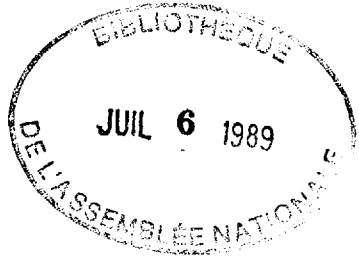
NATIONAL ASSEMBLY

SECOND SESSION THIRTY-THIRD LEGISLATURE

Bill 131

An Act to amend the Taxation Act and other fiscal legislation



Introduction

Introduced by
Mr Yves Séguin
Minister of Revenue

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EXPLANATORY NOTES

The principal object of this bill is to bring the fiscal legislation of Québec into harmony with that of Canada. To that end, it gives effect to the measures of harmonization contained in the Budget Speech of 30 April 1987 of the Minister of Finance of Québec and, accessorily, in other budgetary documents, in particular, the Budget Speeches of 12 May 1988 and 1 May 1986, the Statement of Budgetary Policy of the Government of 18 December 1985 and the Ministerial Statements issued by the Minister of Finance on 18 December 1987, 18 June 1987, 11 December 1986 and 20 June 1985.

Firstly, this bill amends the Land Transfer Duties Act in order to amend the references contained in the definition of the word "transfer".

Secondly, it amends the Taxation Act in order to introduce amendments similar to those introduced, in part, into the Income Tax Act by federal Bill C-64 (S.C. 1987, chapter 47), assented to on 17 December 1987.

These amendments regard the following matters in particular:

(1) the estimation of the value of the benefit resulting from a remission of debt to an employee or shareholder;

(2) the rules governing accrued investment income;

(3) the rules respecting retirement compensation arrangements;

(4) the non-applicability of the rules of attribution to transfers of benefits under certain pension plans;

(5) the provisions regarding successor corporations;

(6) the rules regarding transfers of losses and other deductions between taxpayers dealing at arm's length.

This bill also makes technical amendments to the Taxation Act.

Thirdly, it amends the Act respecting the Ministère du Revenu in order to create joint and several liability for the transferee of property with respect to the aggregate of amounts due by the transferor under a fiscal law.

Fourthly, it amends the Act respecting work income supplement in order to make persons who are entitled to a benefit under Chapter III of the Act respecting income security (1988, chapter 51) ineligible for the work income supplement.

Lastly, it amends the Act to amend the Taxation Act and other legislation and to make certain provisions respecting retail sales tax (1989, chapter 5), in order to amend certain of the provisions respecting the applicability of section 52 of that Act.

ACTS AMENDED BY THIS BILL:

(1) Land Transfer Duties Act (R.S.Q., chapter D-17);

(2) Taxation Act (R.S.Q., chapter I-3);

(3) Act respecting the Ministère du Revenu (R.S.Q., chapter M-31);

(4) Act respecting work income supplement (R.S.Q., chapter S-37.1);

(5) Act to amend the Taxation Act and other legislation and to make certain provisions respecting retail sales tax (1989, chapter 5).

Bill 131

An Act to amend the Taxation Act and other fiscal legislation

THE PARLIAMENT OF QUÉBEC ENACTS AS FOLLOWS:

1. (1) Section 1 of the Land Transfer Duties Act (R.S.Q., chapter D-17) is amended by replacing the definition of the word "transfer" by the following definition:

""transfer" means the transfer of an immovable right as well as a contract of lease and the granting of an option or of a promise of sale; the word "transfer" does not include transfer for the purpose only of securing a debt, nor reconveyance by the creditor, nor the transfer of any right contemplated in section 8 of the Mining Act (1987, chapter 64), nor the transfer or lease of lands in the public domain effected in virtue of the Act respecting the lands in the public domain (R.S.Q., chapter T-8.1)."

(2) This section has effect from 1 October 1988. However, where, in the definition of the word "transfer", it amends section 1 of the Land Transfer Duties Act to refer to section 8 of the Mining Act (1987, chapter 64), it has effect from 24 October 1988.

2. (1) Section 1 of the Taxation Act (R.S.Q., chapter I-3), amended by section 17 of chapter 4 of the statutes of 1988, by section 2 of chapter 18 of the statutes of 1988 and by section 20 of chapter 5 of the statutes of 1989, is again amended

(1) by inserting, after the definition of the expression "restricted farm loss", the following definition:

""retirement compensation arrangement" has the meaning assigned by section 890.1;";

(2) by replacing the definition of the expression "taxable income" by the following definition:

""taxable income" has the meaning assigned by section 24 or 26.1, as the case may be, and in no case may the taxpayer's taxable income be less than $0;".

(2) Paragraph 1 of subsection 1 applies after 8 October 1986 in respect of a plan or arrangement referred to in section 890.1 of the Taxation Act. However, where it applies in respect of a plan or arrangement, other than a registered retirement plan the registration of which has been revoked under the Taxation Act, which was established before 9 October 1986 or which was established after 8 October 1986 pursuant to an agreement entered into before 9 October 1986 between a taxpayer and an employer or a former employer of the taxpayer, in this subsection referred to as the "existing arrangement", for the purposes of Part I of the Taxation Act,

(*a*) another plan or arrangement, in this subsection referred to as the "statutory arrangement", is deemed to be established on the day that is the earlier of 1 January 1988 and the day after 8 October 1986 on which the terms of the existing arrangement have been materially altered;

(*b*) the statutory arrangement is deemed to be a separate arrangement independent of the existing arrangement;

(*c*) the existing arrangement is deemed not to be a retirement compensation arrangement within the definition of that expression as enacted by subsection 1; and

(*d*) all contributions made under the existing arrangement after the establishment of the statutory arrangement and all property that can reasonably be considered to derive from those contributions are deemed to be property held in connection with the statutory arrangement and not in connection with the existing arrangement.

(3) Paragraph 2 of subsection 1 applies from the taxation year 1985.

3. (1) The said Act is amended by inserting, after section 6.1, the following section:

"**6.2** Where, at any time, control of a corporation has been acquired by a person or group of persons, the following rules apply:

(*a*) subject to paragraph *c*, the taxation year of the corporation that would, but for this paragraph, have included that time is deemed to have ended immediately before that time;

(*b*) a new taxation year of the corporation is deemed to have commenced at that time;

(*c*) subject to sections 569.2 and 779 and paragraph *a* of section 999.1, and notwithstanding the definition of the expression "taxation year" contained in section 1 and sections 5 and 6.1, where the taxation year of the corporation that would, but for this section, have been its last taxation year ending before that time and would, but for this paragraph, have ended within the seven day period ending immediately before that time, that taxation year is, except where control of the corporation has been acquired by a person or group of persons within the seven day period ending immediately before that time, deemed to end immediately before that time where the corporation so elects in its fiscal return under this Part for that taxation year; and

(*d*) for the purpose of determining the corporation's fiscal period after that time, the corporation is deemed not to have established a fiscal period before that time."

(2) This section applies, subject to section 112, in respect of acquisitions of control occurring after 15 January 1987 other than acquisitions of control occurring before 1 January 1988 where the persons acquiring the control were obliged on 15 January 1987 to acquire the control pursuant to the terms of agreements in writing entered into on or before that date, except that a fiscal return required to be filed under the Taxation Act by a corporation for a taxation year that is deemed by section 6.2 of the said Act, as enacted by this section, to have ended or commenced, as the case may be, may be filed on or before (*insert here the date that is ninety days after the day on which this Act is assented to*).

4. (1) The said Act is amended by inserting, after section 7.5, the following section:

"**7.6** Notwithstanding any other provision of this Act, where a person or partnership non-resident in Canada, in this section referred to as "the vendor", has in a taxation year disposed of property to another person or partnership, in this section referred to as "the purchaser", and the vendor and the purchaser jointly so elect in prescribed form and within the prescribed time, and the prescribed conditions are fulfilled, the following rules apply:

(*a*) the amount that the vendor and the purchaser have agreed on and that the Minister has accepted in respect of the property is deemed to be the vendor's proceeds of disposition of the property and the purchaser's cost of the property;

(*b*) for the purposes of sections 93 to 104, 130, 130.1, 142 and 149 and any regulations made under paragraph *a* of section 130 or section 130.1, where the property was, at the time of its disposition, depreciable property of a prescribed class to the vendor and the vendor's capital cost of the property immediately before the disposition exceeds the agreed amount contemplated in paragraph *a* in respect of the property,

i. the capital cost of the property to the purchaser is deemed to be the amount that was the capital cost thereof to the vendor immediately before the disposition; and

ii. the excess is deemed to have been allowed as depreciation to the purchaser in respect of the property under regulations made under paragraph *a* of section 130 in computing the purchaser's income for taxation years ending before the acquisition of the property by the purchaser;

(*c*) where the property was, at the time of its disposition, a capital property, a Canadian resource property, a foreign resource property, an intangible capital property or a property included in an inventory to the vendor, that property is deemed to be such a property of the purchaser and the purchaser is deemed to have acquired that property and used it for the same purposes as those for which the property was used by the vendor immediately before that time."

(2) This section applies to taxation years commencing after 31 December 1984.

5. (1) Section 21.1 of the said Act is amended

(1) by replacing the first paragraph by the following paragraph:

"**21.1** Sections 21.2 and 21.3 apply in respect of the control of a corporation for the purposes of sections 6.2, 93.4, 222 to 230.0.0.2, 384, 384.4 to 384.6, 418.26 to 418.30, 547.1, 564.2 to 564.4.2 and 727 to 737.";

(2) by replacing the third paragraph by the following paragraph:

"Section 21.4.1 applies in respect of the control of a corporation for the purposes of sections 6.2, 93.4, 222 to 230.0.0.2, 384, 384.4 to 384.6, 418.26 to 418.30 and 727 to 737."

(2) Paragraph 1 of subsection 1 has effect from 16 January 1987. However, where it strikes out the reference to section 384.1 of the Taxation Act, in the first paragraph, enacted thereby, of section 21.1 of the said Act and where that first paragraph refers to sections 418.26 to 418.30 of the said Act, it applies to a taxation year ending after 17 February 1987.

(3) Paragraph 2 of subsection 1 applies in respect of rights acquired after 15 January 1987. However, where it strikes out the reference to section 384.1 of the Taxation Act, in the third paragraph, enacted thereby, of section 21.1 of the said Act and where that third paragraph refers to sections 418.26 to 418.30 of the said Act, it applies in respect of rights acquired in a taxation year ending after 17 February 1987.

6. (1) Section 21.4.1 of the said Act is replaced by the following section:

"**21.4.1** A taxpayer who acquires a right referred to in paragraph *b* of section 20 is deemed to acquire at that time the shares to which the right is attached if it can reasonably be concluded that one of the main purposes of the acquisition of the right was to avoid any limitation on the deductibility of any net capital loss, non-capital loss or farm loss or any amount referred to in section 384 or sections 418.26 to 418.30, or to avoid the application of any of sections 93.4, 225, 384.4, 384.5, 384.6 or 736, paragraph *a* or *b* of section 736.0.2 or section 736.0.3.1."

(2) This section applies in respect of rights acquired after 15 January 1987. However, where it strikes out the reference to section 384.1 of the Taxation Act, in section 21.4.1 of the said Act, as enacted by this section, and where that section 21.4.1 refers to sections 418.26 to 418.30 of the said Act, it applies in respect of rights acquired in taxation years ending after 17 February 1987.

7. (1) The said Act is amended by inserting, after section 21.4.1, the following section:

"**21.4.2** For the purposes of this Part, where control of a corporation is acquired by a person or group of persons at a particular time on a day, control of the corporation is deemed to have been acquired by the person or group of persons, as the case may be, at the commencement of that day and not at the particular time unless the corporation elects in its fiscal return under this Part filed for its taxation year ending immediately before the acquisition of control not to have this section apply."

(2) This section has effect from 16 January 1987.

8. (1) The said Act is amended by inserting, after section 26, the following section:

"**26.1** The taxable income of a corporation referred to in section 22 for a taxation year is its income for the year plus the additions provided for in Book IV and minus the deductions permitted by the said book."

(2) This section applies from the taxation year 1985.

9. (1) The said Act is amended by inserting, after section 37, the following section:

"**37.0.1** For the purposes of section 37, the value of the benefit received or enjoyed by an individual, in circumstances where the obligation to pay an amount is settled or extinguished at any time without any payment by him or by payment by him of an amount that is less than the amount of the obligation outstanding at that time, is deemed to be the amount by which the amount of the obligation outstanding at that time exceeds the amount so paid."

(2) This section applies in respect of obligations settled or extinguished after 17 February 1987.

10. (1) Section 38 of the said Act is amended by replacing the third paragraph by the following paragraph:

"Nor is he required to include therein the value of benefits under a retirement compensation arrangement, an employee benefit plan or employee trust or the value of benefits related to the use of an automobile unless they are related to its operation and are not insurance or registration costs of an automobile contemplated in section 41."

(2) This section has effect from 9 October 1986.

11. (1) Section 47.6 of the said Act, amended by section 4 of chapter 18 of the statutes of 1988, is replaced by the following section:

"**47.6** For the purposes of this division, "employee benefit plan" means an arrangement under which contributions are made by an employer or a person with whom he does not deal at arm's length to another person, referred to in this Part as the "custodian" of an employee benefit plan, and under which one or more amounts, other than an amount that, if this chapter were read without reference to

the third paragraph of section 38 and to section 47.1, would not be required to be included in computing the income of the recipient, are to be paid to or for the benefit of employees or former employees of the employer or persons who do not deal at arm's length with any such employee or former employee.

However, such a plan does not include a plan referred to in the first paragraph of section 38 or in section 43 or 47, a trust referred to in paragraph *m* of section 998, an employee trust, an arrangement the sole purpose of which is to provide education or training for employees of the employer to improve their work or work-related skills and abilities, a salary deferral arrangement in respect of an individual under which a deferred amount must be included as a benefit under section 37 in computing the income of that individual, a retirement compensation arrangement or a prescribed fund or plan."

(2) This section has effect from 9 October 1986.

12. (1) Section 49.4 of the said Act is amended by replacing that part which precedes paragraph *a* by the following:

"**49.4** For the purposes of sections 48 to 58, 725.2 and 725.3, where a taxpayer exchanges rights that he has acquired under an agreement referred to in section 48 on an amalgamation or merger of two or more corporations and receives no consideration for the disposition of the exchanged option other than rights under an agreement of the corporation resulting from the amalgamation or merger to issue or sell to the taxpayer shares of its capital stock or of the capital stock of a corporation with which it does not deal at arm's length, the following rules apply:".

(2) This section applies in respect of rights exchanged on an amalgamation or merger occurring after 31 December 1984.

13. (1) Section 67 of the said Act is replaced by the following section:

"**67.** An individual employed by a railway company may deduct the amounts he disburses in the year for meals and lodging while performing away from his ordinary place of residence the duties of relieving telegrapher or relieving station agent, or of maintenance and repair man.

He may also deduct any such amounts he disburses while he is

(*a*) away from the municipality, and as the case may be, the metropolitan area where the home terminal to which he ordinarily reports for work is located; and

(*b*) at a location from which, by reason of distance from the place where he maintains a self-contained domestic establishment in which he resides and actually supports a spouse or a person dependent upon him for support and connected with him by blood relationship, marriage or adoption, he cannot reasonably be expected to return daily to that place.

The amounts contemplated in this section are deductible to the extent that the individual is not reimbursed and is not entitled to be reimbursed in respect thereof."

(2) This section applies from the taxation year 1981.

14. (1) Section 87 of the said Act, amended by section 7 of chapter 18 of the statutes of 1988 and by section 34 of chapter 5 of the statutes of 1989, is again amended

(1) by inserting, after paragraph *j*.2, the following paragraph:

"(*j*.3) any amount he must include in computing his income for the year under section 890.11;";

(2) by replacing paragraph *n* by the following paragraph:

"(*n*) any amount he must include in computing his income for the year under Title XII except

i. any amount deemed to be a taxable capital gain of the taxpayer under that title; and

ii. any amount paid or payable to the taxpayer out of or under an RCA trust within the meaning assigned by section 890.1;".

(2) This section has effect from 9 October 1986.

15. (1) Section 92.8 of the said Act is replaced by the following section:

"**92.8** For the purposes of paragraph *b* of section 92.7, where before 1 January 1989 a taxpayer has not disposed of an interest in an investment contract last acquired by him before 1 January 1982, the contract is deemed to have been issued on 31 December 1988."

(2) This section applies from the taxation year 1987.

16. (1) The said Act is amended by inserting, after section 93.3, the following sections:

"**93.4** For the purposes of subparagraph i of paragraph *e* of section 93, where, at any time, control of a corporation has been acquired by a person or group of persons and within the twelve-month period ending immediately before that time, the corporation, or a partnership of which it was a majority interest partner within the meaning assigned by section 616, acquired depreciable property, other than property that was owned by the corporation, partnership or a person or persons related to the corporation throughout the period commencing immediately before the twelve-month period and ending at the time the property was acquired by the corporation or partnership, that was not used, or acquired for use, by the corporation or partnership in a business that was carried on by it immediately before that twelve-month period, the property is deemed not to have been acquired by the corporation or partnership before that time and is deemed to have been acquired by it immediately after that time, except that, where the property was disposed of by the corporation or partnership before that time and the property was not reacquired by it before that time, for the purposes of subparagraph i of paragraph *e* of section 93, the property is deemed to have been acquired by the corporation or partnership immediately before the property was disposed of.

"**93.5** For the purposes of section 93.4, where the corporation referred to in that section has been incorporated or otherwise formed during the twelve-month period referred to in that section, it is deemed

(*a*) to have been in existence throughout the period commencing immediately before the twelve-month period and ending immediately after it was incorporated or otherwise formed; and

(*b*) to have been related, throughout the period described in paragraph *a*, to the person or persons to whom it was related, otherwise than by virtue of a right referred to in paragraph *b* of section 20, throughout the period of its existence commencing when it was incorporated or otherwise formed and ending immediately before control of the corporation was acquired."

(2) This section applies, subject to section 112, in respect of acquisitions of control occurring after 15 January 1987 other than acquisitions of control occurring before 1 January 1988 where the persons acquiring the control were obliged on 15 January 1987 to acquire the control pursuant to the terms of agreements in writing entered into on or before that date.

17. (1) Section 99 of the said Act is amended

(1) by replacing the period at the end of paragraph *d*.1 by a semicolon;

(2) by inserting, after paragraph *d*.1, the following paragraph:

"(*d*.2) where a corporation is deemed by subparagraph *c* of the second paragraph of section 736 or paragraph *b* of section 999.1 to have disposed of and reacquired depreciable property, the capital cost to the corporation of the property at the time of the reacquisition is deemed to be the amount that is equal to the aggregate of

i. the capital cost to the corporation of the property at the time of the disposition, and

ii. 50% of the amount by which the corporation's proceeds of disposition of the property exceed the capital cost to the corporation of the property at the time of the disposition;".

(2) This section applies where control of a corporation is acquired by a person or group of persons after 15 January 1987 and where, after 5 June 1987, a corporation becomes or ceases to be exempt from tax under Part I of the Taxation Act on its taxable income.

18. (1) The said Act is amended by inserting, after section 111, the following section:

"**111.1** For the purposes of section 111, the value of the benefit or advantage conferred on a shareholder, in circumstances where the obligation to pay an amount is settled or extinguished at any time without any payment by him or by payment by him of an amount that is less than the amount of the obligation outstanding at that time, is deemed to be the amount by which the amount of the obligation outstanding at that time exceeds the aggregate of the amount of the benefit in respect of the obligation that was included in computing the shareholder's income at the time the obligation arose and the amount so paid."

(2) This section applies in respect of obligations settled or extinguished after 17 February 1987.

19. (1) Section 135 of the said Act, amended by section 9 of chapter 18 of the statutes of 1988 and by section 45 of chapter 5 of the statutes of 1989, is again amended

(1) by replacing the period at the end of paragraph *d* by a semicolon;

(2) by adding, after paragraph *d*, the following paragraph:

"(*e*) except as expressly permitted by section 139.1, contributions made under a retirement compensation arrangement."

(2) This section has effect from 9 October 1986.

20. (1) The said Act is amended by inserting, after section 139, the following division:

"DIVISION II.1

"RETIREMENT COMPENSATION ARRANGEMENT

"**139.1** A taxpayer may deduct, in computing his income for a taxation year, the amount deductible under section 890.12 in computing his income for the year."

(2) This section has effect from 9 October 1986.

21. (1) Section 191 of the said Act is amended by replacing the first paragraph by the following paragraph:

"**191.** In computing its income for a taxation year, a bank to which the Bank Act or the Québec Savings Banks Act (Statutes of Canada) applies shall not make any deduction under section 140, 141, 210 or 211; however, notwithstanding sections 128 and 129, it may deduct in that computation an amount not in excess of the excess amount contemplated in the second paragraph and that, in the opinion of the Minister, is also not in excess of the reasonable requirements of the bank, having regard to all the circumstances, reduced by the aggregate of all amounts each of which is an amount deducted under section 141 in computing the bank's income for the year or a preceding taxation year in respect of a debt owed to the bank that is included in the assets of the bank at the end of the year."

(2) This section applies to taxation years ending after 15 January 1987.

22. (1) Section 210 of the said Act is amended

(1) by replacing that part which precedes paragraph *a* by the following:

"**210.** In lieu of a deduction provided for in section 140, a taxpayer whose business includes the lending of money on the security

of property or of an agreement to surrender an immoveable may deduct, in computing his income for a taxation year, as an allowance, subject to section 211, an amount not exceeding the aggregate of:";

(2) by adding the following paragraph:

"Notwithstanding the foregoing, no deduction may be made under this section in respect of a debt deducted as a bad debt under section 141 in computing the taxpayer's income for the year or a preceding taxation year."

(2) This section applies to taxation years ending after 15 January 1987.

23. (1) Section 241.0.1 of the said Act is amended by replacing that part which precedes paragraph *a* by the following:

"**241.0.1** A loss incurred by a taxpayer following the disposition, at a particular time, of a share of the capital stock of a corporation that was at any time a prescribed corporation or a share of the capital stock of a taxable Canadian corporation that was held in a prescribed stock savings plan, or of a property substituted for such share shall be deemed to be the amount, if any, by which".

(2) This section applies in respect of dispositions occurring after 27 May 1986.

24. (1) Section 257 of the said Act, amended by section 29 of chapter 4 of the statutes of 1988, is again amended by inserting, after paragraph *f*.2, the following paragraph:

"(*f*.3) where the property is property of a corporation control of which was acquired by a person or group of persons at or before that time, any amount required by subparagraph *a* of the second paragraph of section 736 to be deducted in computing the adjusted cost base of the property;".

(2) This section applies to taxation years ending after 15 January 1987.

25. (1) Section 311 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) a retiring allowance, other than an amount received out of or under an employee benefit plan, a retirement compensation arrangement or a salary deferral arrangement;".

(2) This section has effect from 9 October 1986.

26. (1) Section 312 of the said Act, amended by section 30 of chapter 4 of the statutes of 1988 and by section 16 of chapter 18 of the statutes of 1988, is again amended by replacing paragraph *g* by the following paragraph:

"(*g*) the excess, over $500, of the aggregate of all amounts other than an amount contemplated in paragraph *i* of section 311, an amount received in the course of business and an amount received in respect of or by virtue of an office or employment, received by the taxpayer in the year as a scholarship, fellowship or bursary or a prize for achievement in a field of endeavour ordinarily carried on by the taxpayer, other than a prescribed prize;".

(2) This section applies from the taxation year 1983. However, where it applies in respect of amounts received before 24 May 1985, paragraph *g* of section 312 of the Taxation Act, as enacted by this section, shall be read as follows:

"(*g*) the excess, over $500, of the aggregate of all amounts other than an amount contemplated in paragraph *i* of section 311, received by the taxpayer in the year as a scholarship, fellowship or bursary or a prize for achievement in a field of endeavour ordinarily carried on by the taxpayer, other than a prescribed prize;".

27. (1) The said Act is amended by inserting, after section 313.4, the following section:

"**313.5** A taxpayer shall also include any amount relating to a retirement compensation arrangement, to the extent provided in sections 890.9 and 890.10."

(2) This section has effect from 9 October 1986.

28. (1) Section 314 of the said Act is replaced by the following section:

"**314.** A payment or transfer to another person, by the taxpayer or with his consent of money, rights or property for the benefit of the taxpayer or for that of such person, other than by an assignment of any portion of a retirement pension pursuant to section 64.1 of the Canada Pension Plan (Statutes of Canada) or a comparable provision of a provincial pension plan as defined in section 3 of that Act or of a prescribed provincial pension plan, is deemed received by the taxpayer and shall be included in computing his income to the extent that it would be if the payment or transfer had been made to him."

(2) This section applies from the taxation year 1987.

29. (1) Section 316 of the said Act is replaced by the following section:

"**316.** A taxpayer who transferred or assigned to a person with whom he was not dealing at arm's length at that time the right to an amount that would otherwise be included in computing his income for a taxation year as a payment received or receivable in that year is deemed to have received it and shall include it in computing his income for that year unless the income is from property that the taxpayer also assigned or transferred or from an assignment of any portion of a retirement pension pursuant to section 64.1 of the Canada Pension Plan (Statutes of Canada) or a comparable provision of a provincial pension plan as defined in section 3 of that Act or of a prescribed provincial pension plan."

(2) This section applies from the taxation year 1987.

30. (1) Section 317 of the said Act is replaced by the following section:

"**317.** A taxpayer must include any amount received by him as pension benefit, including any pension, supplement or spouse's allowance under the Old Age Security Act (Statutes of Canada), any similar payment made under a provincial law and any benefit under the Act respecting the Québec Pension Plan (R.S.Q., chapter R-9) or any equivalent plan within the meaning of that Act, the amount of any payment out of or under a prescribed provincial pension plan, but not including that part of an amount received by the taxpayer out of or under an employee benefit plan and which must, pursuant to section 47.1, be included in computing the taxpayer's income or which would be required to be included therein were section 47.2 construed without reference to the words "a return of amounts contributed to the plan by him or a deceased employee of whom he is an heir or legal representative" and the portion of an amount received out of or under a retirement compensation arrangement that is required to be included in computing his income under section 313.5 where it refers to an amount provided for in paragraph *a* or *c* of section 890.9."

(2) This section has effect from 9 October 1986. However, where section 317 of the Taxation Act, as enacted thereby, refers to a payment received out of or under a prescribed provincial pension plan, it applies from the taxation year 1987.

31. (1) Section 332.1 of the said Act, amended by section 18 of chapter 18 of the statutes of 1988, is again amended by replacing paragraphs *a* to *e* by the following paragraphs:

"(*a*) 33 1/3% of each amount that is described in section 332.1.1 and in respect of which the consideration given by him was a property, other than a property disposed of by the taxpayer to any person with whom he was not dealing at arm's length, a share, depreciable property of a prescribed class or a Canadian resource property, or services the cost of which may reasonably be regarded as having been an expenditure that was added in computing the earned depletion base of the taxpayer, of a person with whom he was not dealing at arm's length or of a predecessor corporation where the taxpayer is a successor corporation to the predecessor;

"(*b*) 33 1/3% of each amount determined under section 332.2 in respect of a disposition of depreciable property of a prescribed class, other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length, of the taxpayer after 11 December 1979 and in the year, the capital cost of which was added in computing the earned depletion base of the taxpayer or of a person with whom he was not dealing at arm's length or in computing the earned depletion base of a predecessor corporation where the taxpayer is a successor corporation to the predecessor;

"(*c*) 33 1/3% of each amount determined under section 332.2 in respect of a disposition of depreciable property of a prescribed class that is bituminous sands equipment, other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length, of the taxpayer after 11 December 1979 and in the year, the capital cost of which was added in computing the supplementary depletion base of the taxpayer or of a person with whom he was not dealing at arm's length or in computing the supplementary depletion base of a predecessor corporation where the taxpayer is a successor corporation to the predecessor;

"(*d*) 50% of each amount determined under section 332.2 in respect of a disposition of depreciable property of a prescribed class that is enhanced recovery equipment, other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length, of the taxpayer after 11 December 1979 and in the year, the capital cost of which was added in computing the supplementary depletion base of the taxpayer or of a person with whom he was not dealing at arm's length or in computing the supplementary depletion base of a predecessor corporation where the taxpayer is a successor corporation to the predecessor;

"(*e*) 66 2/3% of each amount that became receivable by him in the year but after 11 December 1979 and in respect of which the

consideration given by the taxpayer was a property, other than a share or a Canadian resource property, or services the cost of which may reasonably be regarded as having been an expenditure in connection with an oil or gas well in respect of which an amount was included in computing the taxpayer's exploration base or in computing the exploration base of a predecessor corporation where the taxpayer is a successor corporation to the predecessor corporation;".

(2) This section applies to taxation years ending after 17 February 1987.

32. (1) Section 332.3 of the said Act is amended

(1) by replacing paragraph *a* by the following paragraph:

"(*a*) "successor corporation" means a corporation that has, after 7 November 1969, acquired, in any manner whatever, except pursuant to an amalgamation described in subsection 4 of section 544 or a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, from another person, in this section and in sections 332.1 and 332.2, referred to as the "predecessor corporation", all or substantially all of the Canadian resource properties of the predecessor corporation in circumstances in which section 418.16, any of sections 418.18 to 418.21 or section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada);";

(2) by striking out paragraph *b*.

(2) This section applies to taxation years ending after 17 February 1987.

33. (1) Section 339 of the said Act, amended by section 20 of chapter 18 of the statutes of 1988, is again amended

(1) by replacing that part of paragraph *d*.1 which precedes subparagraph i by the following:

"(*d*.1) such part of the aggregate of each amount paid to the taxpayer by an employer, or under a retirement compensation arrangement to which the employer has contributed, as a retiring allowance and included in computing his income for the year under paragraph *a* of section 311 or under section 313.5 where it refers to an amount provided for in paragraph *a* of section 890.9, as is

designated by the taxpayer in his fiscal return for the year under this Part and that is not greater than the lesser of the excess described in section 339.1 and the aggregate of every amount, to the extent that it was not deducted in computing his income for a previous taxation year, paid by him in the year or within 60 days after the end of the year";

(2) by replacing the period, at the end of paragraph *g*, by a semicolon;

(3) by adding, after paragraph *g*, the following paragraphs:

"(*h*) any amount deductible under section 890.13 in computing his income for the year;

"(*i*) the least of

i. the amount contributed by the taxpayer to his account under a prescribed provincial pension plan in the year or within 60 days after the end of the year to the extent that the amount has not been deducted in computing his income for a preceding taxation year,

ii. the prescribed amount for the year in respect of the plan, and

iii. the amount by which the amount determined in respect of the taxpayer for the year under subparagraph *a* or *b* of the first paragraph of section 922, whichever is applicable in respect of the taxpayer, exceeds the aggregate of the amounts deducted under sections 922 and 923 in computing his income for the year."

(2) Paragraphs 1 and 2 and paragraph 3, where they enact paragraph *h* of section 339 of the Taxation Act, have effect from 9 October 1986.

(3) Paragraph 3, where it enacts paragraph *i* of section 339 of the Taxation Act, applies from the taxation year 1987. However, where paragraph *i* applies to the taxation year 1987, the reference therein to "in the year" shall be read as a reference to "before the end of the year".

34. (1) Section 339.1 of the said Act is amended by replacing paragraph *c* by the following paragraph:

"(*c*) the aggregate of

i. all amounts deducted under paragraph *d*.1 in respect of amounts paid before the year in respect of the retiree by the employer

or a person related to the employer, or under a retirement compensation arrangement to which the employer or the person has contributed, and

ii. all amounts deducted under paragraph *h* of section 339 in computing the retiree's income for the year, where the paragraph refers to an amount deductible under paragraph *a* of section 890.13."

(2) This section has effect from 9 October 1986.

35. (1) Section 363 of the said Act is amended by adding the following paragraph:

"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 of one or more other corporations that are related to the corporation otherwise than by reason of a right referred to in paragraph *b* of section 20 and whose principal business is described in any of subparagraphs *a* to *g* of the first paragraph."

(2) This section applies to taxation years ending after 17 February 1987.

36. (1) Sections 376 to 380 of the said Act are repealed.

(2) This section applies to taxation years ending after 17 February 1987.

37. (1) Sections 384.1 to 384.2 of the said Act are repealed.

(2) This section applies to taxation years ending after 17 February 1987.

38. (1) Section 384.3 of the said Act is replaced by the following section:

"**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."

(2) This section applies to taxation years ending after 17 February 1987.

39. (1) The said Act is amended by inserting, after section 384.3, the following sections:

"**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 any time, control of a corporation has been acquired by a person or group of persons, where within the twelve-month period ending immediately before that time, the corporation or a partnership of which it was a majority interest partner, within the meaning of section 616, acquired a Canadian resource property or a foreign resource property, other than a property that was owned by the corporation, partnership or a person or persons related to the corporation throughout the period commencing immediately before the twelve-month period and ending at the time the property was acquired by the corporation or partnership, and where, immediately before the twelve-month period commenced, the corporation was not a development corporation and the partnership, if it were a corporation, would not be a development corporation, the property is deemed not to have been acquired by the corporation or partnership before that time and is deemed to have been acquired by it at that time, except that, where the property has been disposed of by it before that time and not reacquired by it before that time, the property is deemed to have been acquired by the corporation or partnership immediately before it disposed of the property.

"**384.5** For the purposes of section 384.4, where the corporation referred to in that section was incorporated or otherwise formed during the twelve-month period, it is deemed to have been

(*a*) in existence throughout the period commencing immediately before the twelve-month period and ending immediately after it was incorporated or otherwise formed; and

(*b*) related, throughout the period contemplated in paragraph *a*, to the person or persons to whom it was related, otherwise than by virtue of a right referred to in paragraph *b* of section 20, throughout the period commencing when it was incorporated or otherwise formed and ending immediately before control of the corporation was acquired."

(2) This section applies, subject to section 112, in respect of property acquired after 15 January 1987, other than property acquired before 1 January 1988 if the person acquiring the property was obliged, on 15 January 1987, to acquire the property pursuant to the terms of an agreement in writing entered into on or before that date.

40. (1) The said Act is amended by inserting, after section 393, the following section:

"**393.1** Where a taxpayer has a taxation year that is less than 51 weeks, the amount determined in respect of the year under paragraph *a* of section 374, subparagraph *c* of the first paragraph of section 413, paragraph *b* of section 418.7, subparagraph i of subparagraph *a* of the first paragraph of section 418.20, subparagraph *b* of that paragraph, the second paragraph of section 418.21 or, first under subparagraph *c* of the first paragraph of section 418.20, must not exceed the proportion of the amount otherwise determined under that subparagraph or paragraph or, first, under that subparagraph, as the case may be, that the number of days in the year is of 365."

(2) This section applies to taxation years commencing after 5 June 1987.

41. (1) Section 399 of the said Act, amended by section 30 of chapter 18 of the statutes of 1988, is again amended

(1) by replacing the period at the end of paragraph *g* by a semicolon;

(2) by adding, after paragraph *g*, the following paragraph:

"(*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."

(2) This section applies to taxation years ending after 17 February 1987.

42. (1) Sections 399.4 and 399.5 of the said Act, enacted by section 31 of chapter 18 of the statutes of 1988, are repealed.

(2) This section applies to taxation years ending after 17 February 1987.

43. (1) Sections 402 to 405 of the said Act are repealed.

(2) This section applies to taxation years ending after 17 February 1987.

44. (1) Section 412 of the said Act, amended by section 37 of chapter 18 of the statutes of 1988, is again amended

(1) by replacing subparagraphs ii to iv of paragraph *b* by the following subparagraphs:

"ii. where the proceeds of disposition referred to in subparagraph i may reasonably be attributed to the disposition of a

property that was acquired by the taxpayer in circumstances in which sections 418.19 and 418.20 apply to the taxpayer as any other but original owner or predecessor owner, the lesser of the amount determined under subparagraph i in respect of the property and the aggregate of all amounts determined at that time under the second paragraph of section 418.19 in respect of the acquisition of the property by the taxpayer; or

"iii. in any other case, nil;";

(2) by replacing paragraph *g* by the following paragraph:

"(*g*) the amount by which the aggregate of all amounts each of which is an amount determined under section 418.12 in respect of a taxation year of the taxpayer ending at or before that time exceeds the aggregate of all amounts each of which is the lesser of

i. the amount determined at that time under the second paragraph of section 418.19 in respect of the acquisition of property from a particular original owner or predecessor owner of the property by the taxpayer;

ii. the amount by which the aggregate of the amounts that became receivable at or before that time by the taxpayer and that are described in subparagraph *b* of the second paragraph of section 418.21 in respect of the disposition of property acquired from the particular original owner or predecessor owner exceeds the amount determined in subparagraph *a* of the second paragraph of section 418.21 in respect of the acquisition of such property;";

(3) by replacing the period at the end of paragraph *i* by a semicolon;

(4) by adding, after paragraph *i*, the following paragraph:

"(*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."

(2) This section applies to taxation years ending after 17 February 1987.

45. (1) Section 414 of the said Act is amended by replacing subparagraph *b* of the second paragraph by the following subparagraph:

"(*b*) the amount by which the total of the aggregate of all amounts deducted in computing his income for the year under section 357 in

respect of a Canadian resource property or under section 358 and of the aggregate of amounts deducted for the year under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), sections 418.16 to 418.19 and section 418.21, that may reasonably be attributed to the amounts referred to in subparagraphs i to iii for the year, exceeds the total, before any deduction under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) 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 his income for the year under paragraph *e* of section 330 that may 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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to clause A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada)."

(2) This section applies to taxation years ending after 17 February 1987.

46. (1) Sections 415 to 415.3 of the said Act are repealed.

(2) This section applies to taxation years ending after 17 February 1987.

47. (1) Section 418.6 of the said Act, amended by section 43 of chapter 18 of the statutes of 1988, is again amended

(1) by replacing subparagraphs ii to iv of paragraph *b* by the following subparagraphs:

"ii. where the proceeds of disposition referred to in subparagraph i may reasonably be attributed to the disposition of a property that was acquired by the taxpayer in circumstances in which section 418.21 applies to the taxpayer as any other but original owner or predecessor owner, the lesser of the amount determined under subparagraph i in respect of the property and the aggregate of all amounts that would be determined at that time under the second paragraph of section 418.21 in respect of the acquisition of the property by the taxpayer if that paragraph were read without reference to "10% of"; or

"iii. in any other case, nil;";

(2) by replacing the period at the end of paragraph *e* by a semicolon;

(3) by adding, after paragraph *e*, the following paragraph:

"*(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."

(2) This section applies to taxation years ending after 17 February 1987.

48. (1) Sections 418.8 to 418.11 of the said Act are repealed.

(2) This section applies to taxation years ending after 17 February 1987.

49. (1) The said Act is amended by inserting, after section 418.14, the following:

"DIVISION IV.2

"SUCCESSOR CORPORATIONS

"**418.15** In this chapter, the expression

(*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;

(*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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), 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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), 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 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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971

(Statutes of Canada), in respect of expenses incurred by an original owner of the property;

(*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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), 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 or 418.36, as the case may be, be entitled in respect of expenses described in section 87 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that the second paragraph of section 86.1 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to expenses described in subparagraph i or ii of subparagraph *c* of subparagraph 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses incurred by him before he disposed of the property to a deduction, in computing his income for a taxation year ending after he disposed of the property, under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) or to any of sections 367, 368, 371, 400, 401, 413, 414 or 418.7.

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.

"**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.

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 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.

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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) 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 interest in or right 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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to clause A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada);

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 all other amounts deducted for the year under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), this section and sections 418.18, 418.19 and 418.21, 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.

"**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.

The first amount to which the first paragraph refers to is equal to the amount of foreign exploration and development expenses incurred by the original owner before he disposed of the particular property, to the extent that those expenses were not deducted in computing the income of the corporation for a 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.

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 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 *a* of section 330, that may reasonably be regarded as attributable to the disposition by the corporation of any interest in or right to the particular property, or

ii. production from the particular property, exceeds

(*b*) the aggregate of all other amounts deducted under this section and section 418.19 as a result of the application of subparagraph *c* of the first paragraph of section 418.20 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.

"**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, 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 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.

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

(*a*) 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

(*b*) deductible under section 400 or deducted under section 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 (Statutes of Canada) pursuant to subsection 14.1 of section 66 of the said Act.

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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) 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 interest in or right 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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to clause A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada);

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 all other amounts deducted under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), this section and sections 418.16, 418.19 and 418.21 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.

"**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.

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 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 (Statutes of Canada) 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 all amounts that became receivable by a predecessor owner of the particular property or by the corporation in the year or in a preceding taxation year and

i. that were included by the predecessor owner or the corporation in the amount referred to in subparagraph i of paragraph *b* of section 412 at the end of the year, and

ii. that may reasonably be regarded as attributable to the disposition of the particular property by the predecessor owner or the corporation.

The second 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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) or any of sections 359 to 419.6, that may reasonably be regarded as attributable to

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

ii. production from the particular property, exceeds

(*b*) the aggregate of all other amounts deducted under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), this section and sections 418.16, 418.18 and 418.21 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.

"**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 an oil 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 following amounts

exceed the total of the aggregate of amounts deducted in computing its income for the year under section 357 in respect of a Canadian resource property that is a property described in the second paragraph or under section 358 in respect of a property described in that paragraph and of the aggregate of the other amounts deducted for the year under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), sections 418.16 to 418.19 and section 418.21, that may reasonably be regarded as attributable to the amounts referred to in subparagraphs i to iii for the year, of the total, before any deduction under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) or any of sections 359 to 419.6, of

i. its income for the year that may reasonably be regarded as attributable to ore production, other than iron ore and tar sands, from a resource property that is property described in the second 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 second 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 amounts 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 in a preceding taxation year, of any interest in or right to a property described in the second 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 sections 418.16 and 418.18, section 418.28 or section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to clause

A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada).

Any property the description of which is provided for in subparagraph *c* of the first paragraph is property owned immediately before the acquisition referred to in that section by the person from whom property was acquired pursuant to section 418.19.

"**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.

The first amount to which the first paragraph refers is equal to 10% 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 it 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 that became receivable by a predecessor owner of the particular property or by the corporation in the year or in a preceding taxation year and

i. that were included by the predecessor owner or the corporation in the amount referred to in subparagraph i of paragraph *b* of section 418.6 at the end of the year, and

ii. that may reasonably be regarded as attributable to the disposition of the particular property by the predecessor owner or by the corporation.

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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) or any of sections 359 to 419.6 that may reasonably be regarded as attributable to

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

ii. production from the particular property, exceeds

(*b*) the aggregate of all other amounts deducted under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), this section and sections 418.16, 418.18 and 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.

"**418.22** Section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), sections 418.16 to 418.19 and section 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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), sections 359 to 359.17, 362 to 418.14 or 419 to 419.4 or section 419.6 if those sections, as they read in their application to taxation years ending before 18 February 1987, applied to taxation years ending after 17 February 1987.

"**418.23** Section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), and sections 418.16, 418.18, 418.19 and 418.21 apply only to a corporation that has acquired a particular Canadian 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 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 day on or before which the corporation is required to file a fiscal return pursuant to section 1000 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 any of sections 376 to 379, 402 to 405, 415 to 415.3, 418.8 to 418.11 and section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsections 25 and 29 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) as 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 earlier of the days on or before which either of them is required to file a fiscal return pursuant to section 1000 for its or his taxation year in which the corporation acquired the particular property.

"**418.24** Section 418.17 applies 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 day on or before which the corporation is required to file a fiscal return pursuant to section 1000 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 earlier of the days on or before which either of them is required to file a fiscal return pursuant to section 1000 for its or his taxation year in which the corporation acquired the particular property.

"**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.

"**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 to be exempt from tax under this Part on its taxable income, for the purposes of determining the deductions provided for in the Act respecting the application of the Taxation Act (1972, chapter 24) and this Part, other than those provided for in sections 359.2, 359.4, 359.6 and 359.13, relating to drilling and exploration expenses, prospecting, exploration and development expenses, Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses, referred to in this section 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;

(*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;

(*d*) where, pursuant to paragraph *c*, foreign exploration and development expenses incurred by the corporation are deemed to have been incurred by an original owner of the properties, the corporation may designate in respect of a taxation year an amount not exceeding the lesser of the amount referred to in paragraph *a* of section 418.27 and the amount referred to in paragraph *b* of that section, as being an amount attributable to the production referred to in subparagraph ii of subparagraph *a* of the third paragraph of section 418.17, and the amount so designated is deemed, for the purposes of subparagraph iii of subparagraph *a* of the third paragraph of sections 418.16 and 418.18, subparagraph ii 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 ii of subparagraph *a* of the third paragraph of section 418.21, paragraph *a* of section 418.28 and section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to clause B of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), not to be an amount attributable to production from a Canadian resource property in the year;

(*e*) where the corporation, in this paragraph referred to as the "transferee", was, immediately before and at that time, a particular corporation, within the meaning of subsection 5 of section 544, or a subsidiary wholly-owned corporation, within the meaning assigned by that paragraph, of another corporation, in this paragraph and in section 418.28 referred to as the "transferor",

i. the transferor may designate in favour of the transferee, in respect of a taxation year of the transferor ending after that time, if throughout that year the transferee was such a particular corporation or subsidiary wholly-owned corporation of the transferor, an amount not exceeding the amount referred to in section 418.28, for the purpose of making a deduction under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) or this division, in respect of resource expenses incurred by the transferee before that time while the transferee was

such a particular corporation or subsidiary wholly-owned corporation of the transferor, to the extent that the amount so designated is not designated in favour of another taxpayer under this paragraph and only if both corporations agree to have this paragraph apply to them in respect of that year and notify the Minister in writing of the agreement in the fiscal return under this Part of the transferor for that year; and

ii. the amount so designated is deemed, for the purposes of computing an amount under the third paragraph of sections 418.16, 418.18 and 418.19, subparagraph *c* of the first paragraph of section 418.20, as that paragraph would read but for the words "to the higher of either 30 % of the excess amount referred to in the second paragraph of the said section or" and if the words "or the amount by which" read "to the amount by which", the third paragraph of section 418.21 and section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), to be income from the sources described in paragraph *a* or *b*, as the case may be, of section 418.28 of the transferee for its taxation year in which that taxation year of the transferor ends, and not to be income from those sources for that year;

(*f*) where the corporation, in this paragraph referred to as the "transferee", was, immediately before and at that time, a particular corporation, within the meaning assigned by subsection 5 of section 544, or a subsidiary wholly-owned corporation, within the meaning of that subsection, of another corporation, in this paragraph and in section 418.29 referred to as the "transferor", the transferor may designate in favour of the transferee, in respect of a taxation year of the transferor ending after that time, if throughout the year the transferee was such a particular corporation or subsidiary wholly-owned corporation of the transferor, an amount not exceeding the amount referred to in section 418.29, for the purposes of making a deduction under this division in respect of resource expenses incurred by the transferee before that time while the transferee was such a particular corporation or subsidiary wholly-owned corporation of the transferor, to the extent that the amount so designated is not designated in favour of another taxpayer under this paragraph and only if both corporations agree to have this paragraph apply to them in respect of that year and notify the Minister in writing of the agreement in the fiscal return under this Part of the transferor for that year, and the amount so designated is deemed

i. for the purposes of computing an amount under the third paragraph of section 418.17, of subparagraph *c* of the first paragraph of section 418.20, as that subparagraph would read but for the words "to the higher of either 30% of the excess amount referred to in the second paragraph of the said section or" and if the words "or the amount by which" read "to the amount by which", and paragraph *b* of section 418.27, to be income of the transferee from the sources described in paragraph *a* or *b*, as the case may be, of section 418.29 for its taxation year in which that taxation year of the transferor ends, and

ii. for the purposes of computing an amount under the third paragraph of section 418.17 and subparagraph *c* of the first paragraph of section 418.20, as that subparagraph would read but for the words "to the higher of either 30% of the excess amount referred to in the second paragraph of the said section or" and if the words "or the amount by which" read "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 paragraph referred to as the "transferee", and another corporation, in this paragraph referred to as the "transferor", were both subsidiary wholly-owned corporations, within the meaning assigned by subsection 5 of section 544, of the same particular corporation, within the meaning of that subsection, and if the transferee and the transferor agree to have this paragraph apply to them in respect of a taxation year of the transferor ending after that time and notify the Minister in writing of the agreement in the fiscal return under this Part of the transferor for that year, paragraph *e* or *f*, or both, as the agreement provides, shall apply for that year to the transferee and transferor as though one were, in relation to the other, the particular corporation, within the meaning of subsection 5 of section 544;

(*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 paragraph *a*, the corporation shall be 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, of subparagraph ii of subparagraph *a* of the third paragraph of section 418.17, of subparagraph iii of subparagraph *a* of the third paragraph of section 418.18, of subparagraph ii of

subparagraph *a* of the third paragraph of section 418.19, of subparagraph i of subparagraph *c* of the first paragraph of section 418.20, of subparagraph ii of subparagraph *a* of the third paragraph of section 418.21 and of section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to clause B of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), 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 may reasonably be attributable 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 paragraph.

"**418.27** The amounts referred to in paragraph *d* of section 418.26 and which shall not be exceeded are

(*a*) the amount included in computing the income of the corporation referred to in that paragraph for the year referred to therein, determined before any deduction under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) or sections 359 to 419.6, that may reasonably be regarded as attributable to the production from a Canadian resource property owned by it immediately before the time referred to in section 418.26, and

(*b*) the amount equal to the amount by which 10% of the amount referred to in the second paragraph of section 418.17 for the year referred to therein in respect of the expenses referred to in paragraph *d* of section 418.26 exceeds the amount that would, but for paragraph *d* of section 418.26 and subparagraph ii of paragraph *f* of that section, be determined under the third paragraph of section 418.17 for the year.

"**418.28** The amount referred to in paragraph *e* of section 418.26 and which shall not be exceeded is the amount equal to the part of the income of the transferor for the year referred to in that paragraph, before any deduction under section 86 of the Act

respecting the application of the Taxation Act (1972, chapter 24) 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 section 418.26, and

(*b*) to the disposition, in the year referred to in paragraph *e* of section 418.26, of a Canadian resource property owned by the transferor immediately before the time referred to in section 418.26.

"**418.29** The amount referred to in paragraph *f* of section 418.26 and which shall not be exceeded is the amount equal to the part of the income of the transferor for the year referred to in that paragraph, 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 section 418.26, and

(*b*) to the disposition of a foreign resource property owned by the transferor immediately before the time referred to in section 418.26.

"**418.30** Where, 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 his 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 such acquisition was to avoid any limitation provided in any of sections 418.16 to 418.21 or section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) on the deduction in respect of any expenses incurred by the taxpayer or a corporation referred to as a "transferee" in paragraph *e* or *f* of section 418.26, the taxpayer or the partnership, as the case may be, is deemed, for the purposes of applying sections 418.16 to 418.21 and section 86 of the said Act, to the extent that section 86.4 of that regulation refers to subsection 25 of section 29 of the said rules to or in respect of the taxpayer, not to have acquired the property.

"**418.31** Where in a taxation year and after 5 June 1987 an original owner of Canadian resource properties disposes of all or

substantially all of his Canadian resource properties to a particular corporation in circumstances in which sections 418.16, 418.18, 418.19 or 418.21 of this Act or section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) 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 by which the amount thereof determined immediately after the disposition exceeds the amount claimed by him under section 400 or 401 for the year;

(*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;

(*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; and

(*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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), deemed after the disposition not to have been incurred by him except for the purposes of making a deduction under section 86 of that Act for the year and of determining

the amount that may be deducted under that section 86, to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) by the particular corporation or any other corporation that subsequently acquires any of the properties.

"**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.

"**418.33** Where, in a taxation year and after 5 June 1987, a predecessor owner of Canadian resource properties disposes of all or substantially all of its Canadian resource properties to a corporation in circumstances in which section 418.16, 418.18, 418.19 or 418.21 of this Act or section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada), applies, for the purposes of applying any of those sections to the predecessor owner in respect of its acquisition of any of those properties, it is deemed, after the disposition, never to have acquired the properties except for the purposes of making a deduction under section 418.16 or 418.18 for the year.

"**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 purposes of applying that section to the predecessor owner in respect of its acquisition of any of those properties, it is deemed, after the disposition, never to have acquired the properties.

"**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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2)

refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) 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.

"**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 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) applies, no deduction in respect of an expense incurred before the property was disposed of may be made under this division, sections 359 to 359.17, 362 to 418.14 or 419 to 419.4 or section 419.6 by the person in computing his income for a taxation year subsequent to the particular taxation year."

(2) This section applies to taxation years ending after 17 February 1987. However, where it is applicable with respect to property acquired before 15 January 1987, or acquired before 1 January 1988 where the person acquiring the property was obliged on 15 January 1987 to acquire the property pursuant to the terms of an agreement in writing entered into on or before 15 January 1987, the following rules apply:

(*a*) subparagraph iii of subparagraph *a* of the third paragraph of sections 418.16 and 418.18 of the Taxation Act, as enacted by this section, shall be read as follows:

"iii. where the particular property was an interest in or a right to take or remove petroleum or natural gas or a right to take or remove minerals from a property, the production from that property,";

(*b*) subparagraph ii of subparagraph *a* of the third paragraph of sections 418.17, 418.19 and 418.21 of the Taxation Act, as enacted by this section, shall be read as follows:

"ii. where the particular property was an interest in or a right to take or remove petroleum or natural gas or a right to take or remove minerals from a property, the production from that property,";

(*c*) subparagraph i of subparagraph *c* of the first paragraph of section 418.20 of the Taxation Act, as enacted by this section, shall be read as follows:

"i. its income for the year that may reasonably be regarded as attributable to ore production, other than iron ore and tar sands, processed to any stage that is not beyond the prime metal stage or its equivalent, from a resource property in respect of which the person from whom properties were acquired pursuant to section 418.19 had, immediately before the acquisition referred to in that section, an interest or a right of removal, or to iron ore production 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;";

(*d*) section 418.30 of the Taxation Act, as enacted by this section, is not applicable.

50. (1) Sections 419.7 and 419.8 of the said Act, enacted by section 46 of chapter 18 of the statutes of 1988, are replaced by the following sections:

"**419.7** Where a particular corporation has at any time after 19 July 1985 acquired in any manner whatever from another person who is exempt from tax under this Part on his taxable income, who is not a corporation that is referred to in section 985 and is a development corporation, all or substantially all of the person's Canadian resource properties, section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r. 2) refers to subsection 25 of section 29 of the Income Tax Application Rules, 1971 (Statutes of Canada) and sections 418.16 to 418.20 do not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1 January 1987 pursuant to an agreement in writing made by it before 20 July 1985.

"**419.8** Where a particular corporation has at any time after 19 July 1985 acquired in any manner whatever from another person who is exempt from tax under this Part on his taxable income all or substantially all of the person's Canadian resource properties, section 418.21 does not apply to the particular corporation in respect of the acquisition of the properties except to the extent that the properties were acquired by it before 1 January 1987 pursuant to an agreement in writing made by it before 20 July 1985."

(2) This section applies to taxation years ending after 17 February 1987.

51. (1) The said Act is amended by inserting, before Chapter III of Title VII of Book III of Part I, the following sections:

"**427.4** Where, at any time as part of a series of transactions, a person or partnership, in this section referred to as the "vendor", has disposed of property for proceeds of disposition that are less than its fair market value, the vendor 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 it may reasonably be considered that one of the main purposes of the series of transactions was to obtain the benefit of any deduction in computing income, taxable income, taxable income earned in Canada or tax payable under this Part, or any balance of undeducted outlays, expenses or other amounts to which a specified person, within the meaning of the second paragraph, is entitled in respect of a subsequent disposition of the property or property substituted for the property, notwithstanding any other provision of this Part, where the subsequent disposition occurs within three years after that time.

For the purposes of the first paragraph, a "specified person" is

(*a*) a person that was not, otherwise than by virtue of a right referred to in paragraph *b* of section 20, related to the vendor immediately before the series of transactions commenced;

(*b*) a partnership of which neither the vendor nor a person who was, otherwise than by virtue of a right referred to in paragraph *b* of section 20, related to the vendor immediately before the series of transactions commenced was a majority interest partner, within the meaning assigned by section 616, immediately before the series of transactions commenced; or

(*c*) where the vendor is a partnership, a person who was neither

i. a majority interest partner of the partnership, within the meaning assigned by section 616, immediately before the series of transactions commenced, nor

ii. a person who was, otherwise than by virtue of a right referred to in paragraph *b* of section 20, related to a person described in subparagraph i immediately before the series of transactions commenced.

"**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*) in the case of any intangible capital property, an amount equal to twice the cost amount to the corporation of such property immediately before the amalgamation or merger; and

(*c*) in the case of any other property, the cost amount to the corporation of the property immediately before the amalgamation or merger."

(2) This section, where it enacts section 427.4 of the Taxation Act, is applicable, subject to section 112, in respect of property disposed of after 15 January 1987 except where the person or partnership disposing of the property after that date was obliged on that date to dispose of it pursuant to an agreement in writing entered into on or before that date or where the person or partnership disposed of the property as part of a series of transactions that commenced on or before that date.

(3) This section, where it enacts section 427.5 of the Taxation Act, is applicable in respect of amalgamations and mergers occurring after 15 January 1987.

52. (1) Section 462.1 of the said Act is replaced by the following section:

"**462.1** Where an individual has transferred or loaned property, otherwise than by an assignment of any portion of a retirement pension pursuant to section 64.1 of the Canada Pension Plan (Statutes of Canada) or a comparable provision of a provincial pension plan as defined in section 3 of that Act or of a prescribed provincial pension plan, either directly or indirectly, by means of a trust or otherwise, to or for the benefit of a person who is his spouse or who has since become his spouse, any income or loss of that person for a taxation year from the property or from any property substituted therefor, that relates to the period in the year throughout which the individual is resident in Canada and that person is his spouse, is deemed to be income or a loss of the individual for the year and not of that person."

(2) This section applies in respect of transfers of property made after 22 May 1985 and of loans outstanding after 21 May 1985. However, in the case of a loan outstanding on 22 May 1985, section 462.1 of the Taxation Act, as enacted by this section, does not apply in respect of loans that are repaid before 1 January 1988; and, if the loan is not repaid before 1 January 1988, the said section 462.1 does not apply to any income or loss relating to any period ending before 1 January 1988.

53. (1) The said Act is amended by inserting, after section 462.12, the following section:

"**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."

(2) This section applies from the taxation year 1987, but only in respect of transfers and loans of property made after 27 October 1986.

54. (1) Section 462.24 of the said Act is amended by inserting, after paragraph *a*, the following paragraph:

"(*a*.1) as an amount contributed under a provincial pension plan prescribed for the purposes of subparagraph i of paragraph *i* of section 339 under which the individual's spouse is, immediately after the transfer, the annuitant within the meaning of section 905.1 or the owner of the account under the plan to the extent that the amount does not exceed the amount by which the amount prescribed for the

purposes of subparagraph ii of paragraph *i* of section 339 for the year in respect of the plan exceeds the aggregate of all other contributions to the plan for the year to the account of the spouse under the plan;".

(2) This section applies from the taxation year 1987.

55. (1) Section 485 of the said Act is amended by replacing paragraph *d* of subsection 3 by the following paragraph:

"(*d*) the excess contemplated in subsection 1 shall, under another provision of this Part, be included in computing the taxpayer's income for the year or a preceding taxation year or be deducted in computing the capital cost to him of any depreciable property, the adjusted cost base to him of any capital property or the cost amount to him of any other property;".

(2) This section applies from the taxation year 1983.

56. (1) Section 536 of the said Act is amended by replacing the first paragraph by the following paragraph:

"**536.** Where a share of any particular class of the capital stock of a Canadian corporation is issued after 6 May 1974 to a taxpayer in exchange for capital property owned by him that is a share, in this division called "exchanged share", of a particular class of the capital stock of another corporation, the rules provided in sections 537 to 539 apply."

(2) This section applies in respect of shares exchanged after 5 June 1987, other than shares exchanged after that date pursuant to

(*a*) an agreement in writing to do so entered into on or before that date; or

(*b*) the terms of a final prospectus, preliminary prospectus, proxy statement, preliminary proxy statement or registration statement filed before 6 June 1987 with a public authority in a country or a political subdivision of that country in accordance with the securities legislation of that country or subdivision and, where required by law, accepted for filing by such public authority.

57. (1) Section 539 of the said Act is replaced by the following section:

"**539.** The cost of the exchanged share to the Canadian corporation contemplated in section 536, 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."

(2) This section applies in respect of shares exchanged after 17 February 1987, other than shares exchanged after that date pursuant to

(*a*) an agreement in writing to do so entered into on or before that date; or

(*b*) the terms of a final prospectus, preliminary prospectus, proxy statement, preliminary proxy statement or registration statement filed before 18 February 1987 with a public authority in a country or a political subdivision of that country in accordance with the securities legislation of that country or subdivision and, where required by law, accepted for filing by such public authority.

58. (1) Section 544 of the said Act is amended by replacing subsection 4 by the following subsection:

"(4) Where there has been an amalgamation of corporations described in subsection 3, the new corporation is, for the purposes of sections 85 to 91 and 95 to 98 of the Act respecting the application of the Taxation Act (1972, chapter 24), sections 332.1, 332.2, 359.1 to 359.17, 362 to 418.36 and 419.1 to 419.4 and section 419.6, deemed to be the same corporation as and a continuation of each predecessor corporation, except that this subsection shall in no respect affect the determination of any predecessor corporation's fiscal period, taxable income or tax payable."

(2) This section applies to taxation years ending after 17 February 1987 in respect of an amalgamation having occurred after 31 December 1982 and an amalgamation having occurred after 14 December 1975 and before 1 January 1983 where, in the latter case, an election was made under section 544 of the Taxation Act, as it read at the time the amalgamation occurred. However, where subsection 4 of section 544 of the said Act, enacted by this section, refers

(*a*) to sections 359.1 to 359.17 of the said Act, it applies to an amalgamation occurring after 28 February 1986;

(*b*) to section 419.6 of the said Act, it applies to an amalgamation occurring after the taxation year 1984; and

(*c*) to sections 419.1 to 419.4 of the said Act, it applies to an amalgamation occurring after 16 March 1983.

59. (1) Section 545 of the said Act, amended by section 71 of chapter 5 of the statutes of 1989, is again amended by adding, after subsection 4, the following subsection:

"(5) For the purposes of sections 741 to 744.3,

(*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 capital dividend or life insurance capital dividend received on a share by the predecessor corporation is deemed to be a capital dividend or life insurance capital dividend, as the case may be, received on the share by the new corporation."

(2) This section applies in respect of amalgamations occurring after 5 June 1987.

60. (1) Section 547.1 of the said Act, amended by section 38 of chapter 4 of the statutes of 1988, is again amended by replacing the first paragraph by the following paragraph:

"**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 *d* 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."

(2) This section applies in respect of amalgamations occurring after 5 June 1987.

61. (1) Section 556 of the said Act is amended by replacing the first paragraph by the following paragraph:

"**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."

(2) This section has effect from 16 January 1987.

62. (1) Section 557 of the said Act is amended

(1) by replacing the first paragraph by the following paragraph:

"**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 or to twice that cost amount, to it, at the same time, in the case of intangible capital property.";

(2) by adding, after the second paragraph, the following paragraph:

"Each interest of the subsidiary in a partnership that was distributed to the parent on the winding-up is deemed not to have been disposed of by the subsidiary."

(2) This section applies in respect of a winding-up commencing after 15 January 1987.

63. (1) Section 559 of the said Act is amended by replacing what precedes paragraph *a* by the following:

"**559.** Notwithstanding the reference to section 564 in section 546, the cost to the parent of each property of the subsidiary distributed to the parent on the winding-up is deemed to be equal, 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, in any other case, to the amount deemed by section 557 to be the proceeds of disposition of the property, plus, where the property is a capital property, other than depreciable property, owned by the subsidiary at the time the parent last acquired, otherwise than by an amalgamation, control of the subsidiary and thereafter without interruption until such time as it was distributed to the parent on the winding-up, the amount determined under the second paragraph.

The amount referred to in the first paragraph in respect of each property that is a capital property, other than depreciable property

or property transferred in the course of a series of transactions or events to which sections 308.1 and 308.2 would, but for section 308.3, apply, owned by the subsidiary at the time the parent last acquired, otherwise than by an amalgamation, control of the subsidiary and thereafter without interruption until such time as it was distributed to the parent on the winding-up, is equal to the part, determined in accordance with section 560 in respect of the capital property, of the amount by which the aggregate determined under paragraph *b* of section 558 exceeds the aggregate".

(2) This section applies in respect of windings-up commencing after 15 January 1987.

64. (1) Section 564.1 of the said Act is replaced by the following section:

"**564.1** For the purposes of sections 741 to 744.3, 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 capital dividend or life insurance capital dividend received on a share by the subsidiary is deemed to be a capital dividend or life insurance capital dividend, as the case may be, received on the share by the parent."

(2) This section applies in respect of windings-up commencing after 5 June 1987.

65. (1) Sections 564.4.1 and 564.4.2 of the said Act are replaced by the following sections:

"**564.4.1** 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 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 from carrying on a business, 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.

"**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."

(2) This section applies, subject to section 112, to acquisitions of control occurring after 15 January 1987 other than acquisitions of control occurring before 1 January 1988, where the persons acquiring the control were obliged on 15 January 1987 to acquire the control pursuant to the terms of agreements in writing entered into on or before the latter date.

66. (1) Section 565.1 of the said Act is replaced by the following section:

"**565.1** For the purposes of sections 85 to 91, 97 and 98 of the Act respecting the application of the Taxation Act (1972, chapter 24), sections 332.1, 332.2, 359.1 to 359.17, 362 to 418.36 and 419.1 to 419.4 and section 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."

(2) This section applies to taxation years ending after 17 February 1987 in respect of a winding-up commencing after 31 December 1982. However, where section 565.1 of the Taxation Act, enacted by this section, refers to sections 359.1 to 359.17 of the said Act, it applies to a winding-up commencing after 28 February 1986 and where the said section 565.1 refers to section 419.6 of the said Act, it applies to a winding-up commencing after the taxation year 1984.

67. (1) Section 600 of the said Act, amended by section 73 of chapter 5 of the statutes of 1989, is again amended by replacing paragraph *d* by the following paragraph:

"(*d*) in computing each income or loss of the partnership for a taxation year, no account may be taken of paragraphs *d* and *e* of section 330 and section 418.12, and no deduction is permitted under section 86 of the Act respecting the application of the Taxation Act (1972,

chapter 24), the first paragraph of section 360 or sections 362 to 418.14;".

(2) This section applies to taxation years ending after 17 February 1987.

68. (1) Section 616 of the said Act is replaced by the following section:

"**616.** For the purposes of section 615, a taxpayer is deemed to be a majority interest partner of a partnership at any time if

(*a*) the aggregate of his share, the share of his spouse and the share of a person or group of persons that in any manner whatever control or are controlled by the taxpayer, of the income of the partnership from any source for the fiscal period of the partnership that includes that time exceeds one-half of the income; or

(*b*) the aggregate of his share and of the shares of the persons and the group of persons contemplated in paragraph *a*, of the aggregate amount that would be paid to all members of the partnership if it were wound up at that time, otherwise than as a share of any income of the partnership, exceeds one-half of the aggregate amount."

(2) This section has effect from 16 January 1987.

69. (1) The said Act is amended by inserting, after section 638, the following section:

"**638.0.1** Where, as a result of an amalgamation or merger, an interest in a partnership owned by a predecessor corporation has become property of the new corporation formed as a result of the amalgamation or merger and the predecessor corporation was not related to the new corporation, the predecessor corporation is deemed to have disposed of the interest in the partnership to the new corporation immediately before the amalgamation or merger for proceeds of disposition equal to the adjusted cost base to the predecessor corporation of the interest in the partnership at the time of the disposition and the new corporation is deemed to have acquired the interest in the partnership from the predecessor corporation immediately after that time at a cost equal to the proceeds of disposition."

(2) This section applies in respect of amalgamations and mergers occurring after 15 January 1987.

70. (1) Section 647 of the said Act is amended by replacing the third paragraph by the following paragraph:

"For the purposes of sections 653 to 656.1, 659 to 662, 665 and 683 to 692 and of paragraph *b* of section 657, a trust does not include a unit trust, an employee trust, a segregated fund trust referred to in section 851.2, a trust referred to in section 851.25, an RCA trust within the meaning of subparagraph *c* of the first paragraph of section 890.1, a trust referred to in paragraph *c*.4 of section 998 or a trust governed by a registered retirement plan, a profit sharing plan, a registered supplementary unemployment benefit plan, a registered retirement savings plan, a deferred profit sharing plan, a registered education savings plan, a registered home ownership savings plan, an employee benefit plan or a registered retirement income fund."

(2) This section has effect from 9 October 1986. However, where the third paragraph of section 647 of the Taxation Act, as enacted by this section, refers to a trust referred to in paragraph *c*.4 of section 998 of the said Act, it applies from the taxation year 1987.

71. (1) Section 683 of the said Act is amended by replacing paragraphs *a* and *b* by the following paragraphs:

"(*a*) an income interest of a taxpayer in a trust means a right, whether immediate or future and whether contingent or not, of the taxpayer as a beneficiary under a trust contemplated in subparagraph i of paragraph *b* to, or to receive, all or any part of the income of the trust;

"(*b*) a capital interest of a taxpayer under a trust means

i. in the case of a testamentary trust or a trust no beneficial interest in which was acquired for consideration payable directly or indirectly to the trust or to any person who has made a contribution to the trust by way of a transfer, assignment or other disposition of property, a right, whether immediate or future and whether contingent or not, of the taxpayer as a beneficiary under the trust to, or to receive, all or any part of the capital of the trust;

ii. in any other case, a right of the taxpayer as a beneficiary under the trust."

(2) This section applies in respect of interests created or materially altered after 31 January 1987 that were acquired after 10:00 p.m. Eastern Standard Time on 6 February 1987.

72. (1) The said Act is amended by inserting, after section 690, the following section:

"**690.0.1** Notwithstanding any other provision of this Part, where a person or partnership, in this section referred to as the "vendor", has disposed of property and would, but for this section, have had a loss from the disposition, the vendor's loss otherwise determined in respect of the disposition shall be reduced by such portion thereof as may reasonably be considered to have accrued during a period in which the following conditions are met:

(*a*) the property or property for which it was substituted was owned by a trust; and

(*b*) neither the vendor, nor any person related to the vendor, nor any partnership of which the vendor or a person related to the vendor was a majority interest partner, within the meaning of section 616, had a capital interest in the trust."

(2) This section applies, subject to section 112, in respect of property distributed to a beneficiary from a trust in satisfaction of all or part of a capital interest in the trust that was acquired by the beneficiary after 15 January 1987, except where the beneficiary acquiring the interest was obliged on that date to acquire it pursuant to an agreement in writing entered into on or before that date.

73. (1) The said Act is amended by inserting, after section 690.2, the following section:

"**690.3** Notwithstanding sections 686, 689 and 692 and paragraphs *a* to *c* of section 688, where the trust referred to in the said section 688 is a trust governed by a retirement compensation arrangement, the following rules apply:

(*a*) the trust is deemed to have disposed of the property referred to in the said section 688 and to have received proceeds of disposition equal to its fair market value at the particular time referred to in the said section;

(*b*) the trust is deemed to have paid to the taxpayer as a distribution an amount equal to the proceeds determined in respect of the property under paragraph *a*;

(*c*) the taxpayer is deemed to have acquired the property at a cost equal to the proceeds determined in respect of the property under paragraph *a*;

(*d*) the taxpayer is deemed to have disposed of his interest or part thereof, as the case may be, for proceeds of disposition equal to the adjusted cost base to him of that interest or part thereof immediately before the particular time."

(2) This section has effect from 9 October 1986.

74. (1) Section 725.6 of the said Act, amended by section 52 of chapter 4 of the statutes of 1988, is again amended

(1) by replacing paragraph *a* by the following paragraph:

"(*a*) the amount of the benefit that would have been deemed to have been received by the individual under sections 487.1 to 487.6 in the year if those sections had applied only in respect of the home relocation loan;";

(2) by replacing that part of paragraph *b* which precedes subparagraph i by the following:

"(*b*) the amount of interest for the year that would be computed at the prescribed rate referred to in section 487.2 in respect of the home relocation loan of the individual if that loan were in the amount of $25 000 and were extinguished on the earlier of".

(2) This section applies from the taxation year 1985.

75. (1) Section 726.4.18 of the said Act, enacted by section 86 of chapter 5 of the statutes of 1989, is amended by replacing subparagraph ii of subparagraph *c* of the first paragraph by the following subparagraph:

"ii. a share that is a qualifying share referred to in subparagraph ii of paragraph *b*, issued after 12 May 1988 to a person by an issuer referred to in subparagraph ii of paragraph *e*, as part of an agreement in writing entered into after that date between that issuer and a designated corporation referred to in subparagraph iii of paragraph *d* or that will be referred to therein at the time the issuer makes, out of the consideration received for the share, a qualified investment, under which agreement the designated corporation undertakes, firstly, to make expenditures in respect of scientific research and experimental development carried on in Québec in an amount exceeding 50% of the consideration received for the share by the issuer, in the period beginning on the day the issuer makes a qualified investment in the designated corporation out of the consideration received for the share, and ending on a date to be stipulated by the issuer in the agreement and, secondly, to renounce, in accordance with section 726.4.27, in respect of the share issued by the issuer, in prescribed form, all or part of an amount the designated corporation will be deemed to have paid under section 1029.7, 1029.8.6 or 1029.8.10

in respect of the expenditures so made, to the extent that such expenditures do not exceed the consideration received for the share by the issuer;".

(2) This section has effect from 13 May 1988.

76. (1) Section 726.4.22 of the said Act, enacted by section 86 of chapter 5 of the statutes of 1989, is replaced by the following section:

"**726.4.22** Where a person has given consideration to an issuer for the issue of a research and development share of the issuer and, during the period referred to in subparagraph i or ii of subparagraph *c* of the first paragraph of section 726.4.18, as the case may be, the designated corporation referred to therein has made expenditures in respect of scientific research and experimental development, the designated corporation may, in accordance with section 726.4.27, renounce, in respect of the share, that amount obtained by multiplying by the proportion determined in section 726.4.30, the amount by which all or part of the amount it is deemed to have paid, under section 1029.7, in respect of such expenditures made by the corporation during that period and on or before the day on which the renunciation is made, exceeds the aggregate of the amounts it has otherwise renounced under this section in respect of those expenditures on or before the day on which the renunciation is made.

Notwithstanding the first paragraph, the amount of the expenditures regarding which the designated corporation may renounce an amount, in respect of a share, under the first paragraph, must in no case exceed the lesser of

(*a*) the amount by which that part, which may reasonably be considered to have been received by the designated corporation, of the consideration received for the share by the issuer exceeds the aggregate of the expenditures in respect of which the designated corporation has renounced an amount, in respect of the share, under this section or section 726.4.24 or 726.4.26 on or before the day on which the renunciation is made; and

(*b*) the amount by which 200% of that part referred to in subparagraph *a* in respect of the share exceeds the aggregate of the expenditures in respect of which the designated corporation has renounced an amount, in respect of the share, under this section or section 726.4.24 or 726.4.26, on or before the day on which the renunciation is made and the amount obtained by multiplying by that part represented by the proportion between the part, which may reasonably be considered to have been received by the designated

corporation, of the consideration received for the share by the issuer and that consideration,

i. the adjusted cost of the share, within the meaning of paragraph *g* of section 965.1, in the case of a qualifying share referred to in subparagraph i of subparagraph *b* of the first paragraph of section 726.4.18;

ii. the consideration received for the share by the issuer, in the case of a share issued by a company referred to in section 4 of the Act respecting Québec business investment companies (R.S.Q., chapter S-29.1);

iii. 125% of the consideration received by the issuer, in the case of a share issued by a company referred to in section 4.1 or 4.2 of the Act respecting Québec business investment companies;

iv. 150% of the consideration received by the issuer, in the case of a share issued by a company referred to in section 4.3 of the Act respecting Québec business investment companies."

(2) This section has effect from 13 May 1988.

77. (1) Section 726.4.24 of the said Act, enacted by section 86 of chapter 5 of the statutes of 1989, is replaced by the following section:

"**726.4.24** Where a person has given consideration to an issuer for the issue of a research and development share of the issuer and, during the period referred to in subparagraph i or ii of subparagraph *c* of the first paragraph of section 726.4.18, as the case may be, the designated corporation referred to therein made expenditures in respect of scientific research and experimental development, the designated corporation may, in accordance with section 726.4.27, renounce, in respect of the share, that amount obtained by multiplying by the proportion determined in section 726.4.30, the amount by which all or part of the amount it is deemed to have paid, under section 1029.8.6, in respect of such expenditures made by the corporation during that period and on or before the day on which the renunciation is made, exceeds the aggregate of the amounts it has otherwise renounced under this section in respect of those expenditures on or before the day on which the renunciation is made.

Notwithstanding the first paragraph, the amount of the expenditures in respect of which the designated corporation may renounce an amount, in respect of a share, under the first paragraph, must in no case exceed the lesser of

(*a*) the amount by which that part, which may reasonably be considered to have been received by the designated corporation, of the consideration received for the share by the issuer exceeds the aggregate of the expenditures in respect of which the designated corporation has renounced an amount, in respect of the share, under this section or section 726.4.22 or 726.4.26 on or before the day on which the renunciation is made; and

(*b*) the amount by which 200% of that part referred to in subparagraph *a* in respect of the share exceeds the aggregate of the expenditures in respect of which the designated corporation has renounced an amount, in respect of the share, under this section or section 726.4.22 or 726.4.26, on or before the day on which the renunciation is made and the amount obtained by multiplying by that part represented by the proportion between the part, which may reasonably be considered to have been received by the designated corporation, of the consideration received for the share by the issuer and that consideration,

i. the adjusted cost of the share, within the meaning of paragraph *g* of section 965.1, in the case of a qualifying share referred to in subparagraph i of subparagraph *b* of the first paragraph of section 726.4.18;

ii. the consideration received for the share by the issuer, in the case of a share issued by a company referred to in section 4 of the Act respecting Québec business investment companies (R.S.Q., chapter S-29.1);

iii. 125% of the consideration received by the issuer, in the case of a share issued by a company referred to in section 4.1 or 4.2 of the Act respecting Québec business investment companies;

iv. 150% of the consideration received by the issuer, in the case of a share issued by a company referred to in section 4.3 of the Act respecting Québec business investment companies."

(2) This section has effect from 13 May 1988.

78. (1) Section 726.4.26 of the said Act, enacted by section 86 of chapter 5 of the statutes of 1989, is replaced by the following section:

"**726.4.26** Where a person has given consideration to an issuer for the issue of a research and development share of the issuer and, during the period referred to in subparagraph i or ii of subparagraph *c* of the first paragraph of section 726.4.18, as the case may be, the

designated corporation referred to therein made expenditures in respect of scientific research and experimental development, the designated corporation may, in accordance with section 726.4.27, renounce, in respect of the share, that amount obtained by multiplying by the proportion determined in section 726.4.30, the amount by which all or part of the amount it is deemed to have paid, under section 1029.8.10, in respect of such expenditures made by the corporation during that period and on or before the day on which the renunciation is made, exceeds the aggregate of the amounts it has otherwise renounced under this section in respect of those expenditures on or before the day on which the renunciation is made.

Notwithstanding the first paragraph, the amount of the expenditures in respect of which the designated corporation may renounce an amount, in respect of the share, under the first paragraph, must in no case exceed the lesser of

(*a*) the amount by which that part, which may reasonably be considered to have been received by the designated corporation, of the consideration received for the share by the issuer exceeds the aggregate of the expenditures in respect of which the designated corporation has renounced an amount, in respect of the share, under this section or section 726.4.22 or 726.4.24 on or before the day on which the renunciation is made; and

(*b*) the amount by which 200% of that part referred to in subparagraph *a* in respect of the share exceeds the aggregate of the expenditures in respect of which the designated corporation has renounced an amount, in respect of the share, under this section or section 726.4.22 or 726.4.24, on or before the day on which the renunciation is made and the amount obtained by multiplying by that part represented by the proportion between the part, which may reasonably be considered to have been received by the designated corporation, of the consideration received for the share by the issuer and that consideration,

i. the adjusted cost of the share, within the meaning of paragraph *g* of section 965.1, in the case of a qualifying share referred to in subparagraph i of subparagraph *b* of the first paragraph of section 726.4.18;

ii. the consideration received for the share by the issuer, in the case of a share issued by a company referred to in section 4 of the Act respecting Québec business investment companies (R.S.Q., chapter S-29.1);

iii. 125% of the consideration received by the issuer, in the case of a share issued by a company referred to in section 4.1 or 4.2 of the Act respecting Québec business investment companies;

iv. 150% of the consideration received by the issuer, in the case of a share issued by a company referred to in section 4.3 of the Act respecting Québec business investment companies."

(2) This section has effect from 13 May 1988.

79. (1) Section 730 of the said Act is amended by adding the following paragraph:

"However, where the taxpayer is a corporation the control of which was acquired by a person or group of persons before the end of the year and after the end of the taxpayer's seventh preceding taxation year, the amount determined under subparagraph *b* of the first paragraph in respect of the taxpayer for the year is deemed to be nil."

(2) This section applies from the taxation year 1987.

80. (1) Sections 736 to 736.0.2 of the said Act are replaced by the following sections:

"**736.** Notwithstanding section 729, where, at any time, in this section referred to as "that time", control of a corporation has been acquired by a person or group of persons, the following rules apply:

(*a*) no amount in respect of a net capital loss for a taxation year ending before that time is deductible in computing the corporation's taxable income for a taxation year ending after that time;

(*b*) no amount in respect of a net capital loss for a taxation year ending after that time is deductible in computing the corporation's taxable income for a taxation year ending before that time.

In addition, where, at that time, the corporation neither became nor ceased to be exempt from tax under this Part on its taxable income, the following rules apply:

(*a*) in computing the adjusted cost base to the corporation at and after that time of each capital property, other than a depreciable property, owned by the corporation immediately before that time, there shall be deducted an amount equal to the amount by which the adjusted cost base to the corporation of the property immediately before that time exceeds its fair market value immediately before that time;

(*b*) each amount required by subparagraph *a* to be deducted in computing the adjusted cost base to the corporation of a property is deemed to be a capital loss of the corporation for the taxation year that ended immediately before that time from the disposition of the property;

(*c*) each capital property owned by the corporation immediately before that time, other than a property in respect of which an amount would, but for this subparagraph, be required by subparagraph *a* to be deducted in computing its adjusted cost base to the corporation, as is designated by the corporation in its fiscal return under this Part for the taxation year that ended immediately before that time or in a prescribed form filed with the Minister on or before the day that is 90 days after the day on which a notice of assessment of tax payable for the year or notification that no tax is payable for the year is mailed to the corporation, is deemed to have been disposed of by the corporation immediately before the time that is immediately before that time for proceeds of disposition equal to the greater of the adjusted cost base to the corporation of the property immediately before that time, and the lesser of the fair market value of the property immediately before that time and such amount as is designated by the corporation in respect of the property and is deemed to have been reacquired by it at that time at a cost equal to the proceeds of disposition thereof;

(*d*) each amount that by virtue of subparagraph *b* or *c* is a capital loss or gain of the corporation from a disposition of a property for the taxation year that ended immediately before that time is deemed, for the purposes of paragraph *b* of section 570, to be a capital loss or gain, as the case may be, of the corporation from the disposition of the property immediately before the time that a capital property of the corporation in respect of which subparagraph *c* would be applicable would be deemed by that subparagraph to have been disposed of by the corporation.

"**736.0.1** Where, at any time, control of a corporation has been acquired by a person or group of persons, no amount in respect of a non-capital loss or farm loss for a taxation year ending before that time is deductible by the corporation for a taxation year ending after that time.

However, the corporation may deduct, for a particular taxation year ending after that time, such portion of a non-capital loss or farm loss, as the case may be, for a taxation year ending before that time as may reasonably be regarded as its loss from carrying on a business if the following conditions are met:

(*a*) the business was carried on by the corporation for profit or with a reasonable expectation of profit throughout the particular year;

(*b*) the amount that the corporation may deduct shall not exceed the aggregate of its income for the particular year from the business and, where the corporation sold, leased, rented or developed properties or rendered services in the course of carrying on that business before that time, 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 the rendering of similar services.

"**736.0.1.1** Where, at any time, control of a corporation has been acquired by a person or group of persons, no amount in respect of a non-capital loss or farm loss for a taxation year ending after that time is deductible by the corporation for a taxation year ending before that time.

However, the corporation may deduct, for a particular taxation year ending before that time, such portion of a non-capital loss or farm loss, as the case may be, for a taxation year ending after that time as may reasonably be regarded as its loss from carrying on a business if the following conditions are met:

(*a*) the business was carried on by the corporation for profit or with a reasonable expectation of profit throughout the taxation year and in the particular year;

(*b*) the amount that the corporation may deduct shall not exceed its income for the particular year from the business and, where the corporation sold, leased, rented or developed properties or rendered services in the course of carrying on that business before that time, from any other business substantially all of the income of which was derived from the sale, leasing, rental or development, as the case may be, of similar properties, or the rendering of similar services.

"**736.0.2** Where, at any time, control of a corporation, other than a corporation that at that time became or ceased to be exempt from tax under this Part on its taxable income, has been acquired by a person or group of persons, the following rules apply:

(*a*) where the undepreciated capital cost to the corporation of depreciable property of a prescribed class immediately before that time would have exceeded, if this part were read without reference to section 93.4, the aggregate of the fair market value of all the property of that class immediately before that time and the amount in respect of property of that class otherwise allowed under

regulations made under paragraph *a* of section 130 or deductible under the second paragraph of section 130.1 in computing the corporation's income for the taxation year ending immediately before that time, the excess shall be deducted in computing the corporation's income for the taxation year ending immediately before that time and is deemed to have been deductible by the corporation in respect of the property of that class under regulations made under paragraph *a* of section 130;

(*b*) where, immediately before that time, the eligible intangible capital amount in respect of a business exceeded the aggregate of 50% of the fair market value of the aggregate of the intangible capital amounts in respect of the business and the amount otherwise deducted under paragraph *b* of section 130 in computing the corporation's income from the business for the taxation year ending immediately before that time, the excess shall be deducted under paragraph *b* of section 130 in computing the corporation's income from the business for the taxation year ending immediately before that time."

(2) This section applies, subject to section 112, in respect of acquisitions of control occurring after 15 January 1987 other than acquisitions of control occurring before 1 January 1988, where the persons acquiring the control were obliged on 15 January 1987 to acquire the control pursuant to the terms of agreements in writing entered into on or before the latter date.

81. (1) Section 736.0.3 of the said Act is repealed.

(2) This section applies, subject to section 112, in respect of acquisitions of control occurring after 15 January 1987 other than acquisitions of control occurring before 1 January 1988, where the persons acquiring the control were obliged on 15 January 1987 to acquire the control pursuant to the terms of agreements in writing entered into on or before the latter date.

82. (1) The said Act is amended by inserting, before section 736.0.4, the following section:

"**736.0.3.1** Where, at any time, control of a corporation, other than a corporation that at that time became or ceased to be exempt from tax under this Part on its taxable income, has been acquired by a person or group of persons, no amount may be deducted under section 140 in computing the corporation's income for its taxation year ending immediately before that time and each amount that is the greatest amount that would, but for this section and sections 191, 210, 211 and 213, have been deductible under section 140 in respect of a debt owing to the corporation immediately before that time is deemed to be a separate debt and shall, notwithstanding any other provision

of this Part, be deducted as a bad debt under section 141 in computing the corporation's income for the year.

In addition, the amount by which the debt exceeds that separate debt is deemed to be a separate debt incurred at the same time and under the same circumstances as the debt was incurred."

(2) This section applies, subject to section 112, in respect of acquisitions of control occurring after 15 January 1987 other than acquisitions of control occurring before 1 January 1988, where the persons acquiring the control were obliged on 15 January 1987 to acquire the control pursuant to the terms of agreements in writing entered into on or before the latter date.

83. (1) The said Act is amended by inserting, after section 736.0.4, the following section:

"**736.0.5** Where control of a corporation has been acquired by a person or group of persons and it may reasonably be considered that the main reason for the acquisition of control was to cause subparagraph *b* of the second paragraph of section 736 or section 736.0.2 or 736.0.3.1 to apply in respect of the acquisition, the following provisions do not apply in respect of the acquisition:

(*a*) the said subparagraph *b* of the second paragraph of section 736, the said sections 736.0.2 and 736.0.3.1 and subparagraph *c* of the second paragraph of section 736;

(*b*) where, but for paragraph *a*, the said subparagraph *b* of the second paragraph of section 736 would apply, subparagraph *a* of the second paragraph of section 736."

(2) This section applies, subject to section 112, in respect of acquisitions of control occurring after 15 January 1987 other than acquisitions of control occurring before 1 January 1988, where the persons acquiring the control were obliged on 15 January 1987 to acquire the control pursuant to the terms of agreements in writing entered into on or before the latter date.

84. (1) The said Act is amended by inserting, after section 740.4, the following sections:

"**740.5** No deduction may be made under section 738, 740 or 845 in computing the taxable income of a particular corporation in respect of a dividend received on a share, in this section referred to as the "subject share", other than an exempt share, of the capital stock of another corporation where

(*a*) any person or partnership was obligated, in any way whatever, to effect an undertaking, including any covenant or agreement to purchase or repurchase the subject share, under which an investor is entitled, either immediately or in the future, to receive or obtain any amount or benefit for the purpose of reducing the impact, in whole or in part, of any loss that an investor may sustain by virtue of the ownership, holding or disposition of the subject share, and any property is used, in whole or in part, either directly or indirectly in any manner whatever, to secure the undertaking; or

(*b*) the undertaking or right referred to in subparagraph i or ii was acquired by the issuer as part of a transaction or event or a series of transactions or events that included the issuance or acquisition of the subject share, or a share for which the subject share was substituted, and the consideration for which the subject share was issued or any other property received, either directly or indirectly, by the issuer from an investor, or any property substituted therefor, is or includes

i. an undertaking of an investor to make payments that are required to be included, in whole or in part, in computing the income of the issuer, other than an undertaking of a corporation that, immediately before the subject share was issued, would be related to the corporation that issued the subject share if this Act were read without reference to paragraph *b* of section 20; or

ii. any right to receive payments that are required to be included, in whole or in part, in computing the income of the issuer where that right is held on condition that it or property substituted therefor may revert or pass to an investor or a person or partnership to be determined by an investor.

"**740.6** Section 740.5 applies only in respect of a dividend on a share where, having regard to all the circumstances, it may reasonably be considered that the share was issued or acquired as part of a transaction or event or a series of transactions or events that enabled any corporation to earn investment income, or any income substituted therefor, and, as a result, the amount of its taxes payable under this Part for a taxation year is less than the amount that its taxes payable under this Part would be for the year if such investment income were the only income of the corporation for the year and all other taxation years.

"**740.7** For the purposes of section 740.5 and this section, the expression

(*a*) "exempt share" means

i. a prescribed share;

ii. a share of the capital stock of a corporation issued before 5:00 p.m. Eastern Standard Time, 27 November 1986, other than a share held at that time by the issuer, or by any person or partnership where the issuer may become entitled to receive any amount after that time by way of subscription proceeds or contribution of capital with respect to that share pursuant to an agreement made before that time;

(*b*) "issuer" means the other corporation referred to in section 740.5, a person with whom that corporation does not deal at arm's length and any partnership or trust of which that corporation, or a person with whom that corporation does not deal at arm's length, is a member or beneficiary, but does not include the particular corporation referred to in that section;

(*c*) "investor" means the particular corporation referred to in section 740.5, a person with whom that corporation does not deal at arm's length and any partnership or trust of which that corporation, or a person with whom that corporation does not deal at arm's length, is a member or beneficiary, but does not include the other corporation referred to in that section.

"**740.8** For the purposes of the definition of the expression "exempt share" in paragraph *a* of section 740.7, where, at any time after 5:00 p.m. Eastern Standard Time, 27 November 1986, the terms or conditions of a share of the capital stock of a corporation have been changed and any agreement in respect of the share has been changed or entered into by the corporation, the share is deemed to have been issued at that time.

"**740.9** For the purposes of paragraph *a* of section 740.5, any loss that an investor may sustain by virtue of the ownership, holding or disposition of the subject share referred to in that paragraph is deemed to include any loss with respect to an obligation or share that was issued or acquired as part of a transaction or event or a series of transactions or events that included the issuance or acquisition of the subject share, or a share for which the subject share was substituted.

"**740.10** For the purposes of subparagraph i of paragraph *b* of section 740.5, where it may reasonably be considered, having regard to all the circumstances, that a corporation has become related to any other corporation for the purpose of avoiding any limitation upon the deduction of a dividend under section 738, 740 or 845, the corporation is deemed not to be related to the other corporation."

(2) This section has effect from 5:00 p.m., Eastern Standard Time, 27 November 1986.

85. (1) Section 772 of the said Act is replaced by the following section:

"**772.** Where a person who is an individual resident in Québec on the last day of a taxation year or that is a corporation resident in Canada and carrying on business in Québec at any time of a taxation year has paid to the government of a foreign country or of a political subdivision of a foreign country or to a prescribed international organization an income tax or a contribution, as the case may be, of the same nature as the tax contemplated by this Part, he may deduct from his tax otherwise payable under this Part the amount established under the regulations.

For the purposes of this section, where an individual dies or ceases to be resident in Canada during a taxation year, the last day of his taxation year is deemed to be the day of his death or the last day on which he was resident in Canada, as the case may be."

(2) This section applies from the taxation year 1985.

86. (1) Section 776.29 of the said Act, enacted by section 79 of chapter 4 of the statutes of 1988 and amended by section 133 of chapter 5 of the statutes of 1989, is again amended by replacing subparagraph iv of subparagraph *c* of the first paragraph by the following subparagraph:

"iv. any other amount received and not included in computing income under paragraphs *a* and *b* of section 489, sections 491 and 494 to 496 and the regulations under section 488, except any income supplement received under the Act respecting work income supplement (R.S.Q., chapter S-37.1), any benefit received under Chapter III of the Act respecting income security (1988, chapter 51) and any amount received under a program of subsidies for children in day care centres established under the Act respecting health services and social services (R.S.Q., chapter S-5) or the Act respecting child day care (R.S.Q., chapter S-4.1); and".

(2) This section applies from the taxation year 1988.

87. (1) Section 776.34 of the said Act, enacted by section 79 of chapter 4 of the statutes of 1988 and amended by section 137 of chapter 5 of the statutes of 1989, is again amended by replacing paragraph *b* by the following paragraphs:

"(*b*) the amount by which the excess amount of the total income for the year of the dependent person of the individual during the year contemplated in the first paragraph of section 776.32, over any amount received by the person in the year as social assistance payment based on an examination of means, needs or income, exceeds $5 280;

"(*c*) the aggregate of the amounts received in the year by the person referred to in paragraph *b* as social assistance payment based on an examination of means, needs or income."

(2) This section applies from the taxation year 1988. However, where paragraph *b* of section 776.34 of the Taxation Act, enacted thereby, applies to the taxation year 1988, it shall be read by replacing the word "person", wherever it appears, by the word "child".

88. (1) Section 792 of the said Act is amended by replacing subsection 1 by the following subsection:

"**792.** (1) Where a patronage dividend is computed at a different rate in the case of persons qualifying as members, the amount that may be deducted under section 786 is equal to the lesser of the aggregate of patronage dividends made by the taxpayer and mentioned in section 786 and the aggregate of the part of the income of the taxpayer for the year attributable to business done with members and such patronage dividends made to non-member customers of the year."

(2) This section applies from the taxation year 1987.

89. (1) The said Act is amended by inserting, after section 792, the following section:

"**792.1** Where, in a taxation year ending after 31 December 1985, all or a portion of a patronage dividend made by a taxpayer to his customers who are members is not deductible in computing his income for the year because of the application of subsection 1 of section 792, in this section referred to as the "undeducted portion", the taxpayer may deduct, in computing his income for a subsequent taxation year, an amount equal to the lesser of

(*a*) the undeducted portion, except to the extent that that portion was deducted in computing his income for any preceding taxation year; and

(*b*) the amount by which the taxpayer's income for the subsequent taxation year, computed without reference to this section, attributable to business done with his customers of that year who are members exceeds the amount deducted in computing his income for

the subsequent taxation year by virtue of section 786 in respect of patronage dividends made by him to his customers of that year who are members."

(2) This section applies from the taxation year 1987.

90. (1) The first paragraph of section 805 of the said Act is amended

(1) by replacing that part which precedes subparagraph *a* by the following:

"**805.** The deposit insurance corporation defined in paragraph *b* of section 804 qualifies as such for a taxation year only if it was incorporated primarily to provide or administer a stabilization, liquidity or mutual aid fund for a savings and credit union and to assist in the payment of any losses suffered by the members of such a union in liquidation and if throughout the year it was a Canadian corporation to which the cost amount of all its property, other than a debt obligation of, or a share of the capital stock of, a member institution issued by the member institution at a time when it was in financial difficulty, was at least 50 per cent of the cost amount of property which was";

(2) by striking out the word "and" at the end of subparagraph *b*;

(3) by replacing the period at the end of subparagraph *c* by a semicolon and the word "and";

(4) by adding, after subparagraph *c*, the following subparagraph:

"(*d*) in relation to a particular deposit insurance corporation, a debt obligation and a share of the capital stock of a subsidiary wholly-owned corporation of the particular corporation where the subsidiary is deemed, under section 806.1, to be a deposit insurance corporation."

(2) This section applies from the taxation year 1985.

91. (1) The said Act is amended by inserting, after section 806, the following section:

"**806.1** For the purposes of this title other than the second paragraph of section 808, subparagraphs i and ii of paragraph *c* of section 810, paragraph *b* of section 804 where paragraph *a* of subsection 1 of section 771 refers to it, and section 815, a subsidiary

wholly-owned corporation of a particular corporation described in section 804 is deemed to be a deposit insurance corporation and any member institution of the particular corporation is deemed to be a member institution of the subsidiary, where all or substantially all of the property of the subsidiary has at all times since the subsidiary was incorporated consisted of

(*a*) property described in subparagraphs *a* to *d* of the first paragraph of section 805;

(*b*) shares of the capital stock of a member institution of the particular corporation obtained by the subsidiary at a time when the member institution was in financial difficulty;

(*c*) debt obligations issued by a member institution of the particular corporation at a time when the member institution was in financial difficulty;

(*d*) property acquired from a member institution of the particular corporation at a time when the member institution was in financial difficulty; or

(*e*) any combination of property described in paragraphs *a* to *d*."

(2) This section applies from the taxation year 1985.

92. (1) Section 810 of the said Act is amended

(1) by striking out the word "and" at the end of paragraph *b*;

(2) by striking out the word "and" at the end of subparagraph ii of paragraph *c*;

(3) by replacing the period at the end of subparagraph iii of paragraph *c* by a semicolon and the word "and";

(4) by adding, after subparagraph iii of paragraph *c*, the following subparagraph:

"iv. in supervising or administering a member institution in financial difficulty; and";

(5) by adding, after paragraph *c*, the following paragraph:

"(*d*) the aggregate of all amounts each of which is an amount that is not otherwise deductible by the corporation for the year or any other taxation year and that is

i. an amount paid by the corporation in the year pursuant to a legal obligation to pay interest on borrowed money used to lend money to, or otherwise provide assistance to, a member institution in financial difficulty, to assist in the payment of any losses suffered by members or depositors of a member institution in financial difficulty, to lend money to a subsidiary wholly-owned corporation of the corporation where the subsidiary is deemed by section 806.1 to be a deposit insurance corporation, to acquire property from a member institution in financial difficulty, or to acquire shares of the capital stock of a member institution in financial difficulty; or

ii. an amount paid by the corporation in the year pursuant to a legal obligation to pay interest on an amount that would be deductible under subparagraph i if it were paid in the year."

(2) This section applies from the taxation year 1980.

93. (1) Section 814 of the said Act is amended

(1) by replacing paragraphs *a* to *c* by the following paragraphs:

"(*a*) an amount described in paragraphs *a* to *c* of section 813 received by it during the year from a deposit insurance corporation, to the extent that it has not repaid the amount to the deposit insurance corporation in the year;

"(*b*) an amount received during the year from a deposit insurance corporation by a depositor or a member of the member institution as total or partial payment of a deposit with, or capital stock of, the member institution to the extent that it has not repaid the amount to the deposit insurance corporation in the year;

"(*c*) when, at any time during such year, the obligation of a member institution to pay an amount to a deposit insurance corporation is settled or extinguished without any payment by the member institution or by the payment of an amount less than the principal amount, the amount by which the principal amount exceeds the amount paid by it on the settlement or extinguishment of the obligation to the extent that the excess is not otherwise required to be included in computing the member institution's income for the year or a preceding taxation year.";

(2) by adding, at the end, the following paragraph:

"For the purposes of subparagraph *c* of the first paragraph, an amount of interest payable by a member institution to a deposit insurance corporation on an obligation is deemed to have a principal amount equal to that amount."

(2) This section applies from the taxation year 1983.

94. (1) The said Act is amended by inserting, after section 815, the following section:

"**815.1** Where a member institution has in a taxation year repaid an amount to a deposit insurance corporation on account of an amount that was included by virtue of subparagraph *a* or *b* of the first paragraph of section 814 in computing its income for a preceding taxation year, where the member institution has filed its fiscal return required by section 1000 for the preceding year, and where, on or before the day on or before which the member institution is required by section 1000 to file a fiscal return for the taxation year, it has filed an amended fiscal return for the preceding year excluding from its income for that year the amount repaid, the amount repaid shall be excluded from the amount otherwise included by virtue of subparagraph *a* or *b* of the first paragraph of section 814 in computing the member institution's income for the preceding year and the Minister shall make such reassessment of the tax, interest and penalties payable by the member institution for preceding taxation years as is necessary to give effect to the exclusion."

(2) This section applies from the taxation year 1983. However, the amount repaid referred to in section 815.1 of the Taxation Act, as enacted by this section, may be excluded from income where the amended fiscal return referred to in the said section is filed at any time on or before the later of

(*a*) the day on or before which it would be required by the said section 815.1 to be filed, and

(*b*) on (*insert here the date of the ninetieth day following the date of assent to this Act*).

95. (1) The said Act is amended by inserting, after section 890, the following:

"TITLE II.1

"RETIREMENT COMPENSATION ARRANGEMENTS

"CHAPTER I

"GENERAL RULES

"**890.1** In this Title, the expression

(*a*) "subject property of a retirement compensation arrangement" means property that is held in connection with the arrangement;

(*b*) "retirement compensation arrangement" means a plan or arrangement under which contributions, other than payments made to acquire an interest in a life insurance policy, are made by an employer or former employer of a taxpayer, or by a person with whom the employer or former employer does not deal at arm's length, to another person or partnership, in this Title referred to as the "custodian", in connection with benefits that are to be or may be received or enjoyed by any person on, after or in contemplation of any substantial change in the services rendered by the taxpayer, the retirement of the taxpayer or the loss of an office or employment of the taxpayer;

(*c*) "RCA trust" under a retirement compensation arrangement means

i. any trust governed by the arrangement; and

ii. any trust deemed by paragraph *a* of section 890.2 to be created in respect of subject property of the arrangement.

For the purposes of subparagraph *b* of the first paragraph, a retirement compensation arrangement does not include

(*a*) a registered retirement plan;

(*b*) a disability or income maintenance insurance plan under a policy with an insurance corporation;

(*c*) a deferred profit sharing plan;

(*d*) an employees profit sharing plan;

(*e*) a registered retirement savings plan;

(*f*) an employee trust;

(*g*) a group sickness or accident insurance plan;

(*h*) a supplementary unemployment benefit plan;

(*i*) a trust described in paragraph *m* of section 998;

(*j*) a plan or arrangement established for the purpose of deferring the salary or wages of a professional athlete for his services as such

with a team that participates in a league having regularly scheduled games, in this paragraph referred to as an "athlete's plan", where

i. the plan or arrangement would, but for paragraph *j* of section 47.16, be a salary deferral arrangement; and

ii. in the case of a Canadian team, the custodian of the plan or arrangement carries on business through a fixed place of business in Canada and is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee;

(*k*) a salary deferral arrangement, whether or not deferred amounts thereunder are required to be included as benefits under section 37 in computing a taxpayer's income;

(*l*) a plan or arrangement, other than an athlete's plan, that is maintained primarily for the benefit of non-residents in respect of services rendered outside Canada;

(*m*) an insurance policy;

(*n*) a prescribed plan or arrangement.

For the purposes of the definition of "retirement compensation arrangement", where a particular person holds property in trust under an arrangement that, if the property were held by another person, would be a retirement compensation arrangement, the arrangement is deemed to be a retirement compensation arrangement of which the particular person is the custodian.

"**890.2** In respect of the subject property of a retirement compensation arrangement, other than subject property of the arrangement held by a trust governed by a retirement compensation arrangement, for the purposes of this Part, the following rules apply:

(*a*) an *inter vivos* trust is deemed to be created on the day that the arrangement is established;

(*b*) the subject property of the arrangement is deemed to be property of the trust and not to be property of any other person; and

(*c*) the custodian of the arrangement is deemed to be the trustee having ownership or control of the trust property.

"**890.3** For the purposes of this Part, where by virtue of a plan or arrangement an employer is obliged to provide benefits that are to be received or enjoyed by any person on, after or in contemplation of any substantial change in the services rendered by a taxpayer, the

retirement of a taxpayer or the loss of an office or employment of a taxpayer, and where the employer, former employer or a person or partnership with whom the employer or former employer does not deal at arm's length acquires an interest in a life insurance policy that may reasonably be considered to be acquired to fund, in whole or in part, those benefits, the rules set out in the second paragraph apply in respect of the plan or arrangement if it is not otherwise a retirement compensation arrangement and is not excluded from the definition of the expression "retirement compensation arrangement" by any of subparagraphs *a* to *l* and *n* of the second paragraph of section 890.1.

The rules referred to in the first paragraph are the following:

(*a*) the person or partnership referred to in the first paragraph who acquired the interest is deemed to be the custodian of a retirement compensation arrangement;

(*b*) the interest is deemed to be subject property of the retirement compensation arrangement;

(*c*) an amount equal to twice the amount of any premium paid in respect of the interest or any repayment of a policy loan thereunder is deemed to be a contribution under the retirement compensation arrangement; and

(*d*) any payment received in respect of the interest, including a policy loan, and any amount received as a refund of refundable tax under subsection 2 of section 207.7 of the Income Tax Act (Statutes of Canada) is deemed to be an amount received out of or under the retirement compensation arrangement by the recipient and not to be a payment of any other amount.

"**890.4** For the purposes of the provisions of this Part relating to retirement compensation arrangements, where a corporation that at any time carried on a personal services business or an employee of the corporation, enters into a plan or arrangement with a person or partnership, referred to in this section as the "employer", to which the corporation renders services, and where the plan or arrangement provides for benefits to be received or enjoyed by any person on, after or in contemplation of the cessation of, or any substantial change in, the services rendered by the corporation, or an employee of the corporation, to the employer, the following rules apply:

(*a*) the employer and the corporation are deemed to be an employer and employee, respectively, in relation to each other; and

(*b*) any benefits to be received or enjoyed by any person under the plan or arrangement are deemed to be benefits to be received or

enjoyed by the person on, after or in contemplation of a substantial change in the services rendered by the corporation.

"**890.5** Where at any time an employee benefit plan becomes a retirement compensation arrangement as a consequence of a change of the custodian of the plan or as a consequence of the custodian ceasing either to carry on business through a fixed place of business in Canada or to be licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(*a*) for the purposes of this Part, the custodian of the plan is deemed to have made a contribution to the arrangement immediately after that time, in an amount equal to the fair market value at that time of all the properties of the plan; and

(*b*) for the purposes of sections 209.1 to 209.4, that amount is deemed to be a payment made at that time out of or under the plan to or for the benefit of employees or former employees of the employers who contributed to the plan.

"**890.6** For the purposes of the provisions of this Part relating to retirement compensation arrangements, where a contribution has been made under a plan or arrangement, in this section referred to as the "plan", that would, but for subparagraph *l* of the second paragraph of section 890.1, be a retirement compensation arrangement, the rules set out in the second paragraph apply to the extent that the contribution can reasonably be considered to have been made at any particular time in respect of services rendered by an employee who was resident in Canada at the time the services were rendered and who, where he was a member of the plan before he became a resident of Canada, had been so resident for more than 60 of the 72 months preceding the time the services were rendered.

The rules referred to in the first paragraph are the following:

(*a*) another plan or arrangement, in this section referred to as the "resident's arrangement", is deemed to be established at the particular time referred to in the first paragraph;

(*b*) the resident's arrangement is deemed to be a separate arrangement independent of the plan;

(*c*) the resident's arrangement is deemed to be a retirement compensation arrangement the custodian of which is the recipient of the contribution;

(*d*) the contribution is deemed to have been made under the resident's arrangement and not under the plan; and

(*e*) all property that can reasonably be considered to derive from the contribution is deemed to be property held in connection with the resident's arrangement and not in connection with the plan.

"**890.7** For the purposes of this Part, other than this section, where a retirement compensation arrangement is part of a plan or arrangement under which amounts not related to the retirement compensation arrangement are payable or provided, the following rules apply:

(*a*) the retirement compensation arrangement is deemed to be a separate arrangement independent of other parts of the plan or arrangement of which it is a part; and

(*b*) subject to section 47.14, amounts paid out of or under the plan or arrangement are deemed to have first been paid out of the retirement compensation arrangement unless a provision in the plan or arrangement otherwise provides.

"CHAPTER II

"TAX

"**890.8** No tax is payable by an RCA trust under this Part.

"CHAPTER III

"AMOUNTS TO BE INCLUDED

"**890.9** A taxpayer shall include in computing his income for a taxation year

(*a*) any amount, including a return of contributions, received in the year by the taxpayer or another person, other than an amount required to be included in that other person's income for a taxation year under section 890.11, out of or under a retirement compensation arrangement that can reasonably be considered to have been received in respect of an office or employment of the taxpayer;

(*b*) any amount received or that became receivable in the year by the taxpayer as proceeds from the disposition of an interest in a retirement compensation arrangement; and

(*c*) the aggregate of all amounts, including a return of contributions, each of which is an amount received in the year by the

taxpayer out of or under a retirement compensation arrangement that can reasonably be considered to have been received in respect of an office or employment of a person other than the taxpayer, except to the extent that the amount was required

i. under section 890.11 to be included in computing the taxpayer's income for a taxation year; or

ii. under paragraph *a* of this section or section 429 to be included in computing the income for the year of a person resident in Canada other than the taxpayer.

"**890.10** For the purposes of paragraphs *a* and *c* of section 890.9, where, at any time in a year, a trust governed by a retirement compensation arrangement makes, in respect of property, any of the transactions described in the second paragraph, the amount, if any, by which the fair market value referred to in subparagraph *a*, *b* or *c* of the second paragraph differs from the consideration referred to therein or, if there is no consideration, the amount of the fair market value referred to therein is deemed to be an amount received at that time by the person out of or under the arrangement that can reasonably be considered to have been received in respect of an office or employment of a taxpayer.

The transactions referred to in the first paragraph are the following:

(*a*) the trust disposes of property to a person for consideration less than the fair market value of the property at the time of the disposition, or for no consideration;

(*b*) the trust acquires property from a person for consideration greater than the fair market value of the property at the time of the acquisition;

(*c*) the trust permits a person to use or enjoy property of the trust for no consideration or for consideration less than the fair market value of such use or enjoyment.

"**890.11** A taxpayer shall also include in computing his income for a taxation year the aggregate of all amounts each of which is an amount received by him in the year in the course of a business out of or under a retirement compensation arrangement to which he, another person who carried on a business that was acquired by him, or any person with whom he or that other person does not deal at arms's length, has contributed an amount that was deductible under section 139.1 in computing the contributor's income for a taxation year.

"CHAPTER IV

"DEDUCTIONS

"**890.12** A taxpayer may deduct in computing his income for a taxation year amounts paid by him in the year as contributions under a retirement compensation arrangement in respect of services rendered by his employee or former employee, other than where it is established, by subsequent events or otherwise, that the amounts were paid as part of a series of payments and refunds of contributions under the arrangement.

"**890.13** A taxpayer may also deduct in computing his income for a taxation year,

(*a*) where an amount in respect of a retirement compensation arrangement is required by paragraph *a* or *c* of section 890.9 or by section 429 to be included in computing his income for the year, an amount equal to the lesser of

i. the aggregate of all amounts in respect of the arrangement so required to be included in his income for the year; and

ii. the amount, if any, by which the aggregate of all amounts contributed under the arrangement by him while it was a retirement compensation arrangement and before the end of the year, all amounts paid by him before the end of the year and at a time when he was resident in Canada to acquire an interest in the arrangement, and all amounts that were received or became receivable by him before the end of the year and at a time when he was resident in Canada as proceeds from the disposition of an interest in the arrangement, exceeds the aggregate of all amounts each of which is an amount deducted under this paragraph or paragraph *b* in respect of the arrangement in computing his income for a preceding taxation year; and

(*b*) where an amount in respect of a retirement compensation arrangement is required by paragraph *b* of section 890.9 to be included in computing his income for the year, an amount equal to the lesser of

i. the aggregate of all amounts in respect of the arrangement so required to be included in his income for the year; and

ii. the amount, if any, by which the aggregate of all amounts contributed under the arrangement by him while it was a retirement compensation arrangement and before the end of the year and all amounts paid by him before the end of the year at a time when he was

resident in Canada to acquire an interest in the arrangement exceeds the aggregate of all amounts each of which is an amount deducted under paragraph *a* in respect of the arrangement in computing his income for the year or a preceding taxation year and the aggregate of all amounts each of which is an amount deducted under this paragraph in respect of the arrangement in computing his income for a preceding taxation year."

(2) This section has effect, subject to subsections 3 and 4, from 9 October 1986.

(3) Where the definition of the expression "retirement compensation arrangement", enacted by subsection 1, applies in respect of a plan or arrangement, other than a registered retirement plan the registration of which has been revoked under the Income Tax Act, which was established before 9 October 1986 or which was established after 8 October 1986 pursuant to an agreement between a taxpayer and an employer or former employer of the taxpayer entered into before 9 October 1986, in this subsection referred to as the "existing arrangement", for the purposes of Part I of the Taxation Act,

(*a*) another plan or arrangement, in this subsection referred to as the "statutory arrangement", is deemed to be established on the day that is the earlier of 1 January 1988, and the day after 8 October 1986 on which the terms of the existing arrangement have been materially altered;

(*b*) the statutory arrangement is deemed to be a separate arrangement independent of the existing arrangement;

(*c*) the existing arrangement is deemed not to be a retirement compensation arrangement within the definition of that expression as enacted by subsection 1; and

(*d*) all contributions made under the existing arrangement after the establishment of the statutory arrangement and all property that can reasonably be considered to derive from those contributions are deemed to be property held in connection with the statutory arrangement and not in connection with the existing arrangement.

(4) Section 890.3 of the Taxation Act, enacted by subsection 1, does not apply in respect of an interest in a life insurance policy acquired before 1 January 1988 through a payment of premiums or a purchase pursuant to the terms of an arrangement established before 9 October 1986 and not materially altered after 8 October 1986.

96. (1) Section 998 of the said Act, amended by section 112 of chapter 18 of the statutes of 1988, is again amended

(1) by replacing that part of paragraph *c*.2 which precedes subparagraph iii by the following:

"(*c*.2) a corporation all of the shares, and rights to acquire shares, of the capital stock of which were owned by one or more registered retirement plans or prescribed plans, by one or more trusts all the beneficiaries of which are registered pension plans or prescribed plans, by one or more segregated fund trusts, within the meaning of paragraph *k* of section 835, all the beneficiaries of which are registered retirement plans or prescribed plans or by one or more prescribed persons or, in the case of a corporation without share capital, all the property of which was held exclusively for the benefit of one or more such plans and, in either case, without interruption from the later of the date on which the corporation was incorporated and 16 November 1978, and which is a corporation that

i. was incorporated before 17 November 1978 solely for the administration of a registered retirement plan or prescribed plan or in connection with that plan; or

ii. has limited, without interruption since the later of the date on which it was incorporated and 16 November 1978, its activities to acquiring, holding, maintaining, improving, leasing or managing capital property that is real property or an interest therein owned by the corporation, a registered retirement plan, a prescribed plan or another corporation described in this subparagraph, other than a corporation without share capital, borrowed money solely for the purpose of earning income from real property or an interest therein and made no investments other than investments in real property or an interest therein or investments that a registered retirement plan is permitted to make under the Pension Benefits Standards Act, 1985 (Statutes of Canada) or a similar law of a province; or";

(2) by inserting, after paragraph *c*.3, the following paragraph:

"(*c*.4) a trust that is a master trust within the meaning of the regulations and that elects to be such a trust under this paragraph in its fiscal return for its first taxation year ending in the period referred to in section 980;";

(3) by inserting, after paragraph *f*, the following paragraph:

"(*f*.1) an RCA trust, within the meaning of subparagraph *c* of the first paragraph of section 890.1;".

(2) Paragraph 1 of subsection 1 has effect from 31 October 1985.

(3) Paragraph 2 of subsection 1 applies from the taxation year 1987.

(4) Paragraph 3 of subsection 1 has effect from 9 October 1986.

97. (1) Section 999.1 of the said Act is replaced by the following section:

"**999.1** Where, at any time, in this section referred to as "that time", a corporation becomes or ceases to be exempt from tax under this Part on its taxable income, the following rules apply:

(*a*) the taxation year of the corporation that would otherwise include that time is deemed to end immediately before that time and a new taxation year of the corporation is deemed to commence at that time;

(*b*) the corporation is deemed to dispose, immediately before the time that is immediately before that time, of each property, other than, where, at that time, the corporation ceases to be exempt from tax under this Part on its taxable income, a Canadian resource property or a foreign resource property, that was owned by it immediately before that time for an amount equal to its fair market value at that time, and to reacquire the property at that time at a cost equal to that fair market value;

(*c*) for the purposes of sections 93 to 104, 130, 130.1, 142 and 149 and of the regulations under paragraph *a* of section 130 or section 130.1, where paragraph *b* applies in respect of depreciable property of the corporation and the capital cost of the property to the corporation immediately before the disposition exceeds the fair market value of the property at that time, the capital cost of the property to the corporation at that time is deemed to be the capital cost thereof to the corporation immediately before the disposition and the excess is deemed to have been allowed to the corporation as depreciation under the said paragraph *a* in respect of the property in computing its income for taxation years ending before that time;

(*d*) notwithstanding sections 727 to 737, no amount is deductible in computing the corporation's taxable income for a taxation year ending after that time in respect of a non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss for a taxation year ending before that time to the extent that such loss could have been applied to reduce the corporation's taxable income for taxation years ending before that time."

(2) This section applies, subject to subsection 3, where a corporation ceases after 15 January 1987 to be exempt from tax under Part I of the Taxation Act on its taxable income or becomes so exempt after 5 June 1987, except where a corporation becomes so exempt after the latter date as a result of the acquisition of shares of the capital stock of the corporation or of another corporation in accordance with

(*a*) an agreement entered into on or before 5 June 1987;

(*b*) a take-over bid made in accordance with the applicable securities legislation in Canada if a take-over bid circular or similar document to give notice to the public of the take-over bid was filed with a public authority or stock exchange in Canada on or before 5 June 1987.

(3) This section, where it enacts paragraph *d* of section 999.1 of the Taxation Act, applies where a corporation becomes or ceases to be exempt from tax under Part I of the said Act after 5 June 1987.

98. (1) Section 1015 of the said Act, amended by section 120 of chapter 4 of the statutes of 1988, is again amended by inserting, after paragraph *q*, the following paragraph:

"(*r*) an amount as a distribution to one or more persons out of or under a retirement compensation arrangement,".

(2) This section applies in respect of amounts paid after 27 March 1987.

99. (1) Section 1019 of the said Act is replaced by the following sections:

"**1019.** Where, at the end of a taxpayer's taxation year, the person beneficially entitled to an amount received by the taxpayer after 1984 and before the taxation year as dividends, interest or proceeds of disposition of property is unknown to the taxpayer, the taxpayer shall pay to the Minister, on or before the sixtieth day after the end of the taxation year, on account of the tax payable by that person, an amount equal to 15% of the amount received as dividends or interest and 15% of the amount, if any, by which the proceeds of disposition of property exceed the aggregate of any expenses made or incurred by the taxpayer for the purpose of disposing of the property, to the extent that such expenses were not deducted in computing the taxpayer's income for any taxation year or attributable to any other property.

"**1019.1** No payment under section 1019 shall be required in respect of an amount that was included in computing the taxpayer's

income contemplated in the said section for the year or a preceding taxation year or in respect of an amount on which the tax contemplated in the said section 1019 was previously paid.

"**1019.2** An amount paid by a taxpayer under section 1019 in respect of dividends, interest or proceeds of disposition of property is deemed to have been received by the person beneficially entitled thereto and to have been deducted or withheld from the amount otherwise payable by the taxpayer to that person."

(2) This section applies in respect of taxation years commencing after 31 December 1986.

100. (1) Section 1029.3 of the said Act is replaced by the following section:

"**1029.3** Section 1029.2 does not apply, for a taxation year, in respect of a corporation that is exempt from tax for that year nor in respect of an amount that can reasonably be considered to be the portion of a non-capital loss that the corporation, but for section 735.1, would not be allowed to deduct for the year by reason of section 564.4.1 or 736.0.1, even if the aggregate described in section 564.4.2 or the second paragraph of section 736.0.1, as the case may be, were sufficient."

(2) This section applies, subject to section 112, in respect of acquisitions of control occurring after 15 January 1987 other than acquisitions of control occurring before 1 January 1988, where the persons acquiring the control were obliged on 15 January 1987 to acquire the control pursuant to the terms of agreements in writing entered into on or before the latter date.

101. (1) The said Act is amended by inserting, after section 1033, the following section:

"**1033.1** Notwithstanding any other provision of this Part, if a member institution furnishes adequate security to the Minister in relation to, or on behalf of, a deposit insurance corporation within the meaning assigned by sections 804 to 806, the Minister shall, until the day specified in the second paragraph, suspend the payment of the aggregate of

(*a*) the tax payable under this Part by the member institution for a taxation year to the extent that the amount of that tax exceeds the amount of tax that would be payable if no amount that the member institution is obliged to repay to the corporation were included, under

subparagraph *a* or *b* of the first paragraph of section 814, in computing the member institution's income for the year; and

(*b*) interest payable under this Part by the member institution on the amount determined under paragraph *a*.

The day contemplated in the first paragraph is the earlier of the day on which the obligation referred to in paragraph *a* of the first paragraph to repay the amount to the corporation is settled or extinguished and the day that is ten years after the end of the year contemplated in such paragraph *a*."

(2) This section has effect from 18 February 1987.

102. (1) Section 1034 of the said Act is replaced by the following section:

"**1034.** Where a person transfers property, directly or indirectly, by means of a trust or by any means whatever to a person with whom he is not dealing at arm's length, a person who is under 18 years of age, or his spouse or a person who, after the transfer, becomes his spouse, the transferee and transferor are jointly and severally liable to pay a part of the transferor's tax for each taxation year equal to the amount by which the tax for the year is greater than it would have been if it were not for the operation of sections 456 to 458, 462.1 to 463 and 464 to 467.1, in respect of any income from, or gain from the disposition of, the property so transferred or property substituted therefor."

(2) This section has effect from 17 December 1987. However, for the period extending from 17 December 1987 to (*insert here the date preceding the date of assent to this Act*), section 1034 of the Taxation Act, enacted by this section, shall be read as follows:

"**1034.** (1) Where a person transfers property, directly or indirectly, by means of a trust or by any means whatever to a person with whom he is not dealing at arm's length, a person who is under 18 years of age, or his spouse or a person who, after the transfer, becomes his spouse, the transferee and transferor are jointly and severally liable to pay a part of the transferor's tax for each taxation year equal to the amount by which the tax for the year is greater than it would have been if it were not for the operation of sections 456 to 458, 462.1 to 463 and 464 to 467.1 in respect of any income from, or gain from the disposition of, the property so transferred or property substituted therefor.

(2) The transferee and transferor are also jointly and severally liable to pay under this Act an amount equal to the lesser of the following amounts:

(*a*) the amount by which the fair market value of the property at the time it was transferred exceeds the fair market value at that time of the consideration given for the property;

(*b*) the aggregate of the amounts that the transferor is liable to pay under this Act during the taxation year in which the property was transferred or any preceding taxation year or in respect of any of such years.

(3) However, this section does not free the transferor from his obligations under any other provision of this Act."

103. Section 1034.0.2 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) where the property is transferred after 15 February 1984, the transferee shall not be liable to pay under section 1034 any amount in respect of any income from, or gain from the disposition of, the property so transferred or property substituted therefor;".

104. (1) Section 1034.1 of the said Act, replaced by section 115 of chapter 18 of the statutes of 1988, is amended

(1) by inserting, after subsection 2, the following subsection:

"(2.1) Where an amount required to be included in the income of a taxpayer by virtue of paragraph *a* of section 890.9 is received by a person with whom the taxpayer is not dealing at arm's length, that person is jointly and severally liable with the taxpayer to pay a part of the taxpayer's tax under this Part for the taxation year in which the amount is received equal to the amount by which the taxpayer's tax for the year exceeds the amount that would be his tax for the year if the amount had not been received.";

(2) by replacing subsection 3 by the following subsection:

"(3) However, this section does not free the annuitant under the plan or fund or the taxpayer, as the case may be, from his liabilities under any other provision of this Act."

(2) This section has effect from 9 October 1986.

105. (1) Section 1035 of the said Act is replaced by the following section:

"**1035.** The Minister may at any time assess a transferee in respect of any amount payable by virtue of section 1034, an individual in respect of any amount payable by virtue of subsections 1 and 2 of section 1034.1 or a person in respect of any amount payable by that person by virtue of subsection 2.1 of the latter section, and this title applies, adapted as required, to that assessment as though it had been made under Title II."

(2) This section has effect from 9 October 1986.

106. (1) Section 1036 of the said Act, replaced by section 116 of chapter 18 of the statutes of 1988, is again replaced by the following section:

"**1036.** Where a transferor and a transferee, an annuitant and an individual or a taxpayer and another person are, by virtue of section 1034 or 1034.1, jointly and severally liable in respect of all or part of a liability of the transferor, annuitant or taxpayer, the following rules apply:

(*a*) a payment by the transferee, the individual or the other person, as the case may be, on account of his liability, discharges up to the amount of the payment, the joint and several liability;

(*b*) a payment on account of his liability either by the transferor, or for the annuitant or taxpayer, discharges the liability of the transferee, the individual or the other person, as the case may be, only to the extent that the payment operates to reduce the transferor's, annuitant's or taxpayer's liability to an amount less than the amount in respect of which the transferee, the individual or the other person is jointly and severally liable by virtue of section 1034 or 1034.1."

(2) This section has effect from 9 October 1986.

107. (1) Section 1091 of the said Act, amended by section 142 of chapter 4 of the statutes of 1988 and by section 237 of chapter 5 of the statutes of 1989, is again amended by replacing what precedes paragraph *a* by the following:

"**1091.** The taxable income earned in Canada by an individual contemplated in section 26 is equal to the amount by which the income contemplated in section 1090 exceeds the aggregate of".

(2) This section applies from the taxation year 1985.

108. The Act respecting the Ministère du Revenu (R.S.Q., chapter M-31) is amended by inserting, after section 14.3, the following sections: