CHAPTER X
DEVELOPMENT OF NATURAL RESOURCES

DIVISION I
GENERAL RULES

Definitions:

359. In this chapter,

"outlay" or "expense";
(*a*) "outlay" or "expense" made or incurred by a taxpayer before a particular time does not include any amount paid or payable for services to be rendered after that time or any amount paid or payable as rent for a period after that time, but includes an amount designated by the taxpayer at that time, under paragraph *b* of section 622 or 628, as that paragraph read before being struck out, as a cost in respect of property that is a Canadian resource property or a foreign resource property;

"mining business";
(*b*) "mining business" means an activity described in subparagraph *a* or *a*.1 of the first paragraph of section 363 with respect to minerals or in any of subparagraphs *b* to *e*, *f*.1 and *g* of the first paragraph of that section, and a transaction concerning a property described in any of paragraphs *a* to *g* of section 370 that may reasonably be related to minerals;

"oil business";
(*c*) "oil business" means an activity described in subparagraph *a* or *a*.1 of the first paragraph of section 363, except with respect to minerals, or in subparagraph *f* of the first paragraph of that section, and a transaction concerning a property described in any of paragraphs *a* to *g* of section 370 that may reasonably be related to petroleum or natural gas and that is not described in paragraph *b*;

"assistance";
(*c.*0.1) "assistance" means any amount, other than a prescribed amount, received or receivable at any time from a person or government, municipality or other public authority whether such amount is by way of a grant, subsidy, rebate, forgivable loan, deduction from royalty or tax, rebate of royalty or tax, investment allowance or any other form of assistance or benefit;

"proceeds of disposition".
(*c.*1) "proceeds of disposition" has the meaning assigned by section 251;

(*d*) *(paragraph repealed).*

History: 1975, c. 22, s. 68; 1982, c. 5, s. 82; 1984, c. 15, s. 84; 1985, c. 25, s. 65; 1986, c. 19, s. 67; 1987, c. 67, s. 79; 1988, c. 18, s. 26; 1993, c. 16, s. 141; 1995, c. 49, s. 80; 1998, c. 16, s. 118; 1999, c. 83, s. 53; 2001, c. 53, s. 260; 2003, c. 2, s. 114; 2012, c. 8, s. 49; 2013, c. 10, s. 29.

Corresponding Federal Provision: 54 "proceeds of disposition", 66(15) "assistance", "expense" and "principal-business corporation" and 66.4(5).

DIVISION I.1
FLOW-THROUGH SHARES

Meaning of "flow-through share".

359.1. In this chapter, "flow-through share" means a share (other than a prescribed share) of the capital stock of a development corporation or a right (other than a prescribed right) to acquire such a share that is issued to a person under an agreement in writing entered into between the person and the development corporation under which the corporation, for consideration that does not include property to be exchanged or transferred by the person under the agreement in circumstances to which Division XIII of Chapter IV of Title IV or any of Chapters IV, V and VI of Title IX applies, agrees

(*a*) to incur, in the period that begins on the day the agreement was entered into and ends 24 months after the end of the month that includes that day, Canadian exploration expenses or Canadian development expenses in an amount not less than the consideration for which the share or right is to be issued; and

(*b*) to renounce, before 1 March of the first calendar year that begins after the period referred to in subparagraph *a*, in prescribed form to the person in respect of the share or right, an amount in respect of the Canadian exploration expenses or Canadian development expenses so incurred by it not exceeding the consideration received by the corporation for the share or right.

"selling instrument".

In this chapter, "selling instrument" in respect of flow-through shares means a prospectus, registration statement, offering memorandum, term sheet or other similar document that describes the terms of the offer, including the price and number of shares, pursuant to which a corporation offers to issue flow-through shares.

History: 1988, c. 18, s. 27; 1993, c. 16, s. 142; 1995, c. 49, s. 81; 1997, c. 3, s. 71; 1998, c. 16, s. 119; 2002, c. 40, s. 35; 2004, c. 21, s. 76; 2005, c. 23, s. 51; 2015, c. 24, s. 60.

Corresponding Federal Provision: 66(15) "flow-trrough share" and "selling instrument".

Effective date of a renunciation.

359.1.1. For the purposes of this division, a renunciation made by a corporation under section 359.2, 359.2.1 or 359.4 in respect of a share is effective on the date on which the renunciation is made by the corporation or on an earlier date set out in the form prescribed for the purposes of section 359.12.

History: 1995, c. 49, s. 82; 1997, c. 3, s. 71; 1998, c. 16, s. 120.

Corresponding Federal Provision: 66(12.6), (12.601) and (12.62).

Canadian exploration expenses to flow-through shareholder.

359.2. Where a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, in the period that begins on the day the agreement was entered into and ends 24 months after the end of the month that includes that day, the corporation incurred Canadian exploration expenses (other than expenses deemed to be Canadian exploration expenses of the corporation under the first paragraph of section 399.3), the corporation may, after it complies with section 359.10 in respect of the share and before 1 March of the first calendar year that begins after that period, renounce to the person in respect of the share the amount by which the part of those expenses incurred by it on or before the effective date of the renunciation, which part is in this section referred to as the "specified expenses", exceeds the aggregate of

(*a*) the assistance that the corporation has received, is entitled to receive, or may reasonably expect to receive at any time, and that can reasonably be related to the specified expenses or to Canadian exploration activities to which the specified expenses relate, other than assistance that can reasonably be related to expenses referred to in subparagraph *b* or *b*.1;

(*b*) all specified expenses that are prescribed Canadian exploration and development overhead expenses of the corporation;

(*b*.1) all specified expenses each of which is a cost of, or for the use of, seismic data

i. that had been acquired, otherwise than as a consequence of performing work that resulted in the creation of the data, by any other person before the cost was incurred,

ii. in respect of which a right to use had been acquired by any other person before the cost was incurred, or

iii. all or substantially all of which resulted from work performed more than one year before the cost was incurred; and

(*c*) the aggregate of amounts that are renounced by the corporation on or before the date on which the renunciation is made by any other renunciation under this section in respect of those expenses.

Renunciation.

Notwithstanding the first paragraph, the amount that may be renounced by the corporation must not in any case exceed

(*a*) the amount by which the consideration for the share exceeds the aggregate of other amounts renounced under this section or section 359.2.1 or 359.4 by the corporation in respect of the share on or before the day on which the renunciation is made; or

(*b*) the amount by which the cumulative Canadian exploration expense of the corporation on the effective date of the renunciation computed before taking into account any amounts renounced by the corporation under this section on the date on which the renunciation is made, exceeds the aggregate of all amounts renounced by the corporation under this section in respect of any other share on the date on which the renunciation is made, and effective on or before the effective date of the renunciation.

History: 1988, c. 18, s. 27; 1995, c. 49, s. 83; 1997, c. 3, s. 71; 1998, c. 16, s. 121; 2015, c. 24, s. 61.

Corresponding Federal Provision: 66(12.6).

Flow-through share rules for first $1 million of Canadian development expenses.

359.2.1. Where a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation, the corporation's paid-up capital amount at the time the consideration was given was not more than $15,000,000, and during the period beginning on the particular day the agreement was entered into and ending on the earlier of 31 December 2018 and the day that is 24 months after the end of the month that included that particular day, the corporation incurred Canadian development expenses that are described in paragraph *a* or *a*.1 of section 408 or that would be described in paragraph *d* of that section if the words "expenses described in paragraphs *a* to *c*" in that paragraph were read as "expenses described in paragraph *a* or *a*.1" and that are not expenses deemed to have been incurred after 31 December 2018 under section 359.8, the corporation may, after it complies with section 359.10 in respect of the share and before 1 March of the first calendar year that begins after that period, renounce to the person in respect of the share the amount by which the part of those expenses incurred by it on or before the effective date of the renunciation, which part is in this section referred to as the "specified expenses", exceeds the aggregate of

(*a*) the assistance that the corporation has received, is entitled to receive, or may reasonably expect to receive at any time, and that can reasonably be related to the specified expenses or Canadian development activities to which the specified expenses relate, other than assistance that can reasonably be related to expenses referred to in paragraph *b*;

(*b*) all specified expenses that are prescribed Canadian exploration and development overhead expenses of the corporation;

(*c*) all amounts that are renounced by the corporation on or before the day on which the renunciation is made by any

other renunciation under this section or section 359.4 in respect of those expenses.

History: 1995, c. 49, s. 84; 1997, c. 3, s. 71; 1998, c. 16, s. 122; 2020, c. 16, s. 61.

Corresponding Federal Provision: 66(12.601).

Flow-through share rules for first $1 million of Canadian development expenses.

359.2.2. A corporation is deemed not to have renounced any particular amount under section 359.2.1 in respect of a share where

(*a*) the particular amount exceeds the amount by which the consideration for the share exceeds the aggregate of other amounts renounced under section 359.2, 359.2.1 or 359.4 by the corporation in respect of the share on or before the day on which the renunciation is made;

(*b*) the particular amount exceeds the amount by which the cumulative Canadian development expense of the corporation on the effective date of the renunciation, computed before taking into account any amounts renounced under section 359.2.1 by the corporation on the day on which the renunciation is made, exceeds the aggregate of all amounts renounced by the corporation under this section in respect of any other share on the day on which the renunciation is made, and effective on or before the effective date of the renunciation; or

(*c*) the particular amount relates to Canadian development expenses incurred by the corporation in a calendar year and the total amounts renounced, on or before the day on which the renunciation is made, under section 359.2.1 in respect of Canadian development expenses incurred by the corporation in that calendar year or by another corporation associated with the corporation at the time the other corporation incurred such expenses exceeds $1,000,000.

History: 1995, c. 49, s. 84; 1997, c. 3, s. 71; 1998, c. 16, s. 123.

Corresponding Federal Provision: 66(12.602).

Paid-up capital amount.

359.2.3. For the purposes of section 359.2.1, a corporation's paid-up capital amount at any time is the aggregate of

(*a*) its paid-up capital determined for its last taxation year that ended more than 30 days before that time; and

(*b*) the aggregate of all amounts each of which is the paid-up capital of another corporation associated at that time with the corporation, determined for the other corporation's last taxation year that ended more than 30 days before that time.

History: 1998, c. 16, s. 124.

Corresponding Federal Provision: 66(12.6011).

Amalgamations and mergers.

359.2.4. For the purpose of determining the paid-up capital amount at a particular time under section 359.2.3 of any corporation and for the purposes of this section, a corporation that was created as a consequence of an amalgamation or merger of other corporations, each of which is in this section referred to as a "predecessor corporation", and that does not have a taxation year that ended more than 30 days before the particular time, is deemed to have paid-up capital for a taxation year that ended more than 30 days before the particular time equal to the aggregate of all amounts each of which is the paid-up capital of a predecessor corporation for its last taxation year that ended more than 30 days before the particular time.

History: 1998, c. 16, s. 124.

Corresponding Federal Provision: 66(12.6013).

Determination of the paid-up capital amount.

359.2.5. For the purpose of determining the paid-up capital amount at a particular time under section 359.2.3 of a corporation and for the purposes of section 359.2.4, a particular corporation's paid-up capital for a taxation year is its paid-up capital that would be determined for the year in accordance with Title I of Book III of Part IV if no reference were made to section 1138.2.6 and to the portion of the amount that the corporation may deduct under section 1138 that is attributable to shares of the capital stock of, or indebtedness of, another corporation that

(*a*) was not associated with the particular corporation at the particular time; and

(*b*) was associated with the particular corporation at the end of the particular corporation's last taxation year that ended more than 30 days before that time.

History: 1998, c. 16, s. 124; 2009, c. 15, s. 82.

Corresponding Federal Provision: 66(12.6012).

Renunciation.

359.3. Subject to sections 359.11 to 359.12.0.1, where a corporation renounces an amount to a person under section 359.2 or 359.2.1, the following rules apply:

(*a*) the Canadian exploration expenses or Canadian development expenses to which the amount relates are deemed to be Canadian exploration expenses incurred in that amount by the person on the effective date of the renunciation; and

(*b*) the Canadian exploration expenses or Canadian development expenses to which the amount relates are, except in respect of that renunciation, deemed on and after the effective date of the renunciation never to have been

Canadian exploration expenses or Canadian development expenses incurred by the corporation.

History: 1988, c. 18, s. 27; 1993, c. 16, s. 143; 1995, c. 49, s. 85; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66(12.61).

Canadian development expenses to flow-through shareholder.

359.4. Where a person gave consideration under an agreement to a corporation for the issue of a flow-through share of the corporation and, in the period that begins on the day the agreement was entered into and ends 24 months after the end of the month that includes that day, the corporation incurred Canadian development expenses, the corporation may, after it complies with section 359.10 in respect of the share and before 1 March of the first calendar year that begins after the period, renounce to the person in respect of the share an amount equal to the amount by which the part of those expenses incurred by it on or before the effective date of the renunciation, which part is in this section referred to as the "specified expenses", exceeds the aggregate of

(*a*) the assistance that the corporation has received, is entitled to receive or may reasonably expect to receive at any time, and that can reasonably be related to the specified expenses or to Canadian development activities to which the specified expenses relate, other than assistance that can reasonably be related to expenses referred to in subparagraph *b* or *b*.1;

(*b*) all specified expenses that are prescribed Canadian exploration and development overhead expenses of the corporation;

(*b*.1) all specified expenses that are described in paragraph *c* of section 408 or that are described in paragraph *d* of that section because of the reference in the latter paragraph to paragraph *c* of section 408; and

(*c*) the aggregate of amounts that are renounced by the corporation on or before the date on which the renunciation is made by any other renunciation under this section or section 359.2.1 in respect of those expenses.

Renunciation.

Notwithstanding the first paragraph, the amount that may be renounced by the corporation must not in any case exceed

(*a*) the amount by which the consideration for the share exceeds the aggregate of other amounts renounced in respect of the share by the corporation under this section or section 359.2 or 359.2.1 on or before the day on which the renunciation is made; or

(*b*) the amount by which the cumulative Canadian development expense of the corporation on the effective date of the renunciation computed before taking into account any amounts renounced by the corporation under this section on the date on which the renunciation is made, exceeds the aggregate of all amounts renounced by the corporation under this section in respect of any other share on the date on which the renunciation is made, and effective on or before the effective date of the renunciation.

History: 1988, c. 18, s. 27; 1995, c. 49, s. 86; 1997, c. 3, s. 71; 1998, c. 16, s. 125.

Corresponding Federal Provision: 66(12.62).

Renunciation.

359.5. Subject to sections 359.11 to 359.12.0.1, where a corporation renounces an amount to a person under section 359.4, the following rules apply:

(*a*) the Canadian development expenses to which the amount relates are deemed to be Canadian development expenses incurred in that amount by the person on the effective date of the renunciation;

(*b*) the Canadian development expenses to which the amount relates are, except for the purposes of that renunciation, deemed on and after the effective date of the renunciation never to have been Canadian development expenses incurred by the corporation.

History: 1988, c. 18, s. 27; 1993, c. 16, s. 144; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66(12.63).

359.6. *(Repealed).*

History: 1988, c. 18, s. 27; 1995, c. 49, s. 87; 1997, c. 3, s. 71; 1998, c. 16, s. 126.

359.7. *(Repealed).*

History: 1988, c. 18, s. 27; 1993, c. 16, s. 145; 1997, c. 3, s. 71; 1998, c. 16, s. 126.

Canadian exploration expenses or Canadian development expenses incurred in a year.

359.8. Where a corporation that issues a flow-through share to a person under an agreement incurs, in a particular calendar year, Canadian exploration expenses or Canadian development expenses, the corporation is, for the purposes of section 359.2 or for the purposes of section 359.2.1 and paragraph *b* of section 359.2.2, as the case may be, deemed to have incurred the expenses on the last day of the preceding calendar year, provided that

(*a*) the expenses

i. are described in any of paragraphs *a*, *b*.1, *c* and *c*.2 of section 395 or paragraph *a* or *a*.1 of section 408,

ii. would be described in paragraph *d* of section 395 if the reference in that paragraph to paragraphs *a* to *b*.1 and *c* to *c*.5 were read as a reference to paragraphs *a*, *b*.1, *c* and *c*.2 of that section, or

iii. would be described in paragraph *d* of section 408 if the reference therein to paragraphs *a* to *c* were read as a reference to paragraphs *a* and *a*.1 of that section;

(*a*.1) the agreement was entered into in the preceding calendar year;

(*b*) the person paid the consideration for the share in money before the end of the preceding calendar year;

(*c*) the corporation and the person deal with each other at arm's length throughout the particular calendar year; and

(*d*) in one of the first three months of the particular calendar year, the corporation renounces an amount in respect of the expenses to the person in respect of the share in accordance with section 359.2 or 359.2.1, as the case may be, and the effective date of the renunciation is the last day of the preceding calendar year.

History: 1988, c. 18, s. 27; 1990, c. 59, s. 157; 1995, c. 49, s. 88; 1997, c. 3, s. 71; 1998, c. 16, s. 127; 2000, c. 5, s. 93; 2005, c. 1, s. 92; 2015, c. 24, s. 62.

Corresponding Federal Provision: 66(12.66).

Québec exploration expenses.

359.8.1. A corporation that issues a flow-through share to a person under an agreement and incurs, under the agreement and in a particular calendar year, expenses (in this section referred to as "Québec exploration expenses") that relate to a renunciation in respect of which an amount would be included in the aggregate described in subparagraph *a* of the second paragraph of section 1129.60 for the purpose of computing the tax that it would be required, but for this section, to pay for a month included in the preceding calendar year under section 1129.60, is, for the purposes of either section 359.2 or section 359.2.1 and paragraph *b* of section 359.2.2, deemed to have incurred the expenses on the last day of the calendar year that precedes the preceding calendar year, if

(*a*) section 359.8 applied in respect of the Québec exploration expenses that the corporation incurred under the agreement in the preceding calendar year and that relate to the renunciation;

(*b*) the agreement stipulates that the Québec exploration expenses were to be incurred in the preceding calendar year; and

(*c*) the Minister is of the opinion that the Québec exploration expenses that were to be incurred under the agreement in the preceding calendar year could not be incurred because of circumstances beyond the corporation's control.

History: 2009, c. 5, s. 128.

Restrictions on renunciations.

359.9. A corporation is deemed

(*a*) not to have renounced under any of sections 359.2, 359.2.1 and 359.4 any expenses that are deemed to have been incurred by it because of a renunciation under this chapter by another corporation that is not related to it;

(*b*) not to have renounced under section 359.2.1 to a corporation, trust or partnership any Canadian development expenses if, in respect of the renunciation, it has a prohibited relationship with the corporation, trust or partnership and if the expenses are not expenses renounced to another corporation that renounces under section 359.2 any Canadian exploration expense deemed to have been incurred by it because of the renunciation under section 359.2.1;

(*c*) not to have renounced under section 359.2.1 any Canadian development expenses deemed to have been incurred by it because of a renunciation under section 359.4; and

(*d*) not to have renounced under section 359.2 to a corporation, trust or partnership any Canadian exploration expenses that are deemed to have been incurred by it because of a renunciation under section 359.2.1 if, in respect of the renunciation under section 359.2, it has a prohibited relationship with the corporation, trust or partnership and if the expenses are not expenses ultimately renounced by another corporation under section 359.2 to an individual, other than a trust, or to a corporation, trust or partnership with which that other corporation does not have, in respect of that ultimate renunciation, a prohibited relationship.

History: 1988, c. 18, s. 27; 1995, c. 49, s. 89; 1997, c. 3, s. 71; 1998, c. 16, s. 128.

Corresponding Federal Provision: 66(12.67).

Prohibited relationship.

359.9.1. For the purposes of section 359.9, where a corporation, in paragraph *b* referred to as the "shareholder corporation", trust or partnership gave consideration under a particular agreement for the issue of a flow-through share of a particular corporation, the particular corporation has, in respect of a renunciation under section 359.2 or 359.2.1 in respect of the share, a prohibited relationship

(*a*) with the trust if, at any time after the particular agreement was entered into and before the share is issued to the trust, the particular corporation or any corporation related to it is beneficially interested in the trust;

(*b*) with the shareholder corporation if, immediately before the particular agreement was entered into, the shareholder corporation was related to the particular corporation; or

(*c*) with the partnership if any part of the amount renounced would, but for the second paragraph of section 359.12, be included, because of paragraph *d* of section 395, in the Canadian exploration expense of

i. the particular corporation, or

ii. any other corporation that, at any time after the particular agreement was entered into and before that part of the amount renounced would, but for this paragraph, be incurred, would, if flow-through shares issued by the particular corporation under agreements entered into at the same time as or after the time the particular agreement was entered into were disregarded, be related to the particular corporation.

History: 1995, c. 49, s. 90; 1996, c. 39, s. 273; 1997, c. 3, s. 71; 1998, c. 16, s. 129.

Corresponding Federal Provision: 66(12.671).

Selling instrument.

359.10. A corporation that agrees to issue or prepares a selling instrument in respect of flow-through shares shall file with the Minister a prescribed form together with the amount of $200 and a copy of the selling instrument or agreement to issue the shares on or before the last day of the month following the earlier of

(*a*) the month in which the agreement to issue the shares is entered into, and

(*b*) the month in which the selling instrument is first delivered to a potential investor.

Identification number.

The Minister shall assign an identification number to the prescribed form and notify the corporation of the number.

History: 1988, c. 18, s. 27; 1992, c. 31, s. 1; 1996, c. 39, s. 107; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66(12.68).

Filing re partners.

359.11. Where, in a fiscal period of a partnership, an expense is incurred by the partnership as a consequence of a renunciation of an amount under section 359.2, 359.2.1 or 359.4, the partnership shall, before the end of the third month following the end of the fiscal period, file with the Minister the prescribed form identifying the share of the expense attributable to each member of the partnership at the end of that fiscal period.

Consequences of failure to file.

Where the form required to be filed under the first paragraph is not so filed, except for the purposes of the first paragraph the partnership is deemed not to have incurred the expense referred to in that paragraph.

History: 1988, c. 18, s. 27; 1993, c. 16, s. 146; 1995, c. 49, s. 91; 1997, c. 3, s. 71; 1998, c. 16, s. 130.

Corresponding Federal Provision: 66(12.69) and (12.6901).

Filing re assistance.

359.11.1. Where a partnership receives or becomes entitled to receive assistance as a mandatary of its members or former members at a particular time in respect of any Canadian exploration expense or Canadian development expense that is or, but for paragraph *b* of sections 359.3 and 359.5, would be incurred by a corporation, the following rules apply:

(*a*) where the entitlement of any such member or former member to any part of such assistance is known by the partnership as of the end of the partnership's first fiscal period ending after the particular time and that part of such assistance was not required to be reported under paragraph *b* in respect of a calendar year ending before the end of that fiscal period, the partnership shall, on or before the last day of the third month following the end of that fiscal period, file with the Minister a prescribed form indicating the share of that part of such assistance paid to each such member or former member before the end of that fiscal period or to which each such member or former member is entitled at the end of that fiscal period;

(*b*) where the entitlement of any such member or former member to any part of such assistance is known by the partnership at the end of a calendar year that ends after the particular time and that part of such assistance was not required to be reported under paragraph *a* in respect of a fiscal period ending on or before the end of that calendar year, or under this paragraph in respect of a preceding calendar year, the partnership shall, on or before the last day of the third month following the end of that calendar year, file with the Minister a prescribed form indicating the share of that part of such assistance paid to each such member or former member before the end of that fiscal period or to which each such member or former member is entitled at the end of that calendar year;

(*c*) where the prescribed form required to be filed under paragraph *a* or *b* is not so filed, the part of such expense relating to the assistance required to be reported in the prescribed form is deemed not to have been incurred by the partnership.

History: 1993, c. 16, s. 147; 1997, c. 3, s. 71; 1998, c. 16, s. 131.

Corresponding Federal Provision: 66(12.691).

Filing re renunciation.

359.12. Where a corporation renounces an amount in respect of Canadian exploration expenses or Canadian development expenses under section 359.2, 359.2.1 or 359.4, the corporation shall file the prescribed form in respect of the renunciation with the Minister before the end of the first month following the month in which the renunciation is made.

Consequences of failure to file.

Where the form required to be filed under the first paragraph is not so filed, sections 359.3 and 359.5 do not apply in respect of the amount referred to in the first paragraph that the corporation has renounced.

History: 1988, c. 18, s. 27; 1993, c. 16, s. 148; 1995, c. 49, s. 92; 1997, c. 3, s. 71; 1998, c. 16, s. 132.
Corresponding Federal Provision: 66(12.7) and (12.7001).

Filing re assistance.

359.12.0.1. Where a corporation receives or becomes entitled to receive assistance as a mandatary in respect of any Canadian exploration expense or Canadian development expense that is or, but for paragraph *b* of sections 359.3 and 359.5, would be incurred by the corporation, the corporation shall, before the end of the first month following the particular month in which it first becomes known to the corporation that a person who holds a flow-through share of the corporation is entitled to a share of any part of the assistance, file with the Minister the prescribed form identifying the share of that part of the assistance to which each of those persons is entitled at the end of the particular month.

Consequences of failure to file.

Where the form required to be filed under the first paragraph is not so filed, except for the purpose of the first paragraph the corporation is deemed not to have incurred the expense referred to in the first paragraph to which the assistance relates.

History: 1993, c. 16, s. 149; 1997, c. 3, s. 71; 1998, c. 16, s. 132.
Corresponding Federal Provision: 66(12.701) and (12.702).

Late filing.

359.12.1. A corporation or partnership may file with the Minister a document referred to in any of sections 359.10 to 359.12.0.1 after the particular day on or before which the document is required to be filed under the applicable section, if

(*a*) the document is filed on or before the day that is 90 days after the particular day, or after that day where, in the opinion of the Minister, the circumstances are such that it would be just and equitable to permit the document to be filed, and

(*b*) the corporation or partnership, as the case may be, pays to the Minister at the time of filing the penalty prescribed in section 359.12.2 in respect of the late filing.

Presumption.

The document filed in accordance with the first paragraph is deemed, except for the purposes of this section and section 359.12.2, to have been filed with the Minister on the day on or before which it was required to be filed under any of sections 359.10 to 359.12.0.1, as the case may be.

History: 1990, c. 59, s. 158; 1993, c. 16, s. 150; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(12.74).

Late renunciation.

359.12.1.1. Where a corporation purports to renounce an amount under section 359.2, 359.2.1 or 359.4 after the period in which the corporation was entitled to renounce the amount, the amount is deemed, except for the purposes of this section and sections 359.12 and 359.12.2, to have been renounced at the end of the period if

(*a*) the corporation renounces the amount on or before the day that is 90 days after the end of that period, or after the day that is 90 days after the end of that period where, in the opinion of the Minister, the circumstances are such that it would be just and equitable that the amount be renounced; and

(*b*) the corporation pays to the Minister the penalty payable under section 359.12.2 in respect of the renunciation on or before the day that is 90 days after the day of the renunciation.

History: 1995, c. 49, s. 93; 1997, c. 3, s. 71; 1998, c. 16, s. 133.
Corresponding Federal Provision: 66(12.741).

Penalty.

359.12.2. For the purposes of sections 359.12.1 and 359.12.1.1, the penalty in respect of the late filing of a document referred to in any of sections 359.10 to 359.12.0.1, or in respect of a renunciation referred to in section 359.12.1.1, is equal to the lesser of $15,000 and

(*a*) where the penalty is in respect of the late filing of a document referred to in section 359.10, 359.11 or 359.12, the greater of $100 and 0.25% of the maximum amount in respect of the Canadian exploration expenses and Canadian development expenses renounced or attributed or to be renounced or attributed as set out in the document;

(*b*) where the penalty is in respect of the late filing of a document referred to in section 359.11.1 or 359.12.0.1, the greater of $100 and 0.25% of the assistance reported in the document;

(*c*) where the penalty is in respect of a renunciation referred to in section 359.12.1.1, the greater of $100 and 0.25% of the amount of the renunciation.

History: 1990, c. 59, s. 158; 1993, c. 16, s. 150; 1995, c. 49, s. 94; 1998, c. 16, s. 134.
Corresponding Federal Provision: 66(12.75).

Restriction on a renunciation.

359.13. A corporation may renounce an amount under section 359.2, 359.2.1 or 359.4 in respect of Canadian

exploration expenses or Canadian development expenses incurred by it only to the extent that, but for the renunciation, it would be entitled to a deduction in respect of the expenses in computing its income.

History: 1988, c. 18, s. 27; 1995, c. 49, s. 95; 1997, c. 3, s. 71; 1998, c. 16, s. 135.
Corresponding Federal Provision: 66(12.71).

359.14. *(Repealed).*

History: 1988, c. 18, s. 27; 1993, c. 16, s. 151; 1995, c. 49, s. 96; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 1998, c. 16, s. 136.

Excess renounced amounts.

359.15. Where the amount that a corporation purports to renounce to a person under section 359.2, 359.2.1 or 359.4 exceeds the amount that it can renounce to the person under that section, the following rules apply:

(*a*) the corporation shall file a statement with the Minister in prescribed form where

i. the Minister sends a notice in writing to the corporation demanding the statement, or

ii. the excess arose as a consequence of a renunciation purported to be made in a calendar year under section 359.2 or 359.2.1 because of the application of section 359.8, if the corporation knew or ought to have known of all or part of the excess,

(1) if section 359.8.1 applies in respect of expenses that were incurred in the calendar year that follows that in which the purported renunciation was made and that relate to the renunciation, at the end of that subsequent calendar year, and

(2) in any other case, at the end of the calendar year;

(*b*) where subparagraph i of subparagraph *a* applies, the statement shall be filed not later than 30 days after the Minister sends a notice referred to therein;

(*c*) if subparagraph ii of subparagraph *a* applies, the statement must be filed,

i. if section 359.8.1 applies in respect of expenses that were incurred in the calendar year that follows that in which the purported renunciation was made and that relate to the renunciation, before 1 March of the year that follows that subsequent calendar year, and

ii. in any other case, before 1 March of the calendar year that follows that in which the purported renunciation was made by the corporation; and

(*d*) except for the purposes of Part III.14, any amount that is purported to have been so renounced to any person is deemed, after the statement is filed with the Minister, to have always been reduced by the portion of the excess identified in the statement in respect of that purported renunciation.

Reductions in renunciations.

Where a corporation fails in the statement referred to in the first paragraph to apply the excess fully to reduce one or more purported renunciations, the Minister may at any time reduce the total amount purported to be renounced by the corporation to one or more persons by the amount of the unapplied excess.

Presumption.

In the case referred to in the second paragraph, except for the purposes of Part III.14, the amount purported to have been renounced by the corporation to a person is deemed, after the time referred to therein, to have always been reduced by the portion of the unapplied excess allocated by the Minister in respect of that person.

History: 1988, c. 18, s. 27; 1995, c. 49, s. 97; 1997, c. 3, s. 71; 1998, c. 16, s. 137; 2009, c. 5, s. 129.
Corresponding Federal Provision: 66(12.73).

Partnerships.

359.16. For the purposes of paragraph *c*.0.1 of section 359, the first paragraph of section 359.1 and sections 359.2 to 359.15, 359.18, 359.19 and 419.0.1, a partnership is deemed to be a person and its taxation year is deemed to be its fiscal period.

History: 1988, c. 18, s. 27; 1993, c. 16, s. 152; 1997, c. 3, s. 71; 1998, c. 16, s. 138; 2015, c. 24, s. 63.
Corresponding Federal Provision: 66(16).

Arm's length dealings.

359.17. For the purposes of paragraph *c* of section 359.8, a partnership and a corporation are deemed, at all times in a calendar year,

(*a*) not to deal with each other at arm's length, if

i. an expense is deemed under section 359.3 to be incurred by the partnership,

ii. the expense would, but for paragraph *b* of section 359.3, be incurred in the calendar year by the corporation, and

iii. a share of the expense is included because of paragraph *d* of section 395 in the Canadian exploration expense of the corporation or of a member of the partnership with whom the corporation does not deal at arm's length at any time in the calendar year; and

(*b*) to deal with each other at arm's length, in any other case.

History: 1988, c. 18, s. 27; 1993, c. 16, s. 152; 1997, c. 3, s. 71; 1998, c. 16, s. 139; 2005, c. 1, s. 93.
Corresponding Federal Provision: 66(17).

Members of partnerships.

359.18. For the purposes of this division, section 181, paragraphs *c* to *g* of section 330, sections 333.1 to 333.3, 359 and 362 to 418.36, Division V, sections 600.1 and 600.2, subparagraph iv of subparagraph *a*.2 of the first paragraph of section 726.6 and subparagraph *b* of the second paragraph of section 1129.60 or 1129.60.1, where a person's share of an outlay or expense made or incurred by a partnership in a fiscal period of the partnership is referred to in respect of the person under paragraph *d* of any of sections 372, 395 and 408, under paragraph *e* of section 418.1.1, or under paragraph *b* of section 418.2, the portion of the outlay or expense so referred to is deemed, except for the purpose of applying sections 372, 372.1, 395 to 397, 408 to 410, 418.1.1, 418.1.2 and 418.2 to 418.4 in respect of the person, to have been made or incurred by the person at the end of that fiscal period.

History: 1993, c. 16, s. 153; 1997, c. 3, s. 71; 1998, c. 16, s. 140; 2004, c. 8, s. 61; 2009, c. 5, s. 130.

Corresponding Federal Provision: 66(18).

Renunciation by a corporate partner.

359.19. A corporation is not entitled to renounce under section 359.2, 359.2.1 or 359.4 to a person a specified amount where the corporation would not be entitled to so renounce the specified amount if the words "end of that fiscal period" in section 359.18 were read as "time the outlay or expense is made or incurred by the partnership" and the words "on the effective date of the renunciation" in paragraph *a* of each of sections 359.3 and 359.5 were read as "at the earliest time that any part of such expense is incurred by the corporation".

Specified amount.

For the purposes of the first paragraph, a specified amount in respect of a corporation is an amount that represents all or part of

(*a*) the corporation's share of the outlay or expense made or incurred by a partnership of which the corporation is a member or former member; or

(*b*) an amount renounced to the corporation under section 359.2, 359.2.1 or 359.4.

History: 1993, c. 16, s. 153; 1995, c. 49, s. 98; 1997, c. 3, s. 71; 1998, c. 16, s. 141.

Corresponding Federal Provision: 66(19).

DIVISION II
DEPLETION, AND EXPLORATION AND DEVELOPMENT EXPENSES

Allowances for oil or gas well or mineral resources.

360. A taxpayer may deduct, in computing his income for a taxation year, the amount determined by regulation as an allowance in respect of a natural accumulation of petroleum or natural gas, oil or gas well, mineral resource or timber limit, or in respect of

(*a*) the processing of ore, other than iron ore or tar sands, from a mineral resource to any stage that is not beyond the prime metal stage or its equivalent;

(*b*) the processing of iron ore from a mineral resource to any stage that is not beyond the pellet stage or its equivalent;

(*c*) the processing of tar sands from a mineral resource to any stage that is not beyond the crude oil stage or its equivalent.

Determination of amount.

Such regulation may allow an amount for only a part of or for all of the natural accumulations of petroleum or natural gas, oil or gas wells or mineral resources in which the taxpayer has a right, or of the ore processing operations referred to in the first paragraph and carried on by the taxpayer, and the Government may prescribe a formula to determine such amount.

History: 1972, c. 23, s. 327; 1973, c. 18, s. 12; 1986, c. 19, s. 68; 1987, c. 67, s. 80; 1996, c. 39, s. 273; 2020, c. 16, s. 62.

Corresponding Federal Provision: 65(1) and (2).

Deduction allowed for coal mine operated by lessee.

361. Where a deduction is permitted under section 360 in respect of a coal mine operated by a lessee, he may agree with his lessor as to what portion of the amount each may deduct, and, if they cannot agree, the Minister may determine that portion.

History: 1972, c. 23, s. 328.

Corresponding Federal Provision: 65(3).

Exploration and development expenses.

362. A development corporation may deduct, in computing its income for a taxation year, the aggregate of the Canadian exploration and development expenses it incurs before the end of the taxation year, to the extent that they were not deductible in computing its income for a previous taxation year, up to the amount which would be its income if no deduction were allowed under this section or section 360, 361 or 400, less the deductions allowed for the year under sections 738 to 749.

History: 1972, c. 23, s. 329; 1973, c. 17, s. 37; 1973, c. 18, s. 13; 1975, c. 22, s. 69; 1978, c. 26, s. 57; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66(1).

Development corporation.

363. A development corporation is, for the purposes of this chapter, a corporation whose principal business is any of, or a combination of,

(*a*) the production, refining or marketing of petroleum, petroleum products or natural gas,

(*a.*1) exploring or drilling for petroleum or natural gas,

(*b*) mining or exploring for minerals,

(*c*) the processing of mineral ores for the purpose of recovering metals or minerals from the ores,

(*d*) the processing or marketing of metals or minerals that were recovered from mineral ores and that include metals or minerals recovered from mineral ores processed by the corporation,

(*e*) the fabrication of metals,

(*f*) the operation of a pipeline for the transmission of oil or gas,

(*f.*1) the production or marketing of calcium chloride, sodium chloride, gypsum, kaolin or potash,

(*g*) the manufacturing of products, where the manufacturing involves the processing of calcium chloride, sodium chloride, gypsum, kaolin or potash,

(*h*) the generation or distribution of energy, or the production of fuel, using property described in Class 43.1 or 43.2 in Schedule B to the Regulation respecting the Taxation Act (chapter I-3, r. 1); and

(*i*) the development of projects for which it is reasonable to expect that at least 50% of the capital cost of the depreciable property to be used in each project is the capital cost of property described in Class 43.1 or 43.2 in Schedule B to the Regulation respecting the Taxation Act.

Interpretation.

A development corporation is also, for the purposes of this chapter, a corporation all or substantially all of the assets of which are shares of the capital stock or indebtedness of one or more development corporations that are related to the corporation otherwise than because of a right referred to in paragraph *b* of section 20.

History: 1972, c. 23, s. 330; 1975, c. 22, s. 70; 1989, c. 77, s. 35; 1995, c. 49, s. 99; 1997, c. 3, s. 71; 1998, c. 16, s. 142; 2000, c. 39, s. 23; 2001, c. 7, s. 43; 2010, c. 5, s. 42; 2011, c. 34, s. 29.

Corresponding Federal Provision: 66(15) "principal-business corporation".

Canadian exploration and development expenses.

364. For the purposes of this chapter, Canadian exploration and development expenses are the expenses incurred before 7 May 1974 in the case of an oil business and before 1 April 1975 in the case of a mining business which are:

(*a*) exploration or drilling expenses, including the costs of general geological or geophysical studies, incurred after 1971 for exploration or drilling for petroleum or natural gas in Canada;

(*b*) prospecting, exploration or development expenses incurred after 1971 in searching for minerals in Canada;

(*c*) the cost of any Canadian resource property acquired by the taxpayer after 1971;

(*d*) the share of the taxpayer in Canadian exploration and development expenses incurred after 1971 by an association, partnership or syndicate, during one of their fiscal periods, in which he was a member or partner at the end of the fiscal period;

(*e*) the expenses incurred after 1971 by the taxpayer pursuant to an agreement with a corporation under which he so incurs such expenses solely as consideration for shares of the capital stock of the corporation or an interest or right in those shares, to the extent that those expenses are incurred as the cost of activities connected with the expenses contemplated in paragraph *a* or *b* or as the cost of acquisition of property contemplated in paragraph *c*; and

(*f*) any annual payment made by the taxpayer for the preservation of a Canadian resource property.

History: 1972, c. 23, s. 331; 1973, c. 17, s. 38; 1975, c. 22, s. 71; 1986, c. 19, s. 69; 1997, c. 3, s. 71; 2000, c. 5, s. 94.

Corresponding Federal Provision: 66(15) "Canadian exploration and development expenses". (a) to (f).

Expenses not included.

365. However, Canadian exploration and development expenses shall not include, for the purposes of this chapter:

(*a*) any consideration given for any share, interest or right relating to it, except as provided in paragraph *e* of section 364; or

(*b*) any expenses contemplated in paragraph *e* of section 364 and incurred by another taxpayer, to the extent that the obligation of that other taxpayer to incur such expenses constituted for him, under the said paragraph, Canadian exploration and development expenses.

History: 1972, c. 23, s. 332; 1973, c. 17, s. 39.

Corresponding Federal Provision: 66(15) "Canadian exploration and development expenses". (g) and (h).

Drilling or exploration expenses.

366. For the purposes of this chapter, drilling or exploration expenses include the expenses incurred for drilling or converting a well for the disposal of waste liquids from a petroleum or natural gas well or for injection of water or gas to assist in the recovery of petroleum or natural gas from another well. They also include expenses incurred in

drilling for water or gas for injection into a petroleum or natural gas formation.

History: 1972, c. 23, s. 333; 1975, c. 22, s. 72.
Corresponding Federal Provision: 66(15) "drilling or exploration expense".

Expenses respecting production of sodium chloride.

367. A corporation not contemplated in paragraph *a* or *b* of section 363, whose principal activity is production or marketing of sodium chloride or potash or whose activity includes manufacturing products the manufacturing of which involves processing of these substances may deduct, in computing its income, the exploration or drilling expenses which it incurs before 7 May 1974 in searching for halite or sylvite.

History: 1972, c. 23, s. 334; 1975, c. 22, s. 73; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(2).

Taxpayer other than development corporation.

368. A taxpayer other than a development corporation may deduct in computing his income for a taxation year the aggregate of the Canadian exploration and development expenses he incurs, to the extent that they were not deducted in computing his income for a previous taxation year.

History: 1972, c. 23, s. 335; 1986, c. 19, s. 70; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(3).

369. *(Repealed).*

History: 1972, c. 23, s. 336; 1973, c. 17, s. 40; 1973, c. 18, s. 14; 1975, c. 22, s. 74; 1977, c. 26, s. 34; 1978, c. 26, s. 58; 1980, c. 11, s. 54; 1982, c. 5, s. 83; 1986, c. 19, s. 70.

Canadian resource property.

370. In this chapter, a Canadian resource property of a taxpayer is any property of the taxpayer which is

(*a*) any right, licence or privilege to explore for, drill for or take petroleum, natural gas or other related hydrocarbons in Canada;

(*b*) any right, licence or privilege to prospect, explore, drill or mine for minerals in a mineral resource in Canada, other than a bituminous sands deposit or an oil shale deposit, or to store underground petroleum, natural gas or other related hydrocarbons in Canada;

(*c*) any oil or gas well in Canada or any immovable property in Canada the value of which depends primarily upon its petroleum, natural gas or related hydrocarbon content (not including any depreciable property);

(*d*) any right to a rental or royalty computed by reference to the amount or value of production from an oil or gas well in Canada, or from a natural accumulation of petroleum, natural gas or related hydrocarbon in Canada, if the payer of the rental or royalty has a right in the well or accumulation, as the case may be, and 90% or more of the rental or royalty is payable out of, or from the proceeds of, the production from the well or accumulation;

(*d.*1) any right to a rental or royalty computed by reference to the amount or value of production from a mineral resource in Canada, other than a bituminous sands deposit or an oil shale deposit, if the payer of the rental or royalty has a right in the mineral resource and 90% or more of the rental or royalty is payable out of, or from the proceeds of, the production from the mineral resource;

(*e*) any immovable property in Canada (not including any depreciable property) the value of which depends primarily upon its mineral resource content, other than where the mineral resource is a bituminous sands deposit or an oil shale deposit;

(*f*) any right in or to any property described in any of paragraphs *a* to *d.*1, other than such a right that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership; or

(*g*) a real right in an immovable property described in paragraph *e*, other than such a right that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership.

History: 1972, c. 23, s. 337; 1975, c. 22, s. 75; 1980, c. 13, s. 30; 1982, c. 5, s. 84; 1986, c. 19, s. 71; 1987, c. 67, s. 81; 1995, c. 49, s. 236; 2004, c. 8, s. 62; 2005, c. 1, s. 94; 2012, c. 8, s. 50; 2020, c. 16, s. 63.
Interpretation Bulletins: IMP. 1102.1-1.
Corresponding Federal Provision: 66(15) "Canadian resource property".

Deduction of foreign exploration and development expenses.

371. A taxpayer who is resident in Canada throughout a taxation year may deduct, in computing the taxpayer's income for that year, the lesser of

(*a*) the amount by which the aggregate of all amounts by which the amount determined under this paragraph in respect of the taxpayer is required, because of section 485.8, to be reduced at or before the end of the year is exceeded by the aggregate of the foreign exploration and development expenses, to the extent that they were not deductible in computing the taxpayer's income for a previous taxation year, incurred by the taxpayer

i. before the end of the year,

ii. at a time at which the taxpayer was resident in Canada, and

iii. where the taxpayer became resident in Canada before the end of the year, after the last time, before the end of the year, that the taxpayer became resident in Canada; and

(*b*) the amount computed under section 374.

History: 1972, c. 23, s. 338; 1975, c. 22, s. 76; 1996, c. 39, s. 108; 2004, c. 8, s. 63.

Corresponding Federal Provision: 66(4)(a).

Foreign exploration and development expenses.

372. In this chapter, the foreign exploration and development expenses of a taxpayer means

(*a*) any exploration or drilling expense, including any general geological or geophysical expense, incurred by the taxpayer on or in respect of exploring or drilling for petroleum or natural gas outside Canada;

(*b*) any expense incurred by the taxpayer for the purpose of determining the existence, location, extent or quality of a mineral resource outside Canada, including any expense incurred in the course of prospecting, carrying out geological, geophysical or geochemical surveys, drilling, trenching, digging test pits or preliminary sampling;

(*c*) the cost to the taxpayer of any foreign resource property acquired by the taxpayer;

(*d*) subject to section 418.37, the taxpayer's share of the foreign exploration and development expenses incurred by a partnership in a fiscal period of the partnership, where the taxpayer was a member of the partnership at the end of that fiscal period; and

(*e*) any annual payment made by the taxpayer for the preservation of a foreign resource property.

History: 1972, c. 23, s. 339; 1975, c. 22, s. 77; 1980, c. 13, s. 31; 1990, c. 59, s. 159; 2004, c. 8, s. 64.

Corresponding Federal Provision: 66(15) "foreign exploration and development expenses" (a) to (e).

Exclusions.

372.1. A taxpayer's foreign exploration and development expenses do not however include

(*a*) any amount included at any time in the capital cost to the taxpayer of any depreciable property of a prescribed class;

(*b*) an expenditure incurred at any time after the commencement of production from a foreign resource property of the taxpayer in order to evaluate the feasibility of a method of recovery of petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the foreign resource property relates;

(*c*) an expenditure, other than a drilling expense, incurred at any time after the commencement of production from a foreign resource property of the taxpayer in order to assist in the recovery of petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the foreign resource property relates;

(*d*) an expenditure incurred at any time relating to the injection of any substance to assist in the recovery of petroleum, natural gas or related hydrocarbons from a natural reservoir;

(*e*) an expenditure that is the cost, or any part of the cost, to the taxpayer of any depreciable property of a prescribed class that was acquired after 21 December 2000;

(*f*) foreign resource expenses in relation to a country; or

(*g*) an expenditure incurred after 27 February 2000, unless the expenditure was incurred

i. pursuant to an agreement in writing entered into by the taxpayer before 28 February 2000,

ii. for the purpose of enabling the taxpayer to acquire foreign resource property,

iii. for the purpose of enhancing the value of foreign resource property that the taxpayer owned at the time the expenditure was incurred or that the taxpayer had a reasonable expectation of owning after that time, or

iv. for the purpose of assisting in evaluating whether a foreign resource property is to be acquired by the taxpayer.

History: 1998, c. 16, s. 143; 2004, c. 8, s. 65.

Corresponding Federal Provision: 66(15) "foreign exploration and development expenses" (f) to (l).

Specified foreign exploration and development expenses.

372.2. In this chapter, the specified foreign exploration and development expense of a taxpayer in relation to a country other than Canada means the following expenses that are foreign exploration and development expenses of the taxpayer:

(*a*) any exploration or drilling expense, including any general geological or geophysical expense, incurred by the taxpayer on or in respect of exploring or drilling for petroleum or natural gas in that country;

(*b*) any expense incurred by the taxpayer after 21 December 2000, otherwise than pursuant to an agreement in writing entered into before 22 December 2000, for the purpose of determining the existence, location, extent or quality of a mineral resource in that country, including any expense incurred in the course of prospecting, carrying out geological, geophysical or geochemical surveys, drilling, trenching, digging test pits or preliminary samplings;

(*c*) any prospecting, exploration or development expense incurred by the taxpayer before 22 December 2000, or after 21 December 2000 pursuant to an agreement in writing entered into before 22 December 2000, in searching for minerals in that country;

(*d*) the cost to the taxpayer of any of the taxpayer's foreign resource properties in relation to that country;

(*e*) any annual payment made by the taxpayer in a taxation year of the taxpayer for the preservation of a foreign resource property in relation to that country;

(*f*) an amount deemed by section 181 or 182 to be a foreign exploration and development expense incurred by the taxpayer, to the extent that it can reasonably be considered to relate to an amount that, without reference to this paragraph and paragraph *g*, would be a specified foreign exploration and development expense in relation to that country; and

(*g*) subject to section 418.37, the taxpayer's share of the specified foreign exploration and development expenses of a partnership incurred in a fiscal period of the partnership in relation to that country, where the taxpayer was a member of the partnership at the end of that fiscal period.

History: 2004, c. 8, s. 66.
Corresponding Federal Provision: 66(15) "specified foreign exploration and development expense".

Foreign resource property.

373. In this chapter, a foreign resource property means a property that would be referred to in section 370, if

(*a*) in the case of a foreign resource property in relation to a country, the references in that section to "Canadian resource property of a taxpayer" in the portion before paragraph *a* and "in Canada" wherever it appears in paragraphs *a* to *e* were read as references to "foreign resource property of a taxpayer in relation to a country" and "in that country", respectively; and

(*b*) in any other case, the references in that section to "Canadian" in the portion before paragraph *a* and "in Canada" wherever it appears in paragraphs *a* to *e* were read as references to "foreign" and "outside Canada", respectively.

History: 1972, c. 23, s. 340; 2004, c. 8, s. 67.
Corresponding Federal Provision: 66(15) "foreign resource property" and 248(1) "foreign resource property".

Computation of amount.

374. The amount to which paragraph *b* of section 371 refers is the greater of

(*a*) the amount claimed by the taxpayer not exceeding 10% of the amount determined under paragraph *a* of section 371 in respect of the taxpayer for the year; and

(*b*) the total of

i. that part of the taxpayer's income for the year, determined without reference to sections 371 and 418.1.10, that can reasonably be attributed to the production of petroleum or natural gas from a natural accumulation of petroleum or natural gas outside Canada or from oil or gas wells outside Canada, or to the production of minerals from mines outside Canada,

ii. the taxpayer's income for the year from royalties in respect of a natural accumulation of petroleum or natural gas outside Canada, an oil or gas well outside Canada or a mine outside Canada, determined without reference to sections 371 and 418.1.10, and

iii. the aggregate of all amounts each of which is an amount, in respect of a foreign resource property that has been disposed of by the taxpayer, equal to the amount by which the amount included in computing the taxpayer's income for the year by reason of paragraph *a* of section 330 in respect of that disposition exceeds the aggregate of all amounts each of which is that portion of an amount deducted under section 418.17 in computing the taxpayer's income for the year that can reasonably be considered to be in respect of the foreign resource property, but cannot reasonably be considered to have reduced the amount otherwise determined under subparagraph i or ii in respect of the taxpayer for the year.

History: 1972, c. 23, s. 341; 1973, c. 17, s. 41; 1973, c. 18, s. 15; 1975, c. 22, s. 78; 1977, c. 26, s. 35; 1978, c. 26, s. 59; 1986, c. 19, s. 72; 1987, c. 67, s. 82; 1996, c. 39, s. 109; 2004, c. 8, s. 67.
Corresponding Federal Provision: 66(4)(b).

Country-by-country allocations.

374.1. The portion of an amount deducted under section 371 in computing a taxpayer's income for a taxation year that can reasonably be considered to be in respect of specified foreign exploration and development expenses of the taxpayer in relation to a country is considered as being attributable to a source in that country.

History: 2004, c. 8, s. 68.
Corresponding Federal Provision: 66(4.1).

Method of allocation.

374.2. For the purposes of section 374.1, where a taxpayer has incurred specified foreign exploration and development expenses in relation to two or more countries, an allocation to each of those countries for a taxation year shall be determined in a manner that is

(*a*) reasonable having regard to all the circumstances, including the level and timing of

i. the taxpayer's specified foreign exploration and development expenses in relation to that country, and

ii. the profits or gains to which those expenses relate; and

(*b*) not inconsistent with the allocation made under section 374.1 for the preceding taxation year.

History: 2004, c. 8, s. 68.

Corresponding Federal Provision: 66(4.2).

Individual resident in Canada only part of a year.

374.3. Where at any time in a taxation year an individual becomes or ceases to be resident in Canada, the following rules apply:

(*a*) sections 371 and 374 apply to the individual as if the year were the period or periods in the year throughout which the individual was resident in Canada; and

(*b*) for the purposes of sections 371 and 374, section 393.1 does not apply to the individual for the year.

History: 2004, c. 8, s. 68.

Corresponding Federal Provision: 66(4.3).

Dealers in rights, licences or privileges to explore.

375. Sections 329 to 333, 357, 358, 368, 371, 374, 395 to 418.12 and 418.16 to 418.36 do not apply in computing the income for a taxation year of a taxpayer, other than a development corporation, if the business of such taxpayer includes trading or dealing in rights, licences or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons.

History: 1972, c. 23, s. 342; 1975, c. 22, s. 79; 1982, c. 5, s. 85; 1993, c. 16, s. 154; 1995, c. 49, s. 236; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66(5).

376. *(Repealed).*

History: 1972, c. 23, s. 343; 1973, c. 18, s. 16; 1975, c. 22, s. 80; 1978, c. 26, s. 60; 1985, c. 25, s. 66; 1986, c. 19, s. 73; 1989, c. 77, s. 36.

377. *(Repealed).*

History: 1972, c. 23, s. 344; 1975, c. 22, s. 81; 1978, c. 26, s. 61; 1980, c. 13, s. 32; 1980, c. 11, s. 54; 1985, c. 25, s. 67; 1986, c. 19, s. 74; 1987, c. 67, s. 83; 1989, c. 77, s. 36.

378. *(Repealed).*

History: 1972, c. 23, s. 345; 1973, c. 18, s. 18; 1975, c. 22, s. 82; 1978, c. 26, s. 62; 1985, c. 25, s. 68; 1986, c. 19, s. 75; 1989, c. 77, s. 36.

378.1. *(Repealed).*

History: 1980, c. 13, s. 33; 1985, c. 25, s. 68; 1989, c. 77, s. 36.

379. *(Repealed).*

History: 1972, c. 23, s. 346; 1975, c. 22, s. 83; 1980, c. 13, s. 34; 1985, c. 25, s. 68; 1989, c. 77, s. 36.

380. *(Repealed).*

History: 1972, c. 23, s. 347; 1972, c. 26, s. 47; 1973, c. 17, s. 43; 1973, c. 18, s. 19; 1975, c. 22, s. 84; 1978, c. 26, s. 63; 1980, c. 11, s. 54; 1984, c. 15, s. 85; 1985, c. 25, s. 69; 1986, c. 19, s. 76; 1987, c. 67, s. 84; 1989, c. 77, s. 36.

381. *(Repealed).*

History: 1972, c. 23, s. 348; 1978, c. 26, s. 64; 1997, c. 3, s. 71; 1998, c. 16, s. 144.

Joint exploration corporation.

382. A joint exploration corporation is a development corporation which never had more than ten shareholders excluding any individual holding a share for the sole purpose of qualifying as a director.

History: 1972, c. 23, s. 349; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66(15) "joint exploration corporation".

383. *(Repealed).*

History: 1972, c. 23, s. 350; 1973, c. 17, s. 44; 1975, c. 22, s. 85; 1977, c. 26, s. 36; 1978, c. 26, s. 65; 1982, c. 5, s. 86; 1985, c. 25, s. 70; 1997, c. 3, s. 71; 1998, c. 16, s. 144.

Where control of a corporation is acquired after 31 March 1977.

384. Where control of a corporation has been acquired after 31 March 1977 but before 13 November 1981 by a person or persons who did not control the corporation at the time it last ceased to carry on a qualified business, the following rules apply:

(*a*) the amount by which the Canadian exploration and development expenses or the foreign exploration and development expenses, as the case may be, incurred by the corporation before the time it ceased to carry on active business exceeds the aggregate of all amounts otherwise deductible respectively in respect of such expenses in computing its income for the taxation years ending before control was acquired, is deemed to have been deductible under sections 362 to 394 in computing its income for the taxation years ending before control was so acquired;

(*b*) the amount by which the cumulative Canadian exploration expenses, cumulative Canadian development expenses or cumulative Canadian oil and gas property expenses, as the case may be, at the time it ceased to carry on active business exceeds the aggregate of all amounts otherwise deducted under Division III, IV or IV.1, as the case may be, in computing its income for the taxation years ending after the time it ceased to carry on active business and before control was so acquired, is deemed to have been deducted under the said divisions, respectively, in computing

its income for the taxation years ending before control was so acquired.

History: 1972, c. 23, s. 351; 1975, c. 22, s. 86; 1978, c. 26, s. 66; 1982, c. 5, s. 87; 1984, c. 15, s. 86; 1990, c. 59, s. 160; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(11).

384.1. *(Repealed).*

History: 1984, c. 15, s. 87; 1985, c. 25, s. 71; 1986, c. 19, s. 77; 1987, c. 67, s. 85; 1989, c. 77, s. 37.

384.1.1. *(Repealed).*

History: 1987, c. 67, s. 86; 1989, c. 77, s. 37.

384.2. *(Repealed).*

History: 1984, c. 15, s. 87; 1985, c. 25, s. 72; 1986, c. 19, s. 78; 1989, c. 77, s. 37.

Acquisition of control of corporation.

384.3. For the purposes of sections 384 and 418.26 to 418.29, where a corporation acquires control of another corporation between 12 November 1981 and 1 January 1983 by reason of the acquisition of shares of the other corporation pursuant to an agreement in writing concluded on or before 12 November 1981, it is deemed to have acquired control of it not later than 12 November 1981.

History: 1984, c. 15, s. 87; 1989, c. 77, s. 38; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(11.3).

Loss restriction event.

384.4. For the purposes of sections 371 to 374, 408 to 416 and 418.1 to 418.12, except as those sections apply for the purposes of sections 418.15 to 418.36, where, at a particular time, a taxpayer is subject to a loss restriction event, where, within the 12-month period that ended immediately before that time, the taxpayer, a partnership of which the taxpayer was a majority-interest partner or a trust of which the taxpayer was a majority-interest beneficiary, within the meaning of section 21.0.1, acquired a Canadian resource property or a foreign resource property, and where, immediately before the 12-month period began, the taxpayer was not a development corporation or the partnership or trust, if it were a corporation, would not be a development corporation,

(*a*) the property is deemed, subject to subparagraph *b*, to have been acquired by the taxpayer, partnership or trust at the particular time and not to have been acquired by it before that time; and

(*b*) where the property was disposed of by the taxpayer, partnership or trust before the particular time and was not reacquired by it before that time, the property is deemed to have been acquired by it immediately before the property was disposed of.

Exception.

However, the first paragraph does not apply in the case of an acquisition of property that was owned by the taxpayer, partnership or trust or by a person that would, but for the definition of "controlled" in section 21.0.1, have been affiliated with the taxpayer throughout the period that began immediately before the 12-month period referred to in the first paragraph and ended at the time the property was acquired by the taxpayer, partnership or trust.

History: 1989, c. 77, s. 39; 1997, c. 3, s. 71; 2000, c. 5, s. 95; 2017, c. 1, s. 118.
Corresponding Federal Provision: 66(11.4).

Affiliation — section 384.4.

384.5. For the purposes of section 384.4, where the taxpayer referred to in that section was formed or created in the 12-month period referred to in the first paragraph of that section, the taxpayer is deemed to have been

(*a*) in existence throughout the period that began immediately before that 12-month period and ended immediately after it was formed or created; and

(*b*) affiliated, throughout the period referred to in paragraph *a*, with every person with whom it was affiliated, otherwise than because of a right referred to in paragraph *b* of section 20, throughout the period that began when it was formed or created and ended immediately before the time at which the taxpayer was subject to the loss restriction event referred to in that section.

History: 1989, c. 77, s. 39; 1997, c. 3, s. 71; 2000, c. 5, s. 95; 2017, c. 1, s. 118.
Corresponding Federal Provision: 66(11.5).

Amount to deduct.

385. A taxpayer must deduct, in computing Canadian exploration and development expenses, any amount paid to him, before 7 May 1974 in the case of an oil business or before 1 April 1975 in the case of a mining business, as a subsidy, grant or assistance under an Act of Canada, to the extent provided by regulation.

Inclusion.

He may however include any amount he pays after 1971 but before 7 May 1974 in the case of an oil business or before 1 April 1975 in the case a mining business, under such an Act of Canada, except interest.

History: 1972, c. 23, s. 352; 1972, c. 26, s. 48; 1975, c. 22, s. 87.
Corresponding Federal Provision: 66(12).

Recovery of exploration and development expenses.

386. Except as expressly otherwise provided in this Part, in computing a taxpayer's cumulative Canadian exploration expenses, there shall be deducted under paragraph *b* of

section 399 the amount which, at a particular time in a taxation year, becomes receivable by the taxpayer as a result of a transaction made after 6 May 1974 in the case of an oil business, after 31 March 1975 in the case of a mining business or after 5 December 1996 in all other cases, in consideration of services rendered or property ceded by the taxpayer, if the original cost of those services or that property may reasonably be regarded as having been, for the taxpayer, primarily Canadian exploration expenses or Canadian exploration and development expenses, or as if it would have been such expenses if they had been incurred by the taxpayer after 1971 and before 7 May 1974 or before 1 April 1975, as the case may be.

History: 1975, c. 22, s. 88; 2013, c. 10, s. 30.
Corresponding Federal Provision: 66(12.1)a).

Recovery of exploration and development expenses.

387. Except as expressly otherwise provided in this Part, a taxpayer, in computing his cumulative Canadian development expenses, shall deduct under paragraph *c* of section 412 the amount which, at a particular time in a taxation year, becomes receivable by him in the cases described in section 386, if the original cost of the services or property contemplated therein may reasonably be regarded as having been, for him, primarily Canadian development expenses.

History: 1975, c. 22, s. 88.
Corresponding Federal Provision: 66(12.1).

Recovery of foreign exploration and development expenses.

388. A taxpayer shall, in computing the taxpayer's foreign exploration and development expenses, deduct the amount that, at a particular time in a taxation year and as a result of a transaction that occurs after 6 May 1974, becomes receivable by the taxpayer as consideration for services rendered or property transferred by the taxpayer, if the original cost of the services or property can reasonably be regarded as having been primarily foreign exploration and development expenses of the taxpayer, or would have been so regarded if they had been incurred by the taxpayer after 1971 and section 372.1 were read without reference to paragraph *f* thereof.

History: 1975, c. 22, s. 88; 2004, c. 8, s. 69.
Corresponding Federal Provision: 66(12.4) before (a) and (a).

Expenses deemed to be nil.

389. The foreign exploration and development expenses of a taxpayer are deemed to be nil at the time referred to in section 388 where an amount is included in computing his income by virtue of paragraph *c* of section 330.

History: 1975, c. 22, s. 88.
Corresponding Federal Provision: 66(12.4)(c).

Restriction.

390. Sections 386 and 387 do not apply to a share or a Canadian resource property or to any right related thereto and section 388 does not apply to any foreign resource property.

History: 1975, c. 22, s. 88; 1986, c. 19, s. 79.
Corresponding Federal Provision: 66(12.4) before (a).

Restriction on computation of cumulative foreign resource expenses.

390.1. Where an amount described in section 388 becomes receivable by a taxpayer at a particular time, there shall at that particular time be included in computing the amount determined under paragraph *c* of section 418.1.4 in respect of the taxpayer and a country the amount designated under subparagraph ii of paragraph *c* of section 330 by the taxpayer in respect of that amount and that country.

History: 2004, c. 8, s. 70.
Corresponding Federal Provision: 66(12.41).

Partnerships.

390.2. Where an amount described in section 388 becomes receivable by a partnership in a fiscal period of the partnership, the share of a member of the partnership of that amount is deemed, for the purposes of paragraph *c* of section 330 and sections 388 and 390.1, to be an amount that became receivable by the member at the end of that fiscal period, that is described in section 388 in respect of the member and that has the same attributes for the member as it did for the partnership.

History: 2004, c. 8, s. 70.
Corresponding Federal Provision: 66(12.42).

Recovery at the time of unitizing an oil field.

391. A taxpayer, in computing his cumulative Canadian exploration expenses, shall deduct under paragraph *b* of section 399 the amount that, at a particular time after 6 May 1974, becomes receivable by him from a person with whom he has made an agreement to unitize an oil or gas field in Canada in respect of Canadian exploration expenses, or Canadian exploration and development expenses or expenses that would have been such expenses if they had been incurred by him after 1971 and before 7 May 1974, incurred by the taxpayer in respect of the whole or any part of that field.

Amount to include.

Furthermore, the person having to pay that amount shall, in computing his Canadian exploration expenses, include that amount at that time under paragraph *b* of section 395.

History: 1975, c. 22, s. 88.
Corresponding Federal Provision: 66(12.2).

Recovery at the time of unitizing an oil field.

392. A taxpayer, in computing his cumulative Canadian development expenses, shall deduct under paragraph *c* of section 412 the amount that, at a particular time after 6 May 1974, becomes receivable by him from a person with whom he has made an agreement to unitize an oil or gas field in Canada in respect of Canadian development expenses incurred by the taxpayer in respect of the whole or any part of that field.

Amount to include.

Furthermore, the person having to pay that amount shall, in computing his Canadian development expenses, include that amount at that time under paragraph *a* of section 408.

History: 1975, c. 22, s. 88.
Corresponding Federal Provision: 66(12.3).

Cumulative Canadian oil and gas property expense.

392.1. A taxpayer shall, in computing his cumulative Canadian oil and gas property expense, deduct under paragraph *c* of section 418.6 the amount which, at a particular time, becomes receivable by him from a person with whom he has entered into an agreement to unitize an oil or gas field in Canada in respect of Canadian oil and gas property expense incurred by the taxpayer in respect of that field or any part thereof.

Amount to include.

Furthermore, the person who must pay such amount shall, in computing his Canadian oil and gas property expense, include it at that time under paragraph *a* of section 418.2.

History: 1982, c. 5, s. 88.
Corresponding Federal Provision: 66(12.5).

Designation of amount.

392.2. Where a corporation designates an amount for a taxation year for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) under subsection 14.1 of section 66 of the said Act, the amount designated shall be deducted in computing its cumulative Canadian exploration expenses at any time after the end of the year.

History: 1987, c. 67, s. 87; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(14.1), (14.4) and (14.5).

Designation of amount.

392.3. Where a corporation designates an amount for a taxation year for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) under subsection 14.2 of section 66 of the said Act, the amount designated shall be deducted in computing its cumulative Canadian development expenses at any time after the end of the year.

History: 1987, c. 67, s. 87; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(14.2), (14.3) and (14.5).

Same deduction allowed but once.

393. The taxpayer who has incurred expenses or made outlays in respect of which a deduction is allowed by more than one provision of this chapter, may deduct them only once, and under the provision he elects.

History: 1972, c. 23, s. 353; 1975, c. 22, s. 89; 1993, c. 16, s. 155.
Corresponding Federal Provision: 66(13).

Short taxation year.

393.1. Where a taxpayer has a taxation year that is less than 51 weeks, the amount determined for the year under any of the following provisions or first under subparagraph *c* of the first paragraph of section 418.20, shall not exceed the proportion of the amount otherwise determined under that provision or first under that subparagraph *c*, as the case may be, that the number of days in the year is of 365:

(*a*) paragraph *a* of section 374;

(*b*) subparagraph *c* of the first paragraph of section 413;

(*c*) paragraph *b* of section 418.1.9, without reference to the aggregate last referred to in that paragraph;

(*d*) subparagraph i of paragraph *a* of section 418.1.10;

(*e*) subparagraph 2 of subparagraph ii of paragraph *a* of section 418.1.10;

(*f*) paragraph *b* of section 418.7;

(*g*) the second paragraph of section 418.17.3;

(*h*) subparagraph i of subparagraph *a* of the first paragraph of section 418.20;

(*i*) subparagraph *b* of the first paragraph of section 418.20; and

(*j*) the second paragraph of section 418.21.

History: 1989, c. 77, s. 40; 2004, c. 8, s. 71.
Corresponding Federal Provision: 66(13.1).

Amounts deemed deductible under this chapter.

394. For the purposes of section 28, any amount deductible under the Act respecting the application of the Taxation Act (chapter I-4) in respect of this chapter is deemed deductible under this chapter.

History: 1972, c. 23, s. 354.
Corresponding Federal Provision: 66(14).

DIVISION III
CANADIAN EXPLORATION EXPENSES

Canadian exploration expense.

395. For the purposes of this chapter, "Canadian exploration expense" of a taxpayer means any expense incurred after 6 May 1974 in the case of an oil business, after 31 March 1975 in the case of a mining business or after 5 December 1996 in all other cases, to such extent as that expense is, as the case may be,

(*a*) any expense incurred by the taxpayer (other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well) for the purpose of determining the existence, location, extent or quality of an accumulation of petroleum or natural gas (other than a mineral resource) in Canada, including

i. a geological, geophysical or geochemical expense, or

ii. an expense for environmental studies or community consultations (including studies or consultations that are undertaken to obtain a right, licence or privilege for the purpose of determining the existence, location, extent or quality of an accumulation of petroleum or natural gas in Canada);

(*a.*1) any expense, including clearing, removing overburden and stripping, sinking a well and constructing an adit or other underground entry, incurred by him after 31 March 1985 for the purpose of bringing a natural accumulation of petroleum or natural gas, other than a mineral resource, in Canada into production other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of any such well and incurred prior to the commencement of the production, other than the production from an oil or gas well, in reasonable commercial quantities from such accumulation;

(*b*) any expense incurred before 1 April 1987, in drilling or completing an oil or gas well in Canada, or in building a temporary access road to, or preparing a site in respect of, any such well, incurred by him in the year or in any previous year, and included by him in computing his Canadian development expenses for a previous taxation year, if the drilling of the well is completed within six months after the end of the year and

i. it is determined that the well is the first well capable of production in commercial quantities from an accumulation of petroleum or natural gas not previously known to exist, other than a mineral resource, or

ii. it is reasonable to expect that the well cannot come into production in commercial quantities within 12 months of its completion;

(*b.*1) any expense incurred by him after 31 March 1987 and in a taxation year of the taxpayer, in drilling or completing an oil or gas well in Canada, or in building a temporary access road to, or preparing a site in respect of, any such well if

i. the drilling or completing of the well resulted in the discovery of a natural underground reservoir containing petroleum or natural gas, where

(1) before the time of the discovery, no person or partnership had discovered that the reservoir contained either petroleum or natural gas,

(2) the discovery occurred at any time before six months after the end of the year, and

(3) the expense is incurred before 1 January 2019, excluding an expense that is deemed to have been incurred on 31 December 2018 under section 359.8, or before 1 January 2021 in connection with an obligation in writing entered into by the taxpayer before 22 March 2017, including an obligation towards a government under the terms of a license or permit, excluding an expense that is deemed to have been incurred on 31 December 2020 under section 359.8;

ii. the well is abandoned in the year or within six months after the end of the year without ever having produced otherwise than for specified purposes;

iii. the period of 24 months commencing on the day of completion of the drilling of the well ends in the year, the expense was incurred within that period and in the year and the well has not within that period produced otherwise than for specified purposes; or

iv. the certificate referred to in subparagraph iv of paragraph *d* of the definition of "Canadian exploration expenses" in subsection 6 of section 66.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), in respect of a well has been filed with the Minister, in respect of the well, on or before the day that is six months after the end of the taxation year of the taxpayer in which the drilling of the well was commenced;

(*b.*2) any expense deemed under section 399.3 to be a Canadian exploration expense incurred by him;

(*c*) any expense incurred by the taxpayer (other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well) for the purpose of determining the existence, location, extent or quality of a mineral resource in Canada including any expense incurred in the course of prospecting, carrying out geological, geophysical or geochemical surveys, drilling and trenching or digging test pits or preliminary sampling and any expense for environmental studies or community consultations (including, despite subparagraph i, studies or consultations

that are undertaken to obtain a right, licence or privilege for the purpose of determining the existence, location, extent or quality of such a mineral resource), but not including

i. any Canadian development expense, and

ii. any expense that may reasonably be related to a mine in the mineral resource that has come into production in reasonable commercial quantities or to an actual or potential extension of such a mine;

(*c*.1) any expense incurred by the taxpayer after 16 November 1978 and before 21 March 2013 for the purpose of bringing a new mine in a mineral resource in Canada, other than a bituminous sands deposit or an oil shale deposit, into production in reasonable commercial quantities, including any expense for clearing, removing overburden and stripping, sinking a mine shaft and constructing an adit or other underground entry, to the extent that the expense was incurred prior to the commencement of production from the new mine in reasonable commercial quantities;

(*c*.2) any Canadian renewable and conservation expense incurred by the taxpayer;

(*c*.3) any expense incurred by the taxpayer after 21 March 2011 that is an eligible oil sands mine development expense or a specified oil sands mine development expense;

(*c*.4) any expense that would be described in paragraph *c*.1 if that paragraph were read as if "21 March 2013" were replaced by "1 January 2017" and that is incurred by the taxpayer

i. in accordance with an agreement in writing entered into by the taxpayer before 21 March 2013, or

ii. as part of the development of a new mine, if

(1) construction work in relation to the new mine, other than work that involves obtaining permits or regulatory approvals, conducting environmental assessments, community consultations or impact benefit studies, and similar activities, was started by, or on behalf of, the taxpayer before 21 March 2013, or

(2) engineering and design work for the construction of the new mine, as evidenced in writing, other than work that involves obtaining permits or regulatory approvals, conducting environmental assessments, community consultations or impact benefit studies, and similar activities, was started by, or on behalf of, the taxpayer before 21 March 2013;

(*c*.5) the portion of any expense not described in paragraph *c*.4 that would be described in paragraph *c*.1 if that paragraph *c*.1 were read as if "21 March 2013" were replaced by "1 January 2018" and that is

i. 100% of the expense if it is incurred before 1 January 2015,

ii. 80% of the expense if it is incurred in the calendar year 2015,

iii. 60% of the expense if it is incurred in the calendar year 2016, and

iv. 30% of the expense if it is incurred in the calendar year 2017;

(*d*) subject to section 418.37, the taxpayer's share of the expenses described in paragraphs *a* to *b*.1 and *c* to *c*.5 and incurred by a partnership in a fiscal period of the partnership, if at the end of the period the taxpayer is a member of the partnership; or

(*e*) an expense described in paragraphs *a* to *c*.1 incurred by him pursuant to an agreement in writing with a corporation entered into before 1 January 1987, under which he incurs that expense solely as consideration for a share, except a prescribed share, of the capital stock of that corporation issued to him or any right in or to such a share.

History: 1975, c. 22, s. 90; 1980, c. 13, s. 35; 1982, c. 5, s. 89; 1984, c. 15, s. 88; 1986, c. 15, s. 80; 1986, c. 19, s. 80; 1987, c. 67, s. 88; 1988, c. 18, s. 28; 1990, c. 59, s. 161; 1992, c. 1, s. 33; 1995, c. 49, s. 100; 1997, c. 3, s. 71; 1998, c. 16, s. 145; 2004, c. 8, s. 72; 2012, c. 8, s. 51; 2013, c. 10, s. 31; 2015, c. 24, s. 64; 2017, c. 29, s. 62; 2020, c. 16, s. 64.

Corresponding Federal Provision: 66.1(6) "Canadian exploration expense".

Certificate ceasing to be valid.

395.1. For the purposes of subparagraph iv of paragraph *b*.1 of section 395, a certificate in respect of an oil or gas well issued by the Minister of Natural Resources of Canada is deemed never to have been issued and never to have been filed with the Minister if it is deemed, under subsection 10 of section 66.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), never to have been so issued and never to have been filed with the Minister of Revenue of Canada.

History: 1990, c. 59, s. 162; 1996, c. 39, s. 110; 2000, c. 5, s. 293.

Corresponding Federal Provision: 66.1(10).

Eligible oil sands mine development expense.

395.2. For the purposes of paragraph *c*.3 of section 395, "eligible oil sands mine development expense" means the aggregate of all amounts each of which is the product obtained by multiplying, by the percentage specified in the second paragraph, an expense (other than an expense that is a specified oil sands mine development expense described in section 395.3) that is incurred by a taxpayer after 21 March 2011 but on or before 31 December 2015 and that would be described in paragraph *c*.1 of section 395 if that

paragraph were read without reference to "and before 21 March 2013" and ", other than a bituminous sands deposit or an oil shale deposit,".

Percentage.

The percentage to which the first paragraph refers, in relation to an expense, is

(*a*) 100% if the expense is incurred on or before 31 December 2012;

(*b*) 80% if the expense is incurred in the calendar year 2013;

(*c*) 60% if the expense is incurred in the calendar year 2014; and

(*d*) 30% if the expense is incurred in the calendar year 2015.

History: 2012, c. 8, s. 52; 2015, c. 24, s. 65.

Corresponding Federal Provision: 66.1(6) "eligible oil sands mine development expense".

Specified oil sands mine development expense.

395.3. For the purposes of paragraph *c*.3 of section 395, "specified oil sands mine development expense" means an expense that is incurred by a taxpayer after 21 March 2011 but on or before 31 December 2014 to achieve completion of a specified oil sands mine development project of the taxpayer and that would be described in paragraph *c*.1 of section 395 if that paragraph were read without reference to "and before 21 March 2013" and ", other than a bituminous sands deposit or an oil shale deposit,".

Definition of terms:

For the purposes of this section,

"bitumen mine development project";
"bitumen mine development project", of a taxpayer, means a project the taxpayer undertakes for the sole purpose of developing a new mine to extract and process tar sands from a mineral resource of the taxpayer to produce bitumen or a similar product;

"bitumen upgrading development project";
"bitumen upgrading development project", of a taxpayer, means a project the taxpayer undertakes for the sole purpose of constructing an upgrading facility to process bitumen or a similar feedstock (all or substantially all of which is from a mineral resource of the taxpayer) from a new mine to the crude oil stage or its equivalent;

"completion";
"completion", of a specified oil sands mine development project, means the first attainment of a level of average output, attributable to the project and measured over a 60-day period, equal to at least 60% of the planned level of average daily output (as determined in paragraph *b* of the definition of "specified oil sands mine development project");

"designated asset";
"designated asset", in respect of an oil sands mine development project of a taxpayer, means a property that is a building, a structure, machinery or equipment and is, or is an integral and substantial part of,

(*a*) in the case of a bitumen mine development project,

i. a crusher,

ii. a froth treatment plant,

iii. a primary separation unit,

iv. a steam generation plant,

v. a cogeneration plant, or

vi. a water treatment plant; or

(*b*) in the case of a bitumen upgrading development project,

i. a gasifier unit,

ii. a vacuum distillation unit,

iii. a hydrocracker unit,

iv. a hydrotreater unit,

v. a hydroprocessor unit, or

vi. a coker;

"oil sands mine development project";
"oil sands mine development project", of a taxpayer, means a bitumen mine development project or a bitumen upgrading development project;

"preliminary work activity";
"preliminary work activity", in respect of a taxpayer's oil sands mine development project, means any activity that is preliminary to the acquisition, construction, fabrication or installation by or on behalf of the taxpayer of designated assets in respect of the project including, in particular, the following activities:

(*a*) obtaining permits or regulatory approvals;

(*b*) performing design or engineering work;

(*c*) conducting feasibility studies;

(*d*) conducting environmental assessments; and

(*e*) entering into contracts;

"specified oil sands mine development project".
"specified oil sands mine development project", of a taxpayer, means an oil sands mine development project (not including any preliminary work activity) in respect of which

(*a*) one or more designated assets was, before 22 March 2011, acquired by the taxpayer or in the process of

being constructed, fabricated or installed, by or on behalf of the taxpayer; and

(*b*) the planned level of average daily output (where that output is bitumen or a similar product in the case of a bitumen mine development project, or synthetic crude oil or a similar product in the case of a bitumen upgrading development project) that can reasonably be expected, is the lesser of

i. the level that was the demonstrated intention of the taxpayer on 21 March 2011 to produce from the oil sands mine development project, and

ii. the maximum level of output associated with the design capacity, on 21 March 2011, of the designated assets referred to in paragraph *a*.

History: 2012, c. 8, s. 52; 2015, c. 24, s. 66.
Corresponding Federal Provision: 66.1(6).

Exclusions.

396. A taxpayer's Canadian exploration expenses do not however include

(*a*) any consideration given by the taxpayer for any share or any right in or to a share, except as provided by paragraph *e* of section 395;

(*b*) any expense described in paragraph *e* of section 395 and incurred by any other taxpayer to the extent that the expense is a Canadian exploration expense of that other taxpayer by virtue of that paragraph, a Canadian development expense of that other taxpayer by virtue of paragraph *e* of section 408 or a Canadian oil and gas property expense of that other taxpayer by virtue of paragraph *c* of section 418.2;

(*c*) any amount, other than a Canadian renewable and conservation expense, included at any time in the capital cost to the taxpayer of any depreciable property of a prescribed class;

(*c.*1) an expense that is the cost, or any part of the cost, to the taxpayer of any depreciable property of a prescribed class that was acquired after 31 December 1987;

(*c.*2) any expense, incurred in respect of a mineral resource before a new mine in the mineral resource comes into production in reasonable commercial quantity, that results in income earned, or that may reasonably be expected to result in income earned, before the new mine comes into production in reasonable commercial quantity, except to the extent that the aggregate of all such expenses exceeds the aggregate of those incomes if

i. the expense is otherwise described in paragraph *c* of section 395 and incurred, in respect of the resource, in prospecting, drilling, trenching, digging test pits or preliminary sampling, or

ii. the expense is otherwise described in paragraph *c*.1 of section 395;

(*d*) an expenditure incurred at any time after the commencement of production from a Canadian resource property of the taxpayer in order to evaluate the feasibility of a method of recovery of, or to assist in the recovery of, petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the Canadian resource property relates;

(*e*) an expenditure incurred at any time relating to the injection of any substance to assist in the recovery of petroleum, natural gas or related hydrocarbons from a natural reservoir; or

(*f*) the taxpayer's share of any consideration, expense, cost or expenditure referred to in any of paragraphs *a* to *e* given or incurred, as the case may be, by a partnership.

History: 1975, c. 22, s. 90; 1982, c. 5, s. 90; 1998, c. 16, s. 146; 2004, c. 8, s. 73; 2005, c. 1, s. 95; 2012, c. 8, s. 53; 2020, c. 16, s. 189.
Corresponding Federal Provision: 66.1(6) "Canadian exploration expense" (f)(v.1), (g) and (j) to (o).

No reduction of Canadian exploration expenses in case of assistance.

397. Where a taxpayer has received or is entitled to receive after 25 May 1976 any assistance in respect of or related to his Canadian exploration expenses, the expenses contemplated in paragraphs *a* to *e* of section 395 shall not be reduced by the amount of such assistance.

History: 1977, c. 26, s. 37; 1988, c. 18, s. 29.
Corresponding Federal Provision: 66.1(6) "Canadian exploration expense" after (o).

Cumulative Canadian exploration expenses.

398. In this chapter, cumulative Canadian exploration expenses of a taxpayer, at any time, means the amount by which the aggregate described in section 399 is exceeded by the aggregate of:

(*a*) the Canadian exploration expenses incurred by the taxpayer before that time;

(*b*) all amounts included in computing the taxpayer's income under paragraph *d* of section 330 for a taxation year ending before that time;

(*b.*1) all amounts determined under paragraph *a* of section 418.31.1 in respect of the taxpayer for a taxation year ending before that time;

(*c*) all amounts, except interest, paid by him after 6 May 1974 in the case of an oil business, or after 31 March 1975 in the case of a mining business, and before that time as a reimbursement of a subsidy, grant or assistance

received before 25 May 1976 under a prescribed Act in respect of Canadian exploration and development expenses or Canadian exploration expenses;

(*d*) all amounts described in paragraph *b* of section 399 that, according to the evidence submitted by him, have become a bad debt before such time; and

(*e*) such part of an amount described in paragraph *e* of section 399 as has been repaid by him before that time pursuant to a legal obligation to repay all or any part of that amount.

History: 1975, c. 22, s. 90; 1977, c. 26, s. 38; 1978, c. 26, s. 67; 1982, c. 5, s. 91; 1991, c. 25, s. 73; 1993, c. 16, s. 156; 1995, c. 49, s. 236; 2004, c. 8, s. 74; 2015, c. 24, s. 67.

Corresponding Federal Provision: 66.1(6) "cumulative Canadian exploration expense" A to E.1.

Amounts to deduct from cumulative Canadian exploration expenses.

399. The amounts required to be deducted in computing the cumulative Canadian exploration expenses of a taxpayer at the time referred to in section 398 are the aggregate of:

(*a*) all amounts deducted, or required to be deducted, in computing his income for a taxation year ending before that time in respect of such expenses;

(*b*) all amounts that become receivable by him before that time that are required to be deducted in computing such expenses under this paragraph by virtue of section 386 or 391;

(*c*) all amounts paid to him after 6 May 1974 in the case of an oil business, or after 31 March 1975 in the case of a mining business, and before 25 May 1976 as a subsidy, grant or assistance received under an Act, in respect of Canadian exploration and development expenses or Canadian exploration expenses, to the extent provided by the regulations;

(*d*) all amounts received by the taxpayer before such time in respect of a debt referred to in paragraph *d* of section 398;

(*e*) all amounts of assistance that he has received or is entitled to receive in respect of any Canadian exploration expense incurred after 31 December 1980 or that can reasonably be related to Canadian exploration activities after that date, to the extent that the assistance has not reduced his Canadian exploration expense by virtue of the third paragraph of section 399.3;

(*e.*1) all amounts by which his cumulative Canadian exploration expense is required, because of section 485.8, to be reduced at or before that time;

(*f*) all amounts that are required to be deducted before that time under section 392.2 in computing his cumulative Canadian exploration expenses;

(*g*) that portion of the aggregate of all amounts each of which is an amount deducted by the taxpayer under subsection 5 or 6 of section 127 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) for a taxation year ending before that time that may reasonably be attributed to an expenditure made in a preceding taxation year that is a qualified Canadian exploration expenditure, within the meaning of subsection 9 of section 127 of that Act, as it read for that preceding taxation year, or a pre-production mining expenditure, within the meaning of that subsection 9; and

(*h*) all amounts that are required to be deducted before that time under paragraph *b* of section 418.31 in computing his cumulative Canadian exploration expenses.

History: 1975, c. 22, s. 90; 1977, c. 26, s. 39; 1982, c. 5, s. 92; 1987, c. 67, s. 89; 1988, c. 18, s. 30; 1989, c. 77, s. 41; 1990, c. 59, s. 163; 1995, c. 49, s. 101; 1996, c. 39, s. 111; 1997, c. 31, s. 47; 2005, c. 1, s. 96.

Interpretation Bulletins: IMP. 87-6.

Corresponding Federal Provision: 66.1(6) "cumulative Canadian exploration expense" F to M.

Qualified Canadian exploration expenditure.

399.1. For the purposes of paragraph *e* of section 399, where, pursuant to a designation by a trust, an amount is required, under subsection 7 of section 127 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), to be added in computing the investment tax credit, within the meaning of subsection 9 of section 127 of the said Act, of a taxpayer at the end of his taxation year, the portion thereof that can reasonably be considered to relate to an expenditure that, for a taxation year, is a qualified Canadian exploration expenditure, within the meaning of subsection 9 of section 127 of that Act, as it read for that year, of the trust is deemed to have been received by the trust at the end of its taxation year in respect of which the designation was made as assistance from a government in respect of that expenditure.

History: 1988, c. 18, s. 31; 1997, c. 31, s. 48.

Corresponding Federal Provision: 127(12.3).

399.2. *(Repealed).*

History: 1988, c. 18, s. 31; 1997, c. 3, s. 71; 1998, c. 16, s. 147.

Oil or gas well.

399.3. Where at any time in a taxpayer's taxation year, one of the events described in the second paragraph occurs in respect of an oil or gas well of the taxpayer, the excess amount determined under the third paragraph is, for the purposes of this Part, deemed to be a Canadian exploration

expense referred to in paragraph *b*.2 of section 395 incurred by the taxpayer at that time.

Events.

The events to which the first paragraph refers are the following:

(*a*) the drilling or completing of an oil or gas well resulted in the discovery of a natural underground reservoir containing petroleum or natural gas and, before the time of the discovery, no person or partnership had discovered that the reservoir contained either petroleum or natural gas;

(*b*) the period of 24 months commencing on the day of completion of the drilling of the oil or gas well ends and the well has not, within that period, produced otherwise than for specified purposes; or

(*c*) the oil or gas well is abandoned without ever having produced otherwise than for specified purposes.

Excess amount.

The excess amount to which the first paragraph refers is the amount by which the aggregate of the following amounts exceeds any assistance that the taxpayer or a partnership of which the taxpayer is a member has received or is entitled to receive in respect of the expenses referred to in any of subparagraphs *a*, *b* and *c*:

(*a*) all Canadian development expenses, other than restricted expenses, described in subparagraph ii of paragraph *a* of section 408 in respect of the well that are deemed under section 359.5 or sections 417 and 418, as they read in respect of those expenses, to have been incurred by the taxpayer in the year or a preceding taxation year;

(*b*) all Canadian development expenses, other than restricted expenses, described in subparagraph ii of paragraph *a* of section 408 in respect of the well that are required under the second paragraph of section 392 to be included by the taxpayer in the amount referred to in paragraph *a* of section 408 for the year or a preceding taxation year; and

(*c*) all Canadian development expenses, other than expenses referred to in paragraph a or b and restricted expenses, described in subparagraph ii of paragraph a of section 408 incurred by the taxpayer in respect of the well in a taxation year preceding the year.

History: 1988, c. 18, s. 31; 1997, c. 3, s. 71; 1998, c. 16, s. 148; 2001, c. 53, s. 64; 2004, c. 8, s. 75.
Corresponding Federal Provision: 66.1(9).

399.4. *(Repealed).*

History: 1988, c. 18, s. 31; 1989, c. 77, s. 42.

399.5. *(Repealed).*

History: 1988, c. 18, s. 31; 1989, c. 77, s. 42.

"restricted expense".

399.6. For the purposes of this chapter, the expression "restricted expense" of a taxpayer means an expense

(*a*) incurred by him before 1 April 1987;

(*b*) that is deemed under section 418 to have been incurred by him, or included by him in the amount referred to in paragraph *a* of section 408 by virtue of the second paragraph of section 392, to the extent that the expense was originally incurred before 1 April 1987;

(*c*) that was renounced by him under section 359.2.1 or 359.4 or section 417, as it read in respect of the renunciation;

(*d*) in respect of which an amount referred to in section 392 becomes receivable by him;

(*e*) deemed to be a Canadian exploration expense of the taxpayer or any other taxpayer by virtue of section 399.3; or

(*f*) where the taxpayer is a corporation, that was incurred by the corporation before the time control of the corporation was last acquired by a person or persons.

History: 1988, c. 18, s. 31; 1995, c. 49, s. 102; 1997, c. 3, s. 71; 1998, c. 16, s. 149.
Corresponding Federal Provision: 66.1(6) "restricted expense".

Definitions:

399.7. In this chapter,

"Canadian renewable and conservation expense";
"Canadian renewable and conservation expense" has the meaning assigned by the regulations;

"specified purpose".
"specified purpose" means

(*a*) the operation of an oil or gas well for the sole purpose of testing the well or the well head and related equipment, in accordance with generally accepted engineering practices;

(*b*) the burning of natural gas and related hydrocarbons to protect the environment; and

(*c*) any prescribed purpose.

Technical Guide.

For the purpose of determining whether an outlay or expense in respect of a prescribed energy conservation property meets the prescribed criteria in respect of Canadian renewable and conservation expenses, the Technical Guide to Canadian Renewable and Conservation Expenses, as amended from time to time and published by the Department of Natural Resources of Canada, applies conclusively with respect to engineering and scientific matters.

History: 1988, c. 18, s. 31; 1995, c. 49, s. 236; 1998, c. 16, s. 150; 2015, c. 36, s. 20.

Interpretation Bulletins: 66.1(6) "Canadian renewable and conservation expense" (part) and "specified purpose".

Deductions by a development corporation.

400. A development corporation, other than a corporation that would not be a development corporation if the first paragraph of section 363 were read without reference to subparagraphs *h* and *i* thereof, may, in computing its income for a taxation year, deduct any amount not exceeding the lesser of

(*a*) the aggregate of

i. the amount by which its cumulative Canadian exploration expenses at the end of the year exceed the amount, designated by it for the year for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) under subsection 14.1 of section 66 of that Act, and

ii. the amount by which the aggregate determined under subparagraph i of paragraph *a* of section 418.31.1 in respect of the corporation for the year exceeds the amount that would be determined in respect of the corporation for the year under paragraph *d* of section 330 if the aggregate last referred to in that paragraph *d* were not taken into account; and

(*b*) the amount by which the amount that would be its income for the year if no deduction, other than a prescribed deduction, were allowed under this section and sections 360 and 361 exceeds the aggregate of all amounts each of which is an amount deducted by the corporation under sections 738 to 749 in computing its taxable income for the year.

History: 1975, c. 22, s. 90; 1978, c. 26, s. 68; 1982, c. 5, s. 93; 1987, c. 67, s. 90; 1993, c. 16, s. 157; 1995, c. 49, s. 103; 1997, c. 3, s. 71; 1998, c. 16, s. 151.
Corresponding Federal Provision: 66.1(2).

Deductions for other taxpayers.

401. A taxpayer not contemplated in section 400 may deduct, in computing the income of the taxpayer for a taxation year, an amount not exceeding the aggregate of

(*a*) the amount by which the taxpayer's cumulative Canadian exploration expense at the end of the year exceeds the amount designated by the taxpayer for the year for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) under subsection 14.1 of section 66 of the said Act, and

(*b*) the amount by which the aggregate determined under subparagraph i of paragraph *a* of section 418.31.1 in respect of the taxpayer for the year exceeds the amount that would be determined in respect of the taxpayer for the year under paragraph *d* of section 330 if the aggregate last referred to in the said paragraph *d* were not taken into account.

History: 1975, c. 22, s. 90; 1977, c. 26, s. 40; 1978, c. 26, s. 69; 1979, c. 38, s. 13; 1980, c. 13, s. 36; 1982, c. 5, s. 94; 1986, c. 19, s. 81; 1987, c. 67, s. 91; 1993, c. 16, s. 157.
Corresponding Federal Provision: 66.1(3).

Deductible expense.

401.1. The expense of a taxpayer that is described in paragraph *c* or *c*.1 of section 395 and that, because of paragraph *c*.2 of section 396, is not included in the taxpayer's Canadian exploration expense is deemed not to be an amount or payment described in section 129.

History: 2015, c. 24, s. 68.
Corresponding Federal Provision: 66.1(6.2).

402. *(Repealed).*

History: 1975, c. 22, s. 90; 1978, c. 26, s. 70; 1985, c. 25, s. 73; 1986, c. 19, s. 81; 1987, c. 67, s. 91; 1988, c. 18, s. 32; 1989, c. 77, s. 43.

403. *(Repealed).*

History: 1975, c. 22, s. 90; 1978, c. 26, s. 70; 1985, c. 25, s. 73; 1986, c. 19, s. 81; 1987, c. 67, s. 91; 1988, c. 18, s. 32; 1989, c. 77, s. 43.

404. *(Repealed).*

History: 1975, c. 22, s. 90; 1978, c. 26, s. 70; 1980, c. 11, s. 54; 1980, c. 13, s. 37; 1985, c. 25, s. 74; 1986, c. 19, s. 82; 1987, c. 67, s. 92; 1989, c. 77, s. 43.

404.1. *(Repealed).*

History: 1980, c. 13, s. 38; 1985, c. 25, s. 75; 1989, c. 77, s. 43.

405. *(Repealed).*

History: 1975, c. 22, s. 90; 1978, c. 26, s. 70; 1980, c. 13, s. 39; 1985, c. 25, s. 75; 1988, c. 18, s. 33; 1989, c. 77, s. 43.

406. *(Repealed).*

History: 1975, c. 22, s. 90; 1978, c. 26, s. 70; 1982, c. 5, s. 95; 1985, c. 25, s. 75; 1988, c. 18, s. 34; 1993, c. 16, s. 158; 1995, c. 49, s. 104; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 1998, c. 16, s. 152.

407. *(Repealed).*

History: 1975, c. 22, s. 90; 1978, c. 26, s. 70; 1985, c. 25, s. 75; 1997, c. 3, s. 71; 1998, c. 16, s. 152.

DIVISION IV
CANADIAN DEVELOPMENT EXPENSES

"Canadian development expense of a taxpayer".

408. For the purposes of this chapter, "Canadian development expense of a taxpayer" means any cost or

expense incurred after 6 May 1974 in the case of an oil business, or after 31 March 1975 in the case of a mining business, to the extent that such cost or expense constitutes

(*a*) an expense incurred by him in:

i. drilling or converting a well in Canada for the disposal of waste liquids from an oil or gas well;

ii. drilling or completing an oil or gas well in Canada, building a temporary access road to the well or preparing a site in respect of the well, to the extent that the expense was not a Canadian exploration expense of the taxpayer in the taxation year during which it was incurred;

iii. drilling or converting a well in Canada for the injection of water, gas or any other substance to assist in the recovery of petroleum or natural gas from another well;

iv. drilling for water or gas in Canada for injection into a petroleum or natural gas formation; or

v. drilling or converting a well in Canada for the purposes of monitoring fluid levels, pressure changes or other phenomena in an accumulation of petroleum or natural gas;

(*a.*1) an expense incurred by him after 16 November 1978, in respect of an oil or gas well in Canada after the commencement of production from the well, to drill the well, to maintain or increase its production or to put it back into operation;

(*b*) an expense incurred by him before 17 November 1978 to bring a mineral resource in Canada into production, including clearing, removing overburden and stripping, sinking a mine shaft and constructing an adit or other underground entry, to the extent that the expense was incurred prior to the commencement of production from the mine in reasonable commercial quantities;

(*b.*0.1) any expense, or portion of any expense, that is not a Canadian exploration expense, incurred by the taxpayer for the purpose of bringing a new mine in a mineral resource in Canada that is a bituminous sands deposit or an oil shale deposit into production and incurred before the new mine comes into production in reasonable commercial quantities, including an expense for clearing the land, removing overburden and stripping, or building an entry ramp;

(*b.*0.2) any expense, or portion of any expense, that is not a Canadian exploration expense, incurred by the taxpayer after 20 March 2013 for the purpose of bringing a new mine in a mineral resource in Canada, other than a bituminous sands deposit or an oil shale deposit, into production in reasonable commercial quantities, including an expense for clearing, removing overburden and stripping, sinking a mine shaft and constructing an adit or other underground entry, to the extent that the expense was incurred prior to the commencement of production from the new mine in reasonable commercial quantities;

(*b.*1) any expense incurred by him after 31 December 1987, other than an amount included in the capital cost of a depreciable property,

i. in sinking or excavating a mine shaft, main haulage way or similar underground work designed for continuing use, for a mine in a mineral resource in Canada built or excavated after the mine came into production, or

ii. in extending any such shaft, haulage way or work;

(*c*) despite section 144, the cost to the taxpayer of a property described in any of paragraphs *b*, *d*.1 and *e* of section 370 or of a right in or to such a property, other than a right that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership, including any payment for the preservation of a taxpayer's rights in respect of such a property or such a right, but excluding, except for the application of this paragraph to a taxation year that begins after 31 December 2007,

i. any payment made to a person referred to in section 90 for the preservation of a taxpayer's rights in respect of a Canadian resource property, and

ii. any payment to which subsection 1 of section 144 applies by reason of paragraph *b* of that subsection 1;

(*d*) subject to section 418.37, his share of any expense described in paragraphs *a* to *c* incurred by a partnership in a fiscal period thereof, if at the end of that fiscal period he was a member thereof, unless the taxpayer elects in respect of the share in prescribed form and manner on or before the day that is six months after the taxpayer's taxation year in which that period ends; or

(*e*) any cost or expense described in paragraphs *a* to *c* incurred by him pursuant to an agreement in writing with a corporation entered into before 1 January 1987, under which agreement he so incurs such cost or expense solely as consideration for a share, except a prescribed share, of the capital stock of that corporation issued to him or any right in or to such a share.

History: 1975, c. 22, s. 90; 1977, c. 26, s. 41; 1978, c. 26, s. 71; 1980, c. 13, s. 40; 1982, c. 5, s. 96; 1984, c. 15, s. 89; 1985, c. 25, s. 76; 1986, c. 19, s. 83; 1988, c. 18, s. 35; 1990, c. 59, s. 164; 1994, c. 22, s. 153; 1997, c. 3, s. 71; 2005, c. 1, s. 97; 2012, c. 8, s. 54; 2015, c. 24, s. 69; 2020, c. 16, s. 65.

Corresponding Federal Provision: 66.2(5) "Canadian development expense" (a) to (g).

Exclusion.

409. A taxpayer's Canadian development expenses do not however include

(*a*) any consideration given by the taxpayer for any share or any right in or to a share, except as provided by paragraph *e* of section 408;

(*b*) any expense described in paragraph *e* of section 408 and incurred by another taxpayer to the extent that the expense is a Canadian development expense of that other taxpayer by virtue of that paragraph, a Canadian exploration expense of that other taxpayer by virtue of paragraph *e* of section 395 or a Canadian oil and gas property expense of that other taxpayer by virtue of paragraph *c* of section 418.2;

(*c*) any amount included at any time in the capital cost to the taxpayer of any depreciable property of a prescribed class;

(*c.*1) an expense that is the cost, or any part of the cost, to the taxpayer of any depreciable property of a prescribed class that was acquired after 31 December 1987; or

(*d*) the taxpayer's share of any consideration, expense, cost or expenditure referred to in any of paragraphs *a* to *c* given or incurred, as the case may be, by a partnership.

History: 1975, c. 22, s. 90; 1982, c. 5, s. 97; 1998, c. 16, s. 153; 2004, c. 8, s. 76; 2020, c. 16, s. 189.

Corresponding Federal Provision: 66.2(5) "Canadian development expense" (h) to (k).

Assistance in respect of Canadian development expenses.

410. Where a taxpayer has received or is entitled to receive after 25 May 1976 assistance in respect of or related to his Canadian development expenses, the expenses contemplated in paragraphs *a* to *e* of section 408 shall not be reduced by the amount of such assistance.

History: 1977, c. 26, s. 42; 1988, c. 18, s. 36.

Corresponding Federal Provision: 66.2(1) and (5) "Canadian development expense" after (k).

"cumulative Canadian development expenses".

411. In this chapter, "cumulative Canadian development expenses" of a taxpayer, at any time in a taxation year, means the amount by which the aggregate described in section 412 is exceeded by the aggregate of

(*a*) the Canadian development expenses incurred by the taxpayer before that time;

(*a.*1) all amounts determined under paragraph *b* of section 418.31.1 in respect of the taxpayer for a taxation year ending before that time;

(*b*) all amounts included in computing the taxpayer's income under paragraph *e* of section 330 for a taxation year ending before that time;

(*c*) all amounts described in paragraph *b* or *c* of section 412 that, according to the evidence submitted by him, has become a bad debt before that time; and

(*d*) such part of an amount described in paragraph *h* of section 412 as has been repaid by him before that time pursuant to a legal obligation to repay all or any part of that amount.

History: 1975, c. 22, s. 90; 1977, c. 26, s. 43; 1978, c. 26, s. 72; 1980, c. 13, s. 41; 1982, c. 5, s. 98; 1991, c. 25, s. 74; 1993, c. 16, s. 159; 1995, c. 49, s. 236; 2004, c. 8, s. 77; 2015, c. 24, s. 70.

Corresponding Federal Provision: 66.2(5) "cumulative Canadian development expense" A to D.1.

Computation of cumulative Canadian development expenses.

412. The amounts required to be deducted in computing the cumulative Canadian development expenses of a taxpayer at the time referred to in section 411 are the aggregate of:

(*a*) all amounts deducted in computing his income for a taxation year ending before that time in respect of such expenses;

(*b*) all amounts each of which is, in respect of the disposition by the taxpayer before that time of a property described in any of paragraphs *b*, *d.*1 and *e* of section 370, of a property disposed of after 21 March 2011 which was described in any of those paragraphs and the cost of which when acquired by the taxpayer was included in the Canadian development expense of the taxpayer, or of any right in or to such a property, other than such a right that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership, equal to the amount by which

i. the amount by which the proceeds of disposition in respect of the property that became receivable by the taxpayer before that time but after 6 May 1974 in the case of an oil business or after 31 March 1975 in the case of a mining business, exceed the aggregate of the outlays or expenses that the taxpayer made or incurred before that time but after 6 May 1974 in the case of an oil business or after 31 March 1975 in the case of a mining business for the purpose of making the disposition and that were not otherwise deductible for the purposes of this Part, exceeds

ii. the amount by which the amount determined under the first paragraph of section 412.1 exceeds the amount determined under the second paragraph of that section;

iii. *(subparagraph repealed)*;

(*c*) all amounts that become receivable by him before that time that are required to be deducted in computing such expenses under this paragraph by virtue of section 387 or 392;

(*d*) all amounts included by him under paragraph *a* of section 408 for a previous taxation year that have become Canadian exploration expenses of the taxpayer by virtue of paragraph *b* of section 395;

(*d.*1) all amounts that became, before that time, Canadian exploration expenses of the taxpayer by virtue of section 399.3;

(*e*) all amounts paid to him after 6 May 1974 in the case of an oil business, or after 31 March 1975 in the case of a mining business, and before 25 May 1976 as a subsidy, a grant or assistance received under an Act, in respect of Canadian development expenses, to the extent provided by the regulations;

(*f*) all amounts received by the taxpayer before that time in respect of a debt referred to in paragraph *c* of section 411;

(*g*) the amount by which the aggregate of all amounts determined under section 418.12 in respect of a taxation year of the taxpayer ending at or before that time, in this paragraph referred to as the "relevant time", exceeds the aggregate of all amounts each of which is the least of

i. the amount that would be determined under the second paragraph of section 418.19, at a time, in this paragraph referred to as the "particular time", that is the end of the latest taxation year of the taxpayer ending at or before the relevant time, in respect of the taxpayer as a corporation referred to in that section 418.19 in respect of a disposition, in this paragraph referred to as the "original disposition", of Canadian resource property by a person who is an original owner of the property because of the original disposition, if

(1) where the taxpayer has disposed of all or part of the property in circumstances in which section 418.19 applied, that section continued to apply to the taxpayer in respect of the original disposition as if each of the subsequent corporations contemplated in that section 418.19 were the same person as the taxpayer, and

(2) each designation made under subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 418.19 in respect of an amount that became receivable before the particular time were made before the particular time;

ii. the amount by which the aggregate of all amounts each of which became receivable at or before the particular time and before 1 January 1993 by the taxpayer and is included in computing the amount determined under subparagraph *b* of the second paragraph of section 418.21 in respect of the original disposition exceeds the amount by which

(1) where the taxpayer disposed of all or part of the property before the particular time in circumstances in which section 418.21 applied, the amount that would be determined at the particular time under subparagraph *a* of the second paragraph of section 418.21 in respect of the original disposition if that subparagraph continued to apply to the taxpayer in respect of the original disposition as if each of the subsequent corporations contemplated in that section 418.21 were the same person as the taxpayer or, in any other case, the amount determined at the particular time under subparagraph *a* of the second paragraph of section 418.21 in respect of the original disposition, exceeds

(2) the amount that would be determined at the particular time under subparagraph *b* of the second paragraph of section 418.21 in respect of the original disposition if that subparagraph were read without reference to the words "or by the corporation" or "or the corporation", wherever they appear therein, and if amounts that became receivable after 31 December 1992 were not taken into account; and

iii. nil, where

(1) after the original disposition and at or before the particular time, the taxpayer disposed of all or part of the property in circumstances in which section 418.19 applied, otherwise than by way of an amalgamation or merger or solely because of the application of subparagraph *a* of the first paragraph of section 418.26, and

(2) the winding-up of the taxpayer began at or before the relevant time or the taxpayer's disposition referred to in subparagraph 1, other than a disposition under an agreement in writing entered into before 22 December 1992, occurred after 21 December 1992;

(*h*) all amounts of assistance that he has received or is entitled to receive in respect of any Canadian development expense, including any amount that has become a Canadian exploration expense of the taxpayer by virtue of section 399.3, incurred after 31 December 1980 or that can reasonably be related to Canadian development activities after that date;

(*h.*1) all amounts by which his cumulative Canadian development expense is required, because of section 485.8, to be reduced at or before that time;

(*i*) all amounts required to be deducted before that time under section 392.3 in computing his cumulative Canadian development expenses;

(*j*) any amount that is required to be deducted before that time under paragraph *c* of section 418.31 in computing his cumulative Canadian development expense.

History: 1975, c. 22, s. 90; 1977, c. 26, s. 44; 1980, c. 13, s. 42; 1982, c. 5, s. 99; 1984, c. 15, s. 90; 1985, c. 25, s. 77; 1986, c. 19, s. 84; 1987, c. 67, s. 93; 1988, c. 18, s. 37; 1989, c. 77, s. 44; 1995, c. 49, s. 105; 1996, c. 39, s. 112; 1997, c. 3, s. 71; 2004, c. 8, s. 78; 2009, c. 5, s. 131; 2012, c. 8, s. 55; 2020, c. 16, s. 66.

Corresponding Federal Provision: 66.2(5) "cumulative Canadian development expense" E to O.

Computation.

412.1. The first amount referred to in subparagraph ii of paragraph *b* of section 412 is the aggregate of all amounts

each of which would be determined under the second paragraph of section 418.19, immediately before the time, in this section referred to as the "relevant time", when such proceeds of disposition became receivable, in respect of the taxpayer and an original owner of the property, or of any other property acquired by the taxpayer with the property in circumstances in which section 418.19 applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time, if

(*a*) amounts that became receivable at or after the relevant time were not taken into account;

(*b*) each designation made under subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 418.19 in respect of an amount that became receivable before the relevant time were made before the relevant time; and

(*c*) no reduction under section 485.8 at or after the relevant time were taken into account.

Computation.

The second amount referred to in subparagraph ii of paragraph *b* of section 412 is the total of

(*a*) all amounts that would be determined under the second paragraph of section 418.19 at the relevant time in respect of the taxpayer and an original owner of the property or of any other property acquired by the taxpayer with the property in circumstances in which section 418.19 applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time, if

i. amounts that became receivable after the relevant time and amounts described in subparagraph ii of subparagraph *b* of the second paragraph of section 418.19 that became receivable at the relevant time were not taken into account,

ii. each designation made under subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 418.19 in respect of an amount that became receivable at or before the relevant time were made before the relevant time, and

iii. no reduction under section 485.8 at or after the relevant time were taken into account; and

(*b*) such portion of the amount otherwise determined under subparagraph ii of paragraph *b* of section 412 as was otherwise applied to reduce the amount otherwise determined under that paragraph.

History: 1995, c. 49, s. 106; 1996, c. 39, s. 113.

Corresponding Federal Provision: 66.2(5) “cumulative Canadian development expense” F.

Deduction for cumulative Canadian development expenses; oil business.

413. A development corporation carrying on an oil business may deduct, in computing its income for a taxation year, an amount not exceeding the aggregate of its cumulative Canadian development expenses incurred in Québec at the end of the year and the amount by which the aggregate determined under subparagraph i of paragraph *b* of section 418.31.1 in respect of the corporation for the year in respect of its cumulative Canadian development expenses incurred in Québec exceeds the amount that would be determined in respect of the corporation for the year under paragraph *e* of section 330 in respect of such expenses if the aggregate last referred to in the said paragraph *e* were not taken into account, and an amount not exceeding the aggregate of

(*a*) the lesser of:

i. the aggregate of its other cumulative Canadian development expenses at the end of the year and the amount by which the aggregate determined under subparagraph i of paragraph *b* of section 418.31.1 in respect of the corporation for the year in respect of its other cumulative Canadian development expenses exceeds the amount that would be determined in respect of the corporation for the year under paragraph *e* of section 330 in respect of such expenses if the aggregate last referred to in the said paragraph *e* were not taken into account; and

ii. the amount by which the amount determined under subparagraph ii of paragraph *a* of section 418.7 exceeds the amount determined under subparagraph i of the said paragraph; and

(*b*) the lesser of

i. the amount by which the amount determined under subparagraph i of subparagraph *a* exceeds the amount determined under subparagraph ii of the said subparagraph; or

ii. the amount by which the aggregate of all amounts included in computing its income for the year by reason of the disposition, in the year, of a property included in its inventory under section 419, and acquired by the corporation under circumstances referred to in paragraph *e* of section 395 or 408, or any amount included, in computing its income, under paragraph *e* of section 87 to the extent that such amount relates to that property, exceeds the aggregate of any amount deducted as a reserve in computing its income for the year under section 153 to the extent that the reserve relates to such property; and

(*c*) 30% of the amount by which the amount determined under subparagraph i of subparagraph *b* exceeds that determined under subparagraph ii of the said subparagraph.

Deduction for other taxpayer.

Any other taxpayer may deduct in computing his income for any taxation year in respect of an oil business an amount not exceeding the aggregate of amounts that would be determined in his respect under subparagraphs *a* to *c* of the first paragraph, if account were not taken of the word "other" in subparagraph i of the said subparagraph *a*.

History: 1975, c. 22, s. 90; 1977, c. 26, s. 45; 1982, c. 5, s. 100; 1993, c. 16, s. 160; 1997, c. 3, s. 71; 1997, c. 14, s. 67; 2001, c. 53, s. 65.

Corresponding Federal Provision: 66.2(2).

Deduction for cumulative Canadian development expenses; mining business.

414. A development corporation carrying on a mining business may deduct, in computing its income for a taxation year, the aggregate of its cumulative Canadian development expenses at the end of the year and the amount by which the aggregate determined under subparagraph i of paragraph *b* of section 418.31.1 in respect of the corporation for the year exceeds the amount that would be determined in respect of the corporation for the year under paragraph *e* of section 330 if the aggregate last referred to in the said paragraph *e* were not taken into account.

Deduction for other taxpayers.

Any other taxpayer may deduct in respect of a mining business, in computing his income for a taxation year, the aggregate of his cumulative Canadian development expenses at the end of the year and the amount by which the aggregate determined under subparagraph i of paragraph *b* of section 418.31.1 in respect of the taxpayer for the year exceeds the amount that would be determined in respect of the taxpayer for the year under paragraph *e* of section 330 if the aggregate last referred to in the said paragraph *e* were not taken into account, without exceeding the greater of

(*a*) the aggregate of amounts that would be determined in his respect under subparagraphs *a* to *c* of the first paragraph of section 413, if account were not taken of the word "other" in subparagraph i of the said subparagraph *a*; and

(*b*) the amount by which the total of the aggregate of all amounts deducted in computing the taxpayer's income for the year under section 357 in respect of a Canadian resource property or under section 358 and the aggregate of all amounts deducted for the year under section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), sections 418.16 to 418.19 and section 418.21, that can reasonably be attributed to the amounts referred to in subparagraphs i to iii for the year, exceeds the total, before any deduction under section 88.4 of the Act respecting the application of the Taxation Act or any of sections 359 to 419.6, of

i. his income for the year that may reasonably be attributed to the production of ore, other than iron or tar sands, from a resource property, processed to any stage that is not beyond the prime metal stage or its equivalent, the production of iron ore from a resource property, processed to any stage that is not beyond the pellet stage or its equivalent, and to any rental or royalty from a resource property, computed by reference to the amount or value of the production of ore;

ii. the aggregate of the amounts included in computing his income for the year under paragraph *b*, *d* or *e* of section 330, other than any of the amounts contemplated in subparagraph iii, but to the extent that paragraph *b* of the said section refers to section 357, only the amounts deducted in computing his income under the said section 357 for the preceding taxation year in respect of the disposition of a Canadian resource property may be taken into consideration; and

iii. the aggregate of all amounts included in computing the taxpayer's income for the year under paragraph *e* of section 330 that can reasonably be attributed to the disposition by the corporation, in the year or in a preceding taxation year, of any interest or right in a Canadian resource property, to the extent that the proceeds of disposition have not been included in computing an amount for a preceding taxation year under this subparagraph, subparagraph i of subparagraph *a* of the third paragraph of sections 418.16 and 418.18, subparagraph iii of subparagraph *c* of the first paragraph of section 418.20, section 418.28, or section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to clause A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules.

History: 1977, c. 26, s. 45; 1978, c. 26, s. 73; 1980, c. 13, s. 43; 1982, c. 5, s. 101; 1986, c. 19, s. 85; 1989, c. 77, s. 45; 1993, c. 16, s. 161; 1996, c. 39, s. 273; 1997, c. 3, s. 71; 1998, c. 16, s. 154.

Corresponding Federal Provision: 66.2(2).

415. *(Repealed).*

History: 1975, c. 22, s. 90; 1977, c. 26, s. 46; 1978, c. 26, s. 74; 1980, c. 13, s. 44; 1985, c. 25, s. 78; 1986, c. 19, s. 86; 1987, c. 67, s. 94; 1988, c. 18, s. 38; 1989, c. 77, s. 46.

415.1. *(Repealed).*

History: 1980, c. 13, s. 44; 1985, c. 25, s. 79; 1986, c. 19, s. 87; 1987, c. 67, s. 95; 1988, c. 18, s. 39; 1989, c. 77, s. 46.

415.2. *(Repealed).*

History: 1980, c. 13, s. 44; 1985, c. 25, s. 80; 1987, c. 67, s. 96; 1989, c. 77, s. 46.

415.3. *(Repealed).*

History: 1980, c. 13, s. 44; 1989, c. 77, s. 46.

Cumulative Canadian development expenses incurred in Québec.

416. For the purposes of section 413, cumulative Canadian development expenses are incurred in Québec when they concern expenses that would be described in section 408 if the words "in Canada" were replaced by the words "in Québec" and if paragraph *c* of the said section 408 applied only to a property which would be described in section 370 if the words "in Canada" were replaced by the words "in Québec".

History: 1975, c. 22, s. 90; 1978, c. 26, s. 75.

417. *(Repealed).*

History: 1975, c. 22, s. 90; 1977, c. 26, s. 47; 1978, c. 26, s. 76; 1982, c. 5, s. 102; 1985, c. 25, s. 81; 1988, c. 18, s. 40; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 1998, c. 16, s. 155.

418. *(Repealed).*

History: 1975, c. 22, s. 90; 1978, c. 26, s. 77; 1985, c. 25, s. 81; 1997, c. 3, s. 71; 1998, c. 16, s. 155.

Cost of acquisition of property.

418.1. Where, pursuant to the terms of an arrangement in writing entered into before 12 December 1979, a taxpayer acquired a property described in paragraph *a* of section 418.2, for the purposes of this Act, the cost of acquisition of the property shall be deemed to be a Canadian development expense incurred at the time he acquired the property.

History: 1982, c. 5, s. 103.
Corresponding Federal Provision: 66.2(8).

DIVISION IV.0.1
FOREIGN RESOURCE EXPENSE

Foreign resource expense.

418.1.1. In this chapter, the foreign resource expense of a taxpayer, in relation to a country other than Canada, means

(*a*) any exploration or drilling expense, including any general geological or geophysical expense, incurred by the taxpayer on or in respect of exploring or drilling for petroleum or natural gas in that country;

(*b*) any expense incurred by the taxpayer for the purpose of determining the existence, location, extent or quality of a mineral resource in that country, including any expense incurred in the course of prospecting, carrying out geological, geophysical or geochemical surveys, drilling, trenching, digging test pits or preliminary sampling;

(*c*) the cost to the taxpayer of any of the taxpayer's foreign resource properties in relation to that country;

(*d*) any annual payment made by the taxpayer for the preservation of a foreign resource property in relation to that country; and

(*e*) subject to section 418.37, the taxpayer's share of an expense, cost or payment described in any of paragraphs *a* to *d* that is incurred or made by a partnership in a fiscal period of the partnership that begins after 31 December 2000, where the taxpayer was a member of the partnership at the end of that fiscal period.

History: 2004, c. 8, s. 79.
Corresponding Federal Provision: 66.21(1) "foreign resource expense" (a) to (e).

Restriction.

418.1.2. A taxpayer's foreign resource expense, in relation to a country other than Canada, does not however include

(*a*) an expenditure that is the cost, or any part of the cost, to the taxpayer of any depreciable property of a prescribed class;

(*b*) an expenditure incurred at any time after the commencement of production from a foreign resource property of the taxpayer in order to evaluate the feasibility of a method of recovery of petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the foreign resource property relates;

(*c*) an expenditure, other than a drilling expense, incurred at any time after the commencement of production from a foreign resource property of the taxpayer in order to assist in the recovery of petroleum, natural gas or related hydrocarbons from the portion of a natural reservoir to which the foreign resource property relates;

(*d*) an expenditure incurred in relation to the injection of any substance to assist in the recovery of petroleum, natural gas or related hydrocarbons from a natural reservoir;

(*e*) an expenditure incurred by the taxpayer, unless the expenditure was made

i. for the purpose of enabling the taxpayer to acquire foreign resource property,

ii. for the purpose of enhancing the value of foreign resource property that the taxpayer owned at the time the expenditure was incurred or that the taxpayer had a reasonable expectation of owning after that time, or

iii. for the purpose of assisting the taxpayer in evaluating whether a foreign resource property is to be acquired by the taxpayer;

(*f*) the taxpayer's share of any expenditure or cost described in any of paragraphs *a* to *e* that is incurred by a partnership; or

(*g*) an expenditure incurred by the taxpayer in a taxation year of the taxpayer that begins before 1 January 2001.

History: 2004, c. 8, s. 79; 2005, c. 38, s. 77.

Corresponding Federal Provision: 66.21(1) "foreign resource expense" (f) to (k).

Cumulative foreign resource expense.

418.1.3. In this chapter, the cumulative foreign resource expense of a taxpayer at a particular time, in relation to a country other than Canada, in this section and sections 418.1.4 and 418.1.5 referred to as the "foreign country", means the amount by which the aggregate of the following expenses and other amounts exceeds the aggregate determined under section 418.1.4:

(*a*) the foreign resource expenses, in relation to the foreign country, incurred by the taxpayer

i. before the particular time, and

ii. at a time, in this section and section 418.1.4 referred to as a "resident time", at which the taxpayer was resident in Canada and, where the taxpayer became resident in Canada before the particular time, that is after the last time before the particular time, that the taxpayer became resident in Canada;

(*a.*1) the foreign resource expenses, in relation to the foreign country, attributable to the cost to the taxpayer of any foreign resource property in relation to that country that is deemed to have been acquired by the taxpayer under paragraph *c* of section 785.1 at the last time before the particular time that the taxpayer became resident in Canada;

(*b*) each amount included in computing the taxpayer's income under paragraph *e*.1 of section 330, in relation to the foreign country, for a taxation year ending before the particular time and at a resident time;

(*c*) each amount referred to in paragraph *b* or *c* of section 418.1.4 that, in accordance with the evidence submitted by the taxpayer, has become a bad debt before the particular time and at a resident time; and

(*d*) each particular amount determined under section 418.32.2, in respect of the taxpayer and the foreign country, for a taxation year ending before the particular time and at a resident time.

History: 2004, c. 8, s. 79; 2015, c. 24, s. 71.

Corresponding Federal Provision: 66.21(1) "cumulative foreign resource expense" A to D.

Deductions in computing cumulative foreign resource expense.

418.1.4. The aggregate which, for the purposes of section 418.1.3, must be determined under this section, is the aggregate of

(*a*) each amount deducted in computing the taxpayer's income for a taxation year ending before the particular time and at a resident time, in respect of the taxpayer's cumulative foreign resource expense in relation to the foreign country;

(*b*) each amount in respect of a foreign resource property, in relation to the foreign country, in section 418.1.5 referred to as the "particular property", disposed of by the taxpayer equal to the amount by which the amount designated under subparagraph ii of paragraph *a* of section 330 by the taxpayer in respect of the portion of the proceeds of that disposition that became receivable before the particular time and at a resident time exceeds the excess amount determined under section 418.1.5;

(*c*) each amount in respect of the foreign country that is included in the amount determined under this paragraph by reason of section 390.1 that became receivable by the taxpayer before the particular time and at a resident time;

(*d*) each amount received by the taxpayer before the particular time and at a resident time in respect of a debt referred to in paragraph *c* of section 418.1.3;

(*e*) each amount by which the cumulative foreign resource expense of the taxpayer, in relation to the foreign country, is required, by reason of section 485.8, to be reduced at or before the particular time and at a resident time; and

(*f*) each amount that is required to be deducted, before the particular time and at a resident time, under paragraph *a* of section 418.32.1 in computing the taxpayer's cumulative foreign resource expense, in relation to the foreign country.

History: 2004, c. 8, s. 79.

Corresponding Federal Provision: 66.21(1) "cumulative foreign resource expense" E, F before (b) and G to J.

Computation of excess amount.

418.1.5. The excess amount which, for the purposes of paragraph *b* of section 418.1.4, must be determined under this section, is the amount by which the amount determined under the second paragraph exceeds the amount determined under the third paragraph.

Computation of amount.

The first amount referred to in the first paragraph is the aggregate of all amounts each of which is an amount that would be determined under the second paragraph of section 418.17.3, immediately before the time, in this section referred to as the "relevant time", when such proceeds of disposition became receivable, in respect of the taxpayer, the foreign country and an original owner of the particular

property, or of any other property acquired by the taxpayer with the particular property in circumstances to which section 418.17.3 applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time, if

(*a*) amounts that became receivable at or after the relevant time were not taken into account;

(*b*) the second paragraph of section 418.17.3 were read without reference to "30% of"; and

(*c*) no reduction under section 485.8 at or after the relevant time were taken into account.

Computation of amount.

The second amount referred to in the first paragraph is the total of

(*a*) the aggregate of all amounts each of which is an amount that would be determined under the second paragraph of section 418.17.3 at the relevant time in respect of the taxpayer, the foreign country and an original owner of the particular property, or of any other property acquired by the taxpayer with the particular property in circumstances to which section 418.17.3 applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time, if

i. amounts that became receivable after the relevant time were not taken into account,

ii. the second paragraph of section 418.17.3 were read without reference to "30% of", and

iii. no reduction under section 485.8 at or after the relevant time were taken into account; and

(*b*) the portion of the amount otherwise determined under this section that was applied to reduce the amount otherwise determined under paragraph *b* of section 418.1.4.

History: 2004, c. 8, s. 79.

Corresponding Federal Provision: 66.21(1) "cumulative foreign resource expense" F (b).

Adjusted cumulative foreign resource expense.

418.1.6. In this chapter, the adjusted cumulative foreign resource expense of a taxpayer at the end of a taxation year, in relation to a country, means the aggregate of the cumulative foreign resource expense of the taxpayer, in relation to that country, at the end of the year, and the amount by which the aggregate determined for the year under paragraph *a* of section 418.32.2 in respect of the taxpayer and that country exceeds the amount that would, but for subparagraph ii of paragraph *e*.1 of section 330, be determined for the year under that paragraph *e*.1 in respect of the taxpayer and that country.

History: 2004, c. 8, s. 79.

Corresponding Federal Provision: 66.21(1) "adjusted cumulative foreign resource expense".

Foreign resource income.

418.1.7. In this division, the foreign resource income of a taxpayer for a taxation year, in relation to a country other than Canada, means the total of

(*a*) that part of the taxpayer's income for the year, determined without reference to sections 371 and 418.1.10, that can reasonably be attributed to the production of petroleum or natural gas from a natural accumulation of petroleum or natural gas in that country or from oil or gas wells in that country, or to the production of minerals from mines in that country;

(*b*) the taxpayer's income for the year from royalties in respect of a natural accumulation of petroleum or natural gas in that country, an oil or gas well in that country or a mine in that country, determined without reference to sections 371 and 418.1.10; and

(*c*) the aggregate of all amounts each of which is an amount, in respect of a foreign resource property in relation to that country that has been disposed of by the taxpayer, equal to the amount by which the amount included in computing the taxpayer's income for the year by reason of paragraph *a* of section 330 in respect of that disposition exceeds the aggregate of all amounts each of which is that portion of an amount deducted under section 418.17 in computing the taxpayer's income for the year that can reasonably be considered to be in respect of the foreign resource property, but cannot reasonably be considered to have reduced the amount otherwise determined under paragraph *a* or *b* in respect of the taxpayer for the year.

History: 2004, c. 8, s. 79.

Corresponding Federal Provision: 66.21(1) "foreign resource income".

Foreign resource loss.

418.1.8. In this division, the foreign resource loss of a taxpayer for a taxation year in relation to a country other than Canada means the amount of that loss computed, with the necessary modifications, in accordance with section 418.1.7.

History: 2004, c. 8, s. 79.

Corresponding Federal Provision: 66.21(1) "foreign resource loss".

Global foreign resource limit.

418.1.9. In this division, the global foreign resource limit of a taxpayer for a taxation year means the amount that is the lesser of

(*a*) the amount by which the amount determined under paragraph *b* of section 374 in respect of the taxpayer for the year exceeds the total of

i. the aggregate of all amounts each of which is the maximum amount that the taxpayer would be permitted to deduct, in relation to a country, under section 418.1.10 in computing the taxpayer's income for the year if, in its application to the year, that section were read without reference to paragraph *b* thereof, and

ii. the amount deducted under section 371 in computing the taxpayer's income for the year; and

(*b*) the amount by which 30% of the aggregate of all amounts each of which is, at the end of the year, the taxpayer's adjusted cumulative foreign resource expense in relation to a country exceeds the aggregate described in subparagraph i of paragraph *a*.

History: 2004, c. 8, s. 79.
Corresponding Federal Provision: 66.21(1) "global foreign resource limit".

Deduction for cumulative foreign resource expense.

418.1.10. In computing a taxpayer's income for a taxation year throughout which the taxpayer is resident in Canada, the taxpayer may deduct an amount claimed by the taxpayer, in respect of a country other than Canada, not exceeding the total of

(*a*) the greater of

i. 10% of an amount, in this section referred to as a "particular amount", equal to the taxpayer's adjusted cumulative foreign resource expense in relation to that country at the end of the year, and

ii. the least of

(1) if the taxpayer ceases to be resident in Canada immediately after the end of the year, the particular amount,

(2) if subparagraph 1 does not apply, 30% of the particular amount,

(3) the amount by which the taxpayer's foreign resource income for the year in relation to that country exceeds the portion of the amount, deducted under section 371 in computing the taxpayer's income for the year, that is attributable to a source in that country, and

(4) the amount by which the aggregate of all amounts each of which is the taxpayer's foreign resource income for the year in relation to a country exceeds the total of the aggregate of all amounts each of which is the taxpayer's foreign resource loss for the year in relation to a country and the amount deducted under section 371 in computing the taxpayer's income for the year; and

(*b*) the lesser of

i. the amount by which the particular amount exceeds the amount determined for the year under paragraph *a* in respect of the taxpayer, and

ii. that portion of the taxpayer's global foreign resource limit for the year that is designated for the year by the taxpayer, in relation to that country and no other country, in prescribed form filed with the Minister with the taxpayer's fiscal return filed under this Part for the year.

History: 2004, c. 8, s. 79.
Corresponding Federal Provision: 66.21(4).

Individual resident in Canada only part of a year.

418.1.11. Where at any time in a taxation year an individual becomes or ceases to be resident in Canada, the following rules apply:

(*a*) section 418.1.10 applies to the individual as if the taxation year were the period or periods in the year throughout which the individual was resident in Canada; and

(*b*) for the purposes of this chapter, section 393.1 does not apply to the individual for the year.

History: 2004, c. 8, s. 79.
Corresponding Federal Provision: 66.21(5).

DIVISION IV.1
CANADIAN OIL AND GAS PROPERTY EXPENSE

"Canadian oil and gas property expense".

418.2. In sections 362 to 394, Divisions III and IV and this division, "Canadian oil and gas property expense of a taxpayer" means any cost or expense incurred after 11 December 1979, to the extent that the cost or expense is

(*a*) despite section 144, the cost to the taxpayer of property described in any of paragraphs *a*, *c* and *d* of section 370 or in paragraph *f* of that section in respect of property described in any of paragraphs *a*, *c* and *d* of that section, including any payment for the preservation of a taxpayer's rights in respect of such a property or an amount paid or, except for the application of this paragraph to a taxation year that begins after 31 December 2007, payable to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on 31 March 1977 to the extent that such amount can reasonably be considered to be a cost of acquiring the lease, but excluding, except for the application of this paragraph to a taxation year that begins after 31 December 2007,

i. any payment made to a person referred to in section 90 for the preservation of a taxpayer's rights in respect of a Canadian resource property, and

ii. any payment, other than a net royalty payment referred to in this paragraph, to which subsection 1 of section 144 applies by reason of paragraph *b* of that subsection;

(*b*) subject to section 418.37, his share of any expense described in paragraph *a* incurred by a partnership in a fiscal period of the partnership of which he was a member at the end of that fiscal period, unless the taxpayer elects in respect of the share in prescribed form and manner on or before the day that is six months after the taxpayer's taxation year in which that period ends; or

(*c*) any cost or expense described in paragraph *a* incurred by the taxpayer pursuant to an agreement in writing with a corporation entered into before 1 January 1987, under which the taxpayer incurred the cost or expense solely as consideration for a share, except a prescribed share, of the capital stock of the corporation issued to him or any right in or to such a share.

History: 1982, c. 5, s. 103; 1984, c. 15, s. 91; 1986, c. 19, s. 88; 1988, c. 18, s. 41; 1990, c. 59, s. 165; 1994, c. 22, s. 154; 1997, c. 3, s. 71; 1998, c. 16, s. 156; 2005, c. 1, s. 98; 2015, c. 24, s. 72; 2020, c. 16, s. 189.

Corresponding Federal Provision: 66.4(5) "Canadian oil and gas property expense" (a) to (c).

Restriction.

418.3. Canadian oil and gas property expense does not include, however, any consideration given by the taxpayer for any share or any right in or to a share, except as provided by paragraph *c* of section 418.2, or any expense referred to in that paragraph and incurred by any other taxpayer to the extent that the expense is for the latter a Canadian oil and gas property expense under that paragraph, a Canadian exploration expense under paragraph *e* of section 395 or a Canadian development expense under paragraph *e* of section 408.

History: 1982, c. 5, s. 103; 2020, c. 16, s. 67.

Corresponding Federal Provision: 66.4(5) "Canadian oil and gas property expense" (d) and (e).

Assistance in respect of Canadian oil and gas property expenses.

418.4. Where a taxpayer has received or is entitled to receive any amount of assistance in respect of or related to his Canadian oil and gas property expense, the expenses contemplated in paragraphs *a* to *c* of section 418.2 shall not be reduced by the amount of such assistance.

History: 1982, c. 5, s. 103; 1988, c. 18, s. 42.

Corresponding Federal Provision: 66.4(5) "Canadian oil and gas property expense" after (e).

Cumulative Canadian oil and gas property expense.

418.5. In this chapter, cumulative Canadian oil and gas property expense of a taxpayer at any time in a taxation year means the amount by which the aggregate

(*a*) of the Canadian oil and gas property expense incurred by the taxpayer before that time,

(*a*.1) of the aggregate of all amounts determined under paragraph *c* of section 418.31.1 in respect of the taxpayer for a taxation year ending before that time,

(*b*) of all amounts determined under section 418.12 in respect of the taxpayer for any taxation year ending before that time,

(*c*) of all amounts contemplated in paragraph *b* or *c* of section 418.6 that, in accordance with the evidence submitted by the taxpayer, have become a bad debt before that time, and

(*d*) of such part of an amount contemplated in paragraph *e* of section 418.6 as has been repaid by him before that time pursuant to a legal obligation to repay all or any part of that amount exceeds the aggregate described in section 418.6.

History: 1982, c. 5, s. 103; 1991, c. 25, s. 75; 1993, c. 16, s. 162; 1995, c. 49, s. 236; 1997, c. 14, s. 68; 2004, c. 8, s. 80.

Corresponding Federal Provision: 66.4(5) "cumulative Canadian oil and gas property expense" A to D.1.

Computation of cumulative expenses.

418.6. The amounts to be deducted in computing cumulative Canadian oil and gas property expense of a taxpayer at any time contemplated in section 418.5 are the aggregate

(*a*) of any amount deducted in computing his income for any taxation year ending before that time in respect of such expense;

(*b*) of any amount which in respect of the disposition by the taxpayer before that time of property referred to in paragraph *a*, *c* or *d* of section 370 or in paragraph *f* of section 370 in respect of property referred to in paragraph *a*, *c* or *d* of that section is equal to the amount by which

i. the amount by which the proceeds of disposition in respect of the property that became receivable by the taxpayer before that time exceed the aggregate of any outlays or expenses that the taxpayer made or incurred before that time for the purpose of making the disposition and that were not otherwise deductible for the purposes of this Part, exceeds

ii. the total of the amount determined under section 418.6.1 and the amount determined under section 418.6.2,

iii. *(subparagraph repealed)*;

(*c*) of any amount that, before that time, becomes receivable by him and must be included in the amount contemplated in this paragraph by virtue of section 392.1;

(*d*) of any amount received by the taxpayer before that time in respect of a debt contemplated in paragraph *c* of section 418.5;

(*e*) of any amount of assistance that he has received or is entitled to receive in respect of any Canadian oil and gas property expense incurred after 31 December 1980 or that can reasonably be related to any such expense incurred after that date;

(*e.*1) of any amount by which his cumulative Canadian oil and gas property expense is required, because of section 485.8, to be reduced at or before that time; and

(*f*) any amount that is required to be deducted before that time under paragraph *d* of section 418.31 in computing his cumulative Canadian oil and gas property expense.

History: 1982, c. 5, s. 103; 1986, c. 19, s. 89; 1988, c. 18, s. 43; 1989, c. 77, s. 47; 1995, c. 49, s. 107; 1996, c. 39, s. 114; 2004, c. 8, s. 81.

Corresponding Federal Provision: 66.4(5) "cumulative Canadian oil and gas property expense" E, F(a), G, H, I, I.1 and J.

Computation.

418.6.1. The first amount referred to in subparagraph ii of paragraph *b* of section 418.6 is the amount by which the aggregate of all amounts that would be determined under the second paragraph of section 418.21, immediately before the time, in this section and in section 418.6.2 referred to as the "relevant time", when such proceeds of disposition became receivable, in respect of the taxpayer and an original owner of the property, or of any other property acquired by the taxpayer with the property in circumstances in which section 418.21 applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time, exceeds the amount described in the second paragraph, if

(*a*) amounts that became receivable at or after the relevant time were not taken into account;

(*b*) each designation made under subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 418.19 in respect of an amount that became receivable before the relevant time were made before the relevant time;

(*c*) the second paragraph of section 418.21 were read without reference to "10% of"; and

(*d*) no reduction under section 485.8 at or after the relevant time were taken into account.

Computation.

The amount referred to in the first paragraph as being described in the second paragraph is the aggregate of

(*a*) all amounts that would be determined under the second paragraph of section 418.21 at the relevant time in respect of the taxpayer and an original owner of the property, or of any other property acquired by the taxpayer with the property in circumstances in which section 418.21 applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time, if

i. amounts that became receivable after the relevant time were not taken into account,

ii. each designation made under subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 418.19 in respect of an amount that became receivable at or before the relevant time were made before the relevant time,

iii. the second paragraph of section 418.21 were read without reference to "10% of", and

iv. no reduction under section 485.8 at or after the relevant time were taken into account; and

(*b*) such portion of the amount determined under this section as was otherwise applied to reduce the amount otherwise determined under paragraph *b* of section 418.6.

History: 1995, c. 49, s. 108; 1996, c. 39, s. 115.

Corresponding Federal Provision: 66.4(5) "cumulative Canadian oil and gas property expense" F (b).

Computation.

418.6.2. The second amount referred to in subparagraph ii of paragraph *b* of section 418.6 is the amount by which the aggregate of all amounts that would be determined under the second paragraph of section 418.19, immediately before the relevant time, in respect of the taxpayer and an original owner of the property, or of any other property acquired by the taxpayer with the property in circumstances in which section 418.19 applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time, exceeds the amount described in the second paragraph, if

(*a*) amounts that became receivable at or after the relevant time were not taken into account;

(*b*) each designation made under subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 418.19 in respect of an amount that became receivable before the relevant time were made before the relevant time; and

(*c*) no reduction under section 485.8 at or after the relevant time were taken into account.

Computation.

The amount referred to in the first paragraph as being described in the second paragraph is the aggregate of

(*a*) all amounts that would be determined under the second paragraph of section 418.19 at the relevant time in respect of the taxpayer and an original owner of the property, or of any other property acquired by the taxpayer with the property in circumstances in which section 418.21 applied and in respect of which the proceeds of disposition became receivable by the taxpayer at the relevant time, if

i. amounts that became receivable after the relevant time and amounts described in subparagraph i of subparagraph *b* of the second paragraph of section 418.19 that became receivable at the relevant time were not taken into account,

ii. each designation made under subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 418.19 in respect of an amount that became receivable at or before the relevant time were made before the relevant time, and

iii. no reduction under section 485.8 at or after the relevant time were taken into account; and

(*b*) such portion of the amount otherwise determined under this section as was otherwise applied to reduce the amount otherwise determined under paragraph *b* of section 418.6.

History: 1995, c. 49, s. 108; 1996, c. 39, s. 116.
Corresponding Federal Provision: 66.4(5) "cumulative Canadian oil and gas property expense" F (c).

Deduction in computing income.

418.7. A taxpayer may deduct, in computing his income for a taxation year, an amount not exceeding the aggregate of

(*a*) the lesser of

i. the aggregate of his cumulative Canadian oil and gas property expense at the end of the year and the amount by which the aggregate determined under subparagraph i of paragraph *c* of section 418.31.1 in respect of the taxpayer for the year exceeds the amount that would be determined in respect of the taxpayer for the year under section 418.12 if the aggregate last referred to in the said section 418.12 were not taken into account; and

ii. the amount by which the aggregate of any amount included in computing his income for the year by reason of the disposition, in the year, of a property included in his inventory under section 419, and acquired by him under circumstances referred to in paragraph *c* of section 418.2, or any amount included, in computing his income, under paragraph *e* of section 87 to the extent that the amount relates to that property, exceeds the aggregate of any amount deducted as a reserve in computing his income for the year under section 153 to the extent that the reserve relates to such property; and

(*b*) 10% of the amount by which any amount determined under subparagraph i of paragraph *a* exceeds the amount determined under subparagraph ii of the said paragraph.

History: 1982, c. 5, s. 103; 1993, c. 16, s. 163; 1997, c. 14, s. 69.
Corresponding Federal Provision: 66.4(2).

418.8. *(Repealed).*

History: 1982, c. 5, s. 103; 1985, c. 25, s. 82; 1986, c. 19, s. 90; 1989, c. 77, s. 48.

418.9. *(Repealed).*

History: 1982, c. 5, s. 103; 1985, c. 25, s. 82; 1986, c. 19, s. 91; 1989, c. 77, s. 48.

418.10. *(Repealed).*

History: 1982, c. 5, s. 103; 1985, c. 25, s. 83; 1987, c. 67, s. 97; 1989, c. 77, s. 48.

418.11. *(Repealed).*

History: 1982, c. 5, s. 103; 1989, c. 77, s. 48.

Determination.

418.12. For the purposes of subparagraph *a* of the second paragraph of section 358, as it applies in respect of dispositions occurring before 13 November 1981, paragraph *g* of section 412 and paragraph *b* of section 418.5, the amount determined under this section for a taxation year in respect of a taxpayer is equal to the amount by which the aggregate of all amounts deducted under section 418.6 in computing the taxpayer's cumulative Canadian oil and gas property expense at the end of the year exceeds the total of all amounts included under section 418.5 in computing the taxpayer's cumulative Canadian oil and gas property expense at the end of the year and the aggregate determined under subparagraph i of paragraph *c* of section 418.31.1 in respect of the taxpayer for the year.

History: 1982, c. 5, s. 103; 1993, c. 16, s. 164; 1995, c. 49, s. 109.
Corresponding Federal Provision: 66.4(1).

418.13. *(Repealed).*

History: 1982, c. 5, s. 103; 1985, c. 25, s. 84; 1988, c. 18, s. 44; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 1998, c. 16, s. 157.

418.14. *(Repealed).*

History: 1982, c. 5, s. 103; 1985, c. 25, s. 84; 1997, c. 3, s. 71; 1997, c. 14, s. 70; 1998, c. 16, s. 157.

DIVISION IV.2
SUCCESSOR CORPORATIONS

Interpretation:

418.15. In this chapter, the expression

"reserve amount";

(*a*) "reserve amount" of a corporation for a taxation year in respect of an original owner or predecessor owner of a Canadian resource property means the amount by which

i. the aggregate of all amounts that are required to be included, under paragraph *b* of section 330, in computing its income for the year, and required to be included under section 545 or section 564 where it refers to the said section 545, in respect of a reserve deducted under section 357 or 358 in computing the income of the original owner or predecessor owner exceeds

ii. the aggregate of all amounts deducted under section 357 or 358 in computing its income for the year in respect of the disposition of property by the original owner or the predecessor owner, as the case may be;

"predecessor owner";

(*b*) "predecessor owner" of a Canadian resource property or a foreign resource property means a corporation

i. that acquired the property in circumstances in which any of sections 418.16 to 418.21 or section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), applies, or would apply if the corporation had continued to own the property, to the corporation in respect of the property,

ii. that disposed of the property to another corporation that acquired it in circumstances in which any of sections 418.16 to 418.21 or section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules, applies, or would apply if the other corporation had continued to own the property, to the other corporation in respect of the property, and

iii. that would, but for section 418.33, 418.34, 418.34.1 or 418.36, as the case may be, be entitled in computing its income for a taxation year ending after it disposed of the property to a deduction under any of sections 418.16 to 418.21 or section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules, in respect of expenses incurred by an original owner of the property;

"original owner".

(*c*) "original owner" of a Canadian resource property or a foreign resource property means a person

i. who owned the property and disposed of it to a corporation that acquired it in circumstances in which any of sections 418.16 to 418.21 or section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules, applies, or would apply if the corporation had continued to own the property, to the corporation in respect of the property, and

ii. who would, but for section 418.31, 418.32, 418.32.1 or 418.36, as the case may be, be entitled in respect of expenses described in section 88.5 of the Act respecting the application of the Taxation Act, to the extent that section 88.4 of that Act refers to expenses described in subparagraph i or ii of paragraph *c* of subsection 25 of section 29 of the Income Tax Application Rules, Canadian exploration and development expenses, foreign resource pool expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses incurred by the person before the person disposed of the property to a deduction, in computing the person's income for a taxation year ending after the person disposed of the property, under that section 88.4, to the extent that it refers to section 29 of the Income Tax Application Rules, or under any of sections 367, 368, 371, 400, 401, 413, 414, 418.1.10 and 418.7.

"production".

For the purposes of this chapter, except for the purposes of subparagraph *b* of the second paragraph of section 414 and subparagraph *c* of the first paragraph of section 418.20, "production" from a Canadian resource property or a foreign resource property means

(*a*) petroleum, natural gas and related hydrocarbons produced from the property,

(*b*) heavy crude oil produced from the property processed to any stage that is not beyond the crude oil stage or its equivalent,

(*c*) ore, other than iron ore or tar sands, produced from the property processed to any stage that is not beyond the prime metal stage or its equivalent,

(*d*) iron ore produced from the property processed to any stage that is not beyond the pellet stage or its equivalent,

(*e*) tar sands produced from the property processed to any stage that is not beyond the crude oil stage or its equivalent, and

(*f*) any rental or royalty from the property computed by reference to the amount or value of the production of petroleum, natural gas or related hydrocarbons or ore.

History: 1989, c. 77, s. 49; 1995, c. 49, s. 236; 1996, c. 39, s. 273; 1997, c. 3, s. 71; 1997, c. 14, s. 71; 1998, c. 16, s. 158; 2004, c. 8, s. 82.

Corresponding Federal Provision: 66(15) "original owner", "predecessor owner", "production" and "reserve amount".

Acquisition of Canadian resource property after 1971.

418.16. Subject to sections 418.22 and 418.23, where after 31 December 1971 a corporation acquired, in any manner whatsoever, a particular Canadian resource property referred to in this section as "particular property", it may deduct in computing its income for a taxation year an amount not exceeding the aggregate of all amounts each of which is the lesser of the amount referred to in the second paragraph and the amount referred to in the third paragraph determined in respect of an original owner of the particular property.

Computation.

The first amount to which the first paragraph refers is equal to the amount of the Canadian exploration and development expenses incurred by the original owner before he disposed of the particular property, to the extent that those expenses

(*a*) were not otherwise deducted in computing the income of the corporation for the year or deducted in computing the income of the corporation for a preceding taxation year or in computing the income of a predecessor owner of the particular property for any taxation year; and

(*b*) were not deductible under section 362 or deducted under section 367 or 368 in computing the income of the original owner for any taxation year.

Computation.

The last amount to which the first paragraph refers is equal to the amount by which

(*a*) the part of the corporation's income for the year, determined before any deduction under section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4) or any of sections 359 to 419.6, that may reasonably be regarded as attributable to

i. the amount included in computing its income for the year under paragraph *e* of section 330 that may reasonably be regarded as attributable to the disposition by the corporation in the year or a preceding taxation year of any right in or to the particular property to the extent that the proceeds of the disposition have not been included in computing an amount for any preceding taxation year under this subparagraph, subparagraph i of subparagraph *a* of the third paragraph of section 418.18, subparagraph iii of subparagraph *c* of the first paragraph of section 418.20, section 418.28 or section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to clause A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement),

ii. its reserve amount for the year in respect of the original owner and each predecessor owner of the particular property, or

iii. production from the particular property; exceeds

(*b*) the aggregate of

i. any other amount deducted for the year under section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules, this section and any of sections 418.18, 418.19 and 418.21, that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph *a* in respect of the particular property, and

ii. any other amount added, because of section 485.13, in computing the amount determined under subparagraph *a*.

History: 1989, c. 77, s. 49; 1993, c. 16, s. 165; 1996, c. 39, s. 117; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2000, c. 5, s. 293; 2020, c. 16, s. 191.

Corresponding Federal Provision: 66.7(1).

Acquisition of foreign resource property after 1971.

418.17. Subject to sections 418.22 and 418.24, where after 31 December 1971 a corporation acquires, in any manner whatsoever, a particular foreign resource property, referred to in this section as "particular property", it may deduct in computing its income for a taxation year an amount not exceeding the aggregate of all amounts each of which is an amount equal to the lesser of the amount referred to in the second paragraph and the amount referred to in the third paragraph determined in respect of an original owner of the particular property.

Computation.

The first amount to which the first paragraph refers is equal to the amount by which

(*a*) the amount of foreign exploration and development expenses incurred by the original owner before the disposition of the particular property by the original owner, to the extent that those expenses were incurred when the original owner was resident in Canada, were not otherwise deducted in computing the income of the corporation for the year, were not deducted in computing the income of the corporation for any preceding taxation year or in computing the income of any predecessor owner of the particular property for any taxation year and were not deductible in

computing the income of the original owner for any taxation year, exceeds

(*b*) the aggregate of all amounts by which the amount determined under this paragraph is required, because of section 485.8, to be reduced at or before the end of the year.

Computation.

The last amount to which the first paragraph refers is equal to the amount by which

(*a*) the aggregate of

i. the part of the corporation's income for the year, determined before any deduction under any of sections 359 to 419.6, that may reasonably be regarded as attributable to

(1) the amount included in computing its income for the year under paragraph *a* of section 330, that may reasonably be regarded as attributable to the disposition by the corporation of any right in or to the particular property, or

(2) production from the particular property, and

ii. the lesser of

(1) the aggregate of all amounts each of which is the amount designated by the corporation for the year in respect of a Canadian resource property owned by the original owner immediately before being acquired with the particular property by the corporation or a predecessor owner of the particular property, not exceeding the amount included in computing the corporation's income for the year, determined before any deduction under section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4) and sections 359 to 419.6, that may reasonably be regarded as being attributable to the production, after 31 December 1988, from the Canadian resource property, and

(2) the amount by which 10% of the amount described in the second paragraph for the year in respect of the original owner exceeds the aggregate of all amounts each of which would, but for this subparagraph ii, subparagraph ii of paragraph *b* and subparagraph ii of subparagraph *f* of the first paragraph of section 418.26, be determined under this paragraph for the year in respect of the particular property or other foreign resource property owned by the original owner immediately before being acquired with the particular property by the corporation or a predecessor owner of the particular property, exceeds

(*b*) the aggregate of

i. any other amount deducted for the year under this section and section 418.19 as a result of the application of subparagraph *c* of the first paragraph of section 418.20 that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph i of subparagraph *a* in respect of the particular property,

ii. any other amount deducted for the year under this section that can reasonably be regarded as attributable to the part of its income referred to in subparagraph 1 of subparagraph ii of subparagraph *a* for the year in respect of which an amount is designated by the corporation under the said subparagraph 1, and

iii. any other amount added, because of section 485.13, in computing the amount determined under subparagraph i of subparagraph *a*.

Income not to be attributable to production from a Canadian resource property.

Income in respect of which an amount is designated under subparagraph 1 of subparagraph ii of subparagraph *a* of the third paragraph is deemed, for the purposes of subparagraph iii of subparagraph *a* of the third paragraph of sections 418.16 and 418.18, subparagraph 2 of subparagraph i of subparagraph *a* of the third paragraph of section 418.19, subparagraph i of subparagraph *c* of the first paragraph of section 418.20, subparagraph 2 of subparagraph i of subparagraph *a* of the third paragraph of section 418.21, paragraph *a* of section 418.28 of this Act and section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to clause B of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), not to be attributable to production from a Canadian resource property.

History: 1989, c. 77, s. 49; 1993, c. 16, s. 166; 1995, c. 49, s. 110; 1996, c. 39, s. 118; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2000, c. 5, s. 293; 2004, c. 8, s. 83; 2009, c. 5, s. 132; 2020, c. 16, s. 191.

Corresponding Federal Provision: 66.7(2).

Country-by-country allocations.

418.17.1. The portion of an amount deducted under section 418.17 in computing a taxpayer's income for a taxation year that can reasonably be considered to be in respect of specified foreign exploration and development expenses of the taxpayer in relation to a country is considered as being attributable to a source in that country.

History: 2004, c. 8, s. 84.

Corresponding Federal Provision: 66.7(2.1).

Method of allocation.

418.17.2. For the purposes of section 418.17.1, where a taxpayer has incurred specified foreign exploration and development expenses in relation to two or more countries, an allocation to each of those countries for a taxation year shall be determined in a manner that is

(*a*) reasonable having regard to all the circumstances, including the level and timing of

i. the taxpayer's specified foreign exploration and development expenses in relation to that country, and

ii. the profits or gains to which those expenses relate; and

(*b*) not inconsistent with the allocation made under section 418.17.1 for the preceding taxation year.

History: 2004, c. 8, s. 84.

Corresponding Federal Provision: 66.7(2.2).

Deduction.

418.17.3. Subject to sections 418.22 and 418.24, where a corporation acquires, in any manner whatever, a particular foreign resource property, in this section referred to as the "particular property", in relation to a particular country, there may be deducted by the corporation in computing its income for a taxation year an amount not exceeding the aggregate of all amounts each of which is an amount equal to the lesser of the amount described in the second paragraph and the amount described in the third paragraph determined in respect of an original owner of the particular property.

Computation of amount.

The first amount to which the first paragraph refers is equal to 30% of the amount by which the cumulative foreign resource expense, in relation to the particular country, of the original owner determined immediately after the disposition of the particular property by the original owner to the extent that it has not been otherwise deducted in computing the corporation's income for the year, has not been deducted in computing the corporation's income for any preceding taxation year and has not been deducted in computing the income of the original owner or any predecessor owner of the particular property for any taxation year, exceeds the aggregate of

(*a*) the aggregate of all amounts each of which is a particular amount, reduced by the portion of that amount provided for in the fifth paragraph, that became receivable by a predecessor owner of the particular property, or by the corporation in the year or a preceding taxation year, and that

i. was included by the predecessor owner or the corporation in computing an amount determined, without reference to section 418.1.5, under paragraph *b* of section 418.1.4 at the end of the year, and

ii. can reasonably be attributed to the disposition of a property, in the fifth paragraph referred to as the "particular resource property", that is the particular property or another foreign resource property, in relation to the particular country, that was acquired from the original owner with the particular property by the corporation or a predecessor owner of the particular property; and

(*b*) the aggregate of all amounts each of which is an amount by which the amount determined under this paragraph is required by reason of section 485.8 to be reduced at or before the end of the year.

Computation of amount.

The last amount to which the first paragraph refers is equal to the amount by which the amount determined under the fourth paragraph is exceeded by the aggregate of

(*a*) the lesser of

i. the part of the corporation's income for the year, determined before any deduction under section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4) or any of sections 359 to 419.6, that can reasonably be attributed to the production from the particular property, and

ii. where the corporation acquires the particular property from the original owner at any time in the year, otherwise than as a result of an amalgamation or merger or solely by reason of the application of subparagraph *a* of the first paragraph of section 418.26 and did not deal with the original owner at arm's length at that time, nil; and

(*b*) unless the amount determined under subparagraph *a* is nil by reason of subparagraph ii of that subparagraph, the lesser of

i. the aggregate of all amounts each of which is the amount designated by the corporation for the year in respect of a Canadian resource property owned by the original owner immediately before being acquired with the particular property by the corporation or a predecessor owner of the particular property, not exceeding the amount included in computing the corporation's income for the year, determined before any deduction under section 88.4 of the Act respecting the application of the Taxation Act or any of sections 359 to 419.6, that can reasonably be attributed to the production from the Canadian resource property, and

ii. the amount by which 10% of the amount described in the second paragraph for the year, in respect of the original owner, exceeds the aggregate of all amounts each of which would, but for this subparagraph, subparagraph ii of subparagraph *b* of the third paragraph of section 418.17 and subparagraph ii of subparagraph *f* of the first paragraph of section 418.26, be determined under this paragraph for the year in respect of the particular property or other foreign resource property, in relation to the particular country, owned by the original owner immediately before being acquired with the particular property by the corporation or a predecessor owner of the particular property.

Computation of amount.

The amount that, for the purposes of the third paragraph, is required to be determined under this paragraph is the aggregate of

(*a*) any other amount deducted for the year under this section, section 418.17 or section 418.19 as a consequence of the application of subparagraph *c* of the first paragraph of section 418.20, that can reasonably be attributed to the part of the corporation's income for the year, described in subparagraph *a* of the third paragraph, in relation to the particular property;

(*b*) any other amount deducted for the year under this section or section 418.17, that can reasonably be attributed to a part of the corporation's income for the year, described in subparagraph i of subparagraph *b* of the third paragraph, in respect of which an amount is designated by the corporation under that subparagraph; and

(*c*) any amount added, by reason of section 485.13, in computing the amount determined under subparagraph *a* of the third paragraph.

Reduction of particular amount.

The particular amount referred to in subparagraph *a* of the second paragraph shall be reduced by the portion thereof that can reasonably be considered to result in a reduction of the amount otherwise determined under that paragraph in relation to another original owner of a particular resource property who is not a predecessor owner of a particular resource property or who became such a predecessor owner before the original owner became a predecessor owner of a particular resource property.

Income not attributable to the production from a Canadian resource property.

The income in respect of which an amount is designated under subparagraph i of subparagraph *b* of the third paragraph is deemed, for the purposes of the following provisions, not to be attributable to the production from a Canadian resource property:

(*a*) subparagraph iii of subparagraph *a* of the third paragraph of sections 418.16 and 418.18;

(*b*) subparagraph 2 of subparagraph i of subparagraph *a* of the third paragraph of section 418.19;

(*c*) subparagraph i of subparagraph *c* of the first paragraph of section 418.20;

(*d*) subparagraph 2 of subparagraph i of subparagraph *a* of the third paragraph of section 418.21;

(*e*) paragraph *a* of section 418.28; and

(*f*) section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to clause B of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement).

History: 2004, c. 8, s. 84; 2009, c. 5, s. 133.

Corresponding Federal Provision: 66.7(2.3).

Acquisition of Canadian resource property after May 1974 or March 1975.

418.18. Subject to sections 418.22 and 418.23, where a corporation acquired after 6 May 1974 in the case of an oil business, after 31 March 1975 in the case of a mining business or after 5 December 1996 in all other cases, in any manner whatsoever, a particular Canadian resource property (referred to in this section as "particular property"), it may deduct in computing its income for a taxation year an amount not exceeding the aggregate of all amounts each of which is the lesser of the amount referred to in the second paragraph and the amount referred to in the third paragraph determined in respect of an original owner of the particular property.

Computation.

The first amount to which the first paragraph refers is equal to the amount by which

(*a*) the aggregate of the cumulative Canadian exploration expense of the original owner determined immediately after the disposition of the particular property by the original owner, and all amounts required to be added under paragraph *c* of section 418.25 to the cumulative Canadian exploration expense of the original owner in respect of a predecessor owner of the particular property, or in respect of the corporation, as the case may be, at any time after the disposition of the particular property by the original owner and before the end of the year, to the extent that an amount in respect of that aggregate was not

i. otherwise deducted in computing the corporation's income for the year or deducted in computing the corporation's income for a preceding taxation year or in computing the income of a predecessor owner of the particular property for any taxation year, and

ii. deducted or required to be deducted under section 400 or 401 in computing the income of the original owner for any taxation year, or designated by the original owner for any taxation year for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) pursuant to subsection 14.1 of section 66 of that Act; exceeds

(*b*) the aggregate of all amounts by which the amount determined under this paragraph is required, because of section 485.8, to be reduced at or before the end of the year.

Computation.

The last amount to which the first paragraph refers is equal to the amount by which

(*a*) the part of the corporation's income for the year, determined before any deduction under section 88.4 of the Act respecting the application of the Taxation Act (chapter

I-4) or any of sections 359 to 419.6, that may reasonably be regarded as attributable to

i. the amount included in computing its income for the year under paragraph *e* of section 330 that may reasonably be regarded as being attributable to the disposition by the corporation in the year or a preceding taxation year of any right in or to the particular property to the extent that the proceeds of the disposition have not been included in computing an amount for any preceding taxation year under this subparagraph, subparagraph i of subparagraph *a* of the third paragraph of section 418.16, subparagraph iii of subparagraph *c* of the first paragraph of section 418.20, section 418.28 or section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to clause A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement),

ii. its reserve amount for the year in respect of the original owner and each predecessor owner of the particular property, or

iii. production from the particular property; exceeds

(*b*) the aggregate of

i. any other amount deducted under section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules, this section and sections 418.16, 418.19 and 418.21 for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph *a* in respect of the particular property, and

ii. any other amount added, because of section 485.13, in computing the amount determined under subparagraph *a*.

History: 1989, c. 77, s. 49; 1993, c. 16, s. 167; 1995, c. 49, s. 111; 1996, c. 39, s. 119; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2000, c. 5, s. 293; 2013, c. 10, s. 32; 2020, c. 16, s. 191.

Corresponding Federal Provision: 66.7(3).

Acquisition of Canadian resource property after May 1974 or March 1975.

418.19. Subject to sections 418.22 and 418.23, where a corporation acquired after 6 May 1974 in the case of an oil business, or after 31 March 1975 in the case of a mining business, in any manner whatsoever, a particular Canadian resource property, referred to in this section and in section 418.20 as "particular property", it may deduct in computing its income for a taxation year an amount not exceeding the aggregate of all amounts each of which is equal to the lesser of the amount referred to in the second paragraph and the amount referred to in the third paragraph and, as the case may be, the amount referred to in section 418.20, determined in respect of an original owner of the particular property.

Computation.

The first amount to which the first paragraph refers is equal to the amount by which

(*a*) the amount by which

i. the cumulative Canadian development expenses of the original owner, determined immediately after the disposition of the particular property by the original owner, to the extent that the expenses were not otherwise deducted in computing the corporation's income for the year, were not deducted in computing the corporation's income for any preceding taxation year or in computing the income of the original owner or any predecessor owner of the particular property for any taxation year, and were not designated by the original owner for any taxation year for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) pursuant to subsection 14.2 of section 66 of the said Act, exceeds

ii. all amounts required to be deducted under paragraph *b* of section 418.25, at any time after the disposition of the particular property by the original owner and before the end of the year, from the cumulative Canadian development expenses of the original owner in respect of a predecessor owner of the particular property or in respect of the corporation, as the case may be, exceeds

(*b*) the aggregate of

i. all amounts each of which is a particular amount, reduced by the portion thereof described in the fourth paragraph, that became receivable by a predecessor owner of the particular property or the corporation in the year or a preceding taxation year and that

(1) was included by the predecessor owner or the corporation in computing an amount determined under subparagraph i of paragraph *b* of section 412 at the end of the year, and

(2) can reasonably be regarded as attributable to the disposition of a property, in the fourth paragraph referred to as a "relevant mining property", that is the particular property or another Canadian resource property that was acquired from the original owner with the particular property by the corporation or a predecessor owner of the particular property,

ii. all amounts each of which is a particular amount, reduced by the portion thereof described in the fifth paragraph, that became receivable by a predecessor owner of the particular property or the corporation after 31 December 1992 and in the year or a preceding taxation year and that

(1) is designated in respect of the original owner by the predecessor owner or the corporation, as the case may be, on

the prescribed form filed with the Minister within six months after the end of the taxation year in which the particular amount became receivable,

(2) was included by the predecessor owner or the corporation in computing an amount determined under subparagraph i of paragraph *b* of section 418.6 at the end of the year, and

(3) can reasonably be regarded as attributable to the disposition of a property, in the fifth paragraph referred to as a "relevant oil and gas property", that is the particular property or another Canadian resource property that was acquired from the original owner with the particular property by the corporation or a predecessor owner of the particular property, and

iii. any amount by which the amount determined under this paragraph is required, because of section 485.8, to be reduced at or before the end of the year.

Computation.

The second amount to which the first paragraph refers is equal to the amount by which

(*a*) the lesser of

i. the part of the corporation's income for the year, determined before any deduction under section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4) or any of sections 359 to 419.6, that may reasonably be regarded as attributable to

(1) its reserve amount for the year in respect of the original owner and each predecessor owner of the particular property, or

(2) production from the particular property, and

ii. where the corporation acquired the particular property from the original owner at any time in the year, otherwise than by way of an amalgamation or merger or by reason only of the application of subparagraph *a* of the first paragraph of section 418.26, and did not deal at arm's length with the original owner at that time, nil, exceeds

(*b*) the aggregate of

i. any other amount deducted under section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), this section and sections 418.16, 418.18 and 418.21 for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph *a* in respect of the particular property, and

ii. any other amount added, because of section 485.13, in computing the amount determined under subparagraph *a*.

Reduction of the particular amount.

The particular amount mentioned in subparagraph i of subparagraph *b* of the second paragraph shall be reduced by the portion thereof that can reasonably be considered to result in a reduction of the amount otherwise determined under that paragraph in respect of another original owner of a relevant mining property who is not a predecessor owner of a relevant mining property or who became a predecessor owner of a relevant mining property before the original owner became a predecessor owner of a relevant mining property.

Reduction of the particular amount.

The particular amount mentioned in subparagraph ii of subparagraph *b* of the second paragraph shall be reduced by the portion thereof that can reasonably be considered to result in a reduction of the amount otherwise determined under the second paragraph of section 418.21 in respect of the original owner or under the second paragraph, or the second paragraph of section 418.21, in respect of another original owner of a relevant oil and gas property who is not a predecessor owner of a relevant oil and gas property or who became a predecessor owner of a relevant oil and gas property before the original owner became a predecessor owner of a relevant oil and gas property.

History: 1989, c. 77, s. 49; 1993, c. 16, s. 168; 1995, c. 49, s. 112; 1996, c. 39, s. 120; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2000, c. 5, s. 293; 2009, c. 5, s. 134.

Corresponding Federal Provision: 66.7(4).

Computation.

418.20. The last amount to which the first paragraph of section 418.19 refers is equal,

(*a*) where the corporation referred to in section 418.19 is a development corporation carrying on an oil business, to the aggregate of

i. 30% of the amount by which the expenses referred to in subparagraph *a* of the second paragraph of section 418.19 that were not incurred in Québec within the meaning of section 416 exceed the aggregate referred to in subparagraph *b* of the said second paragraph, and

ii. the amount by which the expenses referred to in subparagraph *a* of the second paragraph of section 418.19 that were incurred in Québec within the meaning of section 416 exceed the amount by which the aggregate referred to in subparagraph *b* of the said second paragraph exceeds the expenses referred to in that subparagraph *a* which were not incurred in Québec within the meaning of section 416;

(*b*) where the corporation referred to in section 418.19 is not a development corporation and carries on an oil business, to 30% of the excess amount referred to in the second paragraph of that section;

(*c*) where the corporation referred to in section 418.19 is not a development corporation and carries on a mining business, to the higher of either 30% of the excess amount referred to in the second paragraph of the said section, or the amount by which the total, before any deduction under section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4) or sections 359 to 419.6, of the following amounts exceeds the amount described in the second paragraph:

i. its income for the year that can reasonably be regarded as attributable to the production of ore, other than iron ore or tar sands, from a resource property that is property described in the third paragraph, processed to any stage that is not beyond the prime metal stage or its equivalent, to the production of iron ore from such property, processed to any stage that is not beyond the pellet stage or its equivalent, and to any rental or royalty from such property, computed by reference to the amount or value of ore production,

ii. the aggregate of all amounts included in computing its income for the year under paragraph *b*, *d* or *e* of section 330, other than an amount referred to in subparagraph iii, in respect of property described in the third paragraph, but to the extent that paragraph *b* of section 330 refers to section 357, only the amounts deducted in computing its income, under the last mentioned section, for the preceding taxation year in respect of the disposition of a Canadian resource property may be taken into consideration, and

iii. the aggregate of all amounts included in computing its income for the year under paragraph *e* of section 330, that can reasonably be regarded as attributable to the disposition by the corporation, in the year or in a preceding taxation year, of any right in or to a property described in the third paragraph, to the extent that the proceeds of the disposition were not included in computing any amount for a preceding taxation year under this subparagraph, subparagraph i of subparagraph *a* of the third paragraph of section 418.16 or 418.18, section 418.28 and section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to clause A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement).

Computation.

The amount to which subparagraph *c* of the first paragraph refers is the total of the following amounts:

(*a*) the aggregate of all amounts deducted in computing its income for the year under section 357 in respect of a Canadian resource property that is property described in the third paragraph or under section 358 in respect of property described in that paragraph;

(*b*) the aggregate of the other amounts deducted for the year under section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules, any of sections 418.16 to 418.19 and section 418.21 that can reasonably be regarded as attributable to the amounts referred to in subparagraphs i to iii of subparagraph *c* of the first paragraph for the year;

(*c*) any other amount added, because of section 485.13, in computing the total amount determined under subparagraph *c* of the first paragraph.

Interpretation.

Any property to which subparagraphs i to iii of subparagraph *c* of the first paragraph and subparagraph *a* of the second paragraph refer is property owned immediately before the acquisition referred to in section 418.19 by the person from which the property was acquired pursuant to that section.

History: 1989, c. 77, s. 49; 1996, c. 39, s. 121; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2000, c. 5, s. 293; 2020, c. 16, s. 191.

Acquisition of Canadian resource property after 11 December 1979.

418.21. Subject to sections 418.22 and 418.23, where after 11 December 1979 a corporation acquired, in any manner whatsoever, a particular Canadian resource property, referred to in this section as "particular property", it may deduct in computing its income for a taxation year an amount not exceeding the aggregate of all amounts each of which is equal to the lesser of the amount referred to in the second paragraph and the amount referred to in the third paragraph, determined in respect of an original owner of the particular property.

Computation.

The first amount to which the first paragraph refers is equal to 10% of the excess amount, over the aggregate of all amounts each of which is an amount by which the amount determined under this paragraph is required, because of section 485.8, to be reduced at or before the end of the year, of the amount by which

(*a*) the cumulative Canadian oil and gas property expense of the original owner determined immediately after the disposition of the particular property by the original owner to the extent that it has not been otherwise deducted in computing the corporation's income for the year and has not been deducted in computing the corporation's income for any preceding taxation year or in computing the income of the original owner or any predecessor owner of the particular property for any taxation year, exceeds

(*b*) the aggregate of all amounts each of which is a particular amount, reduced by the portion thereof described in the fourth paragraph, that became receivable by a predecessor owner of the particular property or the corporation in the year or a preceding taxation year and that

i. was included by the predecessor owner or the corporation in computing an amount determined under subparagraph i of paragraph *b* of section 418.6 at the end of the year, and

ii. can reasonably be regarded as attributable to the disposition of a property, in the fourth paragraph referred to as a "relevant oil and gas property", that is the particular property or another Canadian resource property that was acquired from the original owner with the particular property by the corporation or a predecessor owner of the particular property.

Computation.

The last amount to which the first paragraph refers is equal to the amount by which

(*a*) the lesser of

i. the part of the corporation's income for the year, determined before any deduction under section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4) or any of sections 359 to 419.6, that may reasonably be regarded as attributable to

(1) its reserve amount for the year in respect of the original owner and each predecessor owner of the particular property, or

(2) production from the particular property, and

ii. where the corporation acquired the particular property from the original owner at any time in the year, otherwise than by way of an amalgamation or merger or by reason only of the application of subparagraph *a* of the first paragraph of section 418.26, and did not deal at arm's length with the original owner at that time, nil, exceeds

(*b*) the aggregate of

i. any other amount deducted under section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), this section and section 418.16, 418.18 or 418.19 for the year that may reasonably be regarded as attributable to the part of its income for the year described in subparagraph *a* in respect of the particular property, and

ii. any amount added, because of section 485.13, in computing the amount determined under subparagraph *a*.

Reduction of the particular amount.

The particular amount mentioned in subparagraph *b* of the second paragraph shall be reduced by the portion thereof that can reasonably be considered to result in a reduction of the amount otherwise determined under the second paragraph, or the second paragraph of section 418.19, in respect of another original owner of a relevant oil and gas property who is not a predecessor owner of a relevant oil and gas property or who became a predecessor owner of a relevant oil and gas property before the original owner became a predecessor owner of a relevant oil and gas property.

History: 1989, c. 77, s. 49; 1993, c. 16, s. 169; 1995, c. 49, s. 113; 1996, c. 39, s. 122; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2000, c. 5, s. 293; 2009, c. 5, s. 135.

Corresponding Federal Provision: 66.7(5).

Where certain provisions do not apply.

418.22. Section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), and sections 418.16 to 418.19 and 418.21 do not apply

(*a*) in respect of a Canadian resource property or a foreign resource property acquired by way of an amalgamation to which subsection 4 of section 544 applies or a winding-up to which section 565.1 applies; or

(*b*) to permit, in respect of the acquisition by a corporation before 18 February 1987 of a Canadian resource property or a foreign resource property, a deduction by the corporation of an amount that the corporation would not have been entitled to deduct under section 88.4 of the Act respecting the application of the Taxation Act, Divisions I, I.1 or III to IV.1, sections 362 to 394, 419 to 419.4 or section 419.6 if those sections and divisions, as they read in their application to taxation years ending before 18 February 1987, applied to taxation years ending after 17 February 1987.

History: 1989, c. 77, s. 49; 1997, c. 3, s. 71; 1997, c. 14, s. 72; 1998, c. 16, s. 159.

Corresponding Federal Provision: 66.7(6).

Where certain provisions do not apply.

418.23. Section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), and sections 418.16, 418.18, 418.19 and 418.21 apply only to a corporation that has acquired a particular Canadian resource property, in this section referred to as "particular property",

(*a*) where it acquired the particular property in a taxation year commencing before 1 January 1985 and, at the time it acquired the particular property, the corporation acquired all

or substantially all of the property used by the person from whom it acquired the particular property in carrying on in Canada a business described in paragraphs *a* to *g* of section 363;

(*b*) where it acquired the particular property in a taxation year commencing after 31 December 1984 and, at the time it acquired the particular property, the corporation acquired all or substantially all of the Canadian resource properties of the person from whom it acquired the particular property;

(*c*) where it acquired the particular property after 5 June 1987 by way of an amalgamation or winding-up and it has filed an election in prescribed form with the Minister on or before the corporation's filing-due date for its taxation year in which it acquired the particular property;

(*d*) where it acquired the particular property after 16 November 1978 and in a taxation year ending before 18 February 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property have filed with the Minister a joint election under and in accordance with sections 376 to 379, 402 to 405, 415 to 415.3 and 418.8 to 418.11 and section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules as all those sections read in their application to that year; and

(*e*) where it acquired the particular property in a taxation year ending after 17 February 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property have filed a joint election in prescribed form with the Minister on or before the earliest of their filing-due dates for the taxation year in which the corporation acquired the particular property.

History: 1989, c. 77, s. 49; 1997, c. 3, s. 71; 1997, c. 31, s. 143; 1998, c. 16, s. 160.

Corresponding Federal Provision: 66.7(7).

Applicability of ss. 418.17 and 418.17.3.

418.24. Sections 418.17 and 418.17.3 apply only to a corporation that has acquired a particular foreign resource property referred to in this section as "particular property",

(*a*) where it acquired the particular property in a taxation year commencing before 1 January 1985 and, at the time it acquired the particular property, the corporation acquired all or substantially all of the property used by the person from whom it acquired the particular property in carrying on outside Canada a business described in paragraphs *a* to *g* of section 363;

(*b*) where it acquired the particular property in a taxation year commencing after 31 December 1984 and, at the time it acquired the particular property, the corporation acquired all or substantially all of the foreign resource properties of the person from whom it acquired the particular property;

(*c*) where it acquired the particular property after 5 June 1987 by way of an amalgamation or winding-up and it has filed an election in prescribed form with the Minister on or before the corporation's filing-due date for its taxation year in which it acquired the particular property;

(*d*) where it acquired the particular property after 16 November 1978 and in a taxation year ending before 18 February 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property have filed with the Minister a joint election under and in accordance with section 380, as that section read in its application to that year; and

(*e*) where it acquired the particular property in a taxation year ending after 17 February 1987 by any means other than by way of an amalgamation or winding-up and it and the person from whom it acquired the particular property have filed a joint election in prescribed form with the Minister on or before the earliest of their filing-due dates for the taxation year in which the corporation acquired the particular property.

History: 1989, c. 77, s. 49; 1997, c. 3, s. 71; 1997, c. 31, s. 143; 2004, c. 8, s. 85.

Corresponding Federal Provision: 66.7(8).

Canadian development expense becoming Canadian exploration expense.

418.25. Where a corporation acquires a Canadian resource property, where section 418.19 applies in respect of the acquisition, and where the cumulative Canadian development expense of an original owner of the property determined under subparagraph i of subparagraph *a* of the second paragraph of section 418.19 in respect of the corporation includes a Canadian development expense incurred by the original owner in respect of an oil or gas well that would, but for this section, be deemed by section 399.3 to be a Canadian exploration expense incurred in respect of the well by the original owner at any particular time after the acquisition by the corporation and before it disposed of the property, the following rules apply:

(*a*) section 399.3 does not apply in respect of the Canadian development expense incurred in respect of the well by the original owner;

(*b*) an amount equal to the lesser of

i. the amount that would be deemed by section 399.3 to be a Canadian exploration expense incurred in respect of the well by the original owner at the particular time if that section applied in respect of the expense, and

ii. the cumulative Canadian development expense of the original owner as determined under subparagraph i of subparagraph *a* of the second paragraph of section 418.19 in respect of the corporation immediately before the particular time

shall be deducted at the particular time from the cumulative Canadian development expense of the original owner in respect of the corporation for the purposes of subparagraph *a* of the second paragraph of section 418.19;

(*c*) the amount required to be deducted by paragraph *b* shall be added at the particular time to the cumulative Canadian exploration expense of the original owner in respect of the corporation for the purposes of the second paragraph of section 418.18.

History: 1989, c. 77, s. 49; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66.7(9).

Change of control.

418.26. Where, at any time after 12 November 1981, control of a corporation has been acquired by a person or group of persons, or a corporation ceases on or before 26 April 1995 to be exempt from tax under this Part on its taxable income, for the purposes of the provisions of the Act respecting the application of the Taxation Act (chapter I-4) and of this Part, other than sections 359.2, 359.2.1, 359.2.2, 359.4 and 359.13, relating to deductions in respect of drilling and exploration expenses, prospecting, exploration and development expenses, Canadian exploration and development expenses, foreign resource pool expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, in this section referred to as "resource expenses", incurred by the corporation before that time, the following rules apply:

(*a*) the corporation is deemed after that time to be a corporation that had, at that time, acquired all the properties owned by the corporation immediately before that time from an original owner thereof;

(*a.*1) where the corporation did not own a foreign resource property immediately before that time, the corporation is deemed to have owned a foreign resource property immediately before that time;

(*b*) a joint election is deemed to have been filed in accordance with sections 418.23 and 418.24 in respect of the acquisition;

(*c*) the resource expenses incurred by the corporation before that time are deemed to have been incurred by an original owner of the properties and not by the corporation;

(*c.*1) the original owner is deemed to have been resident in Canada before that time while the corporation was resident in Canada;

(*d*) *(paragraph repealed)*;

(*e*) where the corporation (in this subparagraph and the second paragraph referred to as the "transferee") was, immediately before and at that time, a particular person, within the meaning of subsection 5 of section 544, or a subsidiary wholly-owned corporation, within the meaning of that subsection, of another corporation (in this subparagraph and the second paragraph and in section 418.28 referred to as the "transferor"), the amount corresponding, subject to the second paragraph, to the total of the amount that the transferor designates after 19 December 2006 in accordance with paragraph *g* of subsection 10 of section 66.7 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in favour of the transferee for a taxation year of the transferor ending after that time and throughout which the transferee was such a particular person or such a subsidiary wholly-owned corporation of the transferor, and—if the total of the amounts designated by the transferor in accordance with that paragraph *g* in favour of any taxpayer for that year corresponds to the maximum total of the amounts that the transferor may then designate in accordance with that paragraph *g* in favour of any taxpayer for that year—of the portion on which the transferor and transferee agree and that the transferor specifies in its fiscal return under this Part for that year in respect of the transferee and not in respect of another taxpayer, of the amount by which the particular amount described in section 418.28 exceeds the maximum total of the amounts that the transferor may then designate in accordance with that paragraph *g* in favour of any taxpayer for that year,

i. applies for the purpose of making a deduction under section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), or this division in respect of resource expenses incurred by the transferee before that time while the transferee was such a particular person or such a subsidiary wholly-owned corporation of the transferor, and

ii. is deemed, for the purpose of computing an amount under the third paragraph of any of sections 418.16, 418.18 and 418.19, subparagraph *c* of the first paragraph of section 418.20, as that subparagraph would read if "to the higher of either 30% of the excess amount referred to in the second paragraph of the said section, or the amount by which" was replaced by "to the amount by which", the third paragraph of section 418.21 and section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, to be income of the transferee from the sources described in paragraph *a* or *b* of section 418.28 for its taxation year in which that taxation year of the transferor ends, and not to be income of the transferor from those sources for that year;

(*f*) where the corporation (in this subparagraph and the second paragraph referred to as the "transferee") was, immediately before and at that time, a particular person,

within the meaning of subsection 5 of section 544, or a subsidiary wholly-owned corporation, within the meaning of that subsection, of another corporation (in this subparagraph and the second paragraph and in section 418.29 referred to as the "transferor"), the amount corresponding, subject to the second paragraph, to the total of the amount that the transferor designates after 19 December 2006 in accordance with paragraph *h* of subsection 10 of section 66.7 of the Income Tax Act in favour of the transferee for a taxation year of the transferor ending after that time and throughout which the transferee was such a particular person or such a subsidiary wholly-owned corporation of the transferor, and— if the total of the amounts designated by the transferor in accordance with that paragraph *h* in favour of any taxpayer for that year corresponds to the maximum total of the amounts that the transferor may then designate in accordance with that paragraph *h* in favour of any taxpayer for that year —of the portion on which the transferor and transferee agree and that the transferor specifies in its fiscal return under this Part for that year in respect of the transferee and not in respect of another taxpayer, of the amount by which the particular amount described in section 418.29 exceeds the maximum total of the amounts that the transferor may then designate in accordance with that paragraph *h* in favour of any taxpayer for that year, is deemed,

i. for the purpose of computing an amount under the third paragraph of section 418.17 or 418.17.3 or subparagraph *c* of the first paragraph of section 418.20, as that subparagraph would read if "to the higher of either 30% of the excess amount referred to in the second paragraph of the said section, or the amount by which" was replaced by "to the amount by which", to be income of the transferee from the sources described in paragraph *a* or *b* of section 418.29 for its taxation year in which that taxation year of the transferor ends, and

ii. for the purpose of computing an amount under the third paragraph of section 418.17 or 418.17.3 or subparagraph *c* of the first paragraph of section 418.20, as that subparagraph would read if "to the higher of either 30% of the excess amount referred to in the second paragraph of the said section, or the amount by which" was replaced by "to the amount by which", not to be the income of the transferor from those sources for that year;

(*g*) where, immediately before and at that time, the corporation (in this subparagraph referred to as the "transferee") and another corporation (in this subparagraph referred to as the "transferor") were both subsidiary wholly-owned corporations, within the meaning of subsection 5 of section 544, of the same particular person, within the meaning of that subsection, and if the transferee and the transferor agree after 19 December 2006 in accordance with paragraph *i* of subsection 10 of section 66.7 of the Income Tax Act to have that paragraph *i* apply to them for a taxation year of the transferor ending after that time, subparagraph *e* or *f* or both, as the agreement provides, apply for that year to the transferee and to the transferor as though one were, in relation to the other, the particular person, within the meaning of subsection 5 of section 544; and

(*h*) where that time is after 15 January 1987 and at that time the corporation was a member of a partnership that owned a Canadian resource property or a foreign resource property at that time, for the purposes of subparagraph *a*, the corporation is deemed to have owned immediately before that time that portion of the property owned by the partnership at that time that is equal to its percentage share of the aggregate of amounts that would be paid to all members of the partnership if it were wound up at that time, and, for the purposes of subparagraph iii of subparagraph *a* of the third paragraph of section 418.16, subparagraph 2 of subparagraph i of subparagraph *a* of the third paragraph of section 418.17, subparagraph *a* of the third paragraph of section 418.17.3, subparagraph iii of subparagraph *a* of the third paragraph of section 418.18, subparagraph 2 of subparagraph i of subparagraph *a* of the third paragraph of section 418.19, subparagraph i of subparagraph *c* of the first paragraph of section 418.20 and subparagraph 2 of subparagraph i of subparagraph *a* of the third paragraph of section 418.21 and of section 88.4 of the Act respecting the application of the Taxation Act, to the extent that that section refers to clause B of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, for a taxation year ending after that time, the lesser of the following amounts is deemed to be the income of the corporation for the year that can reasonably be attributed to production from the property:

i. its share of the part of the income of the partnership for the fiscal period of the partnership ending in the year that may reasonably be regarded as being attributable to the production from the property, and

ii. an amount that would be determined under subparagraph i for the year if its share of the income of the partnership for the fiscal period of the partnership ending in the year were determined on the basis of the percentage share referred to in this subparagraph *h*.

Global limit.

However, when the aggregate of the amounts determined for a taxation year of the transferor under subparagraph *e* or *f* of the first paragraph in relation to the transferee would, but for this paragraph, exceed the particular amount described in section 418.28 or 418.29, the amount otherwise determined for the year under that subparagraph in respect of the transferee or another taxpayer must be reduced, if applicable, to the amount specified by the transferor in its fiscal return under this Part for the year or, if the transferor fails to specify such an amount, to the amount specified by the Minister, so that the aggregate is equal to the particular amount.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to a designation or agreement made under any of paragraphs *g*, *h*

and *i* of subsection 10 of section 66.7 of the Income Tax Act or in relation to a designation or agreement made under this section before 20 December 2006.

History: 1989, c. 77, s. 49; 1993, c. 16, s. 170; 1995, c. 49, s. 114; 1997, c. 3, s. 71; 1997, c. 14, s. 73; 1998, c. 16, s. 161; 2000, c. 5, s. 96; 2004, c. 8, s. 86; 2009, c. 5, s. 136.
Corresponding Federal Provision: 66.7(10).

418.27. *(Repealed).*

History: 1989, c. 77, s. 49; 1993, c. 16, s. 171.

Amount referred to.

418.28. The particular amount referred to in subparagraph *e* of the first paragraph and the second paragraph of section 418.26 is the amount equal to the portion of the income of the transferor for the year referred to in that subparagraph, before any deduction under section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4) and sections 359 to 419.6, that may reasonably be regarded as attributable

(*a*) to the production from a Canadian resource property owned by the transferor immediately before the time referred to in the first paragraph of section 418.26; and

(*b*) to the disposition, in the year referred to in subparagraph *e* of the first paragraph of section 418.26, of a Canadian resource property owned by the transferor immediately before the time referred to in that paragraph.

History: 1989, c. 77, s. 49; 1998, c. 16, s. 251; 2009, c. 5, s. 137.
Corresponding Federal Provision: 66.7(10)g).

Amount referred to.

418.29. The particular amount referred to in subparagraph *f* of the first paragraph and the second paragraph of section 418.26 is the amount equal to the portion of the income of the transferor for the year referred to in that subparagraph, before any deduction under sections 359 to 419.6, that may reasonably be regarded as attributable

(*a*) to the production from a foreign resource property owned by the transferor immediately before the time referred to in the first paragraph of section 418.26; and

(*b*) to the disposition of a foreign resource property owned by the transferor immediately before the time referred to in the first paragraph of section 418.26.

History: 1989, c. 77, s. 49; 2009, c. 5, s. 137.
Corresponding Federal Provision: 66.7(10)(h).

Amalgamation — partnership property.

418.29.1. If there has been an amalgamation within the meaning of section 544, other than an amalgamation to which subsection 4 of that section applies, of two or more corporations (each of which is referred to in this section as a "predecessor corporation") to form a new corporation and immediately before the time of the amalgamation a predecessor corporation was a member of a partnership that owned a Canadian resource property or a foreign resource property at that time, for the purposes of subparagraph *c* of the first paragraph of section 418.15 and sections 418.16 to 418.21, the following rules apply:

(*a*) the predecessor corporation is deemed to have owned, immediately before the time of the amalgamation, that portion of each Canadian resource property and of each foreign resource property owned by the partnership at the time of the amalgamation that is equal to the predecessor corporation's percentage share of the aggregate of the amounts that would be paid to all members of the partnership if the partnership were wound up and to have disposed of those portions to the new corporation at the time of the amalgamation;

(*b*) the new corporation is deemed to have, as a consequence of the amalgamation, acquired the portions of property referred to in paragraph *a* at the time of the amalgamation; and

(*c*) the income of the new corporation for a taxation year that ends after the time of the amalgamation that can reasonably be attributable to production from the properties referred to in paragraph *a* is deemed to be equal to the lesser of

i. the new corporation's share of the part of the income of the partnership for fiscal periods of the partnership that end in the year that can reasonably be regarded as being attributable to production from those properties, and

ii. the amount that would be determined in accordance with subparagraph i for the year if the new corporation's share of the income of the partnership for each of the fiscal periods of the partnership that end in the year were determined on the basis of the percentage share referred to in paragraph *a*.

History: 2015, c. 24, s. 73.
Corresponding Federal Provision: 66.7(10.1).

Change of control.

418.30. If, at any time, control of a taxpayer that is a corporation has been acquired by a person or group of persons, or a taxpayer has disposed of all or substantially all of the taxpayer's Canadian resource properties or foreign resource properties, and, before that time, the taxpayer or a partnership of which the taxpayer was a member acquired a property that is a Canadian resource property, a foreign resource property or an interest in a partnership and it may reasonably be considered that one of the main purposes of the acquisition was to avoid any limitation provided for in any of sections 418.16 to 418.21 or section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of

section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), on the deduction in respect of any expenses incurred by the taxpayer or a corporation referred to as a "transferee" in subparagraph *e* or *f* of the first paragraph of section 418.26, the taxpayer or the partnership is, for the purpose of applying sections 418.16 to 418.21 and section 88.4 of that Act, to the extent that that section refers to subsection 25 of section 29 of those rules, to or in respect of the taxpayer, deemed not to have acquired the property.

History: 1989, c. 77, s. 49; 1997, c. 3, s. 71; 1998, c. 16, s. 162; 2009, c. 5, s. 137.

Corresponding Federal Provision: 66.7(11).

Disposition of Canadian resource property by original owner.

418.31. Where in a taxation year an original owner of Canadian resource properties disposes of all or substantially all of the original owner's Canadian resource properties to a particular corporation in circumstances in which section 418.16, 418.18, 418.19 or 418.21 or section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), applies, the following rules apply:

(*a*) the Canadian exploration and development expenses incurred by the original owner before he so disposed of the properties are, for the purposes of this Title, deemed after the disposition not to have been incurred by him except for the purposes of making a deduction under section 362 or 367 for the year and of determining the amount that may be deducted under section 418.16 by the particular corporation or by any other corporation that subsequently acquires any of the properties;

(*b*) in determining the cumulative Canadian exploration expense of the original owner at any time after the first time referred to in the second paragraph of section 418.18, there shall be deducted the amount thereof determined immediately after the disposition;

(*b.*1) for the purposes of the second paragraph of section 418.18, the cumulative Canadian exploration expense of the original owner determined immediately after the disposition that was deducted under section 400 or 401 in computing the original owner's income for the year is deemed to be equal to the lesser of

i. the amount deducted in respect of the disposition under paragraph *b*, and

ii. the amount by which

(1) the amount determined under paragraph *a* of section 418.31.1 in respect of the original owner for the year exceeds

(2) the aggregate of all amounts each of which is an amount determined under this paragraph in respect of any disposition made by the original owner in the year and before the disposition first referred to in this paragraph;

(*b.*2) any amount, other than the amount determined under paragraph *b*.1, that was deducted under section 400 or 401 by the original owner for the year or a subsequent taxation year is deemed, for the purposes of the second paragraph of section 418.18, not to be in respect of the cumulative Canadian exploration expense of the original owner determined immediately after the disposition;

(*c*) in determining the cumulative Canadian development expense of the original owner at any time after the time referred to in subparagraph i of subparagraph *a* of the second paragraph of section 418.19, there shall be deducted the amount thereof determined immediately after the disposition;

(*c.*1) for the purposes of the second paragraph of section 418.19, the cumulative Canadian development expense of the original owner determined immediately after the disposition that was deducted under section 413 or 414 in computing the original owner's income for the year is deemed to be equal to the lesser of

i. the amount deducted in respect of the disposition under paragraph *c*, and

ii. the amount by which

(1) the amount determined under paragraph *b* of section 418.31.1 in respect of the original owner for the year exceeds

(2) the aggregate of all amounts each of which is an amount determined under this paragraph in respect of any disposition made by the original owner in the year and before the disposition first referred to in this paragraph;

(*c.*2) any amount, other than the amount determined under paragraph *c*.1, that was deducted under section 413 or 414 by the original owner for the year or a subsequent taxation year is deemed, for the purposes of the second paragraph of section 418.19, not to be in respect of the cumulative Canadian development expense of the original owner determined immediately after the disposition;

(*d*) in determining the cumulative Canadian oil and gas property expense of the original owner at any time after the time referred to in subparagraph *a* of the second paragraph of section 418.21, there shall be deducted the amount thereof determined immediately after the disposition;

(*d.*1) for the purposes of the second paragraph of section 418.21, the cumulative Canadian oil and gas property expense of the original owner determined immediately after the disposition that was deducted under section 418.7 in

computing the original owner's income for the year is deemed to be equal to the lesser of

i. the amount deducted in respect of the disposition under paragraph *d*, and

ii. the amount by which

(1) the amount determined under paragraph *c* of section 418.31.1 in respect of the original owner for the year exceeds

(2) the aggregate of all amounts each of which is an amount determined under this paragraph in respect of any disposition made by the original owner in the year and before the disposition first referred to in this paragraph;

(*d*.2) any amount, other than the amount determined under paragraph *d*.1, that was deducted under section 418.7 by the original owner for the year or a subsequent taxation year is deemed, for the purposes of the second paragraph of section 418.21, not to be in respect of the cumulative Canadian oil and gas property expense of the original owner determined immediately after the disposition;

(*e*) the drilling and exploration expenses, including all general geological and geophysical expenses, incurred by the original owner before 1 January 1972 on or in respect of exploring or drilling for petroleum or natural gas in Canada and the prospecting, exploration and development expenses incurred by the original owner before 1 January 1972 in searching for minerals in Canada are, for the purposes of section 88.4 of the Act respecting the application of the Taxation Act, deemed after the disposition not to have been incurred by the original owner except for the purpose of making a deduction under section 88.4 of that Act for the year and of determining the amount that may be deducted under that section 88.4, to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules, by the particular corporation or any other corporation that subsequently acquires any of the properties.

History: 1989, c. 77, s. 49; 1993, c. 16, s. 172; 1995, c. 49, s. 115; 1997, c. 3, s. 71; 1998, c. 16, s. 163.

Corresponding Federal Provision: 66.7(12).

Applicable rules.

418.31.1. Where in a taxation year an original owner of Canadian resource properties disposes of all or substantially all of his Canadian resource properties in circumstances in which section 418.18, 418.19 or 418.21 applies, the following rules apply:

(*a*) the amount determined in respect of the original owner for the year for the purposes of paragraph *b*.1 of section 398 and subparagraph 1 of subparagraph ii of paragraph *b*.1 of section 418.31 is equal to the lesser of

i. the aggregate of all amounts each of which is the amount by which

(1) the amount deducted under paragraph *b* of section 418.31 in respect of a disposition in the year by the original owner, exceeds

(2) the amount designated by the original owner in prescribed form filed with the Minister within six months after the end of the year in respect of an amount determined under subparagraph *l*, and

ii. the aggregate of

(1) the amount deducted by the original owner for the year under section 400 or 401, and

(2) the amount that would be determined in respect of the original owner for the year under paragraph *d* of section 330 if the aggregate last referred to therein were not taken into account;

(*b*) the amount determined in respect of the original owner for the year for the purposes of paragraph *a*.1 of section 411 and subparagraph 1 of subparagraph ii of paragraph *c*.1 of section 418.31 is equal to the lesser of

i. the aggregate of all amounts each of which is the amount by which

(1) the amount deducted under paragraph *c* of section 418.31 in respect of a disposition in the year by the original owner, exceeds

(2) the amount designated by the original owner in prescribed form filed with the Minister within six months after the end of the year in respect of an amount determined under subparagraph 1, and

ii. the aggregate of

(1) the amount deducted by the original owner for the year under section 413 or 414, and

(2) the amount that would be determined in respect of the original owner for the year under paragraph *e* of section 330 if the aggregate last referred to therein were not taken into account;

(*c*) the amount determined in respect of the original owner for the year for the purposes of paragraph *a*.1 of section 418.5 and subparagraph 1 of subparagraph ii of paragraph *d*.1 of section 418.31 is equal to the lesser of

i. the aggregate of all amounts each of which is the amount by which

(1) the amount deducted under paragraph *d* of section 418.31 in respect of a disposition in the year by the original owner, exceeds

(2) the amount designated by the original owner in prescribed form filed with the Minister within six months after the end of the year in respect of an amount determined under subparagraph 1, and

ii. the aggregate of

(1) the amount deducted by the original owner for the year under section 418.7, and

(2) the amount that would be determined in respect of the original owner for the year under section 418.12 if the aggregate last referred to therein were not taken into account.

History: 1993, c. 16, s. 173.

Corresponding Federal Provision: 66.7(12.1).

Disposition of foreign resource properties by original owner.

418.32. Where after 5 June 1987 an original owner of foreign resource properties disposes of all or substantially all of his foreign resource properties to a particular corporation in circumstances in which section 418.17 applies, the foreign exploration and development expenses incurred by the original owner before he so disposed of the properties are deemed after the disposition not to have been incurred by him except for the purposes of determining the amounts that may be deducted under section 418.17 by the particular corporation or any other corporation that subsequently acquires any of the properties.

History: 1989, c. 77, s. 49; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66.7(13).

Cumulative foreign resource expense of an original owner.

418.32.1. Where in a taxation year an original owner of foreign resource properties in relation to a country disposes of all or substantially all of the original owner's foreign resource properties in circumstances to which section 418.17.3 applies, the following rules apply:

(*a*) in determining the cumulative foreign resource expense of the original owner in relation to that country at any time after the time referred to in the portion of the second paragraph of section 418.17.3 before subparagraph *a*, there shall be deducted the amount of that cumulative foreign resource expense determined immediately after the disposition; and

(*b*) for the purposes of the second paragraph of section 418.17.3, the cumulative foreign resource expense of the original owner in relation to that country determined immediately after the disposition that was deducted under section 418.1.10 in computing the original owner's income for the year is deemed to be equal to the lesser of

i. the amount deducted under paragraph *a* in respect of the disposition, and

ii. the amount by which the particular amount determined for the year under section 418.32.2 in respect of the original owner and that country exceeds the aggregate of all amounts each of which is an amount determined under this paragraph in respect of a previous disposition of foreign resource property, in relation to that country, made by the original owner in the year.

History: 2004, c. 8, s. 87.

Corresponding Federal Provision: 66.7(13.1).

Amount determined.

418.32.2. Where in a taxation year an original owner of foreign resource properties in relation to a country disposes of all or substantially all of the original owner's foreign resource properties in circumstances to which section 418.17.3 applies, the particular amount for the year in respect of the original owner and that country for the purposes of paragraph *d* of section 418.1.3 and subparagraph ii of paragraph *b* of section 418.32.1 is the lesser of

(*a*) the aggregate of all amounts each of which is the amount by which an amount deducted under paragraph *a* of section 418.32.1 in respect of a disposition in the year by the original owner of foreign resource property in relation to that country, exceeds the amount designated by the original owner in the prescribed form filed with the Minister within six months after the end of the year in respect of the amount deducted under paragraph *a* of section 418.32.1; and

(*b*) the aggregate of

i. the amount deducted under section 418.1.10 for the year by the original owner in relation to that country, and

ii. the amount that would, but for subparagraph ii of paragraph *e*.1 of section 330, be determined for the year under that paragraph *e*.1 in respect of the original owner and that country.

History: 2004, c. 8, s. 87.

Corresponding Federal Provision: 66.7(13.2).

Disposition of Canadian resource property by a predecessor owner.

418.33. Where in a taxation year a predecessor owner of Canadian resource properties disposes of Canadian resource properties to a corporation in circumstances in which any of sections 418.16, 418.18, 418.19 and 418.21 or section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Act Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement) applies,

(*a*) for the purpose of applying any of those sections to the predecessor owner in respect of its acquisition of any Canadian resource property owned by it immediately before the disposition, it is deemed, after the disposition, never to have acquired any such properties except for the purpose of determining the following amounts:

i. an amount deductible under section 418.16 or 418.18 for the year,

ii. where the predecessor owner and the corporation dealt with each other at arm's length at the time of the disposition or the disposition was by way of an amalgamation or merger, an amount deductible under section 418.19 or 418.21 for the year; and

iii. the amount under paragraph *b* of section 412, subparagraph i or ii of paragraph *g* of that section or paragraph *b* of section 418.6; and

(*b*) where the corporation or another corporation acquires any of the properties on or after the disposition in circumstances in which section 418.19 or 418.21 applies, amounts that become receivable by the predecessor owner after the disposition in respect of Canadian resource properties retained by it at the time of the disposition are deemed, for the purpose of applying section 418.19 or 418.21 to the corporation or the other corporation in respect of the acquisition, not to have become receivable by the predecessor owner.

History: 1989, c. 77, s. 49; 1993, c. 16, s. 174; 1995, c. 49, s. 116; 1997, c. 3, s. 71; 1998, c. 16, s. 251.

Corresponding Federal Provision: 66.7(14).

Disposition of foreign resource properties by a predecessor owner.

418.34. Where after 5 June 1987 a predecessor owner of foreign resource properties disposes of all or substantially all of its foreign resource properties to a corporation in circumstances in which section 418.17 applies, for the purpose of applying that section to the predecessor owner in respect of its acquisition of any of those properties, or other foreign resource properties retained by it at the time of the disposition which were acquired by it in circumstances in which that section 418.17 applied, it is deemed, after the disposition, never to have acquired the properties.

History: 1989, c. 77, s. 49; 1995, c. 49, s. 116; 1997, c. 3, s. 71.

Corresponding Federal Provision: 66.7(15).

Disposition of foreign resource properties by a predecessor owner.

418.34.1. Where in a taxation year a predecessor owner of foreign resource properties disposes of foreign resource properties to a corporation in circumstances to which section 418.17.3 applies, the following rules apply:

(*a*) for the purpose of applying section 418.17.3 to the predecessor owner in respect of its acquisition of any foreign resource properties owned by it immediately before the disposition, it is deemed, after the disposition, never to have acquired any such properties except for the purpose of determining,

i. where the predecessor owner and the corporation dealt with each other at arm's length at the time of the disposition or the disposition occurred after an amalgamation or merger, an amount deductible under section 418.17.3 for the year, and

ii. an amount determined under paragraph *b* of section 418.1.4; and

(*b*) where the corporation or another corporation acquires any of the properties on or after the disposition in circumstances to which section 418.17.3 applies, amounts that become receivable by the predecessor owner after the disposition in respect of foreign resource properties retained by it at the time of the disposition are, for the purpose of applying section 418.17.3 to the corporation or the other corporation in respect of the acquisition, deemed not to have become receivable by the predecessor owner.

History: 2004, c. 8, s. 88.

Corresponding Federal Provision: 66.7(15.1).

Acquisition of Canadian or foreign resource property.

418.35. Where at any time a Canadian resource property or a foreign resource property is acquired by a person in circumstances in which none of sections 418.16 to 418.21 or section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement) apply, every person who was an original owner or predecessor owner of the property by reason of having disposed of the property before that time is, for the purpose of applying those sections to or in respect of the person or any other person who after that time acquires the property, deemed after that time not to be an original owner or predecessor owner of the property by reason of having disposed of the property before that time.

History: 1989, c. 77, s. 49; 1998, c. 16, s. 251.

Corresponding Federal Provision: 66.7(16).

Restriction.

418.36. Where in a particular taxation year and before 6 June 1987 a person disposed of a Canadian resource property or a foreign resource property in circumstances in which any of sections 418.16 to 418.21 of this Act or section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement) applies, no deduction in respect

of an expense incurred before the property was disposed of may be made under this division, Divisions I, I.1 or III to IV.1 or sections 362 to 394, 419 to 419.4 or 419.6 by the person in computing his income for a taxation year subsequent to the particular taxation year.

History: 1989, c. 77, s. 49; 1998, c. 16, s. 164.
Corresponding Federal Provision: 66.7(17).

DIVISION IV.3
AT-RISK AMOUNT

At-risk amount.

418.37. Where a taxpayer is a limited partner of a partnership at the end of a fiscal period of the partnership, the excess amount described in the second paragraph shall reduce, first, the taxpayer's share of the Canadian oil and gas property expenses, then, the taxpayer's share of Canadian development expenses, then, the taxpayer's share of Canadian exploration expenses, then, the taxpayer's share of foreign resource expenses in relation to a country, and then, the taxpayer's share of foreign exploration and development expenses, incurred by the partnership in that fiscal period.

Computation of the excess amount.

The excess amount referred to in the first paragraph is the amount by which

(*a*) the aggregate of all amounts each of which is the taxpayer's share of each class of expenses described in the first paragraph incurred by the partnership in the fiscal period referred to therein, computed without reference to this section, exceeds

(*b*) the amount by which the at-risk amount of the taxpayer in respect of his partnership interest at the end of the fiscal period exceeds the aggregate of the following amounts:

i. that portion of the amount determined in respect of the partnership that is required by subsection 8 of section 127 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) to be added in computing the investment tax credit of the taxpayer in respect of the fiscal period, within the meaning assigned to that expression by the said Act for the purposes of the said subsection;

ii. the taxpayer's share of any losses of the partnership for the fiscal period from a farming business.

Reduction of foreign resource expenses.

For the purposes of the first paragraph, a taxpayer's share of foreign resource expenses in relation to a country, shall be reduced in the order specified by the taxpayer in a written document filed with the Minister on or before the taxpayer's filing-due date for the taxpayer's taxation year in which the fiscal period of the partnership ends or, where no such order is specified, in the order determined by the Minister.

Determination of the taxpayer's share.

For the purposes of this chapter, subparagraph ii of paragraph *l* of section 257, sections 600.1, 600.2 and 613.1 and Title VII of Book IV, but not for the purposes of this section, the taxpayer's share of each class of expenses described in the first paragraph incurred by the partnership in the fiscal period referred to therein is deemed to be equal to the amount by which the taxpayer's share of that class of expenses exceeds that portion of the excess amount determined in the second paragraph that, under the first paragraph, reduced that class of expenses.

History: 1990, c. 59, s. 166; 1997, c. 3, s. 71; 2004, c. 8, s. 89.
Corresponding Federal Provision: 66.8(1).

Expenses incurred in the following fiscal period.

418.38. For the purposes of the second paragraph of section 418.37, the amount by which the taxpayer's share of a class of expenses incurred by a partnership is reduced under the first paragraph of the said section in respect of a fiscal period of the partnership shall be added to the taxpayer's share, otherwise determined, of that class of expenses incurred by the partnership in the following fiscal period of the partnership.

History: 1990, c. 59, s. 166; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66.8(2).

Interpretation.

418.39. In this division,

(*a*) the expression "at-risk amount" of a taxpayer in respect of the taxpayer's partnership interest has the meaning that would be assigned by section 613.2 if paragraph *a* of section 613.3 were read as follows:

"(*a*) the aggregate of all amounts each of which is an amount owing at the particular time to the partnership, or to a person or partnership not dealing at arm's length with the partnership, by the taxpayer or by a person or partnership not dealing at arm's length with the taxpayer, other than an amount that is

i. any amount deducted under subparagraph i.3 of paragraph *l* of section 257 in computing the adjusted cost base, or under Title VIII of Book VI in computing the cost, to the taxpayer of the taxpayer's partnership interest at that time, or

ii. any amount owing by the taxpayer to a person in respect of which the taxpayer is a subsidiary wholly-owned corporation or where the taxpayer is a trust, to a person that is the sole beneficiary of the taxpayer; and";

(*a.*1) the expression "limited partner" of a partnership has the meaning assigned by section 613.6;

(*b*) a reference to a taxpayer who is a member of a particular partnership shall include a reference to another partnership that is a member of the particular partnership;

(*c*) a taxpayer's share of Canadian development expenses or Canadian oil and gas property expenses incurred by a partnership in a fiscal period in respect of which the taxpayer has elected in respect of the share under paragraph *d* of section 408 or paragraph *b* of section 418.2, as the case may be, is deemed to be nil.

Exception.

For the purposes of the definition of "limited partner" of a partnership in subparagraph *a*.1 of the first paragraph, the definition of "exempt interest" in sections 613.7 and 613.8 is to be read as if "25 February 1986", "26 February 1986", "1 January 1987", "12 June 1986" and "final prospectus, preliminary prospectus, registration statement" wherever they appear in that definition were replaced by "17 June 1987", "18 June 1987", "1 January 1988", "18 June 1987" and "final prospectus, preliminary prospectus, registration statement, offering memorandum or notice that is required to be filed before any distribution of securities may commence", respectively.

History: 1990, c. 59, s. 166; 1994, c. 22, s. 155; 1997, c. 3, s. 71; 2015, c. 24, s. 74.
Corresponding Federal Provision: 66.8(3).

DIVISION V
SPECIAL PROVISIONS

Shares deemed to be part of inventory.

419. Any share of the capital stock of a corporation, or any right in or to such a share, acquired by a taxpayer under circumstances described in paragraph *e* of section 395 or 408, or in paragraph *c* of section 418.2 is deemed,

(*a*) if it was acquired before 13 November 1981, not to be a capital property of the taxpayer but, subject to section 851.22.25, to be inventory of the taxpayer acquired at a cost to him of nil; and

(*b*) if it was acquired after 12 November 1981, to have been acquired by the taxpayer at a cost to him of nil.

History: 1977, c. 26, s. 48; 1982, c. 5, s. 104; 1984, c. 15, s. 92; 1996, c. 39, s. 123; 1997, c. 3, s. 71; 2020, c. 16, s. 189.
Corresponding Federal Provision: 66.3(1).

Flow-through share.

419.0.1. Any flow-through share of a corporation acquired by a person who was a party to the agreement pursuant to which it was issued is deemed to have been acquired by the person at a cost to him of nil.

History: 1988, c. 18, s. 45; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66.3(3).

Application of ss. 419.2 to 419.4.

419.1. Sections 419.2 to 419.4 apply where a taxpayer has made a payment or a loan mentioned in subsection 3 of section 383, as it read in respect of that payment or loan, after 19 April 1983, to a joint exploration corporation in respect of which the corporation has at any time renounced, in favour of the taxpayer, under section 406, 417 or 418.13, as they read in respect of that renunciation, any Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, in sections 419.2 to 419.4 referred to as "resource expenses".

History: 1985, c. 25, s. 85; 1997, c. 3, s. 71; 1998, c. 16, s. 165.
Corresponding Federal Provision: 66(10.4).

Capital property.

419.2. Where the taxpayer contemplated in section 419.1 receives as consideration for the payment or loan property that is capital property to him, the following rules apply:

(*a*) he shall deduct in computing the adjusted cost base to him of the property at any time the amount of any resource expenses renounced by the corporation in his favour in respect of the payment or loan at or before that time;

(*b*) he shall deduct in computing the adjusted cost base to him at any time of any property for which the property, or any property substituted therefor, was exchanged the amount of any resource expenses renounced by the corporation in his favour in respect of the payment or loan at or before that time except to the extent that such amount has been deducted under paragraph *a*; and

(*c*) the amount of any resource expenses renounced by the corporation in favour of the taxpayer in respect of the payment or loan at any time, except to the extent that the renunciation of such expenses results in a deduction under paragraph *a* or *b*, shall, for the purposes of this Act, be deemed to be a capital gain of the taxpayer from the disposition by him of property at that time.

History: 1985, c. 25, s. 85; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(10.4)(a).

Property other than capital property.

419.3. Where the taxpayer contemplated in section 419.1 receives as consideration for the payment or loan property that is not capital property to him, the following rules apply:

(*a*) he shall deduct in computing the cost to him of the property at any time the amount of any resource expenses renounced by the corporation in his favour in respect of the payment or loan at or before that time; and

(*b*) he shall include in computing the amount referred to in paragraph *f* of section 330 for a taxation year the amount of any resource expenses renounced by the corporation in his favour in respect of the payment or loan at any time in the

year, except to the extent that such amount has been deducted by him under paragraph *a*.

History: 1985, c. 25, s. 85; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(10.4)(b).

Expenses renounced by the corporation.

419.4. Where the taxpayer contemplated in section 419.1 does not receive any property as consideration for the payment, he shall include in computing the amount referred to in paragraph *g* of section 330 for a taxation year the amount of any resource expenses renounced by the corporation in his favour in respect of the payment in the year, except to the extent that such amount has been deducted by him from the adjusted cost base to him of shares of the corporation under paragraph *h* of section 257 in respect of the payment.

History: 1985, c. 25, s. 85; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66(10.4)(c).

Deduction.

419.5. A corporation that does not designate an amount for a taxation year for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) under subsection 14.1 or 14.2 of section 66 of the said Act may deduct in computing its income for the year an amount equal to the amount deducted by it under section 66.5 of the said Act in computing its income for the year for the purposes of the said Act.

History: 1987, c. 67, s. 98; 1997, c. 3, s. 71.
Corresponding Federal Provision: 66.5(1).

Deduction.

419.6. A taxpayer may deduct in computing his income under this Part for a taxation year, an amount equal to the amount he may deduct for the year under subsection 14.6 of section 66 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

History: 1988, c. 18, s. 46.
Corresponding Federal Provision: 66(14.6).

Acquisition of resource properties from a tax-exempt.

419.7. Where a corporation acquires in any manner whatever all or substantially all of the Canadian resource properties or foreign resource properties of a person whose taxable income is exempt from tax under this Part, section 88.4 of the Act respecting the application of the Taxation Act (chapter I-4), to the extent that that section refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), and sections 418.16 to 418.21 do not apply to the corporation in respect of the acquisition of the properties.

History: 1988, c. 18, s. 46; 1989, c. 77, s. 50; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2000, c. 5, s. 97.
Corresponding Federal Provision: 66.6.

419.8. *(Repealed).*

History: 1988, c. 18, s. 46; 1989, c. 77, s. 50; 1997, c. 3, s. 71; 2000, c. 5, s. 98.

TITLE VII
RULES RELATING TO COMPUTATION OF INCOME

CHAPTER I
GENERAL RULES

General restriction regarding deductible expenses.

420. An amount the deduction of which is authorized by this Part in respect of an outlay or expense shall be deducted only to the extent that such outlay or expense was reasonable in the circumstances.

History: 1972, c. 23, s. 355; 1997, c. 85, s. 330.
Corresponding Federal Provision: 67.

Combined consideration.

421. If an amount received or receivable from a person can reasonably be regarded as being in part the consideration for the disposition of a particular property of a taxpayer, for the provision of particular services by a taxpayer or for a restrictive covenant, within the meaning assigned by section 333.4, granted by a taxpayer, the following rules apply:

(*a*) the part of the amount that can reasonably be regarded as being the consideration for the disposition is deemed to be proceeds of disposition of the particular property, irrespective of the form or legal effect of the contract or agreement, and the person to whom the property was disposed of is deemed to have acquired it at a cost equal to that part;

(*b*) the part of the amount that can reasonably be regarded as being consideration for the provision of particular services is deemed to be an amount received or receivable by the taxpayer in respect of those services, irrespective of the form or legal effect of the contract or agreement, and that part is deemed to be an amount paid or payable to the taxpayer by the person to whom the services were rendered in respect of those services;

(*c*) the part of the amount that can reasonably be regarded as being the consideration for a restrictive covenant is deemed to be an amount received or receivable by the taxpayer in respect of the restrictive covenant, irrespective of the form or legal effect of the contract or agreement, and that part is deemed to be an amount paid or payable to the taxpayer by the person to whom the restrictive covenant was granted.

History: 1972, c. 23, s. 356; 1990, c. 59, s. 167; 2009, c. 5, s. 138.
Corresponding Federal Provision: 68.

CHAPTER I.1
DEDUCTION OF CERTAIN EXPENSES

DIVISION I
EXPENSES FOR FOOD, BEVERAGES AND ENTERTAINMENT

Deemed amount in respect of expenses for food, beverages and entertainment.

421.1. Subject to section 421.1.1, for the purposes of this Part, except sections 348 to 350 and 752.0.11 to 752.0.13.3 and Divisions II.6 to II.6.0.0.5, II.11.1, II.12, II.12.1 and II.13 of Chapter III.1 of Title III of Book IX, an amount paid or payable in respect of food, beverages or entertainment consumed or enjoyed by a person is deemed to be equal to 50% of the lesser of

(*a*) the amount paid or payable in respect thereof; and

(*b*) an amount in respect thereof that would be reasonable in the circumstances.

History: 1990, c. 59, s. 168; 1993, c. 64, s. 33; 1995, c. 1, s. 40; 1997, c. 14, s. 290; 2001, c. 53, s. 66; 2005, c. 1, s. 99; 2009, c. 15, s. 83.
Corresponding Federal Provision: 67.1(1).

Meal expenses for long-haul truck drivers.

421.1.1. An amount paid or payable in respect of the consumption of food or beverages by a long-haul truck driver during an eligible travel period of the driver is deemed to be equal to the amount obtained by multiplying the specified percentage in respect of the amount so paid or payable by the lesser of

(*a*) the amount so paid or payable; and

(*b*) a reasonable amount in the circumstances.

Definitions:

In this section,

"eligible travel period";
"eligible travel period" in respect of a long-haul truck driver is a period of at least 24 continuous hours during which the driver is away from the municipality or metropolitan area where the specified place in respect of the driver is located for the purpose of driving a long-haul truck that transports goods to, or from, a location that is beyond a radius of 160 kilometres from the specified place;

"long-haul truck";
"long-haul truck" means a truck or a tractor that is designed for hauling freight and that has a gross vehicle weight rating, within the meaning of subsection 1 of section 2 of the Motor Vehicle Safety Regulations made under the Motor Vehicle Safety Act (Statutes of Canada, 1993, chapter 16), that exceeds 11,788 kilograms;

"long-haul truck driver";
"long-haul truck driver" means an individual whose principal business or principal duty of employment is driving a long-haul truck that transports goods;

"specified percentage";
"specified percentage" in respect of an amount paid or payable is

(*a*) 60%, if the amount is paid or becomes payable after 18 March 2007 and before 1 January 2008;

(*b*) 65%, if the amount is paid or becomes payable in the year 2008;

(*c*) 70%, if the amount is paid or becomes payable in the year 2009;

(*d*) 75%, if the amount is paid or becomes payable in the year 2010; and

(*e*) 80%, if the amount is paid or becomes payable after 31 December 2010;

"specified place".
"specified place" means, in the case of an employee, the employer's establishment to which the employee ordinarily reports for work and, in the case of an individual whose principal business is to drive a long-haul truck to transport goods, the place where the individual resides.

History: 2009, c. 15, s. 84; 2015, c. 21, s. 171.
Interpretation Bulletins: IMP. 134-2/R1.
Corresponding Federal Provision: 67.1(1.1) and (5).

Exceptions.

421.2. Section 421.1 does not apply to an amount paid or payable by a person in respect of the consumption of food or beverages or in respect of entertainment enjoyed by a person, where the amount

(*a*) is paid or payable for food, beverages or entertainment provided for, or in the expectation of, compensation in the ordinary course of a business carried on by that person of providing the food, beverages or entertainment for compensation;

(*b*) relates to a fund-raising event the primary purpose of which is to benefit a registered charity;

(*c*) is an amount for which the person is compensated and the amount of the compensation is reasonable and specifically identified in writing to the person paying the compensation;

(*d*) is an amount that is required to be included in computing any individual's income because of the application of Chapters I and II of Title II in respect of food or beverages consumed or entertainment enjoyed by the individual or a person with whom the individual does not deal at arm's length, or would be so required but for section 37.1.5 or subparagraph ii of paragraph *a* of section 42;

(*d.*1) is an amount that

i. is not paid or payable in respect of a conference, convention, seminar or similar event,

ii. would, but for subparagraph i of paragraph *a* of section 42, be required to be included in computing any individual's income for a taxation year because of the application of Chapters I and II of Title II in respect of food or beverages consumed or entertainment enjoyed by the individual or a person with whom the individual does not deal at arm's length, and

iii. is paid or payable in respect of the individual's duties performed at a work site in Canada that is

(1) outside any population centre, as defined by the last Census Dictionary published by Statistics Canada before the year, that has a population of at least 40,000 individuals as determined in the last census published by Statistics Canada before the year, and

(2) at least 30 km from the nearest point on the boundary of the nearest such population centre referred to in subparagraph 1;

(*d.*2) is an amount that

i. is not paid or payable in respect of entertainment or of a conference, convention, seminar or similar event,

ii. would, but for subparagraph i of paragraph *a* of section 42, be required to be included in computing an individual's income for a taxation year because of the application of Chapters I and II of Title II in respect of food or beverages consumed by the individual or by a person with whom the individual does not deal at arm's length,

iii. is paid or payable in respect of the individual's duties performed at a site in Canada at which the person carries on a construction activity or at a construction work camp referred to in subparagraph iv in respect of the site, and

iv. is paid or payable for food or beverages provided at a construction work camp, at which the individual is lodged, that was constructed or installed at or near the site to provide board and lodging to employees while they are engaged in construction services at the site;

(*e*) is in respect of one of six or fewer special events held in a calendar year at which the food, beverages or entertainment is generally available to all individuals employed by the person at a particular place of business of the person and then consumed or enjoyed by those individuals at that time;

(*f*) is an amount that is the cost of a subscription to cultural events that are

i. concerts of a symphony orchestra or a classical music or jazz ensemble,

ii. operas,

ii.1. vocal performances, other than such performances held in venues normally used for sports events,

ii.2. performing arts variety shows,

ii.3. museum exhibits,

iii. dance performances, or

iv. theatre performances,

v. *(subparagraph repealed)*;

(*g*) is an amount that is the cost of all or substantially all the tickets for a performance in an event referred to in any of subparagraphs i to iv of subparagraph *f.*

Amount referred to in section 42.

For the purpose of determining whether the conditions set out in any of subparagraphs *d* to *d*.2 of the first paragraph are met in respect of an amount referred to in section 42, paragraph *g* of section 39 shall not be taken into account.

Definitions:

For the purposes of subparagraph *f* of the first paragraph and this paragraph,

"cultural events presenter";
"cultural events presenter" means

(*a*) a person or an organization whose mission is to present the arts, history or science and that is responsible for programming professional performances or museum exhibits generating box office or subscription income;

(*b*) a person or an organization acting on behalf of a person or organization described in paragraph *a*; or

(*c*) a manager or lessee of a venue for cultural events;

"subscription".
"subscription" means an agreement between a cultural events presenter and a client under which the client acquires a package put together by the cultural events presenter and consisting of a determined number of tickets for a minimum of three different presentations of events referred to in subparagraphs i to iv of that subparagraph *f* that are held in Québec.

Cost.

For the purposes of subparagraphs *f* and *g* of the first paragraph, the cost of a subscription or ticket, as the case

may be, does not include an amount paid or payable in respect of meals or beverages consumed by a person.

History: 1990, c. 59, s. 168; 1993, c. 16, s. 175; 1995, c. 1, s. 41; 1995, c. 49, s. 236; 1996, c. 39, s. 124; 1997, c. 14, s. 74; 1997, c. 85, s. 68; 2000, c. 39, s. 24; 2001, c. 53, s. 67; 2003, c. 9, s. 28; 2004, c. 8, s. 90; 2005, c. 38, s. 78; 2009, c. 5, s. 139; 2010, c. 25, s. 30; 2015, c. 24, s. 75.
Interpretation Bulletins: IMP. 134-1/R1; IMP. 134-2/R1; IMP. 421.1-1.
Corresponding Federal Provision: 67.1(2).

Fees for conventions.

421.3. For the purposes of sections 421.1 and 421.2, where a fee paid or payable for a conference, convention, seminar or similar event entitles the participant to food, beverages or entertainment, other than incidental beverages and refreshments made available during the course of meetings or receptions at the event, and a reasonable part of the fee, determined on the basis of the cost of providing the food, beverages or entertainment, is not identified in the account for the fee as compensation for the food, beverages or entertainment, an amount of $50 or such other amount as may be prescribed is deemed to be the amount paid or payable in respect of food, beverages or entertainment for each day of the event on which food, beverages or entertainment is provided.

Presumption.

For the purposes of this Part, the fee for the event is deemed to be equal to the expenses incurred minus the amount deemed under the first paragraph to be the amount paid or payable for the food, beverages or entertainment.

History: 1990, c. 59, s. 168.
Interpretation Bulletins: IMP. 134-2/R1; IMP. 421.1-1.
Corresponding Federal Provision: 67.1(3).

Interpretation.

421.4. For the purposes of this division,

(*a*) no amount paid or payable for travel on an airplane, a train or a bus shall be considered to be an amount paid or payable in respect of food, beverages or entertainment consumed or enjoyed by a person while travelling thereon;

(*b*) the expression "entertainment" includes amusement and recreation.

History: 1990, c. 59, s. 168.
Interpretation Bulletins: IMP. 134-2/R1; IMP. 421.1-1.
Corresponding Federal Provision: 67.1(4).

Allowance paid to artist.

421.4.1. For the purposes of this division, if a person who is a producer pays or is required to pay in a taxation year an allowance for meal expenses to a person who is an artist in relation to services rendered in the course of a business carried on by the artist, the artist is deemed to be an employee for the purpose of determining the amount that the producer may deduct, in respect of the allowance, in computing the producer's income for the year from a business carried on by the producer, if

(*a*) the allowance for meal expenses is paid or payable under a collective or individual agreement that is binding on the artist and the producer; and

(*b*) the agreement referred to in subparagraph *a* is entered into in accordance with the Act respecting the professional status and conditions of engagement of performing, recording and film artists (chapter S-32.1).

Interpretation.

In this section, "artist" and "producer" have the meaning assigned by the Act respecting the professional status and conditions of engagement of performing, recording and film artists.

History: 2009, c. 15, s. 85.

DIVISION II
EXPENSES RELATED TO PASSENGER VEHICLES

Interest on money borrowed for a passenger vehicle.

421.5. For the purposes of this Part, any interest paid or payable for a period by a person on borrowed money used to acquire a passenger vehicle or on an amount paid or payable for such an acquisition is deemed, in computing the income of the person for a taxation year, to be the lesser of the amount paid or payable and the amount equal to that determined by the formula

(A / 30) × B.

Interpretation.

For the purposes of the formula set forth in the first paragraph,

(*a*) A is $250 or such other amount as may be prescribed;

(*b*) B is the number of days in the period in respect of which the interest is paid or payable, as the case may be.

History: 1990, c. 59, s. 168; 1993, c. 16, s. 176; 1994, c. 22, s. 156.
Corresponding Federal Provision: 67.2.

Limitation on lease charges in respect of a passenger vehicle.

421.6. Notwithstanding any other provision of this Part, where in a taxation year all or part of the lease charges in respect of a passenger vehicle are paid or payable, directly or indirectly, by a taxpayer and an amount may be deducted in respect of such charges in computing the taxpayer's income for the year, for the purposes of determining the amount that may be so deducted, the aggregate of such charges are

deemed not to exceed the lesser of the amounts determined by the following formulas:

(*a*) [(A × B) / 30] − C − D − E;

(*b*) [(F × G) / 0.85H] − I − J.

Interpretation.

For the purposes of the formulas set forth in the first paragraph,

(*a*) A is $600 or such other amount as may be prescribed;

(*b*) B is the number of days in the period commencing at the beginning of the term of the lease of the vehicle and ending at the earlier of the end of the year and the end of the lease;

(*c*) C is the aggregate of all amounts deducted in computing the taxpayer's income for the preceding taxation years in respect of the lease charges in respect of the vehicle;

(*d*) D is the amount of interest that would be earned on that part of the total of all refundable amounts in respect of the lease that exceeds $1,000 if interest were

i. payable on the refundable amounts at the prescribed rate;

ii. computed for the period preceding the end of the year during which the refundable amounts were outstanding;

(*e*) E is the aggregate of all reimbursements that became receivable before the end of the year by the taxpayer in respect of the lease;

(*f*) F is the aggregate of the lease charges in respect of the lease incurred in respect of the year or the aggregate of the lease charges in respect of the lease paid in the year, depending on the method regularly followed by the taxpayer in computing his income;

(*g*) G is $20,000 or such other amount as may be prescribed;

(*h*) H is the greater of

i. $23,529 or such other amount as may be prescribed;

ii. the manufacturer's suggested retail price for the vehicle;

(*i*) I is the amount of interest that would be earned on that part of the total of all refundable amounts in respect of the lease that exceeds $1,000 if interest were

i. payable on the refundable amounts at the prescribed rate;

ii. computed for the period in the year during which the refundable amounts are outstanding;

(*j*) J is the aggregate of all reimbursements that became receivable during the year by the taxpayer in respect of the lease.

History: 1990, c. 59, s. 168; 1991, c. 25, s. 189; 1993, c. 16, s. 177.
Corresponding Federal Provision: 67.3.

More than one owner of lessor.

421.7. Where a person owns or leases a motor vehicle jointly with one or more other persons, the reference in paragraphs *d*.3 and *d*.4 of section 99 to the amount of $20,000, in section 421.5 to the amount of $250 and in section 421.6 to the amounts of $600, $20,000 and $23,529 is to be read as a reference to that proportion of each of those amounts or such other amounts as may be prescribed for the purposes of those provisions that the fair market value of the first-mentioned person's right in the vehicle is of the fair market value of the rights in the vehicle of all those persons.

History: 1990, c. 59, s. 168; 2020, c. 16, s. 68.
Corresponding Federal Provision: 67.4.

DIVISION III
ILLEGAL PAYMENTS

Non-deductibility of illegal payments.

421.8. In computing income, no amount may be deducted in respect of an outlay made or expense incurred for the purpose of doing anything that is an offence or an indictable offence under section 3 of the Corruption of Foreign Public Officials Act (Statutes of Canada, 1998, chapter 34) or under any of sections 119 to 121, 123 to 125, 393 and 426 of the Criminal Code (Revised Statutes of Canada, 1985, chapter C-46) or an offence or indictable offence under section 465 of the Criminal Code as it relates to an offence or indictable offence described in any of those sections.

Assessments.

Notwithstanding section 1010, the Minister may make such assessments, reassessments and additional assessments of tax, interest and penalties and such determinations and redeterminations as are necessary to give effect to the first paragraph for any taxation year.

History: 1993, c. 16, s. 178; 2004, c. 8, s. 91.
Interpretation Bulletins: IMP. 128-11/R3.
Corresponding Federal Provision: 67.5(1) and (2).

DIVISION IV
FINES AND PENALTIES

Fines and penalties.

421.9. In computing income, no amount may be deducted in respect of a fine or penalty, other than a prescribed fine or penalty, or of an amount of interest relating to that fine or penalty, imposed under the laws of a country or of a state, province, territory or other political subdivision of such a

country by a person or public body authorized to impose the fine or penalty.

History: 2005, c. 38, s. 79.
Corresponding Federal Provision: 67.6.

DIVISION V
INTEREST

Interest.

421.10. In computing income, no amount may be deducted in respect of an amount of interest payable under a fiscal law.

Fiscal law.

For the purposes of the first paragraph, a fiscal law includes a law of a country or of a state, province, territory or other political subdivision of a country that provides for the collection of income tax, duties or tax.

History: 2007, c. 12, s. 54.
Corresponding Federal Provision: 18(1)(t).

CHAPTER II
INADEQUATE CONSIDERATIONS AND ATTRIBUTION OF PROPERTY

Transactions deemed made at the fair market value.

422. Except as otherwise provided in this Part, the disposition or acquisition of a property by a taxpayer is deemed to be made at the fair market value of the property at the time of the disposition or acquisition, as the case may be, where

(*a*) the taxpayer acquires it by gift, succession or will, or because of a disposition that does not result in a change in the beneficial ownership of the property;

(*b*) the taxpayer acquires it from a person with whom he is not dealing at arm's length, for an amount greater than such value; or

(*c*) the taxpayer disposes of it

i. to a person with whom the taxpayer is not dealing at arm's length, gratuitously or for consideration that is less than that fair market value,

ii. to any person by gift or

iii. to a trust because of a disposition that does not result in a change in the beneficial ownership of the property.

History: 1972, c. 23, s. 357; 2001, c. 53, s. 68; 2003, c. 2, s. 115; 2017, c. 29, s. 63.
Interpretation Bulletins: IMP. 80-9/R1; IMP. 232-2/R1; IMP. 422-1/R1.
Corresponding Federal Provision: 69(1).

Transactions deemed made at the fair market value of the property.

422.1. Where, at any time, a taxpayer disposed of property for proceeds of disposition, determined without reference to this section, equal to or greater than the fair market value at that time of the property, and there existed at that time an agreement under which a person with whom the taxpayer was not dealing at arm's length agreed to pay as rent, royalty or other payment for the use of or the right to use the property an amount less than the amount that would have been reasonable in the circumstances if the taxpayer and the person had been dealing at arm's length at the time the agreement was entered into, the proceeds of disposition of the property are deemed to be the greater of

(*a*) such proceeds determined without reference to this section, and

(*b*) the fair market value of the property at the time of the disposition, determined without reference to the existence of the agreement.

History: 1994, c. 22, s. 157.
Corresponding Federal Provision: 69(1.2).

423. *(Repealed).*

History: 1972, c. 23, s. 358; 1986, c. 19, s. 92; 1993, c. 16, s. 179; 1997, c. 14, s. 75; 2001, c. 7, s. 44.

Shareholder appropriations.

424. If, at any time, a property of a corporation is appropriated in any manner whatever to or for the benefit of a shareholder of the corporation gratuitously or for consideration that is less than the property's fair market value and a sale of the property at its fair market value would have contributed to increase the corporation's income or to reduce a loss of the corporation, the corporation is deemed, at that time, to have disposed of the property and to have received proceeds of disposition equal to its fair market value at that time.

Rules.

If, in a taxation year of a corporation, a property is appropriated in any manner whatever to or for the benefit of a shareholder upon the winding-up of the corporation, the following rules apply:

(*a*) the corporation is deemed, for the purpose of computing its income for the year, to have disposed of the property immediately before the winding-up for proceeds of disposition equal to its fair market value at that time;

(*b*) the shareholder is deemed to have acquired the property at a cost equal to its fair market value immediately before the winding-up;

(*c*) sections 302 and 304 do not apply in computing the cost of the property to the shareholder; and

(*d*) sections 93.3.1, 175.9, 238.1 and 238.3 do not apply in respect of a property disposed of on the winding-up.

History: 1972, c. 23, s. 359; 1975, c. 22, s. 91; 1980, c. 13, s. 45; 1984, c. 15, s. 93; 1993, c. 16, s. 180; 1995, c. 49, s. 117; 1997, c. 3, s. 71; 2000, c. 5, s. 99; 2003, c. 2, s. 116; 2009, c. 5, s. 140; 2019, c. 14, s. 123.
Interpretation Bulletins: IMP. 80-7/R2; IMP. 422-1/R1.
Corresponding Federal Provision: 69(4) and (5).

Transaction concerning petroleum deemed to be made at the fair market value.

425. The disposition or acquisition by a taxpayer, at any time in a taxation year that begins before 1 January 2007, of property that is petroleum, natural gas or other related hydrocarbons, or metal or minerals produced in the operation by the taxpayer of a natural accumulation of petroleum or natural gas, an oil or gas well or a mineral resource, situated in Canada, is deemed to be made at the fair market value of that property at that time, where

(*a*) the disposition is to a person referred to in section 90 gratuitously or for a consideration less than that fair market value; or

(*b*) the acquisition is from a person referred to in section 90 for an amount greater than that fair market value.

History: 1975, c. 22, s. 92; 1979, c. 18, s. 28; 1987, c. 67, s. 99; 1995, c. 49, s. 236; 2005, c. 1, s. 100.
Corresponding Federal Provision: 69(6) and (7).

Computation of the fair market value.

426. For the purposes of section 425, the fair market value of property referred to in that section is

(*a*) in the case of a disposition by the taxpayer to a person referred to in section 90, deemed to be equal, at the time of disposition, for each unit of any particular quantity of such property, to the amount by which the average proceeds of disposition of a like unit that become receivable by that person in the month that includes the time of the disposition from a person other than a person referred to in section 90, exceeds the aggregate of

i. the average aggregate of reasonable and necessary expenses, including depreciation, but not the cost of acquisition, incurred by that person referred to in section 90 in respect of such a unit for that month, that may reasonably be attributed to the transporting, marketing or processing of that unit, and

ii. in respect of the unit disposed of by the taxpayer, the amount that may reasonably be considered to be an amount that became receivable by Her Majesty in right of Canada for the use and benefit of a band as defined in the Indian Act (Revised Statutes of Canada, 1985, chapter I-5); and

(*b*) in the case of an acquisition by the taxpayer from a person referred to in section 90, computed without taking into account any law or contract requiring the taxpayer to acquire that property, and deemed to be equal, at the time of acquisition, for each unit of any particular quantity of such property, to the aggregate of

i. the amount paid or payable to the taxpayer by that person in respect of that unit, and

ii. the amount in respect of that unit paid or payable to Her Majesty in right of Canada by that person for the use and benefit of a band as defined in the Indian Act.

History: 1975, c. 22, s. 92; 1986, c. 19, s. 93; 2005, c. 1, s. 100.
Corresponding Federal Provision: 69(8) and (9).

Special provisions.

427. For the purposes of paragraph *a* of section 426, where a person referred to in section 90 disposes of a unit referred to in the said paragraph to another such person, those two persons are deemed to be the same person.

History: 1975, c. 22, s. 92.
Corresponding Federal Provision: 69(10).

427.1. *(Repealed).*

History: 1984, c. 15, s. 94; 1985, c. 25, s. 86.

427.2. *(Repealed).*

History: 1984, c. 15, s. 94; 1985, c. 25, s. 86.

427.3. *(Repealed).*

History: 1984, c. 15, s. 94; 1985, c. 25, s. 86.

Deemed disposition.

427.4. Notwithstanding any other provision of this Part, where, at any particular time as part of a series of transactions or events, a taxpayer disposes of property for proceeds of disposition that are less than its fair market value, the taxpayer is deemed to have disposed of the property at that time for proceeds of disposition equal to its fair market value at that time, if

(*a*) it may reasonably be considered that one of the main purposes of the series of transactions or events is to obtain the benefit of

i. any deduction described in the second paragraph or any balance of undeducted outlays, expenses or other amounts available to a person, other than a person that would be affiliated with the taxpayer immediately before the series of transactions or events, but for the definition of "controlled" in section 21.0.1, in respect of a subsequent disposition of the property or property substituted for the property, or

ii. an exemption available to any person from tax payable under this Part on any income arising on a subsequent disposition of the property or property substituted for the property; and

(*b*) the subsequent disposition referred to in paragraph *a* occurs, or arrangements for the subsequent disposition are made, before the day that is three years after the particular time.

Deduction.

The deduction to which subparagraph i of subparagraph *a* of the first paragraph refers is a deduction, other than a deduction under section 726.7.1 in respect of a capital gain from a disposition of a share acquired by the taxpayer in an acquisition to which sections 530 to 533 or 620 to 625 applied, in computing income, taxable income, taxable income earned in Canada or tax payable under this Part.

History: 1989, c. 77, s. 51; 1997, c. 3, s. 71; 1997, c. 85, s. 330; 2000, c. 5, s. 100.
Corresponding Federal Provision: 69(11).

Assessments.

427.4.1. Notwithstanding sections 1010 to 1011, the Minister may make any assessments or reassessments of the tax, interest and penalties payable by the taxpayer referred to in section 427.4 that are necessary to give effect to that section 427.4

(*a*) within three years after the subsequent disposition referred to in subparagraph *a* of the first paragraph of section 427.4; and

(*b*) within four years after the subsequent disposition referred to in subparagraph *a* of the first paragraph of section 427.4 if, at the end of the taxation year that includes the particular time referred to in that first paragraph, the taxpayer is a mutual fund trust or a corporation other than a Canadian-controlled private corporation.

History: 2000, c. 5, s. 101; 2007, c. 12, s. 55.
Corresponding Federal Provision: 69(12).

New taxpayer.

427.4.2. For the purposes of section 427.4, where a taxpayer is incorporated or otherwise comes into existence at a particular time during a series of transactions or events, the taxpayer is deemed

(*a*) to have existed at the time that was immediately before the series of transactions or events began; and

(*b*) to have been affiliated, at the time that was immediately before the series of transactions or events began, with every person with whom the taxpayer is affiliated, otherwise than because of a right referred to in paragraph *b* of section 20, at the particular time.

History: 2000, c. 5, s. 101.
Corresponding Federal Provision: 69(14).

Amalgamation or merger.

427.5. Where there has been an amalgamation or merger of a corporation with one or more other corporations to form one corporate entity, in this section referred to as the "new corporation", each property of the corporation that became property of the new corporation as a result of the amalgamation or merger is deemed, for the purpose of determining whether section 427.4 is applicable in respect of the amalgamation or merger, to have been disposed of by the corporation immediately before the amalgamation or merger for proceeds of disposition equal to

(*a*) in the case of a Canadian resource property or a foreign resource property, nil;

(*b*) *(paragraph repealed)*;

(*c*) in the case of any other property, the cost amount to the corporation of the property immediately before the amalgamation or merger.

History: 1989, c. 77, s. 51; 1990, c. 59, s. 169; 1994, c. 22, s. 158; 1997, c. 3, s. 25.
Corresponding Federal Provision: 69(13).

CHAPTER III
DEATH OF A TAXPAYER

DIVISION I
PERIODIC AMOUNTS AND AMOUNTS RECEIVABLE

Periodic amounts unpaid upon death of taxpayer.

428. In computing the income of an individual for the taxation year in which he died, an amount of interest, rent, royalty, annuity, remuneration from an office or employment, or other amount payable periodically, except an amount with respect to an interest in an annuity contract to which paragraph *b* of section 967 applies, that was not paid before his death, is deemed to have accrued up to that time in equal daily amounts in the period for which such amount was payable and shall be included in computing his income.

Interpretation.

Furthermore, for the purposes of the same computation, the reference in paragraph *u* of section 87 to “in respect of a property acquired or an expenditure made in a preceding taxation year in computing the taxpayer’s tax payable for” shall read as a reference to “in computing the tax payable for the year or”.

History: 1972, c. 23, s. 360; 1984, c. 15, s. 95; 1990, c. 59, s. 170.
Corresponding Federal Provision: 70(1).

Rights and property owned at death.

429. The rights and property that an individual owned when the individual died, if they are not property referred to in section 428, or capital property, and if the proceeds thereof when realized or disposed of would have been included in computing the individual's income, must be included at their value in computing the individual's income for the year of the individual's death.

Election by legal representative of deceased.

However, the legal representative of an individual may elect, not later than the day that is one year after the date of death or the day that is 90 days after the sending of a notice of assessment, whichever is the later, in respect of the individual's tax for the year of the individual's death, not to include such value in computing the individual's income for the year of the individual's death; in that case, the individual shall file a separate fiscal return for the year under this Part and pay the tax for the year under this Part as if

(*a*) the individual were another person;

(*b*) that other person's only income for the year were the value of the rights and property; and

(*c*) subject to sections 693.1, 752.0.26 and 776.1.5.0.19, that other person were entitled to the deductions to which the individual was entitled under sections 725 to 725.5, 752.0.0.1 to 752.0.13.3, 752.0.14 to 752.0.18.15, 776.1.5.0.17 and 776.1.5.0.18 in computing the individual's taxable income or the individual's tax payable under this Part, as the case may be, for the year.

Notice of revocation of election.

Within the time limit provided for in the second paragraph, the legal representative may revoke the election made under that paragraph by means of a notice filed with the Minister.

History: 1972, c. 23, s. 361; 1985, c. 25, s. 87; 1986, c. 19, s. 94; 1987, c. 67, s. 100; 1989, c. 5, s. 67; 1993, c. 64, s. 34; 1994, c. 22, s. 159; 1997, c. 14, s. 76; 1999, c. 83, s. 273; 2001, c. 53, s. 69; 2004, c. 4, s. 4; 2005, c. 1, s. 101; 2006, c. 36, s. 41; 2007, c. 12, s. 56; 2011, c. 6, s. 131; 2019, c. 14, s. 124.

Corresponding Federal Provision: 70(2) and (4) and 110(1)j).

Rights or property transferred to a beneficiary of the succession.

430. Where, before the time allowed under the second paragraph of section 429 has expired, a right or property referred to in the said section, except any compensation or amount referred to in subparagraph ii, iii or iv of subparagraph *f* of the first paragraph of section 93, has been transferred or distributed to a person who is a beneficiary of the succession or to any other person who is beneficially interested in the succession, the said section 429 does not apply in respect of such right or property and the person shall include in computing his income the amount received by him upon the realization or disposition of such right or property for the year in which such amount is received.

History: 1972, c. 23, s. 362; 1975, c. 22, s. 93; 1978, c. 26, s. 78; 1993, c. 16, s. 181; 1994, c. 22, s. 160; 1996, c. 39, s. 273; 1998, c. 16, s. 251; 2001, c. 53, s. 260; 2009, c. 5, s. 141.

Corresponding Federal Provision: 44(3); 70(3).

Cost of right or property referred to in section 430.

431. If a taxpayer has acquired a property that is a right or property referred to in section 430, the following rules apply:

(*a*) paragraph *a* of section 422 does not apply to that property; and

(*b*) the taxpayer is deemed to have acquired the property at a cost equal to the aggregate of

i. the portion of the cost to the deceased individual that was not deducted by the deceased individual in computing income for any taxation year, and

ii. the expenditures made or incurred by the taxpayer to acquire it.

History: 1975, c. 22, s. 94; 1993, c. 16, s. 181; 1998, c. 16, s. 251; 2009, c. 5, s. 142.

Corresponding Federal Provision: 69(1.1).

Exclusions.

432. For the purposes of this division, a right or property does not include land included in the inventory of a business, a Canadian resource property, a foreign resource property or an interest in a life insurance policy, other than an annuity contract of a taxpayer where the payment made by the taxpayer for its acquisition was deductible in computing the taxpayer's income because of paragraph *f* of section 339, or was made in circumstances in which subsection 21 of section 146 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) applied.

History: 1975, c. 22, s. 94; 1984, c. 15, s. 96; 1986, c. 19, s. 95; 1995, c. 49, s. 118; 2005, c. 1, s. 102; 2019, c. 14, s. 125.

Corresponding Federal Provision: 70(3.1).

DIVISION II
RESOURCE PROPERTIES AND LAND IN INVENTORIES

Property deemed disposed of at its fair market value.

433. An individual who dies is deemed to have, immediately before the individual's death, disposed of each Canadian resource property and foreign resource property of the individual and received proceeds of disposition for that property equal to its fair market value immediately before the death and the person who as a consequence of the individual's death acquires such property is deemed to have

acquired the property at the time of the death at a cost equal to the fair market value of the property immediately before the death.

History: 1975, c. 22, s. 95; 1982, c. 5, s. 105; 1986, c. 19, s. 96; 1995, c. 49, s. 119; 2003, c. 2, s. 117.

Corresponding Federal Provision: 70(5.2)(a) and (a.1).

Land in inventory deemed disposed of at death.

434. An individual who dies is deemed to have, immediately before the individual's death, disposed of each property that was land included in the inventory of a business of the individual and received proceeds of disposition for that property equal to its fair market value immediately before the death and the person who as a consequence of the individual's death acquires such property is deemed to have acquired the property at the time of the death at a cost equal to the fair market value of the property immediately before the death.

History: 1975, c. 22, s. 95; 1995, c. 49, s. 119; 2003, c. 2, s. 117.

Corresponding Federal Provision: 70(5.2)(c) and (c.1).

Special provisions.

435. Notwithstanding sections 433 and 434, where any property referred to therein was owned by an individual who was resident in Canada immediately before his death and, on or after and as a consequence of the death, that property is transferred or distributed to the spouse of the individual or to a trust described in section 440, if it can be shown within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual's legal representative before the expiry of that period, within such longer period as the Minister considers reasonable, that the property vested indefeasibly in the spouse or trust,

(*a*) in the case of a Canadian resource property or a foreign resource property to which section 433 applies, the following rules apply:

i. the individual is deemed to have, immediately before the individual's death, disposed of the property and received proceeds of disposition therefor equal to such amount as is specified by the individual's legal representative in the individual's fiscal return filed under paragraph *c* of subsection 2 of section 1000, to the extent that the amount does not exceed the fair market value of the property immediately before the death, and

ii. the spouse or trust is deemed to have acquired the property at the time of death at a cost equal to the amount determined in respect of the disposition under subparagraph i; and

(*b*) in the case of a property to which section 434 applies, the individual is deemed to have, immediately before his death, disposed of the property and received proceeds of disposition therefor equal to its cost amount to the individual immediately before the death, and the spouse or the trust is deemed to have acquired the property at the time of the death at a cost equal to those proceeds.

History: 1975, c. 22, s. 95; 1977, c. 26, s. 50; 1982, c. 5, s. 106; 1986, c. 19, s. 97; 1994, c. 22, s. 161; 1995, c. 49, s. 120; 2003, c. 2, s. 118; 2009, c. 5, s. 143.

Corresponding Federal Provision: 70(5.2)(b) and (d).

DIVISION III
CAPITAL PROPERTY, DEPRECIABLE PROPERTY AND OTHER PROPERTY

Capital property of a deceased taxpayer.

436. An individual who dies is deemed to have, immediately before his death, disposed of each capital property of the individual and received proceeds of disposition therefor equal to the fair market value of the property immediately before the death, and any person who acquires the property as a consequence of the death is deemed to have acquired it at the time of the death at a cost equal to its fair market value immediately before the death.

History: 1972, c. 23, s. 363; 1973, c. 17, s. 45; 1994, c. 22, s. 163; 1995, c. 49, s. 121.

Corresponding Federal Provision: 70(5)(a) and (b).

Acquisition of property included in Class 14.1 of a deceased

437. Despite section 440, where property included in Class 14.1 of Schedule B to the Regulation respecting the Taxation Act (chapter I-3, r. 1) of a taxpayer in respect of a business carried on by the taxpayer immediately before the taxpayer's death that is a property to which sections 436, 439 and 439.1 would otherwise apply is, as a consequence of the death, transferred or distributed (otherwise than by way of a distribution of property by a trust that claimed a deduction under paragraph *a* of section 130 or paragraph *b* of that section, as it read immediately before 1 January 2017, in respect of the property or in circumstances to which section 189 applies) to any person (in this section referred to as the "beneficiary"), the following rules apply:

(*a*) section 436 does not apply in respect of the property;

(*b*) the taxpayer is deemed to have, immediately before the taxpayer's death, disposed of the property and received proceeds of disposition equal to the lesser of the capital cost and the cost amount to the taxpayer of the property immediately before the death;

(*c*) the beneficiary is deemed to have acquired the property at the time of the death at a cost equal to those proceeds; and

(*d*) section 439 applies as if the portion of that section before paragraph *a* were read as follows:

« **439.** For the purposes of sections 93 to 104, Chapter III of Title III and any regulations made under paragraph *a* of section 130 or section 130.1, where depreciable property of a

prescribed class of a deceased individual is deemed under paragraph *c* of section 437 to be acquired by a person, except where the individual's proceeds of disposition of the property determined under paragraph *b* of section 437 are redetermined under sections 93.1 to 93.3, and the capital cost to the individual of the property exceeds the amount determined under paragraph *c* of section 437 to be the cost to the person of the property, the following rules apply:

History: 1975, c. 22, s. 96; 1990, c. 59, s. 171; 1993, c. 16, s. 182; 1994, c. 22, s. 164; 1995, c. 49, s. 122; 1996, c. 39, s. 125; 2001, c. 7, s. 45; 2003, c. 2, s. 119; 2005, c. 1, s. 103; 2009, c. 5, s. 144; 2019, c. 14, s. 126.

Corresponding Federal Provision: 70(5.1).

NISA on death.

437.1. Where an individual who dies has at the time of death a net income stabilization account, all amounts held for or on behalf of the individual in his NISA Fund No. 2 are deemed to have been paid out of that fund to the individual immediately before his death.

History: 1994, c. 22, s. 165.

Corresponding Federal Provision: 70(5.4).

Farm income stabilization account on death.

437.2. Where an individual who dies has at the time of death a farm income stabilization account, the balance of the account at that time is deemed to have been paid to the individual immediately before the individual's death.

History: 2004, c. 21, s. 77.

438. *(Repealed).*

History: 1972, c. 23, s. 364; 1973, c. 17, s. 46; 1994, c. 22, s. 166.

438.1. *(Repealed).*

History: 1979, c. 38, s. 14; 1985, c. 25, s. 89; 1987, c. 67, s. 102; 1994, c. 22, s. 167; 1995, c. 49, s. 123.

Case where the capital cost to the deceased exceeds the cost to the person acquiring the property.

439. For the purposes of sections 93 to 104, Chapter III of Title III and any regulations made under paragraph *a* of section 130 or section 130.1, where depreciable property of a prescribed class of a deceased individual is deemed under section 436 to be acquired by a person, except where the individual's proceeds of disposition of the property under section 436 are redetermined under sections 93.1 to 93.3, and the capital cost to the individual of the property exceeds the amount determined under section 436 to be the cost to the person of the property, the following rules apply:

(*a*) the capital cost to the person of the property is deemed to be equal to the capital cost to the individual of the property; and

(*b*) the excess is deemed to have been allowed to the person as depreciation in respect of the property for the taxation years that ended before the acquisition.

History: 1972, c. 23, s. 365; 1979, c. 18, s. 29; 1994, c. 22, s. 168; 1995, c. 49, s. 124.

Corresponding Federal Provision: 70(5)(c).

Disposition of a building and contiguous land.

439.1. Notwithstanding section 436, where property of a deceased individual is deemed under section 436 to be acquired by a person and the individual's proceeds of disposition of the property under section 436 are redetermined under sections 93.1 to 93.3, the following rules apply:

(*a*) for the purposes of sections 93 to 104, Chapter III of Title III and any regulations made under paragraph *a* of section 130 or section 130.1, where the property was depreciable property of a prescribed class and the amount that was the capital cost to the individual of the property exceeds the amount so redetermined under sections 93.1 to 93.3,

i. the capital cost to the person of the property is deemed to be equal to the capital cost to the individual of the property, and

ii. the excess is deemed to have been allowed to the person as depreciation in respect of the property for the taxation years that ended before the acquisition; and

(*b*) where the property is land, other than land to which paragraph *a* applies, the cost to the person of the property is deemed to be equal to the amount that was the individual's proceeds of disposition of the property as redetermined under sections 93.1 to 93.3.

History: 1995, c. 49, s. 125.

Corresponding Federal Provision: 70(5)(d).

Transfer or assignment of property to the spouse or spousal trust.

440. Notwithstanding section 436, where property referred to therein is, as a consequence of the death of an individual who was resident in Canada immediately before his death, transferred or distributed to his spouse who was resident in Canada immediately before the individual's death or to a trust created by the individual's will, which was resident in Canada immediately after the time when the property was indefeasibly vested in the trust, if it can be shown, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual's legal representative before the expiry of that period, within such longer period as the Minister considers reasonable, that the property has become vested indefeasibly in the spouse or trust,

(*a*) subject to subparagraph *a*.1, the individual is deemed to have, immediately before his death, disposed of the property and received proceeds of disposition therefor equal to the following amount, and the spouse or the trust is deemed to have acquired the property at the time of the death at a cost equal to those proceeds:

i. where the property was depreciable property of a prescribed class, the lesser of the capital cost and the cost amount to the individual of the property immediately before his death, and

ii. in any other case, the adjusted cost base of the property to the individual immediately before his death;

(*a.*1) where the property is an interest in a partnership, other than an interest to which section 636 applies,

i. the individual is deemed, except for the purposes of section 632, not to have disposed of the property as a consequence of his death,

ii. the spouse or the trust is deemed to have acquired the property at the time of the death at a cost equal to its cost to the individual, and

iii. each amount added or deducted under section 255 or 257, as the case may be, in computing the adjusted cost base to the individual of the property is deemed to be required by that section 255 or 257 to be added or deducted in computing the adjusted cost base to the spouse or the trust of the property; and

(*b*) section 439 applies to depreciable property of a prescribed class as if the reference therein to section 436 were a reference to subparagraph *a* of the first paragraph of section 440;

(*c*) *(subparagraph repealed).*

Rules applicable to a spousal trust.

The first paragraph applies only where the will creating the trust entitles the spouse to receive all of the income of the trust that arises before the spouse's death, and no person except the spouse may receive or otherwise obtain enjoyment of any of the income or capital of the trust.

History: 1972, c. 23, s. 366; 1973, c. 17, s. 47; 1975, c. 22, s. 97; 1984, c. 15, s. 97; 1986, c. 19, s. 98; 1993, c. 16, s. 183; 1994, c. 22, s. 169; 1995, c. 49, s. 126; 1997, c. 3, s. 71; 2009, c. 5, s. 145.

Corresponding Federal Provision: 70(6)(b)(i) and (ii), (d), (d.1) and (e).

441. *(Repealed).*

History: 1975, c. 22, s. 98; 1977, c. 26, s. 51; 1984, c. 15, s. 98; 1994, c. 22, s. 170.

Transfer or assignment of a NISA to the spouse or spousal trust.

441.1. Where a property that is a net income stabilization account of an individual is, on or after the individual's death and as a consequence thereof, transferred or distributed to the individual's spouse, or to a trust described in the second paragraph, sections 437.1 and 462.0.1 do not apply in respect of the individual's NISA Fund No. 2 if it can be shown, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual's legal representative before the expiry of that period, within such longer period as the Minister considers reasonable, that the property has become vested indefeasibly in the spouse or trust.

Spousal trust.

The trust referred to in the first paragraph is a trust created by the individual's will, under which the individual's spouse is entitled to receive all of the income of the trust that arises before the spouse's death, and no person except the spouse may receive or otherwise obtain enjoyment of any of the income or capital of the trust.

History: 1994, c. 22, s. 171; 2009, c. 5, s. 146.

Corresponding Federal Provision: 70(6.1).

Transfer or assignment of farm income stabilization account to spouse or trust.

441.2. Where a property that is a farm income stabilization account of an individual is, on or after the individual's death and as a consequence thereof, transferred or distributed to the individual's spouse, or to a trust described in the second paragraph, sections 437.2 and 462.0.2 do not apply in respect of the property if it can be shown, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual's legal representative before the expiry of that period, within such longer period as the Minister considers reasonable, that the property has become vested indefeasibly in the spouse or trust.

Spousal trust.

The trust referred to in the first paragraph is a trust created by the individual's will, under which the individual's spouse is entitled to receive all of the income of the trust that arises before the spouse's death, and no person except the spouse may receive or otherwise obtain enjoyment of any of the income or capital of the trust.

History: 2004, c. 21, s. 78; 2009, c. 5, s. 147.

Election.

442. Sections 437 and 440 to 441.2 do not apply to any property of a deceased individual in respect of which the individual's legal representative makes a valid election under subsection 6.2 of section 70 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

Notice to the Minister and penalty.

Where, in respect of the property and by virtue of subsection 3.2 of section 220 of the Income Tax Act, the time for making the election referred to in the first paragraph is extended or a previous such election is rescinded, the legal representative of the individual

(*a*) shall notify the Minister in writing and attach to the notice a copy of the document to that effect sent by the legal representative to the Minister of Revenue of Canada; and

(*b*) incurs a penalty equal to $100 for each complete month from the individual's filing-due date for the year of the individual's death and ending on the day on which the notice referred to in subparagraph *a* is sent to the Minister, up to $5,000.

Assessment by the Minister.

Notwithstanding sections 1010 to 1011, such assessments of tax, interest and penalties under this Part shall be made as are necessary by the Minister for any taxation year to take into account the election or the rescinded election referred to in the second paragraph.

History: 1977, c. 26, s. 52; 1994, c. 22, s. 172; 1997, c. 85, s. 69; 2000, c. 5, s. 293; 2004, c. 21, s. 79; 2009, c. 5, s. 148; 2019, c. 14, s. 127.

Corresponding Federal Provision: 70(6.2).

443. *(Repealed).*

History: 1972, c. 23, s. 367; 1973, c. 17, s. 48; 1975, c. 22, s. 99; 1986, c. 19, s. 99; 1994, c. 22, s. 173.

Farming or fishing business.

444. The rules set out in the second paragraph apply to an individual and to a child of the individual in respect of a property to which section 436 would, if this Act were read without reference to this section, apply if

(*a*) the property was, immediately before the individual's death,

i. a share of the capital stock of a family farm or fishing corporation of the individual or an interest in a family farm or fishing partnership of the individual, or

ii. land or a depreciable property of a prescribed class situated in Canada that was, before the death, used principally in the course of carrying on a farming or fishing business in Canada in which the individual or the spouse, a child or the father or mother of the individual was actively engaged on a regular and continuous basis or, in the case of a property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot;

(*b*) the child of the individual was resident in Canada immediately before the day on which the individual died; and

(*c*) because of the individual's death, the property is transferred to and becomes vested indefeasibly in the child within the period ending 36 months after the individual's death or, if application has been made to the Minister by the individual's legal representative before the expiry of that period, within any longer period that the Minister considers reasonable.

Rules applicable.

The rules to which the first paragraph refers are the following:

(*a*) if the individual's legal representative does not make a valid election under paragraph *b* of subsection 9.01 or 9.21 of section 70 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in the individual's fiscal return filed under Part I of that Act for the year in which the individual died, to have that paragraph *b* apply to the individual and the child in respect of the property,

i. sections 422 and 436 do not apply to the individual and the child in respect of the property,

ii. the individual is deemed, immediately before the individual's death, to have disposed of the property and received, at the time and in respect of the disposition of the property, proceeds of disposition equal to the following amount, and the child is deemed, immediately after the time and in respect of the disposition of the property, to have acquired the property at a cost equal to those proceeds:

(1) if the property is a depreciable property of a prescribed class, the lesser of the capital cost of the property to the individual and the amount, determined immediately before the time of the disposition of the property, that is equal to that proportion of the undepreciated capital cost of property of that class to the individual that the capital cost of the property to the individual is of the capital cost to the individual of all property of that class that had not, at or before that time, been disposed of, and

(2) if the property is land, other than land to which subparagraph 1 applies, or a share of the capital stock of a family farm or fishing corporation of the individual, the adjusted cost base of the property to the individual immediately before the time of the disposition of the property,

iii. if the property is, immediately before the individual's death, an interest in a family farm or fishing partnership of the individual, other than an interest to which section 636 applies, the following rules apply:

(1) the individual is deemed, except for the purposes of section 632, not to have disposed of the property because of the individual's death,

(2) the child is deemed to have acquired the property at the time of the individual's death at a cost equal to the cost of the interest to the individual immediately before the time that is immediately before the time of the individual's death, and

(3) each amount required by section 255 or 257 to be added or deducted in computing the adjusted cost base of the property to the individual, immediately before the individual's death, is deemed to be an amount required by that section 255 or 257 to be added or deducted in computing, at any time at or after the individual's death, the adjusted cost base of the property to the child,

iv. for the purposes of sections 93 to 104, Chapter III of Title III and any regulations under paragraph *a* of section 130 or section 130.1, if a depreciable property of a prescribed class of the individual is deemed under subparagraph ii to be acquired by the child because of the individual's death, except where the individual's proceeds of disposition of the property determined under subparagraph ii are redetermined under sections 93.1 to 93.3, and the capital cost of the property to the individual exceeds the amount determined under subparagraph ii to be the cost of the property to the child, the following rules apply:

(1) the capital cost of the property to the child is deemed to be equal to the capital cost of the property to the individual, and

(2) the excess is deemed to have been allowed to the child as depreciation in respect of the property for the taxation years that ended before the acquisition, and

v. despite subparagraph ii, if a property of the individual is deemed under subparagraph ii to be acquired by the child because of the individual's death, and the individual's proceeds of disposition of the property determined under subparagraph ii are redetermined under sections 93.1 to 93.3, the following rules apply:

(1) for the purposes of sections 93 to 104, Chapter III of Title III and any regulations under paragraph *a* of section 130 or section 130.1, if the property is a depreciable property of a prescribed class of the individual and the capital cost of the property to the individual exceeds the amount so redetermined under sections 93.1 to 93.3, the capital cost of the property to the child is deemed to be equal to the capital cost of the property to the individual, and the excess is deemed to have been allowed to the child as depreciation in respect of the property for the taxation years that ended before the acquisition, and

(2) if the property is land, other than land to which subparagraph 1 applies, the cost of the property to the child is deemed to be equal to the individual's proceeds of disposition of the property as redetermined under sections 93.1 to 93.3; and

(*b*) if the individual's legal representative makes a valid election under paragraph *b* of subsection 9.01 or 9.21 of section 70 of the Income Tax Act in the individual's fiscal return filed under Part I of that Act for the year in which the individual died, to have that paragraph *b* apply to the individual and the child in respect of the property,

i. subparagraph *a* applies without reference to its subparagraphs ii and iii and as if the references to that subparagraph ii in subparagraphs iv and v of that subparagraph *a* were read as references to subparagraph ii of this subparagraph *b*,

ii. subject to subparagraph iii, the individual is deemed, immediately before the individual's death, to have disposed of the property and received, at the time and in respect of the disposition, proceeds of disposition equal to

(1) subject to the third paragraph and unless otherwise specified by the individual's legal representative, the amount established in accordance with section 450.5 that is designated in respect of the property by the individual's legal representative in the individual's fiscal return filed in accordance with section 1000 for the year in which the individual died, if the individual, immediately before the individual's death, and the child, at the end of the child's taxation year in which the death occurred, were resident in Québec and the proportion determined under the second paragraph of section 22, in respect of each of those two latter persons to whom that second paragraph applies for the year in which the individual died, was not less than 9/10 for that year, or

(2) the amount that is determined in respect of the property under paragraph *b* of that subsection 9.01 or 9.21, if subparagraph 1 does not apply in respect of the property,

iii. subparagraph iii of subparagraph *a* applies in respect of a property described in that subparagraph iii, if the individual's legal representative makes another valid election under subparagraph iii of paragraph *b* of subsection 9.21 of section 70 of the Income Tax Act in the individual's fiscal return filed under Part I of that Act for the year in which the individual died, to have that subparagraph iii of paragraph *b* apply to the individual in respect of the property, and

iv. the child is deemed to have acquired the property

(1) immediately after the time of the disposition of the property and at a cost equal to the proceeds of disposition established in respect of the property under subparagraph ii, or

(2) if subparagraph iii applies, at the time of the individual's death and at a cost equal to the cost of the interest to the individual immediately before the time that is immediately before the time of the individual's death.

Restriction.

However, subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph does not apply in respect of the property unless all or substantially all of the difference between the amount that would, but for that subparagraph 1, be referred to in respect of the property in subparagraph 2 of that subparagraph ii and the amount designated in its respect in that subparagraph 1, is justified by a difference between the cost amount of the property to the individual, immediately before the individual's death, for the purposes of Part I of the Income Tax Act and the cost amount, at that time, for the purposes of this Part, or by another reason considered by the Minister to be acceptable in the circumstances.

Amount designated as cancelled, late or modified.

On application by the legal representative of the deceased individual, the Minister may allow subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph to be deemed not to have applied in respect of the property, or may allow the legal representative, after the individual's filing-due date for the year in which the individual died, to designate pursuant to that subparagraph i an amount or a new amount in respect of the property; in the latter case, the new amount designated is deemed to be the only amount designated by the legal representative under that subparagraph in respect of the property.

Penalty.

Where an application made under the fourth paragraph is granted by the Minister, the legal representative of the deceased individual incurs a penalty equal to $100 for each complete month from the individual's filing-due date for the year in which the individual died and ending on the day on which the application referred to in that paragraph is sent to the Minister; in such case, this paragraph is deemed not to apply in respect of any other such application made previously by the legal representative in respect of the transfer of the property.

Notice to the Minister and penalty.

Where, in respect of the property and by virtue of subsection 3.2 of section 220 of the Income Tax Act, the time for making the election under paragraph *b* of subsection 9.01 or 9.21 of section 70 of that Act is extended or such an election made previously is amended or rescinded, the legal representative of the deceased individual

(*a*) shall notify the Minister in writing and attach to the notice a copy of the document to that effect sent by the legal representative to the Minister of Revenue of Canada; and

(*b*) incurs a penalty equal to $100 for each complete month from the individual's filing-due date for the year of the individual's death and ending on the day on which the notice referred to in subparagraph *a* is sent to the Minister.

Maximum penalty.

However, the total amount of the penalties that the legal representative of the deceased individual incurs under this section in respect of the property may not exceed the greater of the penalties that the legal representative would otherwise incur in respect of the property, under the fifth paragraph or subparagraph *b* of the sixth paragraph nor $5,000.

Assessment by the Minister.

Notwithstanding sections 1010 to 1011, such assessments of tax, interest and penalties under this Part shall be made as are necessary by the Minister for any taxation year to take into account the granting by the Minister of an application made under the fourth paragraph, or the election or the amended or rescinded election referred to in the sixth paragraph.

History: 1973, c. 17, s. 49; 1977, c. 26, s. 53; 1979, c. 18, s. 30; 1986, c. 15, s. 81; 1986, c. 19, s. 100; 1993, c. 16, s. 184; 1994, c. 22, s. 174; 1995, c. 49, s. 127; 1997, c. 3, s. 71; 1997, c. 85, s. 70; 2000, c. 5, s. 293; 2002, c. 40, s. 36; 2004, c. 8, s. 92; 2007, c. 12, s. 57; 2009, c. 5, s. 149; 2017, c. 29, s. 64.

Corresponding Federal Provision: 70(9), (9.01), (9.2) and (9.21).

444.1. *(Repealed).*

History: 1979, c. 18, s. 31; 1986, c. 19, s. 101; 1987, c. 67, s. 103.

Rules applicable in respect of trusts providing for the payment of debts.

445. Where a trust created by the will of an individual would be a trust referred to in any of sections 440 to 441.2 but for the payment of the debts owing by the individual when he died or for provision for their payment, the following rules apply:

(*a*) the time limit to file the fiscal return contemplated in paragraph *c* of subsection 2 of section 1000 is extended to 18 months after the individual's death; and

(*b*) where the legal representative makes a valid election under paragraph *b* of subsection 7 of section 70 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), and lists, in the individual's fiscal return referred to for that purpose in that paragraph, one or more properties, other than a net income stabilization account or a farm income stabilization account, that were, on or after the individual's death and as a consequence thereof, transferred or distributed to the trust, the fair market value of which properties immediately after the individual's death was not less than the debts of the individual, minus the amounts described in section 449, section 440 does not apply to the properties so listed and, notwithstanding the payment of, or provision for payment of, any outstanding debts of the

individual at the time of the death, the trust is deemed to be a trust referred to in section 440.

History: 1973, c. 17, s. 49; 1994, c. 22, s. 175; 1997, c. 85, s. 71; 2004, c. 21, s. 80; 2009, c. 5, s. 150.

Corresponding Federal Provision: 70(7)(a) and (b)(i) and (ii).

Capital gain where the fair market value of property exceeds the debts of a deceased individual.

446. Where the fair market value, immediately after the individual's death, of the properties referred to in paragraph *b* of section 445 exceeds the debts of the individual, minus the amounts described in section 449, and the legal representative designates one property, in the return referred to in that paragraph *b*, that is capital property other than depreciable property or money,

(*a*) the capital gain or capital loss, as the case may be, from the disposition that such individual is deemed to have made of that capital property under section 436 is the portion of that gain or loss represented by the proportion between the amount by which the fair market value of that capital property immediately after his death exceeds that excess, and that fair market value at the same time; and

(*b*) the cost of that capital property to the trust is, where the individual has a capital gain contemplated in paragraph *a*, the aggregate of the adjusted cost base of that capital property to him immediately before his death and the capital gain so determined or, where the individual has a capital loss contemplated in the said paragraph, the amount by which the adjusted cost base to him immediately before his death exceeds the capital loss so determined.

History: 1973, c. 17, s. 49; 1977, c. 26, s. 54; 1994, c. 22, s. 176; 1997, c. 85, s. 72.

Corresponding Federal Provision: 70(7)(b) after (ii) and (b)(iii) and (iv).

Debt secured by a hypothec or mortgage.

447. For the purposes of sections 445 and 446, there shall be deducted from the fair market value of property contemplated therein the amount remaining due on any debt secured by a hypothec or mortgage on that property.

History: 1973, c. 17, s. 49; 1974, c. 18, s. 20; 1996, c. 39, s. 126; 2005, c. 1, s. 104.

Corresponding Federal Provision: 70(8)(a).

Debts under ss. 445, 446.

448. The debts contemplated in sections 445 and 446, for an individual, mean any amount unpaid immediately before his death in respect of a debt or other obligation to pay and any amount payable by reason of his death, except an amount payable to a person as a beneficiary of the succession; they include tax payable by the individual or for him for any taxation year and all duties payable by reason of his death.

History: 1973, c. 17, s. 49; 1998, c. 16, s. 251.

Corresponding Federal Provision: 70(8)(c).

Amounts deductible from debts.

449. The amounts that must be deducted from the debts of the individual under paragraph *b* of section 445 and section 446 are the duties payable, by reason of the individual's death, in respect of any property of the trust or any right in such a property, and any debt secured by a hypothec or mortgage on property owned by the individual immediately before the individual's death.

History: 1973, c. 17, s. 49; 1996, c. 39, s. 127; 2005, c. 1, s. 105; 2020, c. 16, s. 69.

Corresponding Federal Provision: 70(8)(b)(i) and (ii).

Transfer of farm property or fishing property from a spousal trust to a child.

450. The rules set out in the second paragraph apply to a trust and a child of the settlor of the trust in respect of a property to which sections 653 to 656.1 would, if this Act were read without reference to this section, apply to the trust because of the death of the beneficiary under the trust who was the settlor's spouse if

(*a*) the property, or a property for which the property was substituted, was transferred to the trust by the settlor;

(*b*) section 440, section 454, as that section applied in respect of a transfer that occurred before 1 January 2000, or subparagraph i of paragraph *c* of section 454.1 applied to the settlor and the trust in respect of the transfer referred to in subparagraph *a*;

(*c*) the property is, immediately before the beneficiary's death,

i. land or a depreciable property of a prescribed class of the trust that was used in a farming or fishing business carried on in Canada,

ii. a share of the capital stock of a Canadian corporation that would, immediately before the beneficiary's death, be a share of the capital stock of a family farm or fishing corporation of the settlor, if the settlor owned the share at that time and subparagraph i of subparagraph *a*.2 of the first paragraph of section 451 were read without reference to "in which the individual or the spouse, a child or the father or mother of the individual was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot)", or

iii. *(subparagraph repealed)*;

iv. an interest in a partnership that carried on in Canada a farming or fishing business in which it used all or substantially all of the property;

(*d*) in the case of a property referred to in subparagraph ii or iv of subparagraph *c*, the property, or a property for which the property was substituted, transferred to the trust by the settlor was, immediately before the transfer, a share of the capital stock of a family farm or fishing corporation of the settlor or an interest in a family farm or fishing partnership of the settlor;

(*e*) the child of the settlor was resident in Canada immediately before the day on which the beneficiary died; and

(*f*) because of the beneficiary's death, the property is transferred to and becomes vested indefeasibly in the settlor's child within the period ending 36 months after the beneficiary's death or, if application has been made to the Minister by the beneficiary's legal representative before the expiry of that period, within any longer period that the Minister considers reasonable.

Rules applicable.

The rules to which the first paragraph refers are the following:

(*a*) if the trust does not make a valid election under paragraph *b* of subsection 9.11 or 9.31 of section 70 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in the trust's fiscal return filed under Part I of that Act for the year in which the beneficiary died, to have that paragraph *b* apply to the trust in respect of the property,

i. sections 422 and 653 to 656.1 do not apply to the trust and the child in respect of the property,

ii. the trust is deemed, immediately before the beneficiary's death, to have disposed of the property and received, at the time and in respect of the disposition of the property, proceeds of disposition equal to the following amount, and the child is deemed, immediately after the time and in respect of the disposition of the property, to have acquired the property at a cost equal to those proceeds:

(1) if the property is a depreciable property of a prescribed class, the lesser of the capital cost of the property to the trust and the amount, determined immediately before the time of the disposition of the property, that is equal to that proportion of the undepreciated capital cost of property of that class to the trust that the capital cost of the property to the trust is of the capital cost to the trust of all property of that class that had not, at or before that time, been disposed of, and

(2) if the property is land, other than land to which subparagraph 1 applies, or, immediately before the beneficiary's death, a share referred to in subparagraph ii of subparagraph *c* of the first paragraph, the adjusted cost base of the property to the trust immediately before the time of the disposition of the property,

iii. if the property is, immediately before the beneficiary's death, an interest in a partnership described in subparagraph iv of subparagraph *c* of the first paragraph, other than an interest to which section 636 applies, the following rules apply:

(1) the trust is deemed, except for the purposes of section 632, not to have disposed of the property because of the beneficiary's death,

(2) the child is deemed to have acquired the property at the time of the beneficiary's death at a cost equal to the cost of the interest to the trust immediately before the time that is immediately before the time of the beneficiary's death, and

(3) each amount required by section 255 or 257 to be added or deducted in computing the adjusted cost base of the property to the trust, immediately before the beneficiary's death, is deemed to be an amount required by that section 255 or 257 to be added or deducted in computing, at any time at or after the beneficiary's death, the adjusted cost base of the property to the child,

iv. for the purposes of sections 93 to 104, Chapter III of Title III and any regulations under paragraph *a* of section 130 or section 130.1, if a depreciable property of a prescribed class of the trust is deemed under subparagraph ii to be acquired by the child because of the death of the beneficiary under the trust, except where the trust's proceeds of disposition of the property determined under subparagraph ii are redetermined under sections 93.1 to 93.3, and the capital cost of the property to the trust exceeds the amount determined under subparagraph ii to be the cost of the property to the child, the following rules apply:

(1) the capital cost of the property to the child is deemed to be equal to the capital cost of the property to the trust, and

(2) the excess is deemed to have been allowed to the child as depreciation in respect of the property for the taxation years that ended before the acquisition, and

v. despite subparagraph ii, if a property of the trust is deemed under subparagraph ii to be acquired by the child because of the death of the beneficiary under the trust, and the trust's proceeds of disposition of the property determined under subparagraph ii are redetermined under sections 93.1 to 93.3, the following rules apply:

(1) for the purposes of sections 93 to 104, Chapter III of Title III and any regulations under paragraph *a* of section 130 or section 130.1, if the property is a depreciable property of a prescribed class and the capital cost of the property to the trust exceeds the amount so redetermined under sections 93.1 to 93.3, the capital cost of the property to the child is deemed to be equal to the capital cost of the property to the trust, and the excess is deemed to have been allowed to the child as depreciation in respect of the property for the taxation years that ended before the acquisition, and

(2) if the property is land, other than land to which subparagraph 1 applies, the cost of the property to the child is deemed to be equal to the trust's proceeds of disposition of the property as redetermined under sections 93.1 to 93.3; and

(*b*) if the trust makes a valid election under paragraph *b* of subsection 9.11 or 9.31 of section 70 of the Income Tax Act in the trust's fiscal return filed under Part I of that Act for the year in which the beneficiary died, to have that paragraph *b* apply to the trust in respect of the property,

i. subparagraph *a* applies without reference to its subparagraphs i, ii and iii and as if the references to that subparagraph ii in subparagraphs iv and v of that subparagraph *a* were read as references to subparagraph iv of this subparagraph *b*,

ii. if the property is described in subparagraph i of subparagraph *c* of the first paragraph, sections 653 to 656.1 do not apply to the trust in respect of the property,

iii. if the property is described in subparagraph ii or iv of subparagraph *c* of the first paragraph, section 422 does not apply to the trust and the child in respect of the transfer of the property and section 653 does not apply to the trust in respect of the property,

iv. subject to subparagraph v, the trust is deemed, immediately before the beneficiary's death, to have disposed of the property and received, at the time and in respect of the disposition, proceeds of disposition equal to

(1) subject to the third paragraph and unless otherwise specified by the trust, the amount established in accordance with section 450.5 that is designated in respect of the property by the trust in the trust's fiscal return filed in accordance with section 1000 for the year in which the beneficiary under the trust died, if the trust and the child, at the end of their respective taxation year in which the death occurred, were resident in Québec and the proportion determined under the second paragraph of section 22, in respect of each of those two latter persons to whom that second paragraph applies for the year in which the beneficiary under the trust died, was not less than 9/10 for that year, or

(2) the amount that is determined in respect of the property under paragraph *b* of that subsection 9.11 or 9.31, if subparagraph 1 does not apply in respect of the property,

v. subparagraph iii of subparagraph *a* applies in respect of a property described in that subparagraph iii, if the trust makes another valid election under subparagraph iii of paragraph *b* of subsection 9.31 of section 70 of the Income Tax Act in the trust's fiscal return filed under Part I of that Act for the year in which the beneficiary died, to have that subparagraph iii of paragraph *b* apply to the trust in respect of the property, and

vi. the child is deemed to have acquired the property

(1) immediately after the time of the disposition of the property and at a cost equal to the proceeds of disposition established in respect of the property under subparagraph iv, or

(2) if subparagraph v applies, at the time of the beneficiary's death and at a cost equal to the cost of the interest to the trust immediately before the time that is immediately before the time of the beneficiary's death.

Restriction.

However, subparagraph 1 of subparagraph iv of subparagraph *b* of the second paragraph does not apply in respect of the property unless all or substantially all of the difference between the amount that would, but for that subparagraph 1, be referred to in respect of the property in subparagraph 2 of that subparagraph iv and the amount designated in its respect in that subparagraph 1, is justified by a difference between the cost amount of the property to the trust, immediately before the beneficiary's death, for the purposes of Part I of the Income Tax Act and the cost amount, at that time, for the purposes of this Part, or by another reason considered by the Minister to be acceptable in the circumstances.

Amount designated as cancelled, late or modified.

On application by the trust, the Minister may allow subparagraph 1 of subparagraph iv of subparagraph *b* of the second paragraph to be deemed not to have applied in respect of the property, or may allow the trust, after the trust's filing-due date for the year in which the spouse died, to designate pursuant to that subparagraph i an amount or a new amount in respect of the property; in the latter case, the new amount designated is deemed to be the only amount designated by the trust under that subparagraph in respect of the property.

Penalty.

Where an application made under the fourth paragraph is granted by the Minister, the trust incurs a penalty equal to $100 for each complete month from the trust's filing-due date for the year in which the spouse died and ending on the day on which the application referred to in that paragraph is sent to the Minister; in such case, this paragraph is deemed not to apply in respect of any other such application made previously by the trust in respect of the transfer of the property.

Notice to the Minister and penalty.

Where, in respect of the property and by virtue of subsection 3.2 of section 220 of the Income Tax Act, the time for making the election under paragraph *b* of subsection 9.11 or 9.31 of section 70 of that Act is extended or such an election made previously is amended or rescinded, the trust

(*a*) shall notify the Minister in writing and attach to the notice a copy of the document to that effect sent by the trust to the Minister of Revenue of Canada; and

(*b*) incurs a penalty equal to $100 for each complete month from the trust's filing-due date for the year in which the spouse died and ending on the day on which the notice referred to in subparagraph *a* is sent to the Minister.

Maximum penalty.

However, the total amount of the penalties that the trust incurs under this section in respect of the property may not exceed the greater of the penalties that the trust would otherwise incur in respect of the property, under the fifth paragraph or subparagraph *b* of the sixth paragraph nor $5,000.

Assessment by the Minister.

Notwithstanding sections 1010 to 1011, such assessments of tax, interest and penalties under this Part shall be made as are necessary by the Minister for any taxation year to take into account the granting by the Minister of an application made under the fourth paragraph, or the election or the amended or rescinded election referred to in the sixth paragraph.

History: 1975, c. 22, s. 100; 1979, c. 18, s. 32; 1986, c. 15, s. 82; 1986, c. 19, s. 102; 1993, c. 16, s. 185; 1994, c. 22, s. 177; 1995, c. 49, s. 128; 1997, c. 3, s. 71; 1997, c. 85, s. 73; 2000, c. 5, s. 293; 2002, c. 40, s. 37; 2003, c. 2, s. 120; 2004, c. 8, s. 93; 2007, c. 12, s. 58; 2009, c. 5, s. 151; 2017, c. 29, s. 65.

Corresponding Federal Provision: 70(9.1), (9.3), (9.11) and (9.31).

450.1. *(Repealed).*

History: 1979, c. 18, s. 33; 1986, c. 19, s. 103; 1987, c. 67, s. 104.

Fair market value of property.

450.2. For the purposes of sections 436, 439, 439.1 and 653 and Chapter I of Title I.1 of Book VI, the fair market value at a particular time of any property deemed to be disposed of at that time by reason of a particular individual's death or as a consequence of the particular individual becoming or ceasing to be resident in Canada shall be determined as though the fair market value at that time of any life insurance policy under which the particular individual, or any other individual not dealing at arm's length with the particular individual at that time or at the time the policy is issued, is the person whose life is insured, were equal to the cash surrender value, within the meaning of paragraph *d* of section 966, of the policy immediately before the particular individual died or became or ceased to be resident in Canada, as the case may be.

History: 1984, c. 15, s. 99; 1985, c. 25, s. 90; 1986, c. 19, s. 104; 1994, c. 22, s. 178; 1997, c. 3, s. 71; 2003, c. 2, s. 121; 2004, c. 8, s. 94.

Corresponding Federal Provision: 70(5.3).

Fair market value.

450.2.1. For the purposes of sections 436, 439, 439.1 and 653, the fair market value at a particular time of any property deemed to have been disposed of at that time because of a particular individual's death is to be determined as though the fair market value at that time of any annuity contract were equal to the aggregate of all amounts each of which is the amount of a premium paid at or before that time under the contract if

(*a*) the contract is, in respect of a leveraged insured annuity policy, a contract referred to in subparagraph ii of paragraph *b* of the definition of "leveraged insured annuity policy" in section 1; and

(*b*) the particular individual is the individual, in respect of the leveraged insured annuity policy, referred to in subparagraph ii of paragraph *b* of the definition of "leveraged insured annuity policy" in section 1.

History: 2017, c. 1, s. 119.

Corresponding Federal Provision: 70(5.31).

450.3. *(Repealed).*

History: 1985, c. 25, s. 90; 1987, c. 67, s. 105.

450.4. *(Repealed).*

History: 1985, c. 25, s. 90; 1986, c. 19, s. 105; 1987, c. 67, s. 105.

Computation of the designated amount.

450.5. For the purposes of subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 444 and subparagraph 1 of subparagraph iv of subparagraph *b* of the second paragraph of section 450, the amount designated in respect of a property by the legal representative of the individual referred to in section 444 or by the trust referred to in section 450, as the case may be, must not be less than the lesser of nor greater than the greater of

(*a*) the fair market value of the property immediately before the time of its disposition; and

(*b*) where

i. the property is a depreciable property of a prescribed class, the lesser of the capital cost of the property to the individual or to the trust and the amount, determined immediately before the time of the disposition of the property, that is equal to that proportion of the undepreciated capital cost of the property of that class to the individual or to the trust that the capital cost of the property to the individual or to the trust is of the capital cost to the individual or to the trust of all the property of that class that had not, at or before that time, been disposed of,

ii. in the case of the individual referred to in section 444, the property is land, other than land to which subparagraph i applies, a share of the capital stock of a family farm or fishing corporation or an interest in a family farm or fishing partnership, the adjusted cost base of the property to the individual immediately before the time of the disposition of the property, or

iii. in the case of the trust referred to in section 450, the property is land, other than land to which subparagraph i applies, a share referred to in subparagraph ii of subparagraph *c* of the first paragraph of that section, or an interest in a partnership described in subparagraph iv of subparagraph *c* of the first paragraph of that section, the adjusted cost base of the property to the trust immediately before the time of the disposition of the property.

Maximum or minimum designated amount.

If the amount designated in respect of a property is less than the lesser of the amounts determined in respect of the property under subparagraphs *a* and *b* of the first paragraph, it is deemed, for the purposes of subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph of section 444 and subparagraph 1 of subparagraph iv of subparagraph *b* of the second paragraph of section 450, to be equal to the lesser of those amounts, and if it is greater than the greater of those amounts, it is deemed, for the purposes of those subparagraphs 1, to be equal to the greater of the amounts determined under those subparagraphs *a* and *b* of the first paragraph in respect of the property.

History: 1986, c. 15, s. 83; 1995, c. 49, s. 129; 1997, c. 3, s. 71; 1997, c. 85, s. 74; 2007, c. 12, s. 59; 2017, c. 29, s. 66.
Corresponding Federal Provision: 70(9.01)(b)(ii)(I) and (II), (v) and (vi), (9.11)(b)(ii)(I) and (II), (v) and (vi), (9.21)(b)(ii)(I) and (II), (v) and (vi) and (9.31)(b)(ii)(I) and (II), (v) and (vi).

Transfer to the father or mother.

450.6. Section 444 applies in respect of the transfer of a property as if "to a child" and "in the child" were replaced by "to the father or mother" and "in the father or mother", respectively, and as if "the child" were replaced by "the father or mother", if

(*a*) the property was acquired by an individual in circumstances where any of sections 444, 450 and 460 to 462 applied in respect of the acquisition;

(*b*) the property is transferred to the father or mother of the individual because of the individual's death; and

(*c*) the individual's legal representative makes a valid election in the fiscal return filed under Part I of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) for the taxation year in which the individual died, to have subsection 9.6 of section 70 of that Act apply in respect of the transfer.

History: 1986, c. 15, s. 83; 1997, c. 85, s. 75; 2007, c. 12, s. 60.
Corresponding Federal Provision: 70(9.6).

450.7. *(Repealed).*

History: 1986, c. 15, s. 83; 1986, c. 19, s. 106; 1987, c. 67, s. 106.

450.8. *(Repealed).*

History: 1986, c. 15, s. 83; 1987, c. 67, s. 106.

Property used in a farming or fishing business.

450.9. For the purposes of sections 444 and 459 and subparagraph iv of subparagraph *a*.0.2 of the first paragraph of section 726.6, a property of an individual is, at a particular time, deemed to be used by the individual in a farming or fishing business carried on in Canada if, at that particular time, the property is being used, principally in the course of carrying on a farming or fishing business in Canada, by

(*a*) a corporation, a share of the capital stock of which is a share of the capital stock of a family farm or fishing corporation of the individual or of the spouse, a child or the father or mother of the individual; or

(*b*) a partnership, a partnership interest in which is an interest in a family farm or fishing partnership of the individual or of the spouse, a child or the father or mother of the individual.

History: 1986, c. 15, s. 83; 1993, c. 16, s. 186; 1997, c. 3, s. 71; 2005, c. 1, s. 106; 2007, c. 12, s. 61; 2017, c. 29, s. 67; 2019, c. 14, s. 128.
Corresponding Federal Provision: 70(9.8).

Capital cost of certain depreciable property.

450.10. For the purposes of Divisions I to III and, where a provision of either of those divisions, other than this section, applies, for the purposes of sections 93 to 104 and Chapter III of Title III, but not for the purposes of any regulations made under paragraph *a* of section 130, the capital cost to an individual, or to a trust to which section 450 applies, of depreciable property of a prescribed class disposed of immediately before the death of the individual or, as the case may be, of the spouse referred to in that section 450, shall, in respect of property that was not disposed of by the individual or the trust before that time, be the amount that it would be, if

(*a*) paragraph *b* of section 99 were read without reference to "the lesser of the following amounts" in the portion before subparagraph i thereof and without reference to subparagraph ii thereof;

(*b*) subparagraph i of paragraph *d* of section 99 were read as follows:

"i. where the proportion of the use made of the property to gain income has increased at a particular time, the taxpayer is deemed to have acquired at that time depreciable property of that class at a capital cost equal to the proportion of the fair market value of the property at that time that the amount of the increase in the use regularly made by the taxpayer of the property to gain income is of the whole of the use regularly made of the property;" and

(*c*) section 99 were read without reference to paragraph *d*.1 thereof.

History: 1995, c. 49, s. 130; 1998, c. 16, s. 166.
Corresponding Federal Provision: 70(13).

Order of disposal of depreciable property.

450.11. Where two or more depreciable properties of a prescribed class are disposed of at the same time as a consequence of an individual's death, Divisions I to III and paragraph *a* of the definition of "cost amount" in section 1 apply as if each property so disposed of were separately disposed of in the order designated by the individual's legal representative or, in the case of a trust referred to in section 450, by the trust and, where the taxpayer's legal representative or the trust, as the case may be, does not designate an order, in the order designated by the Minister.

History: 1995, c. 49, s. 130.
Corresponding Federal Provision: 70(14).

Definitions:

451. In this division and sections 234 to 236, 236.2, 237, 240, 241, 261, 264, 271 to 273, 274.1, 278 to 280.4, 288, 293, 428 to 430, 432 to 435, 454 to 455.1 and 459 to 462:

(*a*) *(subparagraph repealed)*;

(*a.*1) *(subparagraph repealed)*;

"share of the capital stock of a family farm or fishing corporation";
(*a.*2) "share of the capital stock of a family farm or fishing corporation", of an individual at any time, means a share of the capital stock of a corporation owned by the individual at that time if, at that time, all or substantially all of the fair market value of the property owned by the corporation was attributable to

i. property that has been used principally in the course of carrying on a farming or fishing business in Canada in which the individual or the spouse, a child or the father or mother of the individual was actively engaged on a regular and continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot), by

(1) the corporation or any other corporation, a share of the capital stock of which was a share of the capital stock of a family farm or fishing corporation of the individual or of the spouse, a child or the father or mother of the individual,

(2) a corporation controlled by a corporation described in subparagraph 1,

(3) the individual,

(4) the spouse, a child or the father or mother of the individual, or

(5) a partnership, a partnership interest in which was an interest in a family farm or fishing partnership of the individual or of the spouse, a child or the father or mother of the individual,

ii. shares of the capital stock or indebtedness of one or more corporations of which all or substantially all of the fair market value of the property was attributable to property described in subparagraph iv,

iii. partnership interests in or indebtedness of one or more partnerships of which all or substantially all of the fair market value of the property was attributable to property described in subparagraph iv, or

iv. property described in any of subparagraphs i to iii;

(*b*) *(subparagraph repealed)*;

(*c*) *(subparagraph repealed)*;

"child";
(*d*) "child" of a taxpayer includes

i. a grandchild or a great grandchild of the taxpayer,

ii. a person who was a child of the taxpayer immediately before the death of the person's spouse, and

iii. a person who, at any time before attaining the age of 19 years, was wholly dependent on the taxpayer for support and of whom the taxpayer had, at that time, in law or in fact, the custody and control;

(*e*) *(subparagraph repealed)*;

(*f*) *(subparagraph repealed)*;

(*g*) *(subparagraph repealed)*;

"interest in a family farm or fishing partnership".
(*h*) "interest in a family farm or fishing partnership", of an individual at any time, means a partnership interest owned by the individual at that time if, at that time, all or substantially all of the fair market value of the property of the partnership was attributable to

i. property that has been used principally in the course of carrying on a farming or fishing business in Canada in which the individual or the spouse, a child or the father or mother of the individual was actively engaged on a regular and

continuous basis (or, in the case of property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot), by the partnership or by

(1) the individual,

(2) the spouse, a child or the father or mother of the individual,

(3) a corporation, a share of the capital stock of which was a share of the capital stock of a family farm or fishing corporation of the individual or of the spouse, a child or the father or mother of the individual, or

(4) a partnership, a partnership interest in which was an interest in a family farm or fishing partnership of the individual or of the spouse, a child or the father or mother of the individual,

ii. shares of the capital stock or indebtedness of one or more corporations of which all or substantially all of the fair market value of the property was attributable to property described in subparagraph iv,

iii. partnership interests in or indebtedness of one or more partnerships of which all or substantially all of the fair market value of the property was attributable to property described in subparagraph iv, or

iv. property described in any of subparagraphs i to iii.

Value of income stabilization account.

For the purposes of subparagraph *a*.2 of the first paragraph, the fair market value of a net income stabilization account or of a farm income stabilization account is deemed to be nil.

History: 1977, c. 26, s. 55; 1979, c. 18, s. 34; 1980, c. 13, s. 46; 1982, c. 5, s. 107; 1984, c. 15, s. 100; 1985, c. 25, s. 91; 1986, c. 15, s. 84; 1987, c. 67, s. 107; 1989, c. 5, s. 68; 1994, c. 22, s. 179; 1997, c. 3, s. 71; 2001, c. 7, s. 46; 2004, c. 8, s. 95; 2004, c. 21, s. 81; 2007, c. 12, s. 62; 2010, c. 5, s. 43; 2017, c. 29, s. 68.

Corresponding Federal Provision: 70(10) and (12).

DIVISION IV
COMPUTATION OF INCOME

Computation of income for year of death.

452. Subject to section 453, in computing the income of a taxpayer for the taxation year in which the taxpayer died, sections 153 and 208, subparagraph *b* of the first paragraph of section 234, paragraph *b* of section 234.0.1, the amount that the taxpayer may deduct under subparagraph *a* of the first paragraph of section 279 and sections 357 and 358, as they read in respect of a disposition of property, may not be taken into account.

History: 1972, c. 23, s. 368; 1975, c. 22, s. 101; 1978, c. 26, s. 79; 1987, c. 67, s. 108; 1993, c. 16, s. 187; 2000, c. 5, s. 102; 2009, c. 5, s. 152; 2010, c. 5, s. 44.

Corresponding Federal Provision: 72(1).

DIVISION V
ELECTION BY SPOUSE OR TRUST

Election relating to certain reserves.

453. If a right to receive an amount is transferred or distributed as a consequence of the death of a taxpayer to a beneficiary who is the taxpayer's spouse resident in Canada immediately before the death or a trust referred to in section 440, and the beneficiary and the legal representative of the taxpayer make a valid election under subsection 2 of section 72 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in respect of that right, the following rules apply if the taxpayer was resident in Canada immediately before dying:

(*a*) sections 153 and 208 and sections 357 and 358, as they read in respect of the disposition of property, apply in computing the taxpayer's income for the taxation year of the taxpayer's death, subparagraph *b* of the first paragraph of section 234 applies in computing the taxpayer's gain for that year and section 452 does not apply for the purpose of computing the taxpayer's gain referred to in subparagraph *a* of the first paragraph of section 279 for that year, and the beneficiary must include in computing the beneficiary's income or gain for the beneficiary's first taxation year ending after the death the amounts deducted in respect of the taxpayer under sections 153 and 208, subparagraph *b* of the first paragraph of section 234, subparagraph *a* of the first paragraph of section 279 or sections 357 and 358;

(*b*) the amounts provided for in subparagraph *a* are deemed to have been included in computing the income or earnings of the beneficiary for a previous year, from a similar source;

(*c*) despite paragraphs *a* and *b*, if the taxpayer had disposed of a property, the beneficiary is deemed, for the purpose of computing any reserve the beneficiary may deduct, in respect of the disposition of property, under section 153, subparagraph *b* of the first paragraph of section 234, subparagraph *a* of the first paragraph of section 279 or either of sections 357 and 358, as they read in respect of that disposition, in computing the beneficiary's income for a taxation year ending after the death of the taxpayer, to be the taxpayer who had disposed of the property and to have disposed of it at the time it was disposed of by the taxpayer.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 2 of section 72 of the Income

Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1972, c. 23, s. 369; 1973, c. 17, s. 50; 1975, c. 22, s. 102; 1984, c. 15, s. 101; 1987, c. 67, s. 109; 1990, c. 59, s. 172; 1993, c. 16, s. 188; 1994, c. 22, s. 180; 1997, c. 14, s. 77; 2009, c. 5, s. 153; 2010, c. 5, s. 45.

Corresponding Federal Provision: 72(2).

CHAPTER IV
INTER VIVOS TRANSFERS

Transfer *inter vivos* of property to spouse, former spouse, or trust.

454. Where at any time a capital property of an individual, other than a trust, is transferred in any of the circumstances to which section 454.1 applies and both the individual and the transferee are resident in Canada at that time, the capital property is deemed to be disposed of at that time by the individual and acquired by the transferee for an amount equal to the adjusted cost base of the capital property immediately before that time or, where the capital property is depreciable property, to the proportion of the undepreciated capital cost of all the property of the same class that the fair market value before that time of the capital property is of the fair market value before that time of the aggregate of all of the property of the same class.

Exception.

This section does not apply to such a transfer where the taxpayer makes a valid election under subsection 1 of section 73 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) to have the provisions of that subsection not apply to the transfer.

History: 1972, c. 23, s. 370; 1979, c. 38, s. 15; 1982, c. 5, s. 108; 1993, c. 16, s. 189; 1994, c. 22, s. 181; 1997, c. 85, s. 76; 2003, c. 2, s. 122.

Corresponding Federal Provision: 73(1).

Circumstances referred to.

454.1. Subject to section 454.2, the circumstances to which section 454 refers are the following:

(*a*) the capital property is transferred to the individual's spouse;

(*b*) the capital property is transferred to a former spouse of the individual in settlement of rights arising out of their marriage; and

(*c*) the capital property is transferred to a trust created by the individual if the terms of the deed creating it

i. entitled the individual's spouse to receive all of the income of the trust that arose before the spouse's death and to receive or otherwise obtain, to the exclusion of any other person, enjoyment of the income or capital of the trust,

ii. entitled the individual to receive all of the income of the trust that arose before the individual's death and to receive or otherwise obtain, to the exclusion of any other person, enjoyment of the income or capital of the trust, or

iii. entitled the individual and the individual's spouse to receive all of the income of the trust that arose before their deaths and to receive or otherwise obtain, to the exclusion of any other person, enjoyment of the income or capital of the trust.

History: 2003, c. 2, s. 123.

Corresponding Federal Provision: 73(1.01).

Exception.

454.2. Section 454.1 applies to a transfer of capital property by an individual to a trust of which the terms of the deed creating it meet the conditions in subparagraph ii or iii of paragraph *c* of that section only where

(*a*) the trust was created after 31 December 1999;

(*b*) either

i. the individual attained 65 years of age at the time the trust was created, or

ii. the transfer does not result in a change in beneficial ownership of the capital property and there is immediately after the transfer no absolute or contingent right of a person, other than the individual, or partnership as a beneficiary, determined with reference to section 646.1, under the trust; and

(*c*) in the case of a trust of which the terms of the deed creating it meet the conditions in subparagraph ii of paragraph *c* of section 454.1, the trust does not make an election under subparagraph *d* of the second paragraph of section 653.

History: 2003, c. 2, s. 123.

Corresponding Federal Provision: 73(1.02).

Capital cost and amount deemed allowed to spouse, former spouse or trust.

455. Where section 454 applies and the capital cost to the taxpayer of a depreciable property of a prescribed class exceeds the amount determined under that section, the following rules apply for the purposes of sections 93 to 104, 130 and 130.1 and of the regulations made under paragraph *a* of section 130 or section 130.1:

(*a*) the capital cost of such capital property to the transferee is deemed to be the capital cost of such capital property to the taxpayer; and

(*b*) the excess is deemed to have been allowed to the transferee in respect of such capital property under the

regulations made under paragraph *a* of section 130 in computing his income for the previous taxation years.

History: 1972, c. 23, s. 371; 1979, c. 18, s. 35; 1979, c. 38, s. 16.
Corresponding Federal Provision: 73(2).

Notice to the Minister and penalty.

455.0.1. Where, in respect of the property referred to in section 454 and by virtue of subsection 3.2 of section 220 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), the time for making the election referred to in the second paragraph of section 454 is extended or such an election made previously is rescinded, the taxpayer

(*a*) shall notify the Minister in writing and attach to the notice a copy of the document to that effect sent by the taxpayer to the Minister of Revenue of Canada; and

(*b*) incurs a penalty equal to $100 for each complete month from the taxpayer's filing-due date for the year in which the transfer is made and ending on the day on which the notice referred to in subparagraph *a* is sent to the Minister, up to $5,000.

Assessment by the Minister.

Notwithstanding sections 1010 to 1011, such assessments of tax, interest and penalties under this Part shall be made as are necessary by the Minister for any taxation year to take into account the election or the rescinded election referred to in the first paragraph.

History: 1997, c. 85, s. 77; 2000, c. 5, s. 293; 2003, c. 2, s. 124; 2009, c. 5, s. 154.

455.1. *(Repealed).*

History: 1979, c. 38, s. 17; 1984, c. 15, s. 102.

456. *(Repealed).*

History: 1972, c. 23, s. 372; 1975, c. 22, s. 103; 1977, c. 26, s. 56; 1980, c. 13, s. 47; 1982, c. 5, s. 109; 1987, c. 67, s. 110.

Deemed transfer owing to the dissolution of the matrimonial regime.

456.1. For the purposes of this chapter, where a property becomes the property of an individual following the declaratory effect of a partition following the dissolution of the matrimonial regime to which that individual was subject and where that individual was not the deemed owner of the property under section 2.1 immediately before that dissolution, that property is deemed to have been transferred to that individual by his spouse immediately before that dissolution.

History: 1979, c. 38, s. 18.
Corresponding Federal Provision: 248(23).

457. *(Repealed).*

History: 1972, c. 23, s. 373; 1975, c. 22, s. 104; 1987, c. 67, s. 111.

457.1. *(Repealed).*

History: 1979, c. 38, s. 19; 1982, c. 5, s. 110; 1987, c. 67, s. 111.

458. *(Repealed).*

History: 1972, c. 23, s. 374; 1975, c. 22, s. 104; 1987, c. 67, s. 111.

Transfer to a child of property used in a fishing or farming business.

459. Sections 460 to 462 apply to an individual and to a child of the individual in respect of a property transferred, at any time, by the individual to the child, if the child was resident in Canada immediately before the transfer and if

(*a*) the property was, before the transfer, land situated in Canada or a depreciable property of a prescribed class situated in Canada and was used principally in the business of farming or fishing in which the individual or the spouse, a child or the father or mother of the individual was actively engaged on a regular and continuous basis or, in the case of a property used in the operation of a woodlot, was engaged to the extent required by a prescribed forest management plan in respect of that woodlot; or

(*b*) the property was, immediately before the transfer, a share of the capital stock of a family farm or fishing corporation of the individual or an interest in a family farm or fishing partnership of the individual.

History: 1973, c. 17, s. 52; 1979, c. 18, s. 36; 1986, c. 19, s. 107; 1994, c. 22, s. 182; 1997, c. 3, s. 71; 2004, c. 8, s. 96; 2005, c. 1, s. 107; 2007, c. 12, s. 63; 2015, c. 21, s. 172; 2017, c. 29, s. 69; 2019, c. 14, s. 129.
Corresponding Federal Provision: 73(3) and (4).

Rules applicable.

460. If, because of section 459, this section applies to an individual in respect of a property transferred by the individual to the child of the individual, the following rules apply:

(*a*) in cases where paragraph *b* and section 461 do not apply, the individual is deemed to have disposed of the property, at the time of the transfer, for proceeds equal to proceeds of disposition otherwise determined;

(*b*) subject to paragraph *c*, if the proceeds of disposition of the property otherwise determined exceed the greater of the following amounts, the individual is deemed to have disposed of the property at the time of the transfer for the greater of those amounts:

i. the fair market value of the property immediately before the time of the transfer, and

ii. if, immediately before the transfer, the property was

(1) a depreciable property of a prescribed class, the lesser of the capital cost of the property and the amount, determined immediately before the time of the disposition of the property, that is equal to that proportion of the undepreciated capital cost of the property of that class to the individual that the capital cost of the property to the individual is of the capital cost to the individual of all the property of that class that had not, at or before that time, been disposed of,

(2) land, a share of the capital stock of a family farm or fishing corporation of the individual or an interest in a family farm or fishing partnership of the individual, the adjusted cost base of the property to the individual immediately before the time of the transfer, or

(3) *(subparagraph repealed)*;

(*c*) if, immediately before the transfer, the property was an interest in a family farm or fishing partnership of the individual and the individual receives no consideration in respect of the transfer of the property and makes a valid election under paragraph *c* of subsection 4.1 of section 73 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), in the individual's fiscal return filed under Part I of that Act for the taxation year that includes the time of the transfer, to have that paragraph *c* apply in respect of the transfer of the property, the individual is deemed, except for the purposes of section 632, not to have disposed of the property at the time of the transfer; and

(*d*) section 422 does not apply to the individual in respect of the property.

History: 1973, c. 17, s. 52; 1979, c. 18, s. 37; 1990, c. 59, s. 173; 1994, c. 22, s. 183; 1997, c. 3, s. 71; 2005, c. 1, s. 108; 2007, c. 12, s. 63; 2017, c. 29, s. 70; 2019, c. 14, s. 130.

Corresponding Federal Provision: 73(3.1)(part) and (4.1)(part).

Proceeds of disposition.

461. If the proceeds of disposition, otherwise determined, of a property referred to in subparagraph 1 or 2 of subparagraph ii of paragraph *b* of section 460 are less than the lesser of the amount referred to in subparagraph i of that paragraph *b* and the amount determined under subparagraph 1 or 2 of subparagraph ii of that paragraph *b* that is applicable in respect of the property, they are deemed to be equal to the lesser of those amounts.

History: 1973, c. 17, s. 52; 2007, c. 12, s. 63; 2019, c. 14, s. 131.

Corresponding Federal Provision: 73(3.1)(a)(iii), (b)(iii) and (c)(iii) and (4.1)(a)(iii).

Rules applicable.

462. If, because of section 459, this section applies to a child of an individual in respect of a property transferred by the individual to the child, the following rules apply:

(*a*) section 422 does not apply to the child in respect of the property;

(*b*) subject to subparagraph *e*, if the property is a depreciable property of a prescribed class of the individual, land, a share of the capital stock of a family farm or fishing corporation of the individual or an interest in a family farm or fishing partnership of the individual, the child is deemed to have acquired the property at a cost equal to the individual's proceeds of disposition of the property, as determined under paragraphs *a* and *b* of section 460 and section 461;

(*c*) if the property was a depreciable property of a prescribed class of the individual and the capital cost of the property to the individual exceeds the capital cost of the property to the child, for the purposes of sections 93 to 104, 130 and 130.1 and regulations under section 130 or 130.1, the capital cost of the property to the child is deemed to be the amount that was the capital cost of the property to the individual immediately before the transfer and the excess is deemed to have been allowed to the child in respect of the property as depreciation in computing income for the taxation years that ended before the child acquired the property;

(*d*) *(paragraph repealed)*;

(*e*) if the property was, immediately before the transfer, an interest in a family farm or fishing partnership of the individual, other than an interest to which section 636 applies, and the individual receives no consideration in respect of the transfer of the property and makes the election referred to in paragraph *c* of section 460 in respect of the transfer of the property, the following rules apply:

i. the child is deemed to have acquired the property at the time of the transfer at a cost equal to the cost of the interest to the individual immediately before the time of the transfer, and

ii. each amount required by section 255 or 257 to be added or deducted in computing the adjusted cost base of the property to the individual, immediately before the transfer, is deemed to be an amount required by that section 255 or 257 to be added or deducted in computing at any time at or after the time of the transfer, the adjusted cost base of the property to the child.

History: 1973, c. 17, s. 52; 1979, c. 18, s. 38; 1990, c. 59, s. 174; 1994, c. 22, s. 184; 1996, c. 39, s. 128; 2003, c. 2, s. 125; 2005, c. 1, s. 109; 2007, c. 12, s. 63; 2017, c. 29, s. 71; 2019, c. 14, s. 132.

Corresponding Federal Provision: 73(3.1)(c) to (h) and (4.1)(b) and (c).

Disposition of a NISA Fund No. 2.

462.0.1. Where at any time a taxpayer disposes of an interest in the taxpayer's NISA Fund No. 2, an amount equal to the balance in the fund so disposed of is deemed to have

been paid out of the fund at that time to the taxpayer except that,

(*a*) where the interest is disposed of to the taxpayer's spouse, former spouse or an individual referred to in subparagraph *d* of the second paragraph of section 454, as it applies in respect of transfers of property that occurred before 1 January 1993, in settlement of rights arising out of their marriage, on or after the breakdown of the marriage, that amount is not deemed to have been paid to the taxpayer if

i. the disposition is made under a decree, order or judgment of a competent tribunal or, in the case of a spouse or former spouse, under a written separation agreement, and

ii. the taxpayer elects in the taxpayer's fiscal return under this Part for the taxation year in which the property was disposed of to have this paragraph apply to the disposition;

(*b*) where the interest is disposed of to a taxable Canadian corporation in a transaction in respect of which section 518 applies, an amount equal to the proceeds of disposition in respect of that interest is deemed to be paid, at that time, to the taxpayer out of the taxpayer's NISA Fund No. 2.

History: 1994, c. 22, s. 185; 1995, c. 49, s. 236; 1996, c. 39, s. 129; 1997, c. 3, s. 71; 1997, c. 85, s. 78.

Corresponding Federal Provision: 73(5).

Disposition of a farm income stabilization account.

462.0.2. Where at any time a taxpayer disposes of an interest in the taxpayer's farm income stabilization account, an amount equal to the balance of the account so disposed of is deemed, subject to the second and third paragraphs, to have been paid out of that account at that time to the taxpayer.

Disposition arising out of a marriage breakdown.

The rule set out in the first paragraph does not apply where the interest in the taxpayer's farm income stabilization account is disposed of by the taxpayer to the taxpayer's spouse or former spouse, in settlement of rights arising out of their marriage, on or after the breakdown of the marriage, if

(*a*) the disposition is made under an order or judgment of a competent tribunal or under a written separation agreement; and

(*b*) the taxpayer elects in the taxpayer's fiscal return under this Part for the taxation year in which the interest was disposed of to have this paragraph apply to the disposition.

Disposition as part of a rollover transaction.

Where at any time a taxpayer who is an individual disposes of an interest in the taxpayer's farm income stabilization account to a taxable Canadian corporation in a transaction in respect of which section 518 applies, an amount equal to the proceeds of disposition in respect of that interest is deemed to be paid, at that time, to the taxpayer out of that account.

History: 2004, c. 21, s. 82.

Property transferred or loaned to spouse.

462.1. Where an individual has transferred or loaned property, otherwise than by partition of a retirement pension pursuant to sections 158.3 to 158.8 of the Act respecting the Québec Pension Plan (chapter R-9) or any comparable provision of a similar plan, within the meaning of that Act, either directly or indirectly, by means of a trust or otherwise, to or for the benefit of a person who is, or who has since become, the spouse of the individual, any income or loss of that person for a taxation year from the property or from property substituted for it, that relates to the period in the year throughout which the individual is resident in Canada and is the person's spouse, is deemed to be income or a loss of the individual for the year and not of that person.

History: 1987, c. 67, s. 112; 1989, c. 77, s. 52; 1995, c. 1, s. 42; 2013, c. 10, s. 33.

Corresponding Federal Provision: 74.1(1).

Property transferred or loaned to a minor.

462.2. If an individual has transferred or loaned a property, either directly or indirectly, by means of a trust or otherwise, to or for the benefit of a person who was under 18 years of age and who is not dealing with the individual at arm's length or is the niece or nephew of the individual, other than an amount received in respect of that person because of the application of subsection 1 of section 122.61 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), section 4 of the Universal Child Care Benefit Act, enacted by section 168 of the Budget Implementation Act, 2006 (Statutes of Canada, 2006, chapter 4), or section 1029.8.61.18, any income or loss of that person for a taxation year from the property or from any property substituted for that property, that relates to the period in the year throughout which the individual is resident in Canada, is deemed to be income or a loss of the individual for the year and not of that person unless that person has reached 18 years of age before the end of the year.

History: 1987, c. 67, s. 112; 1993, c. 64, s. 35; 1994, c. 22, s. 186; 2007, c. 12, s. 64.

Corresponding Federal Provision: 74.1(2).

Repayment of borrowed money.

462.3. For the purposes of sections 462.1 and 462.2, where, at any time, an individual has loaned or transferred property, either directly or indirectly, by means of a trust or otherwise, to or for the benefit of a person, and the loaned or transferred property or property substituted therefor is used to repay, in whole or in part, borrowed money with which other property was acquired, or to reduce an amount payable for other property, there shall be included in computing the income from the loaned or transferred property, or from any

property substituted therefor, that is so used, the amount determined under section 462.4.

Restriction.

However, nothing in this section shall affect the application of sections 462.1 and 462.2 to any income or loss derived from the other property or from any property substituted therefor.

History: 1987, c. 67, s. 112.

Corresponding Federal Provision: 74.1(3)(a) and (b).

Amount to be included.

462.4. The amount referred to in section 462.3 is equal to that proportion of the income or loss, as the case may be, derived after that time from the other property or from any property substituted therefor that the fair market value at that time of the loaned or transferred property, or property substituted therefor, that is so used is of the cost to that person of the other property at the time of its acquisition.

History: 1987, c. 67, s. 112.

Corresponding Federal Provision: 74.1(3) after (b).

Loaned or transferred property for recipient.

462.5. Where an individual has loaned or transferred property, either directly or indirectly, by means of a trust or otherwise, to or for the benefit of a person hereinafter referred to as the "recipient" who is his spouse or who has since become his spouse, the following rules apply for the purposes of computing the income of the individual and the recipient for a taxation year:

(*a*) the amount, if any, by which the aggregate of the recipient's taxable capital gains for the year from dispositions of property, other than precious property, that is property so loaned or transferred or property substituted therefor occurring in the period throughout which the individual is resident in Canada and the recipient is his spouse exceeds the aggregate of the recipient's allowable capital losses for the year from dispositions of such property occurring in such period, or the amount, if any, by which the aggregate of such losses exceeds, for the year, the aggregate of such gains, is deemed to be a taxable capital gain or an allowable capital loss, as the case may be, of the individual for the year from the disposition of property other than precious property;

(*b*) the amount, if any, by which the amount that the aggregate of the recipient's gains for the year from dispositions occurring in the period described in paragraph *a* of precious property that is property so loaned or transferred or property substituted therefor would be if the recipient had at no time owned other precious property exceeds the amount that the aggregate of the recipient's losses for the year from dispositions of such property would be during that period if the recipient had at no time owned other precious property or the amount, if any, by which the aggregate of such losses so determined exceeds, for the year, the aggregate of such gains so determined is deemed to be a gain or a loss, as the case may be, of the individual for the year from the disposition of precious property;

(*c*) any taxable capital gain or allowable capital loss or any gain or loss taken into account in computing an amount described in paragraph *a* or *b* is, except for the purposes of those paragraphs and to the extent that the amount so described is deemed by virtue of this section to be a taxable capital gain or an allowable capital loss or a gain or loss of the individual, deemed not to be a taxable capital gain or an allowable capital loss or a gain or loss, as the case may be, of the recipient.

History: 1987, c. 67, s. 112.

Corresponding Federal Provision: 74.2(1).

Gain or loss deemed to relate to the disposition of property.

462.6. Where an individual is deemed to have a taxable capital gain or an allowable capital loss for a taxation year under any of sections 457 and 458, as they read before their repeal for that year, 462.5, 463 and 467, such portion of the gain or loss as may reasonably be considered to relate to the disposition of a property by another person in the year is deemed, for the purposes of sections 28 and 727 to 737, as they apply for the purposes of Title VI.5 of Book IV, to arise from the disposition of that property by the individual in the year, and that property is deemed, for the purposes of that Title, to have been disposed of by the individual on the day on which it was disposed of by the other person.

History: 1987, c. 67, s. 112; 1990, c. 59, s. 175; 1993, c. 16, s. 190; 1996, c. 39, s. 130.

Corresponding Federal Provision: 74.2(2).

Restriction on application of section 462.5.

462.6.1. Section 462.5 does not apply to a disposition of property made under subparagraph *b* of the first paragraph of section 785.2 at a particular time by a taxpayer who is a recipient referred to in section 462.5, unless the recipient and the individual referred to in section 462.5 make a valid election under subsection 3 of section 74.2 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in relation to the disposition.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 3 of section 74.2 of the Income Tax Act or in relation to an election made under this section before 20 December 2006.

History: 2004, c. 8, s. 97; 2009, c. 5, s. 155.

Corresponding Federal Provision: 74.2(3).

Application of section 462.6.1.

462.6.2. For the purposes of section 462.6.1 and notwithstanding sections 1010 to 1011, any assessment of tax

payable under this Part by the recipient or the individual referred to in section 462.5 shall be made by the Minister as is necessary to give effect to an election referred to in the first paragraph of section 462.6.1, except that no such assessment shall affect the computation of

(*a*) interest payable under this Part to or by a taxpayer in respect of any period that is before the taxpayer's filing-due date for the taxation year that includes the first time, after the particular time referred to in the first paragraph of section 462.6.1, at which the recipient disposes of the property referred to in that paragraph; or

(*b*) any penalty payable under this Part.

History: 2004, c. 8, s. 97; 2009, c. 5, s. 156.
Corresponding Federal Provision: 74.2(4).

"designated person".

462.7. For the purposes of sections 462.8 to 462.24, "designated person", in respect of an individual, means a person

(*a*) who is the individual's spouse; or

(*b*) who is under 18 years of age and who does not deal with the individual at arm's length, or is the niece or nephew of the individual.

History: 1987, c. 67, s. 112.
Corresponding Federal Provision: 74.5(5).

Property transferred or loaned to a trust.

462.8. The rules provided in sections 462.9 and 462.10 apply where an individual has loaned or transferred property, either directly or indirectly, by means of a trust or otherwise, to a trust in which another individual who is at any time a designated person in respect of the individual is beneficially interested at any time.

History: 1987, c. 67, s. 112; 1994, c. 22, s. 187; 1996, c. 39, s. 273.
Corresponding Federal Provision: 74.3(1) before (a).

Income of designated person.

462.9. The income of the designated person referred to in section 462.8 for a taxation year from the property so loaned or transferred is deemed, for the purposes of sections 462.1 to 462.4, to be an amount equal to the lesser of

(*a*) the amount in respect of the trust that was included by virtue of paragraph *n* of section 87 in computing the income for the year of the designated person, and

(*b*) that proportion of the amount that would be the income of the trust for the year from the property or from any property substituted therefor if no deduction were made under paragraph *a* or *b* of section 657 or section 657.1 that

i. the amount determined under paragraph *a* in respect of the designated person for the year, is of

ii. the aggregate of all amounts each of which is an amount determined under paragraph *a* for the year in respect of the designated person or any other person who is throughout the year a designated person in respect of the individual.

History: 1987, c. 67, s. 112.
Corresponding Federal Provision: 74.3(1)(a).

Property other than precious property.

462.10. The designated person referred to in section 462.8 is deemed, for the purposes of sections 462.5 and 462.6, to have derived a taxable capital gain for the year from the disposition of property other than precious property that is property so loaned or transferred for an amount equal to the lesser of

(*a*) the amount that was designated under section 668 in respect of the designated person in the trust's fiscal return for the year, and

(*b*) the amount, if any, by which the aggregate of all taxable capital gains for the year exceeds the aggregate of all allowable capital losses for the year from the disposition by the trust of property that is so loaned or transferred or any property substituted therefor.

History: 1987, c. 67, s. 112.
Corresponding Federal Provision: 74.3(1)(b).

Interpretation:

462.11. For the purposes of this section and of sections 462.12 to 462.14,

"excluded consideration";

(*a*) "excluded consideration", at any time, means consideration received by an individual that is

i. indebtedness,

ii. a share of the capital stock of a corporation, or

iii. a right to receive indebtedness or a share of the capital stock of a corporation;

"outstanding amount".

(*b*) "outstanding amount" of a transferred property or loan at a particular time means

i. in the case of a transfer of property to a corporation, the amount, if any, by which the fair market value of the property at the time of the transfer exceeds the aggregate of the fair market value, at the time of the transfer, of the consideration, other than consideration that is excluded consideration at the particular time, received by the transferor for the property, and the fair market value, at the time of receipt, of any consideration, other than consideration that is excluded consideration at the particular time, received by the

transferor at or before the particular time from the corporation or from a person with whom the transferor deals at arm's length, in exchange for excluded consideration previously received by the transferor as consideration for the property or for excluded consideration substituted for such consideration;

ii. in the case of a loan of money or property to a corporation, the amount, if any, by which the principal amount of the loan of money at the time the loan was made, or the fair market value of the property loaned at the time the loan was made, as the case may be, exceeds the fair market value, at the time the repayment is received by the lender, of any repayment of the loan, other than a repayment that is excluded consideration at the particular time.

History: 1987, c. 67, s. 112; 1997, c. 3, s. 71; 1999, c. 83, s. 54.
Corresponding Federal Provision: 74.4(1) "excluded consideration" and (3).

Property transferred or loaned to a corporation.

462.12. Where an individual has transferred or loaned property, either directly or indirectly, by means of a trust or otherwise, to a corporation and one of the main purposes of the transfer or loan may reasonably be considered to be to reduce the income of the individual and to benefit, either directly or indirectly, by means of a trust or otherwise, a person who is a designated person in respect of the individual, the individual is deemed in computing his income for any taxation year to have received as interest in the year, an amount equal to the amount determined under section 462.13, where the taxation year includes a period after the loan or transfer throughout which

(*a*) the individual was resident in Canada;

(*b*) the corporation was not a small business corporation; and

(*c*) the person is a designated person in respect of the individual and would have been a specified shareholder of the corporation, within the meaning of section 21.17 if the reference therein to "any other corporation that is related to the corporation" were read as a reference to "any other corporation, other than a small business corporation, that is related to the corporation" and if section 21.18 were read without reference to paragraphs *a* and *d* thereof.

History: 1987, c. 67, s. 112; 1993, c. 16, s. 191; 1997, c. 3, s. 71.
Corresponding Federal Provision: 74.4(2) before (a).

Exception.

462.12.1. For the purposes of section 462.12, one of the main purposes of a transfer or loan by an individual to a corporation is not considered to be to benefit, either directly or indirectly, a designated person in respect of the individual, where

(*a*) the only interest that the designated person has in the corporation is a beneficial interest in shares of the corporation held by a trust;

(*b*) by the terms of the trust, the designated person may not receive or otherwise obtain the use of any of the income or capital of the trust while he is a designated person in respect of the individual; and

(*c*) the designated person has not received or otherwise obtained the use of any of the income or capital of the trust, and no deduction has been made by the trust in computing its income under paragraphs *a* and *b* of section 657 or section 657.1 in respect of amounts paid or payable to, or included in the income of, that person while he was a designated person in respect of the individual.

History: 1989, c. 77, s. 53; 1996, c. 39, s. 273; 1997, c. 3, s. 71.
Corresponding Federal Provision: 74.4(4).

Interest.

462.13. The amount referred to in section 462.12 is equal to the amount, if any, by which the amount that would be interest on the outstanding amount of the loan or transferred property for such periods in the year as are contemplated in section 462.12 exceeds the amount determined under section 462.14 if the interest were computed thereon at the prescribed rate for such periods.

History: 1987, c. 67, s. 112.
Corresponding Federal Provision: 74.4(2)(a).

Computation.

462.14. The amount to which section 462.13 refers is equal to the aggregate of the following amounts:

(*a*) any interest received in the year by the individual in respect of the transfer or loan other than amounts deemed to have been received as interest under section 462.12;

(*b*) the aggregate of all amounts included in computing the individual's income for the year under sections 497 and 577 in relation to the taxable dividends received by the individual in the year, other than dividends deemed under Chapter III of Title IX to have been received on shares that were received from the corporation as consideration for the transfer or as repayment for the loan that were excluded consideration at the time the dividends were received, or on shares substituted therefor that were excluded consideration at that time;

(*c*) where the designated person is a specified individual in relation to the year, the amount required to be included in computing the designated person's income for the year in respect of all taxable dividends received by the designated person that can reasonably be considered to be part of the benefit sought to be conferred on the designated person

under section 462.12 and are included in computing the designated person's split income for any taxation year.

History: 1987, c. 67, s. 112; 1990, c. 59, s. 176; 1997, c. 3, s. 71; 2001, c. 53, s. 70; 2009, c. 5, s. 157.
Corresponding Federal Provision: 74.4(2)(b).

Applicability of certain provisions.

462.15. Notwithstanding any other provision of this Act, sections 462.1, 462.2, 462.5 and 462.6 do not apply to any income, gain or loss derived in a particular taxation year from transferred or loaned property, as the case may be, or from property substituted therefor if

(*a*) at the time of the transfer the fair market value of the transferred property did not exceed the fair market value of the property received by the transferor as consideration for the transferred property;

(*b*) where the consideration received by the transferor included indebtedness or in the case of a loan,

i. interest was charged on the indebtedness or loan, as the case may be, at a rate equal to or greater than the lesser of the prescribed rate that was in effect at the time the indebtedness was incurred or the loan was made, and the rate that would, having regard to all the circumstances, have been agreed upon, at the time the indebtedness was incurred or the loan was made, between parties dealing with each other at arm's length;

ii. the amount of interest that was payable in respect of the particular year in respect of the indebtedness or loan was paid not later than 30 days after the end of the particular year;

iii. the amount of interest that was payable in respect of each taxation year preceding the particular year in respect of the indebtedness or loan was paid not later than 30 days after the end of each such taxation year;

(*c*) where the property was transferred to or for the benefit of the transferor's spouse, the second paragraph of section 454 applies to the transfer.

History: 1987, c. 67, s. 112; 1997, c. 85, s. 79; 2003, c. 2, s. 126.
Corresponding Federal Provision: 74.5(1) and (2).

Spouses living separate and apart.

462.16. Section 462.1 does not apply in respect of any income or loss from a property that is attributable to the period throughout which the persons referred to in that section lived separate and apart from each other because of a breakdown of their marriage, and sections 462.5 and 462.6 do not apply in respect of a disposition of property that occurs at any time while the persons referred to in those sections are living separate and apart from each other because of a breakdown of their marriage if the individual and the individual's spouse make a valid election under paragraph *b* of subsection 3 of section 74.5 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in relation to the disposition.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under paragraph *b* of subsection 3 of section 74.5 of the Income Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1987, c. 67, s. 112; 1993, c. 16, s. 192; 1996, c. 39, s. 131; 2009, c. 5, s. 158.
Corresponding Federal Provision: 74.5(3).

Spouses living separate and apart.

462.17. No amount shall be included in computing the income of an individual under sections 462.12 to 462.14 in respect of a designated person in respect of the individual who is the spouse of the individual for any period throughout which the individual is living separate and apart from the designated person by reason of a breakdown of their marriage.

History: 1987, c. 67, s. 112.
Corresponding Federal Provision: 74.5(4).

"specified person".

462.18. For the purposes of sections 462.19 and 462.20, "specified person", with respect to an individual, means

(*a*) a designated person in respect of the individual; or

(*b*) a corporation, other than a small business corporation, of which a designated person in respect of the individual would have been a specified shareholder, within the meaning of section 21.17, if section 21.18 were read without reference to paragraphs *a* and *d* thereof.

History: 1987, c. 67, s. 112; 1997, c. 3, s. 71.
Corresponding Federal Provision: 74.5(8).

Property loaned or transferred by a third person.

462.19. Where an individual has loaned or transferred property to another person and that property, or property substituted therefor, is loaned or transferred by a third person directly or indirectly to or for the benefit of a specified person with respect to the individual, or to another person on condition that the property be loaned or transferred by a third person directly or indirectly to or for the benefit of a specified person with respect to the individual, the following rules apply:

(*a*) for the purposes of sections 462.1 to 462.14, the property loaned or transferred by the third person is deemed to have been loaned or transferred, as the case may be, by the individual to or for the benefit of the specified person;

(*b*) for the purposes of section 462.15, the consideration received by the third person for the transfer of the property is deemed to have been received by the individual.

History: 1987, c. 67, s. 112.
Corresponding Federal Provision: 74.5(6).

Repayment of loan.

462.20. Where an individual is obligated, either absolutely or contingently, to effect any undertaking including any guarantee, covenant or agreement given to ensure the repayment, in whole or in part, of a loan made by a third person directly or indirectly to or for the benefit of a specified person with respect to the individual or the payment, in whole or in part, of any interest payable in respect of the loan, the following rules apply:

(*a*) for the purposes of sections 462.1 to 462.14, the property loaned by the third person is deemed to have been loaned by the individual to or for the benefit of the specified person;

(*b*) for the purposes of subparagraphs ii and iii of paragraph *b* of section 462.15, the amount of interest that is paid in respect of the loan is deemed not to include any amount paid by the individual to the third person as interest on the loan.

History: 1987, c. 67, s. 112.
Corresponding Federal Provision: 74.5(7).

Property transferred or loaned to a trust.

462.21. Where a taxpayer has loaned or transferred property, either directly or indirectly, by means of a trust or otherwise, to a trust in which another taxpayer is beneficially interested, the taxpayer is, for the purposes of sections 462.1 to 462.24, deemed to have loaned or transferred the property, as the case may be, to or for the benefit of the other taxpayer.

History: 1987, c. 67, s. 112; 1994, c. 22, s. 188; 1996, c. 39, s. 273.
Corresponding Federal Provision: 74.5(9).

462.22. *(Repealed).*

History: 1987, c. 67, s. 112; 1994, c. 22, s. 189.

Artificial transactions.

462.23. Notwithstanding any other provision of this Act, sections 462.1 to 462.14 do not apply to a transfer or loan of property where it may reasonably be concluded that one of the main reasons for the transfer or loan, as the case may be, was to reduce the amount of tax that would, but for those sections, be payable under this Part on the income and gains derived from the property or from property substituted therefor.

History: 1987, c. 67, s. 112.
Corresponding Federal Provision: 74.5(11).

Exceptions.

462.24. Sections 462.1 to 462.10 do not apply in respect of a transfer by an individual of property

(*a*) as a payment of a premium under a registered retirement savings plan under which the individual's spouse is, immediately after the transfer, the annuitant, within the meaning of section 905.1, to the extent that the premium is deductible in computing the income of the individual for a taxation year;

(*a.*1) *(paragraph repealed)*;

(*a.*2) as a payment of a contribution under a registered disability savings plan;

(*b*) as a payment to another individual who is his spouse or a person who was under 18 years of age in a taxation year and with whom the individual does not deal at arm's length or who is the nephew or niece of the individual of an amount that is deductible by the individual in computing his income for the year and is required to be included in computing the income of the other individual;

(*c*) to the individual's spouse, while the property, or a property substituted for it, is held under a tax-free savings account of which the spouse is the holder, to the extent that the spouse does not, at the time of the contribution of the property under that account, have an excess TFSA amount, as defined in subsection 1 of section 207.01 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

History: 1987, c. 67, s. 112; 1989, c. 77, s. 54; 1991, c. 25, s. 76; 2009, c. 15, s. 86; 2013, c. 10, s. 34.
Corresponding Federal Provision: 74.5(12).

Split income.

462.24.1. Sections 456 to 458, 462.1, 462.2, 462.8 to 462.10 and 467 do not apply to any amount that is included in computing a specified individual's split income for a taxation year.

History: 2001, c. 53, s. 71.
Corresponding Federal Provision: 74.5(13).

Transfer or loan of property.

462.25. For the purposes of sections 316.1, 462.1 to 462.4 and 462.8 to 462.10, where an individual has transferred or loaned property, directly or indirectly, by means of a trust or by any other means, to a person and the property or property substituted therefor is an interest in a partnership, the person's share of the amount of any income or loss of the partnership for a fiscal period in which the person was a specified member of the partnership is deemed to be income or loss, as the case may be, from the property or substituted property.

History: 1990, c. 59, s. 177; 1997, c. 3, s. 71.

Corresponding Federal Provision: 96(1.8).

Gain or loss deemed that of transferor.

463. Where section 459 applies in respect of the transfer of property by a taxpayer to one of his children for an amount less than the fair market value of the property immediately before the transfer and where, in a taxation year during which he has not reached 18 years of age, the transferee disposes of the property, the following rules apply during the lifetime of the transferor while he is resident in Canada:

(*a*) the amount, if any, by which the aggregate of the transferee's taxable capital gains for the year from dispositions of property so transferred exceeds the aggregate of the transferee's allowable capital losses from such dispositions or the amount, if any, by which the aggregate of such losses exceeds, in the year, the aggregate of such gains is deemed to be a taxable capital gain or an allowable capital loss, as the case may be, of the transferor for the year from dispositions of property;

(*b*) any taxable capital gain or allowable capital loss taken into account in computing an amount described in paragraph *a* is, except for the purposes of that paragraph, to the extent that the amount so described is deemed by virtue of this section to be a taxable capital gain or an allowable capital loss of the transferor, deemed not to be a taxable capital gain or an allowable capital loss, as the case may be, of the transferee.

History: 1974, c. 18, s. 21; 1975, c. 22, s. 105; 1987, c. 67, s. 113; 1993, c. 16, s. 193.

Corresponding Federal Provision: 75.1(1).

463.1. *(Repealed).*

History: 1979, c. 18, s. 39; 1980, c. 13, s. 48; 1987, c. 67, s. 114.

464. *(Repealed).*

History: 1972, c. 23, s. 375; 1980, c. 13, s. 49.

465. *(Repealed).*

History: 1972, c. 23, s. 376; 1980, c. 13, s. 49.

466. *(Repealed).*

History: 1972, c. 23, s. 377; 1975, c. 22, s. 106; 1987, c. 67, s. 115.

Trusts.

467. The income, loss, taxable capital gain or allowable capital loss attributable to property held by a trust created since 1934 that is resident in Canada is deemed, if the property or property for which it was substituted has been directly or indirectly received from a person (in this section referred to as the "transferor"), to be that of the transferor throughout the existence of the transferor as long as the transferor is resident in Canada and if either property meets any of the following conditions:

(*a*) it may revert to the transferor;

(*b*) it may pass to persons to be determined by the transferor at a time subsequent to the creation of the trust; and

(*c*) it may not be disposed of during the existence of the transferor without the transferor's consent.

History: 1972, c. 23, s. 378; 2001, c. 7, s. 47; 2003, c. 2, s. 127; 2015, c. 36, s. 21.

Corresponding Federal Provision: 75(2).

Disposition non applicable.

467.1. Section 467 does not apply to property held in a taxation year

(*a*) by a trust governed by a retirement compensation arrangement, a registered retirement income fund, a deferred profit sharing plan, a registered pension plan, a pooled registered pension plan, an employee benefit plan, a profit sharing plan, a registered education savings plan, a registered disability savings plan, a registered retirement savings plan, a registered supplementary unemployment benefit plan or a tax-free savings account;

(*b*) by an employee trust, an employee life and health trust, a segregated fund trust within the meaning of subparagraph *k* of the first paragraph of section 835, a trust described in subparagraph *a*.1 of the third paragraph of section 647, a trust described in paragraph *m* of section 998 or a private foundation that is a registered charity;

(*c*) *(paragraph repealed)*;

(*c*.1) by an environmental trust; or

(*d*) by a trust that acquired the property, or other property for which the property is a substitute, from a particular individual, if

i. the particular individual acquired the property or the other property, as the case may be, in respect of another individual because of the application of subsection 1 of section 122.61 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), section 4 of the Universal Child Care Benefit Act, enacted by section 168 of the Budget Implementation Act, 2006 (Statutes of Canada, 2006, chapter 4), or section 1029.8.61.18, and

ii. the trust has no beneficiaries, within the meaning of the second paragraph of section 646, who may for any reason receive directly from the trust all or part of the income or capital of the trust other than individuals in respect of whom the particular individual acquired property because of the application of a provision described in subparagraph i.

History: 1986, c. 19, s. 108; 1991, c. 25, s. 77; 1996, c. 39, s. 132; 2000, c. 5, s. 103; 2003, c. 2, s. 128; 2009, c. 15, s. 87; 2010, c. 25, s. 31; 2011, c. 6, s. 132; 2015, c. 21, s. 173; 2015, c. 36, s. 22; 2020, c. 16, s. 70.

Corresponding Federal Provision: 75(3).

Rules applicable.

467.2. If an amount paid to acquire a qualifying trust annuity with respect to a taxpayer is deductible under paragraph *f* of section 339 in computing the taxpayer's income, the following rules apply:

(*a*) any amount that is paid out of or under the annuity at a particular time after 31 December 2005 and before the death of the taxpayer is deemed to have been received out of or under the annuity at the particular time by the taxpayer, and not to have been received by another taxpayer; and

(*b*) if the taxpayer dies after 31 December 2005,

i. the taxpayer is deemed to have received, immediately before the taxpayer's death, an amount out of or under the annuity equal to the fair market value of the annuity at the time of the taxpayer's death, and

ii. for the purposes of section 436, the annuity is to be disregarded in determining the fair market value (immediately before the taxpayer's death) of the taxpayer's interest in the trust that is the annuitant under the annuity.

History: 2009, c. 15, s. 88.
Corresponding Federal Provision: 75.2.

468. *(Repealed).*

History: 1972, c. 23, s. 379; 1982, c. 5, s. 111.

CHAPTER V
CONSIDERATION FOR EXPROPRIATED PROPERTY

DIVISION I
GENERAL RULES

Indemnities acquired as compensation or consideration.

469. The rules provided in this chapter apply where a taxpayer acquires any bond, debenture, hypothecary claim, mortgage, bill or similar obligation hereinafter called "indemnity" issued by the government of a foreign country or by a person resident in a foreign country and guaranteed by the government of such country:

(*a*) as compensation for shares that the taxpayer owned in a foreign affiliate that carried on business in that country or for all or substantially all the property used by the taxpayer in carrying on business in that country if such shares or property, hereinafter called "foreign property", were taken from such taxpayer after 18 June 1971 under the authority of a law of that country; or

(*b*) as consideration for the sale of such foreign property after that date under the authority of such a law or after notice or other manifestation of an intention to take possession of such a property.

History: 1973, c. 17, s. 53; 1996, c. 39, s. 133; 2005, c. 1, s. 110.
Corresponding Federal Provision: 80.1(1) before (a), (a) and (b).

Election in respect of indemnities acquired by taxpayer.

470. In the case provided for in section 469, if the acquisition is made by a taxpayer resident in Canada and the taxpayer makes a valid election under subsection 1 of section 80.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in respect of all indemnities acquired by the taxpayer, an amount, in respect of each indemnity, equal to its principal amount or, if, in accordance with paragraph *d* of that subsection 1, the taxpayer has designated in the election an amount in respect of the indemnity that is less than the principal amount, equal to that lesser amount, is deemed to be the cost to the taxpayer of the indemnity and, for the purpose of computing the proceeds of disposition of the foreign property, the amount received by the taxpayer because of the acquisition of the indemnity.

Increase.

However, if the amount designated by the taxpayer in the election referred to in the first paragraph in respect of an indemnity is less than the principal amount of the indemnity and, but for this paragraph, the proceeds of disposition of the foreign property, computed with reference to the first paragraph, would be less than the cost amount to the taxpayer of the foreign property immediately before it was taken or sold, that cost amount is, for the purposes of the first paragraph, to be increased by the taxpayer on or before the taxpayer's filing-due date for the taxation year in which the taxpayer acquired the indemnity or, if the taxpayer does not do so, by the Minister, so that the proceeds of disposition of the foreign property, computed with reference to the first paragraph, are equal to the cost amount to the taxpayer of the foreign property immediately before it was taken or sold.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 1 of section 80.1 of the Income Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1973, c. 17, s. 53; 2009, c. 5, s. 159.
Corresponding Federal Provision: 80.1(1)(c) to (f).

Election in respect of interest received or to be received on indemnities.

471. If a taxpayer makes a valid election under subsection 2 of section 80.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in respect of all amounts received or to be received by the taxpayer as interest on the indemnities the

taxpayer acquires, the following rules apply in respect of each indemnity:

(*a*) in computing the taxpayer's income for the year from the indemnity, in respect of each interest amount that the taxpayer receives in the year, the taxpayer may deduct the lesser of that amount and the aggregate of the amount to be added under subparagraph *b* in computing the adjusted cost base to the taxpayer of the indemnity and the greater, immediately before the interest amount was received, of the adjusted cost base to the taxpayer of the indemnity and its adjusted principal amount to the taxpayer, and the taxpayer shall include, in respect of each amount the taxpayer receives in the year as the principal amount of the indemnity or as proceeds of disposition of the indemnity, the amount by which the amount the taxpayer so receives exceeds the greater, immediately before receiving that amount, of the adjusted cost base to the taxpayer of the indemnity and its adjusted principal amount to the taxpayer;

(*b*) in computing, at a particular time, the adjusted cost base to the taxpayer of the indemnity, in respect of each interest amount received by the taxpayer before that time, the taxpayer shall add an amount equal to the lesser of the income or profit tax paid by the taxpayer in that respect to the government of a foreign country and the proportion of that tax that the adjusted cost base to the taxpayer of the indemnity, immediately before the taxpayer received the amount, is of the amount by which the amount exceeds that tax, and shall deduct each interest amount the taxpayer received before that time in respect of that indemnity and each amount the taxpayer received before that time as the principal amount of that indemnity;

(*c*) the amount received by the taxpayer as the principal amount of the indemnity is deemed not to be the proceeds of a partial disposition of the indemnity; and

(*d*) for the purposes of sections 772.2 to 772.13, despite the definition assigned to "non-business-income tax" in section 772.2, the non-business-income tax paid by the taxpayer does not include the amount that is required under subparagraph *b* to be added in computing the adjusted cost base to the taxpayer of the indemnity.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 2 of section 80.1 of the Income Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1973, c. 17, s. 53; 1995, c. 63, s. 38; 2009, c. 5, s. 159.
Corresponding Federal Provision: 80.1(2).

Adjusted principal amount.

472. In this chapter, the adjusted principal amount for a taxpayer of an indemnity at any particular time is the excess of the aggregate of its principal amount and, with respect to each interest amount received by him before that time, the lesser of the tax referred to in subparagraph *b* of the first paragraph of section 471 and the proportion of that tax determined in that subparagraph, over the aggregate of each amount received by the taxpayer before that time as interest on the indemnity and as principal amount of this indemnity.

History: 1973, c. 17, s. 53; 2009, c. 5, s. 160.
Corresponding Federal Provision: 80.1(7).

Where interest amount and capital amount received at same time.

473. For the purposes of the first paragraph of section 471, if an interest amount and a capital amount on an indemnity are received by a taxpayer at the same time, the interest amount is deemed to have been received immediately before the other amount.

History: 1973, c. 17, s. 53; 2009, c. 5, s. 161.
Corresponding Federal Provision: 80.1(3).

Currency in which adjusted principal amount to be computed.

474. In this chapter, the adjusted principal amount of an indemnity or of a property deemed to be an indemnity must be computed in the currency in which the principal amount is payable, under the terms thereof, except that, for the purposes of subparagraph *a* of the first paragraph of section 471, the adjusted principal amount must be computed in Canadian currency.

History: 1973, c. 17, s. 53; 2009, c. 5, s. 162.
Corresponding Federal Provision: 80.1(8).

Election in respect of two or more indemnities acquired by a taxpayer.

475. For the purposes of Title IV and the first paragraph of section 471, and in applying sections 472 and 474 for those purposes, if two or more indemnities described in section 469 have been issued at the same time in respect of the same foreign property and acquired by a taxpayer who makes a valid election under subsection 9 of section 80.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in respect of all such indemnities, the latter are deemed to constitute a single indemnity so issued and acquired.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 9 of section 80.1 of the Income Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1973, c. 17, s. 53; 2009, c. 5, s. 163.
Corresponding Federal Provision: 80.1(9).

DIVISION II
SPECIAL RULES FOR FOREIGN AFFILIATES

Applicability.

476. This division applies where the foreign affiliate of a taxpayer resident in Canada would be authorized to make an election referred to in the first paragraph of section 470 with respect to properties acquired by it that would on that assumption be indemnities for it if the foreign affiliate were resident in Canada and its only foreign affiliates were foreign affiliates of the taxpayer and if all or part of such properties are subsequently acquired by the taxpayer from the affiliate.

History: 1973, c. 17, s. 53; 2009, c. 5, s. 164.
Corresponding Federal Provision: 80.1(4) before (a).

Assets acquired from foreign affiliate of taxpayer as dividend in kind or as benefit to shareholder.

477. If the property described in section 476 is acquired as a dividend payable in kind or as a benefit that the taxpayer should include in computing the taxpayer's income under section 111, and the taxpayer makes, after 19 December 2006, a valid election under the portion of subsection 4 of section 80.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) before paragraph *a* in respect of all such property, the following rules apply in respect of each such property:

(*a*) an amount equal to the principal amount of the property or, if, in accordance with subparagraph ii of paragraph *a* of subsection 4 of section 80.1 of the Income Tax Act, the taxpayer has designated in the election an amount in respect of the property that is less than the principal amount, equal to that lesser amount, is deemed to be, despite section 304, the cost to the taxpayer of the property and the amount of the dividend or benefit received by the taxpayer because of the acquisition of the property;

(*b*) if the property is so acquired as such a benefit and, in accordance with paragraph *b* of subsection 4 of section 80.1 of the Income Tax Act, the taxpayer has designated in that election a class of shares of the capital stock of the taxpayer's affiliate in respect of the property, the amount of the benefit is deemed to have been received by the taxpayer as a dividend from the taxpayer's affiliate on that class and not as an amount the taxpayer is required to include in computing the taxpayer's income under section 111;

(*c*) in computing his taxable income for the taxation year in which he acquired the property, the taxpayer may deduct the excess of the amount received by him as a dividend by reason of such acquisition over the aggregate of the amounts deductible for the year in respect of such dividend under sections 580 to 584 and 746 to 749 in computing his income or taxable income, as the case may be;

(*d*) in computing the adjusted cost base to the taxpayer of each share of the class of shares of the capital stock of his foreign affiliate in respect of which an amount was received by him as a dividend by the acquisition of the property, the taxpayer shall deduct an amount equal to the quotient obtained by dividing the amount deducted by him under subparagraph *c* in respect of such dividend, by the number of shares of that class owned by the taxpayer immediately before that amount was received by him;

(*e*) a capital loss of the taxpayer pursuant to the disposition, after the time the property was acquired by the taxpayer, of a share of the capital stock of his foreign affiliate is deemed nil; and

(*f*) if the taxpayer makes a valid election under paragraph *f* of subsection 4 of section 80.1 of the Income Tax Act after 19 December 2006 in respect of the property, the first paragraph of section 471 applies as if the property were an indemnity acquired by the taxpayer for foreign property taken by a government or person referred to in section 469.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 4 of section 80.1 of the Income Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1973, c. 17, s. 53; 1975, c. 22, s. 107; 1978, c. 26, s. 80; 2009, c. 5, s. 165.
Corresponding Federal Provision: 80.1(4)(a) to (f).

Assets acquired from foreign affiliate of taxpayer as consideration for settlement of debt.

478. If the property described in section 476 is acquired as consideration for the settlement or extinction of a debt that is payable to the taxpayer by the taxpayer's foreign affiliate and that is represented by a capital property, or for the settlement or extinction of any other obligation, so represented, of the affiliate to pay an amount to the taxpayer, and the taxpayer makes a valid election under subsection 5 of section 80.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in respect of all such property, the following rules apply in respect of each such property:

(*a*) subparagraph *a* of the first paragraph of section 477 applies by replacing "the amount of the dividend or benefit received by the taxpayer" by "the proceeds of disposition, for the taxpayer, of the debt or the settled or extinct obligation";

(*b*) if, in accordance with paragraph *b* of subsection 5 of section 80.1 of the Income Tax Act, the taxpayer has designated in that election a class of shares of the capital stock of the taxpayer's foreign affiliate in respect of the property, the amount by which the cost to the taxpayer of the property, computed with reference to subparagraph *a*, exceeds the amount of the debt or obligation settled or extinct because of the acquisition of the property is deemed to have been received by the taxpayer as a dividend from the taxpayer's affiliate in respect of that class of shares and the

capital gain realized by the taxpayer from the disposition of the debt or of the obligation is deemed to be nil;

(*c*) a capital loss of the taxpayer from the disposition of the debt or of the obligation is deemed to be nil; and

(*d*) subparagraphs *c* to *f* of the first paragraph of section 477 apply to the property.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 5 of section 80.1 of the Income Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1973, c. 17, s. 53; 2009, c. 5, s. 166.
Corresponding Federal Provision: 80.1(5).

Other acquisitions of assets from foreign affiliate of taxpayer.

479. If the property described in section 476 is acquired as a consequence of the winding-up, discontinuance or reorganization of the business of the foreign affiliate or as consideration for the redemption, cancellation or acquisition by the affiliate of shares of its capital stock, and the taxpayer makes a valid election under subsection 6 of section 80.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in respect of all property so acquired, section 470 applies in respect of each such property as if such property were an indemnity acquired by the taxpayer as consideration for the sale of the foreign property that consisted of shares of the capital stock of the taxpayer's foreign affiliate immediately before the acquisition and that was sold to a government or person referred to in section 469.

Application of section 471.

Similarly, if the taxpayer makes a valid election under subsection 6 of section 80.1 of the Income Tax Act after 19 December 2006 in respect of all amounts received or to be received by the taxpayer as interest on all property so acquired from the taxpayer's affiliate, section 471 applies in respect of each such amount as if the property were such an indemnity.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 6 of section 80.1 of the Income Tax Act or in relation to an election made under the first or second paragraph before 20 December 2006.

History: 1973, c. 17, s. 53; 2009, c. 5, s. 166.
Corresponding Federal Provision: 80.1(6).

CHAPTER VI
SPECIAL RULES

DIVISION I
OUTSTANDING DEBTS

480. *(Repealed).*

History: 1972, c. 23, s. 380; 1996, c. 39, s. 136.

Debt in respect of unpaid deductible expense.

481. (*1*) The following rules apply where a debt in respect of a deductible expense of a taxpayer to a person with whom he was not dealing at arm's length when the debt was incurred and at the end of the second taxation year following that in which the debt was incurred, is unpaid in whole or in part at the end of such second taxation year:

(*a*) the unpaid amount must be included in computing the taxpayer's income for the third taxation year following that in which the debt was incurred; or

(*b*) where the taxpayer and that person file an agreement in prescribed form on or before the taxpayer's filing-due date for that third year,

i. the unpaid amount is deemed to have been paid by the taxpayer and received by that person on the first day of that third taxation year and section 1015 is applicable to the extent that it would apply if such amount were actually paid; and

ii. that person is deemed to have made a loan to the taxpayer on the first day of that third taxation year, equal to the unpaid amount minus the amount deducted or withheld therefrom by the taxpayer on account of the tax payable by that person for that third taxation year.

(2) However, where the taxpayer is a corporation, the amount is unpaid upon the winding-up of such corporation and the latter is wound up before the end of the second taxation year following the year in which the debt was incurred, the amount so unpaid must be included in computing the corporation's income for the taxation year in which it is wound up.

History: 1972, c. 23, s. 381; 1973, c. 17, s. 54; 1997, c. 3, s. 71; 1997, c. 14, s. 78; 1997, c. 31, s. 49.
Corresponding Federal Provision: 78(1) and (2).

Unpaid remuneration and other amounts.

482. Where an amount in respect of a taxpayer's expense that is a pension benefit, a retiring allowance, salary, wages or other remuneration in respect of an office or employment is unpaid on the day that is 180 days after the end of the taxation year in which the expense was incurred, for the purposes of this Part other than this section, the amount is deemed not to have been incurred as an expense in the year

and is deemed to be incurred as an expense in the taxation year in which the amount is paid.

Restriction.

However, the first paragraph does not apply in respect of

(*a*) reasonable vacation or holiday pay;

(*b*) a deferred amount under a salary deferral arrangement; or

(*c*) a salary, wages or other remuneration in respect of an office or employment where that expense of the taxpayer is taken into account for the purpose of determining, for a taxation year, the amount that the taxpayer may deduct in computing tax payable under Title III.4 or III.5 of Book V or that the taxpayer is deemed to have paid to the Minister on account of tax payable under Chapter III.1 of Title III of Book IX.

History: 1972, c. 23, s. 382; 1988, c. 18, s. 47; 1993, c. 16, s. 194; 2019, c. 14, s. 133.

Corresponding Federal Provision: 78(4).

Time limit.

483. For the purposes of section 481 where the agreement contemplated in paragraph *b* of subsection 1 of the said section is filed after the time limit fixed therein, paragraphs *a* and *b* of subsection 1 of the said section both apply in respect of the unpaid amount except that only 25% of the amount unpaid must be included in computing the taxpayer's income for the purposes of paragraph *a* of subsection 1 of the said section.

History: 1972, c. 23, s. 383; 1988, c. 18, s. 47.

Corresponding Federal Provision: 78(3).

Applicability.

483.1. Subsection 1 of section 481 does not apply to any case to which section 482 applies.

History: 1988, c. 18, s. 47.

Corresponding Federal Provision: 78(5).

DIVISION I.1
TRANSFER OF ASSUMPTION OF AN OBLIGATION IN RELATION TO A BUSINESS CARRIED ON IN CANADA

Withdrawal of an obligation of a Canadian business by a taxpayer not resident in Canada.

483.2. Where, at any time, an obligation of a taxpayer not resident in Canada that is denominated in a foreign currency, other than an obligation in respect of which the taxpayer ceased to be indebted at that time, ceases to be an obligation of the taxpayer in respect of a business or part of a business carried on by the taxpayer in Canada immediately before that time, for the purpose of determining the amount of any income, loss, capital gain or capital loss due to the fluctuation in the value of the foreign currency relative to Canadian currency, the taxpayer is deemed to have settled the obligation immediately before that time at the amount outstanding on account of its principal amount.

History: 2004, c. 8, s. 98.

Corresponding Federal Provision: 76.1(1).

Assumption of an obligation by a taxpayer not resident in Canada.

483.3. Where, at any time, an obligation of a taxpayer not resident in Canada that is denominated in a foreign currency, other than an obligation in respect of which the taxpayer became indebted at that time, becomes an obligation of the taxpayer in respect of a business or part of a business that the taxpayer carries on in Canada immediately after that time, the amount of any income, loss, capital gain or capital loss in respect of the obligation due to the fluctuation in the value of the foreign currency relative to Canadian currency shall be determined based on the amount of the obligation in Canadian currency at that time.

History: 2004, c. 8, s. 98.

Corresponding Federal Provision: 76.1(2).

DIVISION II
SURRENDER OF PROPERTY

§1. — *Interpretation*

Definitions:

484. In this division,

"creditor";
"creditor" of a particular person includes a person to whom the particular person is obligated to pay an amount under a hypothecary claim, mortgage or similar obligation and, where property was sold to the particular person under a conditional sales agreement, the seller of the property, or any assignee of the obligation with respect to the agreement;

"debt";
"debt" includes an obligation to pay an amount under a hypothecary claim, mortgage or similar obligation or under a conditional sales agreement;

"person";
"person" includes a partnership;

"property";
"property" does not include any sum of money, or debt owed by or guaranteed by the government of a country, or a province, state, or other political subdivision of that country;

"specified amount".
"specified amount" at any time of a debt owed or assumed by a person means the unpaid principal amount of the debt at that time and unpaid interest accrued to that time on the debt.

History: 1972, c. 23, s. 384; 1984, c. 15, s. 103; 1993, c. 16, s. 195; 1996, c. 39, s. 138; 1997, c. 3, s. 71; 2005, c. 1, s. 111.

Corresponding Federal Provision: 79(1).

§2. — *Rules applicable to debtors*

Surrender of property.

484.1. For the purposes of this subdivision, a property is surrendered at any time by a person to another person where the beneficial ownership of the property is acquired or reacquired at that time from the person by the other person and the acquisition or reacquisition of the property was in consequence of the person's failure to pay all or part of one or more specified amounts of a debt owed by the person to the other person immediately before that time.

History: 1996, c. 39, s. 139.

Corresponding Federal Provision: 79(2).

Proceeds of disposition for debtor.

484.2. Where a particular property is surrendered at any time by a person, in this section referred to as the "debtor", to a creditor of the debtor, the debtor's proceeds of disposition of the particular property is deemed to be the amount determined by the formula

(A + B + C + D + E − F) × G / H.

Interpretation.

For the purposes of the formula in the first paragraph,

(*a*) A is the aggregate of all specified amounts of debts of the debtor that are in respect of properties surrendered at that time by the debtor to the creditor and that are owing immediately before that time to the creditor;

(*b*) B is the aggregate of all amounts each of which is a specified amount of a debt that is owed by the debtor immediately before that time to a person, other than the creditor, to the extent that the amount ceases to be owing by the debtor as a consequence of properties being surrendered at that time by the debtor to the creditor;

(*c*) C is the aggregate of all amounts each of which is a specified amount of a particular debt that is owed by the debtor immediately before that time to a person, other than a specified amount included in the amount determined under subparagraph *a* or *b* as a consequence of properties being surrendered at that time by the debtor to the creditor, where

i. any property surrendered at that time by the debtor to the creditor was security for

(1) the particular debt, and

(2) another debt that is owed by the debtor immediately before that time to the creditor, and

ii. the other debt is subordinate to the particular debt in respect of the property referred to in subparagraph i;

(*d*) D is

i. where a specified amount of a debt owed by the debtor immediately before that time to a person, other than the creditor, ceases, as a consequence of the surrender at that time of properties by the debtor to the creditor, to be secured by all properties owned by the debtor immediately before that time, the lesser of

(1) the amount by which the aggregate of all amounts each of which is such a specified amount exceeds the portion of that aggregate included in any amount determined under subparagraph *b* or *c* as a consequence of properties being surrendered at that time by the debtor to the creditor, and

(2) the amount by which the total cost amount to the debtor of all properties surrendered at that time by the debtor to the creditor exceeds the amount that would, but for this subparagraph and subparagraph *f*, be determined under this section as a consequence of the surrender, and

ii. in any other case, nil;

(*e*) E is

i. where the property is surrendered at that time by the debtor in circumstances in which paragraph *c* of section 422 would, but for this section, apply and the fair market value of all properties surrendered at that time by the debtor to the creditor exceeds the amount that would, but for this subparagraph and subparagraph *f*, be determined under this section as a consequence of the surrender, that excess, and

ii. in any other case, nil;

(*f*) F is the aggregate of all amounts each of which is the lesser of

i. the portion of a particular specified amount of a particular debt included in the amount determined under any of subparagraphs *a* to *d* in computing the debtor's proceeds of disposition of the particular property, and

ii. the aggregate of

(1) all amounts included under section 37 or 111 in computing the income of any person because the particular debt was settled, or deemed by section 485.25 to have been settled, at or before the end of the taxation year that includes that time,

(2) all amounts renounced under section 381, 406, 417 or 418.13, as it read in respect of the renunciation, by the debtor in respect of the particular debt,

(3) all amounts each of which is a forgiven amount, within the meaning assigned by section 485, in respect of the debt at a previous time that the particular debt was deemed by section 485.25 to have been settled,

(4) where the particular debt is an excluded obligation, within the meaning assigned by section 485, the particular specified amount, and

(5) the amount described in the third paragraph;

(*g*) G is the fair market value at that time of the particular property; and

(*h*) H is the fair market value at that time of all properties surrendered by the debtor to the creditor at that time.

Determination.

The amount to which subparagraph 5 of subparagraph ii of subparagraph *f* of the second paragraph refers is the lesser of

(*a*) the unpaid interest accrued to that time on the particular debt; and

(*b*) the aggregate of

i. the amount by which the aggregate of all amounts included because of sections 487.1 to 487.5.4 in computing the debtor's income for the taxation year that includes that time or for a preceding taxation year in respect of interest on the particular debt exceeds the aggregate of all amounts paid before that time on account of interest on the particular debt, and

ii. such portion of that unpaid interest as would, if it were paid, be included in the amount determined under subparagraph *a* of the third paragraph of section 194 in respect of the debtor.

History: 1996, c. 39, s. 139; 1998, c. 16, s. 251.
Corresponding Federal Provision: 79(3).

Subsequent payment by debtor.

484.3. An amount paid at any time by a person as, on account or in lieu of payment of, or in satisfaction of, a specified amount of a debt that can reasonably be considered to have been included in the amount determined under subparagraph *a*, *c* or *d* of the second paragraph of section 484.2 in respect of a property surrendered before that time by the person is deemed to be a repayment of assistance, at that time in respect of the property, to which

(*a*) section 264.7 applies, where the property was capital property, other than depreciable property, of the person immediately before its surrender;

(*b*) paragraph *o*.1 of section 157 applies, where the cost of the property to the person was an incorporeal capital amount, within the meaning of section 106, as it read before being repealed, at the time the property was acquired;

(*c*) paragraph *e* of section 398 or paragraph *d* of section 411 or 418.5, as the case may be, applies, where the cost of the property to the person was a Canadian exploration expense, a Canadian development expense or a Canadian oil and gas property expense; or

(*d*) paragraph *o* of section 157 applies, in any other case.

History: 1996, c. 39, s. 139; 1998, c. 16, s. 167; 2005, c. 1, s. 112; 2019, c. 14, s. 134.
Corresponding Federal Provision: 79(4).

Employee or shareholder debt.

484.4. Any amount included under section 37 or 111 in computing a person's income for a taxation year that can reasonably be considered to have been included in the amount determined under subparagraph *a*, *c* or *d* of the second paragraph of section 484.2 as a consequence of a property being surrendered before the year by the person is deemed to be a repayment by the person, immediately before the end of the year, of assistance to which section 484.3 applies.

History: 1996, c. 39, s. 139.
Corresponding Federal Provision: 79(5).

Special rules.

484.5. Where a specified amount of a debt is included in the amount determined at any time under any of subparagraphs *a* to *d* of the second paragraph of section 484.2 in respect of a property surrendered at that time by a person to a creditor of the person, for the purpose of computing the person's income, no amount shall be considered to have been paid or repaid by the person as a consequence of the acquisition or reacquisition of the surrendered property by the creditor.

History: 1996, c. 39, s. 139.
Corresponding Federal Provision: 79(6).

Debt denominated in a foreign currency.

484.6. Where a debt is denominated in a foreign currency, any amount determined under any of subparagraphs *a* to *d* of the second paragraph of section 484.2 in respect of the debt shall be determined with reference to the relative value of that currency and Canadian currency at the time the debt was issued.

History: 1996, c. 39, s. 139.
Corresponding Federal Provision: 79(7).

§3. — *Rules applicable to creditors*

Specified cost of a debt.

484.7. For the purposes of this subdivision, "specified cost" to a person of a debt owing to the person means

(*a*) where the debt is capital property of the person, the adjusted cost base to the person of the capital property; and

(*b*) in any other case, the amount by which the cost amount to the person of the debt exceeds such portion of that cost amount as would be deductible in computing the person's income, otherwise than in respect of the principal amount of the debt, if the debt were established by the person to have become a bad debt.

History: 1996, c. 39, s. 139.
Corresponding Federal Provision: 79.1(1) "specified cost".

Seizure of property.

484.8. For the purposes of this subdivision and subject to section 484.8.1, a property is seized at any time by a person in respect of a debt where the beneficial ownership of the property is acquired or reacquired at that time by the person and the acquisition or reacquisition of the property was in consequence of another person's failure to pay to the person all or part of the specified amount of the debt.

History: 1996, c. 39, s. 139; 2004, c. 8, s. 99.
Corresponding Federal Provision: 79.1(2).

Exception.

484.8.1. For the purposes of this subdivision, foreign resource property of an individual, a corporation or a partnership is deemed not to be seized at any time, where the individual, the corporation or at least one of the members of the partnership, as the case may be, is not resident in Canada at that time.

History: 2004, c. 8, s. 100.
Corresponding Federal Provision: 79.1(2.1).

Computation of the creditor's income.

484.9. Where a property is seized at any time in a particular taxation year by a creditor in respect of a debt, for the purpose of computing the income of the creditor for the particular year,

(*a*) the amount deducted by the creditor on account of a reserve under subparagraph *b* of the first paragraph of section 234 or under subparagraph *a* of the first paragraph of section 279 for the preceding taxation year in respect of a disposition of the property before the particular year is deemed to be equal to the amount by which the amount so deducted exceeds the aggregate of all amounts determined under subparagraphs *a* and *b* of the first paragraph of section 484.11 in respect of the seizure; and

(*b*) the amount deducted under section 153 in computing the income of the creditor for the preceding taxation year in respect of any disposition of the property before the particular year is deemed to be the amount by which the amount so deducted exceeds the aggregate of all amounts determined under subparagraphs *a* and *b* of the first paragraph of section 484.11 in respect of the seizure.

History: 1996, c. 39, s. 139; 2009, c. 5, s. 167; 2010, c. 5, s. 46.
Corresponding Federal Provision: 79.1(3) and (4).

Disposition and reacquisition of capital property in same year.

484.10. Where a property is seized at any time in a taxation year by a creditor in respect of one or more debts and the property was capital property of the creditor that was disposed of by the creditor at a previous time in the year, the proceeds of disposition of the property to the creditor at the previous time are deemed to be the lesser of the amount of the proceeds, determined without reference to this section, and the amount that is the greater of

(*a*) the amount by which the amount of such proceeds, determined without reference to this section, exceeds such portion of the proceeds as is represented by the specified amounts of those debts immediately before that time; and

(*b*) the cost amount to the creditor of the property immediately before the previous time.

History: 1996, c. 39, s. 139.
Corresponding Federal Provision: 79.1(5).

Cost of seized properties.

484.11. Where a particular property is seized at any time in a taxation year by a creditor in respect of one or more debts, the cost to the creditor of the particular property is deemed to be the amount by which the aggregate of the following amounts exceeds the amount described in the second paragraph:

(*a*) that proportion of the total specified costs immediately before that time to the creditor of those debts that the fair market value of the particular property immediately before that time is of the fair market value of all properties immediately before that time that were seized by the creditor at that time in respect of those debts; and

(*b*) all amounts each of which is an outlay or expense made or incurred, or a specified amount at that time of a debt that is assumed, by the creditor at or before that time to protect the creditor's interest in the particular property, except to the extent the outlay, expense or specified amount, as the case may be,

i. was included in the cost to the creditor of property other than the particular property,

ii. was included before that time in computing, for the purposes of this Part, any balance of undeducted outlays, expenses or other amounts of the creditor, or

iii. was deductible in computing the creditor's income for the year or a preceding taxation year.

Determination.

The amount to which the first paragraph refers is the amount deducted or claimed as a deduction under section 153, subparagraph *b* of the first paragraph of section 234 or subparagraph *a* of the first paragraph of section 279, as the

case may be, in respect of the particular property in computing the creditor's income or capital gain for the preceding taxation year or the amount by which the proceeds of disposition of the creditor of the particular property are reduced because of section 484.10 in respect of a disposition of the particular property by the creditor occurring before that time and in the year.

History: 1996, c. 39, s. 139; 2009, c. 5, s. 168.
Corresponding Federal Provision: 79.1(6).

Treatment of debt.

484.12. Where a property is seized at any time in a taxation year by a creditor in respect of a particular debt,

(*a*) the creditor is deemed to have disposed of the particular debt at that time;

(*b*) the amount received as consideration for the particular debt as a consequence of the seizure is deemed to be received at that time and to be equal to

i. where the particular debt is capital property, the adjusted cost base to the creditor of the particular debt, and

ii. in any other case, the cost amount to the creditor of the particular debt;

(*c*) where any portion of the particular debt is outstanding immediately after that time, the creditor is deemed to have reacquired that portion immediately after that time at a cost equal to

i. where the particular debt is capital property, zero, and

ii. in any other case, the amount by which the cost amount to the creditor of the particular debt exceeds the specified cost to the creditor of the particular debt; and

(*d*) where no portion of the particular debt is outstanding immediately after that time and the particular debt is not capital property, the creditor may deduct as a bad debt in computing the creditor's income for the year the amount described in subparagraph ii of paragraph *c* in respect of the seizure.

History: 1996, c. 39, s. 139.
Corresponding Federal Provision: 79.1(7).

Claims for debts.

484.13. Where a property is seized at any time in a taxation year by a creditor in respect of a debt, no amount in respect of the debt

(*a*) is deductible in computing the creditor's income for the year or a subsequent taxation year as a bad, doubtful or impaired debt; or

(*b*) shall be included after that time in computing, for the purposes of this Part, any balance of undeducted outlays, expenses or other amounts of the creditor as a bad, doubtful or impaired debt.

History: 1996, c. 39, s. 139; 2001, c. 7, s. 48; 2001, c. 53, s. 72.
Corresponding Federal Provision: 79.1(8).

DIVISION III
DEBT FORGIVENESS

§1. — *Interpretation and miscellaneous provisions*

Definitions:

485. In this division,

"commercial debt obligation";
"commercial debt obligation" means a debt obligation issued by a debtor and, where interest was paid or payable by the debtor in respect of it pursuant to a legal obligation, or if interest had been paid or payable by the debtor in respect of it pursuant to a legal obligation, in respect of which an amount in respect of the interest was or would have been deductible in computing the debtor's income, taxable income or taxable income earned in Canada, as the case may be, if this Part were read without reference to sections 119.4, 119.17, 135.4, 164, 166, 169 and 180 to 182;

"commercial obligation";
"commercial obligation" issued by a debtor means a commercial debt obligation issued by the debtor, or a distress preferred share issued by the debtor;

"debtor";
"debtor" includes any corporation that has issued a distress preferred share and any partnership;

"directed person";
"directed person" at any time in respect of a debtor means

(*a*) a taxable Canadian corporation or an eligible Canadian partnership by which the debtor is controlled at that time; or

(*b*) a taxable Canadian corporation or an eligible Canadian partnership that is controlled at that time by

i. the debtor,

ii. the debtor and one or more persons related to the debtor, or

iii. a person or group of persons by which the debtor is controlled at that time;

"distress preferred share";
"distress preferred share" at any time means a share issued after 21 February 1994, other than a share issued pursuant to an agreement in writing entered into on or before that date, by a corporation that is a share described in section 21.6.1 that would, but for paragraphs *c* and *e* of section 21.6, be a term preferred share at that time;

"eligible Canadian partnership";
"eligible Canadian partnership" at any time means a Canadian partnership none of the members of which is, at that time,

(*a*) an investment corporation owned by persons not resident in Canada;

(*b*) a person exempt, pursuant to Book VIII, from tax under this Part on all or part of the person's taxable income;

(*c*) a partnership, other than an eligible Canadian partnership; or

(*d*) a trust, other than a trust in which no person not resident in Canada and no person described in any of paragraphs *a* to *c* is beneficially interested;

"eligible transferee";
"eligible transferee" of a debtor at any time is a directed person at that time in respect of the debtor or a taxable Canadian corporation or eligible Canadian partnership related, otherwise than because of a right referred to in paragraph *b* of section 20, at that time to the debtor;

"excluded obligation";
"excluded obligation" means an obligation issued by a debtor where

(*a*) the amount for which the obligation was issued

i. were included in computing the debtor's income or, but for the expression ", other than a prescribed amount," in paragraph *w* of section 87, would have been so included,

ii. were deducted in computing, for the purposes of this Part, any balance of undeducted outlays, expenses or other amounts, or

iii. were deducted in computing the capital cost or cost amount to the debtor of any property of the debtor;

(*b*) an amount paid by the debtor in satisfaction of the entire principal amount of the obligation is included in the amount determined under subparagraph *a* of the third paragraph of section 194 or section 198 in respect of the debtor;

(*c*) sections 481 to 483.1 apply to the obligation;

(*d*) the principal amount of the obligation would, if this Act were read without reference to sections 484 to 485.18 and the obligation were settled without any amount being paid in satisfaction of its principal amount, be included in computing the debtor's income because of the settlement of the obligation; or

(*e*) remittance of the principal amount of the obligation is made in accordance with the first paragraph of section 39 of the residential renovation incentive program implemented by the Société d'habitation du Québec pursuant to Order in Council 153-94 dated 19 January 1994;

"excluded property";
"excluded property" means property of a debtor who is not resident in Canada that is tax-agreement-protected property or that is not taxable Canadian property;

"excluded security";
"excluded security" issued by a corporation to a person as consideration for the settlement of a debt means

(*a*) a distress preferred share issued by the corporation to the person; or

(*b*) a share issued by the corporation to the person under the terms of the debt, where the debt was a bond, debenture or note listed on a designated stock exchange located in Canada and the terms for its conversion to a share were not established or substantially modified after the later of 22 February 1994 and the time that the bond, debenture or note was issued;

"forgiven amount";
"forgiven amount" at any time in respect of a commercial obligation issued by a debtor is the amount by which the lesser of the amount for which the obligation was issued and the principal amount of the obligation exceeds the aggregate of

(*a*) the amount paid at that time in satisfaction of the principal amount of the obligation;

(*b*) the amount included under section 37 or 111 in computing the income of any person because of the settlement of the obligation at that time;

(*c*) the amount deducted at that time under subparagraph *b* of the first paragraph of section 175.1.3 in computing the forgiven amount in respect of the obligation;

(*d*) the capital gain of the debtor resulting from the application of section 263 to the purchase at that time of the obligation by the debtor;

(*e*) such portion of the principal amount of the obligation as relates to an amount renounced under section 381, 406, 417 or 418.13, as it read in respect of the renunciation, by the debtor;

(*f*) any portion of the principal amount of the obligation that is included in the amount determined in any of subparagraphs *a* to *d* of the second paragraph of section 484.2 in respect of the debtor for the taxation year of the debtor that includes that time or for a preceding taxation year;

(*g*) the aggregate of all amounts each of which is a forgiven amount at a previous time that the obligation was deemed by section 485.25 or 485.26 to have been settled;

(*h*) such portion of the principal amount of the obligation as can reasonably be considered to have been included under sections 487.1 to 487.5.4 in computing the debtor's income for his taxation year that includes that time or for a preceding taxation year;

(*i*) where the debtor is a bankrupt at that time, the principal amount of the obligation;

(*j*) such portion of the principal amount of the obligation as represents the principal amount of an excluded obligation;

(*k*) where the debtor is a partnership and the obligation was, since the later of the creation of the partnership or the issue of the obligation, always payable to a member of the partnership actively engaged, on a regular, continuous and substantial basis, in the activities of the partnership that are other than the financing of the partnership business, the principal amount of the obligation; and

(*l*) the amount given at or before that time by the debtor to another person as consideration for the assumption by the other person of the obligation;

"person";
"person" includes a partnership;

"relevant loss balance";
"relevant loss balance" at a particular time for a commercial obligation and in respect of a debtor's non-capital loss, farm loss, restricted farm loss or net capital loss, as the case may be, for a taxation year means, subject to section 485.2, the amount of such loss that would be deductible in computing the debtor's taxable income or taxable income earned in Canada, as the case may be, for the taxation year that includes that time if

(*a*) the debtor had sufficient incomes and sufficient taxable capital gains for such purposes;

(*b*) sections 485.4 and 485.5 did not apply to reduce such loss at or after the particular time; and

(*c*) subparagraph *a* of the first paragraph of section 736 and sections 736.0.1 and 736.0.1.1 did not apply to the debtor;

"specified cost";
"specified cost" of a debt owing to a person at any time means

(*a*) where the debt is capital property of the person at that time, the adjusted cost base to the person of the debt at that time; and

(*b*) in any other case, the indicated cost amount to the person;

"successor pool";
"successor pool" at any time for a commercial obligation and in respect of an amount determined in relation to a debtor means, subject to section 485.1, such portion of that amount as would be deductible under section 418.17, 418.17.3, 418.18, 418.19 or 418.21 in computing the debtor's income for the taxation year that includes that time, if

(*a*) the debtor had sufficient incomes for such purposes;

(*b*) section 485.8 did not apply to reduce the particular amount so determined at that time;

(*c*) the taxation year ended immediately after that time; and

(*d*) the second paragraph of section 418.17.3 and the first paragraph of section 418.20 were read without reference to "30% of" wherever it appears and the second paragraph of section 418.21 were read without reference to "10% of";

"unrecognized loss".
"unrecognized loss" at a particular time, in respect of an obligation issued by a debtor, from the disposition of a property means the amount that would, but for section 240, be a capital loss from the disposition by the debtor at or before the particular time of a debt or other right to receive an amount, except that where the debtor is a taxpayer that was subject to a loss restriction event before the particular time and after the time of the disposition, the unrecognized loss at the particular time in respect of the obligation is deemed to be nil unless

(*a*) the obligation was issued by the debtor before, and not in contemplation of, the loss restriction event; or

(*b*) all or substantially all of the amount for which the obligation was issued was used to satisfy the principal amount of another obligation to which paragraph *a* or this paragraph would apply if the other obligation were still outstanding.

History: 1972, c. 23, s. 385; 1973, c. 17, s. 55; 1985, c. 25, s. 92; 1986, c. 19, s. 109; 1989, c. 77, s. 55; 1995, c. 1, s. 43; 1996, c. 39, s. 140; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2000, c. 5, s. 104; 2001, c. 7, s. 49; 2001, c. 53, s. 73; 2004, c. 8, s. 101; 2010, c. 5, s. 47; 2017, c. 1, s. 120.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(1), 80.01(1) and 80.04(2).

Successor pool.

485.1. Notwithstanding the definition of "successor pool" in section 485, the successor pool at any time for a commercial obligation in respect of a specified amount in relation to a debtor is deemed to be nil unless

(*a*) the obligation was issued by the debtor before, and not in contemplation of, the event described in paragraph *a* of section 485.8 that gives rise to the deductibility under any of sections 418.17, 418.17.3, 418.18, 418.19 and 418.21, as the case may be, of all or part of that amount in computing the debtor's income; or

(*b*) all or substantially all of the amount for which the obligation was issued was used to satisfy the principal amount of another obligation to which paragraph *a* or this paragraph would apply if the other obligation were still outstanding.

History: 1984, c. 15, s. 104; 1996, c. 39, s. 141; 1997, c. 3, s. 71; 2004, c. 8, s. 102.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(1) "successor pool" after (d).

Relevant loss balance.

485.2. Despite the definition of "relevant loss balance" in section 485, the relevant loss balance at a particular time for a commercial obligation and in respect of a debtor's non-capital loss, farm loss, restricted farm loss or net capital loss, as the case may be, for a taxation year is deemed to be nil where the debtor is a taxpayer that was at a previous time subject to a loss restriction event and the taxation year ended before the previous time, unless

(*a*) the obligation was issued by the debtor before, and not in contemplation of, the loss restriction event; or

(*b*) all or substantially all of the amount for which the obligation was issued was used to satisfy the principal amount of another obligation to which paragraph *a* or this paragraph would apply if the other obligation were still outstanding.

History: 1984, c. 15, s. 104; 1986, c. 19, s. 110; 1987, c. 67, s. 116; 1996, c. 39, s. 141; 1997, c. 3, s. 71; 2017, c. 1, s. 121.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(1) "relevant loss balance" after (c).

Application of debt forgiveness rules.

485.3. For the purposes of this subdivision and subdivision 2,

(*a*) an obligation issued by a debtor is settled at a particular time where the obligation is settled or extinguished at that time, otherwise than by way of a succession or will or as consideration for the issue of a share described in paragraph *b* of the definition of "excluded security" in section 485;

(*b*) an amount of interest payable by a debtor in respect of an obligation issued by the debtor is deemed to be an obligation that was issued by the debtor for an amount, and that has a principal amount, equal to the portion of the amount of such interest that was deductible or would, but for sections 135.4, 164 and 180 to 182, have been deductible in computing the debtor's income for a taxation year;

(*c*) sections 485.4 to 485.6 and 485.8 to 485.13 apply in numerical order to the forgiven amount in respect of a commercial obligation;

(*d*) the applicable fraction of the unapplied portion of a forgiven amount at any time in respect of an obligation issued by a debtor is in respect of a loss for a taxation year, the fraction required to be used under the first paragraph of section 231 for that year;

(*e*) where an applicable fraction, as determined under subparagraph *d*, of the unapplied portion of a forgiven amount is at any time applied under section 485.5 to reduce a loss for a taxation year, the portion of the forgiven amount so applied is, except for the purpose of reducing the loss, deemed to be the quotient obtained when the amount of the reduction under that section 485.5 is divided by the applicable fraction;

(*f*) *(paragraph repealed)*;

(*g*) where a share, other than an excluded security, is issued by a corporation to a person as consideration for the settlement of a debt issued by the corporation and payable to the person, the amount paid in satisfaction of the debt as a consequence of the issue of the share is deemed to be equal to the fair market value of the share at the time it was issued;

(*h*) where a debt issued by a corporation and payable to a person is settled at any time, the amount that can reasonably be considered to be the increase, as a consequence of the settlement of the debt, in the fair market value of the shares of the capital stock of the corporation owned by the person, other than shares acquired by the person as consideration for the settlement of the debt, is deemed to be paid at that time in satisfaction of the debt;

(*i*) where the consideration given by a debtor to another person for the settlement at any time of a particular commercial debt obligation issued by the debtor and payable to the other person includes a new commercial debt obligation issued by the debtor to the other person

i. an amount equal to the principal amount of the new obligation is deemed to have been paid by the debtor at that time, because of the issue of the new obligation, in satisfaction of the principal amount of the particular obligation, and

ii. the new obligation is deemed to have been issued for an amount equal to the amount by which the principal amount of the new obligation exceeds the amount by which the principal amount of the new obligation exceeds the amount for which the particular obligation was issued;

(*j*) where two or more commercial obligations issued by a debtor are settled at the same time, those obligations shall be treated as if they were settled at different times in the order designated by the debtor in a prescribed form filed with the debtor's fiscal return under this Part for the debtor's taxation year that includes the time of the settlement or, if the debtor does not so designate any such order, in the order designated by the Minister;

(*k*) for the purpose of determining, at any time, whether two persons are related to each other or whether any person is controlled by any other person, the following rules apply:

i. each partnership and each trust is deemed to be a corporation having a capital stock of a single class of voting shares divided into 100 issued shares,

ii. each member of a partnership and each beneficiary under a trust is deemed to own at that time the number of issued shares of that class that is equal to the proportion of 100 that the fair market value at that time of the member's interest in the partnership or the beneficiary's interest in the trust, as the case may be, is of the fair market value at that time of all members' interests in the partnership or all beneficiaries' interests in the trust, as the case may be, and

iii. where a beneficiary's share of the income or capital of a trust depends on the exercise by any person of, or the failure by any person to exercise, a power to appoint, the fair market value at any time of the beneficiary's interest in the trust is equal to

(1) where the beneficiary is not entitled to receive or otherwise obtain the use of all or part of the income or capital of the trust before the death after that time of one or more other beneficiaries under the trust, nil, and

(2) in any other case, the fair market value at that time of all beneficiaries' interests in the trust;

(*l*) where an obligation is denominated in a foreign currency, the forgiven amount at any time in respect of the obligation shall be determined with reference to the relative value of that currency and Canadian currency at the time the obligation was issued;

(*m*) where an amount is paid in satisfaction of the principal amount of a particular commercial obligation issued by a debtor and, as a consequence of the payment, the debtor is legally obliged to pay that amount to another person, the obligation to pay that amount to the other person is deemed to be a commercial obligation that was issued by the debtor at the same time and in the same circumstances as the particular obligation;

(*n*) the amount that can be applied because of sections 485 to 485.18 to reduce another amount may not exceed that other amount;

(*o*) except for the purposes of this paragraph, where a commercial debt obligation issued by a debtor is settled at any time, the debtor is at that time a member of a partnership, and the obligation was, under the agreement governing the obligation, considered immediately before that time as a debt owed by the partnership, the obligation is deemed to have been issued by the partnership and not by the debtor;

(*p*) notwithstanding subparagraph *o*, where a commercial debt obligation for which a particular person is solidarily liable with one or more other persons is settled at any time in respect of the particular person but not in respect of all of the other persons, the portion of the obligation that can reasonably be considered to be the particular person's share of the obligation is deemed to have been issued by the particular person and settled at that time and not at any subsequent time;

(*q*) a commercial debt obligation issued by an individual that is outstanding at the time of the individual's death and settled at a time subsequent to the death is, if the succession of the individual was liable for the obligation immediately before the subsequent time, deemed to have been issued by the succession at the same time at which, and in the same circumstances in which, the obligation was issued by the individual; and

(*r*) where a commercial debt obligation issued by an individual would, but for this paragraph, be settled at any time in the period ending six months after the death of an individual, or within such longer period as is acceptable to the Minister and the succession of the individual, and the succession of the individual was liable immediately before that time for the obligation, the following rules apply, subject to the second paragraph:

i. the obligation is deemed to have been settled at the beginning of the day on which the individual died and not at that time,

ii. any amount paid at that time by the succession in satisfaction of the principal amount of the obligation is deemed to have been paid at the beginning of the day on which the individual died,

iii. any amount given by the succession at or before that time to another person as consideration for assumption by the other person of the obligation is deemed to have been given at the beginning of the day on which the individual died, and

iv. subparagraph *b* shall not apply in respect of the settlement to interest that accrues within that period.

Application of debt forgiveness rules.

Subparagraph *r* of the first paragraph does not apply in circumstances in which any amount is, because of the settlement of the commercial debt obligation referred to in that subparagraph, included under section 37 or 111 in computing the income of any person, or in which sections 484 to 484.6 apply in respect of that obligation.

History: 1986, c. 19, s. 111; 1993, c. 16, s. 196; 1996, c. 39, s. 141; 1997, c. 3, s. 71; 1998, c. 16, s. 251; 2003, c. 2, s. 129; 2005, c. 1, s. 113; 2019, c. 14, s. 135.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(2).

§2. — *Reduced or included amounts*

Reductions of non-capital losses.

485.4. Where a commercial obligation issued by a debtor is settled at any time, the forgiven amount at that time in respect of the obligation shall be applied to reduce at that time, in the following order,

(*a*) the debtor's non-capital loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the amount, in section 485.5 referred to as the debtor's "ordinary non-capital loss at that time for the year", that would be the relevant loss balance at that time for the obligation and in respect of the debtor's non-capital loss for the year if subparagraph iii of paragraph *a* of section 728.0.1 were read without reference to "the taxpayer's allowable business investment losses for the year,", and

ii. does not, because of this section, reduce the debtor's non-capital loss for a preceding taxation year;

(*b*) the debtor's farm loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the relevant loss balance at that time for the obligation and in respect of the debtor's farm loss for the year, and

ii. does not, because of this section, reduce the debtor's farm loss for a preceding taxation year; and

(*c*) the debtor's restricted farm loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the relevant loss balance at that time for the obligation and in respect of the debtor's restricted farm loss for the year, and

ii. does not, because of this section, reduce the debtor's restricted farm loss for a preceding taxation year.

History: 1996, c. 39, s. 142; 2006, c. 36, s. 42.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(3).

Reductions of capital losses.

485.5. Where a commercial obligation issued by a debtor is settled at any time, the applicable fraction of the remaining unapplied portion of a forgiven amount at that time in respect of the obligation shall be applied to reduce at that time, in the following order,

(*a*) the debtor's non-capital loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the amount by which the relevant loss balance at that time for the obligation and in respect of the debtor's non-capital loss for the year exceeds the debtor's ordinary non-capital loss, within the meaning assigned by subparagraph i of paragraph *a* of section 485.4, at that time for the year, and

ii. does not, because of this section, reduce the debtor's non-capital loss for a preceding taxation year; and

(*b*) the debtor's net capital loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the relevant loss balance at that time for the obligation and in respect of the debtor's net capital loss for the year, and

ii. does not, because of this section, reduce the debtor's net capital loss for a preceding taxation year.

History: 1996, c. 39, s. 142.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(4).

Reductions with respect to depreciable property.

485.6. Where a commercial obligation issued by a debtor is settled at any time, the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied, subject to the second paragraph, in such manner as is designated by the debtor in a prescribed form filed with the debtor's fiscal return under this Part for the taxation year that includes that time, to reduce immediately after that time the following amounts:

(*a*) the capital cost to the debtor of a depreciable property that is owned by the debtor immediately after that time; and

(*b*) the undepreciated capital cost to the debtor of depreciable property of a prescribed class immediately after that time.

Restriction.

The remaining unapplied portion of the forgiven amount in respect of a commercial obligation at the time of settlement of the obligation may be applied to reduce, immediately after that time, the capital cost to the debtor of a depreciable property only to the extent that

(*a*) in the case of a depreciable property of a prescribed class, the undepreciated capital cost to the debtor of depreciable property of that class at that time exceeds the aggregate of all other reductions immediately after that time to that undepreciated capital cost; and

(*b*) in the case of a depreciable property other than a depreciable property of a prescribed class, the capital cost to the debtor of the property at that time exceeds the aggregate of all amounts each of which is an amount allowed to the debtor before that time in respect of the property

i. in accordance with the method authorized under Part XVII of the regulations made under the Income Tax Act (Revised Statutes of Canada, 1952, chapter 148), as it read on 31 December 1971, followed by the debtor under the

Corporation Tax Act (1964, chapter 67) or the Provincial Income Tax Act (1964, chapter 69);

ii. under section 130R223 of the Regulation respecting the Taxation Act (chapter I-3, r. 1).

History: 1996, c. 39, s. 142; 2009, c. 15, s. 89.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(5) and (6).

485.7. *(Repealed).*

History: 1996, c. 39, s. 142; 2005, c. 1, s. 114; 2019, c. 14, s. 136.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(7).

Reductions of resource expenditures.

485.8. Where a commercial obligation issued by a debtor is settled at any time, the remaining unapplied portion of the forgiven amount at the time of settlement of the obligation in respect of the obligation shall be applied, to the extent designated in a prescribed form filed with the debtor's fiscal return under this Part for the taxation year that includes that time, to reduce immediately after that time the following amounts:

(*a*) where the debtor is a corporation resident in Canada throughout that year, each particular amount determined in respect of the debtor under the second paragraph of any of sections 418.17, 418.18 and 418.19, or that would be so determined under the second paragraph of section 418.17.3 or 418.21 if that second paragraph were read without reference to "30% of" or "10% of", as the case may be, as a consequence of the acquisition of control of the debtor by a person or group of persons, the debtor ceasing to be exempt from tax under this Part on its taxable income or the acquisition of properties by the debtor as a result of an amalgamation or merger, where the amount so applied does not exceed the successor pool immediately after that time for the obligation and in respect of the particular amount;

(*b*) the cumulative Canadian exploration expense, within the meaning assigned by section 398, of the debtor;

(*c*) the cumulative Canadian development expense, within the meaning assigned by section 411, of the debtor;

(*d*) the cumulative Canadian oil and gas property expense, within the meaning assigned by section 418.5, of the debtor;

(*e*) the amount determined under paragraph *a* of section 371 in respect of the debtor, where

i. the debtor is resident in Canada throughout that year, and

ii. the amount so applied does not exceed such portion of the aggregate of the debtor's foreign exploration and development expenses as were incurred by the debtor before that time and would be deductible under section 371 in computing the debtor's income for that year if the aggregate determined in respect of the debtor under paragraph *b* of section 374 were sufficient and if that year ended at that time; and

(*f*) the cumulative foreign resource expense of the debtor, in relation to a country, within the meaning of section 418.1.3.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 1998, c. 16, s. 168; 2004, c. 8, s. 103.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(8).

Reductions of adjusted cost bases of capital properties.

485.9. Subject to section 485.18, where a commercial obligation issued by a debtor is settled at any time and amounts have been designated by the debtor under sections 485.6 and 485.8 to the maximum extent permitted in respect of the settlement of the obligation, the following rules apply:

(*a*) the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied, to the extent designated in a prescribed form filed with the debtor's fiscal return under this Part for the taxation year that includes that time, to reduce immediately after that time the adjusted cost bases to the debtor of capital properties, other than shares of the capital stock of corporations of which the debtor is a specified shareholder at that time, debts issued by corporations of which the debtor is a specified shareholder at that time, interests in partnerships that are related to the debtor at that time, depreciable property that is not of a prescribed class, personal-use properties and excluded properties, that are owned by the debtor immediately after that time;

(*b*) an amount may be applied under this section to reduce, immediately after that time, the capital cost to the debtor of a depreciable property of a prescribed class only to the extent that the capital cost immediately after that time to the debtor of the property, determined without reference to the settlement of the obligation at that time, exceeds the capital cost of the property immediately after that time to the debtor for the purposes of sections 64, 78.4, 93 to 104, 130 and 130.1 and any regulations made under paragraph *a* of section 130 or section 130.1, determined without reference to the settlement of the obligation at that time; and

(*c*) for the purposes of sections 64, 78.4, 93 to 104, 130 and 130.1 and any regulations made under paragraph *a* of section 130 or section 130.1, no amount shall be considered to have been applied under this section.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2019, c. 14, s. 137.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(9).

Reductions of adjusted cost bases of certain shares and debts.

485.10. Subject to section 485.18, where a commercial obligation issued by a debtor is settled at any time in a

taxation year and amounts have been designated by the debtor under sections 485.6, 485.8 and 485.9 to the maximum extent permitted in respect of the settlement of the obligation, the remaining unapplied portion of the forgiven amount in respect of the obligation is to be applied (to the extent that it is designated in a prescribed form filed with the debtor's fiscal return under this Part for the year) to reduce immediately after that time the adjusted cost bases to the debtor of capital properties, owned by the debtor immediately after that time, that are shares of the capital stock of corporations of which the debtor is a specified shareholder at that time and debts issued by such corporations, other than shares of the capital stock of corporations related to the debtor at that time, debts issued by corporations related to the debtor at that time and excluded properties.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2019, c. 14, s. 138.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(10).

Reductions of adjusted cost bases of certain shares and debts.

485.11. Subject to section 485.18, where a commercial obligation issued by a debtor is settled at any time in a taxation year and amounts have been designated by the debtor under sections 485.6 and 485.8 to 485.10 to the maximum extent permitted in respect of the settlement of the obligation, the remaining unapplied portion of the forgiven amount in respect of the obligation is to be applied (to the extent that it is designated in a prescribed form filed with the debtor's fiscal return under this Part for the year) to reduce immediately after that time the adjusted cost bases to the debtor of

(*a*) shares or debts that are capital properties, other than excluded properties and properties the adjusted cost bases of which are reduced at that time under section 485.9 or 485.10, owned by the debtor immediately after that time; and

(*b*) interests in partnerships that are related to the debtor at that time that are capital properties, other than excluded properties, owned by the debtor immediately after that time.

History: 1996, c. 39, s. 142; 2000, c. 5, s. 105; 2019, c. 14, s. 139.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(11).

Deemed capital gain.

485.12. Where a commercial obligation issued by a debtor (other than a partnership) is settled at any time in a taxation year and amounts have been designated by the debtor under sections 485.6, 485.8 and 485.9 to the maximum extent permitted in respect of the settlement of the obligation, the following rules apply:

(*a*) the debtor is deemed to have a capital gain for the year from the disposition of capital property or, where the debtor is an individual not resident in Canada at the end of the year, of taxable Canadian property, equal to the lesser of

i. the remaining unapplied portion of the forgiven amount at that time in respect of the obligation, and

ii. the amount by which the aggregate of the debtor's capital losses from the dispositions of properties, other than precious property and excluded properties, and, subject to the second paragraph, twice the amount that would, because of sections 564.2 to 564.4 and 564.4.4, be deductible under section 729 in computing the debtor's taxable income for the year, if the debtor had sufficient incomes and taxable capital gains for the year for such purposes, exceeds the aggregate of the debtor's capital gains for the year from the dispositions of such properties, determined without reference to this section, and the aggregate of the amounts each of which is an amount deemed by this section to be a capital gain of the debtor for the year as a consequence of the application of this section to another commercial obligation settled before that time; and

(*b*) the forgiven amount at that time in respect of the obligation shall be considered to have been applied under this section to the extent of the amount deemed by this section to be a capital gain of the debtor for the year as a consequence of the application of this section to the settlement of the obligation at that time.

Transitional rule.

However, where the taxation year of the debtor includes 28 February 2000 or 17 October 2000, or begins after 28 February 2000 and ends before 17 October 2000, the reference to "twice" in subparagraph ii of subparagraph *a* of the first paragraph shall be read, with the necessary modifications, as a reference to the fraction that is the reciprocal of the fraction in paragraphs *a* to *d* of section 231.0.1 that applies to the debtor for the year.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2003, c. 2, s. 130; 2019, c. 14, s. 140.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(12).

Income inclusion.

485.13. Where a commercial obligation issued by a debtor is settled at any time in a taxation year, there shall be added, in computing the debtor's income for the year from the source in connection with which the obligation was issued, the amount determined by the formula

$$(A + B - C - D) \times E.$$

Interpretation.

For the purposes of the formula in the first paragraph,

(*a*) A is the remaining unapplied portion of the forgiven amount at that time in respect of the obligation;

(*b*) B is the lesser of

i. the aggregate of all amounts designated under section 485.11 by the debtor in respect of the settlement of the obligation at that time, and

ii. the residual balance at that time in respect of the settlement of the obligation;

(*c*) C is the aggregate of the amounts each of which is an amount specified in an agreement filed under subdivision 6 in respect of the settlement of the obligation at that time;

(*d*) D is

i. where the debtor has designated amounts under sections 485.6 and 485.8 to 485.10 to the maximum extent permitted in respect of the settlement of the obligation, the amount by which the aggregate of all amounts each of which is an unrecognized loss at that time, in respect of the obligation, from the disposition of a property exceeds, subject to the third paragraph, twice the aggregate of all amounts each of which is an amount by which the amount determined before that time under this section in respect of a settlement of an obligation issued by the debtor has been reduced because of an amount determined under this subparagraph i, and

ii. in any other case, zero, and

(*e*) E is equal to

i. where the debtor is a partnership, 1, and

ii. in any other case, subject to the third paragraph, 1/2.

Transitional rules.

However, where the taxation year of the debtor includes 28 February 2000 or 17 October 2000, or begins after 28 February 2000 and ends before 17 October 2000, the following rules apply:

(*a*) the reference to the word "twice" in subparagraph i of subparagraph *d* of the second paragraph shall be read, with the necessary modifications, as a reference to the fraction that is the reciprocal of the fraction in paragraphs *a* to *d* of section 231.0.1 that applies to the debtor for the year; and

(*b*) the reference to the fraction "1/2" in subparagraph ii of subparagraph *e* of the second paragraph shall be read as a reference to the fraction in paragraphs *a* to *d* of section 231.0.1 that applies to the debtor for the year.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2000, c. 5, s. 106; 2003, c. 2, s. 131; 2019, c. 14, s. 141.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(13).

Residual balance.

485.14. For the purposes of section 485.13, the residual balance at any time in a taxation year in respect of the settlement of a particular commercial obligation issued by a debtor is the amount by which the gross tax attributes of directed persons at that time in respect of the debtor exceeds the aggregate of

(*a*) the amount determined under subparagraph *a* of the second paragraph of section 485.13 in respect of the settlement of the particular obligation at that time;

(*b*) all amounts each of which is

i. the amount by which the amount determined under subparagraph *a* of the second paragraph of section 485.13 in respect of a settlement before that time and in the year of a commercial obligation issued by the debtor exceeds the amount determined under subparagraph *c* of the second paragraph of that section in respect of the settlement,

ii. the amount determined under subparagraph *a* of the second paragraph of section 485.13 in respect of a settlement of a commercial obligation that is deemed under paragraph *a* of section 485.42 to have been issued by a directed person in respect of the debtor because of the filing of an agreement in accordance with sections 485.42 to 485.52 in respect of a settlement before that time and in the year of a commercial obligation issued by the debtor, or

iii. the amount specified in an agreement, other than an agreement with a directed person in respect of the debtor, filed in accordance with sections 485.42 to 485.52 in respect of the settlement before that time and in the year of a commercial obligation issued by the debtor; and

(*c*) the aggregate of all amounts each of which is an amount in respect of a settlement at a particular time before that time and in the year of a commercial obligation issued by the debtor equal to the least of

i. the aggregate of all amounts designated under section 485.11 in respect of the settlement,

ii. the residual balance of the debtor at the particular time, and

iii. the amount by which the aggregate of all amounts determined under subparagraphs *a* and *b* of the second paragraph of section 485.13 in respect of the settlement exceeds the amount determined under subparagraph *c* of the second paragraph of that section in respect of the settlement.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2000, c. 5, s. 107.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(14).

Gross tax attributes.

485.14.1. For the purposes of section 485.14, the gross tax attributes of directed persons at a particular time in respect of a debtor means the aggregate of all amounts each of which is an amount that would be applied under any of

sections 485.4 to 485.10 and 485.12 in respect of a settlement of a separate commercial obligation, in this section referred to as a "notional obligation", issued by directed persons at that time in respect of the debtor if the following assumptions were made:

(*a*) a notional obligation was issued immediately before the particular time by each of those directed persons and was settled at the particular time;

(*b*) the forgiven amount at the particular time in respect of each of those notional obligations was equal to the total of all amounts each of which is a forgiven amount at or before that time and in the year in respect of a commercial obligation issued by the debtor;

(*c*) amounts were designated under sections 485.6 and 485.8 to 485.10 by each of those directed persons to the maximum extent permitted in respect of the settlement of each of those notional obligations; and

(*d*) no amounts were designated under section 485.11 by any of those directed persons in respect of the settlement of any of the notional obligations.

History: 2000, c. 5, s. 108; 2019, c. 14, s. 142.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(14.1).

Members of partnerships.

485.15. Where a commercial debt obligation issued by a partnership, in this section referred to as the "partnership obligation", is settled at any time in a fiscal period of the partnership that ends in a taxation year of a member of the partnership,

(*a*) the member may deduct, in computing the member's income for the year, such amount as the member claims not exceeding the relevant limit in respect of the partnership obligation;

(*b*) for the purposes of paragraph *a*, the relevant limit in respect of the partnership obligation is the amount that would be included in computing the member's income for the year as a consequence of the application of sections 485.13 and 599 to 613.10 to the settlement of the partnership obligation if the partnership had designated amounts under sections 485.6 and 485.8 to 485.10 to the maximum extent permitted in respect of each obligation settled in that fiscal period and if income arising from the application of section 485.13 were from a source of income separate from any other sources of partnership income; and

(*c*) for the purposes of sections 485 to 485.18 and 485.42 to 485.52,

i. the member is deemed to have issued a commercial debt obligation that was settled at the end of that fiscal period,

ii. the amount deducted under paragraph *a* in respect of the partnership obligation in computing the member's income shall be treated as if it were the forgiven amount at the end of that fiscal period in respect of the obligation referred to in subparagraph i,

iii. subject to subparagraph iv, the obligation referred to in subparagraph i is deemed to have been issued at the same time at which, and in the same circumstances in which, the partnership obligation was issued,

iv. where the member is a taxpayer that was subject to a loss restriction event at a particular time that is before the end of that fiscal period and before the taxpayer became a member of the partnership, and the partnership obligation was issued before the particular time,

(1) subject to the application of this subparagraph iv to the taxpayer after the particular time and before the end of that fiscal period, the obligation referred to in subparagraph i is deemed to have been issued by the member after the particular time, and

(2) paragraph *b* of the definition of "unrecognized loss" in section 485 and paragraph *b* of sections 485.1 and 485.2 do not apply in respect of the loss restriction event, and

v. the source in connection with which the obligation referred to in subparagraph i was issued is deemed to be the source in connection with which the partnership obligation is issued.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2017, c. 1, s. 122; 2019, c. 14, s. 143.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(15).

Designations by the Minister.

485.16. Where a commercial obligation issued by a debtor is settled at any time in a taxation year and, as a consequence of the settlement of the obligation, an amount would, but for this section, be deducted under section 346.1 or 346.2 in computing the debtor's income for the year and the debtor has not designated amounts under sections 485.6 to 485.11 to the maximum extent possible in respect of the settlement of the obligation,

(*a*) the Minister may designate amounts under sections 485.6 to 485.11 to the extent that the debtor would have been permitted to designate those amounts under those sections; and

(*b*) the amounts designated by the Minister shall, except for the purposes of this section, be deemed to have been designated by the debtor under sections 485.6 to 485.11.

History: 1996, c. 39, s. 142.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(16).

485.17. *(Repealed).*

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2000, c. 5, s. 109.
Interpretation Bulletins: IMP. 101-1/R2.

Partnership designations.

485.18. Where a commercial obligation issued by a partnership is settled at any time after 20 December 1994, the amount designated under any of sections 485.9 to 485.11 in respect of the settlement by the partnership to reduce the adjusted cost base of a capital property acquired by the partnership shall not exceed the amount by which the adjusted cost base at that time to the partnership of the property exceeds the fair market value at that time of the property.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Interpretation Bulletins: IMP. 101-1/R2.
Corresponding Federal Provision: 80(18).

§3. — *Deemed settlement of an obligation*

Interpretation and application.

485.19. For the purposes of this subdivision,

(*a*) notwithstanding section 485, "forgiven amount" in respect of an obligation has the meaning assigned by the second paragraph of section 37.0.1 or 111.1, as the case may be, where an amount would be included in computing a person's income under section 37 or 111 as a consequence of the settlement of the obligation if the obligation were settled without any payment being made in satisfaction of its principal amount;

(*b*) subparagraphs *a*, *b*, *k*, *m* and *o* of the first paragraph of section 485.3 apply; and

(*c*) a person is deemed to have a significant interest in a corporation at any time if the person owned at that time shares of the capital stock of the corporation

i. that would give the person 25% or more of the votes that could be cast under all circumstances at the annual meeting of shareholders of the corporation, or

ii. having a fair market value of 25% or more of the fair market value of all the issued shares of the corporation.

Deemed property.

For the purposes of subparagraph *c* of the first paragraph, a person is deemed to own at any time each share of the capital stock of a corporation that is owned, otherwise than because of this paragraph, at that time by another person with whom the person does not deal at arm's length.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.01(1) "forgiven amount" and (2).

Deemed settlement on amalgamation.

485.20. Where a commercial obligation or another obligation, in this section referred to as the "indebtedness", of a debtor that is a corporation to pay an amount to a creditor that is another corporation is settled on an amalgamation of the debtor and the creditor, the indebtedness is deemed to have been settled immediately before the time that is immediately before the amalgamation by a payment made by the debtor and received by the creditor of an amount that would be the creditor's cost amount of the indebtedness at that time if the definition of "cost amount" in section 1 were read without reference to paragraph *e* of that definition and if that cost amount included amounts added in computing the creditor's income in respect of the portion of the indebtedness representing unpaid interest, to the extent those amounts have not been deducted in computing the creditor's income as bad debts in respect of that unpaid interest.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.01(3).

Deemed settlement on winding-up.

485.21. Where there is a winding-up of a subsidiary to which sections 556 to 564.1 and 565 apply and a debt or other obligation, in this section referred to as the "subsidiary's obligation", of the subsidiary to pay an amount to the parent, or a debt or other obligation, in this section referred to as the "parent's obligation", of the parent to pay an amount to the subsidiary is, as a consequence of the winding-up, settled at a particular time without any payment of an amount or by the payment of an amount that is less than the principal amount of the subsidiary's obligation or the parent's obligation, as the case may be,

(*a*) if that payment is less than the amount that would be the cost amount to the subsidiary or parent of the subsidiary's obligation or the parent's obligation immediately before the particular time if the definition of "cost amount" in section 1 were read without reference to its paragraph *e*, and the parent makes a valid election under paragraph *c* of subsection 4 of section 80.01 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in relation to the subsidiary's obligation or the parent's obligation, the amount paid at that time in satisfaction of the principal amount of the subsidiary's obligation or the parent's obligation is deemed to be equal to the amount that would be the cost amount to the subsidiary or the parent, as the case may be, of the subsidiary's obligation or the parent's obligation immediately before that time if that definition of "cost amount" were read without reference to its paragraph *e*, and if that cost amount included amounts added in computing the subsidiary's income or the parent's income in respect of the portion of the indebtedness representing unpaid interest, to the extent that the subsidiary or the parent has not deducted any amount as bad debts in respect of that unpaid interest; and

(*b*) for the purpose of applying sections 485 to 485.18 to the subsidiary's obligation, where property is distributed at any time in circumstances to which the first paragraph of section 557 or section 558 applies and the subsidiary's obligation is settled as a consequence of the distribution, the subsidiary's obligation is deemed to have been settled immediately before the time that is immediately before the time of the distribution and not at any later time.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under paragraph *c* of subsection 4 of section 80.01 of the Income Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 1997, c. 31, s. 50; 2009, c. 5, s. 169.

Corresponding Federal Provision: 80.01(4).

Deemed settlement on winding-up.

485.22. Where there is a winding-up of a subsidiary to which sections 556 to 564.1 and 565 apply and, as a consequence of the winding-up, a distress preferred share issued by the subsidiary and owned by the parent, or a distress preferred share issued by the parent and owned by the subsidiary, is settled at any time without any payment of an amount or by the payment of an amount that is less than the principal amount of the share,

(*a*) where there was no payment or the payment was less than the adjusted cost base of the share to the parent or the subsidiary, as the case may be, immediately before that time, for the purpose of applying the provisions of this Part to the issuer of the share, an amount equal to the adjusted cost base to the parent or to the subsidiary, as the case may be, is deemed to be paid at that time in satisfaction of the principal amount of the share; and

(*b*) for the purpose of applying sections 485 to 485.18 to the share, where property is distributed at any time in circumstances to which the first paragraph of section 557 or section 558 applies and the share is settled as a consequence of the distribution, the share is deemed to have been settled immediately before the time that is immediately before the time of the distribution and not at any later time.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.

Corresponding Federal Provision: 80.01(5).

Deemed settlement on SIFT trust wind-up event.

485.22.1. If a trust that is a SIFT wind-up entity is the only beneficiary under another trust (in this section referred to as the "subsidiary trust"), and a capital property that is a debt or other obligation (in this section referred to as the "subsidiary trust's obligation") of the subsidiary trust to pay an amount to the SIFT wind-up entity is, as a consequence of a distribution by the subsidiary trust that is a SIFT trust wind-up event, settled at a particular time without any payment or by the payment of an amount that is less than the principal amount of the subsidiary trust's obligation, the following rules apply:

(*a*) if the payment is less than the adjusted cost base to the SIFT wind-up entity of the subsidiary trust's obligation immediately before the particular time, and the SIFT wind-up entity makes a valid election under subparagraph ii of paragraph *a* of subsection 5.1 of section 80.01 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in relation to the subsidiary trust's obligation, the amount paid at the particular time in satisfaction of the principal amount of the subsidiary trust's obligation is deemed to be equal to the amount that would be the adjusted cost base to the SIFT wind-up entity of the subsidiary trust's obligation immediately before the particular time if that adjusted cost base included amounts added in computing the SIFT wind-up entity's income in respect of the portion of the indebtedness representing unpaid interest, to the extent that the SIFT wind-up entity has not deducted any amounts as bad debts in respect of that unpaid interest; and

(*b*) for the purpose of applying sections 485 to 485.18 to the subsidiary trust's obligation, the subsidiary trust's obligation is deemed to have been settled immediately before the time that is immediately before the distribution.

Additonal rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subparagraph ii of paragraph *a* of subsection 5.1 of section 80.01 of the Income Tax Act.

History: 2010, c. 25, s. 32.

Corresponding Federal Provision: 80.01(5.1).

"specified obligation".

485.23. For the purposes of section 485.24, "specified obligation" of a debtor at a particular time means an obligation issued by the debtor where

(*a*) at any previous time, other than a time before the last time the obligation became a parked obligation before the particular time,

i. a person who owned the obligation dealt at arm's length with the debtor and, where the debtor is a corporation, did not have a significant interest in the debtor, or

ii. the obligation was acquired by the holder of the obligation from another person who was, at the time of that acquisition, not related to the holder or related to the holder only because of paragraph *b* of section 20; or

(*b*) the obligation is deemed by section 299 to have been reacquired at the particular time.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.

Corresponding Federal Provision: 80.01(6).

Parked obligation.

485.24. For the purposes of this section and sections 485.23, 485.25 and 485.27,

(*a*) an obligation issued by a debtor is a parked obligation at any time where at that time

i. the obligation is a specified obligation of the debtor, and

ii. the holder of the obligation does not deal at arm's length with the debtor or, where the debtor is a corporation and the holder acquired the obligation after 12 July 1994, otherwise than pursuant to an agreement in writing entered into on or before that date, has a significant interest in the debtor; and

(*b*) an obligation that is, at any time, acquired or reacquired in circumstances to which subparagraph ii of paragraph *a* of section 485.23 or paragraph *b* of that section applies is, if the obligation is a parked obligation immediately after that time, deemed to have become a parked obligation at that time.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.01(7).

Deemed settlement after debt parking.

485.25. Where at any particular time after 21 February 1994, a commercial debt obligation that was issued by a debtor becomes a parked obligation, otherwise than pursuant to an agreement in writing entered into before 22 February 1994, and the specified cost at the particular time to the holder of the obligation is less than 80% of the principal amount of the obligation, for the purpose of applying the provisions of this Part to the debtor,

(*a*) the obligation is deemed to have been settled at the particular time; and

(*b*) the forgiven amount at the particular time in respect of the obligation shall be determined as if the debtor had paid an amount at the particular time in satisfaction of the principal amount of the obligation equal to that specified cost.

History: 1996, c. 39, s. 142.
Corresponding Federal Provision: 80.01(8).

Statute-barred debt.

485.26. Where at any particular time after 21 February 1994, a commercial debt obligation issued by a debtor that is payable to a person other than a person with whom the debtor is related at that time becomes unenforceable in a competent court because of a statutory limitation period and the obligation would, but for this section, not have been settled or extinguished at the particular time, for the purpose of applying the provisions of this Part to the debtor, the obligation is deemed to have been settled at the particular time.

History: 1996, c. 39, s. 142.
Corresponding Federal Provision: 80.01(9).

Subsequent payments in satisfaction of debt.

485.27. Where a commercial debt obligation issued by a debtor is first deemed by section 485.25 or 485.26 to have been settled at a particular time, at a subsequent time a payment is made by the debtor of an amount in satisfaction of the principal amount of the obligation and it cannot reasonably be considered that one of the reasons the obligation became a parked obligation or became unenforceable, as the case may be, before the subsequent time was to have this section apply to the payment, in computing the debtor's income for the taxation year, in this section referred to as the "subsequent year", that includes the subsequent time from the source in connection with which the obligation was issued, the debtor may deduct the amount determined, subject to the fourth paragraph, by the formula

$0.5 (A - B) - C.$

Interpretation.

For the purposes of the formula in the first paragraph,

(*a*) A is the amount of the payment;

(*b*) B is the amount by which the principal amount of the obligation exceeds the aggregate of

i. all amounts each of which is a forgiven amount in respect of a particular portion of the obligation at any time in the period that began at the particular time referred to in the first paragraph and ended immediately before the subsequent time referred to therein, and at which a particular portion of the obligation is deemed by section 485.25 or 485.26 to be settled in respect of the particular portion, and

ii. all amounts paid in satisfaction of the principal amount of the obligation in the period referred to in subparagraph i; and

(*c*) C is the amount by which the aggregate of the following amounts exceeds the aggregate of the amounts described in the third paragraph:

i. all amounts deducted by the debtor under section 346.2 in computing the debtor's income for the subsequent year or a preceding taxation year,

ii. all amounts added by the debtor because of section 485.13 in computing the debtor's income for the subsequent year or a preceding taxation year in respect of a settlement under section 485.25 or 485.26 in a period during which the debtor was exempt from tax under this Part on its taxable income, and

iii. all amounts added by the debtor because of section 485.13 in computing the debtor's income for the subsequent year or a preceding taxation year in respect of a settlement under section 485.25 or 485.26 in a period during

which the debtor, in the case of a corporation, had no establishment in Québec or, in the case of an individual, was not resident in Canada, other than any of those amounts added by the individual in computing his income, taxable income or taxable income earned in Canada as a consequence of the second paragraph of section 23 or section 26, as the case may be.

Determination.

The aggregate to which subparagraph *c* of the second paragraph refers is the aggregate of

(*a*) the amount deducted by the debtor because of paragraph *c*.1 of section 225 in computing the aggregate, determined immediately after the subsequent year, of the amounts deductible under sections 222 to 224 by the debtor; and

(*b*) all amounts by which, because of subparagraph *c* of the second paragraph, the amount deductible by the debtor under this section in respect of a payment made by the debtor before the subsequent time referred to in the first paragraph in computing the debtor's income for the subsequent year or a preceding year has been reduced.

Transitional rule.

Where the taxation year that includes the particular time referred to in the first paragraph began before 18 October 2000, the formula in the first paragraph is to be read as if "0.5" were replaced by the fraction in the first paragraph of section 231 that, with reference to section 231.0.1, applies to the debtor for that year.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2003, c. 2, s. 132; 2017, c. 1, s. 123.

Corresponding Federal Provision: 80.01(10).

Foreign currency gains and losses.

485.28. Where an obligation issued by a debtor is denominated in a foreign currency and the obligation is deemed by section 485.25 or 485.26 to have been settled, those sections do not apply for the purpose of determining any gain or loss of the debtor on the settlement that is attributable to a fluctuation in the value of the foreign currency relative to the value of Canadian currency.

History: 1996, c. 39, s. 142.

Corresponding Federal Provision: 80.01(11).

§4. — *Distress preferred shares*

General rules for distress preferred shares.

485.29. For the purpose of applying this Part to an issuer of a distress preferred share,

(*a*) the principal amount, at any time, of the share is deemed to be the amount, determined at that time, for which the share was issued;

(*b*) the amount for which the share was issued is, at any time, deemed to be the amount by which the aggregate of the following amounts exceeds the aggregate of all amounts each of which is an amount paid before that time on a reduction of the paid-up capital in respect of the share, except to the extent that the amount is deemed by sections 504 to 510.1 to have been paid as a dividend:

i. the amount for which the share was issued, determined without reference to this subparagraph, and

ii. all amounts by which the paid-up capital in respect of the share increased after the share was issued and before that time;

(*c*) the share is deemed to be settled at such time as it is redeemed, acquired or cancelled by the issuer; and

(*d*) a payment in satisfaction of the principal amount of the share means any payment made on a reduction of the paid-up capital in respect of the share to the extent that the payment is proceeds of disposition of the share within the meaning that would be assigned by section 251 if that section were read without reference to "an amount deemed to be a dividend received under section 508 to the extent that it refers to a dividend deemed paid under sections 505 and 506, except the portion of that amount that is deemed to be included in the proceeds of disposition of the share under paragraph *b* of section 308.1 or deemed not to be a dividend under paragraph *b* of section 568.

History: 1996, c. 39, s. 142; 2019, c. 14, s. 144.

Corresponding Federal Provision: 80.02(2).

Substitution of distress preferred share for commercial debt obligation.

485.30. Where the consideration given by a corporation to another person for the settlement or extinguishment at any time of a commercial debt obligation that was issued by the corporation and owned immediately before that time by the other person includes a distress preferred share issued by the corporation to the other person,

(*a*) for the purposes of sections 485 to 485.18, the amount paid at that time in satisfaction of the principal amount of the obligation because of the issue of that share is deemed to be equal to the lesser of the principal amount of the obligation and the amount by which the paid-up capital in respect of the class of shares that includes that share increases because of the issue of that share; and

(*b*) for the purposes of subparagraph i of paragraph *b* of section 485.29, the amount for which the share was issued is

deemed to be equal to the amount deemed by paragraph *a* to have been paid at that time.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.02(3).

Substitution of commercial debt obligation for distress preferred share.

485.31. Where the consideration given by a corporation to another person for the settlement at any time of a distress preferred share that was issued by the corporation and owned immediately before that time by the other person includes a commercial debt obligation issued by the corporation to the other person, sections 485 to 485.18 apply with reference to the following rules:

(*a*) the amount paid at that time in satisfaction of the principal amount of the share because of the issue of that obligation is deemed to be equal to the principal amount of the obligation; and

(*b*) the amount for which the obligation was issued is deemed to be equal to its principal amount.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.02(4).

Substitution of distress preferred share for other distress preferred share.

485.32. Where the consideration given by a corporation to another person for the settlement at any time of a particular distress preferred share that was issued by the corporation and owned immediately before that time by the other person includes another distress preferred share issued by the corporation to the other person, sections 485 to 485.18 apply with reference to the following rules:

(*a*) the amount paid at that time in satisfaction of the principal amount of the particular share because of the issue of the other share is deemed to be equal to the amount by which the paid-up capital in respect of the class of shares that includes the other share increases because of the issue of the other share; and

(*b*) for the purposes of subparagraph i of paragraph *b* of section 485.29, the amount for which the other share was issued is deemed to be equal to the amount deemed by paragraph *a* to have been paid at that time.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.02(5).

Substitution of non-commercial obligation for distress preferred share.

485.33. Where the consideration given by a corporation to another person for the settlement at any time of a distress preferred share that was issued by the corporation and owned immediately before that time by the other person includes another share, other than a distress preferred share, or an obligation, other than a commercial obligation, issued by the corporation to the other person, for the purposes of sections 485 to 485.18, the amount paid at that time in satisfaction of the principal amount of the distress preferred share because of the issue of the other share or obligation is deemed to be equal to the fair market value of the other share or obligation, as the case may be, at that time.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.02(6).

Deemed settlement on expiry of term.

485.34. Where at any time a distress preferred share becomes a share that is not a distress preferred share, sections 485 to 485.18 apply with reference to the following rules:

(*a*) the share is deemed to have been settled immediately before that time; and

(*b*) a payment equal to the fair market value of the share at that time is deemed to have been made immediately before that time in satisfaction of the principal amount of the share.

History: 1996, c. 39, s. 142.
Corresponding Federal Provision: 80.02(7).

§5. — *Subsequent dispositions*

Deferred recognition of debtor's gain on settlement of debt.

485.35. Where at any time in a taxation year a person surrenders a particular capital property, other than a distress preferred share, that is a share, an interest in a partnership or a capital interest in a trust, the person is deemed to have a capital gain from the disposition at that time of another capital property or, where the particular capital property is a taxable Canadian property, another taxable Canadian property, equal to the amount by which the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing the adjusted cost base to the person of the particular capital property immediately before that time exceeds the aggregate of

(*a*) the amount that would, but for section 638, be the person's capital gain for the year from the disposition of the particular capital property; and

(*b*) where, at the end of the year, the person is resident in Canada or is a person not resident in Canada who carries on business in Canada through a fixed place of business, the amount designated under section 485.40 by the person in respect of the disposition, at that time or immediately after that time, of the particular capital property.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.03(2).

Surrender of capital property.

485.36. For the purposes of section 485.35, a person shall be considered to have surrendered a property at any time only where

(*a*) in the case of a share of the capital stock of a particular corporation,

i. the person is a corporation that disposed of the share at that time and the proceeds of disposition of the share are determined under section 558, or

ii. the person is a corporation that owned the share at that time and, immediately after that time, amalgamates or merges with the particular corporation;

(*b*) in the case of a capital interest in a trust, the person disposed of the interest at that time and the proceeds of disposition are determined under subparagraph *c* of the first paragraph of section 688; and

(*c*) in the case of an interest in a partnership, the person disposed of the interest at that time and the proceeds of disposition are determined under section 621 or 627.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2003, c. 2, s. 133.
Corresponding Federal Provision: 80.03(3).

485.37. *(Repealed).*

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2000, c. 5, s. 110.

485.38. *(Repealed).*

History: 1996, c. 39, s. 142; 2000, c. 5, s. 110.

485.39. *(Repealed).*

History: 1996, c. 39, s. 142; 2000, c. 5, s. 110.

Alternative treatment.

485.40. For the purposes of sections 485 to 485.18 and 485.35, where at any time in a taxation year a person disposes of a property and the person designates an amount in a prescribed form filed with the person's fiscal return under this Part for the year, the following rules apply:

(*a*) the person is deemed to have issued a commercial debt obligation at that time that is settled immediately after that time;

(*b*) the lesser of the amount so designated and the amount that would, but for this section, be a capital gain determined in respect of the disposition because of section 485.35 shall be treated as if it were the forgiven amount at the time of the settlement in respect of the obligation referred to in paragraph *a*;

(*c*) the source in connection with which the obligation referred to in paragraph *a* was issued is deemed to be the business, if any, carried on by the person at the end of the year, and

(*d*) where the person does not carry on a business at the end of the year, the person is deemed to carry on an active business at the end of the year and the source in connection with which the obligation referred to in paragraph *a* was issued is deemed to be the business deemed by this paragraph to be carried on.

History: 1996, c. 39, s. 142; 2000, c. 5, s. 111; 2007, c. 12, s. 65.
Corresponding Federal Provision: 80.03(7).

Lifetime capital gains exemption.

485.41. Where, as a consequence of the disposition at any time by an individual or a partnership of a property that is a qualified farm or fishing property of the individual, within the meaning assigned by section 726.6, a qualified small business corporation share of the individual, within the meaning assigned by section 726.6.1, or a resource property of the individual or partnership, within the meaning assigned by section 726.20.1, the individual or partnership is deemed by section 485.35 to have a capital gain at that time from the disposition of another property, for the purposes of sections 28, 462.7 to 462.10 and 727 to 737, as they apply for the purposes of sections 726.6 to 726.20.4, the other property is deemed to be a qualified farm or fishing property or a qualified small business corporation share, as the case may be, of the individual, or a resource property of the individual or partnership, as the case may be.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2004, c. 21, s. 83; 2017, c. 29, s. 72.
Corresponding Federal Provision: 80.03(8).

§6. — *Transfer agreements*

Agreement respecting transfer of forgiven amount.

485.42. Where a particular commercial obligation issued by a debtor, other than an obligation deemed by paragraph *a* to have been issued, is settled at a particular time, amounts have been designated by the debtor under sections 485.6 to 485.10 to the maximum extent permitted in respect of the settlement of the particular obligation at the particular time, the debtor and an eligible transferee of the debtor at the particular time file under this subdivision an agreement between them in respect of that settlement, and an amount is specified in that agreement, the following rules apply:

(*a*) except for the purposes of section 485.11, the transferee is deemed to have issued a commercial debt obligation that was settled at the particular time;

(*b*) the specified amount is deemed to be the forgiven amount at the particular time in respect of the obligation referred to in paragraph *a*;

(*c*) subject to paragraph *d*, the obligation referred to in paragraph *a* is deemed to have been issued at the same time,

in paragraph *d* referred to as the "time of issue", at which, and in the same circumstances in which, the particular obligation was issued;

(*d*) where the transferee is a taxpayer that was subject to a loss restriction event after the time of issue and the transferee and the debtor were, if the transferee is a corporation, not related to each other—or, if the transferee is a trust, not affiliated with each other—immediately before the loss restriction event,

i. the commercial debt obligation referred to in paragraph *a* is deemed to have been issued after the loss restriction event, and

ii. paragraph *b* of the definition of "unrecognized loss" in section 485 and paragraph *b* of sections 485.1 and 485.2 do not apply in respect of the loss restriction event;

(*e*) the source in connection with which the obligation referred to in paragraph *a* was issued is deemed to be the source in connection with which the particular obligation was issued; and

(*f*) for the purposes of sections 346.2 to 346.4, the amount included under section 485.13 in computing the income of the eligible transferee in respect of the settlement of the obligation referred to in paragraph *a* or deducted under paragraph *a* of section 485.15 in respect of such income is deemed to be nil.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2017, c. 1, s. 124.
Corresponding Federal Provision: 80.04(4).

Application.

485.43. This subdivision applies with reference to subparagraphs *a*, *b*, *k*, *m* and *o* of the first paragraph of section 485.3.

History: 1996, c. 39, s. 142.
Corresponding Federal Provision: 80.04(3).

Consideration for agreement.

485.44. For the purposes of this Part, where property is acquired at any time by an eligible transferee as consideration for entering into an agreement with a debtor that is filed under this subdivision

(*a*) where the property was owned by the debtor immediately before that time,

i. the debtor is deemed to have disposed of the property at that time for proceeds equal to the fair market value of the property at that time, and

ii. no amount may be deducted by the debtor in computing the debtor's income as a consequence of the transfer of the property, except any amount arising as a consequence of the application of subparagraph i;

(*b*) the cost at which the property was acquired by the eligible transferee at that time is deemed to be equal to the fair market value of the property at that time; and

(*c*) the eligible transferee is not required to add an amount in computing income solely because of the acquisition at that time of the property;

(*d*) *(paragraph repealed).*

History: 1996, c. 39, s. 142; 2000, c. 5, s. 112.
Corresponding Federal Provision: 80.04(5).

No benefit conferred.

485.44.1. For the purposes of this Part, where a debtor and an eligible transferee enter into an agreement that is filed in accordance with this subdivision, no benefit shall be considered to have been conferred on the debtor as a consequence of the agreement.

History: 2000, c. 5, s. 113.
Corresponding Federal Provision: 80.04(5.1).

Manner of filing agreement.

485.45. Subject to section 485.46, a particular agreement between a debtor and an eligible transferee in respect of a commercial obligation issued by the debtor that was settled at any time is deemed not to have been filed under this subdivision

(*a*) where it is not filed with the Minister in a prescribed form

i. on or before

(1) the debtor's filing-due date for the taxation year or fiscal period, as the case may be, that includes that time, or

(2) if it is later, the transferee's filing-due date for the taxation year or fiscal period, as the case may be, that includes that time, or

ii. on or before

(1) the expiry of the 90-day period commencing on the day of sending of the notice of assessment of tax payable under this Part or of a notification that no tax is payable under this Part, for a taxation year or fiscal period, as the case may be, described in subparagraph 1 or 2 of subparagraph i, or

(2) if it is later, where the debtor is an individual (other than a trust) or a succession that is a graduated rate estate, the day that is one year after the debtor's filing-due date for the year;

(*b*) where it is not accompanied by,

i. where the debtor is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made,

ii. where the debtor is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made,

iii. where the transferee is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made, and

iv. where the transferee is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made; or

(*c*) if an agreement amending the particular agreement has been filed in accordance with this subdivision, except where section 485.47 applies to the particular agreement.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 1997, c. 31, s. 51; 2003, c. 9, s. 29; 2015, c. 21, s. 174; 2017, c. 1, s. 125.
Corresponding Federal Provision: 80.04(6).

Filing by partnership.

485.46. Where a commercial obligation is settled at any time in a fiscal period of a partnership, it shall be assumed for the purposes of section 485.45 that

(*a*) the partnership is required to file a fiscal return under this Part for the fiscal period on or before the latest of the filing-due dates of the members of the partnership during the fiscal period for the taxation year in which that fiscal period ends; and

(*b*) the partnership may file a notice of objection described in subparagraph ii of paragraph *a* of section 485.45 within each period within which any member of the partnership during the fiscal period may file a notice of objection to tax payable under this Part for a taxation year in which that fiscal period ends.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 1997, c. 31, s. 52; 2003, c. 9, s. 30; I.N. 2016-01-01 (NCCP).
Corresponding Federal Provision: 80.04(7).

Related corporations.

485.47. Where at any time a corporation becomes related to another corporation and it can reasonably be considered that the main purpose of the corporation becoming related to the other corporation is to enable the corporations to file an agreement under this subdivision, the amount specified in the agreement is deemed to be nil for the purposes of subparagraph *c* of the second paragraph of section 485.13.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.04(8).

Assessment of taxpayers in respect of agreement.

485.48. Notwithstanding sections 1010 to 1011, the Minister shall under this Part assess or reassess the tax, interest and penalties payable by a taxpayer in order to take into account an agreement filed under this subdivision.

History: 1996, c. 39, s. 142.
Corresponding Federal Provision: 80.04(9).

Liability of debtor.

485.49. Without affecting the liability of any person under any other provision of this Act, where a debtor and an eligible transferee file an agreement between them under this subdivision in respect of a commercial obligation issued by the debtor that was settled at any time, the debtor is, to the extent of 30% of the amount specified in the agreement, liable to pay

(*a*) where the transferee is a corporation, all taxes payable under this Part by it for taxation years that end in the period that begins at that time and ends four calendar years after that time;

(*b*) where the transferee is a partnership, the aggregate of all amounts each of which is the tax payable under this Part by a person for a taxation year that begins or ends in the period referred to in paragraph *a* and that includes the end of a fiscal period of the partnership during which the person was a member of the partnership; and

(*c*) interest and penalties in respect of such taxes.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 2000, c. 5, s. 114.
Corresponding Federal Provision: 80.04(10).

Solidary liability.

485.50. Where taxes, interest and penalties are payable under this Part by a person for a taxation year and those taxes, interest and penalties are payable by a debtor because of section 485.49, the debtor and the person are solidarily liable to pay those amounts.

History: 1996, c. 39, s. 142.
Corresponding Federal Provision: 80.04(11).

Assessment in respect of liability.

485.51. Where a debtor and an eligible transferee file an agreement between them under this subdivision in respect of a commercial obligation issued by the debtor that was settled at a particular time,

(*a*) where the debtor is an individual or a corporation, the Minister may at any subsequent time assess the debtor in respect of taxes, interest and penalties for which the debtor is liable because of section 485.49; and

(*b*) where the debtor is a partnership, the Minister may at any subsequent time assess any person who has been a member of the partnership in respect of taxes, interest and penalties for which the partnership is liable because of section 485.49, to the extent that those amounts relate to taxation years of the transferee or, where the transferee is

also a partnership, members of that partnership, that end at or after

i. where the person was not a member of the partnership at the particular time, the first subsequent time the person becomes a member of the partnership, and

ii. in any other case, the particular time.

Provisions applicable.

The provisions of Book IX apply, with the necessary modifications, to the assessment made under the first paragraph as if the assessment had been made under Title II of that Book.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71; 1997, c. 85, s. 80.
Corresponding Federal Provision: 80.04(12) and (13).

Partnership members.

485.52. For the purposes of this section and paragraph *b* of sections 485.49 and 485.51, where a partnership is at any time a member of another partnership, each member of the partnership is deemed to be a member of the other partnership at that time.

History: 1996, c. 39, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.04(14).

DIVISION IV
MISCELLANEOUS CASES

§1. — *Reimbursement of royalties in relation to natural resources*

Reimbursement of an amount in respect of which no deduction is allowed.

486. For the application of this Part, except this section, to a taxation year that ends on or before 31 December 2006, where a taxpayer, under a contract, pays to another person a particular amount that may reasonably be considered to have been received by the other person as a reimbursement, contribution or allowance in respect of an amount paid or payable by the other person, the latter amount is included in computing the income of that other person under section 89 or is not deductible in computing the income of such other person because of section 144 and the taxpayer, at the time of payment of the particular amount, was resident in Canada or carrying on business in Canada, the following rules apply:

(*a*) the taxpayer is deemed neither to have paid nor to have become obligated to pay the particular amount to the other person but to have paid an amount contemplated in section 144 equal to the particular amount;

(*b*) the other person is deemed neither to have received nor to have become entitled to receive the particular amount from the taxpayer.

History: 1975, c. 22, s. 108; 1977, c. 26, s. 57; 1978, c. 26, s. 81; 1991, c. 25, s. 78; 2005, c. 1, s. 115; 2015, c. 24, s. 77.
Corresponding Federal Provision: 80.2.

Reimbursement of royalties in a taxation year ending after 31 December 2006.

486.1. Sections 486.2 to 486.11 apply if

(*a*) a taxpayer, under a contract, pays to another person (in this subdivision referred to as the "recipient") an amount (in this subdivision referred to as the "specified amount"), in a taxation year of the taxpayer that ends after 31 December 2006, that may reasonably be considered to be received by the recipient as a reimbursement of, or a contribution or an allowance in respect of, an amount (in this subdivision referred to as the "original amount") that is described in section 144 and was paid or is payable by the recipient, or that is, in respect of the recipient, an amount described in section 89;

(*b*) the original amount is paid or became payable or receivable in a taxation year or fiscal period of the recipient that begins before 1 January 2007; and

(*c*) the taxpayer is resident in Canada or carries on business in Canada when the specified amount is paid.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(1).

Reimbursement amount paid in a taxation year beginning before 2008.

486.2. Where the specified amount is paid by a taxpayer in a taxation year of the taxpayer that begins before 1 January 2008, the eligible portion of the specified amount, determined under section 486.9, is deemed to be an amount described in section 144 that is paid by the taxpayer.

Reimbursement amount paid in a taxation year beginning after 2007.

The specified amount that is paid by a taxpayer in a taxation year of the taxpayer that begins after 31 December 2007 is deemed, for the purpose of applying this subdivision to the taxpayer, to be nil.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(2).

Applying section 144.

486.3. For the purpose of applying section 144 for the taxpayer's taxation year in which the taxpayer pays a specified amount, the amount to which section 144 applies is to be determined as if,

(*a*) where the taxpayer was in existence at the time the original amount became receivable by a person referred to in section 90 or became payable to such a person, the specified amount had been paid by the taxpayer at that time; and

(*b*) in any other case, the taxpayer were in existence and had a calendar taxation year at the time the original amount became receivable by a person referred to in section 90 or became payable to such a person and the specified amount had been paid by the taxpayer at that time.

Exception for certain partnership reimbursements.

The first paragraph does not apply to a specified amount paid by a taxpayer if

(*a*) the recipient is a partnership;

(*b*) the original amount became receivable by a person referred to in section 90 or became payable to such a person in a particular fiscal period of the partnership;

(*c*) the taxpayer is a member of the partnership at the end of the particular fiscal period; and

(*d*) the taxpayer paid the specified amount before the end of the taxation year of the taxpayer in which the particular fiscal period ends.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(3) and (4).

Inclusion in recipient's income.

486.4. The recipient shall include, in computing the recipient's income for the taxation year or fiscal period in which the original amount was paid or became payable or receivable, the amount by which the eligible portion of the specified amount, determined under section 486.9, exceeds the portion of the original amount that is included because of section 89, or that is not deductible because of section 144, in computing the income of the recipient for the taxation year or fiscal period.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(6).

Interpretation — portion of the original amount.

486.5. For the purposes of section 486.4, the portion of the original amount that was included in computing the income of the recipient or that was not deductible in computing the income of the recipient is the amount that would be included in computing the income of the recipient under section 89 or that would not be deductible in computing the income of the recipient under section 144, if the original amount were equal to the eligible portion of the specified amount, determined under section 486.9.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(7).

Inclusion in recipient's income.

486.6. The recipient shall include, in computing the recipient's income for its taxation year or fiscal period in which the original amount was paid or became payable or receivable, the amount by which the specified amount exceeds the eligible portion of the specified amount, determined under section 486.9.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(8).

Deduction by taxpayer.

486.7. Subject to sections 128 and 129, the taxpayer may deduct, in computing the taxpayer's income for the taxpayer's taxation year in which the specified amount was paid, the amount by which the specified amount exceeds the eligible portion of the specified amount, determined under section 486.9.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(9).

Specified amount deemed not to be payable or receivable.

486.8. Except for the purposes of subparagraph iv.1 of paragraph *i* of section 255 and this subdivision, the following rules apply:

(*a*) the taxpayer is deemed not to have paid, and not to be obligated to pay, the specified amount; and

(*b*) the recipient is deemed not to have received, and not to have become entitled to receive, the specified amount.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(10).

Eligible portion of a specified amount.

486.9. The eligible portion of a specified amount means

(*a*) the specified amount if

i. the original amount is a tax imposed under a provincial law in relation to the production of

(1) petroleum, natural gas or other related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada, or from an oil or gas well located in Canada if the petroleum, natural gas or related hydrocarbons are not, before extraction, owned by the State or the Crown in right of Canada or a province, other than Québec, or

(2) metals, minerals or coal from a mineral resource located in Canada if the metals, minerals or coal are not, before extraction, owned by the State or the Crown in right of Canada or a province, other than Québec,

ii. the specified amount does not exceed the taxpayer's share of the original amount, determined under section 486.10, or

iii. the original amount is a prescribed amount; or

(*b*) the taxpayer's share of the original amount, determined under section 486.10, in any other case.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(11).

Taxpayer's share of original amount.

486.10. A taxpayer's share of an original amount in respect of a specified amount paid by the taxpayer to a recipient in respect of a property is the amount that may reasonably be considered to be the taxpayer's share of the aggregate of all amounts each of which is an amount described in section 89 or 144 in respect of the property, which share may not exceed the total of

(*a*) the amount that is that proportion of the aggregate of all amounts each of which is an amount described in section 89 or 144 in respect of the property that the taxpayer's share of production from the property payable to the taxpayer as a royalty, which royalty is computed without reference to the costs of exploration or production, is of the total production from the property; and

(*b*) the amount that is that proportion of the aggregate of all amounts each of which is an amount described in section 89 or 144 in respect of the property (other than an amount which the recipient has received or is entitled to receive as a reimbursement, contribution or allowance in respect of a royalty described in paragraph *a*) that the taxpayer's share of the income from the property is of the total income from the property.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(12).

Reduction in original amount.

486.11. For the purposes of Chapter III of Title XVI of the Regulation respecting the Taxation Act (chapter I-3, r. 1), an original amount in respect of which a specified amount is received is deemed, for the taxation year in which the original amount is paid or became payable or receivable, not to include an amount equal to the eligible portion of the specified amount, determined under section 486.9.

History: 2015, c. 24, s. 78.
Corresponding Federal Provision: 80.2(13).

§2. — *Special deductions in respect of farming and animal husbandry*

Income deferral from forced destruction of livestock.

487. Where a taxpayer includes, in computing his income from a farming business for a taxation year, a particular amount in respect of the forced destruction of livestock in the year under an Act, he may, subject to section 487.0.4, deduct in computing that income for that year an amount not exceeding the particular amount.

Inclusion of deferred amount.

The amount deducted by the taxpayer under the first paragraph in computing his income from a farming business for a taxation year is deemed to be income of the taxpayer from such business for the subsequent taxation year.

History: 1977, c. 26, s. 58; 1991, c. 25, s. 78.
Corresponding Federal Provision: 80.3(2) and (3).

Definitions:

487.0.1. In this section and sections 487.0.2 to 487.0.3,

"breeding animals";
"breeding animals" means bison, bovine cattle, deer, horses, goats, elk, sheep or other grazing ungulates that are over 12 months of age and are kept for breeding;

"breeding bees";
"breeding bees" means bees that are not used principally to pollinate plants in greenhouses and larvae of those bees;

"breeding bee stock";
"breeding bee stock", of a taxpayer at a particular time, means a reasonable estimate of the quantity of the taxpayer's breeding bees held at that time in the course of carrying on a farming business using a unit of measurement that is accepted as an industry standard;

"breeding herd".
"breeding herd" of a taxpayer at any time means the number of animals determined at that time, in respect of the taxpayer, by the formula

$A - (B - C)$.

Interpretation.

For the purposes of the formula set forth in the definition of "breeding herd" set forth in the first paragraph,

(*a*) A is the total number of the taxpayer's breeding animals held in the course of carrying on a farming business at that time;

(*b*) B is the total number of the taxpayer's breeding animals held in the farming business at that time that are female bovine cattle that have not given birth to calves;

(*c*) C is the lesser of the number of animals determined as the value of B and one-half on the total number of the taxpayer's breeding animals held in the farming business at that time that are female bovine cattle that have given birth to calves.

History: 1991, c. 25, s. 79; 1994, c. 22, s. 190; 2017, c. 1, s. 126.

Corresponding Federal Provision: 80.3(1).

Income deferral for regions of drought, flood or excessive moisture.

487.0.2. A taxpayer who, in a taxation year, carries on a farming business in a region that is a drought region or a region of flood or excessive moisture, within the meaning of the regulations, at any time in the year and whose breeding herd at the end of the year in respect of the business does not exceed 85% of his breeding herd at the beginning of the year in respect of the business, may deduct, in computing his income from the business for the year, an amount not exceeding the amount determined for the year, in respect of the taxpayer's business, by the formula

(A − B) × C.

Interpretation.

For the purposes of the formula set forth in the first paragraph,

(*a*) A is the amount by which the aggregate of the particular amounts included, in respect of the sale of breeding animals in the year, in computing the taxpayer's income from the business for the year exceeds the aggregate of all amounts deducted under section 153, in respect of the particular amounts, in computing the taxpayer's income from the business for the year;

(*b*) B is the aggregate of all amounts deducted, in respect of the acquisition of breeding animals, in computing the taxpayer's income from the business for the year;

(*c*) C is 30% where the taxpayer's breeding herd at the end of the year in respect of the business exceeds 70% of his breeding herd at the beginning of the year in respect of the business, and 90% in all other cases.

History: 1991, c. 25, s. 79; 2010, c. 25, s. 33.

Corresponding Federal Provision: 80.3(4).

Income deferral.

487.0.2.1. A taxpayer who, in a taxation year, carries on a farming business in a region that is at any time in the year a drought region or a region of flood or excessive moisture, within the meaning of the regulations, and whose breeding bee stock at the end of the year in respect of the business does not exceed 85% of the taxpayer's breeding bee stock at the beginning of the year in respect of the business, may deduct, in computing the taxpayer's income for the year from the business, an amount not exceeding the amount determined for the year, in respect of the taxpayer's business, by the formula

(A − B) × C.

Interpretation.

In the formula in the first paragraph,

(*a*) A is the amount by which the aggregate of all the particular amounts included in computing the taxpayer's income for the year from the business in respect of the sale of breeding bees in the year exceeds the aggregate of all amounts deducted in respect of the particular amounts, under section 153, in computing the taxpayer's income for the year from the business;

(*b*) B is the aggregate of all amounts deducted in computing the taxpayer's income for the year from the business in respect of the acquisition of breeding bees; and

(*c*) C is either 30% if the taxpayer's breeding bee stock at the end of the year in respect of the business exceeds 70% of the taxpayer's breeding bee stock at the beginning of the year in respect of the business, or 90% in any other case.

History: 2017, c. 1, s. 127.

Corresponding Federal Provision: 80.3(4.1).

Inclusion of deferred amount.

487.0.3. The amount deducted under section 487.0.2 or 487.0.2.1 in computing the income of a taxpayer for a particular taxation year from a farming business carried on in a region referred to in the first paragraph of section 487.0.2 or 487.0.2.1,

(*a*) must, up to the amount determined under the second paragraph, be included in computing the taxpayer's income from the business for a given taxation year ending after the particular taxation year; and

(*b*) is deemed, except to the extent that the amount has been included under this section in computing the taxpayer's income from the business for a preceding taxation year after the particular taxation year, to be income of the taxpayer from the business for the taxation year that is the earliest of

i. the taxpayer's first taxation year beginning after the end of the period or series of continuous periods, as the case may be, for which the region was referred to in the first paragraph of section 487.0.2 or 487.0.2.1,

ii. the taxpayer's first taxation year, following the particular taxation year, at the end of which the taxpayer was not resident in Canada and not carrying on business through a fixed place of business in Canada, and

iii. the taxpayer's taxation year in which the taxpayer died.

Amount referred to.

The amount to which subparagraph *a* of the first paragraph refers is equal to the lesser of

(*a*) the amount deducted under section 487.0.2 or 487.0.2.1 in computing the taxpayer's income for the particular taxation year from the farming business, except to the extent that the amount has been included under this section in computing the taxpayer's income from the business for a taxation year preceding the given taxation year but after the particular taxation year; and

(*b*) the amount included for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), under subsection 5 of section 80.3 of that Act, in computing the taxpayer's income from the business for the given taxation year because of an election made in accordance with that subsection 5 in respect of the amount deducted under subsection 4 or 4.1 of that section 80.3 in that computation for the particular taxation year.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 5 of section 80.3 of the Income Tax Act.

History: 1991, c. 25, s. 79; 1993, c. 16, s. 197; 1996, c. 39, s. 273; 2009, c. 5, s. 170; 2010, c. 25, s. 34; 2017, c. 1, s. 128.
Corresponding Federal Provision: 80.3(5).

Restrictions.

487.0.4. The first paragraph of section 487 and sections 487.0.2 and 487.0.2.1 do not apply to a taxpayer, in respect of a farming business, for a taxation year in which the taxpayer died or where at the end of the year the taxpayer is not resident in Canada and not carrying on business through a fixed place of business in Canada.

History: 1991, c. 25, s. 79; 1993, c. 16, s. 197; 1996, c. 39, s. 273; 2017, c. 1, s. 129.
Corresponding Federal Provision: 80.3(6).

Measuring breeding bee stock.

487.0.5. In applying section 487.0.2.1 in respect of a taxation year, the unit of measurement used for estimating the quantity of a taxpayer's breeding bee stock held in the course of carrying on a farming business at the end of the year is to be the same as that used for the beginning of the year.

History: 2017, c. 1, s. 130.
Corresponding Federal Provision: 80.3(7).

§3. — *Benefits arising from a loan*

Deemed benefit.

487.1. A corporation carrying on a personal services business or an individual is deemed to receive a benefit in a taxation year equal to the amount computed under section 487.2 when a person or partnership contracts a debt because of services provided or to be provided by the corporation or of the individual's previous, current or intended office or employment.

Presumption.

For the purposes of the first paragraph, a debt is deemed to have been contracted because of an individual's office or employment, or because of services provided by a corporation that carries on a personal services business, if it is reasonable to conclude that, but for the individual's previous, current or intended office or employment, or the services provided or to be provided by the corporation,

(*a*) the terms of the debt would have been different; or

(*b*) the debt would not have been contracted.

History: 1978, c. 26, s. 82; 1983, c. 44, s. 26; 1994, c. 22, s. 191; 1997, c. 3, s. 71; 1997, c. 14, s. 79; 2001, c. 53, s. 74.
Interpretation Bulletins: IMP. 135.2-1/R1.
Corresponding Federal Provision: 80.4(1) before (a).

Computation.

487.2. The amount to which the first paragraph of section 487.1 refers is the amount by which the amount computed under section 487.2.1 is exceeded by the aggregate of all amounts each of which is the interest, computed at the prescribed rate, in respect of each such debt for the period of the year in which it was unpaid, or the interest paid or payable for the year in respect of each such debt

(*a*) by a person or partnership that employed or planned to employ the individual;

(*b*) by a person or partnership to which or for which the corporation provided or was to provide services; or

(*c*) by a person who was not a debtor of the debt and who was related to the person or partnership described in paragraph *a* or was not dealing at arm's length with the person or partnership described in paragraph *b*.

History: 1978, c. 26, s. 82; 1982, c. 5, s. 112; 1983, c. 44, s. 26; 1986, c. 15, s. 85; 1986, c. 19, s. 112; 1997, c. 3, s. 71; 2001, c. 53, s. 75; 2010, c. 25, s. 35; 2020, c. 16, s. 71.
Interpretation Bulletins: IMP. 135.2-1/R1.
Corresponding Federal Provision: 80.4(1)(a), (b)(i), (ii) and (iii).

Amount referred to in section 487.2.

487.2.1. The amount referred to in section 487.2 is the aggregate of

(*a*) the interest for the year paid on each such debt not later than 30 days after the end of the year; and

(*b*) the portion of the interest paid or payable for the year in respect of each such debt by a person or partnership referred to in any of paragraphs *a* to *c* of section 487.2 that is

reimbursed by the debtor in the year or within 30 days after the end of the year to the person or partnership that made the payment referred to in that section.

History: 1986, c. 19, s. 113; 2010, c. 25, s. 36.
Corresponding Federal Provision: 80.4(1)(c) and (d).

Deemed benefit.

487.3. A person, other than a corporation resident in Canada, or a partnership, other than a partnership every member of which is such a corporation, is deemed to receive a benefit in a taxation year equal to the amount computed under section 487.4, where the person or partnership contracts a debt with a corporation by virtue of the fact that the person or partnership is a shareholder of the corporation, is connected with a shareholder of the corporation or is a member of a partnership or a beneficiary of a trust that is such a shareholder.

Related corporation.

The same rule applies where the person or partnership contracts a debt with a corporation related to the corporation or with a partnership of which the corporation or a corporation related to it is a member.

Person or partnership connected with shareholder.

For the purposes of this section, a person or a partnership is connected with a shareholder of a corporation if that person or partnership does not deal at arm's length with, or is affiliated with, the shareholder, unless, in the case of a person, that person is a foreign affiliate of the corporation or of a person resident in Canada with which the corporation does not deal at arm's length.

History: 1978, c. 26, s. 82; 1983, c. 44, s. 26; 1997, c. 3, s. 71; 2019, c. 14, s. 145.
Interpretation Bulletins: IMP. 487.1-1/R3.
Corresponding Federal Provision: 80.4(2) and (8) before a).

Calcul du montant.

487.4. The amount to which section 487.3 refers is the amount by which the aggregate of all amounts each of which is the interest in respect of each such debt, computed at the prescribed rate for the period of the year in which it was unpaid, exceeds the aggregate of all amounts each of which is

(*a*) the amount of interest paid for the year in respect of each such debt (other than debts incurred as or on account of loans that are deemed to have been received under section 113.4) not later than 30 days after the end of the year; or

(*b*) the amount of interest determined, for the year, in respect of each debt incurred as or on account of loans that are deemed to have been received under section 113.4.

History: 1983, c. 44, s. 26; 1986, c. 19, s. 114; 2020, c. 16, s. 72.
Corresponding Federal Provision: 80.4(2)(d) and (e).

Specified interest amount.

487.4.1. For the purposes of sections 487.1 to 487.6, the specified interest amount, for a year, in respect of a debt (in this section referred to as the "deemed loan") contracted as or on account of a loan that is deemed to have been received under section 113.4 from a particular ultimate funder, is the amount determined by the formula

A × B/C.

Interpretation.

In the formula in the first paragraph,

(*a*) A is the total amount of interest for the year paid not later than 30 days after the end of the year in respect of all debts that are owing to the particular ultimate funder under one or more funding arrangements by one or more funders, but excluding any funders that are ultimate funders, and that gave rise to the deemed loan;

(*b*) B is the average amount owing for the year in respect of the deemed loan; and

(*c*) C is the aggregate of all amounts each of which is the average amount owing in the year as or on account of an amount owing in respect of a debt described in subparagraph *a*.

Definitions.

In this section, "funder", "funding arrangement" and "ultimate funder" have the meaning assigned by section 113.7.

History: 2020, c. 16, s. 73.

Provisions not applicable.

487.5. Sections 487.1 and 487.3 do not apply in respect of a debt or the portion of a debt

(*a*) that is included in computing the income of a person or partnership under this Part; or

(*b*) on which the interest is paid or payable to the creditor only by the debtor and in respect of which the rate of interest is not lower than the rate which, in view of the circumstances and the terms and conditions of the debt, would have been agreed upon, when the debt was contracted, between the parties who were dealing at arm's length, if the loan of money had been part of the creditor's normal business and if neither of the parties contracted the debt by virtue of an office or employment, or by virtue of the fact that a person or partnership is a shareholder.

History: 1983, c. 44, s. 26; 1997, c. 3, s. 71.
Corresponding Federal Provision: 80.4(3).

Interest on loans for home purchase or relocation.

487.5.1. For the purpose of computing the benefit under the first paragraph of section 487.1 in a taxation year in respect of a debt contracted for a home purchase loan or a home relocation loan, the aggregate of all amounts each of which is the interest on all such debts, computed at the prescribed rate for the period in the year during which it was outstanding, must not exceed the aggregate of the amounts that would have been determined in this manner if the interest had been computed at the rate of 8% in the case of a debt contracted before 1 May 1987 or, in any other case, at the prescribed rate in effect at the time the debt was contracted.

History: 1988, c. 4, s. 35; 2001, c. 53, s. 76; 2019, c. 14, s. 146; 2020, c. 16, s. 74.

Corresponding Federal Provision: 80.4(4).

Deemed new home purchase loans.

487.5.2. For the purposes of sections 487.1 to 487.6, other than paragraph *b* of section 487.5, where a debt, other than a prescribed debt, contracted for a home purchase loan or a home relocation loan of an individual has a term for repayment exceeding five years, the balance outstanding on the debt on the date that is five years from the day the debt was contracted or was last deemed by this section to have been contracted is deemed to be a new debt contracted for a home purchase loan on that date.

History: 1988, c. 4, s. 35; 2020, c. 16, s. 75.

Corresponding Federal Provision: 80.4(6).

Meaning of "home purchase loan".

487.5.3. For the purposes of sections 487.1 to 487.6, "home purchase loan" means that portion of any debt contracted by an individual in the circumstances referred to in section 487.1 that is used to acquire, or to repay a debt that was contracted to acquire, a dwelling or a share of the capital stock of a housing cooperative acquired for the sole purpose of acquiring the right to inhabit a dwelling owned by the cooperative, where the dwelling is for the habitation of any of the persons described in section 487.5.4, or that is used to repay a home purchase loan.

History: 1988, c. 4, s. 35; 1993, c. 16, s. 198; 1997, c. 3, s. 71; 1997, c. 85, s. 81; 2000, c. 5, s. 115; 2001, c. 53, s. 77.

Corresponding Federal Provision: 80.4(7) “home purchase loan” before (a) and after (c).

Persons referred to in s. 487.5.3.

487.5.4. The persons referred to in section 487.5.3 are the following:

(*a*) the individual by virtue of whose office or employment the debt is contracted;

(*b*) a specified shareholder of the corporation by virtue of whose services the debt is contracted;

(*c*) a person related to a person described in paragraph *a* or *b*.

History: 1988, c. 4, s. 35; 1997, c. 3, s. 71; 2020, c. 16, s. 76.

Corresponding Federal Provision: 80.4(7) “home purchase loan” (a) to (c).

Benefit deemed interest.

487.6. For the purposes of sections 64 and 160, any benefit deemed to be received in a taxation year under section 487.1 or 487.3 is also deemed to be interest paid in the year and payable in respect of the year by the debtor in accordance with a legal obligation to pay interest on borrowed money.

History: 1983, c. 44, s. 26; 1985, c. 25, s. 93; 2005, c. 1, s. 116.

Corresponding Federal Provision: 80.5.

Synthetic disposition.

487.7. Where a synthetic disposition arrangement is entered into in respect of a property owned by a taxpayer and the synthetic disposition period of the arrangement is at least one year, the taxpayer is deemed

(*a*) to have disposed of the property immediately before the beginning of the synthetic disposition period for proceeds of disposition equal to its fair market value at the beginning of the synthetic disposition period; and

(*b*) to have reacquired the property at the beginning of the synthetic disposition period at a cost equal to its fair market value at the beginning of the synthetic disposition period.

Exception.

The first paragraph does not apply in respect of a property owned by a taxpayer where

(*a*) the disposition referred to in the first paragraph would not result in the realization of a capital gain or income;

(*b*) the property of the taxpayer is a mark-to-market property (within the meaning of the first paragraph of section 851.22.1);

(*c*) the synthetic disposition arrangement referred to in the first paragraph is a lease of corporeal property;

(*d*) the arrangement is an exchange of property to which section 301 applies; or

(*e*) the property is disposed of as part of the arrangement, within one year after the day on which the synthetic disposition period of the arrangement begins.

History: 2017, c. 1, s. 131.

Corresponding Federal Provision: 80.6.

TITLE VIII
AMOUNTS NOT INCLUDED IN COMPUTING INCOME

CHAPTER I
GENERALITIES

Amounts to be excluded from income.

488. A taxpayer shall not include, in computing his income for a taxation year, the amounts provided for in this title or the regulations.

Amounts to be excluded from income.

Such amounts include those that sections 218 to 220 provide are not to be included in computing income and the payments that Title I of Book VII provides are not to be included in computing income.

History: 1972, c. 23, s. 386; 1993, c. 64, s. 36; 2000, c. 5, s. 116.
Corresponding Federal Provision: 81(1)(a), (k), (1) and (q).

CHAPTER II
MISCELLANEOUS CASES

Amounts not included.

489. The amounts which shall not be included also include:

(*a*) an amount received under a War Savings Certificate issued by His Majesty in right of Canada or under a similar savings certificate issued by His Majesty in right of Newfoundland before 1 April 1949;

(*b*) the income earned in Canada by a person who is not resident in Canada from international shipping or from the operation of aircraft in international traffic, if the country in which that person resides treats persons resident in Canada in the same manner;

(*c*) *(paragraph repealed)*;

(*c.*1) an amount, other than a prescribed amount, ordinarily paid to an individual, other than a trust, as a social assistance payment based on a means, needs or income test under a program provided for by a law of Canada or of a province, to the extent that it is received directly or indirectly by the individual for the benefit of another individual, other than the individual's spouse or a person who is related to the individual or to the individual's spouse, if

i. no family allowance under the Family Allowance Act (Revised Statutes of Canada, 1985, chapter F-1) or any similar allowance under a law of a province is payable in respect of the other individual for the period in respect of which the social assistance payment is made, and

ii. throughout the period referred to in subparagraph i, the other individual resides in the individual's principal place of residence or the individual's principal place of residence is maintained for use as the residence of that other individual;

(*c.*2) an amount received by an individual as remuneration referred to in subparagraph 1 or 2 of the third paragraph of section 303 of the Act respecting health services and social services (chapter S-4.2) or an Order in Council made under the Act respecting health services and social services for Cree Native persons (chapter S-5), where

i. the individual is recognized as an intermediate resource or family-type resource, referred to in the Act respecting health services and social services, by an agency referred to in section 339 of that Act, or acts as a foster family, referred to in subparagraph *o* of the first paragraph of section 1 of the Act respecting health services and social services for Cree Native persons, and

ii. throughout the period in respect of which the amount is received, the individual takes in at the individual's principal place of residence a maximum of nine persons referred to the individual by a public institution described in section 98 of the Act respecting health services and social services or entrusted to the individual through a social service centre referred to in subparagraph *j* of the first paragraph of section 1 of the Act respecting health services and social services for Cree Native persons, or the individual maintains the individual's principal place of residence to be used as the residence of such persons;

(*c.*3) an amount received by an individual under a service contract entered into with the Minister of Public Security to establish a foster home and to facilitate the social rehabilitation of the persons required to live there, where

i. the foster home is maintained in the individual's principal place of residence, and

ii. throughout the period in respect of which the individual receives the amount, a maximum of nine persons are required to live in the foster home;

(*d*) interest received by a corporation resident in Canada, accrued, received or become receivable, on a bond, debenture, bill, note, hypothecary claim, mortgage or similar obligation which it receives as consideration for the disposition by it, before 18 June 1971, of a business carried on by it in a country other than Canada or all the shares of its subsidiary that carried on a business in such a country, and such of the debts and other obligations of such subsidiary as were, immediately before such disposition, owing to the corporation;

(*e*) *(paragraph repealed)*;

(*f*) *(paragraph repealed)*;

(*f*.1) an amount that is credited or added to a deposit or account referred to in a foreign retirement arrangement as interest or other income in respect of the deposit or account, where the amount would, but for this paragraph, be included in computing the taxpayer's income by reason only of such crediting or adding;

(*g*) *(paragraph repealed)*;

(*h*) *(paragraph repealed)*;

(*i*) an amount paid to an individual in a taxation year under an arrangement described in paragraph *a* of section 47.16R1 of the Regulation respecting the Taxation Act (chapter I-3, r. 1), to the extent that the amount may reasonably be considered to be attributable to an amount that

i. was included in computing the individual's income for a preceding taxation year and was income, interest or other additional amounts described in subparagraph iv of paragraph *a* of section 47.16R1 of the Regulation respecting the Taxation Act, and

ii. was paid again by the individual under the arrangement in a preceding taxation year.

History: 1972, c. 23, s. 387; 1973, c. 17, s. 56; 1975, c. 21, s. 14; 1975, c. 22, s. 109; 1978, c. 26, s. 83; 1982, c. 5, s. 113; 1984, c. 15, s. 105; 1987, c. 67, s. 117; 1993, c. 16, s. 199; 1994, c. 22, s. 192; 1996, c. 39, s. 143; 1997, c. 3, s. 71; 2000, c. 5, s. 117; 2002, c. 40, s. 38; 2005, c. 1, s. 117; 2005, c. 32, s. 308; 2009, c. 24, s. 91; O.C. 1093-2011; 2015, c. 21, s. 175; 2017, c. 1, s. 132.

Corresponding Federal Provision: 81(1)(b), (c), (h), (m) before (i), (i) and (ii), (r) and (s).

Application of paragraph *d* of section 489.

490. Paragraph *d* of section 489 applies only in the case of a public utility, if such public utility or the property described in that paragraph has been disposed of to a person resident in such other country and if the obligation received by the corporation has been issued or guaranteed by the government of that other country or any mandatary of such government.

History: 1972, c. 23, s. 388; 1995, c. 49, s. 131; 1997, c. 3, s. 71; 2017, c. 29, s. 73.

Corresponding Federal Provision: 81(1)(m)(iii) to (v).

CHAPTER III
CERTAIN PENSIONS AND COMPENSATIONS

Amounts to be excluded from income.

491. The following shall also be excluded in computing income:

(*a*) a pension payment in the case of disability or death arising out of a war from a country that was an ally of Canada at that time, if that country grants the same exemption for the year to persons receiving a pension contemplated in paragraph *e*;

(*b*) a pension payment, a grant or an allowance in respect of death or injury sustained in the explosion in Halifax in 1917 and received from the Halifax Relief Commission the incorporation of which was confirmed by An Act respecting the Halifax Relief Commission (Statutes of Canada, 1918, chapter 24) or received pursuant to the Halifax Relief Commission Pension Continuation Act (Statutes of Canada, 1974-75-76, chapter 88);

(*c*) a pension payment or compensation received under section 5, 31 or 45 of the Royal Canadian Mounted Police Pension Continuation Act (Revised Statutes of Canada, 1970, chapter R-10) or sections 32 and 33 of the Royal Canadian Mounted Police Superannuation Act (Revised Statutes of Canada, 1985, chapter R-11), in respect of an injury, disability or death;

(*d*) *(paragraph repealed)*;

(*e*) compensation received under the regulations made under section 9 of the Aeronautics Act (Revised Statutes of Canada, 1985, chapter A-2), an amount received under the Gallantry Awards Order made by the Government of Canada or a pension payment, an allowance or compensation that is received under the Pension Act (Revised Statutes of Canada, 1985, chapter P-6), the Civilian War-related Benefits Act (Revised Statutes of Canada, 1985, chapter C-31) or the War Veterans Allowance Act (Revised Statutes of Canada, 1985, chapter W-3);

(*e*.1) an amount received on account of

i. a Canadian Forces income support benefit payable under Part 2 of the Veterans Well-being Act (Statutes of Canada, 2005, chapter 21),

ii. pain and suffering compensation, additional pain and suffering compensation or a critical injury benefit, disability award, death benefit, clothing allowance or detention benefit payable under Part 3 of the Veterans Well-being Act,

iii. a caregiver recognition benefit payable under Part 3.1 of the Veterans Well-being Act, or

iv. an amount payable under subsection 1 of section 132 of the Veterans Well-being Act;

(*e*.2) an amount received under any of sections 100 to 103 of the Budget Implementation Act, 2016, No. 1 (Statutes of Canada, 2016, chapter 7);

(*f*) a payment made by the Federal Republic of Germany or by a public body performing a function of government within that country as compensation to a victim of National Socialist persecution, where such payment is exempt from income tax in the country of origin;

(*g*) an amount that, but for this paragraph, would be the income of the taxpayer for the year if

i. the taxpayer is the trust established under

(1) the 1986–1990 Hepatitis C Settlement Agreement entered into by Her Majesty in right of Canada and Her Majesty in right of each of the provinces,

(2) the Pre-1986/Post-1990 Hepatitis C Settlement Agreement entered into by Her Majesty in right of Canada, or

(3) the Indian Residential Schools Settlement Agreement entered into by Her Majesty in right of Canada on 8 May 2006, and

ii. the only amounts paid to the taxpayer before the end of the year are those provided for under the relevant agreement described in subparagraph i; or

(*h*) an amount received under the Memorial Grant Program for First Responders established under the authority of the Department of Public Safety and Emergency Preparedness Act (Statutes of Canada, 2015, chapter 10) in respect of individuals who die in the course of, or as a result of, their duties or as a result of an occupational illness or psychological impairment.

History: 1972, c. 23, s. 389; 1977, c. 26, s. 59; 1984, c. 15, s. 106; 1990, c. 59, s. 178; 1993, c. 16, s. 200; 1995, c. 49, s. 132; 1996, c. 39, s. 144; 2001, c. 7, s. 50; 2006, c. 36, s. 43; 2015, c. 21, s. 176; 2017, c. 1, s. 133; 2019, c. 14, s. 147; 2020, c. 16, s. 77.
Corresponding Federal Provision: 81(1)(d), (d.1), (e), (f), (g), (g.3) and (i).

CHAPTER IV
(Repealed).

492. *(Repealed).*

History: 1972, c. 23, s. 390; 1993, c. 64, s. 37; 1997, c. 14, s. 80.

492.1. *(Repealed).*

History: 1993, c. 64, s. 38; 1997, c. 14, s. 80.

492.2. *(Repealed).*

History: 1993, c. 64, s. 38; 1995, c. 49, s. 133.

493. *(Repealed).*

History: 1972, c. 23, s. 391; 1975, c. 21, s. 15; 1982, c. 56, s. 13; 1990, c. 85, s. 122; 1995, c. 1, s. 44; 1997, c. 3, s. 71; 1997, c. 14, s. 80.

493.0.1. *(Repealed).*

History: 1995, c. 1, s. 45; 1997, c. 14, s. 80.

493.1. *(Repealed).*

History: 1982, c. 5, s. 114; 1997, c. 14, s. 80.

CHAPTER V
INCOME FROM CERTAIN PROPERTY

Income from personal injury award property.

494. An individual is not required to include in computing his income the income for the year from property acquired by or on behalf of a person as indemnity for, or pursuant to an action for, damages in respect of physical or mental injury to the person, or from any property substituted for the first property and any taxable capital gain for the year from the disposition of any such property,

(*a*) where the income was income from the property, if the income was earned in respect of a period before the end of the taxation year in which the person attained the age of 21 years; and

(*b*) in any other case, if the person was less than 21 years of age during any part of the year.

History: 1973, c. 17, s. 57; 1974, c. 18, s. 22; 1982, c. 5, s. 115; 1986, c. 19, s. 115; 1995, c. 1, s. 46.
Corresponding Federal Provision: 81(1)(g.1).

Income from income exempt under s. 494.

495. An individual is not required to include in computing his income the income for the year from any income that is by virtue of section 494 or this section not required to be included in computing his income, unless the income is attributable to any period after the end of the taxation year in which the person on whose behalf the income was earned attained the age of 21 years.

History: 1975, c. 21, s. 16; 1986, c. 19, s. 115; 1995, c. 1, s. 46.
Corresponding Federal Provision: 81(1)(g.2).

Election in respect of a person who reached 21 years of age.

496. An individual referred to in section 494 who makes, for the taxation year in which a person who suffered physical or mental injury reached 21 years of age, a valid election under subsection 5 of section 81 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in relation to a property described in section 494, is deemed to have disposed of the property on the day preceding the date on which the person reached 21 years of age for proceeds of disposition equal to the fair market value of the property on that day and to have reacquired it immediately after at a cost equal to those proceeds.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 5 of section 81 of the Income

Tax Act or in relation to an election made under this section before 20 December 2006.

History: 1977, c. 26, s. 60; 1995, c. 1, s. 46; 2005, c. 23, s. 52; 2009, c. 5, s. 171.

Corresponding Federal Provision: 81(5).

TITLE IX
CORPORATIONS RESIDENT IN CANADA AND THEIR SHAREHOLDERS

CHAPTER I
TAXABLE DIVIDENDS

Dividends received from corporations resident in Canada.

497. A taxpayer shall include, in computing the taxpayer's income for a taxation year, the aggregate of

(*a*) the amount by which the aggregate of all amounts, other than eligible dividends or amounts described in any of subparagraphs *c* to *e*, received by the taxpayer in the year from corporations resident in Canada as, on account of, in lieu of payment of or in satisfaction of, taxable dividends exceeds, if the taxpayer is an individual, the aggregate of all amounts each of which is, or is deemed under subparagraph *b* of the third paragraph of section 21.33.2 to have been, paid by the taxpayer in the year and deemed under section 21.32 to have been received by another person as a taxable dividend (other than an eligible dividend);

(*b*) the amount by which the aggregate of all amounts, other than amounts included in computing the taxpayer's income because of any of subparagraphs *c* to *e*, received by the taxpayer in the year from corporations resident in Canada as, on account of, in lieu of payment of or in satisfaction of, eligible dividends exceeds, if the taxpayer is an individual, the aggregate of all amounts each of which is, or is deemed under subparagraph *b* of the third paragraph of section 21.33.2 to have been, paid by the taxpayer in the year and deemed under section 21.32 to have been received by another person as an eligible dividend;

(*c*) the aggregate of the taxable dividends received by the taxpayer at any time in the year on a share acquired before that time and after 30 April 1989 from corporations resident in Canada under a dividend rental arrangement of the taxpayer;

(*d*) the aggregate of the taxable dividends, other than taxable dividends described in subparagraph *c*, received by the taxpayer in the year from corporations resident in Canada that are not taxable Canadian corporations; and

(*e*) if the taxpayer is a trust, the aggregate of all amounts each of which is all or part of a taxable dividend, other than a dividend described in subparagraph *c* or *d*, that was received by the trust in the year on a share of the capital stock of a taxable Canadian corporation and that can reasonably be considered to have been included in computing the income of a beneficiary under the trust who was not resident in Canada at the end of the year.

Other inclusion

The taxpayer shall also include, in computing the taxpayer's income for a taxation year, if the taxpayer is an individual, other than a trust that is a registered charity, the aggregate of

(*a*) the product obtained by multiplying the excess amount determined in respect of the taxpayer under subparagraph *a* of the first paragraph for the year by

i. 16%, for the taxation year 2018, and

ii. 15%, for a taxation year subsequent to the taxation year 2018; and

(*b*) 38% of the excess amount determined in respect of the taxpayer under subparagraph *b* of the first paragraph for the year.

History: 1972, c. 23, s. 392; 1975, c. 22, s. 110; 1978, c. 26, s. 84; 1988, c. 18, s. 48; 1990, c. 59, s. 179; 1991, c. 25, s. 80; 1995, c. 49, s. 236; 1997, c. 3, s. 71; 2001, c. 7, s. 51; 2009, c. 5, s. 172; 2009, c. 15, s. 90; 2015, c. 21, s. 177; 2015, c. 24, s. 80; 2017, c. 1, s. 134; 2019, c. 14, s. 148.

Corresponding Federal Provision: 82(1).

Dividends deemed received by taxpayer.

498. A taxpayer who must, by reason of sections 316, 316.1, 456 to 458, 462.1 to 462.24 and 466 to 467.1, include in computing his income for a taxation year a dividend received by another person is deemed, for the purposes of this Part, to have received such dividend.

History: 1972, c. 23, s. 393; 1987, c. 67, s. 118; 1990, c. 59, s. 180.

Corresponding Federal Provision: 82(2).

Election in relation to an eligible dividend.

498.1. If a corporation makes a valid election, for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), under subsection 2 of section 185.1 of that Act in relation to an eligible dividend (in this section referred to as the "original dividend for federal purposes") that it paid at a particular time after 23 March 2006, the following rules apply:

(*a*) despite the definition of "eligible dividend" in section 1, the amount of the dividend corresponding to the original dividend for federal purposes, that is an eligible dividend (in this section referred to as the "original dividend for Québec purposes") that the corporation paid at the particular time is deemed to be equal to the lesser of the amount of the original dividend for Québec purposes, determined without reference to this section, and the amount of the original dividend for federal purposes, determined under paragraph *a* of subsection 2 of section 185.1 of the Income Tax Act;

(*b*) an amount equal to the amount by which the amount of the original dividend for Québec purposes, determined without reference to this section, exceeds the amount of the original dividend for Québec purposes, determined under subparagraph *a*, is deemed to be a separate taxable dividend, other than an eligible dividend, that was paid by the corporation immediately before the particular time;

(*c*) each shareholder of the corporation who at the particular time held any of the issued shares of the class of shares in respect of which the original dividend for Québec purposes was paid is deemed

i. not to have received the original dividend for Québec purposes, and

ii. to have received at the particular time

(1) as an eligible dividend, the shareholder's proportional share of the amount of any dividend determined under subparagraph *a*, and

(2) as a taxable dividend, other than an eligible dividend, the shareholder's proportional share of the amount of any dividend determined under subparagraph *b*;

(*d*) a shareholder's proportional share of the amount of a dividend paid at any time on a class of shares of the capital stock of a corporation is the proportion of that amount that the number of shares of that class held by the shareholder at that time is of the number of shares of that class outstanding at that time; and

(*e*) not later than 30 days after the day on which the election is made, the corporation shall notify the Minister in writing of the election and attach to the notice a copy of every document sent to the Minister of National Revenue in connection with the election.

Penalty.

In the event of non-compliance with a requirement of subparagraph *e* of the first paragraph, the corporation incurs a penalty of $25 a day for every day the omission continues, up to $2,500.

Assessment by Minister.

Under this Part and despite sections 1010 to 1011, the Minister may make such assessments of the tax, interest and penalties payable as are necessary for any taxation year to give effect to the rules set out in this section in relation to the original dividend for Québec purposes, if the corporation fails to comply with a requirement of subparagraph *e* of the first paragraph in relation to the valid election referred to in that paragraph in respect of the original dividend for federal purposes or if the corporation makes the election after the day that is 30 months after the day on which the original dividend for federal purposes was paid.

History: 2009, c. 5, s. 173.

Corresponding Federal Provision: 185.1(2) and (4)(b).

499. *(Repealed).*

History: 1972, c. 23, s. 394; 1986, c. 19, s. 116; 1989, c. 5, s. 69; 1997, c. 3, s. 71; 2003, c. 9, s. 31.

CHAPTER II
SPECIAL RULES

Dividend payable for more than one class of capital.

500. For the purposes of sections 501 to 517 and 556 to 568, where a dividend becomes payable for more than one class of shares of the capital-stock of a corporation at the same time, the dividend on each class is deemed to become payable at a different time.

Order of payment of dividends.

The dividends referred to in the first paragraph are deemed to become payable in the order designated in their respect in accordance with subsection 3 of section 89 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to a designation made under subsection 3 of section 89 of the Income Tax Act or in relation to an election made under this section before 20 December 2006, and must, if the order referred to in the second paragraph was designated by the Minister of National Revenue, be applied, with the necessary modifications, as if the designation had been made by the corporation.

History: 1973, c. 17, s. 58; 1982, c. 5, s. 116; 1997, c. 3, s. 71; 1997, c. 31, s. 53; 2009, c. 5, s. 174.

Corresponding Federal Provision: 89(3).

Rules in respect of a dividend paid on a share of a prescribed series of tax-deferred preferred shares.

501. Where a dividend contemplated in section 501.1 is paid, the following rules apply:

(*a*) no part of that dividend shall be included in computing the income of a shareholder of the corporation under this Title; and

(*b*) in computing the adjusted cost base of a share on which such a dividend is paid, the shareholder must deduct, in respect of that dividend, an amount as provided by subparagraph i of paragraph *g* of section 257.

History: 1972, c. 23, s. 395; 1973, c. 17, s. 59; 1978, c. 26, s. 85; 1997, c. 3, s. 71.

Corresponding Federal Provision: 83(1).

Dividend referred to in s. 501.

501.1. A dividend referred to in section 501 is a dividend on a share that is outstanding on 31 March 1977 of a prescribed series of tax-deferred preferred shares of a class of the capital stock of a public corporation, where that dividend becomes payable by the corporation after 1978 and, according to the case that applies to that series, not later than,

(*a*) where the holder of each share of that series was entitled, under the terms and conditions in force on 31 March 1977 of those shares, to exchange it after a particular date for a share of another series or class of preferred shares of the capital stock of the corporation, that particular date;

(*b*) where the corporation was required, under the terms and conditions in force on 31 March 1977 of the shares of that series, to offer to purchase from all of the holders of those shares, no later than a particular date, all of the shares of that series, that particular date; or

(*c*) in any other, 1 October 1991.

History: 1978, c. 26, s. 86; 1997, c. 3, s. 71.
Corresponding Federal Provision: 83(6)(a) to (c).

Dividend deemed not to be referred to in s. 501.1.

501.2. A dividend that would otherwise be referred to in section 501.1 is deemed not to be such a dividend if, at the time the dividend becomes payable, the terms of the shares of the series referred to in the said section differ from the terms in force on 31 March 1977 of those shares or if the corporation issued additional shares of that series after 31 March 1977.

History: 1978, c. 26, s. 86; 1997, c. 3, s. 71.
Corresponding Federal Provision: 83(6)(d) and (e).

Prescribed series of preferred shares.

501.3. For the purposes of this chapter, where, after 31 March 1977, there is an amalgamation within the meaning of section 544 and, immediately before the amalgamation, the capital stock of a predecessor corporation includes a prescribed series of preferred shares contemplated in section 501.1, that series is deemed to continue to exist in the form of shares of the capital stock of the new corporation and the latter is deemed to be the same corporation as the predecessor corporation.

History: 1979, c. 18, s. 40; 1997, c. 3, s. 71.
Corresponding Federal Provision: 83(7).

Capital dividend paid by a private corporation.

502. If, at a particular time after 1971, a dividend becomes payable by a private corporation on a share of its capital stock and the corporation makes an election, at the latest at the particular time or, if it is earlier, on the day on which a portion of the dividend was paid, the following rules apply:

(*a*) the dividend is deemed a capital dividend to the extent of its capital dividend account immediately before the particular time; and

(*b*) no portion of the dividend shall be included in computing the income of a shareholder of the corporation.

History: 1972, c. 23, s. 396; 1973, c. 17, s. 60; 1978, c. 26, s. 87; 1996, c. 39, s. 273; 1997, c. 3, s. 71; 2006, c. 13, s. 39.
Corresponding Federal Provision: 83(2).

Dividend deemed received as taxable dividend.

502.0.1. Notwithstanding section 502, where a dividend that, but for this section, would be a capital dividend is paid on a share of the capital stock of a corporation and the share, or another share for which the share was substituted, was acquired by the holder thereof in a transaction or as part of a series of transactions one of the main purposes of which was to receive the dividend, the following rules apply:

(*a*) for the purposes of this Act, except section 503.0.1, the dividend is deemed to be received by the shareholder and paid by the corporation as a taxable dividend and not as a capital dividend; and

(*b*) paragraph *b* of section 502 does not apply in respect of the dividend.

History: 1990, c. 59, s. 181; 1997, c. 3, s. 71; 2015, c. 21, s. 178.
Corresponding Federal Provision: 83(2.1).

Exception.

502.0.2. Section 502.0.1 does not apply in respect of a particular dividend, in respect of which an election is made under section 502, paid on a share of the capital stock of a particular corporation to an individual where it is reasonable to consider that all or substantially all of the capital dividend account of the particular corporation, as determined under section 89 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) and without reference to paragraph *b* of section 570, immediately before the particular dividend became payable consisted of amounts other than

(*a*) any amount added to the account by reason of paragraph *b* of the definition of "capital dividend account" in subsection 1 of section 89 of the said Act in respect of a dividend received on a share of the capital stock of another corporation which share, or another share for which the share was substituted, was acquired by the particular corporation in a transaction or as part of a series of transactions one of the main purposes of which was that the particular corporation receive the dividend, but not in respect of a dividend where it is reasonable to consider that the purpose of paying the dividend was to distribute an amount that was received by the other corporation and included in computing the other corporation's capital dividend account, as determined under section 89 of the said Act and without reference to paragraph *b* of section 570, by reason of paragraph *d* of the

definition of "capital dividend account" in subsection 1 of section 89 of the said Act;

(*b*) any amount added to the account by reason of paragraph *z*.1 of subsection 2 of section 87 of the said Act as a result of an amalgamation or winding-up or a series of transactions including the amalgamation or winding-up that would not have been so added had the amalgamation or winding-up occurred or the series of transactions including the amalgamation or winding-up been commenced after 4:00 p.m. Eastern Daylight Saving Time, 25 September 1987;

(*c*) any amount added to the account at the time when the particular corporation was controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada; or

(*d*) any amount in respect of a capital gain from a disposition of a property by the particular corporation or another corporation that may reasonably be considered as having accrued while the property, or another property for which it was substituted, was a property of a corporation that was controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada.

History: 1990, c. 59, s. 181; 1995, c. 49, s. 134; 1996, c. 39, s. 273; 1997, c. 3, s. 71.

Corresponding Federal Provision: 83(2.2).

Exception.

502.0.3. Section 502.0.1 does not apply in respect of a dividend, in respect of which an election is made under section 502, paid on a share of the capital stock of a corporation where it is reasonable to consider that the purpose of paying the dividend was to distribute an amount that was received by the corporation and included in computing its capital dividend account, as determined under section 89 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) and without reference to paragraph *b* of section 570, by reason of paragraph *d* of the definition of "capital dividend account" in subsection 1 of section 89 of the said Act.

History: 1990, c. 59, s. 181; 1995, c. 49, s. 135; 1996, c. 39, s. 273; 1997, c. 3, s. 71.

Corresponding Federal Provision: 83(2.3).

Exception.

502.0.4. Section 502.0.1 does not apply in respect of a particular dividend, in respect of which an election is made under section 502, paid on a share of the capital stock of a particular corporation to a corporation related, otherwise than by reason of a right referred to in paragraph *b* of section 20, to the particular corporation, and in this section referred to as the "related corporation", where it is reasonable to consider that all or substantially all of the capital dividend account of the particular corporation, as determined under section 89 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) and without reference to paragraph *b* of section 570, immediately before the particular dividend became payable consisted of amounts other than

(*a*) any amount added to the account by reason of paragraph *b* of the definition of "capital dividend account" in subsection 1 of section 89 of the said Act in respect of a dividend received on a share of the capital stock of another corporation if it is reasonable to consider that any portion of the capital dividend account of that other corporation, as determined under the said section 89 and without reference to paragraph *b* of section 570, immediately before that dividend became payable consisted of an amount added thereto by reason of paragraph *z*.1 of subsection 2 of section 87 of the said Act or of paragraph *b* of the definition of "capital dividend account" in subsection 1 of the said section 89 as a result of a transaction or a series of transactions that would not have been so added had the transaction occurred or the series of transactions been commenced after 4:00 p.m. Eastern Daylight Saving Time, 25 September 1987;

(*b*) any amount that represented the capital dividend account of a corporation, as determined under the said section 89 and without reference to paragraph *b* of section 570, before it became related to the related corporation;

(*c*) any amount added to the account at the time when the particular corporation was controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada;

(*d*) any amount in respect of a capital gain from a disposition of a property by the particular corporation or another corporation that may reasonably be considered as having accrued while the property, or another property for which it was substituted, was a property of a corporation that was controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada; or

(*e*) any amount in respect of a capital gain from a disposition of a property, or another property for which it was substituted, that may reasonably be considered as having accrued while the property or the other property was a property of a person that was not related to the related corporation.

History: 1990, c. 59, s. 181; 1995, c. 49, s. 136; 1996, c. 39, s. 273; 1997, c. 3, s. 71.

Corresponding Federal Provision: 83(2.4).

502.1. *(Repealed).*

History: 1984, c. 15, s. 107; 1987, c. 67, s. 119.

Election referred to in s. 502.

503. The election referred to in section 502 is valid only if it is made in prescribed form and prescribed manner for the total amount of the dividend.

History: 1972, c. 23, s. 397; 1975, c. 22, s. 111; 1977, c. 26, s. 61; 1978, c. 26, s. 88; 1984, c. 15, s. 107; 1987, c. 67, s. 120; 2001, c. 53, s. 78.

Corresponding Federal Provision: 83(3).

Late election.

503.0.0.1. For the purposes of section 502, an election that is filed after the time provided for in that section is deemed to have been filed on or before that time if

(*a*) the election is made in accordance with section 503;

(*b*) an estimate by the corporation of the penalty under section 503.0.0.2 is paid when the election is filed; and

(*c*) the directors or any other person legally entitled to administer the affairs of the corporation has previously authorized the election.

History: 2006, c. 13, s. 40.

Corresponding Federal Provision: 83(3).

Penalty.

503.0.0.2. The penalty referred to in paragraph *b* of section 503.0.0.1 is equal to the lesser of

(*a*) 1% per year of the amount of the dividend referred to in section 502 for each month or part of a month during the period that begins on the day on which the time provided for in section 502 for making the election expires and that ends on the day on which the election to which section 503.0.0.1 applies is filed with the Minister; and

(*b*) an amount equal to the product obtained by multiplying $500 by the proportion that the number of months included, in whole or in part, in the period described in paragraph *a* is of 12.

History: 2006, c. 13, s. 40.

Corresponding Federal Provision: 83(4).

Examination and assessment by the Minister.

503.0.0.3. The Minister shall examine with dispatch the election to which section 503.0.0.1 applies, determine the penalty payable and send a notice of assessment to the corporation, which shall pay the unpaid balance of the penalty to the Minister without delay.

History: 2006, c. 13, s. 40.

Corresponding Federal Provision: 83(5).

Deemed election in respect of the total amount of a dividend.

503.0.1. Where a corporation has made an election under one or another of sections 502, 1106, 1113 and 1116 in respect of the total amount of a dividend payable by the corporation at a particular time and has later made a valid prescribed election in respect of that dividend, the prescribed rules arising from the prescribed election also apply, with the necessary modifications, for the purposes of this Act and the corporation having made the latter election shall, upon or before making the election, inform the Minister in a manner satisfactory to the Minister and send to the Minister the prescribed documents.

History: 1988, c. 4, s. 36; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 2001, c. 53, s. 79.

Corresponding Federal Provision: 184(3).

503.1. *(Repealed).*

History: 1982, c. 5, s. 117; 1984, c. 15, s. 108; 1997, c. 3, s. 71; 2015, c. 21, s. 179.

Corresponding Federal Provision: 184(3.1).

503.2. *(Repealed).*

History: 1988, c. 4, s. 37; 1997, c. 3, s. 71; 2001, c. 53, s. 80; 2015, c. 21, s. 179.

Corresponding Federal Provision: 184(3.2).

CHAPTER III
DEEMED DIVIDENDS

DIVISION I
SHARES OF A CORPORATION

Deemed dividends upon increase in paid-up capital.

504. (1) A corporation resident in Canada which, at a particular time after 31 December 1971, increases its paid-up capital in respect of the shares of a given class of its capital stock, is deemed to have then paid, on the issued shares of such class, a dividend equal to the excess of the increase in the paid-up capital over the aggregate of the amount of the increase in the value of the assets or the decrease in the liabilities, as the case may be, contemplated in paragraph *b* of subsection 2, of the amount of the reduction contemplated in paragraph *c* of subsection 2 and of the amount of the increase in the paid-up capital that resulted from a conversion referred to in any of paragraphs *d* to *f* of subsection 2.

Application.

(2) Subsection 1 does not apply if the increase in the paid-up capital is the result of:

(*a*) the payment of a stock dividend;

(*b*) a transaction by which the value of the assets less the liabilities has been increased by an amount at least equal to the increase in the paid-up capital in respect of the shares of

the class contemplated, or by which the liabilities less the value of the assets has been decreased by such an amount;

(*c*) a transaction by which the paid-up capital in respect of shares of other classes of the capital stock of the corporation has been reduced by an amount at least equal to the increase in the paid-up capital in respect of the shares of such class;

(*d*) a transaction by which an insurance corporation converts contributed surplus related to its insurance business (other than any portion of that contributed surplus that arose in connection with an investment to which subsection 2 of section 212.3 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) applies) into paid-up capital in respect of shares of its capital stock;

(*e*) a transaction by which a bank converts contributed surplus resulting from the issuance of shares of its capital stock (other than any portion of that contributed surplus that arose in connection with an investment to which subsection 2 of section 212.3 of the Income Tax Act applies) into paid-up capital in respect of shares of its capital stock; or

(*f*) a transaction by which a corporation, other than an insurance corporation or a bank, converts into paid-up capital in respect of a particular class of shares of its capital stock any of its contributed surplus (other than any portion of that contributed surplus that arose in connection with an investment to which subsection 2 of section 212.3 of the Income Tax Act applies) resulting, after 31 March 1977,

i. from the issuance of shares of that class or shares of another class for which shares of that class were substituted, other than an issuance to which any of sections 236.3, 301, 301.1, 419 and 419.0.1 or Chapters III.1 to VI apply,

ii. from the acquisition of property by the corporation from a person who, at the time of the acquisition, held any of the issued shares of that class or shares of another class for which shares of that class were substituted, where the property is acquired for no consideration or for consideration that does not include shares of the capital stock of the corporation, or

iii. from a transaction by which the paid-up capital in respect of that class of shares or in respect of shares of another class for which shares of that class were substituted was reduced by the corporation, to the extent of the reduction in paid-up capital that resulted from the transaction.

History: 1972, c. 23, s. 398; 1982, c. 5, s. 118; 1990, c. 59, s. 182; 1993, c. 16, s. 201; 1995, c. 49, s. 137; 1997, c. 3, s. 71; 2010, c. 25, s. 37; 2015, c. 21, s. 180.

Corresponding Federal Provision: 84(1) before (a), (a) to (c.3), (d) and (e).

Reduction of contributed surplus.

504.1. For the purposes of paragraph *f* of subsection 2 of section 504, there shall be deducted in determining at any time the contributed surplus of a corporation that results, after 31 March 1977, from any event described in that paragraph the lesser of

(*a*) the amount by which the amount of a dividend paid by the corporation at or before that time and after 31 March 1977 while being a public corporation, exceeds its retained earnings immediately before the payment of the dividend, and

(*b*) the amount of the contributed surplus of the corporation immediately before the payment of the dividend referred to in paragraph *a*, that results, after 31 March 1977, from any event described in paragraph *f* of subsection 2 of section 504.

History: 1993, c. 16, s. 202; 1997, c. 3, s. 71.

Corresponding Federal Provision: 84(10).

Computation of contributed surplus.

504.2. For the purposes of subparagraph ii of paragraph *f* of subsection 2 of section 504, where the property acquired by the corporation consists of shares of any class of the capital stock of another corporation resident in Canada, in this section referred to as the "particular corporation", and, immediately after the acquisition, the particular corporation is connected, within the meaning of the regulations, with the corporation, the contributed surplus of the corporation that arose on the acquisition is deemed to be the lesser of

(*a*) the amount added to the contributed surplus of the corporation on the acquisition, and

(*b*) the amount by which the paid-up capital in respect of the shares at the time of the acquisition exceeded the fair market value of any consideration given by the corporation for the shares.

History: 1995, c. 49, s. 138; 1997, c. 3, s. 71.

Corresponding Federal Provision: 84(11).

Amounts or property distributed to shareholders upon winding-up.

505. A corporation resident in Canada the funds or property of which have, at any time after 31 March 1977, been distributed or otherwise appropriated in any manner whatever to or for the benefit of the shareholders of any class of shares in its capital stock, pursuant to the winding-up, discontinuance or reorganization of its business, is deemed to have paid at that time a dividend on the shares of that class equal to the amount by which the amount of the funds or value of the property so distributed or appropriated exceeds the amount of the reduction of the paid-up capital in respect of the shares of that class pursuant to that distribution or appropriation.

History: 1972, c. 23, s. 399; 1978, c. 26, s. 89; 1997, c. 3, s. 71.

Corresponding Federal Provision: 84(2) before (a), (a) and (b).

Acquisition, redemption or cancellation of shares.

506. A corporation resident in Canada which, at any time after 1977, by way of a transaction other than that described in section 505, redeems, acquires or cancels a share of any class of its capital stock, is deemed to pay at that time, on a separate class of shares comprising the shares that are the subject of that transaction, a dividend equal to the amount by which the amount paid for that transaction by the corporation exceeds the paid-up capital in respect of those shares immediately before that time.

History: 1972, c. 23, s. 400; 1978, c. 26, s. 89; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84(3)(a).

Reduction of public corporation's paid-up capital.

506.1. Any amount paid by a public corporation on the reduction of the paid-up capital in respect of any class of shares of its capital stock, otherwise than by way of a redemption, acquisition or cancellation of a share of that class or by way of a transaction described in section 505 or Chapter V, is deemed to have been paid by the corporation and received by the person to whom it was paid, as a dividend, unless

(*a*) the amount may reasonably be considered to be derived from proceeds of disposition realized by the corporation, or by a person or partnership in which the corporation had a direct or indirect interest at the time that the proceeds were realized, from a transaction that occurred

i. outside the ordinary course of the business of the corporation, or of the person or partnership that realized the proceeds, and

ii. within the period that began 24 months before the payment; and

(*b*) no amount that may reasonably be considered to be derived from those proceeds was paid by the corporation on a previous reduction of the paid-up capital in respect of any class of shares of its capital stock.

History: 1979, c. 18, s. 41; 1997, c. 3, s. 71; 2009, c. 5, s. 175.
Corresponding Federal Provision: 84(4.1).

Reduction of paid-up capital.

507. A corporation resident in Canada which has, at any time after 31 March 1977, reduced the paid-up capital in respect of any class of shares of its capital stock in a manner other than those referred to in sections 505 to 506.1, is deemed to have paid at that time, on the shares of that class, a dividend equal to the amount by which the amount it pays in respect to that reduction, exceeds the amount of that reduction.

History: 1972, c. 23, s. 401; 1978, c. 26, s. 89; 1979, c. 18, s. 42; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84(4)(a).

Dividend deemed received.

508. Where, at any time after 16 November 1978, the paid-up capital of a term preferred share owned by a shareholder that is a specified financial institution or a partnership or trust of which such institution or a person related thereto is a member or a beneficiary and acquired in the ordinary course of the business carried on by the shareholder, is reduced otherwise than as described in sections 505 to 506.1, or where, under sections 504 to 507, a dividend is deemed to have been paid at a particular time on a particular class of shares, for a determined value, the owner of the term preferred share at that time or each person holding shares of that class at that time or immediately after that time in the case contemplated in section 504, is deemed to receive as a dividend, in the case of such a reduction of the paid-up capital of the term preferred share, or in the case contemplated in section 506.1, an amount equal to the amount he in fact receives in respect of the reduction of the paid-up capital or, in other cases, an amount equal to the proportion of the value of the dividend so deemed to have been paid that

(*a*) the number of shares of that class which he holds immediately before that particular time is of the total number of issued shares of that class immediately before that time, in the cases contemplated in sections 505 and 507, or the number of shares of that separate class which he holds at that time is of the total number of shares of that separate class, in the case contemplated in section 506; or

(*b*) the number of shares of that class which he holds immediately after that particular time is of the total number of shares of that class issued immediately after that time, in the case contemplated in section 504.

History: 1972, c. 23, s. 402; 1978, c. 26, s. 90; 1979, c. 18, s. 43; 1980, c. 13, s. 50; 1982, c. 5, s. 119; 1990, c. 59, s. 183; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84(2) after (b), (3)(b), (4)(b) and (4.2).

Guaranteed shares.

508.1. Where, at any time after 31 December 1987, the paid-up capital in respect of a share of the capital stock of a particular corporation is reduced otherwise than as described in sections 505 to 506.1 and the share is owned by a shareholder that is another corporation that would be denied, by reason of sections 740.2 to 740.3.1 or section 740.5, the deduction under section 738, 740 or 845 in respect of a dividend received on the share, if the particular corporation were a taxable Canadian corporation, or by a partnership or trust of which such other corporation is a member or a beneficiary, the amount received by the shareholder on the reduction of the paid-up capital in respect of the share is deemed to be a dividend received by the shareholder at that time.

History: 1990, c. 59, s. 184; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84(4.3).

Property distributed or amounts paid including shares.

509. For the purposes of sections 505 to 508, where the property referred to in section 505 or the amount paid by the corporation and referred to in section 506 or 507 includes a share of the capital stock of that corporation, the following rules apply:

(*a*) in computing the value of that property at any time, the share must be valued at an amount equal to its paid-up capital at that time; and

(*b*) in computing that amount at any time, the share must be valued at an amount equal to the amount by which the paid-up capital in respect of the class of shares in which it is comprised has increased by virtue of its issue.

History: 1972, c. 23, s. 403; 1978, c. 26, s. 91; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84(5).

509.1. *(Repealed).*

History: 1991, c. 8, s. 8; 1995, c. 63, s. 39; 1997, c. 14, s. 81; 2009, c. 15, s. 91.

Application of ss. 505 and 506.

510. Sections 505 and 506 do not apply in respect of any transaction or event to the extent that section 504 applies in respect of that transaction or event, or in respect of any purchase, by a corporation, of one or more of its shares in the open market in the manner in which shares would normally be purchased by any member of the public.

History: 1972, c. 23, s. 404; 1990, c. 59, s. 185; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84(6).

Shares disposed of on redemptions.

510.0.1. If the shareholder of a corporation disposes of a share of the capital stock of the corporation as a result of the redemption, acquisition or cancellation of the share by the corporation, the shareholder is, for the purposes of this Part, deemed to dispose of the share to the corporation.

History: 1986, c. 19, s. 117; 1997, c. 3, s. 71; 2011, c. 1, s. 32.
Corresponding Federal Provision: 84(9).

Exception.

510.1. Section 508 does not apply to deem a dividend to have been received by a shareholder of a public corporation where that section would otherwise have been applicable as a consequence of the application of section 506 and the following conditions are met:

(*a*) the shareholder is an individual resident in Canada who deals at arm's length with the corporation;

(*b*) the shares redeemed, acquired or cancelled are prescribed shares of the capital stock of the corporation.

History: 1984, c. 15, s. 109; 1985, c. 25, s. 94; 1987, c. 67, s. 121; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84(8).

DIVISION II
DEBTS OF A CORPORATION

Adjusted cost base, after 31 March 1977, of a debt owing to an individual by a corporation on 31 March 1977.

511. In computing the adjusted cost base, after 31 March 1977, of a debt owing to an individual by a corporation on 31 March 1977, the individual must deduct the amount of any dividend he would be deemed to have received on that date if the corporation had paid the debt in full on that date.

Exception.

However, this section does not apply where the debt contemplated in the first paragraph is converted, after 31 March 1977 and before 1979, into shares of a particular class of the capital stock of the corporation and the debt was owing to the individual by the corporation continuously from 31 March 1977 until the time of that conversion.

History: 1975, c. 22, s. 113; 1978, c. 26, s. 92; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84.2(2) and (3)(a).

512. *(Repealed).*

History: 1975, c. 22, s. 113; 1978, c. 26, s. 92.

513. *(Repealed).*

History: 1975, c. 22, s. 113; 1978, c. 26, s. 92.

514. *(Repealed).*

History: 1975, c. 22, s. 113; 1978, c. 26, s. 92.

515. *(Repealed).*

History: 1975, c. 22, s. 113; 1978, c. 26, s. 92.

516. *(Repealed).*

History: 1975, c. 22, s. 113; 1978, c. 26, s. 92.

DIVISION III
RULE APPLICABLE TO PAYMENT

Time when dividend deemed payable.

517. A dividend that is deemed by this chapter, Chapter III.1 or Chapter I of Title I.1 of Book VI to have been paid at a particular time is deemed, for the purposes of this Title, to have become payable at that time.

History: 1972, c. 23, s. 405; 1993, c. 16, s. 203; 2001, c. 53, s. 81; 2004, c. 8, s. 104.
Corresponding Federal Provision: 84(7).

CHAPTER III.1
NON-ARM'S LENGTH DISPOSITION OF SHARES

DIVISION I
GENERAL RULES

Non-arm's length disposition of shares.

517.1. The rules provided in this chapter apply where, after 22 May 1985, a taxpayer resident in Canada other than a corporation disposes of shares, hereinafter referred to as the "subject shares", that are capital property for him, of any class of the capital stock of a particular corporation resident in Canada in favour of another corporation, hereinafter referred to as the "purchaser corporation", with which he does not deal at arm's length and, immediately after the disposition, the particular corporation is connected, within the meaning of the regulations, with the purchaser corporation.

History: 1978, c. 26, s. 93; 1979, c. 18, s. 44; 1987, c. 67, s. 122; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84.1(1) before (a); 186(2).

Dividend deemed paid.

517.2. For the purposes of this Part and subject to section 517.5.5, a dividend equal to the amount by which the aggregate determined under section 517.3 exceeds the aggregate determined under section 517.3.1 is deemed to have been paid to the taxpayer by the purchaser corporation, and received by the taxpayer from the purchaser corporation, at the time of the disposition.

History: 1978, c. 26, s. 93; 1987, c. 67, s. 122; 1993, c. 16, s. 204; 2017, c. 1, s. 136.
Corresponding Federal Provision: 84.1(1)(b).

Computation.

517.3. The aggregate referred to in the first instance in section 517.2 is the sum of

(*a*) the increase, determined without reference to section 84.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) as it applies to the acquisition of the subject shares, in the paid-up capital in respect of all shares of the capital stock of the purchaser corporation as a result of the issue by that corporation of new shares as consideration for the subject shares;

(*b*) the fair market value, immediately after the disposition, of any consideration, other than the new shares, received by the taxpayer from the purchaser corporation for the subject shares.

History: 1978, c. 26, s. 93; 1984, c. 15, s. 110; 1987, c. 67, s. 122.
Corresponding Federal Provision: 84.1(1)(b).

Computation.

517.3.1. The aggregate referred to in the second instance in section 517.2 is the sum of

(*a*) the greater of

i. the paid-up capital, immediately before the disposition, in respect of the subject shares, and

ii. subject to sections 517.4 to 517.4.2, the adjusted cost base to the taxpayer, immediately before the disposition, of the subject shares;

(*b*) the aggregate of all amounts required to be deducted by the purchaser corporation under paragraph *a* of subsection 1 of section 84.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in computing the paid-up capital in respect of any class of shares of its capital stock by virtue of the acquisition of the subject shares.

History: 1987, c. 67, s. 122.
Corresponding Federal Provision: 84.1(1)(b).

Shares acquired before 1 January 1972.

517.4. For the purposes of this chapter, where a share disposed of by a taxpayer was acquired by him before 1 January 1972, the adjusted cost base to the taxpayer of the share at any time is deemed to be equal to the aggregate of

(*a*) the amount that would be its adjusted cost base to him if the Act respecting the application of the Taxation Act (chapter I-4) were read without reference to the first two paragraphs of section 68 or to section 72;

(*b*) all amounts each of which is an amount received by the taxpayer after 31 December 1971 and before that time as a dividend on the share and in respect of which the corporation that paid the dividend has made an election under section 501 as it read in its application to a dividend that became payable before 1 January 1979.

History: 1978, c. 26, s. 93; 1987, c. 67, s. 122; 1990, c. 59, s. 186; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84.1(2)(a).

Shares acquired after 31 December 1971.

517.4.1. For the purposes of this chapter, where a share disposed of by a taxpayer was acquired by him after 31 December 1971 from a person with whom he was not dealing at arm's length, was a share substituted for such a share or was a share substituted for a share owned by the taxpayer at the end of 1971, the adjusted cost base to the taxpayer of the share at any time is deemed to be the amount by which its adjusted cost base to him, otherwise determined, exceeds the amount determined under section 517.4.2.

History: 1987, c. 67, s. 122; 1990, c. 59, s. 186.
Corresponding Federal Provision: 84.1(2)(a.1) before (i).

Amount referred to in s. 517.4.1.

517.4.2. The amount referred to in section 517.4.1 is equal to the aggregate of

(*a*) where the share or a share for which the share was substituted was owned at the end of 1971 by the taxpayer or a person with whom the taxpayer did not deal at arm's length, the amount by which the fair market value of the share or the share for which it was substituted, on valuation day, within the meaning of section 49 of the Act respecting the application of the Taxation Act (chapter I-4), exceeds the aggregate of

i. the actual cost, within the meaning of section 54 of the said Act, of the share or the share for which it was substituted, on 1 January 1972, to the taxpayer or the person with whom he did not deal at arm's length, and

ii. all amounts each of which is an amount received by the taxpayer or the person with whom he did not deal at arm's length after 31 December 1971 and before that time as a dividend on the share or the share for which it was substituted and in respect of which the corporation that paid the dividend has made an election under section 501, as it read in its application to a dividend that became payable before 1 January 1979;

(*b*) the aggregate of all amounts each of which is an amount determined after 31 December 1984 under that part of section 234 which precedes subparagraph *b* of the first paragraph in respect of a previous disposition of the share or a share for which the share was substituted, or such lesser amount as is established by the taxpayer to be the amount in respect of which a deduction under sections 726.6 to 726.20 was claimed, by the taxpayer or an individual with whom the taxpayer did not deal at arm's length.

History: 1987, c. 67, s. 122; 1990, c. 59, s. 187; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84.1(2)(a.1) and (ii).

Rules applicable.

517.4.3. For the purposes of sections 517.4.1 and 517.4.2,

(*a*) where at any time a corporation issues a share of its capital stock to a taxpayer, the taxpayer and the issuing corporation are deemed not to be dealing with each other at arm's length at that time;

(*b*) where a taxpayer is deemed, because of subparagraph *a* of the first paragraph of section 726.9.2, to have reacquired a share, the taxpayer is deemed to have acquired the share at the beginning of 23 February 1994 from a person with whom the taxpayer was not dealing at arm's length; and

(*c*) where a share owned by a particular person, or a share substituted for that share, has by one or more transactions or events between persons not dealing at arm's length become vested in another person, the particular person and the other person are deemed at all times not to be dealing at arm's length with each other whether or not the particular person and the other person coexisted.

History: 1987, c. 67, s. 122; 1997, c. 3, s. 71; 2001, c. 7, s. 52.
Corresponding Federal Provision: 84.1(2.01).

Amount deemed claimed as a capital gain exemption.

517.4.4. For the purposes of paragraph *b* of section 517.4.2, where a taxpayer or an individual with whom the taxpayer does not deal at arm's length, in this section referred to as the "transferor", disposes of a share in a taxation year and deducts an amount under subparagraph *b* of the first paragraph of section 234 in computing the gain for the year from the disposition, in this section referred to as the "particular disposition", the amount in respect of which an amount was deducted under Title VI.5 of Book IV in respect of the transferor's gain from the particular disposition is deemed to be equal to the lesser of

(*a*) the aggregate of

i. the amount deducted by the transferor for the year under subparagraph *b* of the first paragraph of section 234 in respect of the particular disposition, and

ii. subject to the third paragraph, twice the amount deducted under Title VI.5 of Book IV in computing the taxable income of the transferor for the year in respect of the taxable capital gain from the particular disposition, and

(*b*) subject to the third paragraph, twice the maximum amount that could have been deducted under Title VI.5 of Book IV in computing the taxable income of the transferor for the year in respect of the taxable capital gain from the particular disposition, if

i. no amount had been deducted by the transferor under subparagraph *b* of the first paragraph of section 234 in computing the gain for the year from the particular disposition, and

ii. all amounts deducted under Title VI.5 of Book IV in computing the taxable income of the transferor for the year in respect of the taxable capital gain from the disposition of property to which this section does not apply, were deducted before determining the maximum amount that could have been deducted under the said Title in respect of the taxable capital gain from the particular disposition.

Order in which amounts are deemed to have been deducted.

For the purposes of subparagraph ii of subparagraph *b* of the first paragraph, and subject to the third paragraph, 1/2 of the aggregate of all amounts determined under this section for the year in respect of other property disposed of before the particular disposition are deemed to have been deducted under Title VI.5 of Book IV in computing the taxable income of the transferor for the year in respect of taxable capital

gains from the disposition of property to which this section does not apply.

Transitional rules.

Where the taxation year of the transferor includes 28 February 2000 or 17 October 2000, or begins after 28 February 2000 and ends before 17 October 2000, the following rules apply:

(*a*) the reference to the word "twice" in subparagraph ii of subparagraph *a* of the first paragraph and the portion of subparagraph *b* of that paragraph before subparagraph i shall be read, with the necessary modifications, as a reference to the fraction that is the reciprocal of the fraction in paragraphs *a* to *d* of section 231.0.1 that applies to the transferor for the year; and

(*b*) the reference to the fraction "1/2" in the second paragraph shall be read as a reference to the fraction in paragraphs *a* to *d* of section 231.0.1 that applies to the transferor for the year.

History: 1993, c. 16, s. 205; 2003, c. 2, s. 134.
Corresponding Federal Provision: 84.1(2.1).

Order disposition.

517.4.5. For the purposes of section 517.4.4, if more than one share to which that section applies is disposed of in a taxation year, each such share is deemed to have been separately disposed of in the order designated by the taxpayer after 19 December 2006 in accordance with subsection 2.1 of section 84.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in relation to those shares.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to a designation made under subsection 2.1 of section 84.1 of the Income Tax Act or in relation to a designation made under this section before 20 December 2006.

History: 1993, c. 16, s. 205; 2009, c. 5, s. 176.
Corresponding Federal Provision: 84.1(2.1) in fine.

Non-arm's length.

517.5. For the purposes of this chapter, a taxpayer is deemed not to deal at arm's length with the corporation in favour of which a disposition contemplated in section 517.1 is made if, immediately before the disposition, he is a member of a group of less than six persons that controls the corporation the share of which is disposed of and if, immediately after the disposition, he is a member of a group of less than six persons that controls the corporation in favour of which the disposition is made, each member of which is a member of the group of less than six persons that, immediately before the disposition, controlled the corporation the share of which is disposed of.

History: 1978, c. 26, s. 93; 1979, c. 18, s. 45; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84.1(2)b).

Control by a group of persons.

517.5.0.1. For the purposes of section 517.5,

(*a*) a group of persons in respect of a corporation means any two or more persons each of whom owns shares of the capital stock of the corporation;

(*b*) a corporation that is controlled by one or more members of a particular group of persons in respect of that corporation is deemed to be controlled by that group of persons; and

(*c*) a corporation may be controlled by a person or a particular group of persons notwithstanding that the corporation is also controlled or deemed to be controlled by another person or group of persons.

History: 1994, c. 22, s. 194; 1997, c. 3, s. 71.
Corresponding Federal Provision: 84.1(2.2)(b) to (d).

Deemed owner.

517.5.1. For the purpose of determining whether or not a taxpayer referred to in section 517.5 is a member, at any time, of a group referred to in that section, that taxpayer is deemed to be the owner at that time of any share owned by any of the following persons:

(*a*) the taxpayer's child, within the meaning of subparagraph *d* of the first paragraph of section 451, who is under 18 years of age, or the taxpayer's spouse;

(*b*) a trust of which the taxpayer, a person described in paragraph *a* or a corporation described in paragraph *c* is a beneficiary;

(*c*) a corporation controlled by the taxpayer, by a person described in paragraph *a*, by a trust described in paragraph *b* or by any combination thereof.

Restriction.

Furthermore, that person is deemed, for those purposes, not to be the owner of that share.

History: 1979, c. 18, s. 45; 1980, c. 13, s. 51; 1993, c. 16, s. 206; 1997, c. 3, s. 71; 2004, c. 8, s. 105.
Corresponding Federal Provision: 84.1(2.2)(a).

Non-arm's length.

517.5.2. For the purposes of this chapter, a trust and a beneficiary of the trust or a person related to a beneficiary of the trust are deemed not to deal with each other at arm's length.

History: 1993, c. 16, s. 207.

Corresponding Federal Provision: 84.1(2)(d).

DIVISION II
ELIGIBLE BUSINESS TRANSFER

Definitions:

517.5.3. In this division,

"eligible business transfer";
"eligible business transfer" of an individual means a series of transactions that includes the disposition of eligible shares of the individual in circumstances described in section 517.1, if the conditions of sections 517.5.6 to 517.5.11 are satisfied in respect of the series of transactions;

"eligible share".
"eligible share" means

(*a*) a share of the capital stock of a family farm or fishing corporation, within the meaning of the first paragraph of section 726.6.1; or

(*b*) a qualified small business corporation share, within the meaning of the first paragraph of section 726.6.1.

Substantial interest.

For the purposes of this division, a corporation has a substantial interest in another corporation at a particular time if it has such an interest in the other corporation under subsection 2 of section 191 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) at that time.

History: 2017, c. 1, s. 137; 2017, c. 29, s. 74.

517.5.4. *(Repealed).*

History: 2017, c. 1, s. 137; 2017, c. 29, s. 75.

Deemed capital gain.

517.5.5. Where eligible shares of an individual, other than a trust, are disposed of in connection with an eligible business transfer of the individual and, but for this section, a dividend equal to the excess amount that corresponds to the amount by which the aggregate determined under section 517.3 exceeds the aggregate determined under section 517.3.1 would, under section 517.2, be deemed to have been paid by the purchaser corporation to the individual, and received by the individual from the purchaser corporation, at the time of the disposition of those shares, the following rules apply:

(*a*) the lesser of the amount of that excess amount and the amount determined in respect of the disposition of those shares under paragraph *b* of subsection 1 of section 84.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) (in this section referred to as the "deemed dividend amount") is deemed to be a capital gain from the disposition of those shares, to the extent of the amount the individual designates to that effect in the individual's fiscal return filed under this Part (in this section referred to as the "designated capital gain") for the year of disposition, without, however, exceeding the amount (in this section referred to as the "particular amount") determined in accordance with the second paragraph, and, despite any other provision of this Act,

i. for the purposes of section 234, where a reserve is claimed in accordance with subparagraph *b* of the first paragraph of that section in respect of the portion of the proceeds of disposition of the shares that is payable after the end of the year of disposition, the gain from the disposition of those shares is deemed to be equal to the amount by which the designated capital gain exceeds the amount of the reserve (which excess amount is in this subparagraph and subparagraphs ii and iii referred to as the "reduced capital gain") and, for the purpose of determining the reserve that the individual may claim in respect of the disposition of the shares, subparagraph *b* of the first paragraph of section 234 is to be read without reference to its subparagraph iii,

ii. for the purpose of determining the tax payable under this Part by the individual for the year of disposition,

(1) section 28 is to be read, in respect of the designated capital gain or reduced capital gain, as the case may be, without reference to subparagraph ii of its paragraph *b* and, in respect of the amount the individual may subtract in accordance with its paragraph *c*, as if the designated capital gain or reduced capital gain were not taken into account for the purposes of subparagraph i of its paragraph *b*,

(2) an amount is deductible by the individual under Book IV, except Title VI.5, only to the extent that the individual's income, determined in accordance with subparagraph 1, exceeds one-half of the amount of the designated capital gain or reduced capital gain, as the case may be,

(3) an amount is deductible by the individual under Title VI.5 of Book IV, in respect of a capital gain other than the designated capital gain or reduced capital gain, as the case may be, only to the extent that the individual's taxable income, determined otherwise and taking subparagraphs 1 and 2 into account, exceeds one-half of the amount of the designated capital gain or reduced capital gain, and

(4) an amount is deductible by the individual under section 729 only to the extent that the excess amount referred to in paragraph *b* of section 28 that would be determined for the year, in respect of the individual, if the amount of the designated capital gain or reduced capital gain, as the case may be, were not taken into account, and

iii. the amount determined under paragraph *b* of section 28, to which paragraph *b* of section 728.0.1 refers for the purpose of determining the individual's non-capital loss or farm loss for the year of disposition, and the amount determined under subparagraph i of paragraph *b* of section 28, to which paragraph *a* of section 730 refers for the

purpose of determining the individual's net capital loss for the year of disposition, are computed without taking the amount of the designated capital gain or reduced capital gain, as the case may be, into account; and

(*b*) the amount of the designated capital gain in respect of the disposition of those shares is deemed not to be a dividend paid by the purchaser corporation and received by the individual at the time of the disposition of those shares.

Rule applicable.

The particular amount to which the first paragraph refers is equal to twice the least of the amounts that would be determined in respect of the individual for the year under paragraphs *a* to *d* of section 726.7 or 726.7.1, as the case may be, if the deemed dividend amount were a capital gain realized by the individual in the year from the disposition of shares of the capital stock of a family farm or fishing corporation or of eligible small business corporation shares, as the case may be, and if subparagraph 1 of subparagraph ii of subparagraph *a* of the first paragraph were not taken into account.

History: 2017, c. 1, s. 137; 2017, c. 29, s. 76.

Active engagement criterion.

517.5.6. A series of transactions that includes the disposition by an individual of eligible shares of a corporation (in this section referred to as the "particular corporation") may be considered to be an eligible business transfer of the individual only if the individual or the individual's spouse was, while the individual owned those shares and during the 24-month period that immediately preceded the disposition of the shares, actively engaged in a business carried on by the particular corporation or by a corporation in which the particular corporation had a substantial interest.

Rules of application.

For the purposes of the first paragraph, the following rules apply:

(*a*) where the individual or the individual's spouse, as the case may be, is, immediately before the disposition of the shares, unable to actively engage in a business carried on by the particular corporation or by a corporation in which the particular corporation had a substantial interest due to an illness or a disability, the first paragraph is to be read as if "the 24-month period that immediately preceded the disposition of the shares" were replaced by "the 24-month period that preceded the time at which the individual's inability, or that of the individual's spouse, began";

(*b*) the individual is deemed, during the 24-month period that immediately precedes the disposition of the shares, to own the shares and to have been actively engaged in a business carried on by the particular corporation or by a corporation in which the particular corporation had a substantial interest if

i. the individual's spouse died in the 24-month period that precedes the disposition of the shares, and

ii. the individual or the individual's spouse was actively engaged in a business carried on by the particular corporation or by a corporation in which the particular corporation had a substantial interest during the 24-month period that precedes the date of death; and

(*c*) where an individual was actively engaged in a business during a particular period and all or substantially all of the assets used in the course of carrying on that business is disposed of to a corporation as consideration for shares of the capital stock of the corporation, the individual is deemed to have actively engaged in a business carried on by the corporation for the particular period.

History: 2017, c. 1, s. 137; 2017, c. 29, s. 77.

No active engagement criterion.

517.5.7. A series of transactions that includes the disposition by an individual of eligible shares of a corporation (in this section referred to as the "particular corporation") may not be considered to be an eligible business transfer of the individual where, after the disposition of the shares, the individual or the individual's spouse is actively engaged in a qualified business carried on by the purchaser corporation, by the particular corporation or by a corporation in which the particular corporation has a substantial interest, unless

(*a*) the active engagement of the individual or the individual's spouse in that business for a particular period (in the second paragraph referred to as the "transition period") aims to encourage the transfer of the knowledge possessed by the individual or the individual's spouse in relation to that business for the benefit of other persons actively engaged in that business;

(*b*) substantially all the income from the business in which the individual or the individual's spouse is actively engaged is not derived from the sale, leasing, rental or development, as the case may be, of properties, or the rendering of services, similar to those of a business that, before the disposition of the shares, was carried on by the purchaser corporation, by the particular corporation or by a corporation in which the purchaser corporation or the particular corporation held a direct or indirect interest; or

(*c*) the active engagement of the individual or the individual's spouse in that business stems from the sole fact that the person referred to in section 517.5.11 is unable to actively engage in that business due to an illness, a disability or the person's death if the illness, disability or death begins or occurs after the disposition of the shares of the particular corporation.

Rules for the transition period.

For the purposes of subparagraph *a* of the first paragraph, for any calendar year included in whole or in part in the transition period, the remuneration received by an individual as consideration for services rendered in the calendar year or part of calendar year because the individual is actively engaged in a business carried on by the purchaser corporation, by the particular corporation or by a corporation in which the particular corporation has a substantial interest must not exceed the amount obtained by multiplying the Maximum Pensionable Earnings determined for the year under section 40 of the Act respecting the Québec Pension Plan (chapter R-9) by the proportion that the number of days in the calendar year that are included in whole or in part in the transition period is of 365.

History: 2017, c. 1, s. 137; 2017, c. 29, s. 78.

Control criterion.

517.5.8. A series of transactions that includes the disposition by an individual of eligible shares of a corporation (in this section referred to as the "particular corporation") may not be considered to be an eligible business transfer of the individual where, in the period that begins 30 days after the disposition of the shares and ends at the end of that series of transactions, the individual or the individual's spouse controls the particular corporation or a corporation in which the particular corporation had, immediately before the disposition of those shares, a substantial interest or is a member of a group of persons that controls such a corporation, unless the corporation is

(*a*) a corporation carrying on a business substantially all the income of which is not derived from the sale, leasing, rental or development, as the case may be, of properties, or the rendering of services, similar to those of a business that, before the disposition of the shares, was carried on by the purchaser corporation, by the particular corporation or by a corporation in which the purchaser corporation or the particular corporation held a direct or indirect interest; or

(*b*) a corporation that does not carry on a qualified business.

History: 2017, c. 1, s. 137; 2017, c. 29, s. 79.

Common share holding criterion.

517.5.9. A series of transactions that includes the disposition by an individual of eligible shares of a corporation (in this section referred to as the "particular corporation") may not be considered to be an eligible business transfer of the individual where, in the period that begins 30 days after the disposition of the shares and ends at the end of that series of transactions, the individual or the individual's spouse holds, directly or indirectly, common shares of the capital stock of the particular corporation or of a corporation in which the particular corporation had, immediately before the disposition of those shares, a substantial interest, unless they are common shares of the capital stock of such a corporation that is

(*a*) a corporation carrying on a business substantially all the income of which is not derived from the sale, leasing, rental or development, as the case may be, of properties, or the rendering of services, similar to those of a business that, before the disposition of the shares, was carried on by the purchaser corporation, by the particular corporation or by a corporation in which the purchaser corporation or the particular corporation held a direct or indirect interest; or

(*b*) a corporation that does not carry on a qualified business.

History: 2017, c. 1, s. 137; 2017, c. 29, s. 80.

Residual financial interest criterion.

517.5.10. A series of transactions that includes the disposition by an individual of eligible shares of a corporation (in this section referred to as the "particular corporation") may be considered to be an eligible business transfer of the individual only if

(*a*) throughout the period that begins 30 days after the disposition of the shares and ends at the end of that series of transactions, the aggregate of all amounts each of which is the amount of the residual financial interest of a person who is the individual, any other individual in respect of whom, but for this section, section 517.5.5 would apply in relation to the disposition of a share of the particular corporation in connection with that series of transactions, or their respective spouses, does not exceed

i. where the particular corporation is referred to in paragraph *a* of the definition of "eligible share" in the first paragraph of section 517.5.3, 80% of the aggregate of all amounts each of which is the fair market value, immediately before the beginning of the series of transactions, of a share of the capital stock of a corporation (in this section referred to as the "corporation concerned") that is the particular corporation, the purchaser corporation or a corporation in which the particular corporation has a substantial interest at that time, or

ii. where the particular corporation is referred to in paragraph *b* of the definition of "eligible share" in the first paragraph of section 517.5.3, 60% of the aggregate of all amounts each of which is the fair market value, immediately before the beginning of the series of transactions, of a share of the capital stock of a corporation concerned;

(*b*) the terms and conditions of reimbursement or redemption of the residual financial interests the amount of which is included in the first aggregate referred to in subparagraph *a* provide that no later than 10 years after the disposition of the shares, that aggregate will not exceed

i. where the particular corporation is referred to in paragraph *a* of the definition of "eligible share" in the first

paragraph of section 517.5.3, 50% of the aggregate of all amounts each of which is the fair market value, immediately before the beginning of the series of transactions, of a share of the capital stock of a corporation concerned, or

ii. where the particular corporation is referred to in paragraph *b* of the definition of "eligible share" in the first paragraph of section 517.5.3, 30% of the aggregate of all amounts each of which is the fair market value, immediately before the beginning of the series of transactions, of a share of the capital stock of a corporation concerned;

(*c*) where the residual financial interest of a person described in subparagraph *a* includes a share of the capital stock of a corporation concerned,

i. the redemption of the share may not be required by the person before the expiry of the 10-year period referred to in subparagraph *b* unless the redemption aims to comply with the requirement of subparagraph i or ii of subparagraph *b*,

ii. the share entitles its holder to a cumulative dividend at a rate not exceeding a reasonable rate according to market conditions and the rate of that dividend is not based on a corporation's profitability,

iii. the share is redeemable at any time at the option of the corporation concerned, and

iv. the share is convertible only into one or more shares that satisfy the conditions of subparagraphs i to iii or into one or more debts that satisfy the conditions of subparagraphs i to iii of subparagraph *d*; and

(*d*) where the residual financial interest of a person described in subparagraph *a* includes a debt of a corporation concerned,

i. the reimbursement of the debt may not be required by the person before the expiry of the 10-year period referred to in subparagraph *b* unless the reimbursement aims to comply with the requirement of subparagraph i or ii of subparagraph *b*,

ii. the debt entitles its holder to a reasonable return according to market conditions and the return rate of the debt is not based on a corporation's profitability,

iii. the debt is reimbursable at any time, with accrued interest, at the option of the corporation concerned, and

iv. the debt is convertible only into one or more shares that satisfy the conditions of subparagraphs i to iii of subparagraph *c* or into one or more debts that satisfy the conditions of subparagraphs i to iii.

Residual financial interest.

In this section, the amount of the residual financial interest of a person described in subparagraph *a* of the first paragraph, at any time, means an amount equal to the aggregate of all amounts each of which is the fair market value, at that time, of a financial interest that the person holds, directly or indirectly, in a corporation concerned and that is a share of the capital stock of the corporation concerned or a debt of the corporation concerned.

Rules.

For the purposes of the second paragraph, the following rules apply:

(*a*) where a trust in which an individual or the individual's spouse has a beneficial interest holds, directly or indirectly, a financial interest in a corporation concerned, the individual is deemed to hold the financial interest;

(*b*) where an individual or the individual's spouse holds, directly or indirectly, a financial interest in an entity that is a trust, a partnership or a corporation, which entity holds, directly or indirectly, a financial interest in a corporation concerned, the individual is deemed to hold the financial interest in the corporation concerned; and

(*c*) where more than one individual would otherwise be required to include the same amount in computing their residual financial interest because of subparagraph *a* or *b*, only one of those individuals is required to take that amount into account in establishing the amount of that individual's residual financial interest in the corporation concerned.

Exception.

For the purposes of subparagraphs *a* and *b* of the first paragraph, no account is to be taken of the residual financial interest of a person described in subparagraph *a* of the first paragraph in a corporation concerned or of the fair market value, immediately before the beginning of the series of transactions, of the shares of the capital stock of such a corporation, if that corporation is

(*a*) a corporation carrying on a business substantially all the income of which is not derived from the sale, leasing, rental or development, as the case may be, of properties, or the rendering of services, similar to those of a business that, before the disposition of the shares, was carried on by the particular corporation, by the purchaser corporation or by a corporation in which the purchaser corporation or the particular corporation held a direct or indirect interest; or

(*b*) a corporation that does not carry on a qualified business.

Series of transactions.

For the purpose of determining the end of the period described in subparagraph *a* of the first paragraph, the series of transactions to which that subparagraph applies is deemed not to include a transaction consisting in the redemption or

reimbursement of the residual financial interest of an individual.

History: 2017, c. 1, s. 137; 2017, c. 29, s. 81.

Shareholder of purchaser corporation criterion.

517.5.11. A series of transactions that includes the disposition by an individual of eligible shares of a corporation (in this section referred to as the "particular corporation") may be considered to be an eligible business transfer of the individual only if, in the period that begins immediately after the disposition of the shares and ends at the end of that series of transactions, at least one person (other than the individual) who holds, directly or indirectly, shares of the purchaser corporation, or the person's spouse, is actively engaged in a business carried on by the particular corporation or by a corporation in which the particular corporation had, immediately before the disposition of those shares, a substantial interest.

Exception.

The first paragraph does not apply in respect of a period in which a person referred to in that paragraph who was to be actively engaged in a business is unable to be so actively engaged due to an illness, a disability or the person's death if the illness, disability or death begins or occurs after the disposition of the shares of the particular corporation.

History: 2017, c. 1, s. 137; 2017, c. 29, s. 82.

517.6. *(Repealed).*

History: 1978, c. 26, s. 93; 1987, c. 67, s. 123.

CHAPTER IV
TRANSFERS TO A CORPORATION

DIVISION I
GENERALITIES

Election upon the transfer of property to a corporation.

518. The rules provided for in this division and in Divisions II and III apply where a taxpayer disposes of any of the taxpayer's property to a taxable Canadian corporation for consideration that includes a share of the capital stock of the corporation, if the taxpayer and the corporation make a valid election for the purposes of subsection 1 of section 85 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in respect of the disposition or, where that election cannot be made by reason of subsection 21.2 of section 13 of that Act, make an election, in the prescribed form referred to in the first paragraph of section 520.1, to apply the rules in respect of the disposition.

History: 1972, c. 23, s. 406; 1973, c. 17, s. 61; 1975, c. 22, s. 115; 1982, c. 5, s. 120; 1986, c. 15, s. 86; 1986, c. 19, s. 118; 1990, c. 59, s. 188; 1997, c. 3, s. 71; 1997, c. 31, s. 54; 1997, c. 85, s. 82; 2000, c. 39, s. 25; 2003, c. 9, s. 32; 2011, c. 34, s. 30.

Interpretation Bulletins: IMP. 518-3; IMP. 520.1-1/R1; IMP. 521.2-1/R1; IMP. 522-1/R1.
Corresponding Federal Provision: 85(1) before (a).

518.1. *(Repealed).*

History: 1990, c. 59, s. 189; 1993, c. 16, s. 208; 1994, c. 22, s. 195; 1996, c. 39, s. 145; 1998, c. 16, s. 169; 2000, c. 39, s. 26.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

518.2. *(Repealed).*

History: 1993, c. 16, s. 209; 1997, c. 3, s. 71; 1997, c. 85, s. 83.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

519. *(Repealed).*

History: 1975, c. 22, s. 116; 1977, c. 26, s. 62; 1978, c. 26, s. 94; 1979, c. 38, s. 20; 1986, c. 15, s. 87; 1997, c. 85, s. 83.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

519.1. *(Repealed).*

History: 1986, c. 15, s. 87; 1991, c. 8, s. 9; 1997, c. 85, s. 83.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

519.2. *(Repealed).*

History: 1986, c. 15, s. 87; 1991, c. 8, s. 10; 1997, c. 85, s. 83.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

520. *(Repealed).*

History: 1975, c. 22, s. 116; 1986, c. 15, s. 87; 1997, c. 85, s. 83.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

Filing requirements.

520.1. Where section 518 applies in respect of the disposition of property, the prescribed form and, if the election made by the taxpayer and the corporation is the first election mentioned in that section, a copy of every document sent to the Minister of Revenue of Canada in respect of the disposition in connection with that election, shall be sent to the Minister.

Filing requirement.

The prescribed form shall also be sent to the Minister where an application is made to the Minister under the third paragraph of section 522 in respect of the disposition.

Penalty.

In addition, the taxpayer incurs, solidarily with the corporation, a penalty equal

(*a*) where a document referred to in the first paragraph is not sent to the Minister on or before the date, referred to as the "particular date" in subparagraph i, that is the later of the earliest of the filing-due dates for the persons having made the election referred to in section 518 in respect of the disposition for the taxation year in which the disposition was

made and the date of the last day of the two-month period following the end of the taxation year which, of the taxation years of those persons, ends the latest, to the lesser of

i. 0.25% of the amount by which the fair market value of the property at the time of the disposition exceeds the proceeds of disposition of the property, for each month or part of a month during the period beginning on the particular date and ending on the day on which the documents have all been sent to the Minister, and

ii. the product obtained by multiplying $100 by the number of months each of which is a month all or part of which is during the period referred to in subparagraph i, or

(*b*) where an application made to the Minister in respect of a disposition under the third paragraph of section 522 is granted by the Minister, to the lesser of the amounts that would be determined in respect of the disposition under subparagraphs i and ii of subparagraph *a* if the reference in subparagraph i to "the documents have all been sent to the Minister" were a reference to "the prescribed form referred to in the second paragraph is sent to the Minister"; in such case, this subparagraph is deemed not to apply in respect of any other such application made previously in respect of the disposition.

Maximum penalty.

However, the total amount of the penalties that the taxpayer incurs, solidarily with the corporation, under the third paragraph in respect of the disposition may not exceed the greater of the penalties that the taxpayer would otherwise incur, solidarily with the corporation, in respect of the disposition under subparagraph *a* or subparagraph *b* of the third paragraph nor $5,000.

History: 1997, c. 85, s. 84; 2000, c. 5, s. 293; 2000, c. 39, s. 27; 2003, c. 9, s. 33.
Interpretation Bulletins: IMP. 520.1-1/R1; IMP. 521.2-1/R1; IMP. 522-1/R1.
Corresponding Federal Provision: 85(8).

Assessment by the Minister.

520.2. Notwithstanding sections 1010 to 1011, such assessments of tax, interest and penalties under this Part shall be made as are necessary by the Minister for any taxation year to give effect to the rules provided for in this division and in Divisions II and III in respect of the disposition of property.

History: 1997, c. 85, s. 84.
Interpretation Bulletins: IMP. 520.1-1/R1; IMP. 521.2-1/R1.

520.3. *(Repealed).*

History: 2002, c. 40, s. 39; 2009, c. 5, s. 177.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

Taxable Québec or Canadian property.

521. If a property to which section 518 applies is a taxable Québec property or taxable Canadian property of the taxpayer, a share referred to in that section and received as consideration for the disposition of the property is deemed to be, at any time that is within 60 months after the disposition, a taxable Québec property or taxable Canadian property of the taxpayer, as the case may be.

History: 1975, c. 22, s. 116; 2011, c. 6, s. 133.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(1)(i).

521.1. *(Repealed).*

History: 1989, c. 5, s. 70; 1993, c. 16, s. 210.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

DIVISION II
VALUATION OF TRANSFERRED PROPERTY

Proceeds of disposition and cost of property.

521.2. Subject to section 522, where the taxpayer and the corporation make the first election mentioned in section 518 in respect of the disposition of property, the taxpayer's proceeds of disposition of the property and the cost to the corporation of the property are deemed to be equal to such amount as is established in respect of the property under subsection 1 of section 85 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), except that, for the purposes of paragraphs *b* and *c* of section 528, the proceeds of disposition of the property are deemed to be equal to that amount established without reference to paragraph *e*.2 of subsection 1 of that section 85.

History: 1997, c. 85, s. 85; 2003, c. 9, s. 34.
Interpretation Bulletins: IMP. 521.2-1/R1; IMP. 522-1/R1.

Proceeds of disposition and cost.

522. Notwithstanding section 521.2 and subject to the fourth paragraph, where the taxpayer and the corporation make the election referred to in section 518 in respect of the disposition of property, where the conditions described in the second paragraph are met for the transferor and for the transferee, where the prescribed form referred to in the first paragraph of section 520.1 is sent to the Minister on or before the end of a three-year period, or a longer period allowed by the Minister in the circumstances, that follows the particular date referred to in subparagraph i of subparagraph *a* of the third paragraph of section 520.1 in respect of the disposition and where, in the prescribed form referred to in the first paragraph of section 520.1 or, if the application made to the Minister under the third paragraph in respect of the disposition is granted by the Minister, in the prescribed form referred to in the second paragraph of section 520.1, the taxpayer and the corporation jointly agree on an amount in respect of the property, the amount so agreed on is deemed to be

(*a*) the taxpayer's proceeds of disposition of the property and the cost of the property to the corporation;

(*b*) subject to subparagraph *c*, equal to the fair market value, at the time of the disposition, of the consideration received by the taxpayer for the property if the amount agreed on is actually less than that fair market value and if the consideration is not a share of the capital stock of the corporation or a right to receive any such share; and

(*c*) equal to the fair market value of the property, at the time of the disposition, if the amount agreed on is actually greater than that fair market value.

Applicability.

The conditions referred to in the first paragraph are as follows:

(*a*) in the case of an individual, the individual must be resident in Québec at the end of the individual's taxation year in which the disposition is made and, if the second paragraph of section 22 applies to the individual for that year, the proportion applicable in respect of the individual in that second paragraph for that year must be not less than 9/10;

(*b*) in the case of a corporation, the proportion that the business carried on by the corporation in Québec is of the aggregate of the business carried on in Canada or in Québec and elsewhere established by the regulations made under section 771 for its taxation year in which the disposition is made, must be not less than 9/10; and

(*c*) in the case of a partnership, the proportion that the business carried on in Québec is of the aggregate of the business carried on in Canada or in Québec and elsewhere that would be established in its respect by the regulations made under section 771 for its taxation year in which the disposition is made if the partnership were a corporation and if its fiscal period were a taxation year, must be not less than 9/10.

Agreement on late, cancelled or modified amount.

In addition, the Minister may, on a joint application by the taxpayer and by the corporation, allow, for the purposes of the first paragraph in respect of the disposition, the taxpayer and the corporation

(*a*) where the election made by the taxpayer and the corporation is the first election mentioned in section 518, to agree on an amount in respect of the property if they have not done so in the prescribed form referred to in the first paragraph of section 520.1;

(*b*) where the election made by the taxpayer and the corporation is the first election mentioned in section 518, to be deemed never to have agreed on an amount in respect of the property; or

(*c*) to agree on a new amount in respect of the property, which amount is deemed to be the only amount agreed on in respect of the property for the purposes of the first paragraph.

Exception.

However, where the election made by the taxpayer and the corporation is the first election mentioned in section 518, this section does not apply in respect of the disposition unless all or substantially all of the difference between the amount that would, but for this section, be determined in respect of the property under section 521.2 and the amount agreed on in its respect in the first paragraph, is justified by a difference between the cost amount of the property to the taxpayer, immediately before the disposition, for the purposes of Part I of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) and the cost amount, at that time, for the purposes of this Part, or by another reason considered by the Minister to be acceptable in the circumstances.

Election deemed not made.

Where the election made by the taxpayer and the corporation in respect of the disposition is not the first election mentioned in section 518 and, but for this paragraph, any of the conditions for the application of the first paragraph in respect of the disposition is not met, the election is deemed, notwithstanding section 518, never to have been made by the taxpayer and the corporation in respect of the disposition.

History: 1972, c. 23, s. 407; 1996, c. 39, s. 273; 1997, c. 3, s. 71; 1997, c. 85, s. 86; 2002, c. 40, s. 40; 2003, c. 9, s. 35; 2010, c. 25, s. 38.

Interpretation Bulletins: IMP. 520.1-1/R1; IMP. 521.2-1/R1; IMP. 522-1/R1.

Corresponding Federal Provision: 85(1)(a), (b) and (c).

522.1. *(Repealed).*

History: 2002, c. 40, s. 41; 2003, c. 9, s. 36; 2009, c. 5, s. 178.

Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1; IMP. 522-1.

522.2. *(Repealed).*

History: 2002, c. 40, s. 41; 2009, c. 5, s. 178.

Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1; IMP. 522-1.

522.3. *(Repealed).*

History: 2002, c. 40, s. 41; 2009, c. 5, s. 178.

Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1; IMP. 522-1.

522.4. *(Repealed).*

History: 2002, c. 40, s. 41; 2009, c. 5, s. 178.

Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1; IMP. 522-1.

522.5. *(Repealed).*

History: 2002, c. 40, s. 41; 2009, c. 5, s. 178.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1; IMP. 522-1.

Depreciable property.

523. Where, in accordance with section 522, the taxpayer and the corporation have jointly agreed in the prescribed form on an amount in respect of property described in section 524, the amount is deemed, despite subparagraphs *b* and *c* of the first paragraph of section 522, but subject to the second paragraph, to be equal to the least of the amounts described in paragraph *b* or *c*, as the case may be, of section 524.

Minimum amount.

However, the amount shall in no case be less than the amount that is deemed to be the amount agreed on under subparagraph *b* of the first paragraph of section 522, subject to subparagraph *c* of that paragraph.

History: 1972, c. 23, s. 408; 1975, c. 22, s. 117; 1997, c. 3, s. 71; 1997, c. 85, s. 87; 2019, c. 14, s. 149.
Interpretation Bulletins: IMP. 521.2-1/R1; IMP. 522-1/R1.
Corresponding Federal Provision: 85(1)(c.1), (d), (e) and (e.3) before (ii).

Depreciable property and incorporeal capital property.

524. Section 523 applies where the property disposed of is

(*a*) *(paragraph repealed)*;

(*b*) depreciable property of a prescribed class the proceeds of disposition of which would otherwise be less than the least of

i. the undepreciated capital cost to the taxpayer of all property of that class immediately before the disposition,

ii. the cost to the taxpayer of the property, and

iii. the fair market value of the property at the time of its disposition; and

(*c*) capital property, other than depreciable property of a prescribed class, an inventory, a NISA Fund No. 2, a farm income stabilization account or a property that is referred to in paragraph *g* or *g*.1 of subsection 1.1 of section 85 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), and the amount agreed upon in accordance with section 522 in the prescribed form in respect of the property is less than the lesser of

i. the fair market value of the property at the time of the disposition, and

ii. the cost amount to the taxpayer of the property at the time of disposition.

History: 1972, c. 23, s. 409; 1975, c. 22, s. 118; 1982, c. 5, s. 121; 1990, c. 59, s. 190; 1994, c. 22, s. 196; 1996, c. 39, s. 146; 1997, c. 85, s. 88; 2000, c. 39, s. 28; 2004, c. 21, s. 84; 2005, c. 1, s. 118; 2019, c. 14, s. 150.
Interpretation Bulletins: IMP. 521.2-1/R1; IMP. 522-1/R1.
Corresponding Federal Provision: 85(1)(c.1), (d) and (e).

524.0.1. *(Repealed).*

History: 1994, c. 22, s. 197; 1995, c. 49, s. 139; 1996, c. 39, s. 147; 1997, c. 3, s. 71; 1997, c. 85, s. 89; 2003, c. 2, s. 135; 2005, c. 1, s. 119; 2015, c. 24, s. 81; 2019, c. 14, s. 151.
Corresponding Federal Provision: 85(1)(d.11).

524.0.2. *(Repealed).*

History: 2015, c. 24, s. 82; 2019, c. 14, s. 151.
Corresponding Federal Provision: 85(1)d.12).

Inventory in connection with a farming business.

524.1. Where the taxpayer referred to in section 518 carries on a farming business the income of which is computed in accordance with the cash method and the property disposed of as referred to in that section 518 was inventory owned by the taxpayer in connection with that business immediately before the time the property was disposed of to the corporation referred to in that section 518,

(*a*) subject to subparagraphs *b* and *c* of the first paragraph of section 522 and notwithstanding paragraph *c* of section 524, the amount agreed on, if any, in accordance with section 522 in the prescribed form, in respect of inventory purchased by the taxpayer is deemed to be equal to the amount determined by the formula

$$[(A \times B) / C] + D;$$

(*a*.1) the amount referred to in section 521.2 in respect of inventory purchased by the taxpayer is deemed, where it would otherwise be less than the particular amount that would be determined in respect of the property by the formula in subparagraph *a* if no account were taken of the letter D, to be equal to that particular amount;

(*b*) for the purposes of subparagraph *a* of the second paragraph of section 194, the disposition of the property and the receipt of proceeds of disposition therefor are deemed to have occurred at the particular time and in the course of carrying on the business; and

(*c*) for the purposes of section 194, where the property of which the corporation has become the owner is in connection with a farming business and the income from that business is computed in accordance with the cash method,

i. the corporation is deemed to have paid, at the particular time and in the course of carrying on that business, an

amount equal to the cost to the corporation of the property, and

ii. the corporation is deemed to have purchased the property at the particular time and in the course of carrying on that business, for an amount equal to that cost.

Interpretation.

For the purposes of the formula set forth in subparagraph *a* of the first paragraph,

(*a*) A is the amount that would be included, by reason of subparagraph *c* of the second paragraph of section 194, in computing the taxpayer's income for his last taxation year commencing before the particular time referred to in the first paragraph if that taxation year had ended immediately before the particular time;

(*b*) B is the value, determined in accordance with section 194.2, to the taxpayer immediately before the particular time, of the inventory purchased by him and in respect of which the election under section 518 is made;

(*c*) C is the value, determined in accordance with section 194.2, of all of the inventory purchased by the taxpayer that was owned by him in connection with that business immediately before the particular time;

(*d*) D is such additional amount as the taxpayer and the corporation designate in respect of the property.

History: 1993, c. 16, s. 211; 1997, c. 3, s. 71; 1997, c. 85, s. 90.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(1)(c.2).

Election regarding the order of the disposition.

525. Where two or more properties, each of which is a property described in paragraph *b* of section 524, are disposed of at the same time, sections 523 and 524 apply as if each property so disposed of had been separately disposed of in the order designated by the taxpayer in the prescribed form or, if the taxpayer does not so designate any such order, in the order designated by the Minister.

History: 1975, c. 22, s. 119; 1997, c. 85, s. 91; 2019, c. 14, s. 152.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(1)(e.1).

Passenger vehicle of a cost exceeding $20,000 of any other amount prescribed.

525.1. Where property of a taxpayer in respect of the disposition of which section 518 applies is depreciable property of a prescribed class that is a passenger vehicle the cost to the taxpayer of which exceeds $20,000 or such other amount as may be prescribed for the purposes of paragraph *d*.3 of section 99, as the case may be, and the taxpayer and the corporation to which the property is disposed of do not deal with each other at arm's length, the amount referred to in section 521.2 in respect of the property or, where section 522 applies thereto, the amount agreed on in respect of the property in the prescribed form, is deemed to be equal to the undepreciated capital cost to the taxpayer of the class immediately before the disposition, minus, where applicable, the amount deducted by the taxpayer under paragraph *a* of section 130 in respect of the passenger vehicle in computing the taxpayer's income for the taxation year in which the passenger vehicle was disposed of by the taxpayer.

Exception.

However, for the purposes of section 41.0.1, the cost to the corporation of the passenger vehicle is deemed to be an amount equal to its fair market value immediately before the disposition.

History: 1990, c. 59, s. 191; 1997, c. 3, s. 71; 1997, c. 85, s. 92.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(1)(e.4).

Fair market value of property exceeding that of the consideration.

526. Where section 522 applies in respect of the disposition of property by a taxpayer, where the fair market value of the property, immediately before the time of the disposition, exceeds the greater of the fair market value, immediately after that time, of the consideration received by the taxpayer and the amount otherwise agreed on in the prescribed form in respect of the property, and where it is reasonable to regard any part of the excess as a benefit that the taxpayer desired to have conferred on a person related to the taxpayer, other than a corporation that is a wholly-owned corporation of the taxpayer immediately after the disposition, the amount agreed on in the prescribed form in respect of the property is deemed, except for the purposes of paragraphs *b* and *c* of section 528, to be an amount equal to the amount otherwise agreed on in the prescribed form in respect of the property to which that part of the excess is added.

History: 1975, c. 22, s. 119; 1990, c. 59, s. 192; 1993, c. 16, s. 212; 1997, c. 3, s. 71; 1997, c. 85, s. 92.
Interpretation Bulletins: IMP. 521.2-1/R1; IMP. 522-1/R1.
Corresponding Federal Provision: 85(1)(e.2).

"wholly-owned corporation".

526.1. For the purposes of section 526 and this section, "wholly-owned corporation" of a taxpayer means a corporation all the issued and outstanding shares of the capital stock of which, except director's qualifying shares, belong to

(*a*) the taxpayer,

(*b*) a corporation that is a wholly-owned corporation of the taxpayer, or

(*c*) any combination of persons described in paragraph *a* or *b*.

History: 1993, c. 16, s. 213; 1997, c. 3, s. 71.
Interpretation Bulletins: IMP. 521.2-1/R1; IMP. 522-1/R1.
Corresponding Federal Provision: 85(1)(l.3).

DIVISION III
COST OF PROPERTY OR OF THE CONSIDERATION

Rules on transfers of depreciable property

527. For the purposes of sections 93 to 104, 130 and 130.1 and of any regulations made for the purposes of paragraph *a* of section 130, where Divisions I and II or Division IV apply in respect of the disposition of depreciable property to a person and the capital cost to the transferor of the property exceeds the transferor's proceeds of disposition of the property, the following rules apply:

(*a*) the capital cost to the transferee of the property is deemed to be equal to the amount that was its capital cost to the transferor; and

(*b*) the excess is deemed to have been allowed to the transferee as depreciation in respect of the property for the taxation years that ended before the time of disposition.

History: 1972, c. 23, s. 410; 1979, c. 18, s. 46; 1984, c. 15, s. 111; 1997, c. 3, s. 71; 2000, c. 5, s. 118.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(5).

527.1. *(Repealed).*

History: 1984, c. 15, s. 111; 1991, c. 8, s. 11; 1997, c. 3, s. 71; 2000, c. 5, s. 119.
Interpretation Bulletins: IMP. 518-3; IMP. 521.2-1.

527.2. *(Repealed).*

History: 1984, c. 15, s. 111; 1990, c. 59, s. 193; 1997, c. 3, s. 71; 2000, c. 5, s. 119.
Interpretation Bulletins: IMP. 521.2-1/R1.

Tools of an apprentice mechanic.

527.3. Where Divisions I and II have applied in respect of the disposition of any property by an individual to a corporation, the cost of the property to the individual was included in computing an amount determined under section 75.2.1 or 75.3 in respect of the individual, the property is depreciable property of the corporation, and the amount, in this section referred to as the "individual's original cost", that would be the cost of the property to the individual immediately before its disposition if this Act were read without reference to section 75.5 exceeds the individual's proceeds of disposition of the property, the following rules apply:

(*a*) the capital cost to the corporation of the property is deemed to be equal to the individual's original cost; and

(*b*) the amount by which the individual's original cost exceeds the individual's proceeds of disposition of the property is deemed to have been allowed to the corporation as depreciation in respect of the property for taxation years that end before the time of disposition.

History: 2004, c. 8, s. 106; 2007, c. 12, s. 66.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(5.1).

Cost of property received as consideration.

528. Where a taxpayer and a corporation make the election referred to in section 518 in respect of a disposition, the cost to the taxpayer of each property the taxpayer receives for the disposition is deemed to be equal

(*a*) in the case of any particular property other than a share of the capital stock of the corporation or of a right to receive such share, to the lesser of the fair market value of that property at the time of disposition and the proportion of the fair market value, at the same time, of the property disposed of by the taxpayer to the corporation, that the fair market value of such particular property is of that of all such particular properties which he receives as consideration for such disposition;

(*b*) in the case of a preferred share of a given class of the capital stock of the corporation, to the lesser of the fair market value of such share immediately after the disposition and that proportion of the excess of the proceeds of disposition of that property over the fair market value of the particular property contemplated in paragraph *a* which he receives for such disposition, that the fair market value, immediately after the disposition, of that preferred share of such class is, at the same time, of all the preferred shares of the capital stock of the corporation that he receives or has a right to receive as consideration for such disposition; and

(*c*) in the case of a common share of a given class of the capital stock of the corporation, to that proportion of the excess of the proceeds of disposition of the property over the aggregate of the fair market value, at the time of disposition, of the particular property contemplated in paragraph *a*, that he receives for such disposition, and of the cost, to him, of all the preferred shares which he has a right to receive for such disposition, that the fair market value, immediately after the disposition, of such common share of that class is, at the same time, of the fair market value all the common shares of the capital stock of the corporation that he receives or has a right to receive as consideration for such disposition.

History: 1972, c. 23, s. 411; 1996, c. 39, s. 148; 1997, c. 3, s. 71; 2003, c. 9, s. 37.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(1)(f), (g) and (h).

DIVISION IV
TRANSFER BY A PARTNERSHIP

Transfer of partnership property to a corporation.

529. Where a partnership disposes of any property (other than an eligible derivative, within the meaning of section 85.8, if subparagraph *b* of the first paragraph of section 85.7 applies to the partnership) to a taxable Canadian corporation for consideration that includes a share of the capital stock of the corporation, and all the members of the partnership and the corporation make a valid election for the purposes of subsection 2 of section 85 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in respect of the disposition or, where that election cannot be made by reason of subsection 21.2 of section 13 of that Act, make an election, in the prescribed form referred to in the first paragraph of section 520.1, the provisions of Divisions I to III apply, with the necessary modifications, in respect of the disposition as if the partnership were a taxpayer resident in Canada that had disposed of the property to the corporation.

Rule applicable.

In addition, for the purposes of the third paragraph of section 520.1 in respect of the disposition, subparagraph *a* of that paragraph is to be read as if "the taxation year which, of the taxation years of those persons, ends the latest" in the portion before subparagraph i was replaced by "that taxation year of the corporation or the fiscal period of the partnership in which the disposition was made, whichever year or period in the latter case ends later".

History: 1972, c. 23, s. 412; 1972, c. 26, s. 49; 1975, c. 22, s. 120; 1982, c. 5, s. 122; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 1997, c. 85, s. 93; 2002, c. 40, s. 42; 2003, c. 9, s. 38; 2009, c. 5, s. 179; 2011, c. 34, s. 31; 2020, c. 16, s. 78.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(2).

DIVISION IV.1
CERTAIN TRANSFERS MADE BEFORE 26 MARCH 1997

Application of transfer rules after 25 March 1997.

529.1. Except for the purposes of this section, where property is disposed of to a corporation before 26 March 1997 by a taxpayer or a partnership, in subparagraph *b* referred to as the "transferor", Divisions I to III, or I to IV, as the case may be, as they read in respect of property disposed of on 26 March 1997 and not as they read in respect of the disposition, apply in respect of the disposition where

(*a*) the disposition is made after 18 December 1996, or is part of a series of transactions or events that began before 19 December 1996 and ended after 18 December 1996; and

(*b*) it may not reasonably be considered that all or substantially all of an excess amount is attributable to the difference between the cost amount of the property to the transferor, immediately before the disposition, for the purposes of this Part and the cost amount of the property to the transferor, at that time, for the purposes of Part I of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), where that excess amount is

i. the amount by which the transferor's income for the taxation year in which the disposition is made is reduced by reason of the application of Divisions I to III, or I to IV, as the case may be, in respect of the disposition, exceeds the amount, if any, by which the transferor's income for that year, established for the purposes of Part I of the Income Tax Act, is reduced by reason of the application of section 85 of that Act in respect of the disposition, or

ii. the amount by which the cost amount of the property to the corporation, immediately after the disposition, for the purposes of this Part, exceeds the cost amount of the property to the corporation established at that time for the purposes of Part I of the Income Tax Act.

Exception.

However, the first paragraph does not apply where the disposition is of property in respect of which section 522, as it reads in respect of property disposed of on 26 March 1997, would apply if

(*a*) the disposition had been made on 26 March 1997;

(*b*) where the election referred to in section 518 or in the first paragraph of section 529, as the case may be, as that section 518 or that paragraph reads in respect of property disposed of on 26 March 1997, was not made in respect of the disposition, the election had been made for an amount agreed on equal to the fair market value of the property at the time of the disposition; and

(*c*) an amount had been agreed on in respect of the property in the prescribed form for the purposes of that section 522, and was equal to the amount agreed on in its respect in the election made under section 518 or the first paragraph of section 529, as the case may be, as that section 518 or that paragraph reads in respect of the disposition, or to the fair market value of the property at the time of the disposition if no election were made.

History: 1997, c. 85, s. 94; 1997, c. 85, s. 781.
Interpretation Bulletins: IMP. 521.2-1/R1.

DIVISION IV.2
WINDING-UP OF THE BUSINESS OF A PARTNERSHIP WITHIN 60 DAYS

Case where partnership is wound-up.

530. Sections 531 to 533 apply where section 529 applies in respect of the disposition of property of a partnership to a

corporation, where the affairs of the partnership are wound-up within 60 days of the disposition and where, immediately before the winding-up of the partnership, its property includes nothing but money and property received from the corporation as consideration for the disposition.

History: 1972, c. 23, s. 413; 1984, c. 35, s. 15; 1997, c. 3, s. 71.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(3)(a) to (c).

Disposal of property where partnership is wound-up.

531. The partnership which, at the time of its winding-up, has distributed property contemplated in section 530 to a member of the partnership is deemed to have disposed of it for proceeds equal to the cost amount to the partnership of the property immediately before such distribution.

History: 1973, c. 17, s. 62; 1984, c. 35, s. 15; 1997, c. 3, s. 71; 2000, c. 5, s. 120.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(3)(h).

Cost of property received by each partner.

532. The cost to each member of the partnership of each property received or receivable by the member as consideration for the disposition of the member's partnership interest on the winding-up of the partnership is deemed to be

(*a*) in the case of property other than a share of the capital stock of the corporation or a right to receive such share, the fair market value of that property at the time of the winding-up;

(*b*) in the case of a preferred share of a given class of the capital stock of the corporation that was not accompanied by a common share, the amount determined under subparagraph ii and, if it was accompanied by a common share, the lesser of:

i. the fair market value, immediately after the winding-up, of such preferred share of that class which he receives or has the right to receive; and

ii. that proportion of the excess of the adjusted cost base to him of his partnership interest immediately before its winding-up over the aggregate of the fair market value, at the time of winding-up, of the consideration contemplated in paragraph *a* and received by him from the disposition of his partnership interest, that the fair market value, immediately after the winding-up, of such preferred share of that class that he so receives or has the right to receive is of the fair market value, at the same time, of all preferred shares of the capital stock of the corporation which he receives or also has the right to receive as consideration for the disposition; and

(*c*) in the case of a common share of a given class of the capital stock of the corporation, an amount equal to that proportion of the amount by which the adjusted cost base to him of his partnership interest immediately before the winding-up exceeds the aggregate of the fair market value, at the time of disposition, of the property contemplated in paragraph *a* that he receives for the disposition, and the cost to him of all the preferred shares he has the right to receive for the disposition, that the fair market value, immediately after the disposition, of that common share of that class is at the same time of the fair market value of all the common shares of the capital stock of the corporation he receives or has the right to receive as consideration for the disposition.

History: 1972, c. 23, s. 414; 1984, c. 35, s. 15; 1996, c. 39, s. 273; 1997, c. 3, s. 71; 2000, c. 5, s. 121.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(3)(d), (e) and (f).

Proceeds of disposition of partnership interests.

533. The proceeds of disposition of the partnership interest of any member of a partnership on its winding-up is deemed to be the cost, to the member, of the property and shares received or receivable by the member as consideration for the disposition of the interest plus the amount of any money received by the member as consideration for the disposition.

History: 1972, c. 23, s. 415; 1984, c. 35, s. 15; 1997, c. 3, s. 71; 2000, c. 39, s. 30.
Interpretation Bulletins: IMP. 521.2-1/R1.
Corresponding Federal Provision: 85(3)(g).

DIVISION V
(Repealed).

534. *(Repealed).*

History: 1972, c. 23, s. 416; 1975, c. 22, s. 121; 1990, c. 59, s. 194; 1993, c. 16, s. 214; 1997, c. 3, s. 71; 2000, c. 5, s. 122.

535. *(Repealed).*

History: 1972, c. 23, s. 417; 1975, c. 22, s. 121; 1990, c. 59, s. 195; 1993, c. 16, s. 215; 1995, c. 49, s. 140; 1996, c. 39, s. 149; 1997, c. 3, s. 71; 2000, c. 5, s. 122.

DIVISION VI
EXCHANGE OF SHARES

Exchange of shares of Canadian corporations.

536. The rules set out in sections 537 to 539 apply where a Canadian corporation, in this division referred to as the "particular corporation", issues a share of any particular class of its capital stock to a taxpayer in exchange for capital property owned by the taxpayer that is a share, in this division referred to as the "exchanged share", of a particular class of the capital stock of a second corporation which is a taxable Canadian corporation.

Provisions not applicable.

However, they do not apply where

(*a*) the taxpayer and the particular corporation were, immediately before the exchange, not dealing with each other at arm's length, otherwise than by reason of a right referred to in paragraph *b* of section 20 that is a right of the particular corporation to acquire the exchanged share, or the taxpayer and the corporation made an election under section 518 or 529 in respect of the exchanged share;

(*b*) immediately after the exchange, the taxpayer or persons with whom the taxpayer is not dealing at arm's length, separately or together, controlled the particular corporation or owned shares of the capital stock thereof having a fair market value of more than 50% of that of all of the outstanding shares of its capital stock;

(*c*) the taxpayer receives a consideration other than a share of the particular class of the capital stock of the particular corporation in exchange for the exchanged share, except where such other consideration results from the disposition to the particular corporation of a share of the capital stock of the second corporation other than the exchanged share; or

(*d*) the taxpayer is a foreign affiliate of another taxpayer resident in Canada at the end of the taxation year of the taxpayer in which the exchange occurred and the taxpayer has included any portion of the gain or loss, otherwise determined, from the disposition of the exchanged share in computing the taxpayer's foreign accrual property income, within the meaning of section 579, for that taxation year.

History: 1975, c. 22, s. 122; 1978, c. 26, s. 95; 1989, c. 77, s. 56; 1990, c. 59, s. 196; 1994, c. 22, s. 198; 1995, c. 49, s. 141; 1997, c. 3, s. 71; 2004, c. 8, s. 107.

Corresponding Federal Provision: 85.1(1) before (a) and (2).

Computation of capital gain or loss.

537. Unless the taxpayer has included any portion of the gain or loss, otherwise determined, from the disposition of the exchanged share in computing the taxpayer's income for the taxation year in which the exchange occurred, the taxpayer is deemed to have disposed of the exchanged share for proceeds of disposition equal to the adjusted cost base of the share to the taxpayer immediately before the exchange and to have acquired the share issued in exchange at a cost equal to such adjusted cost base.

History: 1975, c. 22, s. 122; 2004, c. 8, s. 107.

Corresponding Federal Provision: 85.1(1)(a)(i) and (ii).

Taxable Québec or Canadian property.

538. If the exchanged share is a taxable Québec property or taxable Canadian property of the taxpayer, the share issued in exchange is deemed to be, at any time that is within 60 months after the exchange, a taxable Québec property or taxable Canadian property of the taxpayer, as the case may be.

History: 1975, c. 22, s. 122; 2004, c. 8, s. 107; 2011, c. 6, s. 134.

Corresponding Federal Provision: 85.1(1)(a) after (ii).

Cost of exchanged share.

539. The cost of the exchanged share to the particular corporation, at any particular time up to and including the time it disposes of the share, is deemed to be the lesser of the following amounts:

(*a*) the fair market value of the exchanged share immediately before the exchange;

(*b*) the paid-up capital of the exchanged share immediately before the exchange.

History: 1975, c. 22, s. 122; 1989, c. 77, s. 57; 1997, c. 3, s. 71; 2004, c. 8, s. 108.

Corresponding Federal Provision: 85.1(1)(b).

Issuance deemed made to taxpayer.

539.1. For the purposes of the first paragraph of section 536 and sections 537 to 539, where a particular corporation issues shares (in this section referred to as "new shares") of a class of its capital stock to a trust in accordance with a court-approved plan of arrangement, the issue is deemed to be an issue to a taxpayer referred to in the first paragraph of section 536, if the taxpayer disposes of exchanged shares traded on a designated stock exchange to the particular corporation for consideration that consists solely of new shares that are widely traded on a designated stock exchange immediately after and as part of completion of the plan of arrangement.

History: 2015, c. 21, s. 181.

Corresponding Federal Provision: 85.1(2.2).

Disposition of shares of the capital stock of a foreign affiliate.

540. Where a taxpayer disposes of capital property that is a share of the capital stock of a foreign affiliate of the taxpayer to a corporation that, immediately after the disposition, is also a foreign affiliate of the taxpayer, for consideration that includes a share of the capital stock of that affiliate:

(*a*) section 542 applies, with the necessary modifications, to determine the cost to the taxpayer of all property receivable by him as consideration for such disposition;

(*b*) the taxpayer's proceeds of such disposition of the shares so disposed of is deemed to be equal to the aggregate of the cost to him of all property receivable by him as consideration; and

(*c*) the cost to the foreign affiliate of the shares acquired by it from the taxpayer is deemed to be equal to the taxpayer's proceeds of disposition of them, as determined in paragraph *b*.

History: 1975, c. 22, s. 122; 1995, c. 63, s. 261; 1997, c. 3, s. 71.

Corresponding Federal Provision: 85.1(3).

Exception.

540.1. Section 540 does not apply in respect of a disposition at any time by a taxpayer of a share of the capital stock of a particular foreign affiliate of the taxpayer to another foreign affiliate of the taxpayer if

(*a*) the following conditions are met:

i. all or substantially all of the property of the particular affiliate was, immediately before that time, excluded property, within the meaning of section 576.1, of the particular affiliate, and

ii. the disposition is part of a transaction or event or a series of transactions or events for the purpose of disposing of the share to a person or partnership that, immediately after the transaction, event or series, was a person or partnership with whom the taxpayer is dealing at arm's length, other than a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest, within the meaning of paragraph *m* of subsection 2 of section 95 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), at the time of the transaction or event or throughout the series, as the case may be; or

(*b*) the adjusted cost base to the taxpayer of the share at that time is greater than the amount that would, in the absence of section 540, be the taxpayer's proceeds of disposition of the share in respect of the disposition.

History: 1984, c. 15, s. 112; 2015, c. 21, s. 182.
Corresponding Federal Provision: 85.1(4).

Foreign share for foreign share exchange.

540.2. Subject to section 540, and subsection 2 of section 95 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) when it has effect for the purposes of section 579, the rules set out in sections 540.3 and 540.4 apply where a corporation not resident in Canada (in this division referred to as the "foreign corporation") issues a share of its capital stock to a taxpayer in exchange for capital property owned by the taxpayer that is a share (in this division referred to as the "exchanged foreign share") of the capital stock of a second corporation not resident in Canada.

Provisions not applicable.

However, they do not apply where

(*a*) the taxpayer and the foreign corporation were, immediately before the exchange, not dealing with each other at arm's length, otherwise than by reason of a right referred to in paragraph *b* of section 20 that is a right of the foreign corporation to acquire the exchanged foreign share;

(*b*) immediately after the exchange, the taxpayer or persons with whom the taxpayer is not dealing at arm's length, separately or together, controlled the foreign corporation or owned shares of the capital stock thereof having a fair market value of more than 50% of that of all of the outstanding shares of its capital stock;

(*c*) the taxpayer receives a consideration other than the issued share in exchange for the exchanged foreign share, except where such consideration results from the disposition to the foreign corporation of a share of the capital stock of the second corporation other than the exchanged foreign share; or

(*d*) the taxpayer is a foreign affiliate of another taxpayer resident in Canada at the end of the taxation year of the taxpayer in which the exchange occurred and

i. the taxpayer has included any portion of the gain or loss, otherwise determined, from the disposition of the exchanged foreign share in computing the taxpayer's foreign accrual property income, within the meaning of section 579, for that taxation year, or

ii. the exchanged foreign share is excluded property, within the meaning of section 576.1, of the taxpayer.

History: 2004, c. 8, s. 109; 2015, c. 21, s. 183.
Corresponding Federal Provision: 85.1(5) before a) and (6).

Computation of capital gain or loss.

540.3. Unless the taxpayer has included any portion of the gain or loss, otherwise determined, from the disposition of the exchanged foreign share in computing the taxpayer's income for the taxation year in which the exchange occurred, the taxpayer is deemed to have disposed of the exchanged foreign share for proceeds of disposition equal to the adjusted cost base of the share to the taxpayer immediately before the exchange and to have acquired the share issued in exchange at a cost equal to such adjusted cost base.

History: 2004, c. 8, s. 109.
Corresponding Federal Provision: 85.1(5) before (a) and (a) and (b).

Taxable Québec or Canadian property.

540.4. If the exchanged foreign share is a taxable Québec property or taxable Canadian property of the taxpayer, the share issued in exchange is deemed to be, at any time that is within 60 months after the exchange, a taxable Québec property or taxable Canadian property of the taxpayer, as the case may be.

History: 2004, c. 8, s. 109; 2011, c. 6, s. 135.
Corresponding Federal Provision: 85.1 after (b).

Issuance deemed made to foreign corporation.

540.4.1. For the purposes of the first paragraph of section 540.2 and sections 540.3 and 540.4, where a foreign corporation issues shares (in this section referred to as "new shares") of a class of its capital stock to a trust in accordance

with a court-approved plan of arrangement, the issue is deemed to be an issue to a taxpayer referred to in the first paragraph of section 540.2, if the taxpayer disposes of exchanged foreign shares traded on a designated stock exchange to the foreign corporation for consideration that consists solely of new shares that are widely traded on a designated stock exchange immediately after and as part of completion of the plan of arrangement.

History: 2015, c. 21, s. 184.
Corresponding Federal Provision: 85.1(6.1).

SIFT unit for share exchange.

540.5. The rules in section 540.6 apply if a taxpayer disposes, before 1 January 2013, of an investment in a SIFT wind-up entity (in section 540.6 referred to as the "particular unit") to a taxable Canadian corporation if

(*a*) the disposition occurs during a period (in this section and section 540.6 referred to as the "exchange period") of no more than 60 days at the end of which all of the interests in the entity that are investments in a SIFT wind-up entity are owned by the corporation;

(*b*) the taxpayer receives no consideration for the disposition other than a share (in this section and section 540.6 referred to as the "exchange share") of the capital stock of the corporation that is issued during the exchange period to the taxpayer by the corporation;

(*c*) neither of sections 518 and 529 applies in respect of the disposition; and

(*d*) all of the exchange shares issued to holders of interests in the entity that are investments in a SIFT wind-up entity are shares of a single class of the capital stock of the corporation.

History: 2010, c. 25, s. 39.
Corresponding Federal Provision: 85.1(7).

Rollover on SIFT unit for share exchange.

540.6. The rules to which section 540.5 refers, in relation to a disposition by a taxpayer of a particular unit of a SIFT wind-up entity to a corporation for consideration that is an exchange share, are as follows:

(*a*) the taxpayer's proceeds of disposition of the particular unit, and cost of the exchange share, are deemed to be equal to the cost amount to the taxpayer of the particular unit immediately before the disposition;

(*b*) if the particular unit was immediately before the disposition taxable Québec property or taxable Canadian property of the taxpayer, the exchange share is deemed to be, at any time that is within 60 months after the disposition, taxable Québec property or taxable Canadian property of the taxpayer, as the case may be;

(*c*) if the exchange share's fair market value immediately after the disposition exceeds the particular unit's fair market value at the time of the disposition, the excess is deemed to be an amount that Division IV of Chapter II of Title III requires to be included in computing the taxpayer's income for the taxpayer's taxation year in which the disposition occurs;

(*d*) if the particular unit's fair market value at the time of the disposition exceeds the exchange share's fair market value immediately after the disposition, and it is reasonable to regard any part of the excess as a benefit that the taxpayer desired to have conferred on a person, or partnership, with whom the taxpayer does not deal at arm's length, the excess is deemed to be an amount that Division IV of Chapter II of Title III requires to be included in computing the taxpayer's income for the taxpayer's taxation year in which the disposition occurs; and

(*e*) the cost to the corporation of the particular unit is deemed to be the lesser of

i. the fair market value of the particular unit immediately before the disposition, and

ii. the amount determined for B in the formula in paragraph *f* of subsection 8 of section 85.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), in respect of the particular unit.

History: 2010, c. 25, s. 39; 2011, c. 6, s. 136.
Corresponding Federal Provision: 85.1(8).

CHAPTER V
REORGANIZATION OF CAPITAL

Disposition of shares in the course of reorganization of capital.

541. This chapter applies where at a particular time after 6 May 1974, in the course of a reorganization of the capital of a corporation, a taxpayer disposes to the corporation of capital property that is shares of a particular class of the capital stock of the corporation that are then owned by him for consideration receivable by him from the corporation that includes another share of such capital stock, except where section 518 or 529 applies.

History: 1972, c. 23, s. 418; 1975, c. 22, s. 123; 1984, c. 15, s. 112; 1995, c. 49, s. 142; 1997, c. 3, s. 71.
Corresponding Federal Provision: 86(1) before (a) and (3).

Cost of property receivable as consideration of disposition.

542. The cost to the taxpayer of any property receivable by him as consideration for the disposition referred to in section 541 is deemed to be:

(*a*) in the case of property other than a share of the capital stock of the corporation, the fair market value of that property at the time of such disposition;

(*b*) in the case of a share of any class of the capital stock of the corporation, that proportion of the amount by which the aggregate of the adjusted cost base to the taxpayer, immediately before the disposition, of each share disposed of exceeds the fair market value at the same time of the property referred to in paragraph *a*, that the fair market value, immediately after the disposition, of such share of such class is of the fair market value, at the same time, of all the shares of the capital stock of the corporation receivable by him as consideration for the disposition.

History: 1972, c. 23, s. 419; 1975, c. 22, s. 123; 1997, c. 3, s. 71.
Corresponding Federal Provision: 86(1)(a) and (b).

Proceeds of disposition of shares.

543. The proceeds of disposition of the shares of the taxpayer, upon reorganization, as provided in this chapter, are deemed to be equal to the aggregate of the cost to him of all property receivable by him as consideration.

History: 1972, c. 23, s. 421; 1975, c. 22, s. 125.
Corresponding Federal Provision: 86(1)(c).

Rules applicable.

543.1. Notwithstanding paragraph *b* of section 542 and section 543, where the fair market value of the shares disposed of by the taxpayer exceeds, immediately before the disposition, the aggregate of the cost deemed to him under paragraph *a* of section 542 of any property contemplated therein, and of the fair market value, immediately after the disposition, of every share contemplated in paragraph *b* of section 542, and it is reasonable to regard all or any portion of such excess as a benefit that the taxpayer desires to have conferred on a person related to the taxpayer, the following rules apply:

(*a*) the taxpayer is deemed to dispose of the shares for proceeds equal to the lesser of their fair market value immediately before the disposition and of the aggregate of the cost deemed to him under paragraph *a* of section 542 of any property contemplated therein, and of the amount of the benefit conferred;

(*b*) the taxpayer's capital loss resulting from the disposition of shares is deemed to be nil; and

(*c*) the cost to the taxpayer of a share of any class of the capital stock of the corporation receivable by him in consideration for the shares disposed of is deemed to be that proportion of the amount by which the adjusted cost base to the taxpayer, immediately before the disposition, of each share disposed of exceeds the aggregate determined in paragraph *a*, that the fair market value, immediately after the disposition, of such share of such class is of the fair market value, at the same time, of the aggregate of the shares receivable by him as consideration for the disposition.

History: 1982, c. 5, s. 123; 1997, c. 3, s. 71.
Corresponding Federal Provision: 86(2).

Adjusted cost base of a share receivable as consideration.

543.2. The following rules apply in respect of each share receivable by a taxpayer as consideration for the disposition referred to in section 541:

(*a*) the taxpayer shall deduct after the disposition, in computing the adjusted cost base to the taxpayer of the share, the amount determined by the formula

A × B / C;

(*b*) the taxpayer shall add after the disposition, in computing the adjusted cost base to the taxpayer of the share, the amount determined under subparagraph *a* in respect of the acquisition.

Interpretation.

For the purposes of the formula in subparagraph *a* of the first paragraph,

(*a*) A is the amount by which

i. the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before the disposition, the adjusted cost base to the taxpayer of the shares disposed of, exceeds

ii. the amount that would be, but for subparagraph *b* of the first paragraph of section 234, the taxpayer's capital gain for the taxation year that includes the time of the disposition, from the disposition of the shares disposed of;

(*b*) B is the fair market value of the share at the time it was acquired by the taxpayer as consideration for the disposition of the shares disposed of; and

(*c*) C is the fair market value of all shares receivable by the taxpayer in consideration for the disposition at the time referred to in subparagraph *b*.

History: 1996, c. 39, s. 150.
Corresponding Federal Provision: 86(4).

CHAPTER VI
AMALGAMATION

DIVISION I
GENERALITIES

Amalgamation.

544. (*1*) For the purposes of this chapter, an amalgamation is a merger of several taxable Canadian corporations, hereinafter called "predecessor corporations", which are replaced to form one corporate entity hereinafter referred to as the "new corporation", in such a manner that, on account of such merger,

(*a*) all of the property of the predecessor corporations immediately before the merger, except an amount receivable from a predecessor corporation or a share of the capital stock of such a corporation, becomes property of the new corporation;

(*b*) all the liabilities of the predecessor corporations immediately before the merger, except an amount payable to a predecessor corporation, become liabilities of the new corporation; and

(*c*) all of the shareholders, who owned shares of the capital stock of any predecessor corporation immediately before the merger, receive a share of the capital stock of the new corporation, excepting the predecessor corporations themselves.

Exception.

(2) An amalgamation does not result from the acquisition of property of one corporation by another or from the distribution of property of another corporation being wound up to another corporation.

Shares deemed to have been received by virtue of a merger.

(3) For the purposes of paragraph *c* of subsection 1, where there is a merger of a corporation and of one or more of its subsidiary wholly controlled corporations or of several corporations each of which is a subsidiary wholly-controlled corporation of the same corporation, any share of the capital stock of a predecessor corporation owned by a shareholder, except a predecessor corporation, immediately before the merger that was not cancelled on the merger is deemed to be a share of the capital stock of the new corporation received by the shareholder by virtue of the merger as consideration for the disposition of a share of the capital stock of the predecessor corporation.

New corporation a continuation of the precedessor.

(4) Where there has been an amalgamation of a corporation and one or more of its subsidiary wholly-owned corporations or two or more corporations each of which is a subsidiary wholly-owned corporation of the same person, the new corporation is, for the purposes of Chapter VII.1 of the Act respecting the application of the Taxation Act (chapter I-4) and sections 332.1, 332.2, 359.1 to 359.17, 362 to 418.36, 419.1 to 419.4 and 419.6, deemed to be the same corporation as, and a continuation of, each predecessor corporation. However, this subsection shall in no respect affect the determination of any predecessor corporation's fiscal period, taxable income or tax payable.

(4.1) *(Subsection repealed).*

Meaning of "subsidiary wholly-owned corporation".

(5) For the purposes of subsections 3 and 4, this subsection and the second paragraph of section 547.1, and notwithstanding section 1, "subsidiary wholly-owned corporation" of a particular person means a corporation all the issued and outstanding shares of the capital stock of which are owned by

(*a*) the particular person;

(*b*) a corporation that is a subsidiary wholly-owned corporation of the particular person; or

(*c*) any combination of persons each of which is a person described in paragraph *a* or *b*.

History: 1972, c. 23, s. 422; 1975, c. 22, s. 126; 1978, c. 26, s. 96; 1980, c. 13, s. 52; 1982, c. 5, s. 124; 1984, c. 15, s. 113; 1985, c. 25, s. 95; 1986, c. 19, s. 119; 1989, c. 77, s. 58; 1994, c. 22, s. 199; 1995, c. 49, s. 143; 1997, c. 3, s. 71; 1998, c. 16, s. 170.

Corresponding Federal Provision: 87(1)(a) to (c), after (c), (1.1), (1.2) and (1.4).

Deemed SIFT wind-up corporation.

544.1. If there is an amalgamation of two or more corporations and one of those corporations is a SIFT wind-up corporation, the new corporation is deemed to be a SIFT wind-up corporation.

History: 2010, c. 25, s. 40.

Corresponding Federal Provision: 87(2)(s.1).

Amounts to include in computing income of new corporation.

545. (*1*) The new corporation resulting from the amalgamation must include in computing its income or its taxable income all the amounts which would have been otherwise included in computing the income or the taxable income of the predecessor corporations.

Deductions.

(2) The new corporation may deduct, for the purposes of computing its income or taxable income, all the amounts that would have been otherwise deductible when computing the income or taxable income of the predecessor corporations.

(3) *(Subsection repealed).*

Amounts deemed deducted by new corporation.

(4) The new corporation is deemed, for the purposes of section 104.1 or 104.4, to have deducted in computing its income the aggregate of all amounts deducted under section 156.1 or 156.5, as the case may be, in computing the income of the predecessor corporations.

Dividend received on a share.

(5) For the purposes of sections 741 to 744.2.2,

(*a*) any taxable dividend received on a share that was deductible in computing the predecessor corporation's taxable income for a taxation year under sections 738 to 745

or section 845 is deemed to be a taxable dividend received on the share by the new corporation that was deductible from the new corporation's income for a taxation year under sections 738 to 745 or section 845, as the case may be;

(*b*) any dividend, other than a taxable dividend, received on a share by the predecessor corporation is deemed to have been received on the share by the new corporation; and

(*c*) a share acquired by the new corporation from a predecessor corporation is deemed to have been owned by the new corporation throughout any period of time throughout which it was owned by a predecessor corporation.

History: 1972, c. 23, s. 423; 1975, c. 22, s. 127; 1981, c. 12, s. 2; 1989, c. 5, s. 71; 1989, c. 77, s. 59; 1995, c. 63, s. 40; 1997, c. 3, s. 71; 1997, c. 14, s. 83; 2000, c. 39, s. 31; 2001, c. 7, s. 53.

Corresponding Federal Provision: 87(2)c)(i) and (ii), g), h), i), j), j.1), n), o), p), v) and x).

Costs, values and prices to be attributed to assets and liabilities of predecessor corporations.

546. For the purposes of this Part, the new corporation must attribute to the assets and liabilities of the predecessor corporations the costs, values and prices otherwise determined in accordance with this Part for such predecessor corporations immediately before the amalgamation.

History: 1972, c. 23, s. 424; 1997, c. 3, s. 71.

Corresponding Federal Provision: 87(2)(b), (d), (d.1), (e), (h), (i), (j), (l.1) and (l.2).

Inventory.

546.1. For the purposes of section 194, where the income of the predecessor corporation at the end of its taxation year ending immediately before the amalgamation, in this section referred to as its "last taxation year", from a farming business and the income of the new corporation from a farming business are computed in accordance with the cash method, the new corporation is deemed to have purchased, in its first taxation year and in the course of carrying on that farming business, the property described in its inventory in connection with that business at the commencement of its first taxation year that was property described in the inventory in connection with the farming business of the predecessor corporation at the end of its last taxation year, for an amount equal to the aggregate of all amounts each of which is an amount included, by reason of subparagraph *b* or *c* of the second paragraph of section 194, in computing the income from a farming business of the predecessor corporation for its last taxation year.

History: 1993, c. 16, s. 216; 1997, c. 3, s. 71.

Corresponding Federal Provision: 87(2)(b)(i) and (ii).

547. *(Repealed).*

History: 1972, c. 23, s. 425; 1978, c. 26, s. 97; 1985, c. 25, s. 96; 1994, c. 22, s. 200.

547.0.1. *(Repealed).*

History: 1990, c. 59, s. 197; 1994, c. 22, s. 200.

Non-capital losses of predecessor corporations.

547.1. For the purposes of determining either the non-capital loss, the net capital loss, the restricted farm loss, the farm loss or the limited partnership loss, as the case may be, of the new corporation for any taxation year, or the extent to which sections 734 to 736.0.4 and paragraph *e* of section 999.1 have the effect of restricting the deductibility by the new corporation of such a loss, the new corporation is deemed to continue the corporate existence of any predecessor corporation.

Restriction.

However, this section shall not affect the determination of the fiscal period or of the income of the new corporation or any predecessor corporation or that of the taxable income of, or the tax payable under this Act by, any predecessor corporation other than a corporation which, where the new corporation is formed by the amalgamation of a particular corporation and one or more of its subsidiary wholly-owned corporations, is the particular corporation.

History: 1978, c. 26, s. 98; 1984, c. 15, s. 114; 1985, c. 25, s. 97; 1988, c. 4, s. 38; 1989, c. 77, s. 60; 1994, c. 22, s. 201; 1997, c. 3, s. 71; 2000, c. 5, s. 123.

Corresponding Federal Provision: 87(2.1).

547.2. *(Repealed).*

History: 1981, c. 12, s. 3; 1985, c. 25, s. 98; 1995, c. 63, s. 41; 1997, c. 3, s. 71; 2000, c. 39, s. 32.

547.3. *(Repealed).*

History: 1995, c. 63, s. 42; 1997, c. 3, s. 71; 1997, c. 14, s. 84.

Payments to employees of predecessor corporations.

548. For the purposes of section 34, an employee or former employee of a predecessor corporation is deemed to be, as the case may be, an employee or former employee of the new corporation.

History: 1972, c. 23, s. 426; 1997, c. 3, s. 71.

Corresponding Federal Provision: 87(2)(k).

Corporate existence deemed continued.

549. For the purposes of this Part, the new corporation is deemed to continue the corporate existence of any predecessor corporation, except when otherwise provided in this chapter or the regulations.

First taxation year.

However, the first taxation year of the new corporation is deemed to begin at the time of the amalgamation.

History: 1972, c. 23, s. 427; 1997, c. 3, s. 71; 2009, c. 5, s. 180.

Corresponding Federal Provision: 87(2)(a) and (l).

Dividend accounts.

550. For the purposes of this Part, the amount for the new corporation, at a particular time, of its capital dividend account and its capital gains dividend account designates the amount determined under the rules prescribed for such purposes.

History: 1972, c. 23, s. 428; 1975, c. 22, s. 128; 1978, c. 26, s. 99; 1984, c. 15, s. 115; 1990, c. 59, s. 198; 1996, c. 39, s. 273; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(2)(t), (z.1), (bb), (cc)(ii) and (3).

Savings and credit union.

550.0.1. For the purpose of applying this chapter to an amalgamation governed by section 689 of the Act respecting financial services cooperatives (chapter C-67.3), an investment deposit of a savings and credit union is deemed to be a share of a separate class of the capital stock of a predecessor corporation in respect of the amalgamation the adjusted cost base and paid-up capital of which to the savings and credit union is equal to the adjusted cost base to the savings and credit union of that deposit immediately before the amalgamation if

(*a*) immediately before the amalgamation, that deposit is an investment deposit, to which section 425 of the Savings and Credit Unions Act (chapter C-4.1) applies, of an investment fund of the predecessor corporation; and

(*b*) on the amalgamation, the savings and credit union disposes of that deposit for consideration that consists solely of shares of a class of the capital stock of the new corporation.

History: 2009, c. 5, s. 181.
Corresponding Federal Provision: 87(2.3).

550.1. *(Repealed).*

History: 1979, c. 18, s. 47; 1997, c. 3, s. 71; 2000, c. 5, s. 124.

550.2. *(Repealed).*

History: 1979, c. 18, s. 47; 1997, c. 3, s. 71; 2000, c. 5, s. 124.

Share issued in consideration for a disposition.

550.3. For the purposes of sections 21.5 to 21.9.4.1, if, as a result of an amalgamation after 16 November 1978, a particular share of any class of the capital stock of the new corporation is issued in consideration for the disposition of a share of any class of the capital stock of a predecessor corporation and the terms and conditions of the particular share are similar to the terms and conditions of the share so disposed of, the following rules apply:

(*a*) the particular share is deemed to have been issued at the same time as the share disposed of;

(*b*) if the share disposed of was issued under an agreement in writing, the particular share is deemed to have been issued under that agreement; and

(*c*) the new corporation is deemed to be the same corporation as the predecessor corporation.

History: 1980, c. 13, s. 53; 1984, c. 15, s. 116; 1997, c. 3, s. 71; 2007, c. 12, s. 67.
Corresponding Federal Provision: 87(4.1).

Income bond.

550.4. For the purposes of sections 21.12 to 21.15, where, following an amalgamation after 16 November 1978, a debt or other obligation, both referred to as a "debt" in this section, of the new corporation is issued in consideration for the disposition of an income bond or income debenture of a predecessor corporation and the terms and conditions of the debt are similar to the terms and conditions of the bond or debenture so disposed of, the debt is deemed to have been issued at the same time as the bond or debenture disposed of and under the same agreement as that under which the bond or debenture disposed of was issued.

History: 1980, c. 13, s. 53; 1996, c. 39, s. 151; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(7) after (d).

Share issued in consideration for disposition.

550.5. Where, following an amalgamation or merger of two or more corporations after 27 November 1986, a particular share of any class of the capital stock of the new corporation is issued to a shareholder in consideration for the disposition of a share by that shareholder of any class of the capital stock of a predecessor corporation and the attributes of the particular share are similar to the attributes of the share so disposed of, the following rules apply for the purpose of applying this section and sections 21.10 to 21.11.21, 21.16, 740.2 to 740.3.1 and 740.5 to the particular share:

(*a*) the particular share is deemed to have been issued at the same time as the share disposed of;

(*b*) where the share disposed of was a share described in any of paragraphs *a* to *d* of section 21.11.20, the particular share is deemed, for the purposes of sections 21.11.20 and 21.11.21, to be the same share as the share disposed of;

(*c*) the particular share is deemed to have been acquired by the shareholder at the same time as the share disposed of;

(*d*) the new corporation is deemed to be the same corporation as the predecessor corporation.

History: 1990, c. 59, s. 199; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(4.2)(a) to (d).

Right to acquire a grandfathered share.

550.6. For the purposes of paragraph *d* of section 21.11.20, where, following an amalgamation or merger of two or more corporations after 18 June 1987, a particular right listed on a designated stock exchange to acquire a share of any class of the capital stock of the new corporation is acquired by a shareholder in consideration for the disposition by him of a right described in the said paragraph *d* to acquire a share of any class of the capital stock of a predecessor corporation, the terms and conditions of the particular right are similar to the terms and conditions of the right disposed of and the attributes of the share that may be acquired upon an exercise of the particular right are similar to the attributes of the share that could have been acquired upon an exercise of the right disposed of, the particular right is deemed to be the same right as the right disposed of.

History: 1990, c. 59, s. 199; 1997, c. 3, s. 71; 2001, c. 7, s. 54; 2010, c. 5, s. 48.

Corresponding Federal Provision: 87(4.3).

Flow-through shares.

550.7. Where there has been an amalgamation of two or more corporations each of which is a development corporation, within the meaning of section 363, or a corporation that at no time carried on business, and a predecessor corporation entered into an agreement with a person at a particular time under which the predecessor corporation issued to the person before the amalgamation, for consideration given by the person, a share (in this section referred to as the "old share") that was a flow-through share other than a right to acquire a share, or a right to acquire a share that would be a flow-through share if it were issued, the following rules apply for the purposes of section 359.8 and Part III.14 and for the purpose of renouncing an amount under any of sections 359.2, 359.2.1 and 359.4 in respect of Canadian exploration expenses or Canadian development expenses that would, but for the renunciation, be incurred by the new corporation after the amalgamation:

(*a*) the person is deemed to have given the consideration under the agreement to the new corporation for the issue of the particular share described in the second paragraph,

(*b*) the agreement is deemed to have been entered into between the person and the new corporation at the particular time,

(*c*) the particular share described in the second paragraph is deemed to be a flow-through share of the new corporation, and

(*d*) the new corporation is deemed to be the same corporation as the predecessor corporation.

Particular share.

The particular share referred to in the first paragraph is a share of any class of the capital stock of the new corporation

(*a*) that the new corporation issues on the amalgamation to the person referred to in the first paragraph or to a person or partnership that subsequently acquired the old share in consideration for the disposition of the old share of the predecessor corporation and the attributes of which are similar to the attributes of the old share; or

(*b*) that the new corporation is obliged after the amalgamation to issue to the person referred to in the first paragraph pursuant to the right of that person to acquire a share of the capital stock of the predecessor corporation that would have been a flow-through share if it had been issued, and that would, if it were issued, be a flow-through share.

Interpretation.

For the purposes of this section, "flow-through share" has the meaning assigned by the first paragraph of section 359.1.

History: 1993, c. 16, s. 217; 1995, c. 49, s. 144; 1997, c. 3, s. 71; 1998, c. 16, s. 171; 2015, c. 24, s. 83.

Corresponding Federal Provision: 87(4.4)(a), (b), (c)(i), (d) to (h).

Share deemed listed.

550.8. For the purposes of Title III of Part II, a share, in this section referred to as the "new share", is deemed to be listed on a designated stock exchange until the earliest time at which it is redeemed, acquired or cancelled, where

(*a*) a new corporation is formed as a result of an amalgamation;

(*b*) the new corporation is a public corporation;

(*c*) the new corporation issues the new share, which is a share of any class of the capital stock thereof;

(*d*) the new share is issued in exchange for a share, in this section referred to as the "old share", of the capital stock of a predecessor corporation;

(*e*) immediately before the amalgamation, the old share was listed on a designated stock exchange; and

(*f*) the new share is redeemed, acquired or cancelled by the new corporation within 60 days after the amalgamation.

History: 2001, c. 7, s. 55; 2010, c. 5, s. 49.

Corresponding Federal Provision: 87(10).

Vertical amalgamations.

550.9. Where at any time there is an amalgamation of a corporation, in this section referred to as the "parent", and one or more other corporations, each of which is a subsidiary

wholly-owned corporation of the parent, the following rules apply:

(*a*) the shares of each subsidiary are deemed to have been disposed of by the parent immediately before the amalgamation for proceeds equal to the proceeds that would be determined under section 558 if sections 556 to 564.1 and 565 applied, with the necessary modifications, to the amalgamation; and

(*b*) the cost to the new corporation formed on an amalgamation of each capital property of each subsidiary acquired on the amalgamation is deemed to be the amount that would have been the cost to the parent of the property if the property had been distributed at that time to the parent on a winding-up of the subsidiary and sections 556 to 564.1 and 565 had applied to the winding-up.

History: 2001, c. 7, s. 55.
Corresponding Federal Provision: 87(11).

DIVISION II
SHAREHOLDER OR CREDITOR OF A PREDECESSOR CORPORATION

Options to acquire shares of a predecessor corporation.

551. This division applies to a taxpayer who, immediately before an amalgamation, owned a capital property that was a share of the capital stock of a predecessor corporation, an option to acquire such a share, or a bond, a debenture, a hypothecary claim, a mortgage, a note or other similar obligation of such corporation and who received from the new corporation, by reason of such amalgamation, no consideration for the disposition of such capital property other than a property that is, as the case may be, a share of the capital stock of the new corporation, an option to acquire such share, a bond, a debenture, a hypothecary claim, a mortgage, a note or another similar obligation, respectively, of the new corporation.

Obligations of a predecessor corporation.

However, this division does not apply if the taxpayer is himself a predecessor corporation or if the amount payable on the maturity of the bond, debenture, hypothecary claim, mortgage, note or other similar obligation received as consideration for the capital property disposed of on the amalgamation is not the same as the amount that would have been payable on the maturity of such capital property disposed of.

History: 1972, c. 23, s. 429; 1975, c. 22, s. 130; 1996, c. 39, s. 152; 1997, c. 3, s. 71; 2005, c. 1, s. 120.
Corresponding Federal Provision: 87(4) before (a), (5) before (a) and (6) before (a).

Capital property deemed disposed of at its adjusted cost base.

552. The taxpayer referred to in section 551 is deemed to have disposed, by reason of the amalgamation, of capital property described therein for proceeds equal to its adjusted cost base to him immediately before the amalgamation.

History: 1972, c. 23, s. 430; 1975, c. 22, s. 131.
Corresponding Federal Provision: 87(4)(a), (5)(a) and (6)(a).

Cost of acquisition of property for the new corporation.

553. The taxpayer referred to in section 551 is deemed to have acquired the property received as consideration for the disposition at a cost equal to the proceeds determined under section 552 for the capital property disposed of or, in the case of a share of any particular class of the new corporation, at a cost equal to that proportion of such proceeds that the fair market value, immediately after the amalgamation, of the share of such class so acquired by him is of the fair market value, at the same time, of all the shares so acquired by him.

History: 1972, c. 23, s. 431; 1974, c. 18, s. 23; 1975, c. 22, s. 132; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(4)(b), (5)(b) and (6)(b).

Shares of a predecessor corporation.

553.1. Notwithstanding sections 552 and 553, where, immediately before the amalgamation, the fair market value of the shares of the capital stock of a predecessor corporation that belonged to a taxpayer exceeds the fair market value, immediately after the amalgamation, of the shares he has received as consideration, and it is reasonable to regard all or any portion of such excess as a benefit that the taxpayer desires to have conferred on a person related to the taxpayer, the following rules apply:

(*a*) the taxpayer shall be deemed to dispose of the shares of the capital stock of the predecessor corporation for proceeds equal to the lesser of their fair market value immediately before the amalgamation and the aggregate of their adjusted cost base to him at the same time, and the amount of the benefit conferred;

(*b*) the taxpayer's capital loss resulting from the disposition of the shares shall be deemed to be nil; and

(*c*) the cost to the taxpayer of any share of any class of the capital stock of the new corporation acquired by him on the amalgamation is deemed to be that proportion of the lesser of the adjusted cost base to him, immediately before the amalgamation, of the shares disposed of and the aggregate of the fair market value, immediately after the amalgamation, of all the shares acquired by him on the amalgamation, and the amount that, but for paragraph *b*, would be the taxpayer's capital loss from the disposition of the shares, that the fair market value, immediately after the amalgamation, of such share of that class is of the fair market value, at the same time, of the aggregate of the shares so acquired by him.

History: 1982, c. 5, s. 125; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(4)(c) to (e).

Adjusted cost base of option.

553.2. Where the cost to a taxpayer referred to in section 551 of a property received as consideration for the disposition that is an option or a bond, debenture or note is determined at any time under section 553 and the terms of the bond, debenture or note conferred upon the holder the right to exchange that bond, debenture or note for shares,

(*a*) the taxpayer shall deduct after that time, in computing the adjusted cost base to the taxpayer of the property, the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before that time, the adjusted cost base to the taxpayer of the capital property disposed of; and

(*b*) the taxpayer shall add, after that time, in computing the adjusted cost base to the taxpayer of the property, the amount determined under paragraph *a*.

History: 1996, c. 39, s. 153.
Corresponding Federal Provision: 87(5.1) and (6.1).

Taxable Québec or Canadian property.

554. If the capital property disposed of that is referred to in section 551 is a share or an option to acquire such a share that is a taxable Québec property or taxable Canadian property of the taxpayer, the share or option received as consideration is deemed to be, at any time that is within 60 months after the amalgamation referred to in that section, a taxable Québec property or taxable Canadian property of the taxpayer, as the case may be.

History: 1975, c. 22, s. 134; 1996, c. 39, s. 154; 2011, c. 6, s. 137.
Corresponding Federal Provision: 87(4) after (e) and (5) after (b).

Merger of foreign affiliates.

555. Subject to subsection 2 of section 95 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) where it has effect for the purposes of section 579, this division applies, with the necessary modifications, to a taxpayer in respect of a share or an option to acquire a share of the capital stock of a corporation where there is a foreign merger under which a share owned by the taxpayer or an option owned by the taxpayer to acquire such a share of the capital stock of a corporation that was a predecessor foreign corporation immediately before the merger is exchanged for or becomes a share or an option to acquire a share of the capital stock of a new foreign corporation or a foreign parent corporation.

Exception.

Notwithstanding the foregoing, the first paragraph does not apply where the taxpayer makes a valid election under subsection 8 of section 87 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) to have the rules provided for in that section not apply in respect of the exchange.

History: 1975, c. 22, s. 136; 1984, c. 15, s. 117; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 1997, c. 85, s. 95; 2001, c. 53, s. 82; 2004, c. 8, s. 110.
Corresponding Federal Provision: 87(8).

"foreign merger".

555.0.1. In this chapter, "foreign merger" means a merger or combination of corporations each of which was, immediately before the merger or combination, resident in a country other than Canada, each of which is in this chapter referred to as a "predecessor foreign corporation", to form one corporate entity resident in a country other than Canada, in this chapter referred to as the "new foreign corporation", in such a manner that, by reason of the merger or combination and otherwise than as a result of the distribution of property to one corporation on the winding-up of another corporation,

(*a*) all or substantially all of the property, except any amount receivable from any predecessor foreign corporation or share of the capital stock of any predecessor foreign corporation, of the predecessor foreign corporations immediately before the merger or combination becomes property of the new foreign corporation;

(*b*) all or substantially all of the liabilities, except any amount payable to any predecessor foreign corporation, of the predecessor foreign corporations immediately before the merger or combination become liabilities of the new foreign corporation; and

(*c*) all or substantially all of the shares of the capital stock of the predecessor foreign corporations, except any shares or options owned by any predecessor foreign corporation, are exchanged for or become shares of the capital stock of

i. the new foreign corporation, or

ii. another corporation resident in a country other than Canada, in this chapter referred to as the "foreign parent corporation", if, immediately after the merger, the new foreign corporation was controlled by the foreign parent corporation.

History: 1984, c. 15, s. 117; 1997, c. 3, s. 71; 2001, c. 53, s. 83; 2004, c. 8, s. 111.
Corresponding Federal Provision: 87(8.1).

Absorptive mergers.

555.0.2. For the purposes of section 555.0.1, if there is a merger or combination, otherwise than as a result of the distribution of property to one corporation on the winding-up of another corporation, of two or more corporations not resident in Canada (each of which is referred to in this section as a "predecessor foreign corporation"), as a result of which one or more predecessor foreign corporations ceases

to exist and, immediately after the merger or combination, another predecessor foreign corporation (referred to in this section as the "survivor corporation") owns properties (except an amount receivable from, or shares of the capital stock of, any predecessor foreign corporation) representing all or substantially all of the fair market value of all such properties owned by each predecessor foreign corporation immediately before the merger or combination, the following rules apply:

(*a*) the merger or combination is deemed to be a merger or combination of the predecessor foreign corporations to form one corporation not resident in Canada;

(*b*) the survivor corporation is deemed to be the corporation not resident in Canada so formed;

(*c*) all of the properties of the survivor corporation immediately before the merger or combination that are properties of the survivor corporation immediately after the merger or combination are deemed to become properties of the survivor corporation as a consequence of the merger or combination;

(*d*) all of the liabilities of the survivor corporation immediately before the merger or combination that are liabilities of the survivor corporation immediately after the merger or combination are deemed to become liabilities of the survivor corporation as a consequence of the merger or combination;

(*e*) all of the shares of the capital stock of the survivor corporation that were outstanding immediately before the merger or combination and that are shares of the capital stock of the survivor corporation immediately after the merger or combination are deemed to become shares of the capital stock of the survivor corporation as a consequence of the merger or combination; and

(*f*) all of the shares of the capital stock of each predecessor foreign corporation (other than the survivor corporation) that were outstanding immediately before the merger or combination and that cease to exist as a consequence of the merger or combination are deemed to have been exchanged by the shareholders of each such predecessor foreign corporation for shares of the survivor corporation as a consequence of the merger or combination.

History: 2015, c. 21, s. 185.

Corresponding Federal Provision: 87(8.2).

Anti-avoidance.

555.0.3. Section 555 does not apply in respect of a taxpayer's share of the capital stock of a predecessor foreign corporation that is exchanged for or becomes, on a foreign merger, a share of the capital stock of the new foreign corporation or the foreign parent corporation, where

(*a*) the new foreign corporation is, at the time that is immediately after the foreign merger, a foreign affiliate of the taxpayer;

(*b*) shares of the capital stock of the new foreign corporation are, at the time that is immediately after the foreign merger, excluded property, within the meaning of section 576.1, of another foreign affiliate of the taxpayer; and

(*c*) the foreign merger is part of a transaction or event or a series of transactions or events that includes a disposition of shares of the capital stock of the new foreign corporation, or property substituted for the shares, to

i. a person (other than a foreign affiliate of the taxpayer in respect of which the taxpayer has a qualifying interest, within the meaning of paragraph *m* of subsection 2 of section 95 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), at the time of the transaction or event or throughout the series, as the case may be) with whom the taxpayer was dealing at arm's length immediately after the transaction, event or series, or

ii. a partnership a member of which is, immediately after the transaction, event or series, a person described in subparagraph i.

History: 2017, c. 1, s. 138.

Corresponding Federal Provision: 87(8.3).

Disposition of a taxable Canadian property.

555.0.4. If, at a particular time, there is a merger of two or more foreign corporations, one of the foreign corporations (in this section referred to as the "particular corporation") disposes, because of the merger, of a particular taxable Canadian property that is a share of the capital stock of a corporation, an interest in a partnership or an interest in a trust, the particular property becomes property of the corporation resulting from the merger (in this section referred to as the "new corporation") and the new corporation and the particular corporation make a valid election under paragraph *e* of subsection 8.4 of section 87 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in respect of the merger, the following rules apply:

(*a*) if the particular property is an interest in a partnership,

i. the particular corporation is deemed not to have disposed of the particular property, and

ii. the new corporation is deemed

(1) to have acquired the particular property at a cost equal to the cost of the particular property to the particular corporation, and

(2) to be the same corporation as, and a continuation of, the particular corporation in respect of the particular property; and

(*b*) if the particular property is a share of the capital stock of a corporation or an interest in a trust,

i. the particular property is deemed to have been disposed of at the particular time by the particular corporation to the new corporation for proceeds of disposition equal to the adjusted cost base of the property to the particular corporation immediately before that time, and

ii. the cost of the particular property to the new corporation is deemed to be equal to the amount that is deemed to be the proceeds of disposition of the property under subparagraph i.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under paragraph *e* of subsection 8.4 of section 87 of the Income Tax Act.

History: 2020, c. 16, s. 79.

DIVISION III
RULES APPLICABLE TO CERTAIN MERGERS

Application.

555.1. This division applies where a new corporation resulting from the merger of several taxable Canadian corporations is, immediately after the merger, controlled by a taxable Canadian corporation, hereinafter called the "particular corporation", and where, at the time of the merger, shares of the capital stock of the particular corporation are issued to persons who, immediately before the merger, were shareholders of a predecessor corporation.

History: 1980, c. 13, s. 54; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(9) before (a).

Shares deemed to be shares of the new corporation.

555.2. For the purposes of paragraph *c* of subsection 1 of section 544, sections 551 to 554 and the Act respecting the application of the Taxation Act (chapter I-4), any share of the particular corporation received by a shareholder of a predecessor corporation is deemed to be a share of the new corporation received by the shareholder by virtue of the merger.

History: 1980, c. 13, s. 54; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(9)(a).

Shares deemed to be shares of the new corporation.

555.2.1. For the purposes of sections 550.3 and 550.5, a share of the particular corporation issued to a shareholder in consideration for the disposition of a share of any class of the capital stock of a predecessor corporation is deemed to be a share of any class of the capital stock of the new corporation that was issued in consideration for the disposition of a share of any class of the capital stock of a predecessor corporation by that shareholder.

History: 1993, c. 16, s. 218; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(9)(a.1).

Rights deemed to be rights of the new corporation.

555.2.2. For the purposes of section 550.6, a right listed on a designated stock exchange to acquire a share of a class of the capital stock of the particular corporation is deemed to be a right listed on such a stock exchange to acquire a share of a class of the capital stock of the new corporation.

History: 1993, c. 16, s. 218; 1997, c. 3, s. 71; 2001, c. 7, s. 56; 2010, c. 5, s. 50.
Corresponding Federal Provision: 87(9)(a.2).

Rules applicable in respect of certain mergers.

555.2.2.1. For the purposes of the second paragraph of section 550.7, a share of the particular corporation issued to a shareholder in consideration for a share of any class of the capital stock of a predecessor corporation is deemed to be a share of any class of the capital stock of the new corporation issued to the shareholder by the new corporation on the merger, and an obligation of the particular corporation to issue a share of a class of its capital stock to a person in circumstances described in subparagraph b of the second paragraph of section 550.7 is deemed to be an obligation of the new corporation to issue a share to the person.

History: 2015, c. 24, s. 84.
Corresponding Federal Provision: 87(9)(a.21).

Right to acquire a share.

555.2.3. For the purposes of applying sections 551 to 553 and section 554 to the merger, in respect of a right to acquire a share, any reference therein to the new corporation shall be read as a reference to the particular corporation.

History: 1994, c. 22, s. 202; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(9)(a.3).

Rules applicable in respect of certain mergers.

555.2.4. For the purpose of applying section 550.8 in respect of a merger,

(*a*) the reference in paragraph *b* of that section to "the new corporation" shall be read as a reference to "the new corporation or the particular corporation, within the meaning assigned by Division III of this chapter"; and

(*b*) the references in paragraphs *c* and *f* of that section to "the new corporation" shall be read as references to "the public corporation referred to in paragraph *b*".

History: 2001, c. 7, s. 57.
Corresponding Federal Provision: 87(9)(a.5).

Deemed cost of shares of the new corporation.

555.3. (*1*) Notwithstanding section 553, the cost to the particular corporation of shares of any class of the capital stock of the new corporation is deemed to be equal to the aggregate of the cost to it of such shares as determined under section 553 and, where all of the issued shares of the capital stock of the new corporation are owned by the particular corporation immediately after the merger, the portion attributed to those shares in accordance with section 555.4 of the amount referred to in subsection 2.

Determination of amount.

(2) The amount referred to in subsection 1 is the amount by which the aggregate, immediately before the merger, of the adjusted cost bases to the particular corporation of all the shares of a predecessor corporation that were then beneficially owned by it, is exceeded by the amount by which the aggregate, immediately after the merger, of the money on hand of the new corporation and the cost amount to the new corporation of each property owned by it exceeds the aggregate of all the debts of the new corporation.

History: 1980, c. 13, s. 54; 1996, c. 39, s. 155; 1997, c. 3, s. 71.
Corresponding Federal Provision: 87(9)(c)(i) and (ii)(A).

Determination of the portion attributed to the shares.

555.4. For the purposes of section 555.3, the particular corporation shall itself determine in its fiscal return for the taxation year in which the merger occurs the portion of the amount referred to in subsection 2 of that section which is attributed to the shares of the class contemplated in that section.

Maximum amount.

However, the portion of that amount so attributed to shares of a particular class must not exceed the amount by which the fair market value, immediately after the merger, of the shares of that class issued by virtue of the merger exceeds the cost of those same shares to the particular corporation, determined without reference to this section nor to section 555.3.

Maximum amount.

Furthermore, the aggregate of the portions so attributed to the shares of each class of the capital stock of the new corporation must not exceed the amount referred to in subsection 2 of section 555.3.

History: 1980, c. 13, s. 54; 1997, c. 3, s. 71; 1997, c. 14, s. 85.
Corresponding Federal Provision: 87(9)(c)(ii) after (A) and (c)(ii)(B) and (C).

CHAPTER VII
WINDING-UP OF A CANADIAN SUBSIDIARY

Winding-up of a Canadian subsidiary.

556. Notwithstanding any other provision of this Part other than section 427.4, the rules set forth in this chapter apply to the winding-up after 6 May 1974 of a taxable Canadian corporation not less than 90% of the issued shares of each class of the capital stock of which were, immediately before the winding-up, owned by another taxable Canadian corporation, and the balance of the shares of which were owned by persons with whom the other corporation was dealing at arm's length.

Interpretation.

In this chapter, the wound-up corporation is called the "subsidiary" while the other corporation owning the shares is called "parent".

History: 1972, c. 23, s. 434; 1975, c. 22, s. 137; 1980, c. 13, s. 55; 1982, c. 5, s. 126; 1989, c. 77, s. 61; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(1) before (a).

Property distributed to parent.

557. Any property, other than an interest in a partnership, that was distributed to the parent by a subsidiary on the winding-up is deemed to have been disposed of by the subsidiary for proceeds equal to the cost amount to the subsidiary of the property immediately before the winding-up.

Exceptions.

However,

(*a*) in the case of a Canadian resource property, a foreign resource property or a right to receive production, as defined in section 158.1, to which a matchable expenditure, as defined in section 158.1, relates, the proceeds are deemed to be equal to zero; and

(*b*) in the case of a specified debt obligation, within the meaning assigned by section 851.22.1, other than a mark-to-market property, within the meaning assigned by that section, the property is deemed, except for the purposes of section 427.4, not to have been disposed of where the subsidiary was a financial institution, within the meaning assigned by section 851.22.1, in its taxation year in which its property was distributed to the parent on the winding-up and the parent was such a financial institution in its taxation year in which it received the property of the subsidiary on the winding-up.

Subsidiary's interest in a partnership.

Each interest of the subsidiary in a partnership that was distributed to the parent on the winding-up is deemed, except

for the purposes of section 632, not to have been disposed of by the subsidiary.

History: 1972, c. 23, s. 435; 1975, c. 22, s. 138; 1986, c. 19, s. 120; 1989, c. 77, s. 62; 1993, c. 16, s. 219; 1994, c. 22, s. 203; 1996, c. 39, s. 156; 1997, c. 3, s. 71; 2001, c. 7, s. 58.

Corresponding Federal Provision: 88(1)(a)(i) and (iii), (a.2) and (a.3).

Deemed disposition of shares.

558. The parent is deemed to dispose, on the winding-up, of the shares of the capital stock of the subsidiary owned by it immediately before that time for proceeds equal to the greater of

(*a*) the lesser of

i. the paid-up capital in respect of the shares immediately before the winding-up; and

ii. the amount by which the aggregate of the amounts each of which is in respect of any property owned by the subsidiary immediately before the winding-up and equal to the cost amount to it of the property at that time, plus its cash then on hand, exceeds the aggregate of all the debts of the subsidiary immediately before the winding-up and of the amount of each reserve deducted by the subsidiary in computing its income for the taxation year during which its property was distributed to the parent on the winding-up, other than a reserve contemplated in sections 153, 234, 279, 357 and 358; or

(*b*) the aggregate of amounts each of which is in respect of any share of the capital stock of the subsidiary and equal to the adjusted cost base of the share to the parent, immediately before the winding-up.

History: 1972, c. 23, s. 436; 1973, c. 17, s. 63; 1973, c. 18, s. 22; 1975, c. 22, s. 139; 1978, c. 26, s. 100; 1982, c. 5, s. 127; 1993, c. 16, s. 220; 1997, c. 3, s. 71; 1997, c. 14, s. 86.

Corresponding Federal Provision: 88(1)(b)(i) and (ii) and (d)(i).

Cost of property distributed to parent.

559. Notwithstanding the reference to section 546 in section 564, except where section 546 applies in respect of a property to which subparagraph *b* of the second paragraph of section 557 applies, the cost to the parent of each property of the subsidiary distributed to the parent on the winding-up is deemed, subject to the second paragraph, to be equal

(*a*) in the case of a property that is an interest in a partnership, to the amount that but for this section would be the cost to the parent of the property; and

(*b*) in any other case, to the amount by which the amount that, but for section 427.4, would be deemed by section 557 to be the proceeds of disposition of the property exceeds the amount by which the cost amount to the subsidiary has been reduced because of sections 485 to 485.18 on the winding-up.

Cost of certain properties to be included.

If the property referred to in the first paragraph is a capital property, other than property described in the third paragraph, owned by the subsidiary at the time the parent last acquired control of the subsidiary and subsequently without interruption until the time it was distributed to the parent on the winding-up, there is to be added to the cost to the parent of the property, as otherwise determined under the first paragraph, the amount determined under section 560 in respect of the property.

Excluded property.

The property referred to in the second paragraph is

(*a*) depreciable property, including a leasehold interest in a depreciable property and an option to acquire a depreciable property;

(*b*) property transferred to the parent on the winding-up where the transfer is part of a distribution, within the meaning assigned by section 308.0.1, made in the course of a reorganization in which a dividend was received to which section 308.1 would, but for section 308.3, apply;

(*c*) property acquired by the subsidiary from the parent or from any person or partnership that was not, otherwise than because of a right referred to in paragraph *b* of section 20, dealing at arm's length with the parent, or any other property acquired by the subsidiary in substitution for it, where the acquisition was part of the series of transactions or events in which the parent last acquired control of the subsidiary; or

(*d*) property distributed to the parent on the winding-up where, as part of the series of transactions or events that includes the winding-up,

i. the parent acquired control of the subsidiary, and

ii. any property distributed to the parent on the winding-up or any other property acquired by any person in substitution therefor is acquired by

(1) a particular person, other than a specified person, that, at any time during the course of the series and before control of the subsidiary was last acquired by the parent, was a specified shareholder of the subsidiary,

(2) two or more persons, other than specified persons, if a particular person would have been, at any time during the course of the series and before control of the subsidiary was last acquired by the parent, a specified shareholder of the subsidiary if all the shares that were then owned by those two or more persons were owned at that time by the particular person, or

(3) a corporation, other than a specified person or the subsidiary, of which a particular person referred to in subparagraph 1 is, at any time during the course of the series of transactions or events and after control of the subsidiary was last acquired by the parent, a specified shareholder, or of which a particular person would be, at any time during the course of the series of transactions or events and after control of the subsidiary was last acquired by the parent, a specified shareholder if all the shares then owned by persons, other than specified persons, referred to in subparagraph 2 and acquired by those persons as part of the series of transactions or events were owned at that time by the particular person.

History: 1972, c. 23, s. 437; 1975, c. 22, s. 140; 1978, c. 26, s. 101; 1980, c. 13, s. 56; 1984, c. 15, s. 118; 1989, c. 77, s. 63; 1990, c. 59, s. 200; 1993, c. 16, s. 221; 1994, c. 22, s. 204; 1996, c. 39, s. 157; 1997, c. 3, s. 71; 2000, c. 5, s. 125; 2004, c. 8, s. 112; 2009, c. 5, s. 182.

Corresponding Federal Provision: 88(1)(c), (c.7), (d)(i) and (i.1).

Amount added to cost of capital property.

560. The amount that is to be added to the cost, to the parent, of a particular capital property described in the second paragraph of section 559 is equal, subject to the second paragraph, to the lesser of

(*a*) the total of

i. the amount designated after 19 December 2006 by the parent in accordance with paragraph *d* of subsection 1 of section 88 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in relation to the particular capital property, and

ii. if the total of the amounts designated by the parent in accordance with paragraph *d* of subsection 1 of section 88 of the Income Tax Act in relation to the aggregate of the capital properties described in the second paragraph of section 559 corresponds to the maximum total of the amounts that the parent may then designate in accordance with that paragraph *d* in relation to the aggregate of those capital properties, the portion—that is specified by the parent, in its fiscal return under this Part for the taxation year in which the subsidiary is wound up, in relation to the particular capital property and that is not so specified in relation to another capital property—of the amount by which the amount described in the third paragraph in respect of the capital properties described in the second paragraph of section 559 exceeds the portion of the maximum total of the amounts that the parent may then designate in accordance with that paragraph *d* in relation to the aggregate of those capital properties that exceeds the aggregate of all amounts each of which is the amount by which the amount described in subparagraph i in respect of a capital property described in the second paragraph of section 559 exceeds the amount determined under subparagraph *b* in respect of that capital property; and

(*b*) the amount by which the fair market value of the particular capital property, at the time the parent last acquired control of the subsidiary, exceeds the aggregate of

i. the greater of the cost amount to the subsidiary of the capital property at the time the parent last acquired control of the subsidiary and the cost amount to the subsidiary of the capital property immediately before the winding-up, and

ii. the amount prescribed for the purposes of C in the formula in subparagraph ii of paragraph *d* of subsection 1 of section 88 of the Income Tax Act.

Global limit.

However, if the aggregate of the amounts determined under the first paragraph in respect of the capital properties described in the second paragraph of section 559 would, but for this paragraph, exceed the amount described in the third paragraph, the amount otherwise determined under the first paragraph in respect of such a capital property must be reduced to the amount specified in relation to that capital property by the parent in its fiscal return under this Part for the taxation year in which the subsidiary is wound up or, if no amount is so specified, by the Minister, so that the aggregate is equal to the amount described in the third paragraph.

Amount.

The amount referred to in subparagraph ii of subparagraph *a* of the first paragraph and in the second paragraph is an amount equal to the amount by which the aggregate described in paragraph *b* of section 558 exceeds the aggregate of

(*a*) the amount determined under subparagraph ii of paragraph *a* of section 558; and

(*b*) the aggregate of each amount relating to a share of the capital stock of the subsidiary disposed of by the parent on the winding-up or in contemplation of the winding-up and equal to the aggregate of each amount received by the parent or by a corporation with which the parent was not dealing at arm's length, otherwise than because of a right referred to in paragraph *b* of section 20 in respect of the subsidiary, in respect of that share or a share (in this subparagraph referred to as a "replacement share") that replaced that share or a replacement share or that was exchanged for that share or a replacement share, as a taxable dividend, to the extent that the amount was deductible under sections 738 to 745 or section 845 in computing the taxable income of the recipient corporation for a taxation year and was not an amount on which it was required to pay prescribed tax, or as a capital dividend or life insurance capital dividend.

Additonal rules.

Chapter V.2 of Title II of Book I applies in relation to a designation made under paragraph *d* of subsection 1 of

section 88 of the Income Tax Act or in relation to a determination made under this section before 20 December 2006.

History: 1972, c. 23, s. 438; 1978, c. 26, s. 102; 1980, c. 13, s. 57; 1990, c. 59, s. 201; 1993, c. 16, s. 222; 1997, c. 3, s. 71; 2009, c. 5, s. 183; 2015, c. 36, s. 23.

Corresponding Federal Provision: 88(1)(d)(i), (i.1) (part), (ii) and (iii).

Non-arm's length dealings.

560.1. For the purposes of sections 559 and 560, where the parent did not deal at arm's length with another person at any time before the winding-up, the parent and the other person are deemed never to have dealt with each other at arm's length, whether or not the parent and the other person coexisted.

Exception.

The first paragraph does not apply if the other person is a corporation the control of which was acquired by the parent from a person with whom the parent dealt at arm's length.

History: 1980, c. 13, s. 58; 1997, c. 3, s. 71; 2000, c. 5, s. 126.

Corresponding Federal Provision: 88(1.7).

Application.

560.1.1. For the purposes of this section and subparagraph *d* of the third paragraph of section 559,

(*a*) "specified person", at a particular time, means

i. the parent,

ii. each person who would be related to the parent at that time if

(1) paragraph *b* of section 20 were not taken into account, and

(2) each person who is the child of a deceased individual were related to each brother or sister of the individual and to each child of a deceased brother or sister of the individual, and

iii. if the particular time is before the incorporation of the parent, each person who is described in subparagraph ii throughout the period that begins at the time the parent is incorporated and ends at the time that is immediately before the beginning of the winding-up;

(*a.*1) a person described in subparagraph ii or iii of paragraph *a* is deemed not to be a specified person if it can reasonably be considered that one of the main purposes of one or more transactions or events is to cause the person to become a specified person so as to prevent a property that is distributed to the parent on the winding-up from being, for the purposes of section 559, a property described in the third paragraph of that section;

(*b*) where at a particular time a property is owned or acquired by a partnership or a trust,

i. the partnership or the trust, as the case may be, is deemed to be a corporation having one class of issued shares, which shares have full voting rights under all circumstances,

ii. each member of the partnership or beneficiary under the trust, as the case may be, is deemed to own at that time the proportion of the number of issued shares of the capital stock of the corporation that the fair market value at that time of that member's interest in the partnership or that beneficiary's interest in the trust, as the case may be, is of the fair market value at that time of all the members' interests in the partnership or beneficiaries' interests in the trust, as the case may be, and

iii. the property is deemed to have been owned or acquired at that time by the corporation;

(*c*) in determining whether a person is a specified shareholder of a corporation,

i. the reference in section 21.17 to "the issued shares of any class of the capital stock of the corporation or of any other corporation that is related to the corporation" shall be read as a reference to "the issued shares of any class, other than a specified class, of the capital stock of the corporation or of any other corporation that is related to the corporation and that has a significant direct or indirect interest in any issued shares of the capital stock of the corporation",

i.1. a corporation controlled by another corporation is, at a particular time, deemed not to own any shares of the capital stock of the other corporation if, at that time, the corporation does not have a direct or an indirect interest in any of the shares of the capital stock of the other corporation,

i.2. section 21.18 is to be read without reference to its paragraph *a* in respect of any share of the capital stock of the subsidiary that the person would, but for this subparagraph, be deemed to own solely because the person has a right described in paragraph *b* of section 20 to acquire shares of the capital stock of a corporation that

(1) is controlled by the subsidiary, and

(2) does not have a direct or an indirect interest in any of the shares of the capital stock of the subsidiary, and

ii. a corporation is deemed not to be a specified shareholder of itself; and

(*d*) property that is distributed to the parent on the winding-up is deemed not to be acquired by a person if the person acquired the property before the acquisition of control

referred to in subparagraph i of subparagraph *d* of the third paragraph of section 559 and the property is not owned by the person at any time after that acquisition of control.

History: 1996, c. 39, s. 158; 1997, c. 3, s. 71; 2000, c. 5, s. 127; 2004, c. 8, s. 113; 2015, c. 24, s. 85.

Corresponding Federal Provision: 88(1)(c.2).

Replacement property.

560.1.2. For the purposes of subparagraph ii of subparagraph *d* of the third paragraph of section 559, property acquired by any person in substitution for particular property or properties distributed to the parent on the winding-up includes the following property but not the property described in the second paragraph:

(*a*) property, other than specified property, owned by the person at a particular time after the acquisition of control referred to in subparagraph i of that subparagraph *d* more than 10% of the fair market value of which is, at the particular time, attributable to the particular property or properties; and

(*b*) property owned by the person at a particular time after the acquisition of control referred to in subparagraph i of that subparagraph *d* the fair market value of which is, at the particular time, determinable primarily by reference to the fair market value of, or to any proceeds from a disposition of, the particular property or properties.

Excluded property.

The property to which the first paragraph refers is

(*a*) money;

(*b*) property that was not owned by the person at a particular time after the acquisition of control referred to in subparagraph i of subparagraph *d* of the third paragraph of section 559;

(*c*) property described in subparagraph *a* of the first paragraph if the only reason the property is described in that subparagraph is because a specified property described in any of subparagraphs *a* to *d* of the first paragraph of section 560.1.3 was received as consideration for the acquisition of a share of the capital stock of the subsidiary in the circumstances described in those subparagraphs *a* to *d*;

(*d*) a share of the capital stock of the subsidiary or a debt owing by the subsidiary, where the share or debt was owned by the parent immediately before the winding-up; or

(*e*) a share of the capital stock of a corporation or a debt owing by a corporation, where the fair market value of the share or debt was not, at any time after the beginning of the winding-up, wholly or partly attributable to property distributed to the parent on the winding-up.

History: 2000, c. 5, s. 128; 2015, c. 24, s. 86.

Corresponding Federal Provision: 88(1)(c.3).

Interest in a partnership.

560.1.2.0.1. For the purposes of subparagraph *b* of the first paragraph of section 560, where the particular capital property is an interest of a subsidiary in a partnership, the fair market value of the interest at the time the parent last acquired control of the subsidiary is deemed to be equal to the amount determined by the formula

A − B.

Interpretation.

In the formula in the first paragraph,

(*a*) A is the fair market value (determined without reference to this section) of the interest of the subsidiary in the partnership at the time the parent last acquired control of the subsidiary; and

(*b*) B is the portion of the amount by which the fair market value (determined without reference to this section) of the interest of the subsidiary in the partnership at the time the parent last acquired control of the subsidiary exceeds its cost amount at that time as may reasonably be regarded as attributable at that time to the aggregate of all amounts each of which is

i. in the case of a depreciable property held directly by the partnership or held indirectly by the partnership through one or more other partnerships, the amount by which the fair market value (determined without reference to liabilities) of the property exceeds its cost amount,

ii. in the case of a Canadian resource property or a foreign resource property held directly by the partnership or held indirectly by the partnership through one or more other partnerships, the fair market value (determined without reference to liabilities) of the property, or

iii. in the case of a property that is not a capital property, a Canadian resource property or a foreign resource property and that is held directly by the partnership or held indirectly through one or more other partnerships, the amount by which the fair market value (determined without reference to liabilities) of the property exceeds its cost amount.

Presumption.

For the purposes of subparagraph *a* of the second paragraph, the fair market value of an interest of the subsidiary in a particular partnership at the time the parent last acquired control of the subsidiary is deemed not to include the amount that is the aggregate of all amounts each of which is equal to the fair market value of a property that would otherwise be included in computing the fair market value of the interest, if

(*a*) as part of the transaction or event or series of transactions or events in which control of the subsidiary is last acquired by the parent and on or before the acquisition of control,

i. the subsidiary disposes of the property to the particular partnership or any other partnership and the second paragraph of section 614 applies in respect of the disposition, or

ii. where the property is an interest in a partnership, the subsidiary acquires the interest in the particular partnership or any other partnership from a person or partnership with whom the subsidiary does not deal at arm's length (otherwise than because of a right referred to in paragraph *b* of section 20) and Divisions I to IV of Chapter IV apply in respect of the acquisition; and

(*b*) at the time of the acquisition of control, the particular partnership holds directly, or indirectly through one or more other partnerships, property described in any of subparagraphs i to iii of subparagraph *b* of the second paragraph.

History: 2015, c. 21, s. 186.

Corresponding Federal Provision: 88(1)(d)(ii.1) and (e).

Specified class.

560.1.2.1. For the purposes of subparagraph i of paragraph *c* of section 560.1.1 and this section, a specified class of the capital stock of a corporation is a class of shares of the capital stock of the corporation where

(*a*) the paid-up capital in respect of the class was not, at any time, less than the fair market value of the consideration for which the shares of that class then outstanding were issued;

(*b*) the shares are non-voting in respect of the election of the board of directors, except in the event of a failure or default under the terms or conditions of the shares;

(*c*) under neither the terms and conditions of the shares nor any agreement in respect of the shares are the shares convertible into or exchangeable for shares other than shares of a specified class of the capital stock of the corporation; and

(*d*) under neither the terms and conditions of the shares nor any agreement in respect of the shares is any holder of the shares entitled to receive on the redemption, cancellation or acquisition of the shares by the corporation or by any person with whom the corporation does not deal at arm's length an amount, excluding any premium for early redemption, greater than the aggregate of the fair market value of the consideration for which the shares were issued and the amount of any unpaid dividends on the shares.

History: 2004, c. 8, s. 114.

Corresponding Federal Provision: 88(1)(c.8).

Specified property.

560.1.3. For the purposes of section 560.1.2, a specified property is

(*a*) a share of the capital stock of the parent that was received as consideration for the acquisition of a share of the capital stock of the subsidiary by the parent or by a corporation that was a specified subsidiary corporation of the parent immediately before the acquisition, or issued for consideration that consists solely of money;

(*b*) an indebtedness that was issued by the parent as consideration for the acquisition of a share of the capital stock of the subsidiary by the parent, or for consideration that consists solely of money;

(*c*) a share of the capital stock of a taxable Canadian corporation that was received as consideration for the acquisition of a share of the capital stock of the subsidiary by the taxable Canadian corporation or by the parent where the parent was a specified subsidiary corporation of the taxable Canadian corporation immediately before the acquisition;

(*d*) an indebtedness of a taxable Canadian corporation that was issued by it as consideration for the acquisition of a share of the capital stock of the subsidiary by the taxable Canadian corporation or by the parent where the parent was a specified subsidiary corporation of the taxable Canadian corporation immediately before the acquisition; or

(*e*) where the subsidiary was formed on the amalgamation of two or more particular corporations at least one of which was a subsidiary wholly-owned corporation of the parent,

i. a share of the capital stock of the subsidiary that was issued on the amalgamation and that is, before the beginning of the winding-up, redeemed, acquired or cancelled by the subsidiary for consideration that consists solely of money or shares of the capital stock of the parent, or of any combination of the two, or exchanged for shares of the capital stock of the parent, or

ii. a share of the capital stock of the parent issued on the amalgamation in exchange for a share of the capital stock of one of the particular corporations.

Rules of application.

For the purposes of the first paragraph, the following rules apply:

(*a*) a corporation is a specified subsidiary corporation of another corporation, at a particular time, where the other corporation holds, at that time, shares of the corporation

i. that give the shareholder 90% or more of the votes that could be cast under all circumstances at an annual meeting of shareholders of the corporation, and

ii. having a fair market value of 90% or more of the fair market value of all the issued shares of the capital stock of the corporation; and

(*b*) a reference to a share of the capital stock of a corporation includes a right to acquire a share of the capital stock of the corporation.

History: 2000, c. 5, s. 128; 2015, c. 24, s. 87.

Corresponding Federal Provision: 88(1)(c.4), (c.5) and (c.9).

Articles of arrangement.

560.1.4. For the purposes of section 560.1.2 and notwithstanding section 21.4.2, where control of a corporation is acquired by way of articles of arrangement relating to the corporation, that control is deemed to have been acquired at the end of the day on which the arrangement becomes effective.

History: 2000, c. 5, s. 128.

Corresponding Federal Provision: 88(1)(c.6).

Time of acquisition of control of a subsidiary.

560.2. For the purposes of this paragraph and sections 559 and 560, the time at which a particular person or group of persons last acquired control of a subsidiary is, where control of the subsidiary was acquired from another person or group of persons, in this paragraph referred to as the "vendor", with whom the particular person or group of persons was not dealing at arm's length otherwise than solely because of a right referred to in paragraph *b* of section 20, deemed to be the earlier of

(*a*) the time at which the vendor last acquired control, within the meaning of subparagraph *b* of the first paragraph of section 739, with the necessary modifications, of the subsidiary; and

(*b*) the time at which the vendor is deemed for the purposes of this paragraph to have last acquired control of the subsidiary.

Control acquired as a consequence of death.

For the purposes of the first paragraph and sections 559 and 560, where control of a corporation is last acquired by a particular person or group of persons because of an acquisition of shares of the capital stock of the corporation as a consequence of the death of an individual, the particular person or group of persons is deemed to have last acquired control of the corporation immediately after the death from a person who dealt at arm's length with the particular person or group of persons.

Special rules.

For the purposes of the first and second paragraphs and sections 559, 560 and 560.1.1 to 560.1.4, the following rules apply:

(*a*) subject to subparagraph *c*, control of any corporation is deemed not to have been acquired by reason of an amalgamation;

(*b*) any corporation formed as a result of an amalgamation is deemed to be the same corporation as, and a continuation of, each predecessor corporation; and

(*c*) in the case of a merger contemplated in section 555.1, where the parent did not have control of a predecessor corporation prior to the merger, the parent is deemed to have acquired control immediately before the merger.

History: 1980, c. 13, s. 58; 1984, c. 15, s. 119; 1985, c. 25, s. 99; 1993, c. 16, s. 223; 1994, c. 22, s. 205; 1995, c. 49, s. 145; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 2000, c. 5, s. 129; 2004, c. 8, s. 115; 2012, c. 8, s. 56.

Corresponding Federal Provision: 88(1)(d.2), (d.3) and (4).

Amended designation.

560.2.1. If a corporation amends, in accordance with paragraph *c* of subsection 1.8 of section 88 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), a designated amount (in this section referred to as the "initial designation") referred to in subparagraph i of subparagraph *a* of the first paragraph of section 560 in respect of a share of the capital stock of a foreign affiliate of the corporation, or an interest in a partnership that, in accordance with paragraph *c* of section 600, owns a share of the capital stock of a foreign affiliate of the corporation, and subsection 1.9 of that section 88 applies in respect of the initial designation, the amended designation is deemed to have been made on the day on which the initial designation was made and the initial designation is deemed not to have been made.

History: 2015, c. 36, s. 24.

Corresponding Federal Provision: 88(1.8) and (1.9).

560.3. *(Repealed).*

History: 1994, c. 22, s. 206; 1997, c. 3, s. 71; 2003, c. 2, s. 136; 2015, c. 24, s. 88; 2019, c. 14, s. 153.

Corresponding Federal Provision: 88(1)(c.1).

Provisions not applicable to a winding-up.

561. Section 505 and sections 36 to 41.2 of the Act respecting the application of the Taxation Act (chapter I-4) do not apply to a winding-up described in section 556, and

section 93.3.1 does not apply to such a winding-up with respect to property acquired by the parent on the winding-up.

History: 1972, c. 23, s. 439; 1973, c. 17, s. 64; 1975, c. 22, s. 141; 1984, c. 15, s. 120; 2000, c. 5, s. 130; 2019, c. 14, s. 154.
Corresponding Federal Provision: 88(1)(d.1).

Subsidiary entitled to claim a reserve.

562. The subsidiary may, in computing its income for the taxation year during which its property was distributed to, and its obligations were assumed by, the parent on its winding-up, claim any reserve that would have been allowed to it for the year under this Part if its property had not been transferred to, or its obligations had not been assumed by, the parent on the winding-up.

Reserve not included in computing income for the following year.

Notwithstanding any other provision of this Part, the subsidiary is not bound to include any amount whatever in respect of any reserve so claimed in computing its income for the following taxation year.

History: 1975, c. 22, s. 142; 1990, c. 59, s. 202; 1997, c. 3, s. 71; 1997, c. 14, s. 87.
Corresponding Federal Provision: 88(1)(e.1).

Gifts made by a subsidiary.

563. If a subsidiary has made a gift in a taxation year (in this section referred to as the "gift year") for the purpose of computing the amount deductible under section 710 by the parent in computing its taxable income for a taxation year ending after the winding-up of the subsidiary, the parent is deemed to have made a gift, in its taxation year in which the gift year of the subsidiary ended, equal to the amount by which the aggregate of all amounts each of which is the amount of a gift or, in the case of a gift made after 20 December 2002, the eligible amount of the gift, made by the subsidiary in the gift year exceeds the aggregate of the amounts deducted under section 710 in computing the subsidiary's taxable income in respect of those gifts.

History: 1975, c. 22, s. 142; 1984, c. 15, s. 121; 1986, c. 19, s. 121; 1990, c. 59, s. 203; 1997, c. 3, s. 71; 2009, c. 5, s. 184.
Corresponding Federal Provision: 88(1)(e.6).

Provisions applicable.

564. Subject to the special provisions of this chapter, section 544.1, section 545, except as regards the computing of the taxable income of the parent corporation, section 546, subject to sections 481 to 483, section 548, the first paragraph of section 549 and sections 550 to 553 apply, with the necessary modifications, to a winding-up described in section 556.

History: 1975, c. 22, s. 142; 1980, c. 13, s. 59; 1981, c. 12, s. 4; 1995, c. 63, s. 261; 1997, c. 3, s. 71; 2000, c. 39, s. 33; 2010, c. 25, s. 41.
Corresponding Federal Provision: 88(1)(e.2).

Winding-up of an insurance corporation.

564.0.1. Where a subsidiary is an insurance corporation, the following rules apply for the purposes of determining the portion of the gross investment revenue required to be included under section 825 in computing the income of the subsidiary and the parent and the amount of gains and losses of the subsidiary and the parent from property used or held by them in a taxation year in the course of carrying on an insurance business in Canada:

(*a*) the subsidiary and the parent, in addition to their normal taxation years, are deemed to have had a taxation year ending immediately before the time when the property of the subsidiary was transferred to, and the obligations of the subsidiary were assumed by, the parent on the winding-up;

(*b*) for the taxation years of the subsidiary and the parent following the time referred to in paragraph *a*, the property transferred to, and the obligations assumed by, the parent on the winding-up are deemed to have been transferred or assumed, as the case may be, on the last day of the taxation year ending immediately before that time.

History: 1990, c. 59, s. 204; 1997, c. 3, s. 71; 1998, c. 16, s. 172.
Corresponding Federal Provision: 88(1)(g)(ii).

Deemed end of taxation year.

564.0.2. For the purposes of section 851.22.15, the subsidiary's taxation year in which its property was distributed to the parent on the winding-up is deemed to have ended immediately before the time when the property was distributed.

History: 1996, c. 39, s. 159; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(1)(i).

Dividend deemed received by parent.

564.1. For the purposes of sections 741 to 744.2.2, where the parent acquires pursuant to a winding-up described in section 556 a share owned by the subsidiary,

(*a*) any taxable dividend received on that share by the subsidiary that was deductible in computing the subsidiary's taxable income for a taxation year under sections 738 to 745 or section 845 is deemed to be a taxable dividend received by the parent that was deductible in computing the parent's taxable income for a taxation year under the said sections 738 to 745 or section 845, as the case may be;

(*b*) any dividend, other than a taxable dividend, received on a share by the subsidiary is deemed to have been received on the share by the parent; and

(*c*) a share acquired by the parent from the subsidiary is deemed to have been owned by the parent throughout any

period of time throughout which it was owned by the subsidiary.

History: 1978, c. 26, s. 103; 1989, c. 77, s. 64; 1997, c. 3, s. 71; 2001, c. 7, s. 59.

Corresponding Federal Provision: 87(2)(x); 88(1)(e.2).

Non-capital losses.

564.2. For the purpose of computing the taxable income of the parent for any taxation year commencing after the commencement of a winding-up described in section 556 or that would be if the expression "taxable Canadian corporation" were replaced by the expression "Canadian corporation", such portion of any non-capital loss, restricted farm loss, farm loss or limited partnership loss of the subsidiary for a particular taxation year as may reasonably be regarded as its loss from carrying on a particular business, any other portion of any non-capital loss or limited partnership loss of the subsidiary for any such year as may reasonably be regarded as being derived from any other source or any other portion of any non-capital loss of the subsidiary for any such year as may reasonably be regarded as being due to an amount added to its taxable income for the year under section 726.5, as it read before its repeal, or the net capital loss sustained by the subsidiary for any such year is deemed, for the purposes of this section, sections 564.3 to 564.4.4, 727, 728.2, 729, 731, 733.0.0.1, 734 and 735, to be a non-capital loss, restricted farm loss, farm loss or limited partnership loss of the parent from carrying on the particular business of the subsidiary, a non-capital loss or limited partnership loss of the parent that was derived from the source from which the subsidiary sustained such portion of its non-capital loss or limited partnership loss, a non-capital loss of the parent due to an amount added to its taxable income for the year under section 726.5, as it read before its repeal, or a net capital loss, respectively, sustained by the parent for its taxation year during which the particular taxation year of the subsidiary ended.

History: 1978, c. 26, s. 103; 1984, c. 15, s. 122; 1985, c. 25, s. 100; 1986, c. 19, s. 122; 1988, c. 4, s. 39; 1993, c. 16, s. 224; 1993, c. 19, s. 22; 1997, c. 3, s. 71.

Corresponding Federal Provision: 88(1.1) before (a), (a), before (c), (c), (d), (d.1) and (1.2) before (a).

Application of s. 564.2.

564.3. Section 564.2 applies only to the extent that the loss referred to therein was not deducted in computing the taxable income of the subsidiary for any taxation year and would have been deductible in such computation for any taxation year commencing after the commencement of the winding-up if the subsidiary had such a taxation year as well as sufficient income and taxable capital gains for that year.

History: 1978, c. 26, s. 103; 1985, c. 25, s. 100; 1993, c. 16, s. 224.

Corresponding Federal Provision: 88(1.1)(a), (b), (1.2)(a) and (b).

Net capital losses.

564.4. Where section 564.2 applies and where, at any time, control of the parent or subsidiary has been acquired by a person or group of persons, no amount in respect of a net capital loss of the subsidiary for a taxation year ending before that time is deductible in computing the parent's taxable income for a taxation year ending after that time.

History: 1978, c. 26, s. 103; 1984, c. 15, s. 123; 1993, c. 16, s. 224; 1997, c. 3, s. 71.

Corresponding Federal Provision: 88(1.2)(c).

Non-capital losses.

564.4.1. Where section 564.2 applies and where control of a parent has been acquired by a person or a group of persons at any time after the commencement of the winding-up, or control of a subsidiary has been acquired by a person or a group of persons at any time whatever, no amount in respect of the subsidiary's non-capital loss or farm loss for a taxation year ending before that time is deductible in computing the taxable income of the parent for a particular taxation year ending after that time, except that portion of the subsidiary's non-capital loss or farm loss that may reasonably be regarded as its loss from carrying on a business and, where a business was carried on by the subsidiary in that year, that portion of the non-capital loss that may reasonably be regarded as being attributable to an amount deductible under section 725.1.1 in computing its taxable income for the year, such portions being then deductible only if the parent or the subsidiary carried on that business for profit or with a reasonable expectation of profit throughout the particular year, and only up to the amount computed under section 564.4.2.

History: 1984, c. 15, s. 123; 1985, c. 25, s. 101; 1986, c. 19, s. 123; 1989, c. 77, s. 65; 1990, c. 59, s. 205; 1997, c. 3, s. 71; 2015, c. 24, s. 89.

Corresponding Federal Provision: 88(1.1)(e)(i).

Parent's income.

564.4.2. The amount referred to in section 564.4.1 is equal to the aggregate of the parent's income for the particular year from the business contemplated in the said section and, where properties were sold, leased, rented or developed, or services were rendered in the course of carrying on that business before the time contemplated in the said section, from any other business substantially all the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties or from the rendering of similar services.

History: 1984, c. 15, s. 123; 1985, c. 25, s. 101; 1986, c. 19, s. 124; 1989, c. 77, s. 65; 1997, c. 3, s. 71.

Corresponding Federal Provision: 88(1.1)(e)(ii).

Non-capital losses of subsidiary.

564.4.3. For the purposes of section 564.4.1, where section 564.2 applies to the winding-up of a particular

corporation in respect of which the subsidiary referred to in the said section 564.2 was the parent and section 564.4.1 applies in respect of losses of that particular corporation, the subsidiary is deemed to be the same corporation as, and a continuation of, that particular corporation with respect to those losses.

History: 1993, c. 16, s. 225; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(1.1)(e) after (ii).

Election by parent regarding losses of subsidiary.

564.4.4. A parent may elect that any portion of a loss of the subsidiary that would otherwise be deemed, by reason of section 564.2, to be a loss of the parent for a particular taxation year commencing after the commencement of the winding-up be deemed, for the purpose of computing the parent's taxable income for a taxation year commencing after the commencement of a winding-up described in section 556, to be a loss of the parent for its immediately preceding taxation year and not for the particular taxation year.

Election.

The parent referred to in the first paragraph must make the election referred to therein in its fiscal return under this Part for the particular taxation year.

History: 1993, c. 16, s. 225; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(1.1)(f) and (1.2)(d).

Presumption.

564.4.5. For the purposes of sections 564.2 to 564.4.4, a corporation's business that is at any time an adventure or concern in the nature of trade is deemed to be a business carried on at that time by the corporation.

History: 2000, c. 5, s. 131.

Computation of taxable income of parent.

564.5. For the purposes of sections 563, 564.2 to 564.4.2, 710 to 712, 727, 728.1, 729, 731, 733.0.0.1 and 734 to 735.1, where a parent corporation was incorporated or otherwise formed after the end of a taxation year during which one of its subsidiaries sustained a loss or made a gift, the parent corporation is deemed, for the purpose of computing its taxable income for any taxation year,

(*a*) to have been in existence during the period commencing immediately before the end of the first year during which the subsidiary sustained a loss or made a gift, as the case may be, and ending immediately after it was incorporated or otherwise formed;

(*b*) to have had throughout that period fiscal periods ending on the day of the year on which its first fiscal period ended; and

(*c*) to have been controlled throughout that period by the person or persons who controlled it immediately after it was incorporated or otherwise formed.

History: 1978, c. 26, s. 103; 1981, c. 12, s. 5; 1984, c. 15, s. 123; 1985, c. 25, s. 101; 1995, c. 63, s. 43; 1997, c. 3, s. 71; 1997, c. 14, s. 88; 2000, c. 39, s. 34; 2001, c. 53, s. 84.
Corresponding Federal Provision: 88(1.3).

564.6. *(Repealed).*

History: 1979, c. 18, s. 48; 1986, c. 19, s. 125; 1997, c. 3, s. 26; 2000, c. 5, s. 132.

564.7. *(Repealed).*

History: 1981, c. 12, s. 6; 1985, c. 25, s. 102; 1995, c. 63, s. 44; 1997, c. 3, s. 71; 2000, c. 39, s. 35.

564.8. *(Repealed).*

History: 1995, c. 63, s. 45; 1997, c. 3, s. 71; 1997, c. 14, s. 89.

564.9. *(Repealed).*

History: 1995, c. 63, s. 45; 1997, c. 3, s. 71; 1997, c. 14, s. 89.

Case where depreciable property is distributed to parent corporation.

565. For the purposes of sections 93 to 104, 130 and 130.1 and of the regulations made under paragraph *a* of section 130, where the subsidiary distributes depreciable property to the parent on the winding-up and the capital cost of the property to the subsidiary exceeds the proceeds it is deemed to receive under section 557, the capital cost of the property to the parent is deemed equal to that to the subsidiary, notwithstanding section 559, and the excess is deemed to have been allowed to the parent as depreciation in respect of such property for the taxation years preceding its acquisition of the property.

History: 1972, c. 23, s. 440; 1979, c. 18, s. 49; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(1)(f).

Parent a continuation of the subsidiary.

565.1. For the purposes of Chapter VII.1 of the Act respecting the application of the Taxation Act (chapter I-4) and sections 332.1, 332.2, 359.1 to 359.17, 362 to 418.36, 419.1 to 419.4 and 419.6, where the rules in sections 556 to 564.1 and 565 apply to the winding-up of a subsidiary, its parent is deemed to be the same corporation as, and a continuation of, the subsidiary.

History: 1986, c. 19, s. 126; 1989, c. 77, s. 66; 1997, c. 3, s. 71; 1998, c. 16, s. 173.
Corresponding Federal Provision: 88(1.5).

Inventory in connection with a farming business.

565.2. Where a corporation that carries on a farming business and computes its income from that business in accordance with the cash method is wound up in

circumstances to which sections 556 to 564.1 and 565 apply and, at the particular time that is immediately before the winding-up, owned inventory that was used in connection with the business, the following rules apply:

(*a*) for the purposes of the first paragraph of section 557, the cost amount to the corporation, at the particular time, of property purchased by it that is included in the inventory is deemed to be the amount determined by the formula

[(A × B) / C] + D;

(*b*) for the purposes of subparagraph *a* of the second paragraph of section 194, the disposition of the inventory and the receipt of the proceeds of disposition are deemed to have occurred at that particular time in the course of carrying on the business;

(*c*) for the purposes of section 194, where the parent carries on a farming business and computes its income from that business in accordance with the cash method, the following rules apply:

i. an amount equal to the cost to the parent of the inventory is deemed to have been paid by it in the course of carrying on a business and at the time it acquired the inventory, and

ii. the parent is deemed to have purchased the inventory for an amount equal to that cost in the course of carrying on that business and at the time referred to in subparagraph i.

Interpretation.

For the purposes of the formula set forth in subparagraph *a* of the first paragraph,

(*a*) A is the amount that would be included by reason of subparagraph *c* of the second paragraph of section 194 in computing the corporation's income for its last taxation year commencing before the particular time referred to in the first paragraph if that taxation year had ended at that time,

(*b*) B is the value, determined in accordance with section 194.2, to the corporation at that time of the inventory purchased by it and distributed to the parent on the winding-up,

(*c*) C is the value, determined in accordance with section 194.2, of all of the inventory purchased by the corporation that was owned by it in connection with that business at that time,

(*d*) D is the lesser of

i. such additional amount as the corporation designates in respect of the property, and

ii. the amount by which the fair market value of the property at the particular time referred to in the first paragraph exceeds the amount determined under subparagraph *a* in respect of the property.

History: 1993, c. 16, s. 226; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(1.6).

CHAPTER VIII
WINDING-UP OF A CANADIAN CORPORATION

Winding-up of Canadian corporation.

566. The rules provided in this chapter apply to the winding-up after 1978 of a Canadian corporation other than a subsidiary to the winding-up of which the rules in sections 556 to 564.1 and 565 apply where, at a particular time in the course of the winding-up, all or substantially all of the property owned by the corporation immediately before such time is distributed to its shareholders.

History: 1973, c. 17, s. 65; 1975, c. 22, s. 143; 1978, c. 26, s. 104; 1986, c. 19, s. 127; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(2) before (a).

Rules applicable in computing income.

566.1. For the purposes of computing the income of the corporation for its taxation year that includes the particular time referred to in section 566, paragraph *u* of section 87 shall read as if the reference therein to "in respect of a property acquired or an expenditure made in a preceding taxation year in computing the taxpayer's tax payable for" were a reference to "in computing the taxpayer's tax payable for the year or".

History: 1990, c. 59, s. 206; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(2)(c).

Taxation year for the purposes of computing certain surpluses.

567. For the purposes of computing for the corporation, at the time immediately before the particular time referred to in section 566, its capital dividend account, its capital gains dividend account and its pre-1972 capital surplus on hand within the meaning of the regulations, the taxation year of the corporation that would normally include the particular time is deemed to have ended immediately before the time of computation and a new taxation year to have commenced at the time of computation; furthermore, the corporation is deemed to have disposed immediately before the end of the taxation year so deemed to have ended, of each property distributed to shareholders at the particular time for proceeds equal to the fair market value thereof immediately before the particular time.

History: 1973, c. 17, s. 65; 1975, c. 22, s. 144; 1978, c. 26, s. 104; 1996, c. 39, s. 273; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(2)(a).

Rules where corporation deemed to pay dividend at a particular time.

568. The following rules apply where the corporation is deemed to pay a dividend at a particular time under section 505 on shares of any class of its capital stock:

(*a*) for the purposes of the election provided for in section 502 or 1106 and, if the corporation has so elected, for all other purposes, such dividend is deemed to be a separate dividend to the extent that it does not exceed its capital dividend account or its capital gains dividend account within the meaning of the regulations made under section 567, as the case may be, immediately before that time;

(*a*.1) *(paragraph repealed)*;

(*b*) the portion of the dividend equal to the lesser of its pre-1972 capital surplus on hand within the meaning of the regulations made under section 567, immediately before the particular time, and the amount by which the dividend exceeds the portion that has been the subject of an election under section 502 is deemed not to be a dividend;

(*c*) the portion of the dividend that exceeds the aggregate of the amount deemed, under paragraph *a*, to be a separate dividend for all purposes and the portion deemed under paragraph *b* not to be a dividend is deemed, notwithstanding paragraph *g* of section 570, to be a separate dividend that is a taxable dividend;

(*d*) every person who holds shares of that class at that particular time is deemed to receive the proportion of any separate dividend determined under paragraph *a* or *c* represented by the proportion between the number of shares of that class held by him immediately before the particular time and the number of shares of that class then issued and outstanding.

History: 1973, c. 17, s. 65; 1975, c. 22, s. 145; 1978, c. 26, s. 104; 1984, c. 15, s. 124; 1987, c. 67, s. 124; 1993, c. 16, s. 227; 1996, c. 39, s. 273; 1997, c. 3, s. 71.
Corresponding Federal Provision: 88(2)(b).

CHAPTER IX
DISSOLUTION OF A FOREIGN AFFILIATE

Liquidation and dissolution of foreign affiliate.

569. Despite the second paragraph of section 424, if at any time a taxpayer receives a property (in this section referred to as the "distributed property") from a foreign affiliate (in this section referred to as the "disposing affiliate") of the taxpayer on a liquidation and dissolution of the disposing affiliate and the distributed property is received in respect of shares of the capital stock of the disposing affiliate that are disposed of on the liquidation and dissolution, the following rules apply:

(*a*) subject to sections 569.0.0.3 and 569.0.0.4, the distributed property is deemed to have been disposed of at that time by the disposing affiliate to the taxpayer for proceeds of disposition equal to the relevant cost base (within the meaning of subsection 4 of section 95 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement)) to the disposing affiliate of the distributed property in respect of the taxpayer, immediately before that time, if

i. the liquidation and dissolution is a qualifying liquidation and dissolution of the disposing affiliate, or

ii. the distributed property is a share of the capital stock of another foreign affiliate of the taxpayer that was, immediately before that time, excluded property (within the meaning of section 576.1) of the disposing affiliate;

(*b*) if subparagraph *a* does not apply to the distributed property, the distributed property is deemed to have been disposed of at that time by the disposing affiliate to the taxpayer for proceeds of disposition equal to the distributed property's fair market value at that time;

(*c*) the distributed property is deemed to have been acquired, at that time, by the taxpayer at a cost equal to the amount determined under subparagraph *a* or *b* to be the disposing affiliate's proceeds of disposition of the distributed property;

(*d*) each share (in subparagraph *e* and section 569.0.0.3 referred to as a "disposed share") of a class of the capital stock of the disposing affiliate that is disposed of by the taxpayer on the liquidation and dissolution is deemed to have been disposed of for proceeds of disposition equal to the amount determined by

A/B; and

(*e*) if the liquidation and dissolution is a qualifying liquidation and dissolution of the disposing affiliate, any loss of the taxpayer in respect of the disposition of a disposed share is deemed to be nil.

Interpretation.

In the formula in subparagraph *d* of the first paragraph,

(*a*) A is the aggregate of all amounts each of which is the net distribution amount in respect of a distribution of distributed property made, at any time, in respect of the class, and

(*b*) B is the total number of issued and outstanding shares of the class that are owned by the taxpayer during the liquidation and dissolution.

History: 1975, c. 22, s. 146; 1977, c. 26, s. 63; 1984, c. 15, s. 125; 1993, c. 16, s. 228; 2009, c. 5, s. 185; 2015, c. 21, s. 187.
Corresponding Federal Provision: 88(3).

Qualifying liquidation and dissolution.

569.0.0.1. For the purposes of sections 569, 569.0.0.3 and 569.0.0.4, a qualifying liquidation and dissolution of a foreign affiliate (in this section referred to as the "disposing affiliate") of a taxpayer means a liquidation and dissolution of the disposing affiliate in respect of which the taxpayer makes a valid election under subsection 3.1 of section 88 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 3.1 of section 88 of the Income Tax Act.

History: 2015, c. 21, s. 188.
Corresponding Federal Provision: 88(3.1).

Net distribution amount.

569.0.0.2. For the purposes of subparagraph *a* of the second paragraph of section 569, net distribution amount in respect of a distribution of distributed property means the amount determined by the formula

A − B.

Interpretation.

In the formula in the first paragraph,

(*a*) A is the cost to the taxpayer of the distributed property as determined under subparagraph *c* of the first paragraph of section 569; and

(*b*) B is the aggregate of all amounts each of which is an amount owing (other than an unpaid dividend) by, or an obligation of, the disposing affiliate that was assumed or cancelled by the taxpayer in consideration for the distribution of the distributed property.

History: 2015, c. 21, s. 188.
Corresponding Federal Provision: 88(3.2).

Election concerning proceeds of disposition.

569.0.0.3. For the purposes of subparagraph *a* of the first paragraph of section 569, if a liquidation and dissolution is a qualifying liquidation and dissolution of a disposing affiliate, the taxpayer would, in the absence of this section and after taking into account an election referred to in section 589, where applicable, realize a capital gain from the disposition of a disposed share and the taxpayer makes a valid election under subsection 3.3 of section 88 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) for the purposes of that Act, the distributed property that was, immediately before the disposition, capital property of the disposing affiliate is deemed to have been disposed of by the disposing affiliate to the taxpayer for proceeds of disposition equal to the amount claimed by the taxpayer in the election.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 3.3 of section 88 of the Income Tax Act.

History: 2015, c. 21, s. 188.
Corresponding Federal Provision: 88(3.3) and (3.4).

Taxable Canadian property.

569.0.0.4. For the purposes of subparagraph *a* of the first paragraph of section 569, a distributed property is deemed to have been disposed of by a disposing affiliate to a taxpayer for proceeds of disposition equal to the adjusted cost base of the distributed property to the disposing affiliate immediately before the time of its disposition, if

(*a*) the liquidation and dissolution is a qualifying liquidation and dissolution of the disposing affiliate;

(*b*) the distributed property is, at the time of its disposition, taxable Canadian property (other than treaty-protected property) of the disposing affiliate that is a share of the capital stock of a corporation resident in Canada; and

(*c*) the taxpayer and the disposing affiliate have made a valid joint election under paragraph *c* of subsection 3.5 of section 88 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under paragraph c of subsection 3.5 of section 88 of the Income Tax Act.

History: 2015, c. 21, s. 188.
Corresponding Federal Provision: 88(3.5).

CHAPTER IX.0.1
WINDING-UP THAT IS A SIFT TRUST WIND-UP EVENT

Application.

569.0.1. Section 569.0.2 applies to a trust's distribution of property to a taxpayer if

(*a*) the distribution is a SIFT trust wind-up event;

(*b*) the trust is

i. a SIFT wind-up entity whose only beneficiary, at all times at which the trust makes a distribution that is a SIFT trust wind-up event, is a taxable Canadian corporation, or

ii. a trust whose only beneficiary, at all times at which the trust makes a distribution that is a SIFT trust wind-up event, is another trust described in subparagraph i;

(*c*) where the trust is a SIFT wind-up entity, the distribution occurs no more than 60 days after the first SIFT trust wind-up event of the trust or, if it is earlier, the first distribution to the trust that is a SIFT trust wind-up event of another trust; and

(*d*) where the property is shares of the capital stock of a taxable Canadian corporation,

i. the property was not acquired by the trust as part of a distribution referred to in section 688.3, and

ii. the trust makes a valid election under subparagraph ii of paragraph *d* of subsection 1 of section 88.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in relation to the distribution.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subparagraph ii of paragraph *d* of subsection 1 of section 88.1 of the Income Tax Act.

History: 2010, c. 25, s. 42.
Corresponding Federal Provision: 88.1(1).

SIFT trust wind-up event.

569.0.2. If the conditions in section 569.0.1 are met, in respect of a trust's distribution of property to a taxpayer, Chapter VII, and Chapter VI and sections 21.2 to 21.3.1 as they apply for the purposes of Chapter VII, apply in respect of the distribution, with the necessary modifications, as if

(*a*) the trust were a taxable Canadian corporation (in this section referred to as the "subsidiary") other than a private corporation;

(*b*) where the taxpayer is a SIFT wind-up entity, the taxpayer were a taxable Canadian corporation other than a private corporation;

(*c*) the distribution were a winding-up of the subsidiary;

(*d*) the taxpayer's interest as a beneficiary under the trust were shares of a single class of shares of the capital stock of the subsidiary owned by the taxpayer;

(*e*) section 558 deemed the taxpayer's proceeds of disposition of the shares described in paragraph *d* and owned by the taxpayer immediately before the distribution to be equal to the adjusted cost base to the taxpayer of the taxpayer's interest as a beneficiary under the trust immediately before the distribution;

(*f*) each trust, a majority-interest beneficiary (within the meaning of section 21.0.1) of which is another trust that because of the application of this section is deemed to be a corporation, were a corporation; and

(*g*) except for the purposes of sections 564.2 to 564.4.2, the taxpayer last acquired control of the subsidiary and of each corporation (including any trust that because of the application of this section is deemed to be a corporation) controlled by the subsidiary at the time at which the taxpayer last became a majority-interest beneficiary (within the meaning of section 21.0.1) of the trust.

History: 2010, c. 25, s. 42.
Corresponding Federal Provision: 88.1(2).

CHAPTER IX.1
(Repealed).

569.1. *(Repealed).*

History: 1982, c. 5, s. 128; 1995, c. 49, s. 146.

569.2. *(Repealed).*

History: 1982, c. 5, s. 128; 1995, c. 49, s. 146.

569.3. *(Repealed).*

History: 1982, c. 5, s. 128; 1995, c. 49, s. 146.

CHAPTER X
DEFINITIONS AND GENERAL PROVISIONS

Definitions:

570. In this Title:

"paid-up capital";
(*a*) "paid-up capital" means the amount determined according to the rules prescribed for that purpose;

"capital dividend account";
(*b*) "capital dividend account" of a corporation at any particular time means the amount determined according to the rules prescribed for that purposes;

(*b.*1) *(paragraph repealed)*;

(*c*) *(paragraph repealed)*;

(*d*) *(paragraph repealed)*;

(*e*) *(paragraph repealed)*;

(*f*) *(paragraph repealed)*;

"taxable dividend";
(*g*) "taxable dividend" means a dividend other than a dividend in respect of which the corporation paying it elects in accordance with section 501 as it reads before 1 January 1979, or with section 502, or other than a dividend contemplated in section 501.1;

(*h*) *(paragraph repealed)*;

(*i*) *(paragraph repealed)*;

(*j*) *(paragraph repealed)*;

(*k*) *(paragraph repealed)*;

"Canadian corporation";
(*l*) "Canadian corporation" at a particular time means a corporation that is resident in Canada at that time and incorporated in Canada or resident in Canada throughout the period from 18 June 1971 to that time;

"taxable Canadian corporation";
(*m*) "taxable Canadian corporation" means a corporation that, at the time the expression is relevant, is a Canadian corporation that is not, by virtue of a statutory provision, exempt from tax under this Part;

"private corporation";
(*n*) "private corporation" at any particular time means a corporation that is resident in Canada at that time, is not a public corporation and is not controlled by one or more public corporations, other than prescribed venture capital corporations, or prescribed State bodies or federal Crown bodies or by any combination thereof;

"public corporation".
(*o*) "public corporation" means a public corporation within the meaning assigned by subsection 1 of section 89 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) and the regulations made under that section, and a corporation that is deemed to be a public corporation under paragraph *ii* of subsection 2 of section 87 of the Income Tax Act.

History: 1972, c. 23, s. 441; 1975, c. 22, s. 147; 1978, c. 26, s. 105; 1980, c. 13, s. 60; 1984, c. 15, s. 126; 1987, c. 67, s. 125; 1990, c. 59, s. 207; 1993, c. 16, s. 229; 1994, c. 22, s. 207; 1996, c. 39, s. 160; 1997, c. 3, s. 27; 1998, c. 16, s. 174; 2005, c. 38, s. 80; 2009, c. 5, s. 186; 2019, c. 14, s. 155.
Interpretation Bulletins: IMP. 518-1/R3; IMP. 521.2-1/R1.
Corresponding Federal Provision: 66.3(2) and (4); 89(1).

Application of paragraph *l* of section 570.

570.1. For the purposes of paragraph *l* of section 570, a corporation formed at any time by the amalgamation or merger of, or by a plan of arrangement or other corporate reorganization in respect of, two or more corporations is a Canadian corporation because it is resident in Canada at that time and was incorporated in Canada only if

(*a*) that reorganization took place under the laws of Canada or a province, and

(*b*) each of those corporations was, immediately before that time, a Canadian corporation.

Exception.

The first paragraph does not apply in respect of a reorganization occurring as a result of the acquisition of property of one corporation by another corporation, pursuant to the purchase of the property by the other corporation or as a result of the distribution of the property to the other corporation on the winding-up of the corporation.

History: 1995, c. 49, s. 148; 1997, c. 3, s. 28.
Corresponding Federal Provision: 89(1).

TITLE X
SHAREHOLDERS OF CORPORATIONS AND BENEFICIARIES OF TRUSTS NOT RESIDENT IN CANADA AND HOLDERS OF OFFSHORE INVESTMENT FUND PROPERTY

CHAPTER I
FOREIGN AFFILIATE

Foreign affiliate.

571. In this Title, "foreign affiliate", at a particular time, of a taxpayer resident in Canada means a corporation not resident in Canada in which, at that time,

(*a*) the taxpayer's equity percentage is not less than 1%, and

(*b*) the total of the equity percentages in the corporation of the taxpayer and of each person related to the taxpayer, where each such equity percentage is determined as if the determinations, in applying the rule provided in subparagraph *b* of the first paragraph of section 573, were made without reference to the equity percentage of any person in the taxpayer or in any person related to the taxpayer, is not less than 10%.

Exception.

However, no corporation may be a foreign affiliate of a non-resident-owned investment corporation.

History: 1972, c. 23, s. 442; 1973, c. 17, s. 66; 1975, c. 22, s. 149; 1996, c. 39, s. 161; 1997, c. 3, s. 71.
Corresponding Federal Provision: 95(1) "foreign affiliate".

Controlled foreign affiliate.

572. In this Title, a controlled foreign affiliate, at any time, of a taxpayer resident in Canada means a foreign affiliate of the taxpayer that

(*a*) is, at that time, controlled by the taxpayer; or

(*b*) would, at that time, be controlled by the taxpayer if the taxpayer owned all of the following shares of the capital stock of the foreign affiliate:

i. the shares that are owned at that time by the taxpayer,

ii. the shares that are owned at that time by any person who does not deal at arm's length with the taxpayer,

iii. the shares that are owned at that time by any person (in this section referred to as a "relevant Canadian shareholder"), in any set of persons not exceeding four (which set of persons is to be determined without reference to the existence of or the absence of any relationship, connection or action in concert between those persons), who

(1) are resident in Canada,

(2) are not the taxpayer or a person described in subparagraph ii, and

(3) own, at that time, shares of the capital stock of the foreign affiliate, and

iv. the shares that are owned at that time by any person who does not deal at arm's length with any relevant Canadian shareholder.

History: 1975, c. 22, s. 151; 1990, c. 59, s. 208; 1993, c. 16, s. 230; 2010, c. 25, s. 43.
Corresponding Federal Provision: 95(1) "controlled foreign affiliate".

Rules applicable.

572.1. For the purposes of this section and paragraph *b* of section 572, the following rules apply:

(*a*) the shares of the capital stock of a corporation that are at any time owned by, or that are deemed by this section to be at any time owned by, another corporation are deemed to be, at that time, owned by, or property of, each shareholder of the other corporation in the proportion that the fair market value at that time of the shares of the capital stock of the other corporation that, at that time, are owned by, or are property of, the shareholder is of the fair market value at that time of all the issued and outstanding shares of the capital stock of the other corporation;

(*b*) the shares of the capital stock of a corporation that are, or are deemed by this section to be, at any time, property of a partnership, are deemed to be, at that time, owned by, or property of, each member of the partnership in the proportion that the fair market value at that time of the member's interest in the partnership is of the fair market value at that time of all interests in the partnership;

(*c*) the shares of the capital stock of a corporation that are at any time owned by, or that are deemed by this section to be at any time owned by, a non-discretionary trust (within the meaning of section 127.1) other than an exempt trust are deemed to be, at that time, owned by, or property of, each beneficiary of the trust in the proportion that the fair market value at that time of the beneficiary's beneficial interest in the trust is of the fair market value at that time of all beneficial interests in the trust; and

(*d*) all of the shares of the capital stock of a corporation that are at any time owned by, or that are deemed by this section to be at any time owned by, a particular trust (other than a non-discretionary trust, within the meaning of section 127.1, or an exempt trust) are deemed to be, at that time, owned by, or property of,

i. each beneficiary of the particular trust at that time, and

ii. each settlor (within the meaning of section 127.1) in respect of the particular trust at that time.

History: 2010, c. 25, s. 44.
Corresponding Federal Provision: 95(2.01).

Rule against double-counting.

572.2. In applying the assumption in paragraph *b* of section 572 in respect of a taxpayer resident in Canada to determine whether a foreign affiliate of the taxpayer is at any time a controlled foreign affiliate of the taxpayer, nothing in that paragraph or in section 572.1 is to be read or construed as requiring a right in a share of the capital stock of the foreign affiliate of the taxpayer owned at that time by the taxpayer to be taken into account more than once.

History: 2010, c. 25, s. 44; 2020, c. 16, s. 80.
Corresponding Federal Provision: 95(2.02).

Definitions:

572.3. In this Title,

"eligible trust";
"eligible trust" means a trust, other than a trust

(*a*) created or maintained for charitable purposes;

(*b*) governed by an employee benefit plan;

(*c*) described in subparagraph *a*.1 of the third paragraph of section 647;

(*d*) governed by a salary deferral arrangement;

(*e*) operated for the purpose of administering or providing pension benefits or employee benefits; or

(*f*) where the amount of income or capital that an entity may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by an entity of, or the failure by an entity to exercise, a discretionary power;

"entity";
"entity" includes an association, a corporation, a fund, a natural person, a joint venture, an organization, a partnership, a syndicate or a trust;

"exempt trust";
"exempt trust", at a particular time in respect of a taxpayer resident in Canada, means a trust that, at that time, is a trust under which the interest of each beneficiary under the trust is, at all times that the interest exists during the trust's taxation year that includes the particular time, a specified

fixed interest of the beneficiary in the trust, if at the particular time

(*a*) the trust is an eligible trust;

(*b*) there are at least 150 beneficiaries each of whom holds a specified fixed interest, in the trust, that has a fair market value of at least $500; and

(*c*) the total of all amounts each of which is the fair market value of an interest as a beneficiary under the trust held by a specified purchaser in respect of the taxpayer is not more than 10% of the total fair market value of all interests as a beneficiary under the trust;

"specified fixed interest";
"specified fixed interest", at any time, of an entity in a trust, means an interest of the entity as a beneficiary under the trust if

(*a*) the interest includes, at that time, rights of the entity as a beneficiary under the trust to receive, at or after that time and directly from the trust, all or part of the income and capital of the trust;

(*b*) the interest was issued by the trust, at or before that time, to an entity, in exchange for consideration and the fair market value, at the time at which the interest was issued, of that consideration was equal to the fair market value, at the time at which it was issued, of the interest;

(*c*) the only manner in which any part of the interest may cease to be the entity's is by way of a disposition (determined without reference to section 7.2 and subparagraph *e* of the second paragraph of section 248) by the entity of that part; and

(*d*) no amount of the income or capital of the trust that an entity may receive directly from the trust at any time as a beneficiary under the trust depends on the exercise by an entity of, or the failure by an entity to exercise, a discretionary power;

"specified purchaser".
"specified purchaser", at a particular time, in respect of a taxpayer resident in Canada, means an entity that is, at that time,

(*a*) the taxpayer;

(*b*) an entity resident in Canada with which the taxpayer does not deal at arm's length;

(*c*) a foreign affiliate of an entity described in any of paragraphs *a*, *b* and *d* to *f*;

(*d*) a trust (other than an exempt trust) in which an entity described in any of paragraphs *a* to *c*, *e* and *f* is beneficially interested;

(*e*) a partnership of which an entity described in any of paragraphs *a* to *d* and *f* is a member; or

(*f*) an entity (other than an entity described in any of paragraphs *a* to *e*) with which an entity described in any of those paragraphs does not deal at arm's length.

History: 2010, c. 25, s. 44.
Corresponding Federal Provision: 95(1).

Equity percentage.

573. For the purposes of this Title, the equity percentage of a taxpayer at any time in a particular corporation is the aggregate of his direct and indirect equity percentages in the corporation at that time, computed according to the following rules:

(*a*) his direct equity percentage at that time is that percentage which is not less than any other percentage representing the proportion that the number of shares of each class of the capital stock of the corporation then owned by him is of the total number of issued shares of that class at the same time;

(*b*) his indirect equity percentage at that time is the aggregate of all percentages each of which is the product then obtained when the taxpayer's equity percentage in any corporation is multiplied by that corporation's direct equity percentage in the particular corporation.

Application.

However, for the purposes of section 574, subparagraph *b* of the first paragraph must read as if the expression "any corporation" were replaced by the expression "any corporation not resident in Canada".

History: 1972, c. 23, s. 444; 1975, c. 22, s. 152; 1977, c. 26, s. 64; 1997, c. 3, s. 71.
Corresponding Federal Provision: 95(4) before (a), (a) and (b).

Participating percentage of a share.

574. For the purposes of this Title, the participating percentage of a share owned by a taxpayer of the capital stock of a corporation that, at the end of its taxation year, is a controlled foreign affiliate of the taxpayer, is equal to

(*a*) the percentage that would be the taxpayer's equity percentage in the affiliate at the end of that year on the assumption that the taxpayer owns no share other than that share, if

i. the affiliate and each other corporation that is relevant to the determination of the taxpayer's equity percentage in the affiliate have, at that time, only one class of issued shares, and

ii. no foreign affiliate (in this subparagraph referred to as the "upper-tier affiliate") of the taxpayer that is relevant to the determination of the taxpayer's participating percentage in the affiliate has, at that time, a participating percentage in a

foreign affiliate of the taxpayer that has a participating percentage in the upper-tier affiliate; and

(*b*) in any other case, the percentage determined in prescribed manner.

Participating percentage nil.

However, the participating percentage of such a share is nil where the foreign accrual property income of the affiliate for the year, within the meaning of section 579, does not exceed $5,000.

History: 1975, c. 22, s. 153; 1994, c. 22, s. 208; 1997, c. 3, s. 71; 2015, c. 21, s. 189.

Corresponding Federal Provision: 95(1) "participating percentage".

Taxation year.

575. The taxation year of a foreign affiliate of a taxpayer is, for the purposes of this Title, the period for which the accounts of the foreign affiliate have been ordinarily made up, but not a period exceeding 53 weeks.

History: 1975, c. 22, s. 153.

Corresponding Federal Provision: 95(1) "taxation year".

Income bond issued by foreign affiliate.

576. For the purposes of this Title, an income bond or income debenture issued by a corporation not resident in Canada is deemed a share of the capital stock of such corporation unless the interest or other similar amount paid periodically by such corporation on the bond or debenture was, under the laws of the country in which the corporation was resident, deductible in computing the amount on which the corporation was liable to pay income or profits tax for the year imposed by the government of that country.

History: 1972, c. 23, s. 446; 1975, c. 22, s. 155; 1997, c. 3, s. 71.

Corresponding Federal Provision: 95(5).

Excluded property of a foreign affiliate.

576.1. In this Title, "excluded property" of a foreign affiliate of a taxpayer means any property that constitutes excluded property of the foreign affiliate for the purposes of subdivision i of Division B of Part I of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th supplement).

History: 1984, c. 15, s. 127; 1985, c. 25, s. 103; 1989, c. 5, s. 72; 1993, c. 16, s. 231; 1996, c. 39, s. 162.

Corresponding Federal Provision: 95(1) "excluded property".

CHAPTER II
DIVIDENDS RECEIVED FROM FOREIGN CORPORATIONS

Definitions:

576.2. In this chapter,

"eligible bank affiliate";
"eligible bank affiliate" has the meaning assigned by subsection 15 of section 90 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement);

"eligible Canadian bank";
"eligible Canadian bank" has the meaning assigned by subsection 15 of section 90 of the Income Tax Act;

"specified amount";
"specified amount" in respect of a loan or indebtedness that is required by section 577.5 to be included in computing the income of a taxpayer for a taxation year means an amount equal to the amount that is required by subsection 6 of section 90 of the Income Tax Act to be included in computing the income of the taxpayer for the year, in respect of the loan or indebtedness;

"specified debtor";
"specified debtor" at any time, in respect of a taxpayer resident in Canada, means

(*a*) the taxpayer;

(*b*) a person with which the taxpayer does not, at that time, deal at arm's length, other than

i. a corporation not resident in Canada that is, at that time, a controlled foreign affiliate, within the meaning of section 127.1, of the taxpayer, or

ii. a corporation not resident in Canada (other than a corporation described in subparagraph i) that is, at that time, a foreign affiliate of the taxpayer, if each share of the capital stock of the affiliate is owned at that time by any of

(1) the taxpayer,

(2) a person resident in Canada,

(3) a person not resident in Canada that deals at arm's length with the taxpayer,

(4) a person described in subparagraph i,

(5) a partnership each member of which is a partnership described in this subparagraph 5 or a person described in any of subparagraphs 1 to 4 and 6, and

(6) a corporation each shareholder of which is a partnership described in subparagraph 5 or a person described in any of subparagraphs 1 to 4 or in this subparagraph 6;

(*c*) a partnership a member of which is, at that time, a person or partnership that is a specified debtor in respect of the taxpayer because of paragraph *a* or *b*; and

(*d*) if the taxpayer is a partnership,

i. any member of the partnership that is a corporation resident in Canada if the creditor affiliate or a member of the creditor partnership, as the case may be, within the meaning assigned to those expressions in section 577.5, is, at that time, a foreign affiliate of the corporation,

ii. a person with which a corporation referred to in subparagraph i does not, at that time, deal at arm's length, other than a controlled foreign affiliate, within the meaning of section 127.1, of the partnership or of a member of the partnership that holds, directly or indirectly, an interest in the partnership representing at least 90% of the fair market value of all such interests, or

iii. a partnership a member of which is, at that time, a specified debtor in respect of the taxpayer because of subparagraph i or ii;

"upstream deposit".
"upstream deposit" has the meaning assigned by subsection 15 of section 90 of the Income Tax Act.

History: 2015, c. 21, s. 190; 2017, c. 1, s. 139; 2020, c. 16, s. 81.
Corresponding Federal Provision: 90(15).

Dividends received from corporations not resident in Canada.

577. A taxpayer must include in computing his income any amount he receives in the year as a dividend on any share he owns in the capital stock of a corporation not resident in Canada.

History: 1972, c. 23, s. 447; 1997, c. 3, s. 71.
Corresponding Federal Provision: 90(1).

Amount not included in computing income.

577.1. Notwithstanding section 577, a taxpayer who, immediately before a prescribed reorganization, held a common share of the capital stock of a prescribed corporation, referred to as a "share of the corporation" in the second paragraph, and who elects that the rules in the second paragraph apply for the purposes of this Part is not required to include, in computing his income for the taxation year 1984, the amount which, under section 577 and but for this section, should have been included, as a consequence of the reorganization, in respect of the value of a share of the capital stock of a prescribed regional holding company that he received at the time of the reorganization, referred to as a "distributed share" in the second paragraph.

Adjusted cost base.

For the purposes of computing the adjusted cost base, at any particular time after the reorganization, to the taxpayer contemplated in the first paragraph, of each share of the corporation and each distributed share owned by him immediately after the reorganization and thereafter without interruption until the particular time, the following rules apply:

(*a*) the taxpayer is deemed to have disposed, at the time of the reorganization, of the share of the corporation for proceeds of disposition equal to its adjusted cost basis to him immediately before the reorganization and to have reacquired it immediately after the reorganization at a cost equal to the proportion of the adjusted cost base to him, immediately before the reorganization, of all the shares of the corporation held by him immediately before the reorganization that the fair market value of the share of the corporation, immediately after the reorganization, is of the fair market value of the aggregate of the shares of the corporation and the distributed shares held by him immediately after the reorganization; and

(*b*) the taxpayer is deemed to have acquired, immediately after the reorganization, the distributed share at a cost equal to the proportion of the adjusted cost base to him, immediately before the reorganization of all the shares of the corporation held by him immediately before the reorganization, that the fair market value of the distributed share, immediately after the reorganization, is of the fair market value of the aggregate of the shares of the corporation and the distributed shares held by him immediately after the reorganization.

History: 1986, c. 19, s. 128; 1997, c. 3, s. 71.

Dividend from foreign affiliate.

577.2. For the purposes of this Act, an amount is deemed to be a dividend paid or received, as the case may be, at any time on a share of a class of the capital stock of a corporation not resident in Canada that is a foreign affiliate of a taxpayer if the amount is the share's portion of a pro rata distribution (other than a distribution made in the course of the liquidation and dissolution of the corporation, on a redemption, acquisition or cancellation of the share by the corporation, or on a qualifying return of capital in respect of the share) made at that time by the corporation in respect of all the shares of that class.

History: 2015, c. 21, s. 191.
Corresponding Federal Provision: 90(2).

Qualifying return of capital.

577.3. For the purposes of section 577.2, a distribution made at any time by a foreign affiliate of a taxpayer in respect of a share of the capital stock of the affiliate that is a reduction of the paid-up capital of the affiliate in respect of the share and that would, in the absence of this section, be deemed under section 577.2 to be a dividend paid or received, at that time, on the share is a qualifying return of capital at that time in respect of the share if a valid election is made in respect of the distribution under subsection 3 of section 90 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 3 of section 90 of the Income Tax Act.

History: 2015, c. 21, s. 191.
Corresponding Federal Provision: 90(3).

Exclusion.

577.4. For the purposes of this Act, no amount paid or received at any time is a dividend paid or received on a share of the capital stock of a corporation not resident in Canada that is a foreign affiliate of a taxpayer unless it is so deemed under this Part.

History: 2015, c. 21, s. 191.
Corresponding Federal Provision: 90(5).

Loan from foreign affiliate.

577.5. Except where section 113 applies, if a person or partnership receives at any time a loan from, or becomes at that time indebted to, a creditor that is at that time a foreign affiliate of a taxpayer resident in Canada, or a partnership of which such an affiliate is a member, (in subparagraph i of paragraph *d* of the definition of "specified debtor" in section 576.2 referred to respectively as "creditor affiliate" and "creditor partnership"), and the person or partnership is at that time a specified debtor in respect of the taxpayer, the specified amount in respect of the loan or indebtedness is to be included in computing the income of the taxpayer for the taxpayer's taxation year that includes that time.

History: 2015, c. 21, s. 191.
Corresponding Federal Provision: 90(6).

Reorganization.

577.5.1. For the purposes of sections 262.0.1, 262.0.2, 576.2, 577.5 and 577.6 to 577.11, the rules set out in the second paragraph apply at a particular time where

(*a*) immediately before the particular time, a person or partnership (in this section referred to as the "original debtor") owes an amount in respect of a loan or indebtedness (in this section referred to as the "pre-transaction loan") to another person or partnership (in this section referred to as the "original creditor");

(*b*) the pre-transaction loan was, at the time it was made or entered into, a loan or indebtedness described in section 577.5; and

(*c*) in the course of an amalgamation, a merger, a winding-up or a liquidation and dissolution, any of the following facts occurs:

i. the amount owing in respect of the pre-transaction loan becomes owing at the particular time by another person or partnership (the amount owing after the particular time and the other person or partnership being in the second paragraph referred to as the "post-transaction loan payable" and the "new debtor", respectively),

ii. the amount owing in respect of the pre-transaction loan becomes owing at the particular time to another person or partnership (the amount owing after the particular time and the other person or partnership being in the second paragraph referred to as the "post-transaction loan receivable" and the "new creditor", respectively), or

iii. the taxpayer in respect of which the original debtor was a specified debtor at the time referred to in subparagraph *b*

(1) ceases to exist, or

(2) merges with one or more corporations to form one corporate entity (in the second paragraph referred to as the "new corporation").

Rules applicable.

The rules to which the first paragraph refers are as follows:

(*a*) if the fact described in subparagraph i of subparagraph *c* of the first paragraph occurred,

i. the post-transaction loan payable is deemed to be the same loan or indebtedness as the pre-transaction loan, and

ii. the new debtor is deemed to be the same debtor as, and a continuation of, the original debtor;

(*b*) if the fact described in subparagraph ii of subparagraph *c* of the first paragraph occurred,

i. the post-transaction loan receivable is deemed to be the same loan or indebtedness as the pre-transaction loan, and

ii. the new creditor is deemed to be the same creditor as, and a continuation of, the original creditor;

(*c*) if the fact described in subparagraph 1 of subparagraph iii of subparagraph *c* of the first paragraph occurred,

i. subject to subparagraph ii, each entity that held an interest in the taxpayer described in that subparagraph iii immediately before the winding-up (in this subparagraph *c* referred to as a "successor entity") is deemed to be the same entity as, and a continuation of, the taxpayer, and

ii. for the purpose of applying section 577.10 and subparagraph *a* of the second paragraph of section 577.11, an amount, in respect of a loan or indebtedness, equal to whichever of the following amounts is applicable is deemed to have been included under section 577.5 in computing the income of each successor entity:

(1) if the taxpayer is a partnership, the amount that may reasonably be considered to be the successor entity's share of the specified amount that was required to be included in computing the taxpayer's income under section 577.5 in respect of the loan or indebtedness, such share being determined in a manner consistent with the determination of the successor entity's share of the income of the partnership under section 600 for the taxpayer's final fiscal period, and

(2) in any other case, the portion of the specified amount included in computing the taxpayer's income under section 577.5, in respect of the loan or indebtedness, represented by the proportion that the fair market value of the successor entity's interest in the taxpayer, immediately before the distribution of the taxpayer's assets on the winding-up, is of the fair market value of all interests in the taxpayer at that time; and

(*d*) if the fact described in subparagraph 2 of subparagraph iii of subparagraph *c* of the first paragraph occurred, the new corporation is deemed to be the same corporation as, and a continuation of, the taxpayer.

History: 2020, c. 16, s. 82.

Back-to-back loans.

577.6. For the purposes of this section and sections 262.0.1, 262.0.2, 576.2, 577.5 and 577.7 to 577.11, if at any time a person or partnership (in this section referred to as the "intermediate lender") makes a loan to another person or partnership (in this section referred to as the "intended borrower") because the intermediate lender received a loan from another person or partnership (in this section referred to as the "initial lender"), the following rules apply:

(*a*) the loan made by the intermediate lender to the intended borrower is deemed, at that time, to have been made by the initial lender to the intended borrower under the same terms and conditions and at the same time as it was made by the intermediate lender to the extent of the lesser of the amount of the loan made by the initial lender to the intermediate lender and the amount of the loan made by the intermediate lender to the intended borrower; and

(*b*) the loan made by the initial lender to the intermediate lender and the loan made by the intermediate lender to the intended borrower are deemed not to have been made to the extent of the amount of the loan deemed to have been made under paragraph *a*.

History: 2015, c. 21, s. 191; 2020, c. 16, s. 83.
Corresponding Federal Provision: 90(7).

Exception to section 577.5.

577.7. Section 577.5 does not apply in respect of

(*a*) a loan or indebtedness that is repaid, other than as part of a series of loans or other transactions and repayments, within two years of the day the loan was made or the indebtedness arose;

(*b*) indebtedness that arose in the ordinary course of the business of the creditor or a loan made in the ordinary course of the creditor's ordinary business of lending money if, at the time the indebtedness arose or the loan was made, bona fide arrangements were made for repayment of the indebtedness or loan within a reasonable time;

(*c*) a loan that was made, or indebtedness that arose, in the ordinary course of carrying on a life insurance business outside Canada if

i. the loan or indebtedness is owed by the taxpayer or by a subsidiary wholly-owned corporation of the taxpayer,

ii. the taxpayer, or the subsidiary wholly-owned corporation, as the case may be, is a life insurance corporation resident in Canada,

iii. the loan or indebtedness directly relates to a business of the taxpayer, or of the subsidiary wholly-owned corporation, that is carried on outside Canada, and

iv. the interest on the loan or indebtedness is included in computing the active business income of the creditor, or if the creditor is a partnership, a member of the partnership, under clause A of subparagraph ii of paragraph *a* of subsection 2 of section 95 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), or would be so included if it were otherwise income from property within the meaning of subsection 1 of that section 95; and

(*d*) an upstream deposit owing to an eligible bank affiliate, subject to section 577.7.1.

History: 2015, c. 21, s. 191; 2017, c. 1, s. 140.
Corresponding Federal Provision: 90(8).

Upstream deposit — eligible bank affiliate.

577.7.1. For the purposes of this chapter, where a taxpayer is an eligible Canadian bank and an eligible bank affiliate of the taxpayer is owed, at any time in a taxation year of the affiliate (in this section referred to as the "particular year") or its immediately preceding taxation year, an upstream deposit, the following rules apply:

(*a*) the affiliate is deemed to make a loan to the taxpayer immediately before the end of the particular year equal to the loan that it is deemed to make to the taxpayer, at that time, under paragraph *a* of subsection 8.1 of section 90 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement); and

(*b*) the taxpayer is deemed to repay immediately before the end of the particular year—in an amount that the taxpayer is deemed to pay, at that time, under paragraph *b* of

subsection 8.1 of section 90 of the Income Tax Act and in the order in which they arose—loans made by the affiliate under paragraph *a* in a prior taxation year and not previously repaid, and the repayment is deemed to not be part of a series of loans or other transactions and repayments.

History: 2017, c. 1, s. 141.
Corresponding Federal Provision: 90(8.1).

Deduction for amounts included under section 577.5 or 577.9.

577.8. A corporation resident in Canada may deduct in computing its income for a taxation year, in respect of a specified amount included in that computation under section 577.5 or in respect of an amount so included under section 577.9 in relation to a particular loan or indebtedness, a particular amount that is equal to the amount that the corporation deducts for the year in relation to the particular loan or indebtedness under subsection 9 of section 90 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

History: 2015, c. 21, s. 191.
Corresponding Federal Provision: 90(9), (10) and (11).

Add-back for section 577.8 deduction.

577.9. A corporation resident in Canada is required in computing its income for a particular taxation year to include any amount deducted by the corporation under section 577.8 in computing its income for the taxation year preceding the particular year.

History: 2015, c. 21, s. 191.
Corresponding Federal Provision: 90(12).

No double deduction.

577.10. A corporation may not claim a deduction for a taxation year under section 577.8 in respect of the same portion of a specified amount in respect of a loan or indebtedness for which a deduction is claimed for that year or a preceding taxation year by the corporation, or by the partnership of which the corporation is a member, under section 577.11.

History: 2015, c. 21, s. 191.
Corresponding Federal Provision: 90(13).

Repayment of loan.

577.11. In computing a taxpayer's income for a particular taxation year, there may be deducted the amount determined by the formula

A × (B/C).

Interpretation.

In the formula in the first paragraph,

(*a*) A is the specified amount, in respect of a loan or indebtedness, that is included under section 577.5 in computing the taxpayer's income for a preceding taxation year;

(*b*) B is the portion of the loan or indebtedness that is repaid in the particular year, to the extent it is established, having regard to subsequent events or otherwise, that the repayment is not part of a series of loans or other transactions and repayments; and

(*c*) C is the amount, in respect of the loan or indebtedness, that is referred to in the description of A in the formula in the definition of "specified amount" in subsection 15 of section 90 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement).

History: 2015, c. 21, s. 191.
Corresponding Federal Provision: 90(14).

Stock dividend paid by a foreign affiliate.

578. For the purposes of this Title and section 305, the amount of a stock dividend paid by a foreign affiliate of a corporation resident in Canada is, in respect of the corporation, deemed to be nil.

History: 1975, c. 22, s. 157; 1997, c. 3, s. 71.
Corresponding Federal Provision: 95(7).

CHAPTER II.1
FOREIGN CORPORATION SPIN-OFFS

DIVISION I
ELIGIBLE DISTRIBUTION

Eligible distribution.

578.1. In this chapter, an eligible distribution is a distribution of property to a taxpayer by a particular corporation if

(*a*) the distribution is made in relation to all of the taxpayer's common shares of the capital stock of the particular corporation, in this chapter referred to as the "original shares";

(*b*) the property distributed consists solely of common shares of the capital stock of another corporation that were owned by the particular corporation immediately before their distribution to the taxpayer, in this chapter referred to as the "spin-off shares";

(*c*) where the distribution is a prescribed distribution, the conditions set out in the first paragraph of section 578.2 are satisfied;

(*d*) where the distribution is not a prescribed distribution, the conditions set out in the second paragraph of section 578.2 are satisfied;

(*e*) the particular corporation provides to the Minister information satisfactory to the Minister establishing the

elements described in the first paragraph of section 578.3, before the end of the sixth month following the day on which the particular corporation first distributes a spin-off share in respect of the distribution; and

(*f*) the taxpayer makes a valid election under subsection 2 of section 86.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), to have the provisions of that section apply to the distribution and provides to the Minister information satisfactory to the Minister establishing the elements described in the second paragraph of section 578.3.

History: 2004, c. 8, s. 116; 2006, c. 13, s. 41.
Corresponding Federal Provision: 86.1(2) before (c), (c) before (i), (d) before (i), (e) before (i) and (f) before (i).

Conditions for prescribed distributions.

578.2. The conditions to which paragraph *c* of section 578.1 refers are as follows:

(*a*) at the time of the distribution, the particular corporation and the other corporation are resident in the same country, other than the United States, with which a tax agreement was entered into, in this paragraph referred to as the "foreign country", and were never resident in Canada;

(*b*) at the time of the distribution, the shares of the class that includes the original shares are widely held and actively traded on a designated stock exchange;

(*c*) under the law of the foreign country, no shareholder of the particular corporation who is resident in that country is taxable in relation to the distribution; and

(*d*) the distribution is a prescribed distribution subject to such terms and conditions as are considered appropriate in the circumstances.

Conditions for distributions that are not prescribed distributions.

The conditions to which paragraph *d* of section 578.1 refers are as follows:

(*a*) at the time of the distribution, the particular corporation and the other corporation are resident in the United States and were never resident in Canada;

(*b*) at the time of the distribution, the shares of the class that includes the original shares are widely held and

i. are actively traded on a designated stock exchange in the United States, or

ii. are required, under the United States Securities Exchange Act of 1934, as amended from time to time, to be registered with the Securities and Exchange Commission of the United States and are so registered; and

(*c*) under the provisions of the United States Internal Revenue Code of 1986, as amended from time to time, that apply to the distribution, no shareholder of the particular corporation who is resident in the United States is taxable in respect of the distribution.

History: 2004, c. 8, s. 116; 2009, c. 5, s. 187; 2010, c. 5, s. 51.
Corresponding Federal Provision: 86.1(2)(c) and (d).

Elements to be established in a share distribution.

578.3. The elements that the particular corporation must establish in accordance with paragraph *e* of section 578.1 are as follows:

(*a*) compliance with the conditions set out in subparagraphs *b* and *c* of the first or second paragraph of section 578.2, according to whether or not the distribution is a prescribed distribution;

(*b*) the fact that the particular corporation and the other corporation were never resident in Canada;

(*c*) the date of the distribution;

(*d*) the type and fair market value of each property distributed to a person resident in Canada;

(*e*) the name and address of each person resident in Canada who received property with respect to the distribution; and

(*f*) such other element as is required by the prescribed form.

Elements to be established in accordance with paragraph *f* of section 578.1.

The elements that the taxpayer must establish in accordance with paragraph *f* of section 578.1 are as follows:

(*a*) the number, cost amount, determined without reference to this chapter, and the fair market value of the taxpayer's original shares immediately before the distribution;

(*b*) the number, and fair market value, of the taxpayer's original shares and spin-off shares immediately after the distribution;

(*c*) except where the taxpayer makes the election under subsection 2 of section 86.1 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in the taxpayer's fiscal return filed by the taxpayer under that Act for the year in which the distribution occurs, the amount of the distribution, the manner in which the distribution was reported by the taxpayer and the details of any subsequent disposition of an original share or spin-off share that are required for the purpose of determining any gain or loss from that disposition; and

(*d*) such other element as is required by the prescribed form.

History: 2004, c. 8, s. 116.

Corresponding Federal Provision: 86.1(2)(e)(i) to (viii) and (f)(i) to (iv).

DIVISION II
APPLICABLE RULES

Rules applicable to an eligible distribution.

578.4. Notwithstanding any other provision of this Part, where an eligible distribution is made to a taxpayer, the following rules apply:

(*a*) the amount of the eligible distribution shall not be included in computing the income of the taxpayer; and

(*b*) section 304 does not apply to the eligible distribution.

History: 2004, c. 8, s. 116.
Corresponding Federal Provision: 86.1(1).

Cost adjustment of each share.

578.5. Where a spin-off share is distributed by a corporation to a taxpayer pursuant to an eligible distribution in relation to an original share of the taxpayer, the following rules apply:

(*a*) there shall be deducted in computing the cost amount to the taxpayer of the original share at any time the amount determined by the formula

A × (B / C); and

(*b*) the cost to the taxpayer of the spin-off share is the amount by which the cost amount of the taxpayer's original share was reduced under subparagraph *a*.

Interpretation.

In the formula provided for in subparagraph *a* of the first paragraph,

(*a*) A is the cost amount, determined without reference to this chapter, to the taxpayer of the original share immediately before the distribution or, if the original share is disposed of by the taxpayer before the distribution, immediately before its disposition;

(*b*) B is the fair market value of the spin-off share immediately after its distribution to the taxpayer; and

(*c*) C is the aggregate of

i. the fair market value of the original share immediately after the distribution of the spin-off share to the taxpayer, and

ii. the fair market value of the spin-off share immediately after its distribution to the taxpayer.

History: 2004, c. 8, s. 116.
Corresponding Federal Provision: 86.1(3).

Inventory.

578.6. For the purpose of determining the value of property described in the inventory of a taxpayer's business, the following rules apply:

(*a*) the distribution to the taxpayer of a spin-off share that is property described in the inventory, in respect of an eligible distribution, is deemed not to be an acquisition of property in the fiscal period of the business in which the distribution occurs; and

(*b*) the value of the spin-off share must be included in computing the value of the property described in the inventory at the end of that fiscal period.

History: 2004, c. 8, s. 116.
Corresponding Federal Provision: 86.1(4).

Assessments.

578.7. Notwithstanding the expiry of the time limits provided for in section 1010, the Minister may, where the Minister obtains information according to which the condition in subparagraph *c* of the first or second paragraph of section 578.2 is not, or is no longer, satisfied, make under this Part, for any taxation year, such assessments or reassessments of tax, interest and penalties or such determinations or redeterminations as are necessary,

(*a*) within three years after the day on which the Minister obtains the information; or

(*b*) within four years after the day referred to in paragraph *a* if, at the end of the taxation year concerned, the taxpayer is a mutual fund trust or a corporation other than a Canadian-controlled private corporation.

History: 2004, c. 8, s. 116.
Corresponding Federal Provision: 86.1(5).

CHAPTER III
FOREIGN ACCRUAL PROPERTY INCOME

Foreign accrual property income.

579. In this Title, the foreign accrual property income of a foreign affiliate of a taxpayer for a taxation year of such affiliate means an amount equal to that which is computed as foreign accrual property income in respect of the affiliate for the year under the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) and the Income Tax Regulations made under that Act.

History: 1975, c. 22, s. 158; 2013, c. 10, s. 35.
Corresponding Federal Provision: 95(1) "foreign accrual property income".

Income in respect of a share of a controlled foreign affiliate.

580. A taxpayer resident in Canada, in computing his income for a taxation year, must include as income from each

share owned by him of the capital stock of a controlled foreign affiliate of the taxpayer, the percentage of the foreign accrual property income of any controlled foreign affiliate of the taxpayer, for each taxation year of the affiliate ending in the taxation year of the taxpayer, equal to that share's participating percentage in respect of the affiliate, determined at the end of each such taxation year of the affiliate.

History: 1975, c. 22, s. 158.
Corresponding Federal Provision: 91(1).

Reserve where foreign exchange restrictions.

581. Where the Minister is of opinion that the inclusion of an amount in computing the income of a taxpayer for a taxation year by virtue of sections 580 and 582 imposes undue hardship on the taxpayer by reason of monetary or exchange restrictions of a country other than Canada, the taxpayer may in computing such income deduct in that regard such amount as a reserve as the Minister deems reasonable.

History: 1975, c. 22, s. 158; 1997, c. 14, s. 90.
Corresponding Federal Provision: 91(2).

Reserve to be included.

582. A taxpayer must include in computing his income for a taxation year the amount that he deducted as a reserve by virtue of section 581 for the preceding taxation year.

History: 1975, c. 22, s. 158; 1997, c. 14, s. 91.
Corresponding Federal Provision: 91(3).

Amount deductible in respect of foreign taxes.

583. A taxpayer who has included an amount under section 580 in respect of a share of a controlled foreign affiliate (in this section referred to as the "particular foreign affiliate") in computing the taxpayer's income for a taxation year or for one of the five preceding taxation years may deduct in so computing for the year the lesser of

(*a*) the product obtained by multiplying the taxpayer's prescribed tax factor for the year by the aggregate—to the extent that the aggregate was not deductible under this section for a preceding year—of any amount prescribed in respect of the particular foreign affiliate or a shareholder affiliate that is attributable to the amount and any income or profits tax reasonably attributable to the amount that is paid by

i. the particular foreign affiliate,

ii. the shareholder affiliate of the taxpayer, or

iii. another foreign affiliate of the taxpayer in respect of a dividend received, directly or indirectly, from the particular foreign affiliate, if that other foreign affiliate has an equity percentage in the particular foreign affiliate; and

(*b*) the amount by which that amount exceeds the aggregate of the amounts deductible under this section in respect of the share for the five preceding taxation years.

Shareholder affiliate.

For the purposes of the first paragraph, a shareholder affiliate of the taxpayer means a foreign affiliate of the taxpayer, other than the particular foreign affiliate, where

(*a*) it has an equity percentage in the particular foreign affiliate; and

(*b*) the income or profits tax is paid by it to a country other than Canada and it, and not the particular foreign affiliate, is liable for that tax under the laws of that country.

History: 1975, c. 22, s. 158; 1984, c. 15, s. 128; 2015, c. 21, s. 192; 2017, c. 1, s. 142.
Corresponding Federal Provision: 91(4); 95(1).

Amounts deductible in respect of dividends received.

584. A taxpayer resident in Canada who in a taxation year has received a dividend on a share of the capital stock of a corporation that was at any time a controlled foreign affiliate of the taxpayer, may deduct in computing his income for the year, in respect of such portion of the dividend as is prescribed under section 746 to have been paid out of the taxable surplus of the affiliate, within the meaning of section 747, the lesser of the amount by which that portion of the dividend exceeds the amount deductible in respect thereof under paragraph *b* of section 746 and the amount by which the amounts required by section 587 to be added exceed the amounts required by the same section to be deducted in computing the adjusted cost base of the share before the dividend was received.

History: 1975, c. 22, s. 158; 1997, c. 3, s. 71.
Corresponding Federal Provision: 91(5).

Adjusted cost base of a share of a foreign affiliate.

584.1. For the purposes of section 584, where a taxpayer that is a taxable Canadian corporation acquires from another corporation resident in Canada with which the taxpayer does not deal at arm's length, a share of the capital stock of a foreign affiliate of the taxpayer, the taxpayer is deemed to have been required to add or deduct, as the case may be, under Chapter IV, in computing the adjusted cost base of the share, any amount the other corporation has been so required to add or deduct, as the case may be, in computing the adjusted cost base of the share.

History: 1993, c. 16, s. 232; 1997, c. 3, s. 71; 2010, c. 25, s. 45.
Corresponding Federal Provision: 91(6).

Adjusted cost base of shares acquired from a partnership.

584.2. For the purposes of section 584, where a taxpayer resident in Canada acquires a share of the capital stock of a corporation that is immediately after the acquisition a foreign

affiliate of the taxpayer from a partnership of which the taxpayer, or a corporation resident in Canada with which the taxpayer was not dealing at arm's length at the time the share was acquired, was a member at any time during any fiscal period of the partnership that began before the acquisition, the following rules apply:

(*a*) that portion of any amount that the partnership was required by section 587 to add to the adjusted cost base of the share of the foreign affiliate equal to the amount included in computing the income of the member of the partnership because of section 600 in relation to the amount that was included in computing the income of the partnership under section 580 or 582 in respect of the foreign affiliate and added to that adjusted cost base, is deemed to be an amount that the taxpayer was required by section 587 to add in computing the adjusted cost base of the share; and

(*b*) that portion of any amount that the partnership was required by section 587 to deduct from the adjusted cost base of the share of the foreign affiliate equal to the amount by which the income of the member of the partnership was reduced because of section 600 in relation to the amount deducted in computing the income of the partnership, in respect of the foreign affiliate, under any of sections 581, 583 and 584 and deducted from that adjusted cost base, is deemed to be an amount that the taxpayer was required by section 587 to deduct in computing the adjusted cost base of the share.

History: 2004, c. 8, s. 117.
Corresponding Federal Provision: 91(7).

CHAPTER IV
ADJUSTED COST BASE OF SHARES IN A FOREIGN AFFILIATE

Adjusted cost base of a share of the capital stock of a foreign affiliate.

585. In computing, at any time in a taxation year, the adjusted cost base of a share of the capital stock of a foreign affiliate of a corporation resident in Canada, such corporation shall deduct, in respect of any dividend received by it before that time on such share, an amount equal to the amount by which such portion of the dividend as is deductible under paragraph *d* of section 746 in computing its taxable income for the year exceeds such portion of income or profits tax that it has paid to the government of a country other than Canada as may reasonably be ascribed to such portion of the dividend that it has so received.

History: 1972, c. 23, s. 449; 1975, c. 22, s. 159; 1997, c. 3, s. 71.
Corresponding Federal Provision: 92(2).

Adjusted cost base of a share of the capital stock of a foreign affiliate.

586. The rule set forth in section 585 applies, with the necessary modifications, for the purposes of computing, at any time in a taxation year, the adjusted cost base, to a foreign affiliate of a person resident in Canada, of a share of the capital stock of another foreign affiliate of such person, as if the expression "as is deductible" read "as, if it were resident in Canada, would be deductible".

History: 1972, c. 23, s. 450; 1975, c. 22, s. 159; 1995, c. 63, s. 261.
Corresponding Federal Provision: 92(2)(c).

Adjusted cost base of a share of the capital stock of a foreign affiliate.

587. A taxpayer resident in Canada, in computing at any time in a taxation year the adjusted cost base of a share owned by him of the capital stock of a foreign affiliate of the taxpayer, shall add any amount required to be included in respect of that share by virtue of sections 580 and 582 in computing his income for the year or any preceding year, or that would have been so required but for sections 316.1, 456 to 458, 462.1 to 462.24 and 466 to 467.1, and deduct any amount deducted by him in respect of that share, in computing his income for that year, by reason of sections 581 and 583, or that would have been deductible by him but for sections 316.1, 456 to 458, 462.1 to 462.24 and 466 to 467.1, and any dividend received by him before that time in respect of that share, to the extent of the amount deducted by him in respect thereof in computing his income for that year by reason of section 584 or that would have been deductible by him but for the said sections 316.1, 456 to 458, 462.1 to 462.24 and 466 to 467.1.

History: 1975, c. 22, s. 160; 1987, c. 67, s. 126; 1990, c. 59, s. 209.
Corresponding Federal Provision: 92(1).

Adjusted cost base of share of foreign affiliate.

587.1. A taxpayer is required to add, in computing the adjusted cost base to the taxpayer of a share of the capital stock of a foreign affiliate of the taxpayer, any amount required by subparagraph *b* of the first paragraph of section 590 to be so added.

History: 2015, c. 21, s. 193.
Corresponding Federal Provision: 92(1.2).

Addition in computing the adjusted cost base.

587.2. A foreign affiliate of a corporation resident in Canada or a partnership of which such a foreign affiliate is a member is required to add, in computing the adjusted cost base to the foreign affiliate or partnership of a share of the capital stock of another foreign affiliate of the corporation, the amount required by subsection 1.1 of section 92 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) to be so added in that computation for the purposes of that Act.

History: 2015, c. 36, s. 25.
Corresponding Federal Provision: 92(1.1).

Adjusted cost base of a share of the capital stock of a foreign affiliate.

588. A corporation resident in Canada, in computing, at any time in a taxation year, the adjusted cost base of a share of the capital stock of a foreign affiliate of the corporation, shall deduct any amount deducted by it in computing its taxable income under section 749 for the year or a preceding year in respect of any dividend received by it on such share before that time.

History: 1975, c. 22, s. 160; 1997, c. 3, s. 71.
Corresponding Federal Provision: 92(3).

Disposition of partnership interest.

588.1. A corporation resident in Canada or a foreign affiliate of such a corporation that disposes at any particular time of all or a portion of an interest in a partnership of which it is a member, shall add, in computing the proceeds of disposition of that interest, an amount equal to the amount determined by the formula

$[(A - B) - (C + D)] \times (E / F)$.

Interpretation.

In the formula provided for in the first paragraph,

(*a*) A is the aggregate of all amounts each of which is an amount that was deductible under paragraph *d* of section 746 in computing the taxable income of the member for any taxation year that began before the particular time in relation to any portion of a dividend received by the partnership, or that would have been so deductible if the member were a corporation resident in Canada;

(*b*) B is the aggregate of all amounts each of which is the portion of any income or profits tax paid by the partnership or the member to a government of a country other than Canada that can reasonably be attributed to the member's share of the dividend described in paragraph *a*;

(*c*) C is the aggregate of all amounts each of which is an amount added under this section in computing the member's proceeds of a disposition before the particular time of another interest in the partnership;

(*d*) D is the aggregate of all amounts each of which is an amount deemed by section 588.2 to be a gain of the member from a disposition before the particular time of a share of the capital stock of a corporation by the partnership;

(*e*) E is the adjusted cost base, immediately before the particular time, of the portion of the member's interest in the partnership disposed of by the member at the particular time; and

(*f*) F is the adjusted cost base, immediately before the particular time, of the member's interest in the partnership.

History: 2004, c. 8, s. 118.
Corresponding Federal Provision: 92(4).

Gain from the disposition of a share by a partnership.

588.2. Where a partnership disposes of a share of the capital stock of a corporation, at any particular time in a fiscal period of the partnership at the end of which a corporation resident in Canada or a foreign affiliate of a corporation resident in Canada is a member of the partnership, the amount determined by the following formula is deemed to be a gain of the member from the disposition of the share by the partnership for the member's taxation year in which that fiscal period ends:

$(A - B) - C$.

Interpretation.

In the formula provided for in the first paragraph,

(*a*) A is the aggregate of all amounts each of which is an amount that was deductible under paragraph *d* of section 746 in computing the member's taxable income for a taxation year in relation to any portion of a dividend received by the partnership on the share in a fiscal period that began before the particular time and ended in the member's taxation year, or would have been so deductible if the member were a corporation resident in Canada;

(*b*) B is the aggregate of all amounts each of which is the portion of any income or profits tax paid by the partnership or the member to a government of a country other than Canada that can reasonably be attributed to the member's share of the dividend described in paragraph *a*; and

(*c*) C is the aggregate of all amounts each of which is an amount added under section 588.1 in computing the member's proceeds of a disposition before the particular time of an interest in the partnership.

History: 2004, c. 8, s. 118.
Corresponding Federal Provision: 92(5) and (6).

CHAPTER V
ELECTION RELATING TO THE DISPOSITION OF A SHARE

Election in respect of a disposition of shares of a foreign affiliate.

589. If a corporation resident in Canada makes a valid election under subsection 1 of section 93 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), in respect of any share of the capital stock of a particular foreign affiliate of the corporation that is disposed of, at any time, by the corporation (in this section referred to as the "disposing corporation") or by another

foreign affiliate (in this section referred to as the "disposing affiliate") of the corporation, the amount designated in the election, in accordance with paragraph *a* of that subsection 1, not exceeding the amount that would, in the absence of this section, be the gain of the disposing corporation or disposing affiliate, as the case may be, from the disposition of the share, is deemed, for the purposes of this Part,

(*a*) to have been a dividend received on the share from the particular foreign affiliate by the disposing corporation or disposing affiliate, as the case may be, immediately before that time; and

(*b*) not to have been received by the disposing corporation or disposing affiliate, as the case may be, as proceeds of disposition in respect of the disposition of the share.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 1 of section 93 of the Income Tax Act.

History: 1972, c. 23, s. 451; 1972, c. 26, s. 51; 1975, c. 22, s. 161; 1984, c. 15, s. 129; 1986, c. 15, s. 89; 1997, c. 3, s. 71; 2001, c. 53, s. 85; 2010, c. 25, s. 46; 2015, c. 21, s. 194.

Corresponding Federal Provision: 93(1)(a).

Calculation of the gain where the adjusted cost base of a share is negative.

589.1. Except for the purposes of paragraph *a* of section 255, if, in relation to a share, section 261 applies to a corporation that has made, in respect of the share, the election referred to in the first paragraph of section 589, or to a foreign affiliate of the corporation, the amount that is deemed by section 261 to be the gain of the corporation or foreign affiliate, as the case may be, from the disposition of the share is deemed to be equal to the amount by which the amount established without reference to this section exceeds the amount that is deemed, under the first paragraph of section 589, to be a dividend and not to be proceeds of disposition of the share, in relation to the disposition.

History: 1993, c. 16, s. 233; 1997, c. 3, s. 71; 2010, c. 25, s. 46.

Corresponding Federal Provision: 93(1)(b)(i).

Conditions for section 589 to apply.

589.1.1. The rules in the second paragraph apply if

(*a*) a particular foreign affiliate of a corporation resident in Canada disposes at any time of a share (in this subparagraph and the second paragraph referred to as the "disposed share") of the capital stock of another foreign affiliate of the corporation and the particular foreign affiliate would, in the absence of section 589 and the second paragraph, have realized a capital gain from the disposition of the disposed share; or

(*b*) in the absence of section 589 and the second paragraph, a corporation resident in Canada would be deemed under section 261, because of a valid election under section 577.3 or subparagraph i of paragraph b of subsection 2 of section 5901 of the Income Tax Regulations made under the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), to have realized a gain, at any time, from the disposition of a share (in the second paragraph referred to as the "disposed share") of the capital stock of a foreign affiliate of the corporation.

Deemed election.

The rules to which the first paragraph refers are the following:

(*a*) the corporation resident in Canada is deemed to have made the election referred to in the first paragraph of section 589, at the time referred to in the first paragraph, in respect of the disposition of the disposed share; and

(*b*) the corporation resident in Canada is deemed to have designated, in the election, an amount equal to the amount that it is deemed, under paragraph *b* of subsection 1.11 of section 93 of the Income Tax Act, to have designated in the election in respect of the disposition of the disposed share.

History: 2015, c. 21, s. 195.

Corresponding Federal Provision: 93(1.1) and (1.11).

Election in respect of a disposition of shares of a foreign affiliate by a partnership.

589.2. If the disposition of shares of a class of the capital stock of a foreign affiliate of a particular corporation resident in Canada by a partnership would, but for this section, result in a taxable capital gain for a corporation (in this section referred to as the "disposing corporation") that is the particular corporation or a foreign affiliate of the particular corporation and the particular corporation makes a valid election under subsection 1.2 of section 93 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) after 19 December 2006 in respect of the disposition, the following rules apply:

(*a*) the amount determined in accordance with the second paragraph in respect of those shares is deemed to be a dividend received immediately before the disposition on the number of those shares that is the amount by which the number of those shares that the disposing corporation is deemed to own under section 592.1 immediately before the disposition exceeds the number of those shares that the disposing corporation is deemed to own under that section immediately after the disposition;

(*b*) notwithstanding Title XI, the disposing corporation's taxable capital gain from the disposition of those shares is deemed to be the amount by which the disposing corporation's taxable capital gain from the disposition of the shares otherwise determined exceeds the amount determined

in accordance with subparagraph *a* of the second paragraph in relation to those shares;

(*c*) *(paragraph repealed)*;

(*d*) for the purposes of sections 746 to 749 in relation to the dividend referred to in subparagraph *a*, the shares of the capital stock of the foreign affiliate on which that dividend was received are deemed to have been owned by the disposing corporation; and

(*e*) where the application of section 261 in respect of the partnership, in relation to those shares, results in a taxable capital gain for the disposing corporation, the partnership is deemed, for the purposes of this section, to have disposed of those shares.

Amount determined.

The amount to which subparagraph *a* of the first paragraph refers in respect of shares of a class of the capital stock of the foreign affiliate is, subject to the third paragraph, twice

(*a*) the amount designated in respect of shares in accordance with subparagraph i of paragraph *a* of subsection 1.2 of section 93 of the Income Tax Act, not exceeding the proportion of the taxable capital gain of the partnership that the amount by which the number of shares of that class of the capital stock of the foreign affiliate that are deemed to be owned by the disposing corporation under section 592.1 immediately before the disposition exceeds the number of those shares that are deemed to be owned by the disposing corporation under that section immediately after the disposition, is of the number of shares of that class of the capital stock of the foreign affiliate that are owned by the partnership immediately before the disposition; or

(*b*) where section 589.3 applies, the amount prescribed by regulation for the purposes of subparagraph ii of paragraph *a* of subsection 1.2 of section 93 of the Income Tax Act.

Rule applicable.

For the purposes of the second paragraph in respect of a disposing corporation for any of the following taxation years, the reference to "twice" in that paragraph shall be replaced, with the necessary modifications, by the following fraction, as the case may be:

(*a*) in the case of a taxation year that ends before 28 February 2000, 4/3; and

(*b*) in the case of a taxation year that includes 28 February 2000 or 17 October 2000 or that begins after 28 February 2000 and ends before 17 October 2000, the fraction that is the reciprocal of the fraction in paragraphs *a* to *d* of section 231.0.1 that applies in respect of the disposing corporation for the year.

Additional rules.

Chapter V.2 of Title II of Book I applies in relation to an election made under subsection 1.2 of section 93 of the Income Tax Act or in relation to an election made under the first paragraph before 20 December 2006.

History: 2004, c. 8, s. 119; 2010, c. 25, s. 47; 2015, c. 36, s. 26; 2019, c. 14, s. 156.

Corresponding Federal Provision: 93(1.2).

Deemed election.

589.3. If a partnership disposes at a particular time of excluded property that are shares of a class of the capital stock of a foreign affiliate of a particular corporation resident in Canada, the disposition results in a taxable capital gain for a foreign affiliate (in this section referred to as the "disposing corporation") of the particular corporation, and subsection 1.3 of section 93 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) applies in respect of the disposition, the particular corporation is deemed to have made at that time the election referred to in section 589.2 in relation to the number of shares of that class of the capital stock of the foreign affiliate that is the amount by which the number of those shares that are deemed to be owned by the disposing corporation under section 592.1 immediately before the disposition exceeds the number of those shares that are deemed to be owned by the disposing corporation under that section immediately after the disposition.

History: 2004, c. 8, s. 119; 2010, c. 25, s. 48.

Corresponding Federal Provision: 93(1.3).

Loss on the disposition of shares of a foreign affiliate.

590. If a taxpayer resident in Canada or a foreign affiliate (which taxpayer or foreign affiliate is referred to in this section as the "transferee") of the taxpayer acquires shares of the capital stock of one or more foreign affiliates (each referred to in this section as an "acquired affiliate") of the taxpayer on a disposition of shares (such shares disposed of being referred to in this section as the "disposed shares") of the capital stock of any other foreign affiliate of the taxpayer (other than, where the transferee is a foreign affiliate of the taxpayer, a disposition of shares that are, immediately before the disposition, excluded property of the transferee or a disposition to which section 238.1 applies), the following rules apply:

(*a*) the capital loss of the transferee from the disposition is deemed to be nil; and

(*b*) in computing the adjusted cost base to the transferee of a share of a particular class of the capital stock of an acquired affiliate that is owned by the transferee immediately after the disposition, there is to be added the amount determined by the formula

$$[(A - B) \times C/D]/E.$$

Interpretation.

In the formula in subparagraph *b* of the first paragraph,

(*a*) A is the aggregate of all amounts each of which is the cost amount to the transferee, immediately before the disposition, of a disposed share;

(*b*) B is the total of

i. the aggregate of all amounts each of which is the proceeds of disposition of a disposed share, and

ii. the aggregate of all amounts in respect of the computation of losses of the transferee from the dispositions of the disposed shares, each of which is, in respect of the disposition of a disposed share, the amount by which the amount referred to in subparagraph *a* of the second paragraph of section 591 exceeds the amount determined by the formula in that second paragraph;

(*c*) C is the fair market value, immediately after the disposition, of all shares of the particular class owned, immediately after the disposition, by the transferee;

(*d*) D is the fair market value, immediately after the disposition, of all shares owned, immediately after the disposition, by the transferee of the capital stock of all acquired affiliates; and

(*e*) E is the number of shares of the particular class that are owned by the transferee immediately after the disposition.

History: 1975, c. 22, s. 162; 1993, c. 16, s. 234; 2000, c. 5, s. 133; 2015, c. 21, s. 196.

Corresponding Federal Provision: 93(4).

Loss limitation on the disposition of a share of a foreign affiliate.

591. The amount of a particular loss sustained by a vendor that is a particular corporation resident in Canada or a foreign affiliate of the particular corporation is determined in accordance with the rules set out in the second paragraph where

(*a*) the particular corporation has a particular loss, determined without reference to this chapter, from the disposition by it at any time (in this section referred to as the "disposition time") of a share (in this section referred to as the "affiliate share") of the capital stock of a foreign affiliate of the particular corporation; or

(*b*) the foreign affiliate of the particular corporation has a particular loss, determined without reference to this chapter, from the disposition by it at any time (in this section referred to as the "disposition time") of a share (in this section referred to as the "affiliate share") of the capital stock of another foreign affiliate of the particular corporation that is not excluded property.

Amount of the loss limitation.

Where a particular loss is a loss referred to in subparagraph *a* or *b* of the first paragraph, the amount of the particular loss is deemed to be equal to the greater of

(*a*) the amount determined by the formula

A − (B − C); and

(*b*) the lesser of

i. the portion of the particular loss, determined without reference to this chapter, that can reasonably be considered to be attributable to a fluctuation in the value of a currency other than Canadian currency relative to Canadian currency, and

ii. the amount determined in respect of the vendor that is

(1) if the particular loss is a capital loss, the amount of a gain (other than a specified gain) that was realized within 30 days before or after the disposition time by the vendor and that is described in the fourth paragraph, or that is a capital gain realized within 30 days before or after the disposition time by the vendor under an agreement described in the fifth paragraph, or

(2) in any other case, the amount of a gain (other than a specified gain or a capital gain) that was realized within 30 days before or after the disposition time by the vendor and that is included in computing the income of the vendor for the taxation year that includes the time the gain was realized, if the gain meets any of the conditions of the sixth paragraph.

Interpretation.

In the formula in subparagraph *a* of the second paragraph,

(*a*) A is the amount of the particular loss determined without reference to this chapter;

(*b*) B is the aggregate of all amounts each of which is an amount received before the disposition time, in respect of a tax-exempt dividend on the affiliate share or on a share for which the affiliate share was substituted, by

i. the particular corporation,

ii. another corporation that is related to the particular corporation,

iii. a foreign affiliate of the particular corporation, or

iv. a foreign affiliate of another corporation that is related to the particular corporation; and

(*c*) C is the total of

i. the aggregate of all amounts each of which is the amount by which a loss (determined without reference to this chapter), from a previous disposition by a corporation, or a foreign affiliate described in subparagraph *b*, of the affiliate share or a share for which the affiliate share was substituted, was reduced under subparagraph *a* of the second paragraph in respect of tax-exempt dividends referred to in subparagraph *b*,

ii. the aggregate of all amounts each of which is twice the amount by which an allowable capital loss (determined without reference to this chapter) of a corporation or a foreign affiliate described in subparagraph *b*, from a previous disposition by a partnership of the affiliate share or a share for which the affiliate share was substituted, was reduced under subparagraph *a* of the second paragraph of section 591.1 in respect of tax-exempt dividends referred to in subparagraph *b*,

iii. the aggregate of all amounts each of which is the amount by which a loss (determined without reference to this chapter), from a previous disposition by a corporation, or a foreign affiliate described in subparagraph *b*, of an interest in a partnership, was reduced under subparagraph *a* of the second paragraph of section 591.2 in respect of tax-exempt dividends referred to in subparagraph *b*, and

iv. the aggregate of all amounts each of which is twice the amount by which an allowable capital loss (determined without reference to this chapter) of a corporation or a foreign affiliate described in subparagraph *b*, from a previous disposition by a partnership of an interest in another partnership, was reduced under subparagraph *a* of the second paragraph of section 591.3 in respect of tax-exempt dividends referred to in subparagraph *b*.

Gain referred to in subparagraph (b)(ii)(1) of the second paragraph.

The gain to which subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph refers is a gain that

(*a*) is deemed under section 262 to be a capital gain of the vendor for the taxation year that includes the time the gain was realized from the disposition of currency other than Canadian currency; and

(*b*) is in respect of the settlement or extinguishment of a foreign currency debt that

i. was issued or incurred by the vendor within 30 days before or after the acquisition of the affiliate share by the vendor,

ii. was, at all times at which it was a debt obligation of the vendor, owing to a person or partnership that dealt, at all times during which the foreign currency debt was outstanding, at arm's length with the particular corporation, and

iii. could reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate share.

Agreement referred to in subparagraph (b)(ii)(1) of the second paragraph.

The agreement to which subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph refers is an agreement that

(*a*) was entered into by the vendor within 30 days before or after the acquisition of the affiliate share by the vendor with a person or partnership that dealt, at all times during which the agreement was in force, at arm's length with the particular corporation;

(*b*) provides for the purchase, sale or exchange of currency; and

(*c*) can reasonably be considered to have been entered into by the vendor for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate share.

Gain referred to in subparagraph (b)(ii)(2) of the second paragraph.

The conditions to which subparagraph 2 of subparagraph ii of subparagraph *b* of the second paragraph refers in respect of a gain referred to in that subparagraph 2 are the following:

(*a*) the gain is in respect of the settlement or extinguishment of a foreign currency debt that

i. was issued or incurred by the vendor within 30 days before or after the acquisition of the affiliate share by the vendor,

ii. was, at all times at which it was a debt obligation of the vendor, owing to a person or partnership that dealt, at all times during which it was outstanding, at arm's length with the particular corporation, and

iii. can reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate share; and

(*b*) the gain is provided for in an agreement described in the fifth paragraph.

History: 1972, c. 23, s. 452; 1993, c. 16, s. 235; 1997, c. 3, s. 71; 2004, c. 8, s. 120; 2015, c. 21, s. 196.

Corresponding Federal Provision: 93(2) and (2.01).

Specified gain.

591.0.1. For the purposes of subparagraphs 1 and 2 of subparagraph ii of subparagraph *b* of the second paragraph of section 591, "specified gain" means a gain in respect of the settlement or extinguishment of a foreign currency debt referred to in subparagraph *b* of the fourth paragraph of that

section or in subparagraph *a* of the sixth paragraph of that section, or that arises under a particular agreement referred to in the fifth paragraph of that section, if the particular corporation, or any person or partnership with which the particular corporation was not—at any time during which the foreign currency debt was outstanding or the particular agreement was in force, as the case may be— dealing at arm's length, entered into an agreement that may reasonably be considered to have been entered into for the principal purpose of hedging any foreign exchange exposure arising in connection with the foreign currency debt or the particular agreement.

History: 2015, c. 21, s. 197.

Corresponding Federal Provision: 93(2.02).

Loss limitation on the disposition of a foreign affiliate share by a partnership.

591.1. The amount of a particular allowable capital loss sustained by a particular corporation resident in Canada or a foreign affiliate of the particular corporation is determined in accordance with the rules set out in the second paragraph where

(*a*) the particular corporation has a particular allowable capital loss, determined without reference to this chapter, from the disposition at any time (in this section referred to as the "disposition time") by a partnership (in this section and section 591.1.1 referred to as the "disposing partnership") of a share (in this section referred to as the "affiliate share") of the capital stock of a foreign affiliate of the particular corporation; or

(*b*) the foreign affiliate of the particular corporation has a particular allowable capital loss, determined without reference to this chapter, from the disposition at any time (in this section referred to as the "disposition time") by a partnership (in this section and section 591.1.1 referred to as the "disposing partnership") of a share (in this section referred to as the "affiliate share") of the capital stock of another foreign affiliate of the particular corporation that would not be excluded property of the affiliate if the affiliate had owned the share immediately before the disposition time.

Amount of the loss limitation.

Where a particular allowable capital loss is a loss referred to in subparagraph *a* or *b* of the first paragraph, the amount of the particular allowable capital loss is deemed to be equal to the greater of

(*a*) the amount determined by the formula

A − (B − C); and

(*b*) the lesser of

i. the portion of the particular allowable capital loss, determined without reference to this chapter, that can reasonably be considered to be attributable to a fluctuation in the value of a currency other than Canadian currency relative to Canadian currency, and

ii. one-half of the amount determined in respect of the particular corporation, or the foreign affiliate of the particular corporation, that is the amount of a gain (other than a specified gain) that

(1) was realized within 30 days before or after the disposition time by the disposing partnership to the extent that the gain is reasonably attributable to the particular corporation or the foreign affiliate, as the case may be, if the gain is described in the fourth paragraph, or

(2) is a capital gain (to the extent that the capital gain is reasonably attributable to the particular corporation or the foreign affiliate, as the case may be) realized within 30 days before or after the disposition time by the disposing partnership under an agreement described in the fifth paragraph.

Interpretation.

In the formula in subparagraph *a* of the second paragraph,

(*a*) A is the amount of the particular allowable capital loss determined without reference to this chapter,

(*b*) B is one-half of the aggregate of all amounts each of which is an amount received before the disposition time, in respect of a tax-exempt dividend on the affiliate share or on a share for which the affiliate share was substituted, by

i. the particular corporation,

ii. another corporation that is related to the particular corporation,

iii. a foreign affiliate of the particular corporation, or

iv. a foreign affiliate of another corporation that is related to the particular corporation; and

(*c*) C is the total of

i. the aggregate of all amounts each of which is one-half of the amount by which a loss (determined without reference to this chapter), from a previous disposition by a corporation, or a foreign affiliate described in subparagraph *b*, of the affiliate share or a share for which the affiliate share was substituted, was reduced under subparagraph *a* of the second paragraph of section 591 in respect of tax-exempt dividends referred to in subparagraph *b*,

ii. the aggregate of all amounts each of which is the amount by which an allowable capital loss (determined without reference to this chapter), of a corporation or a foreign affiliate described in subparagraph *b*, from a previous disposition by a partnership of the affiliate share or a share

for which the affiliate share was substituted, was reduced under subparagraph *a* of the second paragraph in respect of tax-exempt dividends referred to in subparagraph *b*,

iii. the aggregate of all amounts each of which is one-half of the amount by which a loss (determined without reference to this chapter), from a previous disposition by a corporation, or a foreign affiliate described in subparagraph *b*, of an interest in a partnership, was reduced under subparagraph *a* of the second paragraph of section 591.2 in respect of tax-exempt dividends referred to in subparagraph *b*, and

iv. the aggregate of all amounts each of which is the amount by which an allowable capital loss (determined without reference to this chapter), of a corporation, or a foreign affiliate described in subparagraph *b*, from a previous disposition by a partnership of an interest in another partnership, was reduced under subparagraph *a* of the second paragraph of section 591.3 in respect of tax-exempt dividends referred to in subparagraph *b*.

Gain referred to in subparagraph (b)(ii)(1) of the second paragraph.

The gain to which subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph refers is a gain that

(*a*) is deemed under section 262 to be a capital gain of the disposing partnership for the taxation year that includes the time the gain was realized from the disposition of currency other than Canadian currency; and

(*b*) is in respect of the settlement or extinguishment of a foreign currency debt that

i. was issued or incurred by the disposing partnership within 30 days before or after the acquisition of the affiliate share by the disposing partnership,

ii. was, at all times at which it was a debt obligation of the disposing partnership, owing to a person or partnership that dealt, at all times during which the foreign currency debt was outstanding, at arm's length with the particular corporation, and

iii. could reasonably be considered to have been issued or incurred in relation to the acquisition of the affiliate share.

Agreement referred to in subparagraph (b)(ii)(2) of the second paragraph.

The agreement to which subparagraph 2 of subparagraph ii of subparagraph *b* of the second paragraph refers is an agreement that

(*a*) was entered into by the disposing partnership, within 30 days before or after the acquisition of the affiliate share by the disposing partnership, with a person or partnership that dealt, at all times during which the agreement was in force, at arm's length with the particular corporation;

(*b*) provides for the purchase, sale or exchange of currency; and

(*c*) can reasonably be considered to have been entered into by the disposing partnership for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the affiliate share.

History: 2004, c. 8, s. 121; 2015, c. 21, s. 198.
Corresponding Federal Provision: 93(2.1) and (2.11).

Specified gain.

591.1.1. For the purposes of subparagraph ii of subparagraph *b* of the second paragraph of section 591.1, "specified gain" means a gain in respect of the settlement or extinguishment of a foreign currency debt referred to in subparagraph *b* of the fourth paragraph of that section or that arises under a particular agreement referred to in the fifth paragraph of that section, if the disposing partnership, or any person or partnership with which the particular corporation was not—at any time during which the foreign currency debt was outstanding or the particular agreement was in force, as the case may be— dealing at arm's length, entered into an agreement that may reasonably be considered to have been entered into for the principal purpose of hedging any foreign exchange exposure arising in connection with the foreign currency debt or the particular agreement.

History: 2015, c. 21, s. 199.
Corresponding Federal Provision: 93(2.12).

Loss limitation on the disposition of a partnership that has foreign affiliate shares.

591.2. The amount of a particular loss sustained by a vendor that is a particular corporation resident in Canada or a foreign affiliate of the particular corporation is determined in accordance with the rules set out in the second paragraph where

(*a*) the particular corporation has a particular loss, determined without reference to this chapter, from the disposition by it at any time (in this section referred to as the "disposition time") of an interest in a partnership that has a direct or indirect right in shares (in this section referred to as the "affiliate shares") of the capital stock of a foreign affiliate of the particular corporation; or

(*b*) the foreign affiliate of the particular corporation has a particular loss, determined without reference to this chapter, from the disposition by it at any time (in this section referred to as the "disposition time") of an interest in a partnership that has a direct or indirect right in shares (in this section referred to as the "affiliate shares") of the capital stock of another foreign affiliate of the particular corporation that would not be excluded property of the affiliate if the affiliate had owned the shares immediately before the disposition time.

Amount of the loss limitation.

Where a particular loss is a loss referred to in subparagraph *a* or *b* of the first paragraph, the amount of the particular loss is deemed to be equal to the greater of

(*a*) the amount determined by the formula

A − (B − C); and

(*b*) the lesser of

i. the portion of the particular loss, determined without reference to this chapter, that can reasonably be considered to be attributable to a fluctuation in the value of a currency other than Canadian currency relative to Canadian currency, and

ii. the amount determined in respect of the vendor that is

(1) if the particular loss is a capital loss, the amount of a gain (other than a specified gain) that was realized within 30 days before or after the disposition time by the vendor and is described in the fourth paragraph or that is a capital gain realized within 30 days before or after the disposition time by the vendor under an agreement described in the fifth paragraph, or

(2) in any other case, the amount of a gain (other than a specified gain or a capital gain) that was realized within 30 days before or after the disposition time by the vendor and that is included in computing the income of the vendor for the taxation year that includes the time the gain was realized if the gain meets any of the conditions of the sixth paragraph.

Interpretation.

In the formula in subparagraph *a* of the second paragraph,

(*a*) A is the amount of the particular loss determined without reference to this chapter;

(*b*) B is the aggregate of all amounts each of which is an amount received before the disposition time, in respect of a tax-exempt dividend on affiliate shares or on shares for which affiliate shares were substituted, by

i. the particular corporation,

ii. another corporation that is related to the particular corporation,

iii. a foreign affiliate of the particular corporation, or

iv. a foreign affiliate of another corporation that is related to the particular corporation; and

(*c*) C is the total of

i. the aggregate of all amounts each of which is the amount by which a loss (determined without reference to this chapter), from a previous disposition by a corporation, or a foreign affiliate described in subparagraph *b*, of the affiliate shares or shares for which the affiliate shares were substituted, was reduced under subparagraph *a* of the second paragraph of section 591 in respect of tax-exempt dividends referred to in subparagraph *b*,

ii. the aggregate of all amounts each of which is twice the amount by which an allowable capital loss (determined without reference to this chapter) of a corporation or a foreign affiliate described in subparagraph *b*, from a previous disposition by a partnership of the affiliate shares or shares for which the affiliate shares were substituted, was reduced under subparagraph *a* of the second paragraph of section 591.1 in respect of tax-exempt dividends referred to in subparagraph *b*,

iii. the aggregate of all amounts each of which is the amount by which a loss (determined without reference to this chapter), from a previous disposition by a corporation, or a foreign affiliate described in subparagraph *b*, of an interest in a partnership, was reduced under subparagraph *a* of the second paragraph in respect of tax-exempt dividends referred to subparagraph *b*, and

iv. the aggregate of all amounts each of which is twice the amount by which an allowable capital loss (determined without reference to this chapter) of a corporation or a foreign affiliate described in subparagraph *b*, from a previous disposition by a partnership of an interest in another partnership, was reduced under subparagraph *a* of the second paragraph of section 591.3 in respect of tax-exempt dividends referred to in subparagraph *b*.

Gain referred to in subparagraph (b)(ii)(1) of the second paragraph.

The gain to which subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph refers is a gain that

(*a*) is deemed under section 262 to be a capital gain of the vendor for the taxation year that includes the time the gain was realized from the disposition of currency other than Canadian currency; and

(*b*) is in respect of the settlement or extinguishment of a foreign currency debt that

i. was issued or incurred by the vendor within 30 days before or after the acquisition of a partnership interest by the vendor,

ii. was, at all times at which it was a debt obligation of the vendor, owing to a person or partnership that dealt, at all times during which the foreign currency debt was outstanding, at arm's length with the particular corporation, and

iii. could reasonably be considered to have been issued or incurred in relation to the acquisition of the partnership interest.

Agreement referred to in subparagraph (b)(ii)(1) of the second paragraph.

The agreement to which subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph refers is an agreement that

(*a*) was entered into by the vendor within 30 days before or after the acquisition of the partnership interest by the vendor with a person or partnership that dealt, at all times during which the agreement was in force, at arm's length with the particular corporation;

(*b*) provides for the purchase, sale or exchange of currency; and

(*c*) can reasonably be considered to have been entered into by the vendor for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the partnership interest.

Gain referred to in subparagraph (b)(ii)(2) of the second paragraph.

The conditions to which subparagraph 2 of subparagraph ii of subparagraph *b* of the second paragraph refers in respect of a gain described in that subparagraph 2 are the following:

(*a*) the gain is in respect of the settlement or extinguishment of a foreign currency debt that

i. was issued or incurred by the vendor within 30 days before or after the acquisition of the partnership interest by the vendor,

ii. was, at all times at which it was a debt obligation of the vendor, owing to a person or partnership that dealt, at all times during which it was outstanding, at arm's length with the particular corporation, and

iii. can reasonably be considered to have been issued or incurred in relation to the acquisition of the partnership interest; and

(*b*) the gain is provided for in an agreement described in the fifth paragraph.

History: 2004, c. 8, s. 121; 2015, c. 21, s. 200; 2020, c. 16, s. 84.
Corresponding Federal Provision: 93(2.2) and (2.21).

Specified gain.

591.2.1. For the purposes of subparagraphs 1 and 2 of subparagraph ii of subparagraph *b* of the second paragraph of section 591.2, "specified gain" means a gain in respect of the settlement or extinguishment of a foreign currency debt referred to in subparagraph *b* of the fourth paragraph of that section or in subparagraph *a* of the sixth paragraph of that section, or that arises under a particular agreement referred to in the fifth paragraph of that section, if the particular corporation, or any person or partnership with which the particular corporation was not—at any time during which the foreign currency debt was outstanding or the particular agreement was in force, as the case may be— dealing at arm's length, entered into an agreement that may reasonably be considered to have been entered into for the principal purpose of hedging any foreign exchange exposure arising in connection with the foreign currency debt or the particular agreement.

History: 2015, c. 21, s. 201.
Corresponding Federal Provision: 93(2.22).

Loss limitation on the disposition by a partnership of an indirect interest in foreign affiliate shares.

591.3. The amount of a particular allowable capital loss sustained by a particular corporation resident in Canada or a foreign affiliate of the particular corporation is determined in accordance with the rules set out in the second paragraph where

(*a*) the particular corporation has a particular allowable capital loss, determined without reference to this chapter, from the disposition at any time (in this section referred to as the "disposition time") by a partnership (in this section and section 591.3.1 referred to as the "particular partnership") of an interest in another partnership that has a direct or indirect right in shares (in this section referred to as the "affiliate shares") of the capital stock of a foreign affiliate of the particular corporation; or

(*b*) the foreign affiliate of the particular corporation has a particular allowable capital loss, determined without reference to this chapter, from the disposition at any time (in this section referred to as the "disposition time") by a partnership (in this section and section 591.3.1 referred to as the "particular partnership") of an interest in another partnership that has a direct or indirect right in shares (in this section referred to as the "affiliate shares") of the capital stock of a foreign affiliate of the particular corporation that would not be excluded property of the affiliate if the affiliate had owned the shares immediately before the disposition time.

Amount of the loss limitation.

Where a particular allowable capital loss is a loss referred to in subparagraph *a* or *b* of the first paragraph, the amount of the particular allowable capital loss is deemed to be equal to the greater of

(*a*) the amount determined by the formula

A − (B − C); and

(*b*) the lesser of

i. the portion of the particular allowable capital loss, determined without reference to this chapter, that can reasonably be considered to be attributable to a fluctuation in the value of a currency other than Canadian currency relative to Canadian currency, and

ii. one-half of the amount determined in respect of the particular corporation or the foreign affiliate of the particular corporation that is the amount of a gain (other than a specified gain) that

(1) was realized within 30 days before or after the disposition time by the particular partnership to the extent that the gain is reasonably attributable to the particular corporation or the foreign affiliate, as the case may be, if the gain is described in the fourth paragraph, or

(2) is a capital gain (to the extent that the capital gain is reasonably attributable to the particular corporation or the foreign affiliate, as the case may be) realized within 30 days before or after the disposition time by the particular partnership under an agreement described in the fifth paragraph.

Interpretation.

In the formula in subparagraph *a* of the second paragraph,

(*a*) A is the amount of the particular allowable capital loss determined without reference to this chapter;

(*b*) B is one-half of the aggregate of all amounts each of which is an amount received before the disposition time, in respect of a tax-exempt dividend on affiliate shares or on shares for which the affiliate shares were substituted, by

i. the particular corporation,

ii. another corporation that is related to the particular corporation,

iii. a foreign affiliate of the particular corporation, or

iv. a foreign affiliate of another corporation that is related to the particular corporation; and

(*c*) C is the total of

i. the aggregate of all amounts each of which is one-half of the amount by which a loss (determined without reference to this chapter), from a previous disposition by a corporation, or a foreign affiliate described in subparagraph *b*, of the affiliate shares or shares for which the affiliate shares were substituted, was reduced under subparagraph *a* of the second paragraph of section 591 in respect of tax-exempt dividends referred to in subparagraph *b*,

ii. the aggregate of all amounts each of which is the amount by which an allowable capital loss (determined without reference to this chapter), of a corporation or a foreign affiliate described in subparagraph *b*, from a previous disposition by a partnership of the affiliate shares or shares for which the affiliate shares were substituted, was reduced under subparagraph *a* of the second paragraph of section 591.1 in respect of tax-exempt dividends referred to in subparagraph *b*,

iii. the aggregate of all amounts each of which is one-half of the amount by which a loss (determined without reference to this chapter), of a corporation or a foreign affiliate described in subparagraph *b*, from a previous disposition by a corporation, or a foreign affiliate described in subparagraph *b*, of an interest in a partnership, was reduced under subparagraph *a* of the second paragraph of section 591.2 in respect of tax-exempt dividends referred to in subparagraph *b*, and

iv. the aggregate of all amounts each of which is the amount by which an allowable capital loss (determined without reference to this chapter), of a corporation or a foreign affiliate described in subparagraph *b*, from a previous disposition by a partnership of an interest in another partnership, was reduced under subparagraph *a* of the second paragraph in respect of tax-exempt dividends referred to in subparagraph *b*.

Gain referred to in subparagraph (b)(ii)(1) of the second paragraph.

The gain to which subparagraph 1 of subparagraph ii of subparagraph *b* of the second paragraph refers is a gain that

(*a*) is deemed under section 262 to be a capital gain of the particular partnership for the taxation year that includes the time the gain was realized from the disposition of currency other than Canadian currency; and

(*b*) is in respect of the settlement or extinguishment of a foreign currency debt that

i. was issued or incurred by the particular partnership within 30 days before or after the acquisition of the partnership interest by the partnership,

ii. was, at all times at which it was a debt obligation of the particular partnership, owing to a person or partnership that dealt, at all times during which the foreign currency debt was outstanding, at arm's length with the particular corporation, and

iii. could reasonably be considered to have been issued or incurred in relation to the acquisition of the partnership interest.

Agreement referred to in subparagraph (b)(ii)(2) of the second paragraph.

The agreement to which subparagraph 2 of subparagraph ii of subparagraph *b* of the second paragraph refers is an agreement that

(*a*) was entered into by the particular partnership, within 30 days before or after the acquisition of the partnership interest by the particular partnership, with a person or partnership that dealt, at all times during which the agreement was in force, at arm's length with the particular corporation;

(*b*) provides for the purchase, sale or exchange of currency; and

(*c*) can reasonably be considered to have been entered into by the particular partnership for the principal purpose of hedging the foreign exchange exposure arising in connection with the acquisition of the partnership interest.

History: 2004, c. 8, s. 121; 2015, c. 21, s. 202; 2020, c. 16, s. 85.
Corresponding Federal Provision: 93(2.3) and (2.31).

Specified gain.

591.3.1. For the purposes of subparagraph ii of subparagraph *b* of the second paragraph of section 591.3, "specified gain" means a gain in respect of the settlement or extinguishment of a foreign currency debt referred to in subparagraph *b* of the fourth paragraph of that section, or that arises under a particular agreement referred to in the fifth paragraph of that section, if the particular partnership, or any person or partnership with which the particular corporation was not—at any time during which the foreign currency debt was outstanding or the particular agreement was in force, as the case may be— dealing at arm's length, entered into an agreement that may reasonably be considered to have been entered into for the principal purpose of hedging any foreign exchange exposure arising in connection with the foreign currency debt or the particular agreement.

History: 2015, c. 21, s. 203.
Corresponding Federal Provision: 93(2.32).

Tax-exempt dividends.

592. For the purposes of sections 591, 591.1, 591.2 and 591.3, the following rules apply:

(*a*) a dividend received by a corporation resident in Canada is a tax-exempt dividend to the extent of the portion of the dividend that is deductible in computing its taxable income under any of paragraphs *a* to *c* of section 746;

(*b*) a dividend received by a particular foreign affiliate of a corporation resident in Canada from another foreign affiliate of the corporation is a tax-exempt dividend to the extent of the amount by which the portion of the dividend that was not prescribed to have been paid out of the pre-acquisition surplus of the other affiliate exceeds the aggregate of such portion of the income or profits tax that can reasonably be considered to have been paid in relation to that portion of the dividend by the particular affiliate or by a partnership in which the particular affiliate had, at the time of the payment of the income or profits tax, a partnership interest, either directly or indirectly; and

(*c*) a foreign affiliate of a corporation resident in Canada is deemed to have received from another foreign affiliate of the corporation an amount equal to the amount that is described in paragraph *c* of subsection 3 of section 93 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), at the time referred to in that paragraph and for the same purposes.

History: 1972, c. 23, s. 453; 1975, c. 22, s. 163; 1997, c. 3, s. 71; 2004, c. 8, s. 122; 2015, c. 21, s. 204; 2015, c. 36, s. 27.
Corresponding Federal Provision: 93(3).