Canada Revenue Agency | Agence du revenu du Canada

Capital Gains

2019

T4037(E) Rev.19

Canada

Before you start

Is this guide for you?

The most common income tax situations are explained in this guide. Use this guide to get information on capital gains or capital losses in 2019. You generally have a capital gain or loss whenever you sell, or are considered to have sold, capital property. The term "Capital property" is defined on page 6. Use Schedule 3, Capital Gains (or Losses) in 2019, to calculate and report your taxable capital gains or net capital loss.

If your only capital gains or losses are those shown on information slips (T3, T4PS, T5, or T5013), and you did not file Form T664 or T664(Seniors), Election to Report a Capital Gain on Property Owned at the End of February 22, 1994, you do not have to read the entire guide. See "Chart 1 – Reporting capital gains (or losses) and other amounts from information slips" on page 22 to find out how to report these amounts.

If you sell units, shares, or securities for which you were issued an information slip, you will have to report a capital gain or loss. See "Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares" on page 14.

If you are a farmer and you sold property included in capital cost allowance Class 14.1 (was eligible capital property before January 1, 2017) that is qualified farm or fishing property or farmland in 2019 that includes your principal residence, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide, or RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide.

Guide RC4060 is applicable to AgriStability and AgriInvest Program participants in Ontario, Alberta, Saskatchewan, and Prince Edward Island while Guide RC4408 applies to AgriStability and AgriInvest participants in British Columbia, Manitoba, New Brunswick, Nova Scotia, Newfoundland and Labrador, and the Yukon. AgriStability and AgriInvest Program participants from Quebec will continue to use Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

If you are a non-resident, emigrant, or new resident of Canada, go to **canada.ca/taxes-international** and refer to the section that applies to your situation.

Our publications and personalized correspondence are available in braille, large print, etext, or MP3 for those who have a visual impairment. Find more information at **canada.ca/cra-multiple-formats** or by calling **1-800-959-8281**.

La version française de ce guide est intitulée Gains en capital.

What’s new for 2019?

Lifetime capital gains exemption limit – For dispositions in 2019 of qualified small business corporation shares, the lifetime capital gains exemption (LCGE) limit has increased to $866,912. For more information, see page 13.

Disposition of an interest in a partnership to a non-resident or tax-exempt entity – There are new codes for electronic filers. For more information, see page 28.

Donations of Cultural Property – Donations of Cultural Property made on or after March 19, 2019, no longer require that property be of “national importance” in order to qualify for the enhanced tax incentives. For more information, see page 29.

Change in Use Rules for Part of property such as Multi-Unit Residential Properties – A taxpayer can elect that the deemed disposition that normally arises on a change in use of part of a property not apply in respect of changes in the use of property that occur on or after March 19, 2019. As a result, any accrued capital gain on the property can be deferred until the property is disposed of in the future. For more information, see page 45.

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Definitions

This section describes, in a general way, technical terms that are used in this guide. Whenever practical, technical terms are defined in detail in the applicable chapters.

Note
Throughout this guide, the terms **sell**, **sold**, **buy**, and **bought** are used to describe most capital transactions. However, the information in this guide also applies to other dispositions or acquisitions, such as when you give or receive a gift. When reading this guide, you can substitute the terms **disposed of** or **acquired** for, **sold** or **bought**, if they more accurately describe your situation.

Abbreviations – The following is a list of some of the abbreviations that are used in this guide:

ABIL – Allowable business investment loss
ACB – Adjusted cost base
CCA – Capital cost allowance
CNIL – Cumulative net investment loss
FMV – Fair market value
LPP – Listed personal property
RFL – Restricted farm loss
UCC – Undepreciated capital cost

Adjusted cost base (ACB) – usually the cost of a property plus any expenses to acquire it, such as commissions and legal fees.

The cost of a capital property is its actual or deemed cost, depending on the type of property and how you acquired it. It also includes capital expenditures, such as the cost of additions and improvements to the property. You cannot add current expenses, such as maintenance and repair costs, to the cost base of a property.

For more information on ACB, see archived Interpretation Bulletin IT-456, Capital Property – Some Adjustments to Cost Base, and its Special Release.

Advantage – The **advantage** is generally the total value of any property, service, compensation, use or any other benefit that you are entitled to as partial consideration for, or in gratitude for, the gift. The **advantage** may be contingent or receivable in the future, either to you or a person or partnership not dealing at arm's length with you.

The advantage also includes any limited-recourse debt in respect of the gift at the time it was made. For example, there may be a limited-recourse debt if the property was acquired as part of a gifting arrangement that is a tax shelter. In this case, the eligible amount of the gift will be reported in box 13 of Form T5003, Statement of Tax Shelter Information. For more information on tax shelters and gifting arrangements, see guide T4068, Guide for the Partnership Information Return (T5013 Forms).

Allowable capital loss – is your capital loss for the year multiplied by the inclusion rate for that year. For 2001 and subsequent years, the inclusion rate is 1/2.

Arm's length transaction – refers to a transaction between persons who act in their separate interests. An arm's length transaction is generally a transaction that reflects ordinary commercial dealings between parties acting in their separate interests.

"Related persons" are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, common law partnership or adoption (legal or in fact). A corporation and another person or 2 corporations may also be related persons.

''Unrelated persons'' may not be dealing with each other at arm's length at a particular time. Each case will depend upon its own facts. The following criteria will be considered to determine whether parties to a transaction are not dealing at arm's length:

- whether there is a common mind which directs the bargaining for the parties to a transaction
- whether the parties to a transaction act in concert without separate interests; "acting in concert" means, for example, that parties act with considerable interdependence on a transaction of common interest
- whether there is de facto control of one party by the other because of, for example, advantage, authority or influence

For more information, see Income Tax Folio S1-F5-C1, Related persons and dealing at arm's length.

Business investment loss – see "Allowable business investment loss" on page 39.

Canadian-controlled private corporation – is a private corporation that is a Canadian corporation **other than** any of the following:

a) a corporation controlled, directly or indirectly in any way, by one or more non-resident persons, by one or more public corporations (other than a prescribed venture capital corporation), by one or more corporations described in paragraph c), or by any combination of the above

b) a corporation that would be controlled by one person if that one person owned all the shares of any corporation that are owned by any non-resident person, by any public corporation (other than a prescribed venture capital corporation), or by a corporation described in paragraph c)

c) a corporation, a class of the shares of capital stock of which is listed on a designated stock exchange

Canadian security is any of the following:

- a share of the capital stock of a corporation resident in Canada
- a unit of a mutual fund trust
- a bond, debenture, bill, note, mortgage, hypothecary claim, or similar obligation issued by a person resident in Canada

Prescribed securities (defined on page 7) are not considered to be Canadian securities.

Capital cost allowance (CCA) – in the year you buy a "depreciable property" (defined on the next page), such as a building, you cannot deduct its full cost. However, since this type of property wears out or becomes obsolete over time, you can deduct its capital cost over a period of several

years. This deduction is called CCA. When the CRA talks about CCA, a reference is often made to **class**. You usually group depreciable properties into classes. You have to base your CCA claim on the rate assigned to each class of property.

Capital gain – you have a capital gain when you sell, or are considered to have sold, a capital property for **more** than the total of its adjusted cost base and the outlays and expenses incurred to sell the property. The term "outlays and expenses" is defined on page 7.

Capital loss – you have a capital loss when you sell, or are considered to have sold, a capital property for **less** than the total of its adjusted cost base and the outlays and expenses incurred to sell the property. The term "outlays and expenses" is defined on page 7.

Capital property – includes depreciable property, and any property which, if sold, would result in a capital gain or a capital loss. You usually buy it for investment purposes or to earn income. Capital property **does not** include the trading assets of a business, such as inventory. Some common types of capital property include:

- cottages
- securities, such as stocks, bonds, and units of a mutual fund trust
- land, buildings, and equipment you use in a business or a rental operation

Common-law partner – this applies to a person who is **not your spouse**, with whom you are living and have a conjugal relationship, and to whom at least **one** of the following situations applies. They:

a) have been living with you in a conjugal relationship, and this current relationship has lasted at least 12 continuous months

Note
In this definition, "12 continuous months" includes any period you were living separate and apart for less than 90 days because of a breakdown in the relationship.

b) are the parent of your child by birth or adoption

c) have custody and control of your child (or had custody and control immediately before the child turned 19 years of age) and your child is wholly dependent on that person for support

Deemed acquisition – expression used when you are considered to have acquired property, even though you did not actually buy it.

Deemed cost – refers to the price of property you are considered to have acquired, even though you did not actually buy it.

Deemed disposition – expression used when you are considered to have disposed of property, even though you did not actually sell it.

Deemed proceeds of disposition – expression used when you are considered to have received an amount for the disposition of property, even though you did not actually receive the amount.

Depreciable property – usually capital property used to earn income from a business or property. The capital cost can be written off as CCA over a number of years.

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

Eligible amount of the gift – this is generally the amount by which the fair market value (FMV) of the gifted property exceeds the amount of an **advantage** (see definition on the previous page), if any, received or receivable for the gift. For more information, see Pamphlet P113, Gifts and Income Tax.

Eligible active business corporation – generally, this is a taxable Canadian corporation, where all or substantially all of the fair market value (FMV) of its assets are used principally in an active business carried on primarily in Canada by the corporation or by a related active business corporation while the investor holds the shares, **or for at least 730 days of the ownership period**. It can also be shares of, or a debt issued by, other related active business corporations or a combination of such assets, shares, or debt.

Note
An eligible active business corporation **does not** include:

- a professional corporation
- a specified financial institution
- a corporation whose principal business is leasing, renting, developing, or selling real property that it owns or any combination of these activities
- a corporation where more than 50% of the FMV of its property (net of debts incurred to acquire the property) is attributable to real property

Eligible capital property – property that does not physically exist but gives you a lasting economic benefit. Examples of this kind of property are goodwill, customer lists, trademarks, and milk quotas. For 2017 and future tax years, this property is now included in capital cost allowance Class 14.1.

Eligible small business corporation – generally, this is a Canadian-controlled private corporation, where all or substantially all of the FMV of its assets are used principally in an active business that is carried on primarily in Canada by the corporation or an eligible small business corporation related to it. It can also be shares of, or a debt issued by, other related eligible small business corporations or a combination of such assets, shares, or debt. The issuing corporation must be an eligible small business corporation at the time the shares were issued.

Note
An eligible small business corporation **does not** include:

- a professional corporation
- a specified financial institution
- a corporation whose principal business is leasing, renting, developing, or selling real property that it owns or any combination of these activities

- a corporation where more than 50% of the FMV of its property (net of debts incurred to acquire the property) is attributable to real property

Excepted gift – a gift of a share you made to a donee with whom you deal at arm's length. The donee cannot be a private foundation. If the donee is a charitable organization or public foundation, it will be an excepted gift if you deal at arm's length with each director, trustee, officer, and official of the donee. For more information, go to **canada.ca/charities-giving**, then click on "Guidance, videos, forms and more" then "Index of guidance products and policies." Under the letter I or R, click on the "Non-qualifying security" link.

Fair market value (FMV) – is usually the highest dollar value you can get for your property in an open and unrestricted market, between a willing buyer and a willing seller who are acting independently of each other.

Flow-through entity – This term is explained in "What is a flow-through entity?" in Chapter 4 on page 30 .

Inclusion rate – generally, the inclusion rate for 2019 is 1/2. This means that you multiply your capital gain for the year by this rate to determine your taxable capital gain. Similarly, you multiply your capital loss for the year by 1/2 to determine your allowable capital loss. For a list of previous year inclusion rates, see "Inclusion rate" on page 31.

Listed personal property (LPP) – is a type of personal-use property. The principal difference between LPP and other personal-use properties is that LPP usually increases in value over time. LPP includes all or any part of any interest in, or any right to, the following properties:

- prints, etchings, drawings, paintings, sculptures, or other similar works of art
- jewellery
- rare folios, rare manuscripts, or rare books
- stamps
- coins

Net capital loss – generally, if your allowable capital losses are more than your taxable capital gains, the difference between the two becomes part of the calculation of your net capital loss for the year.

Non-arm's length transaction – a transaction between persons who are related to each other. However, a non-arm's length relationship might also exist between unrelated individuals, partnerships or corporations, depending on the circumstances. For more information, see the definition of "arm's length transaction" on page 5.

Non-qualifying real property – generally, non-qualifying real property is real property that you or your partnership disposed of after February 1992 and before 1996.

It also generally includes any of the following property you or your partnership disposed of after February 1992 and before 1996, if its fair market value is derived principally (more than 50%) from real property:

- a share of a capital stock of a corporation
- an interest in a partnership
- an interest in a trust
- an interest or an option in any property described above

Non-qualifying securities – are securities you donated to a "qualified donee" (defined on the next page). Non-qualifying securities generally include:

- a share of a corporation with which you do not deal at arm's length after the donation was made
- your beneficial interest in a trust in certain circumstances
- an obligation of yours, or of any person or partnership with whom you do not deal at arm's length after the donation was made
- any other security issued by you or by any person or partnership with whom you do not deal at arm's length after the donation was made

Non-qualifying securities exclude:

- shares, obligations, and other securities listed on a designated stock exchange
- obligations of a financial institution to repay an amount deposited with the institution

For more information on non-qualifying securities, go to **canada.ca/charities-giving**, then click on "Guidance, videos, forms and more" then "Index of guidance products and policies." Under the letter I or R, click on the "Non-qualifying security" link.

Outlays and expenses – are amounts that you incurred to sell a capital property. You can deduct outlays and expenses from your "proceeds of disposition" (defined at the end of this page) when calculating your capital gain or loss. You cannot reduce your other income by claiming a deduction for these outlays and expenses. These types of expenses include fixing-up expenses, finders' fees, commissions, brokers' fees, surveyors' fees, legal fees, transfer taxes, and advertising costs.

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

Prescribed security – generally includes the following:

- a share of a corporation (other than a public corporation) whose value at the time you dispose of it comes mainly from real estate, resource properties, or both
- a bond, debenture, bill, note, mortgage, or similar obligation of a corporation (other than a public corporation) that you do not deal with at arm's length at any time before you dispose of the security
- a share, bond, debenture, bill, note, mortgage, or similar obligation you acquire from a person with whom you do not deal at arm's length

A prescribed security is not considered to be a "Canadian security" (defined on page 5).

Proceeds of disposition – usually the amount you received or will receive for your property. In most cases, it refers to the sale price of the property. This could also include

compensation you received for property that has been destroyed, expropriated, or stolen.

Public corporation – is a corporation that is resident in Canada and meets one of the following conditions:

- has a class of shares listed on a designated Canadian stock exchange
- is a corporation (other than a prescribed labour-sponsored venture capital corporation) that has elected, or has been designated by the Minister of National Revenue, to be a public corporation. Also, at the time of the election or designation, the corporation complied with prescribed conditions concerning the number of its shareholders, the dispersal of ownership of its shares, and the public trading of its shares

Qualified donees – are the following:

- registered charities
- registered Canadian amateur athletic associations
- registered national arts service organizations
- registered housing corporations resident in Canada set up only to provide low-cost housing for the aged
- registered municipalities in Canada
- registered municipal or public bodies performing a function of government in Canada
- the United Nations and its agencies
- universities outside Canada, the student body of which ordinarily includes students from Canada, that have applied for registration and are registered with the CRA (these universities are no longer required to be prescribed in Schedule VIII of the Income Tax Regulations)

  Note
  If a university has applied for registration before February 27, 2018, and is registered by the Minister on or after that day, it is considered to have applied for registration. Any university named in Regulation Schedule VIII at the end of February 26, 2018, is also considered to have applied for registration.

- Her Majesty in Right of Canada, a province, or a territory
- registered foreign charities to which Her Majesty in right of Canada has made a gift
- registered journalism organizations starting January 1, 2020.

Qualified farm or fishing property – is certain property you or your spouse or common-law partner owns. It is also certain property owned by a family-farm or fishing partnership in which you or your spouse or common-law partner holds an interest.

Qualified farm or fishing property (QFFP) includes the following:

- a share of the capital stock of a family-farm or fishing corporation that you or your spouse or common-law partner owns
- an interest in a family-farm or fishing partnership that you or your spouse or common-law partner owns
- real property, such as land, buildings, and fishing vessels
- property included in capital cost allowance Class 14.1, such as milk and egg quotas, or fishing licenses

For more information on what is considered to be qualified farm or fishing property, see guides T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide, or RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide.

Qualified small business corporation shares – a share of a corporation will be considered to be a qualified small business corporation share if **all** the following conditions are met:

- at the time of sale, it was a share of the capital stock of a small business corporation, and it was owned by you, your spouse or common-law partner, or a partnership of which you were a member
- throughout that part of the 24 months immediately before the share was disposed of, while the share was owned by you, a partnership of which you were a member, or a person related to you, it was a share of a Canadian-controlled private corporation and more than 50% of the fair market value of the assets of the corporation were:
  - used mainly in an active business carried on primarily in Canada by the Canadian-controlled private corporation, or by a related corporation
  - certain shares or debts of connected corporations
  - a combination of these 2 types of assets
- throughout the 24 months immediately before the share was disposed of, no one owned the share other than you, a partnership of which you were a member or a person related to you

Generally, when a corporation has issued shares after June 13, 1988, either to you, to a partnership of which you are a member, or to a person related to you, a special situation exists. The CRA considers that, immediately before the shares were issued, an unrelated person owned them. As a result, to meet the holding-period requirement, the shares cannot have been owned by any person other than you, a partnership of which you are a member, or a person related to you for a 24-month period that begins after the shares were issued and that ends when you sold them. However, this rule **does not** apply to shares issued in any of the following situations:

- as payment for other shares
- for dispositions of shares after June 17, 1987, as payment of a stock dividend
- in connection with a property that you, a partnership of which you were a member, or a person related to you disposed of to the corporation that issued the shares.

The property disposed of must have consisted of either:

- all or most (90% or more) of the assets used in an active business carried on either by you, the members of the partnership of which you were a member, or the person related to you
- an interest in a partnership where all or most (90% or more) of the partnership's assets were used in an active business carried on by the members of the partnership

Real property – property that cannot be moved, such as land or buildings. The CRA commonly refers to such property as "real estate."

Recapture – when you sell a depreciable property for less than its capital cost, but for more than the undepreciated capital cost (UCC) in its class, you do not have a capital gain. However, if there is a negative UCC balance at the end of the year, this balance is a recapture of capital cost allowance. You have to include this amount in income for that year. For more information on recapture, see page 17.

Small business corporation – is a Canadian-controlled private corporation in which all or most (90% or more) of the fair market value of its assets:

- are used mainly in an active business carried on primarily in Canada by the corporation or by a related corporation
- are shares or debts of connected corporations that were small business corporations
- are a combination of these 2 types of assets

Spouse – applies only to a person to whom you are legally married.

Taxable capital gain – is the portion of your capital gain that you have to report as income on your income tax and benefit return.

If you realize a capital gain when you donate certain properties to a qualified donee (as defined on the previous page) or make a donation of ecologically sensitive land, special rules will apply. For more information, see pages 11 and 30.

Terminal loss – occurs when you have an undepreciated balance in a class of depreciable property at the end of the tax year or fiscal year, and you no longer own any property in that class. You can deduct the terminal loss when you calculate your income for the year. For more information on terminal losses, see page 17.

Undepreciated capital cost (UCC) – generally, UCC is equal to the total capital cost of all the properties of the class **minus** the capital cost allowance you claimed in previous years. If you sell depreciable property in a year, you also have to subtract from the UCC one of the following 2 amounts, **whichever is less**:

- the proceeds of disposition of the property (either actual or deemed) **minus** the outlays and expenses incurred to sell it
- the capital cost of the property

Chapter 1 – General information

This chapter provides the general information you need to report a capital gain or loss.

Generally, when you dispose of a property and end up with a gain or a loss, it may be treated in one of 2 ways:

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

When you dispose of a property, you need to determine if the transaction is a capital transaction or an income transaction. The facts surrounding the transaction determine the nature of the gain or loss.

For more information on the difference between capital and income transactions, see the following archived interpretation bulletins:

IT-218 Profits, capital gains and losses from the sale of real estate, including farmland and inherited land and conversion of real estate from capital property to inventory and vice versa

IT-459 Adventure or concern in the nature of trade

IT-479 Transactions in securities, and its Special Release

For information on how to report income transactions, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

When do you have a capital gain or loss?

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

- You exchange one property for another.
- You give property (other than cash) as a gift.
- Shares or other securities in your name are converted.
- You settle or cancel a debt owed to you.
- You transfer certain property to a trust.
- Your property is expropriated.
- Your property is stolen.
- Your property is destroyed.
- An option that you hold to buy or sell property expires.
- A corporation redeems or cancels shares or other securities that you hold (you will usually be considered to have received a dividend, the amount of which will be shown on a T5 slip).
- You change all or part of the property's use (see "Changes in use" on page 44).
- You leave Canada (go to **canada.ca/taxes-individuals** then click on "Your tax obligations" then "You are leaving Canada permanently." Next, click on "Departure tax" then "Disposition of property.")

- The owner dies (see Guide T4011, Preparing Returns for Deceased Persons).

Disposing of Canadian securities

If you dispose of Canadian securities, it's possible that you could have a gain or loss on income account (as opposed to the more likely capital gain or loss). However, in the year you dispose of Canadian securities, you can elect to report such a gain or loss as a capital gain or loss. If you make this election for a tax year, the CRA will consider every Canadian security you owned in that year and later years to be capital properties. A trader or dealer in securities (other than a mutual fund trust or a mutual fund corporation) or anyone who was a non-resident of Canada when the security was sold cannot make this election.

If a partnership owns Canadian securities, each partner is treated as owning the security. When the partnership disposes of the security, each partner can elect to treat the security as capital property. An election by one partner **will not** result in each partner being treated as having made the election.

To make this election, complete Form T123, Election on Disposition of Canadian Securities, and attach it to your 2019 income tax and benefit return. Once you make this election, you cannot reverse your decision.

For more information on this election as well as what constitutes a gain on income account versus a capital gain, see archived Interpretation Bulletin IT-479, Transactions in securities, and its Special Release.

Disposing of personal-use property (including your principal residence)

Most people are not affected by the capital gains rules because the property they own is for their personal use or enjoyment.

Personal-use property

When you sell personal-use property, such as cars and boats, in most cases you do not end up with a capital gain. This is because this type of property usually does not increase in value over the years. As a result, you may end up with a loss. Although you have to report any gain on the sale of personal-use property, generally you are not allowed to claim a loss. For more information, see "Personal-use property" on page 20.

Principal residence

If you sold your home in 2019, you must report the sale on Schedule 3, Capital Gains (or Losses) in 2019 and Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust). For more information on this requirement, see Chapter 6 on page 41.

If you sell your home for more than what it cost you, you usually do not have to pay tax on any gain if you meet all of the following conditions:

- your home was your principal residence for all years you owned or for all years except one year;
- you report the sale of the property and designate it as your principal residence on Schedule 3 and complete Form T2091(IND)
- you or a member of your family did not designate any other property as a principal residence while you owned your home.

For more information, see Chapter 6 on page 41.

When do you report a capital gain or loss?

Report the disposition of capital property in the calendar year (January to December) you sell, or are considered to have sold, the property.

> **Note**
> Regardless of whether or not the sale of a capital property results in a capital gain or loss, you have to file an income tax and benefit return to report the transaction (even if you do not have to pay tax). This rule also applies when you report the taxable part of any capital gains reserve you deducted in 2018.

Do you own a business?

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

Example
Milos owns a small business. The fiscal year end for his business is June 30, 2019. In August 2019, he sold a capital property that he used in his business. As a result of the sale, he had a capital gain. Milos has to report the capital gain on his income tax and benefit return for 2019. He does this even though the sale took place after his business's fiscal year end date of June 30.

Are you a member of a partnership?

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

Calculating your capital gain or loss

To calculate any capital gain or loss, you need to know the following 3 amounts:

- the proceeds of disposition
- the adjusted cost base (ACB)
- the outlays and expenses incurred to sell your property

To calculate your capital gain or loss, subtract the total of your property's ACB, and any outlays and expenses incurred to sell your property, from the proceeds of disposition.

Note
When calculating the capital gain or loss on the sale of capital property that was made in a foreign currency:

- convert the proceeds of disposition to Canadian dollars using the exchange rate in effect at the time of the sale
- convert the adjusted cost base of the property to Canadian dollars using the exchange rate in effect at the time the property was acquired
- convert the outlays and expenses to Canadian dollars using the exchange rate in effect at the time they were incurred

You have a capital gain when you sell, or are considered to have sold, a capital property for **more** than the total of its ACB and the outlays and expenses incurred to sell the property.

Example
In 2019, Mario sold 400 shares of XYZ Public Corporation of Canada for $6,500. He received the full proceeds at the time of the sale and paid a commission of $60. The ACB of the shares is $4,000. Mario calculates his capital gain as follows:

Proceeds of disposition				$ 6,500	**A**
Adjusted cost base		$ 4,000	**B**		
Outlays and expenses on disposition	+	60	**C**		
Line B **plus** line C	=	$ 4,060		– 4,060	**D**
Capital gain (line A **minus** line D)				= $ 2,440	**E**

Because only 1/2 of the capital gain is taxable, Mario completes Schedule 3 and reports $1,220 as his taxable capital gain on line 12700 of his income tax and benefit return.

When you sell, or are considered to have sold, a capital property for **less** than its ACB plus the outlays and expenses incurred to sell the property, you have a capital loss. You can apply 1/2 of your capital losses against any taxable capital gains in the year. For more information on capital losses, see Chapter 5 on page 31.

Use Schedule 3, Capital Gains (or Losses) in 2019, to calculate and report all your capital gains and losses. Do not include any capital gains or losses in your business or property income, even if you used the property for your business. For more information on how to complete Schedule 3, see Chapter 2 on page 14.

You may be entitled to an inclusion rate of zero on any capital gain resulting from the **donation** of any of the following properties to a qualified donee:

- a share of the capital stock of a mutual fund corporation
- a unit of a mutual fund trust
- an interest in a related segregated fund trust
- a prescribed debt obligation that is not a linked note
- ecologically sensitive land including a covenant, an easement, or in the case of land in Quebec, a personal servitude (when certain conditions are met), or a real servitude donated to certain qualified donees other than a private foundation
- a share, debt obligation, or right listed on a designated stock exchange.

  For donations of publicly traded securities, the inclusion rate of zero also applies to any capital gain realized on the exchange of shares of the capital stock of a corporation for those publicly listed securities donated. This treatment is subject to certain conditions. In cases where the exchanged securities are partnership interests, a special calculation is required to determine the capital gain to be reported. For more information on exchangeable securities, see Pamphlet P113, Gifts and Income Tax.

Generally, if you donate property to a qualified donee that is, at the time of the donation, included in a **flow-through share class of property**, in addition to any capital gain that would otherwise be subject to the zero inclusion rate discussed earlier in this section, you may be deemed to have a capital gain from the disposition of another capital property. For more information including the calculation of the capital gain, see Pamphlet P113, Gifts and Income Tax.

If you donated any of these properties, use Form T1170, Capital Gains on Gifts of Certain Capital Property, to calculate the capital gain to report on Schedule 3.

Even though, in most cases, the inclusion rate of 1/2 is reduced to **zero** for gifts of these properties, Form T1170 should still be completed to report these gifts.

However, in all cases, if you received an advantage in respect of the gift, part of the capital gain on the gifted property will be subject to the 1/2 inclusion rate. In addition, the inclusion rate of zero does not apply to capital losses you may have from such donations. For more information, see Pamphlet P113, Gifts and Income Tax.

Note
Before 1972, capital gains were not taxed. Therefore, if you sold capital property in 2019 that you owned before 1972, you have to apply special rules when you calculate your capital gain or loss to remove any capital gains accrued before 1972. These rules are not explained in this guide. To calculate your gain or loss from selling property you owned before 1972, use Form T1105, Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972.

What happens if you have a capital gain?

If you have a capital gain, you may be able to do one of the following:

- defer part of the capital gain by claiming a reserve (see the next section)
- reduce or offset all or a part of the gain by claiming a capital gains deduction (see “Claiming a capital gains deduction” on the next page)

Claiming a reserve

When you sell a capital property, you usually receive full payment at that time. However, sometimes you receive the amount over a number of years. For example, you sell a capital property for $50,000 and receive $10,000 when you sell it and the remaining $40,000 over the next 4 years. If this happens, you may be able to claim a reserve. Usually, a reserve allows you to report a portion of the capital gain in the year you receive the proceeds of disposition.

Who can claim a reserve?

Most people can claim a reserve when they dispose of a capital property. Generally, you **cannot** claim a reserve in a tax year if you were in **any** of the following situations:

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

How do you calculate and report a reserve?

If you claim a reserve, you still calculate your capital gain for the year as the proceeds of disposition **minus** the adjusted cost base and the outlays and expenses incurred to sell the property. From this, you deduct the amount of your reserve for the year. What you end up with is the part of the capital gain that you have to report in the year of disposition.

To deduct a reserve in any year, you have to complete Form T2017, Summary of Reserves on Dispositions of Capital Property. The information on the back of Form T2017 explains how to calculate the maximum amount you can deduct as a reserve for a given year and the number of years for which you can claim the reserve.

Generally, the maximum period over which most reserves can be claimed is **5 years**. However, a **10 year** reserve period is provided for transfers to your child of family farm or fishing property (which includes shares of a family farm or fishing corporation, an interest in a family farm or fishing partnership, as well as land or depreciable property in Canada that you, your spouse or common-law partner, your parent or any of your children used in a farming or fishing business), and small business corporation shares, as well as gifts of non-qualifying securities made to a qualified donee.

Your children include any of the following:

- a person of whom you or your spouse or common-law partner is the legal parent
- your grandchild or great-grandchild
- your child's spouse or common-law partner
- another person who is wholly dependent on you for support and who is, or was immediately before the age of 19, in your custody and under your control

If you claimed a reserve in the previous year, include that reserve in the calculation of your capital gains for the current year. For example, if you claimed a reserve in 2018, you have to include it in your capital gains calculation for 2019. Claim the new reserve that you have calculated for 2019 in the appropriate area on Form T2017. If you still have an amount that is payable to you after 2018, you may be able to calculate and claim a new reserve. However, you will have to include it in your capital gains calculation for 2020.

A capital gain from a reserve brought into income qualifies for the capital gains deduction **only** if the original capital gain was from a property eligible for the deduction. For a list of these properties, see "Which capital gains are eligible for the capital gains deduction?" on the next page.

> **Note**
> You do not have to claim the maximum reserve in a tax year (Year A). However, the amount you claim in a later year (Year B) cannot be more than the amount you claimed for that property in the previous year (Year A).

Reserve for a gift of non-qualifying securities

If you donate a non-qualifying security (other than an excepted gift) to a qualified donee and have a capital gain, you may be able to claim a reserve in order to postpone the inclusion of the capital gain in income. For the definitions of "excepted gift," "non-qualifying securities," and "qualified donee," see "Definitions" beginning on page 5.

For gifts of non-qualifying securities, the reserve you can claim **cannot** be greater than the eligible amount of the gift. See the definition of "eligible amount of the gift" in "Definitions" beginning on page 5.

You can claim this reserve for any tax year ending within 60 months of the time you donated the security. However, you **cannot** claim a reserve if the donee disposes of the security, or if the security ceases to be a non-qualifying security before the end of the tax year. If this happens, you will be considered to have made a charitable donation in that year, and you can claim the charitable donation tax credit.

Where a qualified donee has received a gift of a non-qualifying security (other than an excepted gift), no tax receipt may be issued and therefore no charitable donation tax credit may be claimed by the donor unless, within the 60-month period, the non-qualifying security ceases to be a non-qualifying security or has been disposed of in exchange for property that is **not** another non-qualifying security of the donor. For dispositions of non-qualifying securities by qualified donees, the disposition must be in exchange for property that is not another non-qualifying security of any party.

If the security is not disposed of within the 60-month period, you will not be required to bring the reserve back into income in the year following the end of that period.

To deduct this type of reserve, you have to complete Form T2017, Summary of Reserves on Dispositions of Capital Property.

Claiming a capital gains deduction

If you have a capital gain on the sale of certain properties, you may be eligible for the lifetime capital gains deduction [1/2 of the lifetime capital gains exemption (LCGE)].

The deduction limit was increased on capital gains arising from dispositions of qualified property in 2019. See “What is the capital gains deduction limit?” later on this page for details.

Note
The limit is indexed to inflation, using the Consumer Price Index data as reported by Statistics Canada.

What is a capital gains deduction?

It is a deduction that you can claim against taxable capital gains you realized from the disposition of certain capital properties. You can reduce your taxable income by claiming this deduction.

Which capital gains are eligible for the capital gains deduction?

You may be able to claim the capital gains deduction on taxable capital gains you have in 2019 from:

- dispositions of qualified small business corporation shares
- dispositions of qualified farm or fishing property
- a reserve brought into income in 2019, from either of the above

Note
Any capital gains from the disposition of these properties while you were a non-resident of Canada are **not** eligible for the capital gains deduction unless you meet the requirements explained in the next section.

You will find the definition of “qualified farm or fishing property” and “qualified small business corporation shares” in “Definitions” beginning on page 5.

Who is eligible to claim the capital gains deduction?

You have to be a resident of Canada throughout 2019 to be eligible to claim the capital gains deduction. For the purposes of this deduction, the CRA will also consider you to be a resident throughout 2019 if you meet both of the following conditions:

- you were a resident of Canada for at least part of 2019
- you were a resident of Canada throughout 2018 or 2020

Residents of Canada include factual and deemed residents. For more information on factual and deemed residents, see the definitions under “Which income tax package should you use?” in the Federal Income Tax and Benefit Guide, or see Income Tax Folio S5-F1-C1, Determining an Individual’s Residence Status.

What is the capital gains deduction limit?

For 2019, if you disposed of qualified small business corporation shares (QSBCS), you may be eligible for the $866,912 LCGE. Because you only include one-half of the capital gains from these properties in your taxable income, your cumulative capital gains deduction is $433,456 (1/2 of $866,912).

For dispositions of qualified farm or fishing property (QFFP) in 2016 to 2019, the LCGE is $1,000,000. Because you only include one-half of the capital gains from these properties in your taxable income, your cumulative capital gains deduction is $500,000 (1/2 of $1,000,000).

The capital gains deduction limit on gains arising from dispositions of QSBCS in 2018 is $424,126 (1/2 of a LCGE of $848,252).

The capital gains deduction limit on gains arising from dispositions of QSBCS in 2017 is $417,858 (1/2 of a lifetime LCGE of $835,716).

The capital gains deduction limit on gains arising from dispositions of QSBCS in 2016 is $412,088 (1/2 of a lifetime LCGE of $824,176).

The limit on gains arising from dispositions of QSBCS and QFFP in 2015 is $406,800 (1/2 of a lifetime LCGE of $813,600). For dispositions of QFFP after April 20, 2015, the LCGE is $1,000,000. The additional deduction is calculated as the difference between $500,000 (1/2 of $1,000,000) and the $406,800 limit.

The limit on gains arising from dispositions of QSBCS and QFFP in 2014 is $400,000 (1/2 of a lifetime LCGE of $800,000).

The limit on gains arising from dispositions of qualified farm property, qualified fishing property or QSBCS after March 18, 2007 and before 2014 is $375,000 (1/2 of a lifetime LCGE of $750,000).

How do you claim the capital gains deduction?

Use Form T657, Calculation of Capital Gains Deduction for 2019, to calculate the capital gains deduction. If you have investment income or investment expenses in any years from 1988 to 2019, you will also have to complete Form T936, Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2019.

Tax Tip
You can claim any amount of the capital gains deduction you want to in a year, up to the maximum allowable amount you calculated.

What happens if you have a capital loss?

If you have a capital loss in 2019, you can use it to reduce any capital gains you had in the year, to a balance of zero. If your capital losses are more than your capital gains, you may have a net capital loss for the year. Generally, you can apply your net capital losses to taxable capital gains of the 3 preceding years and to taxable capital gains of any future years. For more information on capital losses, see Chapter 5 beginning on page 31.

What records do you have to keep?

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

If you own qualified farm or fishing property or qualified small business corporation shares, you should also keep a record of your investment income and expenses in case you

decide to claim a capital gains deduction in the year of sale. You will need these amounts to calculate the cumulative net investment loss (CNIL) component of the capital gains deduction. You can use Form T936, Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2019, for this purpose.

In addition, you should keep a record of the fair market value of the property on the date you:

- inherit it
- receive it as a gift
- change its use

Chapter 2 – Completing Schedule 3

This chapter gives you information about how and where you should report some of the more common capital transactions on Schedule 3, Capital Gains (or Losses) in 2019. Schedule 3 is included in the Income Tax Package.

Schedule 3 has five numbered columns and is divided into several sections for reporting the disposition of different types of properties. Report each disposition in the appropriate section and make sure you provide the information requested in all columns. Complete the schedule to determine your taxable capital gain or your net capital loss. If you have a taxable capital gain, transfer the amount to line 12700 of your income tax and benefit return. If you have a net capital loss, see Chapter 5 beginning on page 31 for information on how you can apply the loss.

Note
You may need to refer to "Definitions" on page 5 for the definition of certain terms used in this chapter.

Qualified small business corporation shares

Report dispositions of qualified small business corporation shares on lines 10699 and 10700 of Schedule 3. See the definition of "qualified small business corporation shares" on page 8, in "Definitions."

Note
Do not report the following transactions in this section of Schedule 3:

- the sale of other shares, such as publicly traded shares or shares of a foreign corporation
- your losses when you sell any shares of small business corporations to a person with whom you deal at arm's length (for more information, see "Allowable business investment loss" on page 39)
- any disposition of qualified small business corporation shares if you elect to defer the capital gains that resulted from it (for more information on capital gains deferral for investment in small business, see page 26)

Capital gains deduction

If you have a capital gain when you sell qualified small business corporation shares, you may be eligible for the lifetime capital gains deduction. For more information, see "Claiming a capital gains deduction" at the end of page 12.

Qualified farm or fishing property

Generally, when you dispose of qualified farm or fishing property (QFFP), you report any capital gain or loss in this section of Schedule 3. Report dispositions of QFFP on lines 10999 and 11000 of Schedule 3. See the definition of "qualified farm or fishing property" in "Definitions" beginning on page 5.

If the capital gain or loss is from a mortgage foreclosure or conditional sales repossession, report it on lines 12399 and 12400 of Schedule 3. For more information, see "Other mortgage foreclosures and conditional sales repossessions" on page 19.

If you dispose of farm or fishing property, other than QFFP, report it on lines 13599 and 13800 of Schedule 3. For more information, see "Real estate, depreciable property, and other properties" on page 17.

Special reporting instructions apply to the disposition of property included in capital cost allowance Class 14.1 that is QFFP. For more information, see the chapter called "Eligible Capital Expenditures" in Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide or RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide.

Capital gains deduction

If you have a capital gain when you sell QFFP, you may be eligible for the lifetime capital gains deduction. For more information, see "Claiming a capital gains deduction" on page 12.

Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares

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

- units in a mutual fund trust
- publicly traded shares
- shares that qualify as Canadian securities or prescribed securities, if they are not qualified small business corporation shares or qualified family farm or fishing corporation shares
- shares issued by foreign corporations

Report dispositions of units or shares on lines 13199 and 13200 of Schedule 3.

You should also use this section if you donate any of the following properties:

- shares listed on a designated stock exchange
- shares of the capital stock of a mutual fund corporation
- units in a mutual fund trust
- interest in a related segregated fund trust

If you donated any of these properties to a qualified donee, use Form T1170, Capital Gains on Gifts of Certain Capital Property, to calculate the capital gain to report on Schedule 3. For more information, see Pamphlet P113, Gifts and Income Tax.

If you sold any of the shares or units listed above in 2019, you will receive a T5008 slip, Statement of Securities Transactions, or an account statement.

You may buy and sell the same type of property (for example, units of a mutual fund trust or publicly traded shares) over a period of time. If so, you have to calculate the average cost of each property in the group at the time of each purchase to determine the adjusted cost base (ACB). For more information, see "Adjusted cost base (ACB)" on page 23.

If you report a capital gain from the disposition of shares or other securities for which you filed Form T664, Election to Report a Capital Gain on Property Owned at the End of February 22, 1994, see Chapter 4 on page 30.

Note
If you own shares or units of a mutual fund, you may have to report the following capital gains (or losses):

- capital gains (or losses) you realize when you sell your shares or units of the mutual fund (report these amounts in the "Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares" section of Schedule 3)
- capital gains realized by the fund from its investment portfolio which are then flowed out to you

For information on how to report these amounts, see "Information slips – Capital gains (or losses)" on page 21.

For 2017 and later tax years, if you exchange mutual fund corporation shares that result in you switching exposure between portfolios (switch funds), the exchange will be considered a disposition at fair market value (FMV) which could result in a capital gain that is taxable in the year of the exchange. This will **not** apply to switches between classes of shares where the only difference between the shares is based on the relative management fees or expenses paid by the investor in the classes of shares (where the switch is between different series of the same class of shares).

For more information on mutual funds, see Information Sheet RC4169, Tax Treatment of Mutual Funds for Individuals.

For information on the deferral of capital gains incurred on the disposition of small business investments, see "Capital gains deferral for investment in small business" on page 26.

Employee security options

When you get an option to buy securities through your employer, it does not immediately affect your tax situation. An option is an opportunity to buy securities at a certain price. The securities under the option agreement may be shares of a corporation or units of a mutual fund trust.

If you decide to exercise your option and buy the securities at less than the fair market value (FMV), you will have a taxable benefit received through employment. The taxable benefit is generally the difference between what you paid for the securities and the FMV at the time you exercised your option. You can reduce the amount of the benefit by any amount you paid to acquire the option rights.

Note
The taxable benefit included in your income in connection with an employee option agreement is **not eligible** for the capital gains deduction.

Generally, you are an **eligible employee** if you meet all of the following conditions right after the option is granted:

- you deal at arm's length with the employer, the entity granting the option, and the entity whose eligible securities could be acquired under the option agreement
- you are not a specified shareholder of an entity above that is a corporation (a specified shareholder is generally one who owns 10% or more of any class of a corporation's shares)

Such an employee must also be a resident of Canada at the time the option is exercised to qualify for the deferral.

Generally, an **eligible security** is one of the following:

- a common share of a class listed on a designated stock exchange in or outside Canada
- a unit of a mutual fund trust

Generally, the amount paid to acquire the eligible security, including any amount paid to acquire the rights under the option agreement, cannot be less than the FMV of the security at the time the option is granted. In addition, the eligible security must be a security in respect of which a security option deduction may be claimed on line 24900 of your income tax and benefit return.

If you buy shares through an employee security option granted to you by a Canadian-controlled private corporation (CCPC) with which you deal at arm's length, you do not include the taxable benefit in your income in the year you acquire the securities. You wait until the year you sell the securities.

For eligible securities under option agreements exercised **up to and including** 4:00 p.m. EST on March 4, 2010, that were not granted by a CCPC, an income deferral of the taxable benefit may have been allowable subject to an annual limit of $100,000 on the FMV of the eligible securities.

If this situation applies, the inclusion into income of the taxable benefit is deferred until the year in which the **first** of these events occurs:

- The employee disposes of the eligible security.

- The employee (or former employee) dies.
- The employee (or former employee) becomes a non-resident.

If you exercised an option for eligible securities **after** 4:00 p.m. EST on March 4, 2010, that was not granted by a CCPC, the election to defer the security option benefit is no longer available.

If you qualify for a security option deduction on line 24900 of your income tax and benefit return, you can claim one-half of the amount recognized (and reported as income) as an employment benefit from the sale of eligible securities in 2019.

Employee security option cash-out rights

If you acquire securities under a security option agreement and you meet certain conditions, you may be entitled to a deduction equal to one-half of the security option benefit (security option deduction). In this case, your employer cannot claim a deduction for the issuance of the share.

Employee security option agreements can also be structured in such a way that you can dispose of your security option rights to your employer for a cash payment or other in-kind benefit (cash-out payment).

For such transactions occurring after 4:00 p.m. EST on March 4, 2010, the security option deduction can only be claimed in **one** of the following situations:

- you exercise your options by acquiring shares of your employer
- your employer has elected (as indicated by completing box 86, "Security option election", of your T4 slip) for all security options issued or to be issued after 4:00 p.m. EST on March 4, 2010, under the agreement and files such election with the Minister of Revenue, that neither the employer nor any person not dealing at arm's length with the employer will claim a deduction for the cash-out payment in respect of your disposition of rights under the agreement

Adjusted cost base (ACB) of eligible securities

Regardless of when the eligible security option was exercised, the ACB of the eligible security you purchased through an employee eligible security option agreement is not the actual price you paid for them. To calculate the ACB of your eligible securities, add the following 2 amounts:

- the actual purchase price
- any amount included in your income as a taxable employee option benefit for the securities (even if you claimed a security option deduction for them)

Disposition of eligible securities

Report the capital gain (or loss) in the year you exchange or sell the eligible securities purchased through an employee eligible security option agreement. If the eligible securities are qualified small business corporation shares (see page 14), report the transaction in the "Qualified small business corporation shares" section of Schedule 3. In all other cases, report the transaction in the "Publicly traded shares, mutual fund units, deferral of small business corporation shares, and other shares" section of Schedule 3.

Remittance requirement

If you exercise your security options in 2019, your employer will be required to withhold and remit an amount in respect of the taxable security option benefit (less any security option deduction) in the same way as if the amount of the benefit had been paid to you as an employee bonus.

Donations under employee option agreements

If you donated shares or mutual fund units in 2019 under your employee option agreement to a qualified donee, use Form T1170, Capital Gains on Gifts of Certain Capital Property, to calculate your capital gain.

For a donation made in 2019, you may qualify for an additional security option deduction equal to **1/2** of the taxable benefit.

For more information on these donations, see Pamphlet P113, Gifts and Income Tax.

Stock splits and consolidations

Generally, a stock split takes place if a company's outstanding shares are divided into a larger number of shares, without changing the total market value of the company's holdings. The total market value of each investor's holdings, and their proportionate equity in the company, are also not affected.

For example, in the case of a **2-for-1** stock split, the number of shares is doubled and the price per share is decreased by 50%. If before the split, you owned 100 shares valued at $60 each, you would now own 200 shares each worth $30. If the stock split was **5-for-1**, your previous 100 shares valued at $60 would become 500 shares, each worth $12. In each of these cases, the total market value is the same ($6,000). This also applies when a **consolidation** (reverse split) takes place, and the number of shares decreases and the price increases proportionally. For example, 600 shares worth $10 each that are consolidated **1-for-3** become 200 shares worth $30 each.

In each of the above cases, no stock dividend is considered to have been issued, no disposition or acquisition is considered to have occurred, and the event is **not taxable**. However, the adjusted cost base (ACB) of the shares must be **recalculated** to reflect each split or consolidation, and when there is a disposition of the shares, the new ACB will be used to calculate the capital gain or loss.

This ACB is calculated by dividing the total cost of the shares purchased (usually including any expenses involved in acquiring them) by the total number of shares owned. For example, if you owned 100 shares of XYZ Ltd. that cost $1,000 to purchase, the ACB of each share would be $10 ($1,000 ÷ 100). If the stocks subsequently split 2 for 1, you would now own 200 shares of XYZ Ltd. The ACB of each share must be recalculated and would now be $5 ($1,000 ÷ 200).

Real estate, depreciable property, and other properties

If you sold real estate or depreciable property in 2019, you have to report your capital gain or loss in this section. Report these dispositions on lines 13599 and 13800 of Schedule 3.

Do not use this section to report the sale of personal-use property (such as a cottage) or the sale of mortgages and other similar debt obligations on real property. Report these transactions under the sections called "Personal-use property" and "Bonds, debentures, promissory notes, and other similar properties," respectively.

Real estate

Real estate includes the following:

- vacant land
- rental property (both land and buildings)
- farm property, including both land and buildings (other than qualified farm or fishing property)
- commercial and industrial land and buildings

For each real property you sold in 2019 that includes land and a building, you must:

- determine how much of the selling price relates to the land and how much is for the building
- report the sale of your land and building separately on Schedule 3

To help you understand how to report a disposition of real property that includes land and a building, see the example on page 46.

If you dispose of a building and end up with a loss, special rules may apply. Under these rules, you may have to consider your proceeds of disposition as an amount other than the actual proceeds. For more information, see "Selling a building in 2019 " on page 26.

Special rules may also apply if you dispose of, or are considered to have disposed of, a property that was your principal residence for 1994 and for which you or your spouse or common-law partner has filed Form T664 or T664(Seniors), Election to Report a Capital Gain on Property Owned at the End of February 22, 1994. If this is your situation, see "Disposing of your principal residence" on page 42.

Beginning with taxation years that end after October 2, 2016, the CRA may reassess an income tax and benefit return beyond the normal reassessment period in the following situations:

- you do not report in your income tax and benefit return a sale or other disposition of real estate in the year
- you do not file an income tax and benefit return for the year in which a disposition of the real or immovable property occurs and the CRA issues an assessment of tax
- you owned property directly or indirectly through a partnership and the partnership did not report the sale or other disposition in the T5013, Partnership Information Return, if it was required to file one

Under this extended reassessment period, the reassessment is limited to amounts reasonably relating to the unreported or previously unreported disposition of real estate. Where the disposition is by a corporation or partnership, the extended reassessment period applies only if the property is a capital property of the corporation or the partnership.

Depreciable property

When you dispose of depreciable property, you may have a capital gain. In addition, certain rules on capital cost allowance (CCA) may require that you add a **recapture** of CCA to your income or allow you to claim a **terminal loss**. You can find definitions of these and other terms used in this section in "Definitions" that begins on page 5.

Capital gain

Usually, you will have a capital gain on depreciable property if you sell it for more than its adjusted cost base plus the outlays and expenses incurred to sell the property.

> **Note**
> A loss from the sale of depreciable property **is not considered** to be a capital loss. However, you may be able to claim a terminal loss.

Recapture of CCA and terminal losses

This section will provide you with a general look at the rules for the recapture of CCA and terminal losses.

> **Note**
> These rules do not apply to passenger vehicles in Class 10.1.

When you sell a depreciable property for less than its original capital cost, but for more than the undepreciated capital cost (UCC) in its class, you **do not** have a capital gain.

Generally, the UCC of a class is the total capital cost of all the properties of the class **minus** the CCA you claimed in previous years. If you sell depreciable property in a year, you also have to subtract from the UCC one of the following amounts, **whichever is less**:

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

If the UCC of a class has a **negative** balance at the end of the year, this amount is considered to be a recapture of CCA. Include this recapture in your income for the year of sale.

If the UCC of a class has a **positive** balance at the end of the year, and you do not have any properties left in that class, this amount is a terminal loss. Unlike a capital loss, you can deduct the full amount of the terminal loss from your income in that year.

If the balance for the UCC of a class is **zero** at the end of the year, then you do not have a recapture of CCA or a terminal loss.

For more information about CCA and how to report a recapture of CCA or a terminal loss, see the chapter called "Capital Cost Allowance (CCA)" in one of the following guides:

- T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income
- RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide
- RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide
- T4036, Rental Income

Example
In 2014, Peter bought a piece of machinery, at a cost of $10,000, for his business. It is the only property in its class at the beginning of 2019. The class has a UCC of $6,000. He sold the piece of machinery in 2019 and did not buy any other property in that class.

The following chart gives you 3 different selling prices (proceeds of disposition) to show how Peter would handle each situation (A, B, and C).

Description	A ($)	B ($)	C ($)
Calculation of capital gain			
Proceeds of disposition	4,000	8,000	12,000
Minus: Capital cost	– 10,000	– 10,000	– 10,000
Capital gain	= 0	= 0	= 2,000
Calculation of terminal loss or (recapture of CCA)			
Capital cost	10,000	10,000	10,000
Minus: CCA 2014 – 2018	– 4,000	– 4,000	– 4,000
UCC at the beginning of 2019	= 6,000	= 6,000	= 6,000
Minus the lesser of:			
The capital cost of $10,000 and the proceeds of disposition	– 4,000	– 8,000	– 10,000
Terminal loss or (recapture of CCA)	= 2,000	= (2,000)	= (4,000)

In **situation A**, Peter does not have a capital gain. However, he does have a terminal loss of $2,000, which he can deduct from his business income.

In **situation B**, Peter does not have a capital gain. However, he does have a recapture of CCA of $2,000 that he has to include in his business income.

In **situation C**, Peter has a capital gain of $2,000. He also has a recapture of CCA of $4,000 that he has to include in his business income.

Bonds, debentures, promissory notes, and other similar properties

Use this section to report capital gains or capital losses from the disposition of bonds, debentures, Treasury bills, promissory notes, and other properties. Other properties include bad debts, foreign currencies, and options, as well as discounts, premiums, and bonuses on debt obligations. Report these dispositions on lines 15199 and 15300 of Schedule 3.

Capital gains arising from donations made to a qualified donee of a debt obligation or right listed on a designated stock exchange, or a prescribed debt obligation, are treated differently. If you made such a donation, use Form T1170, Capital Gains on Gifts of Certain Capital Property. If you have a capital gain, report on Schedule 3 the amount calculated on Form T1170.

For more information on these donations, see Pamphlet P113, Gifts and Income Tax.

If you sold any of the types of properties listed above in 2019, you will receive a T5008 slip, Statement of Securities Transactions, or an account statement.

A linked note is a debt obligation, most often issued by a financial institution, the return on which is linked in some manner to the performance of one or more underlying assets or indexes over the term of the obligation. For transfers of debt obligations (as described in paragraph 7000(1)(d) of the Income Tax Regulations) that occur after 2016, a new deeming rule treats any gain, realized at the time of the assignment or transfer of a linked note, as interest that accrued on the debt obligation for a period commencing before the time of the transfer and ending at the time of the transfer.

If you sold a linked note in 2019, you will receive a T5008 slip, Statement of Securities Transactions, and a T5 slip, Statement of Investment Income. Box 30 – Equity linked notes interest, of your T5 slip contains the amount of interest income you have to report on line 12100 of your income tax and benefit return. The T5008 slip contains information to help you calculate a capital gain (or loss), if any. The box on the T5008 slip called "Proceeds of disposition or settlement amount" does not contain any interest income that is already reported on your T5 slip. For instructions on how to calculate your capital gain (or loss), see "Calculating your capital gain or loss" on page 10.

If you have bought and sold the same type of property over a period of time, a special rule may affect your capital gain (or loss) calculation. For more information, see "Identical properties" on page 23.

Treasury bills (T-bills) and stripped bonds

When a T-bill or a stripped bond is issued at a discount and you keep it until it matures, the difference between the issue price and the amount you cash it in for is considered to be interest that accrued to you. However, if you sell the T-bill or stripped bond before it matures, you may have a capital gain or loss in addition to the interest accrued at that time.

Before you calculate your capital gain or loss, you have to determine the amount of interest accumulated to the date of disposition. Subtract the interest from the proceeds of disposition and calculate the capital gain or loss in the usual way.

Example
Jesse bought a T-bill on May 1, 2019, for $49,500. The T-bill's term is 91 days and its maturity value on August 1, 2019, is $50,000. However, he sold it on June 13, 2019, for $49,750. The effective yield rate was 4.05%. Jesse calculates interest on the T-bill as follows:

Purchase price	×	Effective yield rate	×	Number of days T-bill held / Number of days in the year sold	=	Interest to be included in income
$49,500	×	4.05%	×	44 / 365	=	$241.67

Jesse calculates his capital gain as follows:

Proceeds of disposition		$	49,750.00
Minus: Interest	–		241.67
Net proceeds of disposition	=	$	49,508.33
Minus: Adjusted cost base	–		49,500.00
Capital gain	=	$	8.33

Bad debts

If a debt is owed to you (other than a debt under a mortgage or a debt resulting from a conditional sales agreement), and it remains unpaid after you have exhausted all means to collect it, it becomes a bad debt.

The debt will be a capital loss in the following situations:

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

In most cases, the capital loss is equal to the adjusted cost base of the debt.

To claim a capital loss on a bad debt, you have to file an election with your income tax and benefit return. To make this election, write and sign a letter stating that you want **subsection 50(1)** of the Income Tax Act to apply to the bad debt. Attach this letter to your return.

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

The recovery of any bad debt claimed as a capital loss will be treated as a capital gain in the year of recovery.

Note
If the bad debt involves a small business corporation, see "Allowable business investment loss" on page 39.

Foreign currencies

Foreign exchange gains or losses from capital transactions of foreign currencies (that is, money) are considered to be capital gains or losses. However, you only have to report the amount of your net gain or loss for the year that is **more than $200**. If the net amount is $200 or less, there is no capital gain or loss and you do not have to report it on your income tax and benefit return.

Report your net gain or loss in Canadian dollars. Use the exchange rate that was in effect on the day of the transaction. If there were transactions at various times throughout the year, you can visit the Bank of Canada website at **bankofcanada.ca** to get an average annual rate.

In the event that the applicable exchange rate is not provided there, the CRA will accept it from another source as long as it is all of the following:

- widely available
- verifiable
- published by an independent provider on an ongoing basis
- recognized by the market
- used in accordance with well-accepted business principles
- used for the preparation of the taxpayer's financial statements
- used consistently from year to year by the taxpayer

Examples of other sources of foreign exchange rates, in addition to the Bank of Canada, that would be generally acceptable include Bloomberg L.P., Thomson Reuters Corporation and OANDA Corporation.

Other mortgage foreclosures and conditional sales repossessions

Report these dispositions on lines 15499 and 15500 of Schedule 3.

You may have held a mortgage on a property but had to repossess the property later because you were not paid all or a part of the amount owed under the mortgage. In this case, you may have to report a capital gain or loss.

The following rules also apply when property is repossessed under a conditional sales agreement.

If, as a mortgagee (a person who **lends** money under a mortgage), you repossess a property because the mortgagor failed to pay you the money owed under the mortgage, you are considered to have purchased the property. At the time of repossession, you do not have a capital gain or loss. Any gain or loss will be postponed until you sell the property.

If you are the mortgagor and your property is repossessed because you did not pay the money owed under the mortgage, you are considered to have sold the property. Depending on the amount you owed at the time of

repossession, you may have a capital gain, a capital loss, or, in the case of depreciable property, a terminal loss. However, if the property is personal-use property, you cannot deduct the loss.

Note
If the capital gain or loss is from the disposition of qualified farm or fishing property, report the capital gain or loss on line 12400 in the "Qualified farm or fishing property" section of Schedule 3.

Other tax implications

Capital gains from a mortgage foreclosure or a conditional sales repossession will be excluded from net income when calculating your claim for the goods and services tax/harmonized sales tax credit, the Canada child benefit, credits allowed under certain related provincial or territorial programs, and the age amount. You should also exclude this income when calculating your social benefits repayment.

Personal-use property

Report these dispositions on line 15800 of Schedule 3.

When you dispose of personal-use property, you may have a capital gain or loss. To calculate this gain or loss, follow these rules:

- If the adjusted cost base (ACB) of the property is less than $1,000, its ACB is considered to be $1,000.
- If the proceeds of disposition are less than $1,000, the proceeds of disposition are considered to be $1,000.
- If both the ACB and the proceeds of disposition are $1,000 or less, you do not have a capital gain or a capital loss. Do not report the sale on Schedule 3 when you file your income tax and benefit return.

If you are disposing of your principal residence, see Chapter 6 beginning on page 41.

Note
If you acquire personal-use property for donation to a qualified donee (as defined on page 8 in "Definitions"), in circumstances where it is reasonable to conclude that the acquisition of the property relates to an arrangement, plan, or scheme promoted by another person or partnership, the above rules do not apply. If this situation applies to you, calculate your capital gain or loss using the actual ACB and proceeds of disposition as discussed in "Calculating your capital gain or loss" on page 10.

When you dispose of personal-use property that has an ACB or proceeds of disposition of **more than $1,000**, you may have a capital gain or loss. You have to report any capital gain from disposing of personal-use property. However, if you have a capital loss, you usually **cannot** deduct that loss when you calculate your income for the year. In addition, you cannot use the loss to decrease capital gains on other personal-use property. This is because if a property depreciates through personal use, the resulting loss on its disposition is a personal expense.

These loss restrictions **do not** apply:

- if you disposed of personal-use property that is listed personal property (see the next section)
- to a bad debt owed to you from the sale of a personal-use property to a person with whom you deal at arm's length (for more information, see "Bad debts" on page 19)

Example
Jane sold the following personal-use properties in 2019.

Property sold	Proceeds of disposition	Adjusted cost base	Outlays and expenses
China cabinet	$ 900	$ 500	$ 0
Boat	$ 1,200	$ 850	$ 50
Personal computer	$ 1,500	$ 3,200	$ 30

Jane calculates the capital gain or loss for each transaction as follows:

Calculation of capital gain (or loss)	China cabinet ($)	Boat ($)	Personal computer ($)
Proceeds of disposition (**greater of** selling price and $1,000)	1,000	1,200	1,500
Minus: ACB (**greater of** cost and $1,000) **plus** outlays and expenses	– 1,000	– 1,050	– 3,230
Capital gain (loss)	= 0	= 150	= (1,730)

China cabinet – For the proceeds of disposition and the ACB, Jane uses $1,000, as both were less than that amount. As a result, there is no capital gain or loss for this transaction and Jane **does not** have to report it on Schedule 3.

Boat – Because the cost of the boat is less than $1,000, the ACB is considered to be $1,000. Jane reports $150 as a capital gain.

Personal computer – Jane's capital loss is not deductible. She also cannot use the loss to decrease any other capital gains realized in the year.

Listed personal property

Report these dispositions on line 15900 of Schedule 3. See the definition of "listed personal property (LPP)" on page 7 in "Definitions."

To determine the value of many LPP items, you can have them appraised by a dealer. You can also refer to catalogues for the value of the properties.

Note
LPP gains do not include gains from selling or donating certified Canadian cultural property to a designated institution. For more information, see "Selling or donating certified Canadian cultural property" on page 29.

Because LPP is a type of personal-use property, the capital gain or loss on the sale of the LPP item is calculated the

same way as for personal-use property. For more information about these rules, see “Personal-use property” on the previous page.

If your 2019 gains from dispositions of LPP are more than your 2019 losses from such dispositions, you can use unapplied LPP losses from 2012 and later years to reduce your 2019 gains. If you want to do this, **do not** enter these losses on line 25300 of your income tax and benefit return. Instead, subtract the unapplied LPP losses of previous years from your 2019 LPP gains. You should only complete the “Listed personal property” area of Schedule 3 if, after doing these calculations, you still have a net LPP gain in 2019.

If your 2019 losses from dispositions of LPP are more than your 2019 gains from such dispositions, the difference represents your LPP loss for the year. Keep a record of your LPP losses that have not expired so you can apply these losses against LPP gains in other years. An unapplied LPP loss expires when you do not use it by the end of the seventh year after you incurred it. For more information on applying LPP losses, see page 37.

Information slips – Capital gains (or losses)

Most capital gains and capital losses reported on Schedule 3 come from amounts shown on information slips.

Although you report most of these amounts on line 17400 or line 17600 (in the case of T3 slips) of Schedule 3, there are exceptions. For example, capital gains from qualified small business corporation shares and qualified farm or fishing property are eligible for the lifetime capital gains deduction. Therefore, you have to report those gains on lines 10700 or 11000, whichever applies.

The following chart explains how to report the capital gains (or losses) and other amounts shown on certain information slips.

Chart 1 – Reporting capital gains (or losses) and other amounts from information slips

Please read the instructions on the back of your slips to ensure that you claim all deductions and credits that you may be entitled to.

Type of slip	Description of amounts to report	Line on Schedule 3	Other information
T3	**Box 21, Capital gains** – This is your total capital gain from a trust. Report the difference between this amount and the amount in box 30. The "Footnotes" area may show that all or part of the amount in box 21 is non-business income for foreign tax credit purposes. Enter the footnoted amount on line 43300 of Form T2209, Federal Foreign Tax Credits, and use it to calculate your foreign tax credit.	Line 17600	
	Box 30, Capital gains eligible for deduction – If there is an amount in this box, the "Footnotes" area will show that all or part of your gain is from dispositions of: ▪ qualified small business corporation shares ▪ qualified farm or fishing property	Line 10700 Line 11000	
	Box 37, Insurance segregated fund capital losses	Line 17600	See note 1
	Box 42, Amount resulting in cost base adjustment	N/A	See note 4
T4PS	**Box 34, Capital gains or losses**	Line 17400	See note 2
T5	**Box 18, Capital gains dividends**	Line 17400	
T5013	**Box 151, Capital gains (losses)**	Line 17400	
	Box 153, Qualified small business corporation shares (QSBCS) capital gains amount eligible for the capital gains exemption	Line 10700	
	Box 154, Qualified farm or fishing property (QFFP) capital gains amount eligible for the capital gains exemption	Line 11000	
	Box 155, Capital gains (losses) from QFFP mortgage foreclosures and conditional sales repossessions eligible for the capital gains deduction	Line 12400	
	Boxes 152, 163, 165, 166, and 222 to 225, Capital gains reserves – These are your capital gains reserves from the partnership.	N/A	See note 3

Notes

1. If this is your only entry on line 17600, put brackets around the amount. If it is not your only entry, subtract it from the total of all other amounts you enter on line 17600.
2. If the amount is in brackets, it is a capital loss. If you have a capital loss and it is your only entry on line 17400, put brackets around it. Otherwise, subtract the amount from the total of all other amounts you enter on line 17400.
3. Enter any reserve on Form T2017, Summary of Reserves on Dispositions of Capital Property. The instructions provided with the T5013 slip should indicate where to enter the amounts on Form T2017.
4. For details, read the section called "Identical properties" on the next page.

Chapter 3 – Special rules and other transactions

This chapter explains some of the special rules that may apply when you calculate your capital gain or loss. It also explains how to report some of the less common capital transactions.

> **Note**
> You may need to refer to "Definitions" that begins on page 5 for the definition of certain terms used in this chapter.

Adjusted cost base

In some cases, special rules may apply that will allow you to consider the cost of a property to be an amount other than its actual cost. This section explains these rules.

Identical properties

Properties of a group are considered to be identical if each property in the group is the same as all the others. The most common examples of identical properties are shares of the same class of the capital stock of a corporation or units of a mutual fund trust.

You may buy and sell several identical properties at different prices over a period of time. If you do this, you have to calculate the average cost of each property in the group at the time of each purchase to determine your adjusted cost base (ACB). Dispositions of identical properties do not affect the ACB.

The average cost is calculated by dividing the total cost of identical properties purchased (this is usually the cost of the property plus any expenses involved in acquiring it) by the total number of identical properties owned.

Any amount reported in box 42, "Amount resulting in cost base adjustment," of the T3 slip represents a change in the capital balance of the mutual fund trust identified on the slip. This amount is used when calculating the ACB reported on Schedule 3, Capital Gains or (Losses) in 2019 for the property in the year of disposition. For more information and an example of the calculation, see Information Sheet RC4169, Tax Treatment of Mutual Funds for Individuals.

If box 42 contains a **negative** amount, add this amount to the ACB of the units of the trust identified on the slip.

If box 42 contains a **positive** amount, subtract this amount from the ACB of the units of the trust identified on the slip.

If the ACB of the trust units is reduced below zero during the tax year, the negative amount is deemed to be a capital gain in the year. The ACB of the trust units is deemed to be zero. Enter the amount of the capital gain on line 13200 of your Schedule 3. Place a zero on line 13199 since there is no actual sale of units.

> **Note**
> Generally, the following properties are **not** considered identical properties:
>
> - securities acquired under an employee option agreement that are subject to the benefit deferral or are designated and disposed of within 30 days
> - certain employer shares received by an employee as part of a lump-sum payment upon withdrawal from a deferred profit sharing plan
>
> As a result, the ACB averaging rule described above **does not** apply to these types of securities. Each of these securities will have its own ACB determined in the usual way.

You also use this method to calculate the average cost of identical bonds or debentures you bought after 1971. However, the average cost is based on the principal amount for each identical property, that is, the amount before any interest or premiums are added.

A bond, debenture, or similar debt obligation that a debtor issues is considered to be identical to another if both of the following conditions are met:

- the same debtor issues both
- all the attached rights are the same

The principal amount of individual debt obligations being the same is not enough for such debts to be considered identical properties. They must still meet the 2 conditions listed above.

Example 1
Over the years, Clara has bought and sold common shares of STU Ltd. The following chart shows how, after each purchase, the ACB of her shares changes.

Transaction		A Cost ($)		B Number of shares	A divided by B ACB ($)
Purchase in 2001: $15/share		1,500		100	**15.00**
Purchase in 2006: $20/share	+	3,000	+	150	
New average cost	=	4,500	=	250	**18.00**
Sale in 2008: 200 shares at $19/share	–	3,600	–	200	
Average cost	=	900	=	50	**18.00**
Purchase in 2019: $21/share	+	7,350	+	350	
New average cost	=	8,250	=	400	**20.63**

Example 2
In 2001, Irina bought units of a mutual fund trust. When she bought them, Irina chose to reinvest her annual income distributions in more units. The following chart shows how the ACB of her units changes after each purchase.

Transaction		A Cost ($)		B Number of units	A divided by B ACB ($)
Purchase in 2001: $18.00/unit		15,000.00		833.3333	**18.00**
Reinvested distributions in 2001: $19.55/unit	+	1,170.00	+	59.8466	
New average cost	=	16,170.00	=	893.1799	**18.10**
Reinvested distributions in 2002: $20.63/unit	+	1,455.30	+	70.5429	
New average cost	=	17,625.30	=	963.7228	**18.29**
Sale in 2008: 400 units at $19.29/unit	–	7,316.00	–	400.0000	
Average cost	=	10,309.30	=	563.7228	**18.29**
Reinvested distributions in 2019: $19.89/unit	+	721.65	+	36.2821	
New average cost	=	11,030.95	=	600.0049	**18.38**

Property for which you filed Form T664 or T664 (Seniors)

Special rules also apply to determine the adjusted cost base (ACB) of a property for which you filed Form T664 or T664 (Seniors), Election to Report a Capital Gain on Property Owned at the End of February 22, 1994.

In most cases, if you filed Form T664 or T664(Seniors), you are considered to have sold your capital property at the end of February 22, 1994, and to have immediately reacquired it on February 23, 1994. The ACB of your property on February 23, 1994, depends on the type of property for which you filed an election. For example, if you filed an election for your interest in, or your shares of, a flow-through entity (see Chapter 4 on page 30), in most cases the ACB of your interest or shares will not change.

If you filed an election for capital property, other than a flow-through entity, your ACB is usually the amount you designated as proceeds of disposition on Form T664 or T664(Seniors). If the property is a cottage, rental property, or other non-qualifying real property, your ACB is your designated proceeds of disposition **minus** the reduction for non-qualifying real property.

Also, if your designated proceeds of disposition were **more** than the fair market value of the property at the end of February 22, 1994, your ACB on February 23, 1994, may be reduced. In this case, complete Chart 2 or 3 on the following page to determine your ACB on February 23, 1994.

Chart 2 – Calculating the revised adjusted cost base (ACB) of a flow-through entity

Complete this chart to calculate the ACB of your shares of, or interest in, the flow-through entity **only** if the proceeds of disposition you designated on Form T664 for the property were **more** than its fair market value (FMV) at the end of February 22, 1994. If the flow-through entity is a trust (other than a mutual fund trust), do not complete this chart as you do not have to reduce the ACB of your interest.

Step 1 – Reduction of the ACB

1. Designated proceeds of disposition (column 2, Chart A of Form T664) ..... $ ______ **1**
2. FMV at the end of February 22, 1994 (Step 1 of Form T664) ..... $ ______ **2**
3. Amount from line 2 ..... $ ______ × 1.1 ▸ – ______ **3**
4. Line 1 **minus** line 3 (if negative, enter "0") ..... = $ ______ **4**

   If the amount on line 4 is zero, do not complete the rest of this chart.

5. ACB at the end of February 22, 1994 (column 1, Chart A of Form T664) ..... – ______ **5**
6. Line 2 **minus** line 5 ..... = $ ______ **6**

   If you entered an amount in column 4, Chart A of Form T664, complete line 7. Otherwise, enter the amount from line 6 on line 8.

7. (Amount from column 4, Chart A of Form T664 $ ______ / Amount from column 3, Chart A of Form T664 $ ______) × line 6 $ ______ ▸ – ______ **7**
8. Line 6 **minus** line 7 ..... = $ ______ ▸ – ______ **8**
9. Reduction (line 4 **minus** line 8) ..... = $ ______ **9**

   If the amount on line 9 is negative, do not complete the rest of this chart.

Step 2 – Revised ACB

10. ACB at the end of February 22, 1994 (line 5) ..... $ ______ **10**
11. Reduction (line 9) ..... – ______ **11**
12. **Revised ACB on February 23, 1994** (line 10 **minus** line 11; if negative, enter "0") ..... = $ ______ **12**

Use the amount on line 12 to calculate the capital gain or loss when you sell your shares of, or interest in, the flow-through entity.

Chart 3 – Calculating the revised adjusted cost base (ACB) of capital property (other than a flow-through entity)

Complete this chart to calculate the ACB of the property **only** if the proceeds of disposition you designated on Form T664 or T664(Seniors) for the property were **more** than its fair market value (FMV) at the end of February 22, 1994.

1. FMV of the property at the end of February 22, 1994 [from Step 1 of Form T664 or T664(Seniors)] ..... $ ______ **1**
2. Designated proceeds of disposition [column 2, Chart B of Form T664, or column 2, Step 2 of Form T664(Seniors)] ..... $ ______ **2**
3. Amount from line 1 ..... $ ______ × 1.1 ▸ – ______ **3**
4. Line 2 **minus** line 3 (if negative, enter "0") ..... = $ ______ ▸ – ______ **4**
5. Line 1 **minus** line 4 (if negative, enter "0") ..... = $ ______ **5**
6. If the property is non-qualifying real property, enter the amount from column 4, Chart B of Form T664, or column 4, Step 2 of Form T664(Seniors). Otherwise, enter "0" ..... – ______ **6**
7. **Revised ACB on February 23, 1994** (line 5 **minus** line 6; if negative, enter "0") ..... = $ ______ **7**

Use the amount on line 7 to calculate the capital gain or loss when you sell the property.

Property you inherit or receive as a gift

If you receive property as a gift, you are generally considered to have acquired the property at its fair market value (FMV) on the date you received it. Similarly, if you win property in a lottery, you are considered to have acquired this prize at its FMV at the time you won it.

Generally, when you inherit property, the property's cost to you is equal to the deemed proceeds of disposition for the deceased. Usually, this amount is the FMV of the property right before the person's death. However, there are exceptions to this rule. For example, property that you inherit because your spouse or common-law partner died, or farm property or a woodlot transferred on death to a child, may be treated differently. See the chapter called "Deemed disposition of property" in Guide T4011, Preparing Returns for Deceased Persons, to find out which rules apply to your situation.

Selling a building in 2019

If you sold a building of a prescribed class in 2019, special rules may make the selling price an amount other than the actual selling price. This happens when you meet **both** of the following conditions:

- You, or a person with whom you do not deal at arm's length, own the land on which the building is located, or the land adjoining the building if you need the land to use the building.
- You sold the building for less than its **cost amount** and its capital cost.

Calculate the **cost amount** as follows:

- If the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before the sale.
- If more than one property is in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{Capital cost of the building}}{\text{Capital cost of all properties in the class that have not been previously disposed of}} \times \text{UCC of the class} = \text{Cost amount of the building}$$

Note
You may have to recalculate the capital cost of a property to determine its cost amount in any of the following situations:

- You acquired a property directly or indirectly from a person or partnership with whom you did not deal at arm's length.
- You acquired the property for some other purpose and later began to use it, or increased its use, to earn rental or business income.

For more information, call **1-800-959-8281**.

If you sold a building under these conditions, this may restrict the terminal loss on the building and reduce the capital gain on the land. For more information, see Guide T4036, Rental Income, or Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance.

Selling part of a property

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

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

Total ACB		$	100,000
Minus:	The ACB of the part she sold ($100,000 × 1/4)	–	25,000
The ACB of the part she kept		= $	75,000

Therefore, the ACB for the 25 hectares she sold is $25,000.

For more information on selling part of a property, see archived Interpretation Bulletin IT-264, Part Dispositions, and its Special Release.

Capital gains deferral for investment in small business

Individuals (other than trusts) may defer capital gains incurred on certain small business investments disposed of in 2019. This deferral applies to dispositions where you use the proceeds to acquire another small business investment. The adjusted cost base (ACB) of the new investment is reduced by the capital gain deferred from the initial investment.

You may acquire shares from a spouse, common-law partner, or parent due to circumstances such as a death or the breakdown of a marriage or common-law partnership. For the purposes of the capital gains deferral, the CRA considers you to have acquired such shares at the time and under the same circumstances that the related individual originally acquired them.

The capital gains deferral is also available to individuals involved in pooling their investments with another person or partnership. If you are part of such a qualifying pooling arrangement, call the CRA for more information.

To qualify for the capital gains deferral for investment in small business, the investment must be in an eligible small business corporation.

Eligible small business corporation shares

The capital gains deferral applies only to eligible small business corporation shares. Eligible small business corporation shares have the following characteristics:

- They consist of common shares issued by the corporation to you, the investor.
- The issuing corporation must be an **eligible small business corporation** (as defined on page 6 in "Definitions") at the time the shares were issued.
- The total carrying value of the assets of the corporation (that is, the amount at which the assets of the corporation would be valued for the purpose of the corporation's balance sheet as of that time if it was prepared in accordance with generally accepted accounting principles used in Canada at that time, except that an asset of a corporation that is a share or debt issued by a related corporation is deemed to have a carrying value of nil) and related corporations cannot exceed $50 million immediately before, and immediately after, the share was issued.
- While you hold the shares, the issuing corporation is an **eligible active business corporation** (as defined on page 6 in "Definitions").

To be able to defer the capital gain, you must have held the eligible small business corporation shares for more than 185 days from the date you acquired them.

The replacement shares have to be acquired at any time in the year in which the disposition is made or within 120 days after the end of that year.

For example, you acquire eligible small business corporation shares in October 2012 and dispose of them on June 9, 2019. You may acquire the replacement shares on or before April 30, 2020, which is within 120 days after the end of the tax year of the original disposition.

Calculating the capital gains deferral

The capital gains deferral is available for the disposition of eligible small business corporation shares made in 2019. The investment can be made by an individual in any particular corporation (or related group).

The permitted deferral of the capital gain from the disposition of eligible small business corporation shares is determined by the following formula:

Capital gains deferral = $B \times (D \div E)$

where

B = the total capital gain from the original sale

E = the proceeds of disposition

D = the lesser of E and the total cost of all replacement shares

For dispositions in 2019, report the total capital gain on lines 13199 and 13200 of Schedule 3 and the capital gains deferral on line 16100 of Schedule 3. The capital gain you must report in the year of disposition will be determined by **subtracting** the capital gain deferral from the total capital gain realized from the disposition.

Note
Deferred capital gains **do not** qualify for the capital gains deduction (line 25400). Therefore, **do not** report on lines 10699 and 10700 of Schedule 3 any disposition of qualified small business corporation shares if you elect to defer the capital gains that resulted from the disposition of those shares. Instead, report such disposition on lines 13199 and 13200 of Schedule 3.

ACB reduction

You must use the capital gains deferral to reduce the ACB of **each** of the eligible replacement shares by the amount determined by the following formula:

ACB reduction = $F \times (G \div H)$

where

F = capital gains deferral

G = the cost of replacement shares

H = the total cost of all the replacement shares

Other transactions

The remaining sections in this chapter have information on less common transactions.

Property included in capital cost allowance Class 14.1

If you disposed of property included in capital cost allowance (CCA) Class 14.1 (was **eligible capital property** before January 1, 2017, as defined on page 6 in "Definitions") that is qualified farm or fishing property, you may be able to claim the capital gains deduction.

For details on how to report the disposition of this type of property and what amounts are eligible for the capital gains deduction, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide or RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide. Read the chapters called "Eligible Capital Expenditures" and "Capital Gains" in those guides.

Partnerships

A partnership does not pay tax on its capital gains or losses, and it does not report them on an income tax and benefit return. Instead, members of the partnership report their share of the partnership's capital gains or losses on their own return.

Certain partnerships may have to file a partnership information return (T5013 SUM, Summary of Partnership Income, and a T5013 FIN, Partnership Financial Return), and send copies of the T5013, Statement of Partnership Income, to report amounts flowed out to their members.

If you receive a T5013 slip, see Chart 1 on page 22 to find out how to report your share of the capital gain or loss from the partnership.

However, if you are a member of a partnership that does not have to file a partnership information return for 2019, you have to report your share of any capital gain or loss

from each disposition of capital property shown on the partnership financial statements in the appropriate area of Schedule 3. For example, if the capital gain is from disposing of depreciable property, report the gain in the "Real estate, depreciable property, and other properties" section.

If the partnership disposed of property included in CCA Class 14.1 that is qualified farm or fishing property, part of the business income from the transaction may be a taxable capital gain. This amount qualifies for the capital gains deduction.

For information on the calculation and how to report this amount, see the chapter called "Capital gains" in one of the following guides:

- T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income
- RC4060, Farming Income and the AgriStability and AgriInvest Programs
- RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide

Disposition of an interest in a partnership to a non-resident or tax-exempt entity

In general, if you dispose of an interest in a partnership to tax-exempt entities, non-resident persons, or partnerships and trusts that have such members or beneficiaries, a special rule may apply. Part of the capital gain may be taxable at 50% and another part at 100%. The portion of the capital gain 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%.

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 there is also capital property (other than depreciable property), then it's an apportionment.

For electronic filers, if you are reporting an amount at 100%, include the full amount at supporting line 50410.

For paper filers, if you are reporting an amount at 100%, include the full amount on line 19900 of Schedule 3 and indicate 100% beside line 19900 and line 127000 of the income tax and benefit return

Capital gains reduction (flow-through entity)

A partnership is considered a flow-through entity. The last year in which you could claim the capital gains reduction was the 2004 tax year. To find out the special rules for 2005 and subsequent tax years and for more information on flow-through entities, see Chapter 4 on page 30.

Capital gains deduction

You may be eligible for the capital gains deduction, if you are reporting any of the following amounts:

- a capital gain from disposing of qualified small business corporation shares
- a capital gain from disposing of qualified farm or fishing property
- farming or fishing income from the disposition of property included in CCA Class 14.1 that is qualified farm or fishing property

For more information, see "Claiming a capital gains deduction" at the end of page 12.

Purchase of replacement property

In certain situations, you can elect to postpone or defer reporting the capital gain, recapture of capital cost allowance, or business income from disposing of property. Provided you meet certain conditions, you may want to do this when you use the proceeds of disposition of the property to purchase a replacement property. The election may defer the tax consequences on the above amounts until you sell the replacement property. You can make this election when you sell a business property or when a property you own is expropriated, destroyed, or stolen.

For more information on the election, see Income Tax Folio S3-F3-C1, Replacement Property or archived Interpretation Bulletin IT-491, Former Business Property, and its Special Release.

Transfers of property to your spouse or common-law partner or to a trust for your spouse or common-law partner

Before reading this section, read the definitions of "spouse" and "common-law partner" in "Definitions" that begins on page 5.

You generally do not have a capital gain or loss if you give capital property to your spouse or common-law partner, a spousal or common-law partner trust, or a joint spousal or common-law partner trust or an alter ego trust. For definitions of these trusts, see T4013, T3 – Trust Guide.

At the time you give the gift, depending on the type of property you give, you are considered to receive an amount equal to one of the following:

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

Your spouse or common-law partner, or the trust for your spouse or common-law partner or for yourself, is considered to have bought the capital property for the same amount that you are considered to have sold it for.

You may have transferred or loaned property to your spouse or common-law partner, a person who has since become your spouse or common-law partner, or a trust for your spouse or common-law partner. If that person or the trust sells the property during your lifetime, you usually have to report any capital gain or loss from the sale. You usually have to do this if, at the time of the sale you meet both of the following conditions:

- you are a resident of Canada
- you are both still married or living in a common-law relationship

If you are living apart because of a breakdown in the relationship, you may not have to report the capital gain or loss when your spouse or common-law partner sells the property. In such a case, you have to file an election with your income tax and benefit return.

For transfers of property made **after May 22, 1985**, you can file this election with your return for any tax year ending after the time you separated. However, for the election to be valid, you have to file it no later than the year your spouse or common-law partner disposes of the property. To make this election, attach to your return a letter signed by you and your spouse or common-law partner that states you do not want **section 74.2** of the Income Tax Act to apply.

For transfers of property made **before May 23, 1985**, you have to file the election with your return for the tax year in which the separation occurred. To make this election, attach to your return a letter signed by you and your spouse or common-law partner that states you do not want **subsection 74(2)** of the Income Tax Act to apply.

If you sold the property to your spouse or common-law partner or a trust for your spouse or common-law partner and you were paid an amount equal to the fair market value (FMV) of the property, there is another way to report the sale. Generally, you can list the sale at the property's FMV, and report any capital gain or loss for the year you sold the property. To do this, you have to file an election with your return. To make this election, attach to your return a letter signed by you and your spouse or common-law partner. State that you are reporting the property as being sold to your spouse or common-law partner at its FMV and that you do not want **subsection 73(1)** of the Income Tax Act to apply.

If your spouse or common-law partner or the trust later sells the property, your spouse or common-law partner or the trust has to report any capital gain or loss from the sale.

A special situation exists if **all** of the following apply to you:

- You owned capital property (other than depreciable property or a partnership interest) on June 18, 1971.
- You gave the property to your spouse or common-law partner after 1971.
- Your spouse or common-law partner later sold the property.

In this case, certain rules apply when calculating your and your spouse's or common-law partner's capital gain or loss to remove any capital gains accrued before 1972. For more information, see archived Interpretation Bulletin IT-209, Inter-vivos gifts of capital property to individuals directly or through trusts, and its Special Release.

Other transfers of property

If you give capital property as a gift, you are considered to have sold it at its FMV at the time you give the gift. Include any taxable capital gain or allowable capital loss on your return for the year that you give the gift.

If you sell property to someone with whom you do not deal at arm's length and the selling price is **less** than its FMV, your selling price is considered to be the FMV. Similarly, if you buy property from someone with whom you do not deal at arm's length, and the purchase price is **more** than the FMV, your purchase price is considered to be the FMV.

Special rules allow you to transfer property at an amount other than the property's FMV. If these rules apply to you, you may be able to postpone paying tax on any capital gains you had from the transfer. Some of the more common transfers are noted below.

Farm or fishing property

When you sell or transfer farm or fishing property, you may have a capital gain. If you transfer farm or fishing property to a child, or to a spouse or common-law partner, or to a spousal or common-law partner trust, you may be able to postpone any taxable capital gain or recapture of capital cost allowance. For more information on these types of transfers and other rules that apply to farm or fishing property, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide, or RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide.

Elections

You can postpone reporting a capital gain when you transfer property:

- from an individual or partnership to a Canadian corporation
- from an individual to a Canadian partnership

For information on transfers to a Canadian corporation, see Information Circular IC76-19, Transfer of Property to a Corporation under section 85.

For information on transfers to a Canadian partnership, see archived Interpretation Bulletin IT-413, Election by Members of a Partnership under subsection 97(2).

Selling or donating certified Canadian cultural property

You do not have to report a capital gain when you sell or donate certified Canadian cultural property (national treasures) to an institution or public authority designated by the Minister of Canadian Heritage. The Canadian Cultural Property Export Review Board certifies this property as cultural property and will give you a certificate for tax purposes. Cultural property can include paintings, sculptures, books, manuscripts, or other objects.

Donations of cultural property made on or after March 19, 2019, no longer require that property be of "national importance" to claim the exemption from income tax for any capital gains arising on the disposition of the property.

If you sell or donate certified cultural property to a designated institution, you may have a capital loss. The tax treatment of the loss will depend on what type of property you sold or donated. For example, the certified cultural property may be listed personal property. If this is the case, the rules for listed personal property losses will apply. For

information on how to apply capital losses, see Chapter 5 on page 31.

For more information, see archived Interpretation Bulletin IT-407, Dispositions of Cultural Property to Designated Canadian Institutions, or Pamphlet P113, Gifts and Income Tax.

Gifts of ecologically sensitive land

If you made a gift of ecologically sensitive land to certain qualified donees (other than to a private foundation), the inclusion rate of zero may apply to your capital gain. Use Form T1170, Capital Gains on Gifts of Certain Capital Property, to report the amounts.

Note
A gift of ecologically sensitive land cannot be made to a private foundation after March 21, 2017.

To qualify for the capital gains inclusion rate of zero, you must meet certain conditions, and other special rules may apply. For more information, see Pamphlet P113, Gifts and Income Tax.

Chapter 4 – Flow-through entities

This chapter provides information on the types of investments that are considered flow-through entities. It also provides information on how to calculate and report the capital gain or loss resulting from the disposition of shares of, or interests in, a flow-through entity. The information in this chapter also applies if, for the 1994 tax year, you filed Form T664, Election to Report a Capital Gain on Property Owned at the End of February 22, 1994, for your shares of, or interest in, a flow-through entity. In addition, if you have any remaining unused exempt capital gains balance (ECGB), this chapter provides detailed information on how it can be used.

What is a flow-through entity?

You are a member of, or investor in, a flow-through entity if you own shares or units of, or an interest in, one of the following:

1. an investment corporation
2. a mortgage investment corporation
3. a mutual fund corporation
4. a mutual fund trust
5. a related segregated fund trust
6. a partnership
7. a trust governed by an employees' profit-sharing plan
8. a trust maintained primarily for the benefit of employees of a corporation or 2 or more corporations that do not deal at arm's length with each other, where one of the main purposes of the trust is to hold interests in shares of the capital stock of the corporation or corporations, as the case may be, or any corporation not dealing at arm's length therewith
9. a trust established for the benefit of creditors in order to secure certain debt obligations
10. a trust established to hold shares of the capital stock of a corporation in order to exercise the voting rights attached to such shares

Exempt capital gains balance

When you filed Form T664 for your shares of, or interest in, a flow-through entity, the elected capital gain you reported created an exempt capital gains balance (ECGB) for that entity.

Note
Generally, your ECGB expired after 2004. If you did not use all of your ECGB by the end of 2004, you can add the unused balance to the adjusted cost base of your shares of, or interest in, the flow-through entity.

For 2004 and previous tax years, if you received property from a trust in satisfaction of all or a part of your interest in the trust (a flow-through entity described in items 7 to 10 above), you could elect to use the ECGB for the entity to increase the cost of property you received from the trust. For 2005 and future years, the election is no longer necessary because any unused ECGB can only be added to the cost of your interest in the flow-through entity.

Example
Andrew filed Form T664 for his 800 units in a mutual fund trust with his 1994 income tax and benefit return. He designated the fair market value of the units at the end of February 22, 1994, as his proceeds of disposition. Andrew claimed capital gains reductions of $500 in 1997 and $600 in 1998. At the end of 2003, his exempt capital gains balance was $2,250. In 2004, he had a $935 capital gain from the sale of 300 units. This left him with an unused balance of $1,315 at the end of 2004. In 2005 and future years, he can only add the unused ECGB to the cost of any remaining units.

1. ECGB carryforward to 2004			$	2,250	1
2. Capital gains flowed out	$	2			
3. Capital gains from dispositions	+	935 3			
4. Line 2 **plus** line 3	= $	935 4			
5. Capital gains reduction			–	935	5
6. Unused ECGB at the end of 2004			= $	1,315	6

The unused ECGB expired after 2004 so Andrew can add this amount to the adjusted cost base of his shares of, or interest in, the flow-through entity.

Disposing of your shares of, or interest in, a flow-through entity

When you dispose of your shares of, or interest in, a flow-through entity, calculate the capital gain or loss in the same way as with any other disposition of capital property (proceeds of disposition **minus** the adjusted cost base [ACB] and outlays and expenses).

Report these dispositions on Schedule 3 as follows:

- for shares of a flow-through entity, use the "Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares" section
- for an interest in a flow-through entity, use the "Bonds, debentures, promissory notes, and other similar properties" section

For more information, see Chapter 2 on page 14 and "Disposition of an interest in a partnership to a non-resident or tax-exempt entity" on page 28.

If you filed Form T664 for your shares of, or interest in, a flow-through entity, and the proceeds of disposition were more than the fair market value, the ACB of your investments may be affected. For more information, see "Property for which you filed Form T664 or T664(Seniors)" on page 24.

Certain circumstances may create a special situation for a flow-through entity described in items 1 to 6 of "What is a flow-through entity?" on the previous page. This happens if you dispose of your remaining shares of, or interest in, such an entity in the 1994 to 2019 tax years and have filed Form T664. If this is the case, in the year you dispose of the shares, use the ECGB available for the entity immediately before the disposition to increase the ACB of the shares or interests.

The ACB adjustment will either reduce your capital gain or will create or increase your capital loss from disposing of the shares or interest in the flow-through entity.

Chapter 5 – Capital losses

You have a capital loss when you sell, or are considered to have sold, a capital property for less than its adjusted cost base plus the outlays and expenses involved in selling the property. This chapter explains how to:

- determine your adjustment factor
- report your 2019 net capital losses
- apply your unused 2019 net capital losses against your taxable capital gains of other years
- apply your unused net capital losses of other years against your 2019 taxable capital gains

It also explains the special rules that apply to listed personal property losses, superficial losses, restricted farm losses, and allowable business investment losses.

You will find a summary of the loss application rules on page 41.

Generally, if you had an allowable capital loss in a year, you have to apply it against your taxable capital gain for that year. If you still have a loss, it becomes part of the computation of your net capital loss for the year. You can use a net capital loss to reduce your taxable capital gain in any of the 3 preceding years or in any future year.

Example
In 2019, Leah sold 2 different securities, which resulted in a taxable capital gain of $300 (1/2 × $600) and an allowable capital loss of $500 (1/2 × $1,000). After applying her allowable capital loss against her taxable capital gain, Leah has $200 ($500 – $300) of unapplied allowable capital losses.

While she cannot deduct the $200 from other sources of income in 2019, the $200 becomes part of the computation of her net capital loss for 2019. She can apply the net capital loss against her taxable capital gains in any of the 3 preceding years or in any future year.

Leah completes Schedule 3 and attaches it to her 2019 income tax and benefit return. This will ensure that her net capital loss is updated on CRA's records.

Note
When determining your capital losses, special rules apply if you disposed of any of the following:

- depreciable property (for details, see page 17)
- personal-use property (for details, see page 20)

Inclusion rate

The rate used to determine "taxable capital gains" and "allowable capital losses" (as defined in "Definitions" on page 5), called an **inclusion rate (IR)**, has changed over the years. As a result, the amount of net capital losses of other years that you can claim against your taxable capital gain depends on the inclusion rate that was in effect when the loss and the gain were incurred. Also, the way you apply these losses may differ if you incurred them before May 23, 1985. For more information, see "How do you apply your net capital losses of other years to 2019?" on the next page.

Period net capital loss incurred	Inclusion rate
Before May 23, 1985	1/2 (50%)
After May 22, 1985, and before 1988	1/2 (50%)
In 1988 and 1989	2/3 (66.6666%)
From 1990 to 1999	3/4 (75%)
In 2000	IR*
From 2001 to 2019	1/2 (50%)

* This rate is from line 16 in Part 4 of Schedule 3 for 2000, or from your notice of assessment or latest notice of reassessment for 2000.

If you had a capital loss or gain in 2019, you should have completed Schedule 3, Capital Gains (or Losses) in 2019.

How do you apply your 2019 net capital loss to previous years?

You can carry your 2019 net capital loss back to 2016, 2017, and 2018 and use it to reduce your taxable capital gains in any of these years. When you carry back your net capital loss, you can choose the year(s) to which you apply the loss.

Note
When you apply a net capital loss back to a previous year's taxable capital gain, it will reduce your taxable income for that previous year. However, your net income, which is used to calculate certain credits and benefits, will not change.

If you carry your 2019 net capital loss back to 2016, 2017, or 2018, you **do not** have to adjust the amount of the 2019 net capital loss since the inclusion rate is the same for these years.

To apply a 2019 net capital loss to 2016, 2017, or 2018, complete "Section III – Net capital loss for carryback" on Form T1A, Request for Loss Carryback. It will also help you determine the amount you have left to carry forward to future years. You can get Form T1A from the CRA (see "For more information?" on page 49). **Do not** file an amended income tax and benefit return for the year to which you want to apply the loss.

Note
If you apply a 2019 net capital loss to a previous year, any capital gains deduction that you claimed in that year, or a following year, may be reduced.

How do you apply your net capital losses of other years to 2019?

You can apply your net capital losses of other years to your taxable capital gains in 2019. To do this, claim a deduction on line 25300 of your 2019 income tax and benefit return. However, the amount you claim depends on when you incurred the loss. This is because the inclusion rate used to determine taxable capital gains and allowable capital losses has changed over the years. The different inclusion rates are listed on the previous page.

Note
When you apply a net capital loss from a previous year to the current year's taxable capital gain, it will reduce your taxable income for the current year. However, your net income, which is used to calculate certain credits and benefits, will not change.

You have to apply net capital losses of earlier years before you apply net capital losses of later years. For example, if you have net capital losses in 1994 and 1996 and want to apply them against your taxable capital gains in 2019, you have to follow a certain order. First, apply your 1994 net capital loss against your taxable capital gain. Then apply your 1996 net capital loss against it. Keep separate balances of unapplied net capital losses for each year. This will help you keep track of your capital losses.

You can use a net capital loss of a previous year to reduce a taxable capital gain in 2019. If the inclusion rates for the 2 years are different, you must adjust the amount of the net capital loss to match the inclusion rate for 2019. Determine the adjustment factor by dividing the inclusion rate for 2019 by the inclusion rate for the year in which the loss arose.

Example
Andrew realized a capital gain of $5,000 in 2019. Andrew's taxable capital gain for 2019 is $2,500 ($5,000 × 50%). Andrew has a net capital loss of $1,000 from 1999 to apply against his taxable capital gain of $2,500. Since the inclusion rate in 1999 was 75%, he calculates the adjustment factor as follows:

Inclusion rate for the year to which the loss is applied / Inclusion rate for the year in which the loss arose	=	50% / 75%	=	66.6666%

To determine the net capital loss he can carry forward to 2019, Andrew multiplies the adjustment factor by the net capital loss for 1999:

Net capital loss for carryforward	= Adjustment factor × net capital loss
	= 66.6666% × $1,000
	= $666.66

Andrew claims the adjusted net capital loss of $666.66 on line 25300 against his taxable capital gain of $2,500 reported on line 12700 of his 2019 income tax and benefit return.

Complete Chart 5 on page 34 if you have a balance of unapplied net capital losses from before May 23, 1985, or you want to keep a breakdown of your unapplied net capital losses by year.

However, if you do not have a balance of unapplied net capital losses from before May 23, 1985, and your 2018 notice of assessment or notice of reassessment shows that you have unapplied net capital losses of other years or a 2018 net capital loss, you can use the following chart to determine your net capital losses of other years that you can apply to 2019.

Chart 4 – Applying net capital losses of other years to 2019

1.	Total unapplied net capital losses available from before 2018 (from your 2018 notice of assessment or reassessment)		$ ______	1
2.	Your 2018 net capital loss (from your 2018 notice of assessment or reassessment)		+ $ ______	2
3.	Line 1 **plus** Line 2		= $ ______	3
4.	Your 2019 taxable capital gains (from line 12700 of your 2019 return)	$ ______ 4		
5.	Enter the amount from line 3 or line 4, **whichever is less**	$ ______ 5		
6.	You can apply all, or part of, the amount on line 5 against your taxable capital gains in 2019. Enter on line 6 the amount of losses you want to claim and enter this amount on line 25300 of your 2019 return.		− $ ______	6
7.	Balance of unapplied net capital losses of other years not used to reduce taxable capital gains and available to carry forward to future years (line 3 **minus** line 6)		= $ ______	7

Losses incurred before May 23, 1985

Special rules apply to losses you incurred before May 23, 1985. This also includes losses you incurred after May 22, 1985, on any disposition of capital property made under an agreement of sale you entered into before May 23, 1985.

Usually, you can apply net capital losses of other years only against taxable capital gains. However, if you incurred the losses before May 23, 1985, you may use them to offset other income. Once you have applied your net capital losses of other years against taxable capital gains, you can use any excess to offset other income. The amount you can use is limited to the **least** of the following:

- the excess amount
- $2,000
- your **pre-1986 capital loss balance** available for 2019

Your **pre-1986 capital loss balance** available for 2019 is:

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

  minus

- the total adjusted amount of capital gains deductions that you claimed before 2019

If you had a net capital loss during the period from January 1, 1985 to May 22, 1985, and you had taxable capital gains later in 1985, your taxable capital gains will reduce your pre-1986 capital loss balance.

Chart 5 – Applying net capital losses of other years to 2019 (for taxpayers with a pre-1986 capital loss balance)

Use this chart to apply your net capital losses of other years to 2019 and to calculate your balance of unapplied losses you can carry forward to a future year.

When you complete this chart, replace "**IR**" with your inclusion rate for 2000. This rate is from line 16 in Part 4 of Schedule 3 for 2000, or from your notice of assessment or latest notice of reassessment for 2000.

Step 1 – Pre-1986 capital loss balance available for 2019

Complete this step **only** if you have a balance of unapplied net capital losses from before May 23, 1985. Otherwise, enter "0" on line 3 and go to Step 2.

1. Balance of unapplied net capital losses you had before May 23, 1985				$	1
2. Capital gains deductions you claimed:					
Before 1988			$		
In 1988 and 1989	$	× 3/4 =	+		
From 1990 to 1999	$	× 2/3 =	+		
In 2000	$	× [1 ÷ (2 × IR)] =	+		
From 2001 to 2018			+		
Total capital gains deductions after adjustment			= $	▸ – $	2
3. Pre-1986 capital loss balance available for 2019 (line 1 **minus** line 2)				= $	3

Step 2 – Applying net capital losses of other years to 2019

Complete lines A to C of this chart in Step 3 (on the next page) before proceeding.

4. Total unapplied adjusted net capital losses of other years (total from line C in Step 3 on the next page)			$	4
5. Taxable capital gains from line 12700 of your 2019 income tax and benefit return	$	5		
6. Enter the amount from line 4 or line 5, **whichever is less**	$	6		
7. You can apply all, or part, of the amount on line 6 against your taxable capital gains in 2019. Enter on line 7 the amount of losses you want to claim			– $	7

If you did not complete Step 1, enter the amount from line 7 on line 25300 of your 2019 income tax and benefit return. This is your deduction in 2019 for net capital losses of other years. Do not complete lines 8 to 15 and enter this same amount on line 16 in Step 3. However, complete lines D to G in Step 3 of this table (on the next page) to calculate the net capital losses available to carry forward to future years.

If you completed Step 1, complete lines 8 to 16 and lines D to G in Step 3 of this table (on the next page) to calculate the net capital losses available to carry forward to future years.

8. Balance of unapplied adjusted net capital losses of other years not used to reduce taxable capital gains (line 4 **minus** line 7)			= $	8
9. Amount from line 8	$	9		
10. Amount from line 3	$	10		
11. Pre-1986 deductible amount	$ 2,000	11		
12. Line 9, 10, or 11, **whichever is less**			+ $	12
13. Deduction in 2019 for net capital losses of other years (line 7 **plus** line 12). Enter this amount on line 25300 of your 2019 income tax and benefit return and complete the rest of the chart (on the next page) to determine your balance of unapplied net capital losses available to carry forward.			= $	13

(continued on next page)

Chart 5 – Applying net capital losses of other years to 2019 (continued)

Step 3 – Calculating your balance of unapplied net capital losses of other years available to carry forward

14. Amount from line 7 .... $ ________ **14**

15. Amount from line 12 .... + $ ________ **15**

16. Total adjusted net capital losses of other years applied in 2019 (line 14 **plus** line 15)........ = $ ________ **16**

When you complete this table, replace "**IR**" with your inclusion rate for 2000. This rate is from line 16 in Part 4 of Schedule 3 for 2000, or from your notice of assessment or latest notice of reassessment for 2000.

(Do not complete the shaded areas)	**Before May 23, 1985**	**After May 22, 1985, and before 1988**	**In 1988 and 1989**	**After 1989 and before 2000**	**In 2000**	**After 2000 and before 2019**	**Total**
A Amount of your unapplied net capital losses							
B Adjustment factor	**1**	**1**	$\frac{3}{4}$	$\frac{2}{3}$	$\frac{1}{2 \times IR}$	**1**	
C (Line A × line B)							
D Total adjusted net capital losses applied against taxable capital gains in 2019 (the total must equal the amount on line 16)							
E (Line C – line D)							*
F Adjustment factor	**1**	**1**	$\frac{4}{3}$	$\frac{3}{2}$	$2 \times IR$	**1**	
G Net capital losses available to carry forward to future years (Line E × line F)							

* **The total for line E should be equal to the amount shown on your notice of assessment or notice of reassessment for net capital losses of other years available for 2020.**

Example

Jerry has unapplied net capital losses of $6,000 he incurred before May 23, 1985. He claimed a capital gains deduction of $500 in 1986 and of $300 in 2000 (Jerry's inclusion rate in 2000 was 2/3 or 66.6666%). Jerry also has the following unapplied net capital losses: $4,000 from 1988 and $6,000 from 1990. He reported a taxable capital gain of $10,000 on line 12700 of his 2019 income tax and benefit return. He completes Chart 5 to calculate the maximum deduction he can claim for his unapplied net capital losses of other years in 2019 and to determine the loss balance that he can carry forward to a future year.

Step 1 – Pre-1986 capital loss balance available for 2019

Complete this step **only** if you have a balance of unapplied net capital losses from before May 23, 1985. Otherwise, enter "0" on line 3 and go to Step 2.

1. Balance of unapplied net capital losses you had before May 23, 1985				$ 6,000	1
2. Capital gains deductions you claimed:					
Before 1988			$ 500		
In 1988 and 1989	$	× 3/4 =	+		
From 1990 to 1999	$	× 2/3 =	+		
In 2000	$ 300	× [1 ÷ (2 × 2/3)] =	+ 225		
From 2001 to 2018			+		
Total capital gains deductions after adjustment			= $ 725 ▶	– $ 725	2
3. Pre-1986 capital loss balance available for 2019 (line 1 **minus** line 2)				= $ 5,275	3

Step 2 – Applying net capital losses of other years to 2019

Complete lines A to C of the table in Step 3 (on the next page) before proceeding.

4. Total unapplied adjusted net capital losses of other years (total from line C in Step 3 on the next page) .... $ 13,000 **4**
5. Taxable capital gains from line 12700 of your 2019 income tax and benefit return .... $ 10,000 **5**
6. Enter the amount from line 4 or line 5, **whichever is less** .... $ 10,000 **6**
7. You can apply all, or part, of the amount on line 6 against your taxable capital gains in 2019. Enter on line 7 the amount of losses you want to claim .... – $ 10,000 **7**

   If you did not complete Step 1, enter the amount from line 7 on line 25300 of your 2019 income tax and benefit return. This is your deduction in 2019 for net capital losses of other years. Do not complete lines 8 to 15 and enter this same amount on line 16 in Step 3. However, complete lines D to G in Step 3 of this table (on the next page) to calculate the net capital losses available to carry forward to future years.

   If you completed Step 1, complete lines 8 to 16 and lines D to G in Step 3 of this table (on the next page) to calculate the net capital losses available to carry forward to future years.

8. Balance of unapplied adjusted net capital losses of other years not used to reduce taxable capital gains (line 4 **minus** line 7) .... = $ 3,000 **8**
9. Amount from line 8 .... $ 3,000 **9**
10. Amount from line 3 .... $ 5,275 **10**
11. Pre-1986 deductible amount .... $ **2,000** **11**
12. Line 9, 10, or 11, **whichever is less** .... + $ 2,000 **12**
13. Deduction in 2019 for net capital losses of other years (line 7 **plus** line 12). Enter this amount on line 25300 of your 2019 income tax and benefit return and complete the rest of the chart (on the next page) to determine your balance of unapplied net capital losses available to carry forward. = $ 12,000 **13**

(continued on next page)

Example (continued)

Step 3 – Calculating your balance of unapplied net capital losses of other years available to carry forward

14. Amount from line 7	$	10,000	14
15. Amount from line 12	+ $	2,000	15
16. Total adjusted net capital losses of other years applied in 2019 (line 14 **plus** line 15)	= $	12,000	16

When you complete this table, replace "**IR**" with your inclusion rate for 2000. This rate is from line 16 in Part 4 of Schedule 3 for 2000, or from your notice of assessment or latest notice of reassessment for 2000.

(Do not complete the shaded areas)	Before May 23, 1985	After May 22, 1985, and before 1988	In 1988 and 1989	After 1989 and before 2000	In 2000	After 2000 and before 2019	Total
A Amount of your unapplied net capital losses	$6,000	$0	$4,000	$6,000	$0	$0	
B Adjustment factor	1	1	$\frac{3}{4}$	$\frac{2}{3}$	$\frac{1}{2 \times IR}$	1	
C (Line A × line B)	$6,000	$0	$3,000	$4,000	$0	$0	$13,000
D Total adjusted net capital losses applied against taxable capital gains in 2019 (the total must equal the amount on line 16)	$6,000	$0	$3,000	$3,000	$0	$0	$12,000
E (Line C – line D)	$0	$0	$0	$1,000	$0	$0	* $1,000
F Adjustment factor	1	1	$\frac{4}{3}$	$\frac{3}{2}$	$2 \times IR$	1	
G Net capital losses available to carry forward to future years (Line E × line F)	$0	$0	$0	$1,500	$0	$0	

Jerry has to apply his older losses first. Because the total amount of adjusted losses that he used in 2019 was $12,000 (from line 16 above), he applies $6,000 of his adjusted net capital losses incurred before May 23, 1985, and $3,000 of his adjusted net capital loss incurred in 1988. He then uses $3,000 ($12,000 – $6,000 – $3,000) of his adjusted net capital loss incurred in 1990. Jerry has unapplied net capital losses of $1,500 that he can carry forward to a future year.

* **The total for line E should be equal to the amount shown on your notice of assessment or reassessment for net capital losses of other years available for 2020.**

Applying listed personal property losses

You have a listed personal property (LPP) loss if, in a particular year, your losses from dispositions of LPP are more than your gains from such dispositions. Applying this type of loss is different from applying other capital losses because of the following reasons:

- You can only deduct losses from the disposition of LPP from any gains you had from selling other LPP.
- The LPP losses you deduct in the year cannot be more than your LPP gains from such dispositions for that year.
- You cannot use this type of loss to reduce any capital gains you had from selling other types of property.

If you have an LPP loss in 2019, you can use the loss to reduce gains from dispositions of LPP you had in any of the 3 years before 2019 or the 7 years after.

For information on how to apply a prior-year LPP loss to 2019 gains from dispositions of LPP, see "Listed personal property" on page 20.

To carry back your 2019 LPP losses to reduce your LPP net gains from 2016, 2017, and 2018, complete Form T1A, Request for Loss Carryback, and include it with your 2019 income tax and benefit return (or send one to the CRA separately). You can get Form T1A from the CRA (see "For more information?" on page 49). **Do not** file an amended return for the year to which you want to apply the loss.

Example
Nathan bought some jewellery in 1997 for $5,800. In 2019, he sold it for $6,000. He ended up with a gain of $200. He also sold a coin collection for $2,000 in 2019. Nathan had originally bought this collection in 1999 for $1,700. He ended up with a gain of $300 when he sold the coin collection. In addition, he sold a painting in 2019 for $8,000. However, Nathan bought the painting in 2000 for $12,000. Therefore, he had a loss of $4,000. He had no outlays and expenses for these 3 transactions.

Nathan's loss from selling LPP in 2019 was more than his gain: his loss was $4,000; his total gain was $500 ($200 + $300). As a result, his net loss was $3,500 ($4,000 – $500). Nathan cannot use the difference to offset his capital gain on the sale of a property other than on LPP

in the year. In addition, he cannot offset any income he had from other sources. However, he can apply his LPP loss against his gains from dispositions of LPP in any of the 3 preceding years or the 7 years following 2019.

Nathan should not complete Schedule 3 for 2019. However, he should keep a record of his LPP loss in case he wants to apply the loss against LPP gains in another year.

Superficial loss

A superficial loss can occur when you dispose of capital property for a loss and both of the following conditions are met:

- You, or a person affiliated with you, buys, or has a right to buy, the same or identical property (called "substituted property") during the period starting 30 calendar days before the sale and ending 30 calendar days after the sale.
- You, or a person affiliated with you, still owns, or has a right to buy, the substituted property 30 calendar days after the sale.

Some examples of affiliated persons are:

- you and your spouse or common-law partner
- you and a corporation that is controlled by you or your spouse or common-law partner
- a partnership and a majority-interest partner of the partnership
- after March 22, 2004, a trust and its majority interest beneficiary (generally, a beneficiary who enjoys a majority of the trust income or capital) or one who is affiliated with such a beneficiary

If you have a superficial loss in 2019, you cannot deduct it when you calculate your income for the year. However, if you are the person who acquires the substituted property, you can usually add the amount of the superficial loss to the adjusted cost base of the substituted property. This will either decrease your capital gain or increase your capital loss when you sell the substituted property.

In certain situations, when you dispose of capital property, the loss may not be considered a superficial loss. Some of the more common situations include the following:

- You are considered to have sold the capital property because you became or ceased to be a resident of Canada.
- You are considered to have sold the property because you changed its use.
- You disposed of the property and within 30 calendar days after the disposition you became or ceased to be exempt from income tax.
- The property is considered to have been sold because the owner died.
- The disposition results from the expiry of an option.
- The property is appropriated by a shareholder on the winding-up of a corporation.
- Non-depreciable capital property is disposed of by a corporation, partnership, or trust. In this situation, although the loss is not added to the adjusted cost base of the transferred property, it is not claimed immediately but its recognition is deferred pending the occurrence of certain events. For more information, call **1-800-959-8281**.

Restricted farm loss

If you run your farm as a business, you may be able to deduct a farm loss in the year. However, if your chief source of income is neither from farming nor from a combination of farming and some other source of income, you can only deduct a portion of your farm loss for the year.

For tax years ending after March 20, 2013, the amount that you can deduct may increase. For more information, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide, or RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide.

The portion of the loss that you cannot deduct becomes a restricted farm loss (RFL). You can carry an RFL incurred in tax years ending before 2006 back **3 years** and forward up to **10 years**.

You can now carry an RFL incurred in tax years ending after 2005, back **3 years** and forward up to **20 years**.

However, the amount you can deduct in any year cannot be more than your net farming income for that year. For more information on determining your chief source of income and how to calculate an RFL, see Guide T4002, RC4060, or RC4408.

You may have RFLs that you incurred in your farming operation that you could not deduct when you calculated your income for previous years. You can apply part of these RFLs against any capital gain you may have when you sell your farmland. The amount of RFLs that you can apply cannot be more than the property taxes and the interest on money you borrowed to buy the farmland that were included in the calculation of the RFLs for each year. Reduce your capital gain by adding these amounts to the adjusted cost base (ACB) of your farmland. Also, you have to reduce your RFL balance by these amounts.

You can only use RFLs to reduce any capital gain from selling your farmland to zero. You cannot use an RFL to create or increase a capital loss from selling farmland.

Example
Milan sold his farmland in 2019 for $200,000. The ACB of the property was $160,000. Milan has an unapplied RFL of $20,000 from 2000. This amount includes $5,000 for property taxes, $5,000 for interest, and $10,000 for other expenses.

Milan wants to reduce his capital gain from selling his farmland by applying his RFL against the capital gain. He calculates his capital gain as follows:

Proceeds of disposition				$ 200,000	**A**
ACB		$ 160,000	**B**		
Plus:	Property taxes	+ 5,000	**C**		
	Interest	+ 5,000	**D**		
Total		= $ 170,000 ▶		– 170,000	**E**
Capital gain (line A **minus** line E)				= $ 30,000	**F**

Milan can only apply the portion of his RFL that relates to property taxes and interest on the money he borrowed to buy the farmland.

Allowable business investment loss

If you had a business investment loss in 2019, you can deduct 1/2 of the loss from income. The amount of the loss you can deduct from your income is called your allowable business investment loss (ABIL). Complete Chart 6 on the next page to determine your ABIL and, if applicable, your business investment loss reduction. Claim the deduction for the ABIL on line 21700 of your income tax and benefit return. Enter the gross business investment loss on line 21699 of your return.

What is a business investment loss?

A business investment loss results from the actual or deemed disposition of certain capital properties. It can happen when you dispose of one of the following to a person you deal with at arm's length:

- a share of a small business corporation
- a debt owed to you by a small business corporation

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

You may also have such a loss if you are deemed to have disposed of, for nil proceeds of disposition, a debt or a share of a small business corporation under any of the following circumstances:

- A small business corporation owes you a debt (other than a debt from the sale of personal-use property) that is considered to be a bad debt at the end of the year.
- At the end of the year, you own a share (other than a share you received as consideration from the sale of personal-use property) of a small business corporation that:
  - has gone bankrupt in the year
  - is insolvent, and a winding-up order has been made in the year under the Winding-up Act
  - is insolvent at the end of the year and neither the corporation, nor a corporation it controls, carries on business. Also, at that time, the share in the corporation has a fair market value of nil, and it is reasonable to expect that the corporation will be dissolved or wound up and will not start to carry on business*

  * You or a person that you do not deal with at arm's length will be deemed to have realized an offsetting capital gain if the corporation, or a corporation it controls, carries on business within 24 months following the end of the year in which the disposition occurred. You or that person will have to report the capital gain in the tax year the corporation starts to carry on business. This applies if you or the person owned the share in the corporation at the time the business started.

You can elect to be deemed to have disposed of the debt or the share of the small business corporation at the end of the year for nil proceeds of disposition, and to have immediately reacquired the debt or the share after the end of the year at a cost equal to nil. To do this, you have to file an election with your income tax and benefit return. To make this election, attach to your return a letter signed by you. State that you want **subsection 50(1)** of the Income Tax Act to apply.

What happens when you incur an ABIL?

You can deduct your ABIL from your other sources of income for the year. If your ABIL is more than your other sources of income for the year, include the difference as part of your non-capital loss. You could have carried a non-capital loss arising in 2003 or prior years, back 3 years and forward 7 years.

You could have carried a non-capital loss arising in tax years ending after March 22, 2004 through December 31, 2005, back 3 years and forward 10 years.

Although you can generally carry a non-capital loss arising in tax years ending after 2005, back 3 years and forward 20 years, this extension **does not** apply to a non-capital loss resulting from an ABIL. Instead, an ABIL that has not been used within 10 tax years will become a net capital loss in the eleventh year.

To carry a non-capital loss back to 2016, 2017, or 2018, complete Form T1A, Request for Loss Carryback, and include it with your 2019 income tax and benefit return (or send one to the CRA separately). You can get Form T1A from the CRA (see "For more information?" on page 49). **Do not** file an amended return for the year to which you want to apply the loss.

If you did not deduct your ABIL arising in 2003 as a non-capital loss by the end of the seventh year (2010), the unapplied part became a **net** capital loss in 2011. You can use this loss to reduce your taxable capital gains in 2011 or any year after.

The unapplied part of your non-capital loss resulting from an ABIL arising in 2004 or future years will become a net capital loss in the eleventh year.

> **Note**
> Any ABIL that you claim for 2019 will reduce the capital gains deduction you can claim in 2019 and in future years.

Chart 6 – How to claim an allowable business investment loss

Step 1 Business investment loss in 2019 (enter this amount on line 21699 of your income tax and benefit return) $ ______ **A**

Step 2 If you claimed a capital gains deduction in a previous year, you have to reduce your business investment loss. To determine the reduction, complete the calculation below and enter the result from line 15. Otherwise, enter "0" .... – ______ **B**

Line A **minus** line B .... = $ ______ **C**

Step 3 Allowable business investment loss............. Amount from line C $ ______ × 1/2 = $ ______ **D**

Enter the amount from line D on line 21700 of your income tax and benefit return.

Step 4 Attach a note to your income tax and benefit return that states the:

- name of the small business corporation
- number and class of shares, or the type of debt you disposed of
- insolvency, bankruptcy, or wind-up date
- date you bought the shares, or the date you acquired the debt
- amount of the proceeds of disposition
- adjusted cost base of the shares or debt
- outlays and expenses on the disposition
- amount of the loss

Calculation of the business investment loss reduction

The reduction calculated below is considered to be a capital loss for the year.

Total of all capital gains deductions claimed from 1985 to 2018

1.	For 1985 to 1987, total of the amounts from line 254 of your income tax and benefit returns for these years	$ ______		× 2		$ ______	**1**
2.	For 1988 and 1989 (other than for eligible capital property gains), total of the amounts from line 254 of your income tax and benefit returns **minus** any amounts reported on lines 543 and 544 on Schedule 3; if negative enter "0"	$ ______	**(a)**	× 3/2	+	______	**2**
3.	For 1988 and 1989 for eligible capital property gains, total of the amounts from line 254 of your income tax and benefit returns **minus** the amount calculated at line (a) above; not to exceed lines 543 and 544 on Schedule 3	$ ______		× 4/3	+	______	**3**
4.	For 1990 to 1999, total of the amounts from line 254 of your income tax and benefit returns for these years	$ ______		× 4/3	+	______	**4**
5.	For 2000, amount from line 254 of your income tax and benefit return	$ ______		× 1/IR*	+	______	**5**
6.	For 2001 to 2018, total of the amounts from line 254 of your income tax and benefit returns for these years	$ ______		× 2	+	______	**6**
7.	Total of lines 1 to 6				=	$ ______	**7**

Total of all other business investment loss reductions for 1986 to 2018

8.	Total of amounts reported on line 535 of Schedule 3 of your 1986 to 1994 income tax and benefit returns............	$	______ **8**				
9.	Total of amounts reported on line 034 of Schedule 3 of your 1994 to 1996 income tax and benefit returns............	+	______ **9**				
10.	Total of amounts reported on line 178 of Schedule 3 of your 1997 to 1999 income tax and benefit returns............	+	______ **10**				
11.	Total of amounts reported on lines 293, 178, and 5668 of Schedule 3 of your 2000 income tax and benefit return	+	______ **11**				
12.	Total of amounts reported on line 178 of Schedule 3 of your 2001 to 2018 income tax and benefit returns............	+	______ **12**				
13.	Total of lines 8 to 12	= $	______ ▶		– $	______	**13**
14.	Line 7 **minus** line 13............				= $	______	**14**

Business investment loss reduction

15. Line 14 or line A from Step 1 above, **whichever is less**. Enter this amount on line B in Step 2 above and on line 17800 of Schedule 3 .... $ ______ **15**

* **This rate (IR) is from line 16 in Part 4 of Schedule 3 for 2000, or from your notice of assessment or latest notice of reassessment for 2000.**

Summary of loss application rules

Type of loss	Application rules	Limit to annual deduction
Allowable business investment loss (for more information, see page 39)	Any unapplied portion of an ABIL incurred in 2004 or future years becomes a non-capital loss that can be carried back 3 years and forward 10 years. The unapplied portion of the non-capital loss will become a net capital loss that can be used to reduce taxable capital gains in the eleventh year or any year after.*	No limit Limited to taxable capital gains in the year.
Net capital loss (for more information, see page 31)	■ Carry back 3 years ■ Carry forward indefinitely	Limited to taxable capital gains in the year.**
Farm loss***	■ Carry back 3 years ■ For a loss incurred after 2005, carry forward 20 years. For a loss incurred before 2006, carry forward 10 years	No limit
Listed personal property (LPP) loss (for more information, see page 37)	■ Carry back 3 years ■ Carry forward 7 years	Limited to net gains from LPP in the year.
Personal-use property loss (for more information, see page 20)	No loss allowed****	Not applicable
Restricted farm loss (for more information, see page 38)	■ Carry back 3 years ■ For a loss incurred after 2005, carry forward 20 years. For a loss incurred before 2006, carry forward 10 years. You can use part of any unapplied loss to reduce your capital gains from the sale of the farmland that was used in a farming business.	Limited to net farming income in the year. Cannot be more than the property taxes and the interest on money you borrowed to buy the farmland that you included in the calculation of the restricted farm losses for each year. You cannot use it to create or increase a capital loss.
Superficial loss (for more information, see page 38)	No loss allowed You can usually add the amount of the loss to the adjusted cost base of the substituted property.	Not applicable

* Any unapplied portion of an ABIL incurred in 2003 or prior years became a non-capital loss that could be carried back 3 years and forward 7 years. The unapplied portion of the non-capital loss has become a net capital loss that can be used to reduce taxable capital gains in the 8 year or any year after.

** For net capital losses incurred before May 23, 1985, you may deduct an additional amount (up to $2,000) from other income. For more information, see "How do you apply your net capital losses of other years to 2019?" on page 32.

*** For the purposes of this chart, farm losses include losses from farming and fishing businesses. For more information, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide, or RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide.

**** For exceptions to this rule, see "Personal-use property" on page 20.

Chapter 6 – Principal residence

When you sell your home, you may realize a capital gain. If the property was solely your principal residence for every year you owned it, you do not have to pay tax on the gain. If at any time during the period you owned the property, it was not your principal residence, or solely your principal residence, you might not be able to benefit from the principal residence exemption on all or part of the capital gain that you have to report.

If you sold property in 2019 that was, at any time, your principal residence, you must report the sale on Schedule 3, Capital Gains (or Losses) in 2019, and Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust). See Schedule 3 and Form T2091(IND) for more information on reporting requirements.

The calculation of the principal residence exemption is limited to the number of tax years ending after the acquisition of the property during which the taxpayer was resident in Canada and the property is the taxpayer's principal residence. If you sold your principal residence after October 2, 2016, and you were not a resident of Canada throughout the year in which you acquired it, different rules apply to this calculation. If you were not a resident of Canada for the entire time you owned the designated property, call **1-800-959-8281**.

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

If after reading this chapter you need more information, see Income Tax Folio S1-F3-C2, Principal Residence.

What is a principal residence?

Your principal residence can be any of the following types of housing units:

- a house
- a cottage
- a condominium
- an apartment in an apartment building
- an apartment in a duplex
- a trailer, mobile home, or houseboat

A property qualifies as your principal residence for any year if it meets **all** of the following **4** conditions:

- It is a housing unit, a leasehold interest in a housing unit, or a share of the capital stock of a co-operative housing corporation you acquire only to get the right to inhabit a housing unit owned by that corporation.
- You own the property alone or jointly with another person.
- You, your current or former spouse or common-law partner, or any of your children lived in it at some time during the year.
- You designate the property as your principal residence.

The land on which your home is located can be part of your principal residence. Usually, the amount of land that you can consider as part of your principal residence is limited to 1/2 hectare (1.24 acres). However, if you can show that you need more land to use and enjoy your home, you can consider more than this amount as part of your principal residence. For example, this may happen if the minimum lot size imposed by a municipality at the time you bought the property is larger than 1/2 hectare.

Designating a principal residence

You designate your home as your principal residence when you sell or are considered to have sold all or part of it. You can designate your home as your principal residence for all the years that you own and use it as your principal residence. However, in some situations you may choose not to designate your home as your principal residence for one or more of those years. For more information, see the section called "Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)" on the next page.

Can you have more than one principal residence?

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

For 1982 to 2000, your family included:

- you
- a person who, throughout the year, was your spouse (unless you were separated for the entire year under the terms of a court order or a written agreement)
- your children (other than a child who had a spouse during the year or who was 18 or older)

If you **did not have a spouse and were not 18 or older**, your family **also** included:

- your mother and your father
- your brothers and sisters (who did not have spouses and were not 18 or older during the year)

For 2001 and subsequent taxation years, the above definition applies except that the reference to spouse is replaced by "spouse or common-law partner." These terms are defined in "Definitions" on page 5.

For 1993 to 2000, a spouse included a common-law spouse. Therefore, common-law spouses could not designate different housing units as their principal residence for any of those years.

> **Note**
> If you made an election to have your same-sex partner considered your common-law partner for 1998, 1999, or 2000, then, for those years, your common-law partner also could not designate a different housing unit as their principal residence.

For years before 1982, more than one housing unit per family can be designated as a principal residence. Therefore, a husband and wife can designate different principal residences for these years. However, a special rule applies if members of a family designate more than one home as a principal residence. For more information, see Income Tax Folio S1-F3-C2, Principal Residence.

Disposing of your principal residence

When you sell your home or when you are considered to have sold it, usually you do not have to pay tax on any gain from the sale because of the principal residence exemption. This is the case if the property was solely your principal residence for every year you owned it.

Reporting the sale of your principal residence

If you sold your property in 2019 and it was your principal residence you have to report the sale and designate the property on Schedule 3, Capital Gains (or Losses). In addition, you also have to complete Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust). Complete only page 1 of Form T2091 if the property you sold was your principal residence for all the years you owned it, or for all years except one year, being the year in which you replaced your principal residence.

Why you have to report the sale

For the sale of a principal residence in 2016 and subsequent years, the CRA will only allow the principal residence exemption if you report the disposition and designation of

your principal residence on your income tax and benefit return. If you forget to make this designation in the year of the disposition, it is very important to ask the CRA to amend your income tax and benefit return for that year. The CRA will accept a late designation in certain circumstances, but a penalty may apply.

Example
John (a resident of Canada) put his principal residence (property 1) up for sale in January 2019. Property 1 has been John's only principal residence for all the time he has owned it. He purchased a new house (property 2) in February 2019 and took possession of it as his principal residence in March 2019. There is a special rule (the "plus 1" rule) that allows a taxpayer to treat both properties as eligible for the principal residence exemption for a year where one residence is sold and another is purchased in the same year, even though only one of them may be designated as such for that year. For this reason, John can tick box 1 at line 17900 on page 2 of Schedule 3 to designate property 1 as his principal residence for all years including 2019 (or for all years except one year). In addition, John will need to complete the first page of Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust), assuming he finally sold property 1 before the end of 2019. However, John should keep his decision in writing for future reference, especially for when he sells property 2.

Note
For dispositions that occur after October 2, 2016, for a taxpayer to be eligible for the "plus 1" rule, the taxpayer must be resident in Canada during the year the principal residence is purchased. Therefore, if a taxpayer is non-resident throughout the taxation year in which the property was purchased, the taxpayer will **not** be eligible for the extra year in calculating the principal residence exemption amount.

If your home **was not** your principal residence for every year that you owned it, you have to report the part of the capital gain on the property that relates to the years for which you did not designate the property as your principal residence. To do this, complete Form T2091(IND) (see the next section). You are also required to complete the applicable sections of Schedule 3 as indicated on page 2 of the schedule.

Note
Because your home is considered personal-use property, if you have a loss at the time you sell or are considered to have sold your home, you are not allowed to claim the loss.

If only a part of your home qualifies as your principal residence and you used the other part to earn or produce income, you have to split the selling price and the adjusted cost base between the part you used for your principal residence and the part you used for other purposes (for example, rental or business). You can do this by using square metres or the number of rooms, as long as the split is reasonable. Report on line 13800 of Schedule 3 only the gain on the part you used to produce income. For more information, see "Real estate, depreciable property, and other properties" on page 17 and Income Tax Folio S1-F3-C2, Principal Residence. You are also required to complete page 2 of Schedule 3 to report the sale of your principal residence. See the "Example" on page 46 that provides information on how to calculate the capital gain and your reporting requirements for the sale.

The CRA will consider the entire property to maintain its nature as a principal residence in spite of the fact that you have used it for income producing purposes when **all** of the following conditions are met:

- The income producing use is ancillary to the main use of the property as a residence.
- There is no structural change to the property.
- No capital cost allowance is claimed on the property.

This situation could occur, for example, where the property is used as a home day care. For more information, see Income Tax Folio S1-F3-C2, Principal Residence.

If you sold more than one property in the same calendar year and each property was, at one time, your principal residence, you must show this by completing a separate Form T2091(IND) for each property to designate what years each was your principal residence and to calculate the amount of capital gain, if any, to report on line 15800 of Schedule 3, Capital Gains (or Losses) in 2019.

Example
In 2019, Jackie disposed of 3 properties. Property 1 was acquired by Jackie in 2000 and he designated it as his principal residence from 2000 to 2005. He acquired Property 2 in 2006 and he designated this property as his principal residence from 2006 to 2010. Jackie acquired Property 3 in 2011 and he designated it as his principal residence from 2011 to 2019. Jackie must tick box 3 at line 17900 on page 2 of Schedule 3, complete a separate Form T2091(IND) for each property, and report the capital gains (if any) on Schedule 3.

Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)

Use Form T2091(IND) to designate a property as a principal residence. This form will help you calculate the number of years that you can designate your home as your principal residence, as well as the part of the capital gain, if any, that you have to report. Complete Form T2091(IND) and include it with your income tax and benefit return in any of the following situations:

- You sold, or were considered to have sold, your principal residence, or any part of it.
- You granted someone an option to buy your principal residence, or any part of it.

A legal representative (executor, administrator, or a liquidator in Quebec) of a deceased person should use Form T1255, Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual, to designate a property as a principal residence for the deceased.

Did you or your spouse or common-law partner file Form T664 or T664(Seniors)?

Use Form T2091(IND) to calculate the capital gain if you sell, or are considered to have sold, a property for which you or your spouse or common-law partner filed Form T664 or T664(Seniors), Election to Report a Capital Gain on Property Owned at the End of February 22, 1994, and **one** of the following situations apply:

- The property was your principal residence for 1994.
- You are designating the property in 2019 as your principal residence for any tax year.

Use Form T2091(IND)-WS, Principal Residence Worksheet, to calculate a reduction due to the capital gains election. In this case, if the property was designated as a principal residence for the purpose of the capital gains election, you have to include those previously designated tax years as part of your principal residence designation in 2019.

> **Note**
> If, at the time of the election, the property was designated as a principal residence for any tax year other than 1994, you can choose whether or not to designate it again as your principal residence when you sell it or are considered to have sold it. Remember, if you choose to designate it again, you have to include those previously designated tax years as part of your principal residence designation in 2019.

If the property was not your principal residence for 1994 and you are not designating it in 2019 as your principal residence for any tax year, do not use Form T2091(IND) and Form T2091(IND)-WS to calculate your capital gain. Instead, calculate your capital gain, if any, in the regular way (proceeds of disposition **minus** the adjusted cost base and outlays and expenses). For more information on how to calculate your adjusted cost base as a result of the capital gains election, see "Property for which you filed Form T664 or T664(Seniors)" on page 24.

Changes in use

When there is a change in use of a property you have, you may be considered to have sold all or part of your property even though you did not actually sell it. The following are some sample situations:

- You change all or part of your principal residence to a rental or business operation.
- You change your rental or business operation to a principal residence.

Every time you change the use of a property, you are considered to have sold the property at its fair market value and to have immediately reacquired the property for the same amount. You have to report the resulting capital gain or loss (in certain situations) in the year the change of use occurs.

If the property was your principal residence for any year you owned it before you changed its use, you do not have to pay tax on any gain that relates to those years. You only have to report the gain that relates to the years your home was not your principal residence. For information on how to calculate and report the gain, if any, see "Disposing of your principal residence" on page 42.

If you were using the property to earn or produce income before you changed its use, see "Real estate, depreciable property, and other properties" on page 17 for information on how to report any capital gain or loss.

Special situations

In certain situations, the rules stated above for changes in use do not apply. The following are some of the more common situations.

Changing all your principal residence to a rental or business property

When you change your principal residence to an income producing property, such as a rental or business property, you can make an election not to be considered as having started to use your principal residence as a rental or business property. This means you do not have to report any capital gain when you change its use. If you make this election:

- you have to report the net rental or business income you earn.
- you cannot claim capital cost allowance (CCA) on the property.

While your election is in effect, you can designate the property as your principal residence for up to 4 years, even if you do not use your property as your principal residence. However, during those years, you have to meet **all** of the following conditions:

- you do not designate any other property as your principal residence
- you are a resident or deemed to be a resident of Canada

You can extend the 4-year limit indefinitely if **all** of the following conditions are met in addition to the above listed conditions:

- You live away from your principal residence because your employer, or your spouse's or common-law partner's employer wants you to relocate.
- You and your spouse or common-law partner are not related to the employer.
- You return to your original home while you or your spouse or common-law partner are still with the same employer, **or** before the end of the year following the year in which this employment ends, **or** you die during the term of employment.
- Your original home is at least 40 kilometres (by the shortest public route) farther than your temporary residence from your, or your spouse's or common-law partner's, new place of employment.

If you make this election, there is no immediate effect on your income tax situation when you move back into your residence. However, if you change the use of the property again and do not make this election again, any gain you have from selling the property may be subject to tax.

To make this election, attach a letter signed by you to your income tax and benefit return of the year in which the change of use occurs. Describe the property and state that you want **subsection 45(2)** of the Income Tax Act to apply.

If you started to use your principal residence as a rental or business property in the year, you may want information on how you should report your business or property income. If so, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, or Guide T4036, Rental Income.

Changing all your rental or business property to a principal residence

When you change your rental or business property to a principal residence, you can elect to postpone reporting the disposition of your property until you actually sell it. However, you cannot make this election if you, your spouse or common-law partner, or a trust under which you or your spouse or common-law partner is a beneficiary has deducted CCA on the property for any tax year after 1984, and on or before the day you change its use.

This election only applies to a capital gain. If you claimed CCA on the property before 1985, you have to include any recapture of CCA in your business or rental income. Include the income in the year you changed the use of the property. If you need more information on the recapture of CCA, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, or Guide T4036, Rental Income.

If you make this election, you can designate the property as your principal residence for up to 4 years before you actually occupy it as your principal residence.

To make this election, attach to your income tax and benefit return a letter signed by you. Describe the property and state that you want **subsection 45(3)** of the Income Tax Act to apply. You have to make this election by the earliest of the following dates:

- 90 days after the date the CRA asks you to make the election
- the date you are required to file your income tax and benefit return for the year in which you actually sell the property

Changing part of your principal residence to a rental or business property or vice versa

Before March 19, 2019, you could not elect to avoid the deemed disposition that occurs on a partial change in the use of a property. However, starting on March 19, 2019, the budget proposes that depending on your situation, you can elect under subsection 45(2) or 45(3) of the Income Tax Act that the deemed position that normally arises on a partial change in use of property not apply.

Even if you do not make the election, if you started to use part of your principal residence for rental or business purposes , the CRA usually considers you to have changed the use of that part of your principal residence unless all of the following conditions apply :

- your rental or business use of the property is relatively small in relation to its use as your principal residence
- you do not make any structural changes to the property to make it more suitable for rental or business purposes
- you do not deduct any CCA on the part you are using for rental or business purposes

Generally, if you do **not** meet all of the above conditions, you will have a deemed disposition of the portion of property that had the change of use, and immediately after, you will be deemed to have reacquired that portion of property. The proceeds of disposition and the cost of the reacquisition will be equal to the proportionate share of the FMV of the property, determined at that time. Additionally, in the year the partial change in use occurs, you can make a principal residence designation (for the portion of the property that had the change in use), by completing page 2 of Schedule 3, Capital Gains (or Losses) and page 1 of Form T2091 (IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust).

Subsequently, when you actually sell the property you have to take all of the following actions:

- Split the selling price between the part you used for your principal residence and the part you used for rental or business purposes. The CRA will accept a split based on square metres or the number of rooms as long as the split is reasonable.
- Report any capital gain on the part you used for rental or business purposes. You can also make a principal residence designation for the portion of the property for which there was no change in use as your principal residence, by completing Schedule 3 and Form T2091(IND), in order to claim the principal residence exemption for that portion of the gain. For more information, see “Real estate, depreciable property, and other properties” on page 17. You do not have to report any capital gain for the part you used for your principal residence.

Farm property

If you are a farmer and you sell land in 2019 used principally in a farming business that includes your principal residence, you can choose one of 2 methods to calculate your taxable capital gain. These 2 methods are explained in Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income, RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide, and RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide.

Example

Disposing of a principal residence partly used for earning income

This example illustrates some of the topics that are discussed in this guide. This example will show you how to:

- treat the sale of property that was used partly as a principal residence and partly for earning income.
- report a capital gain on the disposition of property that includes land and a building (see "Real estate" on page 17); and
- calculate a recapture of capital cost allowance (CCA) or a terminal loss on the disposition of depreciable property (see "Recapture of CCA and terminal losses" on page 17).

In November 1988, John bought a duplex for $125,000. According to a municipal assessment completed just before the purchase, the entire property was valued at $100,000. The land was valued at $25,000 and the building was valued at $75,000. From the date he purchased the duplex, John lived in the lower half and rented out the upper half. Based on the property's total number of square metres, he determined that the portion he used to earn rental income was 40%.

On July 28, 2019, John sold the property for $175,000. He incurred expenses of $10,500 to make the sale. According to a recent municipal assessment, the entire property was now valued at $150,000. The land was worth $30,000 and the building was worth $120,000.

Any gain on the part of the property that John used as his principal residence will not be taxed because he used that part of the property as his principal residence for all the years he owned it. John has to designate the part of the property that was his principal residence by ticking box 1 at line 17900 on page 2 of Schedule 3, Capital Gains (or Losses) in 2019, and by completing page 1 of Form T2091(IND), Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust).

John has to calculate the capital gain on the part of the property that he rented out. He also has to determine if he has a recapture of CCA or a terminal loss on the rented portion of the building. For this reason, he will break down the rental portion of the purchase price, the selling price, and the related expenses between the land and the building. Keeping in mind that 40% of the property was used for rental purposes, John completes the following calculations:

1. **He divides the rental portion of the purchase price between the land and the building, based on the municipal assessment at the time of the purchase:**

   a) Building: $40\% \times \frac{\$75{,}000}{\$100{,}000} \times \$125{,}000 = \$37{,}500$

   b) Land: $40\% \times \frac{\$25{,}000}{\$100{,}000} \times \$125{,}000 = \$12{,}500$

   Because the breakdown between the land and the building was not shown on his purchase agreement, John uses the municipal assessment in effect at the time of the purchase. John would have completed this calculation at the time he purchased the property to determine the amount of CCA he could claim on the part of the building he rented out.

2. **He divides the rental portion of the selling price between the land and the building, based on the municipal assessment at the time of the sale:**

   a) Building: $40\% \times \frac{\$120{,}000}{\$150{,}000} \times \$175{,}000 = \$56{,}000$

   b) Land: $40\% \times \frac{\$30{,}000}{\$150{,}000} \times \$175{,}000 = \$14{,}000$

   The breakdown between the land and the building was not shown on John's sale agreement. Because no renovations were made to the building since the last municipal assessment, John can use the municipal assessment that was in effect at the time of the sale.

3. **He divides the rental portion of the expenses relating to the sale between the land and the building, based on the municipal assessment at the time of the sale:**

   a) Building: $40\% \times \frac{\$120{,}000}{\$150{,}000} \times \$10{,}500 = \$3{,}360$

   b) Land: $40\% \times \frac{\$30{,}000}{\$150{,}000} \times \$10{,}500 = \$840$

(continued on next page)

Disposing of a principal residence partly used for earning income (continued)

John can now determine if he has a recapture of CCA or a terminal loss on the rented part of the building. The undepreciated capital cost (UCC) of the portion of the building used for rental purposes at the beginning of 2019 was $34,728. From the UCC, he subtracts one of the following amounts, whichever is **less**:

- the selling price of the rented part of the building minus the related outlays and expenses: $52,640 ($56,000 – $3,360); or
- the purchase price of the rented part of the building: $37,500.

UCC at the beginning of 2019	$	34,728
Minus: Purchase price	–	37,500
Recapture of CCA	= $	(2,772)

To help him complete the above calculations, John uses the CCA schedule on the back of Form T776, Statement of Real Estate Rentals.

John can now calculate his capital gain. To do this, he completes the section called “Real estate, depreciable property, and other properties” in Schedule 3, Capital Gains (or Losses) in 2019. He reports the sale of the rental property as follows:

4. Real estate, depreciable property, and other properties (see the next page for a **principal residence**)

Address or legal description										Gain (or loss)	
Street, City, Province (building)	1988		56,000	00	37,500	00	3,360	00		15,140	00
Street, City, Province (land)	1988		14,000	00	12,500	00	840	00		660	00
	Total	136	70,000	00			Gain (or loss)	138	+	15,800	00

References

To get CRA forms and publications, go to **canada.ca/cra-forms-publications** or call **1-800-959-8281**.

Forms

T1A Request for Loss Carryback

T123 Election on Disposition of Canadian Securities

T657 Calculation of Capital Gains Deduction for 2019

T936 Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 2019

T1105 Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972

T1170 Capital Gains on Gifts of Certain Capital Property

T1212 Statement of Deferred Security Options Benefit

T1255 Designation of a Property as a Principal Residence by the Legal Representative of a Deceased Individual

T2017 Summary of Reserves on Dispositions of Capital Property

T2091(IND) Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)

T2091(IND)-WS Principal Residence Worksheet

Income Tax Folios

S1-F3-C2 Principal Residence

S1-F5-C1 Related persons and dealing at arm's length

S3-F4-C1 General Discussion of Capital Cost Allowance

S3-F9-C1 Lottery Winnings, Miscellaneous Receipts, and Income (and Losses) from Crime

S4-F8-C1 Business Investment Losses

S5-F1-C1 Determining an Individual's Residence Status

Information Circulars

IC76-19 Transfer of Property to a Corporation Under Section 85

IC78-10 Books and Records Retention/Destruction

Information Sheet

RC4169 Tax Treatment of Mutual Funds for Individuals

Interpretation Bulletins (Archived)

IT-95 Foreign Exchange Gains and Losses

IT-96 Options Granted by Corporations to Acquire Shares, Bonds, or Debentures and by Trusts to Acquire Trust Units

IT-113 Benefits to Employees – Stock Options

IT-125 Dispositions of Resource Properties

IT-159 Capital Debts Established To Be Bad Debts

IT-209 Inter-Vivos Gifts of Capital Property to Individuals Directly or Through Trusts, and its Special Release

IT-218 Profit, Capital Gains and Losses From the Sale of Real Estate, Including Farmland and Inherited Land and Conversion of Real Estate From Capital Property to Inventory and Vice Versa

IT-232 Losses – Their Deductibility in the Loss Year or in Other Years

IT-264 Part Dispositions, and its Special Release

IT-391 Status of Corporations

IT-407 Dispositions of Cultural Property to Designated Canadian Institutions

IT-413 Election by Members of a Partnership Under Subsection 97(2)

IT-456 Capital Property – Some Adjustments to Cost Base, and its Special Release

IT-458 Canadian-Controlled Private Corporation

IT-459 Adventure or Concern in the Nature of Trade

IT-479 Transactions in Securities, and its Special Release

IT-491 Former Business Property, and its Special Release

IT-511 Interspousal and Certain Other Transfers and Loans of Property

For more information

What if you need help?

If you need more information after reading this guide, go to **canada.ca/taxes-capital-gains** or call **1-800-959-8281**.

Forms and publications

To get CRA forms or publications, go to **canada.ca/cra-forms-publications** or call **1-800-959-8281**.

My Account

The CRA's **My Account** service is fast, easy, and secure. Find out how to register at **canada.ca/my-cra-account**.

Use My Account to:

- view your benefit and credit information
- view your notice of assessment
- change your address, direct deposit information, and marital status
- register to receive email notifications when you have mail to view in My Account and when important changes are made to your account
- check your TFSA contribution room and RRSP deduction limit
- check the status of your tax return
- view and print your proof of income statement (option 'C' print)
- send documents to the CRA
- send an enquiry about your audit
- link between your CRA My Account and My Service Canada Account

Receiving your CRA mail online

Sign up for the CRA's online mail service to get most of your CRA mail, like your notice of assessment online.

For more information, go to **canada.ca/cra-email-notifications**.

Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use the CRA's automated service, TIPS, by calling **1-800-267-6999**.

Teletypewriter (TTY) users

If you have a hearing or speech impairment and use a TTY call **1-800-665-0354**.

If you use an **operator-assisted relay service**, call the CRA's regular telephone numbers instead of the TTY number.

Complaints and disputes

Service-related complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the Canada Revenue Agency (CRA); see the Taxpayer Bill of Rights.

If you are not satisfied with the service you received, try to resolve the matter with the CRA employee you have been dealing with or call the telephone number provided in the CRA's correspondence. If you do not have contact information, go to **canada.ca/cra-contact**.

If you still disagree with the way your concerns were addressed, you can ask to discuss the matter with the employee's supervisor.

If you are still not satisfied, you can file a service complaint by filling out Form RC193, Service-Related Complaint. For more information and how to file a complaint, go to **canada.ca/cra-service-complaints**.

If the CRA has not resolved your service-related complaint, you can submit a complaint with the Office of the Taxpayers' Ombudsman.

Formal disputes (objections and appeals)

If you disagree with an assessment, determination, or decision, you have the right to register a formal dispute.

Reprisal complaints

If you have previously submitted a service-related complaint or requested a formal review of a CRA decision and feel that, as a result, you were treated unfairly by a CRA employee, you can submit a reprisal complaint by filling out Form RC459, Reprisal Complaint.

For more information about complaints and disputes, go to **canada.ca/cra-complaints-disputes**.

Index

In addition to listing topics, this index provides references to any Interpretation Bulletin (IT) and Information Circular (IC) related to each topic mentioned. If after reading the explanations provided in this guide, you still need more information, get a copy of these publications. CRA provides a complete list of references on page 48.

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