

Income Tax

IMP. 257-2 **Government assistance in respect of capital property other than depreciable property**

Date of publication: **December 29, 2005**

Reference(s): *Taxation Act* (R.S.Q., c. I-3), ss. 87 (par. w), 241.0.1, 257 (par. d), 261, 264.7 and 271
Regulation respecting the Taxation Act (R.R.Q., 1981, c. I-3, r.1, as amended), ss. 241.0.1R1-241.0.1R3

This bulletin explains the tax treatment of government assistance that a taxpayer has received or is entitled to receive in respect of capital property other than depreciable property.

APPLICATION OF THE ACT

1. Paragraph *d* of section 257 of the *Taxation Act* (TA) provides for certain adjustments to the adjusted cost base of capital property other than depreciable property (hereinafter referred to as “capital property”) that is acquired by a taxpayer after December 31, 1971. Such adjustments are applicable where a taxpayer

- (a) has received or is entitled to receive government assistance, other than prescribed assistance, in respect of, or for the acquisition of, capital property;
- (b) has deducted, in respect of capital property, an amount other than a prescribed amount under subsection 5 or 6 of section 127 of the *Income Tax Act* (R.S.C., 1985, c. 1 (5th Supp.)), hereinafter referred to as the “ITA,” pertaining to the investment tax credit.

2. In computing the adjusted cost base of capital property at a particular time, the taxpayer must deduct the following amounts:

- (a) the amount by which any assistance, other than prescribed assistance, that the taxpayer has received or is entitled to receive before the particular time in respect of the capital property or for the acquisition thereof, before its disposition, exceeds any part of the assistance that the taxpayer repaid before that time pursuant to an obligation to repay all or part of that assistance;
- (b) where the capital property was acquired by a taxpayer in a taxation year ending before the particular time, the amounts, other than a prescribed amount, that the taxpayer deducted as a federal investment tax credit in respect of the capital property under subsection 5 or 6 of

section 127 of the ITA in computing the taxpayer's tax payable under that Act for a taxation year ending before the particular time and before the disposition of the capital property.

GOVERNMENT ASSISTANCE

3. The government assistance covered by this bulletin may take the form of a grant, subsidy, forgivable loan, deduction from tax, investment allowance or any other form of assistance, and may be provided by a government, municipality or other public authority.

4. The current version of bulletin IMP. 87-7, *Prescribed amounts of assistance* lists the amounts that are prescribed amounts of assistance.

MISCELLANEOUS

5. The application of paragraph *d* of section 257 of the TA in respect of an amount of assistance granted to a taxpayer reduces the adjusted cost base of the capital property. Consequently, as provided for in subparagraph iii of paragraph *w* of section 87 of the TA, this amount of assistance received is not required to be included in computing the taxpayer's income (refer to the current version of bulletins IMP. 87-4, *Amounts received as assistance or as an inducement*).

6. Where the adjusted cost base of capital property becomes negative as a result of the application of paragraph *d* of section 257 of the TA, a capital gain occurs in accordance with the provisions of section 261 of the TA.

7. Where the taxpayer disposed of capital property used to earn income before receiving or being entitled to receive an amount of government assistance, the amount of assistance does not retroactively reduce the adjusted cost base of the capital property. The amount of assistance must therefore be included in computing income under paragraph *w* of section 87 of the TA at the time it is received.

8. Where the capital property is a principal residence, the capital gain generated as a result of the application of section 261 of the TA is treated in accordance with the provisions of sections 271 and following of the TA (refer to the current version of bulletin IMP. 277-1, *Principal residence and contiguous land*). However, if the principal residence is used partially for commercial purposes and partially for personal purposes, the portion of the amount of assistance received by the taxpayer that is attributable to the part of the residence used for commercial purposes will be treated according to the provisions set forth in the current version of bulletin IMP. 101-1, *Government assistance in respect of depreciable property*.

9. Under section 241.0.1 of the TA, a loss incurred by a taxpayer on the disposition, at a particular time, of a share of the capital stock of a corporation that was at any time a prescribed corporation or of a share of the capital stock of a taxable Canadian corporation held in a prescribed stock savings plan, or of a property substituted for such a share, must be reduced by the amount of prescribed assistance that the taxpayer, or a person with whom the taxpayer was not dealing at arm's length, received or is entitled to receive in respect of the share.

10. For the purposes of point 9 above, see sections 241.0.1R1 to 241.0.1R3 of the *Regulation respecting the Taxation Act* which determine which corporations are contemplated, which amounts are prescribed assistance, and which plans are prescribed plans.

11. Where a taxpayer has, pursuant to an obligation, repaid all or part of an amount of assistance received in respect of capital property or for the acquisition thereof, and the repayment is made after the taxpayer has disposed of the capital property, the taxpayer is deemed, under section 264.7 of the TA, to have incurred a capital loss from the disposition of property in the taxation year of the repayment.