Information for Individuals About Income Tax

Revenue Canada Revenu Canada

# 1994

# Capital Gains Election Package

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Canada

# An Overview

## Is this package for you?

This package is for you if you are an individual (other than a trust) who owned **capital property** or **eligible capital property** at the end of February 22, 1994, and you have not used all of your $100,000 capital gains exemption.

**Capital property** is generally any property which, if sold, would result in a capital gain or a capital loss. Some common types of capital property are cottages, shares, securities such as stocks and bonds, and land, buildings, and equipment that you use in a business or rental operation. **Eligible capital property** is property that you use to earn business income. It is property that does not physically exist but gives you a lasting economic benefit. Examples of this type of property are farming quotas, licenses, trademarks, customer lists, and goodwill.

On February 22, 1994, the federal government announced changes to the income tax laws that may affect you if you owned capital property or eligible capital property at the end of that day. On this page, we briefly explain the proposed changes and your options. We provide a more detailed explanation in this package.

| | |
|---|---|
| **What is changing?** | The $100,000 capital gains exemption is no longer available for capital property or eligible capital property you sell after February 22, 1994. If you owned this type of property at the end of February 22, 1994, and you have not used all of your $100,000 capital gains exemption, you may be able to file a one-time election. |
| **What is the election?** | The election is an option that will allow you to report a capital gain on your income tax return to take advantage of the unused portion of your $100,000 capital gains exemption, even though you did not actually sell your property. In most cases, this election is available only for the 1994 taxation year. We explain how the election works in more detail on page 6 in Chapter 1. |
| **How do you elect?** | You elect by filing Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*. You will find two copies of this form in the middle of this package. We provide step-by-step instructions on how to complete Form T664 in Chapter 2, which begins on page 9. |
| **Advantages** | By electing to report a capital gain, you can use the unused portion of your $100,000 capital gains exemption to reduce all or part of the gain. In many cases, you will shelter the whole elected capital gain from income tax. Any capital gain you would otherwise have when you later sell your property will be reduced. This means that the amount of income tax you have to pay in the year of the sale will be less. We explain this in more detail on page 8 in Chapter 1. |
| **Disadvantages** | When you file an election, you will report a taxable capital gain on your income tax return. Although this may not increase your taxable income because you will also claim a capital gains exemption, it will increase your net income. This can reduce your benefits and credits which are based on net income. We list some of these benefits and credits on page 7 in Chapter 1. |
| **Do you have to elect?** | No. You can choose whether or not you want to elect, and for which properties. |

**Note**
The $500,000 capital gains exemption is still available for the disposition of **qualified small business corporation shares** and **qualified farm property** after February 22, 1994. We define qualified small business corporation shares on page 31. To find out what is considered to be qualified farm property, get the income tax guide called *Farming Income*.

This package uses plain language to explain the most common income tax situations. If you need help after reading this package, please call 1-800-959-8281.

Blind or visually impaired persons can get this publication in braille and large print, and on audio cassette and computer diskette. To order, please call 1-800-267-1267 weekdays between 8:15 a.m. and 5:00 p.m. (Eastern Time).

This package reflects proposed law that had not been passed at the time of printing.

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# Properties that Qualify for the Election and Properties that Do Not Qualify for the Election

## Properties that qualify for the election include:

- cottages, rental properties, land, and other non-qualifying real property you bought **before March 1992***
- shares and securities, such as stocks and bonds
- units of a mutual fund
- works of art, jewellery, rare books, rare folios and rare manuscripts, and coin and stamp collections that were worth more than $1,000 on February 22, 1994
- personal-use properties such as antique automobiles and antique furniture that were worth more than $1,000 on February 22, 1994
- your home that you bought before March 1992, if all or part of it **was used** in a business or rental operation at some time, or if it was not your principal residence for all the years that you owned it
- an interest in a partnership, a related segregated fund trust, or a trust governed by an employee profit-sharing plan
- qualified small business corporation shares and qualified farm property
- goodwill, farm quotas, and taxi and fishing licenses

**For each of your properties, ask yourself the following question: "Was the property worth more at the end of February 22, 1994, than its cost?" If the answer is yes, you may be able to file an election for that property.**

## Properties that usually will not qualify for the election include:

- your home, if it was your principal residence for all the years that you owned it
- personal-use property such as family vehicles, appliances, and furniture that have not increased in value since you bought them
- bank accounts, guaranteed investment certificates, term deposits, and insurance policies
- Canada Savings Bonds and Quebec Savings Bonds
- investments in registered retirement savings plans and other retirement savings plans (other than employee profit-sharing plans)
- the trading assets of a business, such as inventory

You do not have to file an election for these properties because when you sell them, you usually do not have to report a capital gain.

## Other properties that do not qualify for the election include:

- cottages, rental properties, land, and other non-qualifying real property that you bought **after February 1992***
- any property you bought **after** February 22, 1994

You cannot file an election for these properties because capital gains on the sale of these properties do not qualify for the $100,000 exemption.

*The February 1992 federal budget eliminated the capital gains exemption for capital gains on the sale of non-qualifying real property, such as cottages and rental properties. However, the portion of the capital gain that applies to the period before March 1992 still qualifies for the capital gains exemption. Therefore, if you owned non-qualifying real property at the end of February 22, 1994, that you bought before March 1992, you can file an election for that property. We define **non-qualifying real property** in the glossary.

# Chapter 1
# General Information

This chapter has general information that you need to know before you can file an election. We also answer some of the more common questions.

When reading this package, you may come across words or terms that you are not familiar with. To help you understand some of these terms, we have included a glossary, which begins on page 29. You can tear the glossary out and keep it handy as you read this package.

Throughout this package, we use the terms **sell**, **sold**, **buy**, and **bought**. These words describe the most common capital transactions. However, the information in this package also applies to other dispositions or acquisitions, such as when you bequeath or inherit property and give or receive property as a gift. When reading this package, you can substitute the terms **disposed of** or **acquired** for **sold** or **bought**, if they more accurately describe your situation.

Throughout this package, we refer to other forms and publications. If you need any forms or publications, you can order them from your income tax office by mail, by telephone, or in person. You can find the address and telephone numbers in your income tax package. Depending on your situation, we may automatically send some of the income tax guides to you. For example, if you reported business or professional income, farming income, fishing income, or rental income in 1993, we may mail you the guide that deals with that type of business.

## Do you own property that qualifies for the election?

Before reading further, you should determine if you owned property that qualifies for the election. Generally, you can file an election for any property you owned at the end of February 22, 1994, that, if sold at that time, would have resulted in a capital gain. This includes **capital property** and, if you owned a business, **eligible capital property**. We define these terms in the glossary.

The chart on page 4 lists common properties that may qualify for the election. It also lists some common properties that usually will not qualify for the election.

If you did not own property at the end of February 22, 1994, that qualifies for the election, the information in this package does not apply to you, and you do not have to read any further.

If you owned **eligible capital property** at the end of February 22, 1994, you should also refer to one of the following income tax guides: *Business and Professional Income*, *Farming Income*, or *Fishing Income*. The chapter in these guides called "Eligible Capital Expenditures" contains information that you will need to know before filing an election for this type of property.

### Note

You may have owned property at the end of February 22, 1994, that is not listed in the chart on page 4. If this is the case, and you want to know if it qualifies for the election, call 1-800-959-8281.

## What is a capital gain?

When you sell capital property for more than what it cost you, you usually have a **capital gain**. To calculate your capital gain, subtract the adjusted cost base and the expenses of selling the property from your proceeds of disposition. We define **adjusted cost base** and **proceeds of disposition** in the glossary.

Three-quarters (3/4) of the capital gain is included in your income for the year you sell the property. This is called your **taxable capital gain**.

## What is the $100,000 capital gains exemption?

It is an exemption that allows you to shelter from income tax over your lifetime up to $100,000 of your capital gains. To take advantage of the exemption, you claim a capital gains deduction on your income tax return in the year you have a capital gain. However, there is a limit to the amount you can deduct. Since only three-quarters of a capital gain is taxable, the maximum you can deduct in your lifetime is $75,000 ($\$100,000 \times 3/4$). This is your **$75,000 capital gains deduction.**

The $75,000 capital gains deduction is no longer available for property sold after February 22, 1994. However, if you owned property at the end of February 22, 1994, you may be able to file an election.

## What is the election?

The election gives you the chance to report a capital gain, even though you did not actually sell your property. This allows you to take advantage of the unused portion of your $75,000 capital gains deduction. In most cases, the election is available only for the 1994 taxation year. However, there is an exception. For more information, see the section called "Do you own a business?" on page 7 in this chapter.

## Can you elect?

In most cases, you can elect if:

- you owned property at the end of February 22, 1994, that qualifies for the election;
- as a result of the election, you can claim all or part of the unused portion of your $75,000 capital gains deduction; and
- you were a resident of Canada throughout 1994.

For the purpose of the election, we will also consider you to be a resident throughout 1994, if you were a resident of Canada for at least part of 1994 and you were a resident of Canada **throughout** 1993 or 1995.

Residents of Canada include factual and deemed residents. For more information on factual and deemed residents, see the section called "Before you start" in the *General Income Tax Guide*, or see Interpretation Bulletin IT-221, *Determination of an Individual's Residence Status*, and its Special Release.

### Note

If you owned property that was transferred to you by your spouse before February 23, 1994, your spouse may have to report the capital gain. See the section called "Property transferred to your spouse" on page 15 in Chapter 3.

## How do you elect?

You elect by filing Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994.* You can file an election for **all** or **some** of your capital properties. If you elect to report a capital gain on more than one capital property, you only have to file one form. However, we consider you to have filed a separate election for each property.

If you elect to report a capital gain on the eligible capital property of your business, you have to elect on **all** the eligible capital property of the business.

## How does the election work?

When you elect to report a capital gain on capital property, we consider you to have **sold** that property at the end of February 22, 1994, for an amount designated by you. This amount becomes your **designated proceeds of disposition**.

Your designated proceeds of disposition cannot be **less than** the adjusted cost base of the property. Also, you should not designate proceeds that are **more than** the fair market value of the property at the end of February 22, 1994. We explain why in the section called "Designating proceeds more than fair market value" on page 16 in Chapter 3.

You may be electing to report a capital gain on your interest in, or your shares of, a **flow-through entity** (defined in the glossary). If this is the case, and the flow-through entity is a trust (other than a mutual fund trust), such as a related segregated fund trust or a trust governed by an employee profit-sharing plan, you **do not** designate proceeds of disposition. Instead, the trust administrator will calculate your share of any capital gain that had accrued in the trust to the end of February 22, 1994. Depending on your situation, you can elect to report all or part of your share of the accrued capital gain.

### Note

If you are electing to report a capital gain on the eligible capital property of your business, you should refer to one of the following income tax guides: *Business and Professional Income*, *Farming Income*, or *Fishing Income*. The chapter called "Eligible Capital Expenditures" explains how the election works for this type of property.

### Tax Tip

The amount you designate as proceeds of disposition may depend on your tax situation. For example, you may want to designate an amount that is less than the fair market value of the property so you can report a smaller capital gain. We show you the tax implications using different designated proceeds of disposition in Appendix B, which begins on page 21.

By filing an election, you can report a capital gain, even though you did not actually sell your property. In most cases, your elected capital gain will be the difference between the designated proceeds of disposition and the adjusted cost base of the property. Three-quarters of the elected capital gain is taxable and you have to report it on your 1994 income tax return. You can then claim a capital gains deduction on your 1994 return.

### Note

In most cases, the total of your elected taxable capital gains from all properties cannot be more than your **taxable capital gains limit for the election**. We will explain this in more detail on page 9 in Chapter 2.

### Example 1

Katelynn owned shares of a public corporation at the end of February 22, 1994. She has never claimed a capital gains deduction and wants to elect to report a capital gain on her shares. The adjusted cost base of the shares was $2,300, and their fair market value at the end of February 22, 1994, was $5,000.

Katelynn designates the fair market value of the shares as her proceeds of disposition. She calculates her elected capital gain as follows:

| | |
|---|---|
| Designated proceeds of disposition | $5,000 |
| **Minus**: Adjusted cost base | $2,300 |
| Elected capital gain | $2,700 |

Katelynn reports an elected taxable capital gain of $2,025 ($2,700 × 3/4) on her 1994 return. She also claims a capital gains deduction of $2,025.

### New adjusted cost base

As explained earlier, when you file an election for capital property, we generally consider you to have sold that property for the amount designated by you. In most cases, we also consider you to have immediately **reacquired** that property for the same amount. This amount becomes your **new adjusted cost base**. You use the new adjusted cost base to calculate any capital gain or capital loss when you later sell your property.

### Example 2

Let us continue with Example 1. By filing an election, we consider Katelynn to have sold her shares for $5,000 at the end of February 22, 1994, and to have immediately reacquired them for the same amount. If Katelynn later sells her shares, she will use the new adjusted cost base of $5,000 to calculate any capital gain or capital loss at that time.

Let us say that Katelynn sells her shares in 1998 for $6,000. She will calculate her capital gain as follows:

| | |
|---|---|
| Actual proceeds of disposition | $6,000 |
| **Minus**: New adjusted cost base | $5,000 |
| Capital gain | $1,000 |

Katelynn will have to report a $750 ($1,000 × 3/4) taxable capital gain on her 1998 return. Since the $75,000 capital gains deduction is no longer available for property sold after February 22, 1994, Katelynn cannot claim a deduction for 1998.

**Note**
It is important that you keep a record of your new adjusted cost base. You will need it to calculate any capital gain or capital loss when you later sell, or are considered to have sold, the property.

#### Exceptions to new adjusted cost base

For most properties, the new adjusted cost base will be equal to the designated proceeds of disposition of the property. However, there are exceptions, such as when you file an election for:

- your interest in, or your shares of, a flow-through entity, such as units in a mutual fund trust or your interest in a partnership;
- the eligible capital property of your business; or
- cottages, rental properties, and other non-qualifying real property.

If you are electing on one of these properties, see the chart, which begins on page 18 in Chapter 3. We define the terms **flow-through entity**, **eligible capital property**, and **non-qualifying real property** in the glossary.

### What is the filing due date for the election?

You usually have to file the election by **April 30, 1995**. You file the election by completing Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*. You should attach Form T664 to your 1994 income tax return.

If you file your return electronically (EFILE), you have to submit a paper copy of your election form to us. For more information, contact the preparer of your electronic record.

#### Deceased persons

If you are the legal representative (executor or administrator) of a person who died after February 22, 1994, you can file an election for that person.

If the person died before November 1994, the filing due date for the election is April 30, 1995. If the person died after October 1994 and before May 1995, you have six months from the date of death to file that person's election.

#### Do you own a business?

You can file an election for property used in your business. For capital property, you have to file the election by April 30, 1995.

For eligible capital property, you usually have to file the election by April 30, 1995. However, if your business' fiscal year that includes February 22, 1994, ends **after** 1994, you have to file the election by **April 30, 1996.**

### Late-filed elections

We will accept an election up to two years after its filing due date, if you estimate and pay a penalty at the time you actually file the election. The penalty is one-third of 1% of the elected taxable capital gain multiplied by the number of months that the election is late. Follow the instructions in Step 4 on Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, to calculate the penalty.

### Cancelling or amending your election

After filing an election, you may decide you do not want to report a capital gain for a particular property. If this is the case, you can usually cancel your election for that property by notifying us in writing **before 1998**.

You may also decide that you want to report a **smaller** taxable capital gain for a particular property. In this case, you can usually file an amended election for that property. You have to file the amended election **before 1998.**

You can also usually file an amended election to report a **larger** taxable capital gain for a particular property. However, in this case, you have to estimate and pay a penalty before we will allow you to amend the election. The penalty is one-third of 1% of the increase to the elected taxable capital gain resulting from the amended election, multiplied by the number of months from the election's filing due date to the date you file the amended election. Follow the instructions in Step 4 on Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, to calculate the penalty. Remember, you have to file the amended election **before 1998**.

If the amount you designate in the election as proceeds of disposition is **more than** the fair market value of the property at the end of February 22, 1994, we may not allow you to cancel or amend your election. For more information, see the section called "Cancelling or amending your election" on page 17 in Chapter 3. If you are electing on the eligible capital property of your business, or your interest in, or your shares of, a flow-through entity, you should refer to the chart, which begins on page 18.

### What are the tax implications if you file an election?

When you file an election, you will report a taxable capital gain. In most cases, you will report the gain on your 1994 income tax return. Although this **may not** increase your taxable income, it will increase your net income (line 236 of your income tax return). This may reduce benefits and credits which are based on net income, such as:

- the Child Tax Benefit;
- the goods and services tax credit;
- the Guaranteed Income Supplement;
- provincial tax credits; and
- some non-refundable tax credits, such as the age amount, the spousal amount, and medical expenses.

It may also subject you to minimum tax, increase some provincial taxes, and require you to repay all or part of any social benefits you may have received in 1994, such as Old Age Security pension benefits or Unemployment Insurance benefits. You may also have to pay your 1995 income tax by instalments.

If you reported investment expenses, rental losses, allowable business investment losses, or net capital losses of other years on any of your 1985 to 1994 income tax returns, the amount of the capital gains deduction you can claim in 1994 may not offset the whole elected taxable capital gain. Also, if your 1993 *Notice of Assessment* or *Notice of Reassessment* indicated that you had a cumulative net investment loss (CNIL) as of December 31, 1993, the amount you can claim as a capital gains deduction may not offset the whole elected taxable capital gain. This will **increase** your taxable income and **may increase the amount of income tax** you have to pay for the year. For more information on how these losses affect the capital gains deduction, see the chapter called "Capital Gains Deduction" in the income tax guide called *Capital Gains*.

### Tax Tip

You may have owned a property at the end of February 22, 1994, together with another person or persons. If this is the case, each of you can elect to report a capital gain in proportion to your interest in that property. This will allow you to each report a capital gain and to take advantage of your unused capital gains deductions.

### What are the tax benefits?

By filing an election, you will reduce any capital gain you would otherwise have when you later sell your property. This will reduce the amount of income tax you have to pay in the year of the sale.

If you do not file an election and you later sell your property, you will have to report the full taxable capital gain in income in the year of the sale. This may increase **both** your net income and your taxable income, and may increase the amount of income tax you will have to pay in that year. It may also affect your benefits and credits in that year.

You will find examples in Appendix B, which begins on page 21, showing the tax implications when an individual elects and does not elect.

### Tax Tip

Even if you do not plan to sell your property, you may want to consider filing an election. By filing an election, you can reduce any capital gain you would otherwise have when you later give the property away or bequeath it to a family member. You may want to read the chapter called "Deemed Disposition of Property" in the income tax guide called *Preparing Returns for Deceased Persons*, or the chapter called "Other Transactions" in the income tax guide called *Capital Gains*.

**Filing an election is optional. You should review your tax situation and decide if the election will benefit you.**

# Chapter 2
# How to Complete Form T664

This chapter explains how to calculate your taxable capital gains limit for the election. It also gives step-by-step instructions to help you complete Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994.*

## Calculating your taxable capital gains limit for the election

Before completing Form T664, you will need to know your **taxable capital gains limit for the election**. This is because your total elected taxable capital gains from all properties cannot be more than this limit. If it is, we may disallow your election on all properties for which you filed an election.

To calculate your taxable capital gains limit for the election, complete Chart 1 below. You may also have to complete Charts 2 to 4 in Appendix C, which begins on page 24. To see if you should complete Charts 2 to 4, answer the following questions:

- Did you receive an information slip (T3, T5, T5013, or T4PS) for 1994 indicating a capital gain or a capital loss?
- Did you have a capital gain (other than an elected capital gain) or a capital loss in 1994, or are you reporting a reserve for property you sold before 1994?
- Is the total of any investment expenses and net rental losses you claimed on your 1988 to 1994 returns more than the total of any investment income and net rental income you reported in those years?
- Did your 1993 *Notice of Assessment* or *Notice of Reassessment* indicate a cumulative net investment loss (CNIL) as of December 31, 1993?
- Did you claim net capital losses of other years (line 253) or allowable business investment losses (line 217) on any of your 1985 to 1993 income tax returns or do you have net capital losses of other years or allowable business investment losses that you will claim in 1994?

If you answered **NO** to **all** of these questions, you only have to complete Chart 1 below. You do not have to complete Charts 2 to 4 in Appendix C.

If you answered **YES** to **any** of these questions, you have to complete Chart 1 and you may also have to complete all or some of the charts in Appendix C. Read the introduction for each chart to determine which charts you have to complete. You complete these charts because you have to adjust your taxable capital gains limit for the election. These adjustments will allow you to report the maximum taxable capital gain. For example, if you have a cumulative net investment loss as of December 31, 1994, your taxable capital gains limit for the election will be increased to allow you to report a larger gain so you can fully benefit from your unused capital gains deduction.

If you need help completing the charts or if you need information on prior-year amounts, call 1-800-959-8281.

**Note**

If you are electing to report a taxable capital gain on the **eligible capital property** of your business, and you sold eligible capital property of **that** business before February 23, 1994, but in the fiscal year that includes February 22, 1994, this limit may not apply to you. For more information, see the chapter called "Eligible Capital Expenditures" in one of the following income tax guides: *Business and Professional Income*, *Farming Income*, and *Fishing Income*.

### Chart 1 — Calculating your taxable capital gains limit for the election

When looking at this chart, you will notice that we adjust the amount of the capital gains deductions you claimed in previous years. We do this because capital gains were included in income at different rates in those years.

**Note:** If you did not claim a capital gains deduction on any of your 1985 to 1993 tax returns, simply enter $75,000 on line 11.

| | | | |
|---|---|---|---|
| Maximum capital gains deduction for 1994 | | $75,000 | (1) |
| Capital gains deduction you claimed on line 254 of your 1985, 1986 and 1987 returns | ______ (2) | | |
| Adjustment (1/2 of the amount on line 2) | ______ (3) | | |
| Capital gains deduction you claimed in 1988 and 1989 excluding eligible capital property (from line 254 of your 1988 and 1989 returns, minus any amounts you reported on lines 543 and 544 on Schedule 3 for 1988 and 1989 — if negative, enter zero) | ______ (4) | | |
| Adjustment (1/8 of the amount on line 4) | ______ (5) | | |
| Capital gains deduction you claimed in 1988 and 1989 for eligible capital property (from line 254 of your 1988 and 1989 returns, minus the amount on line 4 above — not to exceed the total of lines 543 and 544 on Schedule 3 for 1988 and 1989) | ______ (6) | | |
| Capital gains deductions you claimed on line 254 of your 1990, 1991, 1992, and 1993 returns | ______ (7) | | |
| Subtotal (add lines 2 to 7 inclusive) | ______ (8) | | |
| Enter the portion, if any, of the amounts from lines 2 to 7 inclusive, applicable to qualified small business corporation shares and qualified farm property; **maximum $300,000** | ______ (9) | | |
| Line 8 minus line 9 | ______ ➤ | ______ | (10) |
| Line 1 minus line 10 | | ______ | (11) |

If you entered zero on line 11, you cannot file an election or claim a capital gains deduction in 1994.

If you are **not** completing Charts 2 to 4 in Appendix C, line 11 is your taxable capital gains limit for the election. If you are completing Charts 2 to 4 in Appendix C, transfer the amount from line 11 to line 1 of Chart 4 on page 27. Start with Chart 2 on page 24 to calculate your taxable capital gains limit for the election after adjustments.

## Completing Form T664

Once you have calculated your taxable capital gains limit for the election, you can complete Form T664 by following the instructions in this section. You will find two copies of Form T664 in the middle of this package. Use one copy as a working copy, and file the other copy with your income tax return. Since it may be necessary for you to adjust some amounts, we suggest that you complete the working copy in pencil.

**Before completing each step on the form, you should read the instructions for that step in this section.**

## Step 1 — Property for which you are filing an election

List **only** those properties for which you are filing an election. See the chart on page 4 for a list of properties that may qualify for the election and a list of properties that usually will not qualify for the election.

Enter a full description of the property, the date you acquired it, and its fair market value at the end of February 22, 1994. For information on how to estimate the fair market value of certain properties, see page 14 in Chapter 3.

If you are electing on your interest in a flow-through entity that is a trust (other than a mutual fund trust), such as a related segregated fund trust or a trust governed by an employee-profit sharing plan, you do not have to enter the fair market value of the property. We define **flow-through entity** in the glossary.

If you are electing on the **eligible capital properties** of your business, enter "ECP" and the name of the business under "Description of property." You do not have to enter the dates you acquired the properties. In the column "Fair market value at the end of February 22, 1994," enter the total of the fair market values for all the eligible capital properties of the business.

## Step 2 — Calculation of elected capital gains

### Chart A — Flow-through entities

Use Chart A to calculate the elected capital gain on your interest in, or your shares of, a flow-through entity, such as units of a mutual fund trust or your interest in a partnership.

Complete columns 1 to 5, following the instructions that begin on this page.

If you are electing to report a capital gain on your interest in a flow-through entity that is a trust (other than a mutual fund trust), such as a related segregated fund trust or a trust governed by an employee profit-sharing plan, do not complete columns 1, 2, 3, or 4. The trust administrator will calculate your share of any capital gain that had accrued in the trust to the end of February 22, 1994. Depending on your situation, you can elect to report all or part of the accrued capital gain. Enter your elected capital gain directly in column 5.

### Chart B — Other capital properties and eligible capital property

Use Chart B to calculate the elected capital gain on all other capital properties and the eligible capital property of your business.

If you are electing to report a capital gain on **capital property**, complete columns 1 to 5 following the instructions that begin on this page.

If you are electing to report a taxable capital gain on the **eligible capital property** of your business, do not complete columns 1, 3, and 4. Instead, you should get one of the following income tax guides: *Business and Professional Income*, *Farming Income*, or *Fishing Income*. The chapter called "Eligible Capital Expenditures" contains information on how to calculate your elected taxable capital gain. Designate one amount for all the eligible capital properties of your business, and enter the designated amount in column 2. You then enter 4/3 of the elected taxable capital gain in column 5.

### Column 1: Adjusted cost base

Enter the adjusted cost base of each property. The adjusted cost base is usually the cost of your property, plus any expenses you paid to acquire it.

The cost of the property may be its actual or its deemed cost, depending on the type of property and how you acquired it. The chart on the following page shows some common situations where the cost of the property may be an amount other than its actual cost.

You also have to adjust the cost of your property to include the cost of any additions or improvements you made to the property. We provide a more complete definition of **adjusted cost base** in the glossary.

### Column 2: Designated proceeds of disposition

Enter the designated proceeds of disposition for each property. Remember that you cannot designate proceeds of disposition that are **less** than the adjusted cost base of the property. Also, you should not designate proceeds of disposition that are **more** than the fair market value of the property at the end of February 22, 1994. We explain why in the section called "Designating proceeds more than fair market value" on page 16 in Chapter 3. If you are electing on the eligible capital property of your business or your interest in, or shares of, a flow-through entity, you should refer to the chart, which begins on page 18.

The amount you designate as proceeds of disposition may depend on your tax situation. We show the tax implications using two different proceeds of disposition in Appendix B, which begins on page 21.

**Note**
If you are electing to report a capital gain on **depreciable property** (defined in the glossary) that you bought before 1972, you may have to adjust your proceeds of disposition. For more information, see the section called "Property bought before 1972" on page 15 in Chapter 3.

## Exceptions to adjusted cost base

| | |
|---|---|
| **Inheritances or gifts** | If you inherit or receive property as a gift, we usually consider you to have acquired the property at a cost equal to its fair market value on the date you acquired it. However, there are exceptions. For example, property you inherit because your spouse died or a gift of property from your spouse may be treated differently. For more information, see the chapter called "Deemed Disposition of Property" in the income tax guide called *Preparing Returns for Deceased Persons*, or the chapter called "Other Transactions" in the income tax guide called *Capital Gains*. |
| **Identical properties** | We consider properties of a group to be identical if each property in the group is the same as all the others. The most common example of identical properties is when you buy shares of the same class of the capital stock of a corporation.<br><br>You may buy and sell several shares at different prices over a period of time. If you do this, you have to calculate the average cost of each share in the group at the time of each purchase. This allows you to determine your adjusted cost base.<br><br>**Example**: Gina bought 100 common shares of a corporation for $15 each. She later bought another 150 shares of the same class of that corporation for $20 each. Gina calculates the average cost as follows:<br><br>Previously purchased shares: ........ 100 × $15 = $1,500<br>Newly purchased shares: ........ 150 × $20 = $3,000<br>Total shares: ........ 250 Total cost: $4,500<br>Average cost of each share: ........ $4,500 ÷ 250 = $18<br><br>If you are electing on identical properties that you acquired before 1972, see the section called "Property bought before 1972" on page 15 in Chapter 3. |
| **Stock split** | When there is a stock split, shares you own in a corporation will be replaced by a greater number of shares of the same class of that corporation. To determine the adjusted cost base of each new share, use the following calculation:<br><br>$\frac{\text{Number of old shares}}{\text{Number of new shares}} \times$ adjusted cost base of each old share = Adjusted cost base of each new share after stock split |
| **Stock consolidation** | When there is a stock consolidation, shares you own in a corporation will be replaced by a lesser number of shares of the same class of that corporation. To determine the adjusted cost base of each new share, use the following calculation:<br><br>$\frac{\text{Number of old shares}}{\text{Number of new shares}} \times$ adjusted cost base of each old share = Adjusted cost base of each new share after consolidation |
| **Personal-use property and listed personal property** | If the adjusted cost base of the property is less than $1,000, we consider the adjusted cost base to be $1,000.<br><br>**Example**: Jeff bought a motorcycle in 1991. Although he paid $800 for it at the time of the purchase, Jeff will use $1,000 as the adjusted cost base when he sells the motorcycle. |
| **Property bought before 1972** | If you bought non-depreciable property before 1972, you have to modify the adjusted cost base of the property. We explain this in more detail in the section called "Property bought before 1972" on page 15 in Chapter 3. |
| **Interest in a partnership** | If you are electing on your interest in a partnership, you have to adjust the adjusted cost base of your interest by your share of the partnership's income and losses (other than taxable capital gains or allowable capital losses) for the fiscal year that includes February 22, 1994. You add to the adjusted cost base your share of the income (or loss) that is applicable to the period before February 23, 1994. You calculate this by multiplying your share of the net income (or loss) by the number of days in the partnership's fiscal year before February 23, 1994, divided by the total number of days in the fiscal year. You also have to add to the adjusted cost base your share of 4/3 of any net taxable capital gains realized by the partnership before February 23, 1994. |
| **Section 53 adjustments** | Section 53 adjustments include adjustments made to the cost base because you have a restricted farm loss or a superficial loss, you own vacant land, or you have a capital interest in a trust. For more information, see Interpretation Bulletin IT-456, *Capital Property — Some Adjustments to Cost Base*, and its Special Release. |

### Column 3: Capital gain before reduction

Subtract the amount in column 1 from the amount in column 2 for each property. Enter the result in column 3.

If you are electing to report a capital gain on property that you want to designate as your principal residence for certain years, complete Form T2091, *Designation of a Property as a Principal Residence by an Individual (Other than a Personal Trust)*, before completing this step. Form T2091 will help you calculate the number of years that you are entitled to designate your home as a principal residence, as well as the part of the capital gain, if any, that you can elect to report. For more information, see the section called "Principal Residence" on page 14 in Chapter 3.

### Column 4: Reduction for non-qualifying real property

If you are electing to report a capital gain on your cottage, a rental property, or other non-qualifying real property, you have to read this section. If you are **not** electing to report a capital gain on this type of property, enter zero in column 4 and go to the next section called "Column 5: Elected capital gain."

Capital gains from the sale of cottages, rental properties, or other non-qualifying real property bought **after February 1992** do not qualify for the capital gains deduction. However, if you bought non-qualifying real property **before March 1992**, the portion of the capital gain that applies to the period before March 1992, qualifies for the capital gains deduction.

If you file an election for non-qualifying real property you bought before March 1992, you have to reduce your elected capital gain by the portion of the capital gain that does not qualify for the capital gains deduction. To calculate this reduction for non-qualifying real property use the following chart.

## Reduction for non-qualifying real property

If you are electing on more than one non-qualifying real property, you have to calculate the reduction for each property separately.

| | | |
|---|---|---|
| Enter the capital gain from column 3 of Chart A or Chart B in Step 2 of Form T664 .... | ______ | (1) |
| Enter the factor* .................... | ______ | (2) |
| Reduction (multiply line 1 by line 2) .... | ______ | (3) |

Enter the reduction in column 4 of Chart A or Chart B, whichever applies.

*Use the following equation to determine the factor you will use in the above calculation:

$$\frac{\text{24 (March 1992 to February 1994)}}{\text{Number of months you owned the property before March 1994**}} = \text{Factor}$$

**Start counting with the month you bought the property. If you owned the property before January 1972, start counting with that month, since capital gains were not taxed before 1972. In this case, the number of months to use in your calculation is 266.

### Example

Sylvie bought a cottage in July 1991 and still owned the cottage at the end of February 22, 1994. She wants to elect to report a capital gain on the cottage. The fair market value of the cottage was $125,000 at the end of February 22, 1994, and the adjusted cost base was $75,000. The cottage was not Sylvie's principal residence.

Sylvie cannot designate proceeds of disposition that are **less** than the adjusted cost base ($75,000). Also, she does not want to designate proceeds that are **more** than the fair market value of the cottage ($125,000). Sylvie designates $125,000 as her proceeds of disposition.

Sylvie calculates her capital gain as follows:

| | |
|---|---|
| Designated proceeds of disposition | $125,000 |
| **Minus**: Adjusted cost base | $ 75,000 |
| Capital gain (before reduction) | $ 50,000 |

Sylvie's cottage is non-qualifying real property, so she has to calculate the reduction for non-qualifying real property. Using the chart above, Sylvie calculates the factor to be used as follows:

$$\frac{\text{24 (March 1992 to February 1994)}}{\text{32 (July 1991 to February 1994)}} = .75$$

Sylvie now calculates the reduction as follows:

$50,000 × .75 (factor) = $37,500

Sylvie enters $37,500 in column 4 of Chart B in Step 2.

Sylvie also uses the reduction to calculate the new adjusted cost base of the cottage. To see how to calculate the new adjusted cost base for non-qualifying real property, see the chart, which begins on page 18 in Chapter 3.

### Column 5: Elected capital gain

Subtract the amount in column 4 from the amount in column 3 for each property. Enter the result in column 5.

Total the amounts that you have entered in column 5 of Chart A on line 1 and the amounts that you have entered in column 5 of Chart B on line 2.

## Step 3 — Calculation of elected taxable capital gains

Follow the instructions on Form T664 to calculate your elected taxable capital gains. The total of the amounts you calculate for lines 4 and 6 is your **total elected taxable capital gains**.

Remember that your total elected taxable capital gains from all properties cannot be more than your taxable capital gains limit for the election. If it is, we may disallow your election on all properties for which you filed an election. We explain how to calculate this limit in the section called "Calculating your taxable capital gains limit for the election" on page 9 in this chapter.

If your total elected taxable capital gains from all properties (line 4 plus line 6) are more than your taxable capital gains limit for the election, you have to reduce your elected taxable capital gains. You do this by designating smaller proceeds of disposition for one or more properties.

### Capital gains deduction — Line 254 of your income tax return

If you did not complete any of the charts in Appendix C, the total of the amounts on line 4 and 6 of Form T664 is also your capital gains deduction. Enter the total of lines 4 and 6 on line 254 of your income tax return. The total **cannot** exceed the amount you calculated for line ~~9~~ 11 of Chart 1 on page 9.

If you completed any of the charts in Appendix C, you have to complete Form T657A, *Calculation of Capital Gains Deduction for 1994 on Other Capital Property*, or Form T657, *Calculation of Capital Gains Deduction on All Capital Property,* to calculate your capital gains deduction. You have to use Form T657 if you sold qualified farm property or qualified small business corporation shares in 1994 or a prior year. You may also have to complete Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 1994.* You will find Forms T657A and T936 and instructions on how to complete them in the income tax guide called *Capital Gains*. You can get Form T657, and the income tax guide called *Capital Gains*, from your income tax office.

**Note**

If you complete Form T657A or Form T657 and determine that you cannot claim a capital gains deduction, you usually cannot file an election to report a capital gain. This is because an election will be allowed **only** if, as a result of the election, you can claim all or part of your unused $75,000 capital gains deduction. However, there is an exception. If you are electing to report a taxable capital gain on the **eligible capital property** of your business, and you sold eligible capital property of **that** business before February 23, 1994, but in the fiscal year that includes February 22, 1994, a special rule may apply. You should refer to the chapter called "Eligible Capital Expenditures" in one of the following income tax guides: *Business and Professional Income*, *Farming Income,* and *Fishing Income*.

## Step 4 — Penalty for late-filed or amended election

If you file an election after its filing due date, or if you file an amended election that increases the elected taxable capital gain on a property, we will accept it **only** if you estimate and pay a penalty. Follow the instructions on Form T664 to calculate the penalty.

## Step 5 — Election and certification

You have to complete this section in order for your election to be valid. Print your name and the address where you live. Remember to enter your social insurance number and to sign the form.

Attach one copy of Form T664 to your 1994 income tax return, and keep a completed copy for your records.

# Chapter 3
# Additional Information

This chapter gives you additional information that you may need to know before filing an election. You should read the sections that apply to you.

## Estimating fair market value

The following information will help you estimate the fair market value of certain properties.

### Investments

The fair market value of **publicly traded securities** will usually be the closing stock market prices for February 22, 1994. You can get the necessary information from public listings of transactions on recognized stock exchanges, investment publications, or from your broker or investment dealer.

For **securities in a privately owned business**, the fair market value may be more difficult to estimate. You can get the necessary information from a person who is familiar with the business, such as an accountant or a business valuator. For more information, see Information Circular 89-3, *Policy Statement on Business Equity Valuations*.

### Listed personal property and other personal-use property

The fair market value of these properties may be estimated by consulting with art, coin, jewellery, antique, and stamp dealers. You can also refer to catalogues for the value of these objects at the end of February 22, 1994.

### Real estate

There are two main methods for estimating the fair market value of real estate at the end of February 22, 1994.

You can obtain from a professional appraiser a fully documented appraisal with supporting information that explains the appraisal. The appraisal should also include a detailed explanation of the method used to arrive at the estimated value.

You can also estimate the fair market value of the property yourself, by collecting information on sales of similar properties in the same area around February 22, 1994. You can get this information from:

- real estate pamphlets, which provide asking prices (if possible, you should determine if the property sold and what the actual sale price was);
- newspapers, which also provide the asking price; and
- land-registry or land-title offices.

To support your valuation, you should keep documents containing the following information:

- a brief description of the property, including location, lot, building size, and date and type of construction;
- the cost and date of purchase;
- the cost of any additions or improvements;
- the property assessment for municipal tax purposes; and
- insurance coverage.

## Principal residence

If you sell your home for more than it cost you, you usually do not have to report the sale on your tax return or pay tax on any gain from the sale. This is the case if it was designated, or will be designated, as your principal residence for every year you owned it. We define **principal residence** in the glossary.

### Can you have more than one principal residence?

**For years before 1982**, you can designate more than one home per family as a principal residence. As a result, it is possible for a husband and wife to 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 years before 1982. For more information, see Interpretation Bulletin IT-120, *Principal Residence*.

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

A family generally includes an individual, the individual's spouse, and the individual's child, if the child was not married and was under the age of 18.

For 1993 and following years, the term **spouse** also includes a common-law spouse as defined on page 31. Therefore, such common-law spouses are considered to be a family and can no longer designate different homes as their principal residences for taxation years after 1992.

### Can you elect on your principal residence?

You do not have to file an election for your home, if it was your principal residence **throughout** all the years that you owned it. However, it is possible that the property was not your principal residence for every year that you owned it. For example, you may have designated, or will designate, another property to be your principal residence. In this case, you can elect to report the part of the capital gain on the property that relates to the years for which you are not designating it as your principal residence.

If you are electing to report a capital gain on your property, and you want to designate it as your principal residence for a number of years, use Form T2091(IND), *Designation of a Property as a Principal Residence by an Individual (Other than a Personal Trust)*. This form will help you calculate the number of years you are entitled to designate your home as your principal residence as well as the part of the capital gain, if any, that you can elect to report. You can get Form T2091(IND) from your income tax office.

You enter the part of the capital gain, if any, in Column 3 of Chart B in Step 2 of Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*.

If you later sell the property, and you want to designate it as your principal residence for any years for which you did not already designate it to be your principal residence, you can use Form T2091(IND) to calculate any capital gain you have to report in the year of the sale.

You may also want to file an election to report a capital gain on your residence if you:

- rented out all or part of the residence at any time; or
- used all or part of the residence at any time to operate a business.

If either of these two situations applies to you, see the chapter called "Principal Residence" in the income tax guide called *Capital Gains*.

## Property transferred to your spouse

You may have transferred property before February 23, 1994, to your spouse, a person who has **since** become your spouse, or a trust for your spouse. For example, you may have transferred ownership of your rental property or your cottage to your spouse. If this was the case, and your spouse or the trust wants to elect on that property, you usually will have to report the elected capital gain on your income tax return.

You usually will **have to** report the elected capital gain if, on February 22, 1994:

- you were a resident of Canada; and
- you and your spouse were married to each other (if you are living in a common-law situation we may consider you to be married — see the definition of **spouse** in the glossary).

Your spouse completes Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, and **you** attach it to your tax return. Your spouse does not need to file a copy unless part of the elected capital gain is included in his or her income. In most cases, the total of the elected taxable capital gains that you report on your tax return cannot be more than **your** taxable capital gains limit for the election. For more information, call 1-800-959-8281.

In some situations, you may not have to report the elected capital gain. For example, if you are living apart because of a marriage breakdown, you may not have to report the elected capital gain. For more information, see the section called "Common transfers of property" in the income tax guide called *Capital Gains*.

### Note

Your spouse may also want to elect to report a capital gain on other property that he or she owned at the end of February 22, 1994. If this is the case, your spouse will have to complete a separate Form T664 for that property and file it with his or her tax return.

## Property bought before 1972

If you are electing to report a capital gain on property that you bought before 1972, you have to apply a special set of rules. You apply these rules because you did not have to pay tax on capital gains before 1972.

To ensure that capital gains that accrued before 1972 are not taxed, a starting point called **Valuation Day** was established for calculating capital gains.

There are two Valuation Days:

- **December 22, 1971**, is Valuation Day for publicly traded shares or securities, common and preferred; and
- **December 31, 1971**, is Valuation Day for all other properties.

The Valuation-Day value is the fair market value of your property on Valuation Day.

To estimate the Valuation-Day value for **publicly traded shares**, see the publication called *Valuation Day Prices of Publicly Traded Shares and Securities*. You can pick up a copy of this publication at your income tax office. This publication lists all publicly traded shares and their Valuation-Day value, if they were traded on a recognized stock exchange in Canada.

To help you estimate the Valuation-Day value of real estate you owned on December 31, 1971, a **Real Estate Data Bank** is available at your income tax office. This bank contains records of real estate transactions that took place in 1971 and 1972. Properties that sold during this period have been listed, along with information such as the legal descriptions, the municipal addresses, and assessed values of the properties.

### Non-depreciable property

If you elect to report a capital gain on non-depreciable property (defined in the glossary) that you bought before 1972, you have to determine the deemed cost of the property to use when calculating the adjusted cost base. To determine the deemed cost of the property, you can use either the **median-rule method** or the **Valuation-Day value method**.

#### Median-rule method

To use this method, you need to know the following three amounts:

- the actual cost of the property;
- the Valuation-Day value of the property; and
- your designated proceeds of disposition of the property.

The median amount is the amount that is neither the highest nor the lowest of the three amounts. When two or more of these amounts are the same, that amount will be the median amount. The median amount becomes the deemed cost of the property.

### Note

If you own **identical properties** that you bought before 1972, you may have to adjust the actual cost of the property before you can determine the median amount. For more information, see Interpretation Bulletin IT-78, *Capital Property Owned on December 31, 1971 — Identical Properties.*

You may have made **adjustments to the cost base** before February 23, 1994, according to section 53 of the *Income Tax Act*. If this is the case, you may also have to adjust your designated proceeds of disposition before you can determine the median amount. For more information, see Interpretation Bulletin IT-84, *Capital Property Owned on December 31, 1971 — Median Rule (Tax-Free Zone).* See the section called "Section 53 adjustments" in the chart on page 11 in Chapter 2 for some examples of when adjustments to the cost base under section 53 are required.

#### Valuation-Day value method

You can elect to use the Valuation-Day value of the property as the deemed cost of the property you bought before 1972. To make this election, you have to file Form T2076, *Valuation Day Value Election for Capital Properties Owned on December 31, 1971*, with your 1994 income tax return. You can get this form from your income tax office.

You do not have to file Form T2076 with your 1994 return if the property on which you are electing is personal-use property, other than listed personal property or real estate.

You may have elected to use the Valuation-Day value method in a prior year for property you bought before 1972. If this is the case, and you filed Form T2076, you have to use this method for the purpose of the election. This is because once you have elected to use the Valuation-Day value method, you have to continue to use that method for all properties (other than depreciable property) that you owned on December 31, 1971.

### Example

Claudio bought a cottage in 1968 for $10,000. He owned it at the end of February 22, 1994, and wants to elect to report a capital gain on the property. The fair market value of the property at the end of February 22, 1994, was $60,000, and its Valuation-Day value was $20,000. Claudio designates proceeds of disposition of $60,000.

Claudio is required to take into account only the part of the capital gain that arose after December 31, 1971, when he calculates his elected capital gain. Since the cottage is non-depreciable property, Claudio has to determine the deemed cost of the property. Claudio can use either the median-rule method or the Valuation-Day value method.

Claudio decides to use the median-rule method. He knows that his deemed cost will be the median of the following three amounts:

| | |
|---|---|
| Actual cost of the cottage | $10,000 |
| Valuation-Day value | $20,000 |
| Designated proceeds of disposition | $60,000 |

His deemed cost is therefore $20,000, the median of the three amounts.

If Claudio had decided to use the Valuation-Day value method, the deemed cost of the cottage would still be $20,000, since this is the Valuation-Day value.

#### Depreciable property

If you elect to report a capital gain on depreciable property (defined in the glossary) that you bought before 1972, you may have to adjust your designated proceeds of disposition before you can calculate your elected capital gain. You do this to eliminate any capital gain that had accrued on the property up to Valuation Day. You adjust your designated proceeds of disposition **only** if the capital cost of the property on December 31, 1971, is less than **both** the designated proceeds of disposition and the Valuation-Day value of the property. For more information, see Interpretation Bulletin IT-217, *Capital Property Owned on December 31, 1971 — Depreciable Property*, and its Special Release.

## Designating proceeds more than fair market value

The information in this section applies to the most common capital properties. If you are electing on the eligible capital property of your business or units of a mutual fund trust, your interest in a partnership, or your interest in, or shares of, another flow-through entity, see the column "Designating proceeds more than fair market value" in the chart, which begins on page 18 in this chapter.

If you designate proceeds of disposition that are more than the fair market value of the property at the end of February 22, 1994:

- your new adjusted cost base will be an amount that is less than your designated proceeds of disposition; **and**
- you may not be allowed to cancel or amend your election.

We explain what will happen if you designate proceeds of disposition more than fair market value in the following sections.

#### New adjusted cost base

When you file an election for a capital property, your designated proceeds of disposition usually become the new adjusted cost base of that property. You use the new adjusted cost base to calculate any capital gain or capital loss when you later sell your property.

However, if you designate proceeds of disposition that are more than the fair market value of your property at the end of February 22, 1994, we will not allow you to use your designated proceeds of disposition as your new adjusted cost base. Instead, you will have to use an adjusted cost base that is lower than your designated proceeds of disposition. This means that any capital gain that you have when you later sell the property, will either be equal to or greater than the capital gain that you would have at that time, if your designated proceeds of disposition used in the election were equal to the fair market value at the end of February 22, 1994.

Calculate the new adjusted cost base using the following chart:

| | | |
|---|---|---|
| Fair market value of property at the end of February 22, 1994 ................ | | ______(A) |
| Designated proceeds of disposition. | ______(B) | |
| Amount from line A ___ × 1.1 .... | ______(C) | |
| Line B minus line C — if negative, enter zero .................. | ______ | ______(D) |
| Line A minus line D ...................... | | ______(E) |

The amount on line E is your new adjusted cost base. Use this amount to calculate any capital gain or capital loss when you later sell your property.

If the amount on line E is negative, your new adjusted cost base is nil. The negative amount becomes a capital gain and you have to report it on your 1994 income tax return. You **cannot** claim a capital gains deduction to reduce this gain.

### Example

Sarda owned 100 shares of XYZ corporation. She bought the shares for $5,000 in 1991. The fair market value of the shares at the end of February 22, 1994, was $8,000. Sarda designates proceeds of disposition of $9,000.

Sarda calculates her elected capital gain as follows:

| | |
|---|---|
| Designated proceeds of disposition | $9,000 |
| **Minus**: Adjusted cost base | $5,000 |
| Elected capital gain | $4,000 |

Sarda reports a taxable capital gain of $3,000 ($4,000 × 3/4) on her 1994 income tax return. Although this does not increase her taxable income since she is also claiming a capital gains deduction, it does increase her net income. This may reduce some benefits or credits to which Sarda is entitled.

Sarda also has to calculate the new adjusted cost base of the shares. Since she designated proceeds of disposition that were more than the fair market value at the end of February 22, 1994, Sarda has to calculate the new adjusted cost base as follows:

| | | |
|---|---|---|
| Fair market value of property at the end of February 22, 1994 .............. | | $8,000 (A) |
| Designated proceeds of disposition | $9,000 (B) | |
| Amount from line A $8,000 × 1.1 | $8,800 (C) | |
| Line B minus line C — if negative, enter zero .................. | $ 200 | $ 200 (D) |
| Line A minus line D .................... | | $7,800 (E) |

The new adjusted cost base is $7,800.

Let us say Sarda does sell her shares in 1998 for $9,800. She has to calculate her capital gain using this new adjusted cost base. She does this as follows:

| | |
|---|---|
| Actual proceeds of disposition | $9,800 |
| **Minus:** New adjusted cost base | $7,800 |
| Capital gain | $2,000 |

Sarda's taxable capital gain is $1,500 ($2,000 × 3/4). Since the $75,000 capital gains deduction is no longer available for property sold after February 22, 1994, she cannot claim a deduction for 1998.

If Sarda had designated proceeds of disposition that were equal to the fair market value of the shares at the end of February 22, 1994, the new adjusted cost base would be $8,000. When she sells the shares, she would calculate her capital gain as follows:

| | |
|---|---|
| Actual proceeds of disposition | $9,800 |
| **Minus:** New adjusted cost base | $8,000 |
| Capital gain | $1,800 |

Sarda's taxable capital gain would only be $1,350 ($1,800 × 3/4).

Sarda ends up reporting a taxable capital gain that is $150 more than what she would have reported if she had designated proceeds of disposition that were equal to the fair market value of the shares at the end of February 22, 1994. Since the $75,000 capital gains deduction is no longer available for property sold after February 22, 1994, she cannot claim a deduction to shelter this gain.

### Note

You may be filing an election for a cottage, a rental property, or other non-qualifying real property. If this is the case, you have to reduce the adjusted cost base calculated above, by the reduction for non-qualifying real property. We show you how to calculate the reduction on page 12 in Chapter 2.

### Cancelling or amending your election

If you designate proceeds of disposition for a property that are more than 110% of the fair market value of the property at the end of February 22, 1994, we will **not** allow you to cancel or amend your election on that property. You should, therefore, be careful not to designate proceeds that are more than the fair market value.

## Exceptions

| Type of property | Exceptions to new adjusted cost base | Designating proceeds more than fair market value | When you later sell the property |
|---|---|---|---|
| **Flow-through entities** | When you elect to report a capital gain for your interest in, or your shares of, a flow-through entity, the adjusted cost base of the property does not change. Instead, your elected capital gain (column 5 of Chart A in Step 2 of Form T664) creates an **exempt capital gains balance** for that flow-through entity.<br><br>For more information on exempt capital gains balances, see the chapter called "Common Transactions" in the income tax guide called *Capital Gains.* | If you designate proceeds of disposition that are more than the fair market value, you have to reduce your exempt capital gains balance.<br><br>Depending on the amount you designate as proceeds of disposition, your exempt capital gains balance may be reduced to zero. If this is the case, you may have to reduce the adjusted cost base of the property. This may result in a taxable capital gain that you have to include in income.<br><br>For information on how to calculate the exempt capital gains balance, see the chapter called "Common Transactions" in the income tax guide called *Capital Gains*.<br><br>If you designate proceeds of disposition for a property that are more than 110% of the fair market value, we will **not** allow you to cancel or amend your election on that property. | Your exempt capital gains balance may be used to shelter from tax any capital gains that flow out to you from the flow-through entity after February 22, 1994, or that you realize from the disposal of your interest in, or your shares of, the flow-through entity after February 22, 1994.<br><br>If the flow-through entity is a partnership, you can also use the exempt capital gains balance to reduce your share of the business income of the partnership from the disposition of eligible capital property (other than the recapture of annual allowances deducted in previous years).<br><br>For more information, see the chapter called "Common Transactions" in the income tax guide called *Capital Gains*. |
| **Non-qualifying real property** | If the non-qualifying real property is an interest in, or shares of, a flow-through entity, see the section of this chart called "Flow-through entities."<br><br>If the non-qualifying real property is other property, the new adjusted cost base is the designated proceeds of disposition minus the reduction for non-qualifying real property. We show you how to calculate the reduction on page 12 in Chapter 2. | If the non-qualifying real property is an interest in, or shares of, a flow-through entity, see the section of this chart called "Flow-through entities."<br><br>If the non-qualifying real property is other property, use the chart on page 17 in Chapter 3 to calculate your new adjusted cost base. Once you have completed this chart you have to reduce the result by the reduction for non-qualifying real property. We show you how to calculate the reduction on page 12 in Chapter 2.<br><br>If you designate proceeds of disposition for a property that are more than 110% of the fair market value, we will not allow you to cancel or amend your election on that property. | If the non-qualifying real property is an interest in, or shares of, a flow-through entity, see the section of this chart called "Flow-through entities."<br><br>If the non-qualifying real property is other property, use the new adjusted cost base to calculate any capital gain or loss. |

## Exceptions

| Type of property | Exceptions to new adjusted cost base | Designating proceeds more than fair market value | When you later sell the property |
|---|---|---|---|
| **Eligible capital property** | If you are electing to report a taxable capital gain on the eligible capital property of your business, you have to elect on **all** the eligible capital property of the business.<br><br>The cumulative eligible capital account in respect of your business does not change. Instead, your elected taxable capital gain creates an **exempt gains balance** for the business.<br><br>For more information, see the chapter called "Eligible Capital Expenditures" in one of the following income tax guides: *Business and Professional Income*, *Farming Income*, or *Fishing Income*. | If you designate an amount that is more than the fair market value, you have to reduce your exempt gains balance.<br><br>Depending on the amount that you designate, your exempt gains balance may be reduced to zero, and you may have an amount that you have to report as business income.<br><br>If you designate an amount that is more than 110% of the fair market value, we will **not** allow you to cancel or amend your election on that property.<br><br>For more information, see the chapter called "Eligible Capital Expenditures" in one of the following income tax guides: *Business and Professional Income*, *Farming Income*, or *Fishing Income*. | When you later sell the eligible capital property, you can use the exempt gains balance to reduce any amount that you would be required to include in income from the business as a result of the sale (other than the recapture of the annual allowances you deducted in the past).<br><br>For more information, see the chapter called "Eligible Capital Expenditures" in one of the following income tax guides: *Business and Professional Income*, *Farming Income*, or *Fishing Income*. |

# Appendix A
# Common Questions and Answers

**Q: I owned more than one property at the end of February 22, 1994. Do I have to file an election for all my properties?**

A: No. You can decide which properties, if any, you want to elect on. However, if you are electing to report a capital gain on the eligible capital property of your business, you have to file an election for all the eligible capital property of the business.

**Q: I am going to file an election for some shares that I owned at the end of February 22, 1994. What if I later sell these shares and end up with a capital loss?**

A: You calculate the capital loss as you would for any other property. You have to apply the loss to any capital gain that you realized in the year of the sale. You can then use any loss that is not applied to capital gains, if any, in the year of the sale, to reduce taxable capital gains in either the three preceding taxation years or in any future year. For more information, see the chapter called "Capital losses" in the income tax guide called *Capital Gains*.

**Q: I have net capital losses of other years. Can I apply these losses to my elected taxable capital gains?**

A: Yes. However, in most cases, you can only do this if, as a result of the election, you can also claim all or part of your unused $75,000 capital gains deduction. Remember that the $75,000 capital gains deduction will no longer be available for property sold after February 22, 1994. Therefore, you may want to consider taking full advantage of the capital gains deduction before using your net capital losses from other years to reduce these gains.

**Q: My spouse and I own a cottage as joint tenants. We also own a home in the city. Can we both elect to report a capital gain on the cottage?**

A: Yes. Both of you can elect to report a capital gain on your interest in the cottage as long as you meet all the conditions on page 5 in Chapter 1.

**Q: I had a cumulative net investment loss (CNIL) as of December 31, 1993. If I elect, do I calculate my CNIL as of February 22, 1994, or do I calculate it as of December 31, 1994?**

A: You have to calculate your CNIL as of December 31, 1994. Therefore, you include all investment income and investment expenses that you had in 1994. We provide a list of some investment income and investment expenses in the glossary.

**Q: I bought a cottage in 1985 and still owned it at the end of February 22, 1994. I have not owned another home during that time period. Do I have to file an election for my cottage and report a taxable capital gain?**

A: You do not have to file an election if the cottage was your principal residence for all the years that you owned it. We define **principal residence** in the glossary.

**Q: I owned a duplex at the end of February 22, 1994. I rented out both units. In 1991, 1992, and 1993, I claimed capital cost allowance. If I elect to report a capital gain on the duplex, will I have a recapture of capital cost allowance that I have to include in my income?**

A: No. An election filed for depreciable property will not result in a recapture of capital cost allowance. For more information, see one of the following income tax guides: *Business and Professional Income*, *Farming Income*, *Fishing Income*, or *Rental Income*.

**Q: I sold capital property before February 23, 1994. Do I have to file an election to claim the capital gains deduction?**

A: You cannot file an election for capital property you sold before February 23, 1994. You report the sale on Schedule 3, *Capital Gains (or Losses) in 1994*. You can get a copy of this schedule in the General Income Tax package. Remember that property sold before February 23, 1994, still qualifies for the $75,000 capital gains deduction.

**Q: I sold shares in December 1994, that I owned at the end of February 22, 1994, and I want to claim the capital gains deduction. Do I have to file an election?**

A: You have to file an election to claim the capital gains deduction for the property. Complete Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, and attach a copy to your income tax return. You also have to complete Schedule 3, *Capital Gains (or Losses) in 1994*, to report the elected taxable capital gain and the actual sale of the property. Follow the example on page 6 in Chapter 1 to see how to calculate any capital gain or capital loss you may have on the actual sale of the property.

# Appendix B
# Situations Showing Tax Implications

Robert is 67 years old and owned 2,000 publicly traded shares at the end of February 22, 1994. He bought the shares in April 1984 and plans to sell them in 1995. Because the capital gains deduction will not be available for the 1995 sale, Robert wants to elect to report a capital gain on his 1994 tax return. However, he wants to know what the tax implications may be.

Robert decides to do a few hypothetical tax calculations, using his 1994 income tax return and guide, to see what the tax implications are if he elects or does not elect. When doing these calculations, Robert keeps in mind, that if his net income is more than $53,215, he will have to repay part or all of the Old Age Security pension benefits he received in the year.

Robert has the following information available:

| | |
|---|---|
| Fair market value of the shares at the end of February 22, 1994 | $34,000 |
| Adjusted cost base of the shares | $12,000 |
| Income received in 1994: | |
| Old Age Security (OAS) pension benefits | $ 4,500 |
| Canada Pension Plan benefits | $ 3,500 |
| Pension income | $32,200 |
| Total income | $40,200 |

Robert will claim as non-refundable tax credits the personal amount, the age amount, and the pension amount. Robert bases his calculations on the following assumptions:

- he will sell the shares in 1995 for proceeds equal to the fair market value at the end of February 22, 1994;
- his income and non-refundable tax credits (except for the age amount*) will be the same in 1995 as they were in 1994; and
- the tax rates and laws will be the same in 1995 as they were in 1994.

* Under proposed legislation, a senior whose income is more than $25,921 will have to reduce the amount of the age tax credit. This reduction is being phased in over two years. For 1994, only one-half of the reduction applies. For 1995, the full reduction applies. Robert takes this into consideration when calculating his non-refundable tax credits.

The following charts show the different tax implications if Robert files an election for his property and if he does not file an election. They also show the different tax implications if Robert designates a different amount as his proceeds of disposition. Robert knows that he cannot designate proceeds of disposition that are **less** than the adjusted cost base ($12,000). He also does not want to designate an amount that is more than the fair market value ($34,000). However, he can designate any amount in between.

### Situation 1

Robert does not file an election to report a capital gain on his 1994 return. He will report the capital gain in 1995 when he actually sells the property. Robert calculates the capital gain for 1995 as follows:

| | |
|---|---|
| Actual proceeds of disposition | $34,000 |
| **Minus:** Adjusted cost base | 12,000 |
| Capital gain | $22,000 |

Robert's taxable capital gain for 1995 is $16,500 ($22,000 × 3/4).

Remember that Robert based his calculations on the assumption that he will sell his shares in 1995 for an amount equal to the fair market value at the end of February 22, 1994.

| 1994 | | 1995 | |
|---|---|---|---|
| Income | $40,200 | Income | $40,200 |
| Elected taxable capital gain | 00 | Taxable capital gain | 16,500 |
| Net income | $40,200 | Net income | $56,700 |
| **Minus:** | | **Minus**: | |
| Repayment of OAS | 00 | Repayment of OAS | 523 |
| Capital gains deduction | 00 | Capital gains deduction | 00 |
| Taxable income | $40,200 | Taxable income | $56,177 |
| Federal tax | $ 7,790 | Federal tax | $11,942 |
| **Minus:** Non-refundable tax credits | 1,677 | **Minus:** Non-refundable tax credits | 1,268 |
| Basic federal tax | $ 6,113 | Basic federal tax | $10,674 |
| Surtax | 183 | Surtax | 320 |
| Ontario tax | 3,545 | Ontario tax | 6,309 |
| Repayment of OAS | 00 | Repayment of OAS | 523 |
| **Total payable** | $ 9,841 | **Total payable** | $17,826 |

## Situation 2

Robert files an election to report a capital gain on his 1994 return. He designates the fair market value of the shares at the end of February 22, 1994, as his proceeds of disposition. He calculates the elected capital gain as follows:

| | |
|---|---|
| Designated proceeds of disposition | $34,000 |
| **Minus**: Adjusted cost base | 12,000 |
| Elected capital gain | $22,000 |

Robert's elected taxable capital gain is $16,500 ($22,000 × 3/4).

The designated proceeds of disposition becomes the new adjusted cost base of the shares, which he uses when he sells the shares in 1995. He calculates the capital gain for 1995 as follows:

| | |
|---|---|
| Actual proceeds of disposition | $34,000 |
| **Minus:** New adjusted cost base | 34,000 |
| Capital gain | $ 00 |

Remember that Robert based his calculations on the assumption that he will sell his shares in 1995 for an amount equal to the fair market value at the end of February 22, 1994.

| 1994 | | 1995 | |
|---|---|---|---|
| Income | $40,200 | Income | $40,200 |
| Elected taxable capital gain | 16,500 | Taxable capital gain | 00 |
| Net income | $56,700 | Net income | $40,200 |
| **Minus:** | | **Minus:** | |
| Repayment of OAS | 523 | Repayment of OAS | 00 |
| Capital gains deduction | 16,500 | Capital gains deduction | 00 |
| Taxable income | $39,677 | Taxable income | $40,200 |
| Federal tax | $ 7,652 | Federal tax | $ 7,790 |
| **Minus:** Non-refundable tax credits | 1,564 | **Minus:** Non-refundable tax credits | 1,495 |
| Basic federal tax | $ 6,088 | Basic federal tax | $ 6,295 |
| Surtax | 183 | Surtax | 189 |
| Ontario tax | 3,532 | Ontario tax | 3,651 |
| Repayment of OAS | 523 | Repayment of OAS | 00 |
| **Total payable** | $10,326 | **Total payable** | $10,135 |

## Situation 3

Robert files an election to report a capital gain on his 1994 return. However, he does not want to repay all or part of his Old Age Security (OAS) pension benefits he received in 1994. By reading the instructions at line 235 of his *T1 General Tax Guide*, Robert knows that he will have to repay some or all of these benefits if his net income is more than the base amount of $53,215.

To determine what amount he should designate as his proceeds of disposition, Robert works backwards. He first calculates the highest taxable capital gain that he can report before exceeding the base amount. He calculates this amount as follows:

| | |
|---|---|
| Base amount | $53,215 |
| **Minus:** Income before taxable capital gain | 40,200 |
| Maximum taxable capital gain | $13,015 |

Since only 3/4 of a capital gain is taxable, Robert grosses up his taxable capital gain by 4/3 and ends up with a capital gain of $17,353 ($13,015 × 4/3). He adds this amount to the adjusted cost base of the shares and calculates that the highest proceeds of disposition he can designate without affecting his OAS is $29,353 [$17,353 (capital gain) + $12,000 (adjusted cost base)].

Robert designates $29,353 as his proceeds of disposition and reports an elected taxable capital gain of $13,015.

The designated proceeds of disposition becomes the new adjusted cost base of the shares, which Robert uses when he actually sells the shares in 1995. He calculates the capital gain for 1995 as follows:

| | |
|---|---|
| Actual proceeds of disposition | $34,000 |
| **Minus**: New adjusted cost base | 29,353 |
| Capital gain | $ 4,647 |

Robert's taxable capital gain for 1995 is $3,485 ($4,647 × 3/4).

Remember that Robert based his calculations on the assumption that he will sell his shares in 1995 for an amount equal to the fair market value at the end of February 22, 1994.

| 1994 | | 1995 | |
|---|---|---|---|
| Income | $40,200 | Income | $40,200 |
| Elected taxable capital gain | 3,015 | Taxable capital gain | 3,485 |
| Net income | $53,215 | Net income | $43,685 |
| **Minus:** | | **Minus:** | |
| Repayment of OAS | 00 | Repayment of OAS | 00 |
| Capital gains deduction | 13,015 | Capital gains deduction | 00 |
| Taxable income | $40,200 | Taxable income | $43,685 |
| Federal tax | $ 7,790 | Federal tax | $ 8,695 |
| **Minus**: Non-refundable tax credits | 1,564 | **Minus:** Non-refundable tax credits | 1,406 |
| Basic federal tax | $ 6,226 | Basic federal tax | $ 7,289 |
| Surtax | 187 | Surtax | 219 |
| Ontario tax | 3,612 | Ontario tax | 4,228 |
| Repayment of OAS | 00 | Repayment of OAS | 00 |
| **Total Payable** | $10,025 | **Total Payable** | $11,736 |

## Summary

The following is a summary of Robert's hypothetical tax situations showing the total taxes that he may have to pay for 1994 and 1995:

| | Situation 1 | Situation 2 | Situation 3 |
|---|---|---|---|
| 1994 | $ 9,841 | $10,326 | $10,025 |
| 1995 | $17,826 | $10,135 | $11,736 |
| Total | $27,667 | $20,461 | $21,761 |

When reviewing Robert's situation, remember that your situation may differ depending on your tax situation. Also, it will vary depending on your province of residence on December 31, 1994. You should use the income tax package for the province of your residence on December 31, 1994, and calculate all benefits and credits to which you may be entitled.

# Appendix C
# Taxable Capital Gains Limit for the Election

Your elected taxable capital gains from all properties (line 4 plus line 6 of Form T664, *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*) cannot be more than your taxable capital gains limit for the election. You calculate your taxable capital gains limit for the election in Chart 1 on page 9. However, you may have to adjust that limit if you answered **YES** to any of the questions on page 9 in Chapter 2. These adjustments will allow you to report the largest capital gain possible so you can fully benefit from the unused portion of your $75,000 capital gains deduction. Complete **only** those charts that apply to your situation.

You have to reduce your taxable capital gains limit for the election by any taxable capital gains (net of losses) you may have had from the sale of property in 1994, that are eligible for the capital gains deduction. This is because you have to apply the deduction to these gains first. You can increase your limit by any allowable capital losses you had in 1994. Chart 2 will help you calculate your taxable capital gains that are eligible for the deduction or your allowable capital losses for 1994.

You can also increase your limit by your cumulative net investment loss as of December 31, 1994 (calculated in Chart 3), and any net capital losses and allowable business investment losses claimed on your 1985 to 1994 income tax returns and not offset by eligible taxable capital gains. You do this because these losses may reduce the amount of the capital gains deduction that you can claim in the year. By adding these losses to your taxable capital gains limit for the election, you can elect to report a taxable capital gain large enough for you to fully benefit from the unused portion of your capital gains deduction. This may result in an increase to your taxable income and may increase the amount of income tax you have to pay in the year. Chart 4 will help you calculate your taxable capital gains limit for the election, after adjustments.

### Example

Paul has a capital loss in 1994 of $5,000 from an actual sale of property after February 22, 1994. He owned other capital property at the end of February 22, 1994, for which he wants to file an election. Paul has to first calculate his taxable capital gains deduction limit for the election.

Paul used $40,000 of his capital gains deduction in 1991. Using Chart 1 on page 9, Paul calculates his taxable capital gains limit for the election (before adjustments) to be $35,000. He reads the instructions introducing Charts 2 and 3 and knows that he has to complete Chart 2. By following this chart, he calculates an allowable capital loss of $3,750 ($5,000 × 3/4). Paul now has to complete Chart 4. By following this chart, he adds his allowable capital loss to his limit to get his taxable capital gains limit for the election, after adjustments. He calculates his limit to be $38,750 [$35,000 + $3,750 (allowable capital loss)].

Paul can therefore elect to report an elected taxable capital gain of $38,750. This will allow him to fully benefit from the unused portion of his $75,000 capital gains deduction and to apply his allowable capital loss in 1994.

### Note

If you need help completing the following charts or if you need information on prior-year amounts, call 1-800-959-8281.

## Chart 2 — Calculation of capital gains eligible for the $75,000 deduction and allowable capital losses

Complete this chart only if you:

- received an information slip (T3, T5, T5013, or T4PS) for 1994 indicating a capital gain or a capital loss;
- realized a capital gain or capital loss in 1994 (other than an elected capital gain);
- are reporting a reserve on property disposed of before 1994.

If one of the above applies, record your capital gains or losses on Schedule 3, *Capital Gains (or Losses) in 1994*. This schedule comes with your *General Income Tax Guide* and returns package. Enter all capital gains (or losses) that you had in 1994 on the applicable lines on Schedule 3. Do not total the amounts on Schedule 3 until you have completed Form T664. Use the information on this Schedule to complete the chart on the next page.

**Note**: If you have disposed of qualified small business corporation shares or qualified farm property in 1994, and the amount of capital gains deductions you will have claimed from 1985 to 1994 exceeds $300,000 (line 9 of Chart 1 on page 9 plus line 3 of this chart), you should call 1-800-959-8281 before completing this chart.

## Chart 2 — continued

**Part 1 — Current year dispositions of qualified small business corporation shares and qualified farm property**

Total capital gains (or losses) from lines 513 and 516 in Part 1 of Schedule 3 ............... ______ (1)

Taxable capital gains from the disposition of eligible capital property (qualified farm property)
in 1994 — from line 543 in Part 2 of Schedule 3 ______ × 4/3 ........................ ______ (2)

Total of lines 1 and 2 ........................................................................ ______ ➤ ______ (3)

**Part 2 — Capital gains eligible for the capital gains deduction and capital losses incurred before February 23, 1994**

Capital gains (or losses) (total of the amounts entered on lines 520, 522, 528, 530, 531, 533, 535, and 538 in Part 2 of Schedule 3) ........................................ ______ (4)

Taxable capital gains from the disposition of eligible capital property (other) before February 23, 1994 — from line 544 in Part 2 of Schedule 3 ______ × 4/3 ............... ______ (5)

Total of lines 4 and 5 ........................................................................ ______ ➤ ______ (6)

Capital gains (or losses) from line 536 in Part 2 of Schedule 3 ................................ ______ (7)

Capital gains eligible for the capital gains deduction (or losses incurred before February 23, 1994)
**If the amount on line 7 is a capital gain, subtract it from line 6. If the amount on line 7 is a loss, remove its brackets and add it to line 6.** If there is no amount on line 7, enter on line 8 the amount from line 6. ........................................................ ______ (8)

**Part 3 — Capital gains not eligible for the capital gains deduction and allowable capital losses**

Non-eligible capital gains (total of gains entered on lines 021, 024, 027, 029, 030, 032, and 037 in Part 3 of Schedule 3) ..................... ______ (9)

Non-eligible capital gains from line 536 in Part 2 of Schedule 3. If line 536 is a loss, enter zero. ______ (10)

Line 9 plus line 10 ........................................................................ ______ ➤ ______ (11)

Capital losses incurred after February 22, 1994 (total of losses entered on lines 021, 024, 027, 032, 034, and 037 in Part 3 of Schedule 3) ..................... ( ______ ) (12)

Capital losses from line 536 in Part 2 of Schedule 3. If line 536 is a capital gain, enter zero. ... ( ______ ) (13)

Line 12 plus line 13 ........................................................................ ( ______ ) ➤ ( ______ ) (14)

Total of lines 11 and 14 (if the result is a capital gain, enter zero on line 15 and enter 3/4 of the capital gain on line 3 of Chart 3 on page 26. If the result is a capital loss, show it in brackets.) ....... ______ (15)

**Part 4 — Capital gains eligible for the $75,000 capital gains deduction or allowable capital losses**

Total of lines 3, 8, and 15 ........................................................................ ______ (16)

**If line 16 is a capital loss,** enter zero on this line and enter the amount of the loss on line 18 below.
If line 16 is a capital gain, enter on this line the amount of any capital gain from line 3 of Part 1 above.
If line 3 of Part 1 is a loss (shown in brackets), enter zero. ........................................ ______ (17)

Line 16 minus line 17 ........................................................................ ______ (18)

**Eligible taxable capital gains (or allowable capital losses):**
Line 18 ______ × 3/4 ........................................................................ ______ (19)

If the amount on line 19 is a taxable capital gain, enter it on line 7 of Chart 4 on page 27 and go to Chart 3 on page 26.
If the amount on line 19 is an allowable capital loss, enter it on line 2 of Chart 4.

## Chart 3 — Calculation of cumulative net investment loss (CNIL) as of December 31, 1994, for purposes of calculating your taxable capital gains limit for the election

Complete this chart **only** if you received a 1993 *Notice of Assessment* or *Notice of Reassessment* indicating a cumulative net investment loss (CNIL) as of December 31, 1993.

If your investment expenses and net rental losses in 1994 were more than your investment income and net rental income in 1994 and you **did not** receive a *Notice of Assessment* or a *Notice of Reassessment* for 1993 indicating a CNIL to December 31, 1993, you have to complete Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 1994,* instead of this chart. You can get this form in the income tax guide called *Capital Gains.*

**We provide a list of what investment expenses and investment income you can use when completing this chart in the glossary.**

| | | | |
|---|---|---|---|
| CNIL as of December 31, 1993, from your 1993 *Notice of Assessment* or *Notice of Reassessment.* ...... | | ______ | (1) |
| Unapplied net capital losses you can claim in 1994 ...... | ______ (2) | | |
| Taxable capital gains not eligible for the capital gains deduction in 1994 (see line 15 of Chart 2 on page 25)* ...... | ______ (3) | | |
| Line 2 minus line 3 (if negative, put in brackets. If positive, enter zero.) ...... | ______ ➤ | ______ | (4) |
| Total of lines 1 and 4 (if negative, put in brackets) ...... | | ______ | (5) |
| Total **investment expenses** incurred in 1994 ...... | ______ (6) | | |
| Total **investment income** realized in 1994...... | ______ (7) | | |
| Line 6 minus line 7 (if negative, put in brackets) ...... | ______ ➤ | ______ | (8) |
| **Cumulative net investment loss (CNIL) to December 31, 1994:** Line 5 plus line 8 (if negative, enter zero) ...... | | ______ | (9) |

Transfer the amount from line 9 to line 12 of Chart 4 on page 27.

* If you received a T3 slip indicating capital gains that are not eligible for the capital gains deduction, do not include them in line 3 since you cannot include these capital gains in your investment income.

## Chart 4 — Calculation of taxable capital gains limit for the election, after adjustments

Enter the amount from line 11 of Chart 1 on page 9 .......... _____ (1)

Allowable capital losses in 1994 (from line 19 of Chart 2 on page 25) (do not show it in brackets) _____ (2)

Line 1 plus line 2 .......... _____ ➤ _____ (3)

Net capital losses of other years claimed in 1994 (to calculate this amount, complete column 1994 in Chart A on page 28) .......... _____ (4)

Allowable business investment losses claimed in 1994 (from line 217 on your 1994 return) .... _____ (5)

Total of lines 4 and 5 .......... _____ ➤ _____ (6)

Eligible taxable capital gains in 1994 (from line 19 of Chart 2 on page 25) .......... _____ (7)

Line 6 minus line 7. If negative, put in brackets.......... _____ (8)

Allowable capital losses claimed in 1985 (from line 127 of your 1985 return; maximum $2,000).......... _____ (9)

Allowable business investment losses claimed in 1985 to 1993 (from line 217 on your 1985 to 1993 returns) .......... _____ (10)

Net capital losses of other years claimed in 1985 to 1993 (to calculate this amount, complete Chart A, columns 1985 to 1993, on page 28) .......... _____ (11)

Cumulative net investment loss to December 31, 1994 (from line 9 of Chart 3 on page 26, or from line (C) of Part 3 or line (D) of Part 4 of Form T936) .......... _____ (12)

Total capital gains deductions claimed after 1984 and before 1994 (from line 254 on your 1985 to 1993 returns).......... _____ (13)

Subtotal (add lines 9 to 13 inclusive) .......... _____ ➤ _____ (14)

Total taxable capital gains reported after 1984 and before 1992 (from line 127 of your returns for these years. Do not include reserves reported on property disposed of before 1985.) ........ _____ (15)

1992 and 1993 taxable capital gains eligible for the capital gains deduction (from line 3 in Part 1 of Form T657 or T657A for 1992 and 1993. If you did not complete Form T657 or T657A for 1992 or 1993, enter the taxable capital gains eligible for the capital gains deduction from line 127 of your returns for these years.).......... _____ (16)

Line 15 plus line 16 .......... _____ ➤ _____ (17)

Line 14 minus line 17. If negative, enter zero. .......... _____ (18)

**Taxable capital gains limit for the election:**

Total of lines 3, 8 and 18. If negative, enter zero. .......... _____ (19)

Line 19 is your taxable capital gains limit for the election, after adjustments. The amount of your total elected taxable capital gains (line 4 plus line 6 on Form T664) cannot be more than the amount on line 19.

Once you have completed Form T664 and calculated your elected taxable capital gain, you should complete Schedule 3. Then use Form T657A, *Calculation of Capital Gains Deduction for 1994 on Other Capital Property*, to calculate your capital gains deduction for 1994. (If you disposed of qualified small business corporation shares or qualified farm property in 1994 or a prior year, use Form T657, *Calculation of Capital Gains Deduction for 1994 on All Capital Property*, to calculate your capital gains deduction for 1994.) You also may have to complete Form T936, *Calculation of Cumulative Net Investment Loss (CNIL) to December 31, 1994.*

## Chart A — Calculating line 4 and line 11 of Chart 4

Line A — Enter the amount of net capital losses of other years claimed for each year indicated (amount from line 253 of each return and Form T1A, *Request for Loss Carry-Back*).

Line B — Enter 1/2 of reserves included in capital gains in 1985, 1986, and 1987 for capital property disposed of before 1985 (1/2 of the reserves reported on your Schedule 3 for 1985, 1986, and 1987).

Enter 2/3 of reserves included in capital gains in 1988 and 1989 for capital property disposed of before 1985 (2/3 of the amount reported on line 395 of Form T2017 for 1988 and 1989).

Enter 3/4 of reserves included in capital gains in 1990 and 1991 for capital property disposed of before 1985 (3/4 of the amount reported on line 395 of Form T2017 for 1990 and 1991).

Line C — Enter the taxable capital gains not eligible for the capital gains deduction for 1992, 1993, and 1994 (for 1992, enter the lesser of the amount from line 127 of your 1992 return and the amount from line (f) in Part A of Form T936 for 1992. For 1993, enter the lesser of the amount from line 127 of your 1993 return and the amount from line (d) in Chart A of Form T936 for 1993. For 1994, enter the amount from line 3 of Chart 3 on page 26 of this package.)

Line D — For 1992, enter the amount from line (k) in Part B of Form T936 for 1992. For 1993, enter the amount from line (k) in Chart B of Form T936 for 1993. For 1994, enter "0".

Line E — Subtract the amount on line D from the amount on line C. If the amount is negative, enter zero.

Line F — Add lines B and E.

Line G — Subtract the amount on line F from the amount on line A for each year. If the amount is negative, enter zero.

| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|---|---|---|---|---|
| A | | | | | | | | | | |
| B | | | | | | | | N/A | N/A | N/A |
| C | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| D | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| E | N/A | N/A | N/A | N/A | N/A | N/A | N/A | | | |
| F | | | | | | | | | | |
| G | | | | | | | | | | |

Enter the amount from line G of column 1994 on line 4 of Chart 4.
Add the amounts on line G of columns 1985 to 1993, inclusive, and enter the result on line 11 of Chart 4.
Remember each amount in G has to be a zero or a positive amount.

# Glossary

**Adjusted cost base** — This is usually the cost of your property, plus any expenses you paid to acquire it, including 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. The chart on page 11 in Chapter 2 shows some common situations where the cost of the property may be an amount other than its actual cost.

You have to adjust the cost of your property to include **capital expenditures**, such as the cost of additions and improvements you made to the property. (For purposes of the election, you can only include the cost of additions and improvements you made to the property before February 23, 1994.) You cannot add **current expenses**, such as maintenance and repair costs, to the cost of your property. In addition, you cannot add the cost of your own labour. For more information on the difference between capital expenditures and current expenses, see Interpretation Bulletin IT-128, *Capital Cost Allowance — Depreciable Property*.

**Allowable business investment loss** — This is the portion of your business investment loss you can claim. You report it on line 217 of your income tax return. For more information, see the definition of **business investment loss** in the chapter called "Definitions" in the income tax guide called *Capital Gains*.

**Capital cost allowance** — In the year you buy a depreciable property, you cannot deduct the full cost. However, since this type of property wears out or becomes obsolete over time, you can deduct its cost over a period of several years. The deduction for this is referred to as capital cost allowance.

**Capital gain** — You have a capital gain when you sell, or are considered to have sold, a capital property for **more** than its adjusted cost base plus the expenses or outlays incurred to sell the property. A capital gain is the difference between your proceeds of disposition and the adjusted cost base of the property minus the outlays and expenses incurred to sell the property.

**Capital property** — This 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. Some common types of capital property include your cottage, securities such as stocks and bonds, and land, buildings, and equipment you use in a business or rental operation.

**Cumulative net investment loss (CNIL)** — This is the total of your **investment expenses** for each year after 1987, minus your **investment income** for each year after 1987.

**Designated proceeds of disposition** — This is the amount that you designate in the election to be your proceeds of disposition for a property.

**Depreciable property** — This is usually property you use to earn income from a business or property. Depreciable property usually loses value as it is used over the years. For example, farm equipment, buildings used in your business, and business machines are depreciable property.

**Eligible capital property** — This is property you use to earn business income. It is property that does not physically exist but gives you a lasting economic benefit. Examples of this type of property are farming quotas, licenses, trademarks, customer lists and goodwill.

**Fair market value** — Fair market value is usually the highest dollar value your property would bring in an open and unrestricted market, between a willing buyer and a willing seller, who are acting independently of each other. For information on how to estimate the fair market value of certain properties, see page 14 in Chapter 3.

**Flow-through entity** — A flow-through entity means:

- an investment corporation;
- a mortgage investment corporation;
- a mutual fund corporation;
- a mutual fund trust;
- a partnership;
- a related segregated fund trust;
- a trust governed by an employee-profit sharing plan;
- a trust created to hold shares of the capital stock of a corporation for the benefit of its employees;
- a trust established for the benefit of creditors in order to secure certain debt obligations; and
- a trust established to hold shares of the capital stock of a corporation in order to exercise the voting rights attached to such shares.

**Identical properties** — We consider properties of a group to be identical if each property in the group is the same as all the others. The most common example of identical properties are shares of the same class of the capital stock of a corporation.

**Investment expenses** — The following is a list of some investment expenses you use to calculate your cumulative net investment loss (CNIL): carrying charges and interest expenses (for more information, see line 221 of the *General Income Tax Guide*), net rental losses, limited or non-active partnership losses, 50% of exploration and development expenses, repayments of inducements and refund interest, and farming losses claimed by a non-active partner or a limited partner.

**Investment income** — The following is a list of some investment income you use to calculate your cumulative net investment loss (CNIL): interest and dividend income, net rental income (including recaptured capital cost allowance), net income from limited or non-active partnerships (other than taxable capital gains), 50% of income from the recovery of exploration and development expenses, home insulation or energy conversion grants, income from the appropriation of property to a shareholder, and farming income reported by a non-active or limited partner.

**Listed personal property** — This refers to the following personal-use properties that usually increase in value:

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

We consider all or any part of such property, any interest in, or any right to it, to be listed personal property.

**Non-depreciable property** — Non-depreciable property is property for which you cannot claim capital cost allowance. Non-depreciable property includes shares, bonds and other obligations, personal-use property, listed personal property, and most land.

**Non-qualifying real property** — Generally, non-qualifying real property is real estate that you or your partnership disposed of after February 1992. It also includes the following property you or your partnership disposed of after February 1992, if the fair market value is derived principally (more than 50%) from real estate:

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

The following is not included in the definition of non-qualifying real property:

- qualified farm property;
- qualified small business corporation shares; and
- real estate that was owned by you or your spouse and while you or your spouse owned it:
  - it was used principally in an **active business*** at all times in the 24-month period before you disposed of it (or if you or your spouse owned it for less than 24 months, that shorter period); or
  - it was used principally in an **active business*** throughout all or substantially all (90% or more) of the time before you disposed of it. This accommodates the sale of real estate that may have been used for many years in an active business but lay idle for a period of time before you sold it.

In addition, the active business must have been carried on for the above-specified time period by:

- you, your spouse, your child, or your parent;
- a preferred beneficiary of a personal trust;
- the spouse, child, or parent of the preferred beneficiary of a personal trust; or
- a corporation, partnership, or personal trust where all or substantially all (90% or more) of the fair market value of their shares or interests are owned by one or more persons described in this list.

* For the purpose of this definition, an active business is:

- a business that does not derive its income principally from property;
- any business that employs more than five individuals on a full-time basis;
- any business that has managerial, administrative, financial, maintenance, or other similar services provided to it that would be equivalent to employing more than five individuals on a full-time basis;
- any business that leases property that is not real estate; or
- any business carried on by a credit union.

**Personal-use property** — This 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, and other similar properties.

**Principal residence** — This is the housing unit you normally live in. Your principal residence may be:

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

A property qualifies as your principal residence for any year, if it meets the following four 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 if the share is acquired for the sole purpose of obtaining the right to inhabit a housing unit owned by that corporation;
- you own the property alone or jointly with another person;
- you, your spouse, your former spouse, or any of your children lived in it at some time during the year; and
- you designate the property as your principal residence.

**Proceeds of disposition** — This is usually the amount that you received or will receive for your property. In most cases, it refers to the sale price of the property.

**Qualified small business corporation share** — We consider a share in a small business corporation to be a **qualified small business corporation share** if:

- 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 a partnership of which you were a member;
- throughout the 24 months immediately before the share was disposed of, no one other than you, a partnership of which you were a member, or a person related to you, owned the share; and
- 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 of which the fair market value of more than 50% of the assets 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; or
  - — a combination of these two types of shares.

*A small business corporation is a Canadian-controlled private corporation in which all or most (90%) 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;
- shares or debts of connected corporations that were small business corporations; or
- a combination of these two types of assets.

**Real property** — This is property that you cannot move, such as land and buildings. We usually refer to this type of property as real estate.

**Related segregated fund trust** — Segregated funds of life insurers for life insurance policies are called **related segregated fund trusts**. Basically, we consider the property and income of a segregated fund to be the property and income of such a trust, and the life insurer is the trustee of the related segregated fund trust.

**Reserve** — When you sell a property, you usually receive full payment at the time of the sale. However, sometimes the amount is spread over a number of years. In this case, you can claim a reserve. Usually, a reserve allows you to defer reporting a portion of the capital gain to the year in which you receive the proceeds.

**Spouse** — The term spouse applies to a legally married spouse and a common-law spouse. A common-law spouse is a person of the opposite sex who, at that particular time, is living with you in a common-law relationship, and:

- is the natural or adoptive parent (legal or in fact) of your child; **or**
- had been living with you for at least 12 continuous months, or had previously lived with you in such a relationship for at least 12 continuous months (when you calculate the 12 continuous months, include any period of separation of less than 90 days).

Once either of these two situations applies, we consider you to have a common-law spouse, except for any period that you were separated for 90 days or more due to a breakdown in the relationship.

**Taxable capital gain** — This is the amount of your capital gain you have to report as income on your return. For 1994, the taxable part of a capital gain is **three-quarters**.

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