibility of capital losses

7.1.1 Depreciable property and personal-use property other than precious property

A capital loss cannot result from the disposition of depreciable property (see section 3.2) or of personal-use property that is not precious property (see section 3.4.2).

7.1.2 Precious property

A loss on the disposition of precious property (see the definition in section 3.4) can be deducted only from a gain on the disposition of other precious property that is not classed as cultural property, since gains realized on cultural property are not taxable.

7.1.3 Cultural property

Losses sustained on cultural property are deductible in some cases. If the cultural property is personal-use property but not precious property, the loss is not deductible. If the cultural property is precious property, see the preceding paragraph.

7.1.4 Bad debts or shares of a bankrupt or insolvent corporation

Debts

You can deduct a capital loss on a debt (or other right to receive an amount) only if you acquired the debt (or right):

- in order to earn business or property income, other than tax-exempt income; or
- as consideration for the disposition of capital property (see the definition in Part 1) to a person with whom you were dealing at arm's length.

Furthermore, if a debt (as defined above) owing to you at the **end of the taxation year** is a bad debt (that is, a debt that became uncollectible during the year), you can make an election under which you are deemed to have disposed of the debt at that time for an amount equal to zero, provided you enclose with your income tax return for that year a letter informing us that you are making the election referred to under section 299 of the *Taxation Act*. You are then deemed to have sustained a capital loss equal to the amount of the debt. If the bad debt results from the disposition of personal-use property, the loss you claim must not exceed the capital gain you reported for the disposition of this property.

Shares of a bankrupt or insolvent corporation

If, at the end of the taxation year, you hold a share of the capital stock of a corporation that went bankrupt during the year, you can elect to be deemed to have disposed of the share at that time for an amount equal to zero, provided you enclose with your income tax return for that year a letter informing us that you are making the election referred to under section 299 of the *Taxation Act*. You are then deemed to have sustained a capital loss equal to the ACB of the share (determined immediately before that time).

This is also the case if you held a share of the capital stock of:

- an insolvent corporation that was wound up during the year; or
- a corporation that was insolvent at the end of the year and that meets the following conditions:
  - Neither the corporation nor a corporation it controlled carries on a business.
  - The FMV of the share is zero.
  - It is probable that the corporation will be dissolved or wound up and will not resume carrying on a business.

This election cannot be made with regard to a share that you received as consideration for the disposition of personal-use property.

NOTE

The capital loss that you sustain on the disposition of a share or a debt may, under certain circumstances, constitute a business investment loss (which is deductible from income from all sources), rather than a capital loss (which is deductible only from capital gains). For more information, see Part 8.

7.1.5 Shares disposed of as part of the transfer of a family business

In the **year of disposition** of eligible shares as part of the transfer of a family business, you cannot use a capital loss sustained in the year to reduce the amount that you designated as a deemed capital gain (line 55.1 of Schedule G of your income tax return). You also cannot use a net capital loss from other years to reduce the taxable amount of this deemed capital gain (included on line 139 of your income tax return).

In addition, for the purpose of determining a net capital loss, a loss other than a capital loss or a farm or fishing loss, the amount designated as a deemed capital gain is not considered a capital gain in the **year of disposition** of the eligible shares.

See section 5.1.3 for more information about the amount of the deemed capital gain to report.

7.2 Applying the deduction

An allowable capital loss sustained on a property during a year can be deducted only from a taxable capital gain realized on another property during the same year. For more information, see section 2.2.

If the result is:

- a positive amount, this amount constitutes a net capital gain, of which the **taxable** portion must be included in your income as a net taxable capital gain;
- a negative amount, the **deductible** portion of this amount constitutes a net capital loss (you can carry back the net capital loss to the previous three years and carry forward any balance that remains to a subsequent year, provided you realized a net taxable capital gain in that year).

The taxable amount of your net taxable capital gains or deductible amount of your net capital loss is shown on line 98 of Schedule G of the personal income tax return.

NOTE

If all or part of the capital losses sustained in the year could not be deducted in the same year because of the amount you designated as a deemed capital gain and entered on line 55.1 of Schedule G of your income tax return, you must also report the unused amount as a capital loss on line 96.1 of Schedule G. In this case, the amount on line 98 will be positive and must also be equal to or greater than 50% of the amount on line 55.1 of Schedule G. In addition, the amount of the net capital loss that you can deduct from taxable capital gains from another year corresponds to 50% of the amount entered on line 96.1 of Schedule G.

To carry a net capital loss to one of the previous three years, complete form TP-1012.A-V, *Carry-Back of a Loss*, and submit it to us no later than the filing deadline for the income tax return for the year in which the loss was sustained. To carry a loss to a subsequent year, complete form TP-729-V, *Carry-Forward of Net Capital Losses*.

The amount of the loss you are carrying over must be entered on line 290 of your income tax return for the year to which the loss is applied.

7.2.1 Order in which net capital losses must be carried over

You must apply your earliest capital loss against your earliest capital gain. For example, if you sustained a net capital loss in 2021 and again in 2023, and you want to use these losses to reduce your net taxable capital gains for 2020 and 2022, you must first apply your 2021 loss against your 2020 gain. If a balance remains, you must use it to reduce the net taxable capital gains for 2022. Once your entire net capital loss for 2021 has been absorbed, you can begin to carry over your net capital loss for 2023.

7.2.2 Resumption of business activities by an insolvent corporation or a related corporation

If you are deemed to have sustained a capital loss on a share of the capital stock of a corporation that is insolvent at the end of a taxation year, you (or a person with whom you are not dealing at arm's length) may be deemed to have realized a capital gain at a particular time within the next 24 months. This is the case if, at that time, the corporation (or a corporation that it controls) begins to carry on a business while you (or a person with whom you are not dealing at arm's length) are still holding the share. The capital gain is equal to the ACB used to calculate the capital loss in question.

7.3 Deductibility of losses sustained on transactions involving affiliated persons

You **cannot deduct** a loss sustained on a disposition of property involving a person affiliated with you, except in the following situations:

- You are deemed to have disposed of the property at the time of your immigration to or emigration from Canada, or at the time of the change in use of the property.
- A person is deemed to have disposed of the property upon death.
- You are deemed to have disposed of a stock option when it expires.
- You are deemed to have disposed of a debt because it has become a bad debt.
- You are deemed to have disposed of a share because the corporation that issued the share went bankrupt or was insolvent at the time it was wound up.
- You become exempt from (or cease to be exempt from) Québec income tax within 30 days after the disposition of the property.

Such a loss is subject to a deferral mechanism, the rules of which differ according to whether or not the property concerned is depreciable.

IMPORTANT

If the disposition of property involving a person affiliated with you is carried out by a trust or partnership and you are the trustee or a member of the partnership, section 7.3 does not apply to you. Refer to the *Guide to Filing the Trust Income Tax Return* (TP-646.G-V) or the *Guide to Filing the Partnership Information Return* (TP-600.G-V).

Person affiliated with you

You are deemed to be affiliated with:

- your spouse;
- a corporation controlled directly or indirectly, in any manner whatsoever, by you, your spouse or a group of affiliated persons you or your spouse belongs to;
- a partnership you are a majority-interest partner of; or
- a trust you are a majority-interest beneficiary of.

NOTE

- A partnership is considered a person.
- A "group of affiliated persons" is a group of persons each member of which is affiliated with every other member.
- A partner holds a majority interest in a partnership if, at a given time, the partner is in either of the following situations:
  - The partner's share of the partnership's income from all sources for the partnership's fiscal period that ended before that time (or, for a new partnership, the partnership's first fiscal period that includes that time) would have been greater than 50% had the partner held throughout that fiscal period the same interest that the partner or an affiliated person held at that time.
  - The partner would receive (jointly with every affiliated person) more than 50% of the amount that the partnership would pay to all the partners otherwise than as a share of its income, were the partnership dissolved at that time.
- A beneficiary of a trust is a majority-interest beneficiary at a particular time if one of the following conditions is met:
  - The FMV of all of the beneficiary's income interest in the trust and the income interests of all affiliated persons is greater than 50% of the FMV of all income interests in the trust.
  - The FMV of all of the beneficiary's capital interest in the trust and the capital interests of all affiliated persons is greater than 50% of the FMV of all capital interests in the trust.

7.3.1 Non-depreciable property

A "superficial loss" is a loss sustained on the disposition of non-depreciable property where the following conditions are met:

- During the period that begins 30 days before and ends 30 days after the disposition of a particular property, you or a person affiliated with you acquired replacement property (property that is, or is identical to, the particular property).
- At the end of that period, you or the person affiliated with you still owned or had the right to acquire the replacement property.

A superficial loss is **not deductible**; it must be added to the ACB of the replacement property acquired by you or the affiliated person.

If the issuing corporation redeems a share you own, and the corporation is affiliated with you immediately after the transaction, the loss sustained on that transaction is also not deductible. The ACB of each share you held immediately after the transaction is increased by the result of the following calculation:

$$\text{Amount of the loss} \times \frac{\text{FMV of the share immediately after the transaction}}{\text{FMV of all your shares in the corporation immediately after the transaction}}$$

Identical property

Property that is similar to another property in all aspects deemed important (for example, the type of property, the class to which it belongs, or the rights conferred on the holder of the property) or the right to acquire the other property.

If shares of the capital stock of a specified investment flow-through (SIFT) wind-up corporation are acquired before 2013, the shares are deemed to be property identical to interests that are investments in the SIFT wind-up entity. For more information on SIFT wind-up entities, see the *Guide to Filing the Trust Income Tax Return* (TP-646.G-V).

7.3.2 Depreciable property

A loss sustained on the disposition of depreciable property is not deductible as a capital loss. You can, however, deduct a **terminal loss** if the property is the last in its class.

If the transaction involves a **person affiliated with you**, that is, if, on the 30th day following the disposition, you or a person affiliated with you owns or has the right to acquire the same property (unless the right is a guarantee, such as a mortgage), you cannot deduct this terminal loss. Instead, you may constitute a hypothetical property belonging to the same class as that of the property disposed of; the capital cost of this hypothetical property entitles you to claim capital cost allowance, and you may also subsequently deduct a terminal loss, if certain conditions are met.

8 BUSINESS INVESTMENT LOSSES

A business investment loss is a loss sustained during a year on the disposition of:

- a **share** of the capital stock of a small business corporation (see the definition below); or
- a **debt** owed by a small business corporation, or by a CCPC that:
  - went bankrupt while carrying on a small business, or
  - was insolvent, and was carrying on a small business at the time it was wound up.

Since business investment losses are generally capital losses, see section 7.1.4 for the conditions pertaining to the recognition of such losses.

Small business corporation
A CCPC all or substantially all (at least 90%) of the FMV of whose assets is attributable, at a given time, to assets that are:

- used principally in an "eligible business" (see the definition below) carried on primarily in Canada by the corporation or a related corporation;
- shares or debts of a corporation that is connected to the corporation and that is itself a small business corporation; or
- a combination of the assets described in the previous two points.

NOTE
To be considered a small business corporation at a given time for a business investment loss, a corporation must have been a small business corporation at some point during the 12 months preceding that time.

Eligible business
Any business carried on by a taxpayer resident in Canada, other than a specified investment business or a personal services business.

8.1 Deductible amount of the loss

If you make an election under section 299 of the *Taxation Act*, you are deemed to have disposed of the share or the debt at the end of the year in question for proceeds equal to zero, and to have reacquired the debt or share immediately thereafter at a cost of zero. Consequently, the amount of the loss is **equal to the ACB of the share or the debt** immediately prior to the time of the deemed disposition.

You can deduct only the **allowable portion** of your total business investment losses for the year. Unlike capital losses, which can be applied against capital gains only, business investment losses can be deducted from your income from all sources. The allowable portion of your business investment losses is obtained by subtracting any capital gains deduction you claimed for a previous year and applying the inclusion rate.

Complete form TP-232.1-V, *Business Investment Loss*, to calculate the allowable portion of your business investment losses.

NOTE
If, in the year, you disposed of eligible shares of a corporation as part of the transfer of a family business and designated an amount as a deemed capital gain that you entered on line 55.1 of Schedule G of your income tax return, do not take into account, in your total income, the portion of taxable capital gains (line 139) that is attributable to the disposition of the shares. In such a case, when you are calculating your total income from all sources for the year from which you can deduct the allowable portion of your business investment losses for the year, subtract 50% of the amount on line 55.1 of Schedule G from the amount on line 139 of the income tax return.

8.2 Loss carry-over

If the allowable portion of your business investment losses exceeds your income, the difference can be carried back three years and forward 10 years as a non-capital loss. Any amount that cannot be carried back three years or forward 10 years as a non-capital loss then becomes a capital loss.

If you decide to carry the loss to a future year, you can complete form TP-1012.A-V, *Carry-Back of a Loss*, to calculate the amount of the loss that can be carried over. You are not required to file the form in this case.

However, if you decide to carry the loss to a year preceding the year of the loss, you are required to file the form. You must do so no later than the filing deadline for the income tax return for the year in which you sustained the loss.

If you have more than one balance to carry over to a given year, you must begin with the earliest loss. For instance, you must carry over the balance of a loss sustained in 2020 before you carry over the balance of a loss sustained in 2021.

8.3 Resumption of business activities by an insolvent corporation or a related corporation

If you are deemed to have sustained a business investment loss on a share of the capital stock of a corporation that is insolvent at the end of a taxation year, and you made an election under section 299 of the *Taxation Act*, you (or a person with whom you are not dealing at arm's length) may be deemed to have realized a capital gain at a particular time within the subsequent 24 months. This is the case if, at that time, the corporation (or a corporation it controls) begins to carry on a business while you (or a person with whom you are not dealing at arm's length) are still holding the share. The capital gain is equal to the ACB that was used to calculate the business investment loss.

9 REGISTERS AND SUPPORTING DOCUMENTS

You must keep any registers and supporting documents we require to determine the amounts that must be deducted, withheld, collected or paid under a fiscal law at your residence or any other place we designate and authorize. These registers and supporting documents must also be made available to us during an audit.

You must keep these registers and supporting documents for six years after the last year to which they apply. In addition, registers and supporting documents in an electronic or digital format must be kept readable for the retention period. You must take the necessary steps to ensure and maintain their integrity throughout this period.

If your income tax return is filed late, you must keep all registers and supporting documents that apply to the taxation year for six years after the date the return is filed.

Registers and supporting documents may have to be kept longer than six years if you filed a notice of objection, a contestation or an appeal under a tax law.

If you receive relief under a tax law, you must keep supporting documents related to the relief for six years after the last year to which they apply.

For more information, refer to information bulletin LMR. 34-1/R1, *Retention and Destruction of Registers and Supporting Documents*.

Virtual currency transactions

You must keep the following information and documents to track your virtual currency transactions:

- the date of the transactions;
- the receipts of purchase or transfer of virtual currency;
- the value of the virtual currency in Canadian dollars at the time of each transaction;
- the digital wallet records and cryptocurrency addresses;
- a description of the transaction and the other party (even if it is just their cryptocurrency address);
- the exchange records;
- any accounting and legal costs;
- the costs of the software used to manage your tax affairs.

If you provide mining services, you must also keep the following records:

- receipts for the purchase of cryptocurrency mining hardware;
- receipts for the purchase of cryptocurrency mining equipment (computer, graphics card, server, etc.);
- receipts to support your expenses and other records containing information about the mining operation (such as power costs, mining pool fees, hardware specifications, maintenance costs and hardware operation time);
- the mining pool records and supporting documents;
- documents showing payment transfers to your cryptocurrency address.

TO CONTACT US

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BY TELEPHONE

Individuals and individuals in business

Monday to Friday: 8:30 a.m. to 4:30 p.m.

Québec City	Montréal	Elsewhere
418 659-6299	514 864-6299	1 800 267-6299 (toll-free)

Businesses, employers and agents for consumption taxes

Monday, Tuesday, Thursday and Friday: 8:30 a.m. to 4:30 p.m.
Wednesday: 10:00 a.m. to 4:30 p.m.

Québec City	Montréal	Elsewhere
418 659-4692	514 873-4692	1 800 567-4692 (toll-free)

Complaints – Bureau de la protection des droits de la clientèle

Monday to Friday: 8:30 a.m. to noon and 1:00 p.m. to 4:30 p.m.

Québec City	Elsewhere
418 652-6159	1 800 827-6159 (toll-free)

Individuals with a hearing impairment

Montréal	Elsewhere
514 873-4455	1 800 361-3795 (toll-free)

BY MAIL

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