



---

# NATIONAL ASSEMBLY

---

FIRST SESSION

THIRTY-THIRD LEGISLATURE

Bill 53

## **An Act to amend the Taxation Act and other fiscal legislation**

---

### **Introduction**

**Introduced by  
Mr Michel Gratton  
Minister of Revenue**

MAY 23 1986

---

**Québec Official Publisher  
1986**

## EXPLANATORY NOTES

*This bill amends various fiscal laws and is designed to bring the federal and Québec taxation systems into harmony in pursuance of the Government Budgetary and Financial Policy Statement presented by the Minister of Finance on 18 December 1985.*

*This bill makes technical amendments to the Taxation Act, the Act respecting the application of the Taxation Act and the Act respecting the Ministère du Revenu similar to those made to the Income Tax Act and the Income Tax Application Rules, 1971 by Bill C-72 of the federal Parliament, assented to on 29 October 1985 (S.C. 1985, chapter 45).*

*The amendments particularly regard Canadian and foreign resource properties, activities relating to resources, credit for foreign taxation, charitable gifts and principal residences.*

## ACTS AMENDED BY THIS BILL

- (1) The Taxation Act (R.S.Q., chapter I-3);
- (2) The Act respecting the application of the Taxation Act (R.S.Q., chapter I-4);
- (3) The Act respecting the Ministère du Revenu (R.S.Q., chapter M-31);
- (4) The Act respecting the application of the Taxation Act (1972, chapter 24).

## Bill 53

### **An Act to amend the Taxation Act and other fiscal legislation**

THE PARLIAMENT OF QUÉBEC ENACTS AS FOLLOWS:

**1.** (1) Section 1 of the Taxation Act (R.S.Q., chapter I-3), amended by section 31 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended

(1) by replacing, in the French version, subparagraph *a* of the definition of the expression “ancien bien d’entreprise” by the following subparagraph:

“(a) un bien immeuble dont il est propriétaire, conjointement ou autrement, si le bien est, au cours de l’année d’imposition à laquelle l’expression “ancien bien d’entreprise” s’applique, utilisé par lui principalement aux fins de gagner ou de produire un revenu brut qui est un loyer, autre qu’un bien donné à bail à un locataire par le contribuable dans le cours ordinaire de l’entreprise du contribuable consistant à vendre des marchandises ou à rendre des services, en vertu d’un contrat par lequel le locataire s’engage à utiliser le bien pour exploiter l’entreprise qui consiste à vendre les marchandises du contribuable, à fournir les services de celui-ci ou à promouvoir cette vente ou cette fourniture,”;

(2) by replacing subparagraph *a* of the definition of the expression “taxable Québec property” by the following subparagraph:

“(a) a Québec resource property within the meaning of paragraph *d* of section 1089,”;

(3) by replacing subparagraph *c* of the definition of the expression “child” by the following subparagraph:

“(c) the spouse of a child of the taxpayer; and”;

(4) by inserting, after the definition of the expression “Canadian corporation”, the first three and, after the definition of the expression “foreign affiliate”, the last of the following definitions:

““Canadian development expenses” has the meaning assigned by sections 408 to 410;

““Canadian exploration expenses” has the meaning assigned by sections 395 to 397;

““Canadian exploration and development expenses” has the meaning assigned by sections 364 to 366;

““foreign exploration and development expenses” has the meaning assigned by section 372;”;

(5) by inserting, after the definition of the expression “supplementary unemployment benefit plan”, the following definition:

““tar sands” means a mineral extracted, otherwise than by a well, from a mineral resource which is a deposit of bituminous sands, oil sands or oil shales;”;

(6) by inserting, after the definition of the expression “trust”, the following definition:

““undepreciated capital cost” of depreciable property of a prescribed class of a taxpayer has the meaning assigned by paragraph *e* of section 93;”;

(7) by inserting, after the definition of the expression “life insurance corporation”, the following definition:

““life insurance policy” has the meaning assigned by paragraph *e* of section 835;”.

(2) Paragraphs 1, 6 and 7 of subsection 1 have effect from 29 October 1985.

(3) Paragraphs 2 and 4 of subsection 1 apply to taxation years beginning after 31 December 1984.

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

(5) Paragraph 5 of subsection 1 applies from the taxation year 1983.

**2.** (1) Sections 3 and 4 of the said Act are replaced by the following sections:

**“3.** “Death benefit” means the amount by which the aggregate of amounts received by a taxpayer in a taxation year upon or after the death of an employee in recognition of the employee’s service in an office or employment exceeds the amount determined under section 4.

**“4.** The amount which an individual shall subtract from the amount determined under section 3 is,

(a) where the taxpayer is the surviving spouse of the employee, the lesser of

i. the aggregate of all amounts so received by the taxpayer in the year, and

ii. the amount, if any, by which \$10 000 exceeds the aggregate of all amounts received by the taxpayer in preceding taxation years upon or after the death of the employee in recognition of the employee’s service in an office or employment;

(b) where the taxpayer is not the surviving spouse of the employee, the lesser of

i. the aggregate of all amounts so received by the taxpayer in the year, and

ii. that proportion of the amount, if any, by which \$10 000 exceeds the aggregate of all amounts received by the surviving spouse of the employee at any time upon or after the death of the employee in recognition of the employee’s service in an office or employment that the amount described in subparagraph i is of the aggregate of all amounts received by all taxpayers other than the surviving spouse of the employee at any time upon or after the death of the employee in recognition of the employee’s service in an office or employment.”

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

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

**“7.1** A transfer, distribution or acquisition of property is deemed, for the purposes of this Part, to be made as a consequence of the death

of a taxpayer or the taxpayer's spouse, as the case may be, where it is made

(a) under or as a consequence of the terms of the will or other testamentary instrument of the taxpayer or his spouse or as a consequence of the law governing the intestacy of the taxpayer or his spouse;

(b) as a consequence of a disclaimer, release or surrender by a person who was a beneficiary under the will or other testamentary instrument or on the intestacy of a taxpayer or his spouse.

**"7.2** A release or surrender by a person who was a beneficiary under the will or other testamentary instrument or on the intestacy of a taxpayer with respect to any property that was property of the taxpayer immediately before his death is deemed for the purposes of this Part not to be a disposition of the property by that person.

**"7.3** For the purposes of sections 7.1 and 7.2, the expression "release or surrender" means

(a) a release or surrender made under the laws of a province, other than the Province of Québec, that does not direct in any manner who is entitled to benefit therefrom and that is made within the period ending 36 months after the death of the taxpayer or, where written application therefor has been made to the Minister by the taxpayer's legal representative within that period, within such longer period as the Minister considers reasonable in the circumstances;

(b) a gift *inter vivos* made under the laws of Québec of an interest in, or right to property of, a succession that is made within the period referred to in paragraph *a* to the person or persons who would have benefited if the donor had made a renunciation of the succession that was not made in favour of any person.

**"7.4** For the purposes of section 7.1, the expression "disclaimer" means a disclaimer made under the laws of a province other than the Province of Québec and includes a renunciation of a succession made under the laws of Québec unless it is made in favour of a person."

(2) This section applies with respect to transfers, distributions and acquisitions occurring after 31 December 1981 except that an application that is made under the second paragraph of section 7.3 of the Taxation Act as enacted thereby, by the legal representative of a taxpayer within 90 days after the day this Act is assented to is deemed to have been made within the period ending 36 months after the death of the taxpayer.

**4.** (1) The said Act is amended by inserting, after section 11, the following section:

**“11.1** Notwithstanding section 11, for the purposes of this Part, a corporation is deemed to be not resident in Canada at any time if it is deemed to be not resident in Canada at that time under subsection 5 of section 250 of the Income Tax Act (Statutes of Canada).”

(2) This section has effect from 10 May 1985, except that for the purposes of computing the income and the tax payable under Part I of the Taxation Act by a corporation deemed to be not resident in Canada by virtue of section 11.1 of that Act as enacted by this section, it applies to taxation years beginning after 9 May 1985 and, for the purposes of sections 422 to 427 of the said Act, it applies with respect to events or transactions occurring after 9 May 1985.

**5.** (1) Section 21.9.3 of the said Act is replaced by the following section:

**“21.9.3** Where a share of the capital stock of a corporation is issued or its terms or conditions are modified and it may reasonably be considered, having regard to all circumstances, including the rate of interest on any debt or the dividend provided on any term preferred share, that but for the existence of the debt or the term preferred share, the share would not have been issued or its terms or conditions modified, and one of the main purposes for its issue or for the modification of its terms or conditions was to avoid a limitation provided by section 740.1 or 845 in respect of a deduction, the share is deemed, from 1 January 1983, to be a term preferred share of the corporation.”

(2) This section applies in respect of shares of the capital stock of a corporation issued after 9 May 1985 and in respect of shares of the capital stock of a corporation the terms or conditions of which were modified after that date.

**6.** (1) Section 21.16 of the said Act is replaced by the following section:

**“21.16** Notwithstanding section 119, where an amount is paid or payable after 31 December 1978 as interest or as an amount in lieu of interest in respect of any interest or dividend payable after 16 November 1978 on an income bond or an income debenture issued before 17 November 1978 or pursuant to an agreement in writing referred to in paragraph *b* of section 21.12, the amount is, for the purposes of section 740.1 and the second paragraph of section 845, deemed to be a dividend received on a term preferred share.”

(2) This section has effect from 17 November 1978.

**7.** (1) Section 42 of the said Act is replaced by the following section:

**“42.** (1) There shall not be included in computing the income of an individual the value of board and lodging or an allowance not in excess of a reasonable amount for expenses incurred by him for such purposes for a particular period if he receives such allowance in respect of his office or employment and

(a) if such individual performs temporary duties in a place so distant from his principal place of residence that he cannot reasonably be expected to return to it daily by reason of the distance between the work site and his principal place of residence; or

(b) if he performs duties in a place the location of which is such that the individual cannot reasonably be expected to establish a self-contained domestic establishment there or in the neighbourhood.

(2) The same applies, if subsection 1 applies to him, to the value of transportation of such individual between such place of work and his principal place of residence or to an allowance not exceeding a reasonable amount paid to him as such.

(3) This section does not apply to an individual whose duties oblige him to be absent for less than 36 consecutive hours from his principal place of residence nor to an individual who is entitled to the deduction contemplated in section 79.1.

(4) For the purposes of this section, the expression “principal place of residence” means the place other than at the work site where the individual maintains a self-contained domestic establishment that is, throughout the period, available for his occupancy and not rented by him to any other person.

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

**8.** (1) The said Act is amended by inserting, after section 49.3, the following sections:

**“49.4** For the purposes of sections 48 to 58, 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:



(a) the taxpayer is deemed not to have disposed of the exchanged option and not to have acquired the option obtained in exchange;

(b) the option obtained in exchange is deemed to be the same option as, and a continuation of, the exchanged option; and

(c) the amalgamated or merged corporation is deemed to be the same corporation as, and a continuation of, each predecessor corporation.

**“49.5** For the purposes of section 49.2, where, in circumstances where sections 536 to 539 or 551 to 554 apply, a taxpayer acquires shares of a Canadian corporation in exchange for shares of another Canadian corporation acquired under an agreement referred to in section 49.2, the following rules apply:

(a) the taxpayer is deemed not to have disposed of the exchanged shares and not to have acquired the shares obtained in exchange;

(b) the shares obtained in exchange are deemed to be the same shares as, and a continuation of, the exchanged shares;

(c) the Canadian corporation referred to in section 536 or the new corporation within the meaning assigned by section 544, as the case may be, is deemed to be the same corporation as, and a continuation of, the corporation that issued the exchanged shares; and

(d) where the exchanged shares were issued under an agreement, the new shares are deemed to have been issued under that agreement.”

(2) This section, where it enacts section 49.4 of the Taxation Act, applies with respect to rights acquired on an amalgamation or merger occurring after 31 December 1984 and, where it enacts section 49.5 of the said Act, applies with respect to shares acquired on an amalgamation, merger or shares for share exchange occurring after 31 December 1984.

**9.** Section 55 of the said Act is replaced by the following section:

**“55.** In the cases provided for in sections 49 to 52, the income for a taxation year of the corporation or of a corporation with which it does not deal at arm’s length is deemed to be not less than it would have been for the year if no benefit as provided by such sections had been conferred on the employee.”

**10.** (1) Section 89 of the said Act is replaced by the following section:

**“89.** A taxpayer shall include in computing his income from a business or property for a taxation year, any amount that becomes receivable in the year, by virtue of an obligation imposed by statute or a contractual obligation substituted for an obligation imposed by statute, by a person referred to in section 90, as or as an amount that may reasonably be regarded as being in lieu of a royalty, tax, rental or bonus, that may reasonably be regarded as being in relation to

(a) the acquisition, development or ownership of a Canadian resource property;

(b) the production in Canada

i. of petroleum, natural gas or related hydrocarbons from an oil or gas well;

ii. to any stage that is not beyond the prime metal stage or its equivalent, of metal or minerals, other than iron or petroleum or related hydrocarbons, from a mineral resource;

iii. to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource;

iv. to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from tar sands from a mineral resource.

For the purposes of subparagraph *b* of the first paragraph, the oil or gas well or mineral resource referred to therein must be situated on property in Canada in which the taxpayer has an interest with respect to which the obligation imposed by statute or the contractual obligation, as the case may be, applies.”

(2) This section applies with respect to amounts receivable after 31 December 1984, except that where section 89 of the Taxation Act as enacted by this section applies to a taxation year beginning before 1 January 1985, subparagraph *a* of the first paragraph of the said section 89 shall read as follows:

“(a) to the acquisition, development or ownership of a Canadian resource property or a property that would have been a Canadian resource property if it had been acquired after 31 December 1971;”.

**11.** (1) Section 92.4 of the said Act is replaced by the following section:

**“92.4** Where a taxpayer other than a taxpayer to whom section 92 applies, who holds an interest in a debt obligation elects in respect of the interest in his fiscal return under this Part for a taxation year, he shall, in computing his income for the year and each subsequent taxation year during which he holds an interest in the debt obligation, include the interest accrued to him on the debt obligation to the end of the year to the extent that it was not otherwise included in computing his income for the year or any preceding taxation year.”

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

**12.** (1) The said Act is amended by inserting, after section 92.5, the following section:

**“92.5.1** Where a taxpayer disposes of an interest in a prescribed debt obligation, such portion of the proceeds of the disposition received by him as may reasonably be considered to represent a recovery of the cost to him of the debt obligation shall, notwithstanding any other provision of this Part, not be included in computing his income under this Part.”

(2) This section applies to taxation years beginning after 31 December 1981.

**13.** (1) Section 92.7 of the said Act is amended by replacing paragraphs *a* and *b* by the following paragraphs:

**“(a)** “investment contract”, in relation to a taxpayer, means any debt obligation, other than a prescribed contract, an income bond, an income debenture, a development bond or a small business bond;

**“(b)** “third anniversary” of an investment contract means the end of the day that is three years after the end of the calendar year of issue of the contract, the end of the day that occurs at every successive three year interval from the third anniversary determined in the first instance under this paragraph, and the day on which the contract was disposed of.”

(2) This section, where it replaces paragraph *a* of section 92.7 of the Taxation Act, applies from the taxation year 1985 and, where it replaces paragraph *b* of the said section 92.7, has effect from 29 October 1985.

**14.** (1) Section 92.9 of the said Act is amended by replacing the first paragraph of the French version by the following paragraph:

**“92.9** Lorsque, dans une année d’imposition, une corporation, une société, une fiducie d’investissement à participation unitaire ou une fiducie dont une corporation ou une société est un bénéficiaire détient un intérêt dans une police d’assurance sur la vie acquise pour la dernière fois après le 1<sup>er</sup> décembre 1982 ou un intérêt acquis pour la dernière fois après le 19 décembre 1980 et avant le 2 décembre 1982 dans un contrat de rente en vertu duquel aucun paiement de rente n’a été effectué avant le 2 décembre 1982, elle doit inclure, dans le calcul de son revenu pour l’année d’imposition, l’excédent, à la fin de l’année civile se terminant dans l’année d’imposition, du fonds accumulé à l’égard de cet intérêt, déterminé en la manière prescrite, sur le coût de base rajusté pour elle de cet intérêt.”

(2) This section has effect from 29 October 1985.

**15.** (1) Section 92.10 of the said Act is replaced, in the French version, by the following section:

**“92.10** Lorsqu’une personne ou société décrite à l’article 92.9 n’a pas aliéné avant le 1<sup>er</sup> janvier 1985 un intérêt dans un contrat de rente qu’elle a acquis pour la dernière fois avant le 20 décembre 1980, l’article 92.9 doit, pour les années d’imposition se terminant après le 30 décembre 1984 et en ce qui concerne cet intérêt, se lire en faisant abstraction des mots “après le 19 décembre 1980 et” et comme si le montant que cette personne ou société doit inclure, en vertu de l’article 92.9, dans le calcul de son revenu pour une année d’imposition était l’excédent, à la fin de l’année civile se terminant dans l’année d’imposition, du fonds accumulé à l’égard de cet intérêt, déterminé en la manière prescrite, sur l’ensemble du coût de base rajusté pour elle de cet intérêt, et du montant du revenu non attribué couru avant le 1<sup>er</sup> janvier 1982 à l’égard de cet intérêt, déterminé en la manière prescrite.”

(2) This section has effect from 29 October 1985.

**16.** (1) Section 92.11 of the said Act is amended by replacing the first paragraph of the French version by the following paragraph:

**“92.11** Lorsque, dans une année d’imposition, un contribuable, autre qu’une personne ou société décrite à l’article 92.9, détient un intérêt dans une police d’assurance sur la vie acquise pour la dernière fois après le 1<sup>er</sup> décembre 1982 ou dans un contrat de rente acquis pour la dernière fois avant le 2 décembre 1982 et en vertu duquel aucun paiement de rente n’a été effectué avant le 2 décembre 1982, à un troisième anniversaire de la police ou du contrat et qu’il n’a pas exercé,

dans l'année ou dans une année d'imposition antérieure, à l'égard de cet intérêt, le choix visé à l'article 92.12, il doit inclure dans le calcul de son revenu pour l'année l'excédent, à ce troisième anniversaire, du fonds accumulé à l'égard de cet intérêt, déterminé en la manière prescrite, sur l'ensemble du coût de base rajusté pour lui de cet intérêt et du montant du revenu non attribué couru avant le 1<sup>er</sup> janvier 1982 à l'égard de cet intérêt, déterminé en la manière prescrite."

(2) This section has effect from 29 October 1985.

**17.** (1) Section 92.12 of the said Act, replaced by section 47 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again replaced by the following section:

**"92.12** Where in a taxation year a taxpayer, other than a person or partnership described in section 92.9, who holds an interest in a life insurance policy, other than an annuity contract, last acquired after 1 December 1982, or in an annuity contract, other than a prescribed annuity contract, has, in the year or a preceding taxation year, elected in respect of that interest by notifying the issuer thereof in writing, he shall, in computing his income for the year, include the amount by which the accumulating fund at the end of the year, as determined in prescribed manner, in respect of that interest exceeds the aggregate of the adjusted cost basis to him of the interest and the amount of unallocated income accrued in respect of the interest before 1 January 1982, as determined in prescribed manner."

(2) This section has effect from 29 October 1985.

**18.** (1) The said Act is amended by inserting, after section 92.12, the following section:

**"92.12.1** Where not later than 120 days after the end of a taxation year a taxpayer revokes an election made under section 92.12 in respect of his interest in a life insurance policy or an annuity contract by notifying the issuer thereof in writing, the following rules apply for that year and each subsequent taxation year:

(a) the taxpayer is deemed for the purposes of section 92.11 not to have made an election under section 92.12 in respect of his interest;

(b) he is not entitled to make an election under section 92.12 in respect of his interest."

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

**19.** (1) Section 93.1 of the said Act is replaced by the following section:

**“93.1** For the purposes of subparagraph iv of paragraph *e* of section 93 and of Title IV, sections 93.2 and 93.3 apply, notwithstanding sections 99 and 251, where at any particular time in a taxation year a taxpayer disposes of a building of a prescribed class and the proceeds of disposition of the building determined without reference to sections 93.1 to 93.3 are less than the lesser of the cost amount and the capital cost to the taxpayer of the building immediately before its disposition.”

(2) This section applies with respect to dispositions occurring after 12 November 1981 other than dispositions occurring pursuant to the terms of an agreement in writing entered into on or before that date.

**20.** (1) Section 93.2 of the said Act is amended by replacing paragraphs *a* and *b* by the following paragraphs:

“(a) the proceeds of disposition of the building are deemed to be the lesser of

i. the amount by which the aggregate of the fair market value of the building at the particular time referred to in section 93.1 and the fair market value of the land immediately before its disposition exceeds the lesser of the fair market value of the land immediately before its disposition and the amount, if any, by which the cost amount to the vendor of the land, determined without reference to sections 93.1 to 93.3, exceeds the aggregate of the capital gains, determined without reference to subparagraph *b* of the first paragraph and the second paragraph of section 234, in respect of dispositions of the land within the 3 year period preceding the particular time by the taxpayer or by a person with whom he was not dealing at arm’s length to the taxpayer or to another person with whom the taxpayer was not dealing at arm’s length;

ii. the greater of the fair market value of the building at the particular time, and the lesser of the cost amount and the capital cost to the taxpayer of the building immediately before its disposition;

“(b) notwithstanding any other provision of this Part, the proceeds of disposition of the land are deemed to be the amount by which the aggregate of the proceeds of disposition of the building and of the land determined without reference to sections 93.1 to 93.3 exceeds the proceeds of disposition of the building as determined under paragraph *a*;

“(c) the cost to the purchaser of the land shall be determined without reference to sections 93.1 to 93.3.”

(2) This section applies with respect to dispositions occurring after 9 May 1985 other than dispositions occurring pursuant to the terms of an agreement in writing entered into on or before that date.

**21.** (1) The said Act is amended by inserting, after section 101.3, the following section:

“**101.4** For the purposes of section 101, where at a particular time a taxpayer who is a beneficiary of a trust or a member of a partnership has received or is entitled to receive assistance from a government, municipality or other public authority whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance, the amount of the assistance that may reasonably be considered to be in respect of, or for the acquisition of, depreciable property of the trust or partnership is deemed to have been received at that time by the trust or partnership, as the case may be, as assistance from the government, municipality or other public authority for the acquisition of depreciable property.”

(2) This section applies with respect to property acquired after 9 May 1985 other than property acquired pursuant to the terms of an agreement in writing entered into before 10 May 1985.

**22.** (1) Section 126 of the said Act is replaced by the following section:

“**126.** Where a corporation resident in Canada has made to a non-resident person a loan that has remained outstanding for one year or longer without interest thereon computed at a reasonable rate having been included in computing the lender’s income, it is deemed to have received, on the last day of each taxation year during which the loan was outstanding, interest on the loan at the prescribed rate computed for the period in the taxation year during which it was outstanding.”

(2) This section has effect from 29 October 1985.

**23.** (1) Section 134 of the said Act is amended by replacing the second paragraph by the following paragraph:

“The same applies to such an amount when expended or disbursed as fees or dues, whether membership dues, initiation fees or otherwise, in any club the main purpose of which is to provide dining, recreational or sporting facilities for its members.”

(2) This section has effect from 29 October 1985.

**24.** (1) Section 135.4 of the said Act is replaced by the following section:

**“135.4** Notwithstanding any other provision of this Part, in computing a taxpayer’s income for a taxation year, no deduction shall be made in respect of any outlay or expense made or incurred by the taxpayer, other than an amount deductible by virtue of paragraph *a* of section 130, paragraph *h* of section 157 or sections 222 to 230.11, that may reasonably be regarded as a cost attributable to the period of construction, renovation or alteration of a building and relating to the construction, renovation or alteration or a cost attributable to that period and relating to the ownership during that period, of land that is subjacent to the building or contiguous to that land and that is necessary for the use or intended use of the building, and used or intended to be used for a parking area, driveway, yard or garden or any similar use.”

(2) This section applies in respect of outlays and expenses made or incurred after 9 May 1985.

**25.** (1) Section 144 of the said Act is amended by replacing subsection 1 by the following subsection:

**“144.** (1) No taxpayer may deduct an amount paid or payable by virtue of an obligation imposed by statute or a contractual obligation substituted for an obligation imposed by statute, to a person contemplated in section 90, as a royalty, tax, rental or bonus, or as an amount that may reasonably be regarded as being in lieu of any such amount, and that may reasonably be regarded as being in relation to

(a) the acquisition, development or ownership of a Canadian resource property;

(b) the production in Canada of

i. petroleum, natural gas or related hydrocarbons from an oil or gas well in Canada;

ii. metal or minerals, other than iron or petroleum or related hydrocarbons, from a mineral resource in Canada to any stage that is not beyond the prime metal stage or its equivalent;

iii. iron from a mineral resource in Canada to any stage that is not beyond the pellet stage or its equivalent;



iv. petroleum or related hydrocarbons from tar sands from a mineral resource in Canada to any stage that is not beyond the crude oil stage or its equivalent.”

(2) This section applies with respect to amounts payable after 31 December 1984, except that where subsection 1 of section 144 of the Taxation Act, as enacted by this section, applies to taxation years beginning before 1 January 1985, paragraph *a* of the said subsection 1 shall read as follows:

“(a) the acquisition, development or ownership of a Canadian resource property or a property that would have been a Canadian resource property if it had been acquired after 31 December 1971;”.

**26.** (1) Section 153 of the said Act is replaced by the following section:

“**153.** Where an amount has been included in computing the taxpayer’s income from a business for the year or for a previous year in respect of a property sold in the course of the business and that amount or a part of it is not due, if it is land, at or before the end of the taxation year or, if it is property other than land, before more than two years after the date of the sale, the taxpayer may deduct a reasonable amount as an allowance in respect of the part of the amount so included in computing his income as may reasonably be regarded as a portion of the profit from the sale.

However, no deduction is allowed to a taxpayer under this section in respect of a property sold in the course of the business if the taxpayer, at the end of the taxation year or in the following taxation year, was exempt from tax under any provision of this Part, or was not resident in Canada and did not carry on the business in Canada, or the sale occurred more than 36 months before the end of the year.”

(2) This section has effect from 29 October 1985.

**27.** (1) Section 157 of the said Act, amended by section 50 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by striking out paragraph *k*.

(2) This section applies from the taxation year 1982.

**28.** (1) Section 157.5 of the said Act is amended by replacing paragraph *b* by the following paragraph:

“(b) the amount by which the adjusted cost basis, within the meaning assigned by sections 976 to 977.1, to him of that interest immediately before the disposition exceeds the proceeds of the disposition, within the meaning assigned by paragraph b.4 of section 966, of the interest that the policyholder, a beneficiary or an assignee became entitled to receive.”

(2) This section has effect from 29 October 1985.

**29.** (1) The said Act is amended by inserting, after section 157.9, the following sections:

“**157.10** Where a taxpayer has under paragraph *a* of section 87 included in computing his income for a taxation year amounts in respect of services not rendered or goods not delivered before the end of the year and the taxpayer has paid a reasonable amount in a particular taxation year to another taxpayer for undertaking to provide such services or goods, if the payer and the recipient have jointly so elected in the manner and time provided in section 157.11, the following rules apply:

(a) the payer may deduct the payment in computing his income for the particular year;

(b) no amount is deductible by the payer in respect of such services and goods under section 150 in computing his income for the particular year or any subsequent taxation year;

(c) for the purposes of paragraph *a* of section 87, the recipient is deemed to have received the payment in the course of a business on account of services not rendered or goods not delivered before the end of the taxation year in which he received the payment.

“**157.11** An election under section 157.10 shall be made by notifying the Minister in writing on or before the earlier of the days on or before which either the payer or the recipient is required to file a fiscal return pursuant to sections 1000 to 1003 for the taxation year in which the payment to which the election relates was made.”

(2) This section applies to the taxation year 1982 and subsequent taxation years, except that an election under section 157.10 of the Taxation Act, as enacted by this section made on or before (*insert here the day that is 90 days after the day on which this Act is assented to*) is deemed to have been made before the day on or before which the election is required to be made by section 157.11 of the said Act, enacted by this section.

**30.** (1) Section 160 of the said Act is amended by replacing paragraph *b* by the following paragraph:

“(b) an amount payable for property acquired to gain or produce income from it or from a business;”.

(2) This section has effect from 29 October 1985.

**31.** (1) Section 163.1 of the said Act is amended by replacing paragraph *b* by the following paragraph:

“(b) such an interest that is not included in the computation of the adjusted cost basis, within the meaning of sections 976 and 976.1, to the taxpayer, of his interest in the policy; and”.

(2) This section has effect from 29 October 1985.

**32.** (1) Section 174 of the said Act is replaced by the following section:

“**174.** For the purposes of sections 169 to 171, where a particular person, described in the second paragraph, makes a loan to another person on condition that person make a loan to a particular corporation resident in Canada, the lesser of these two loans is deemed to be a debt incurred by the particular corporation towards that particular person.

The particular person referred to in the first paragraph is

(a) a specified shareholder not resident in Canada of a corporation;

(b) a person not resident in Canada or an investment corporation owned by persons not resident in Canada, who is not dealing at arm's length with a specified shareholder of the corporation.”

(2) This section applies with respect to loans outstanding in taxation years of corporations resident in Canada referred to in section 174 of the Taxation Act, as enacted by it, commencing after 9 May 1985.

**33.** (1) Section 175 of the said Act is repealed.

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

**34.** (1) Sections 180 to 182 of the said Act are replaced by the following sections:

**“180.** A taxpayer who during a taxation year acquires depreciable property may elect, in his fiscal return filed under this Part for the year, to have the following rules apply:

(a) in computing his income for the year and for such of the three immediately preceding taxation years as the taxpayer had, sections 160, 163 and 176 do not apply to the amount specified by him in his election that but for the election would have been deductible in computing his income, other than exempt income, for any such year in respect of borrowed money used to acquire the depreciable property or the amount payable for the depreciable property;

(b) the amount referred to in paragraph *a* shall be included in computing the capital cost to him of the depreciable property.

**“181.** Where in a taxation year the taxpayer has used borrowed money for the purpose of exploration, development, or the acquisition of property, and the expenses incurred by him for such purpose are Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, as the case may be, the taxpayer may elect in his fiscal return filed under this Part for the year, to have the following rules apply:

(a) in computing his income for the year and for such of the three immediately preceding taxation years as the taxpayer had, sections 160, 163 and 176 do not apply to the amount specified by him in his election that but for the election would have been deductible in computing his income, other than exempt income, for any such year in respect of the borrowed money used for the exploration, development or acquisition of property, as the case may be;

(b) the amount described in paragraph *a* shall be deemed to be Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, as the case may be, incurred by him in the year.

**“182.** A taxpayer described in the second paragraph may elect, in his fiscal return filed under this Part for a particular taxation year, to have rules similar to those provided by paragraphs *a* and *b* of section 180 or of section 181, as the case may be, apply for the purposes of computing his income for the particular year in respect of an amount that but for this section would be deductible in computing his income, other than exempt income, for the particular year in respect of the borrowed money or payable amount referred to in the second paragraph.

The first paragraph applies to a taxpayer who

(a) in any taxation year preceding the particular year,

i. made an election under section 180 in respect of borrowed money used to acquire depreciable property or the amount payable for the depreciable property;

ii. was required under section 135.4 to include, in respect of the construction of depreciable property for the acquisition of which he borrowed money or for which an amount was payable by him, an amount in computing the cost to him of the depreciable property; or

iii. made an election under section 181 in respect of borrowed money used for the exploration, development or acquisition of property; and

(b) in each taxation year, if any, after the preceding taxation year referred to in subparagraph *a* and before the particular year, made an election under this section covering the total amount that, but for this section would have been deductible in computing his income, other than exempt income, for each such year in respect of the borrowed money used to acquire the depreciable property, the amount payable for the depreciable property or the borrowed money used for the exploration, development or acquisition of property.”

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

**35.** (1) Section 187 of the said Act is replaced by the following section:

“**187.** For the purposes of section 186, any property that would have been included in the inventory of a business if the income from it had not been computed in accordance with the method authorized by section 194 or 215 is deemed to have been so included.”

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

**36.** (1) Section 189.1 of the said Act, enacted by section 52 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is amended by replacing what precedes paragraph *a* by the following:

“**189.1** Where in a taxation year a taxpayer has been appointed a judge by the Governor General or the Governor in Council of Canada or by the lieutenant governor in council of a province and the taxpayer so elects in his fiscal return under this Part for the year, the following rules apply:”.

(2) This section applies with respect to appointments made in any taxation year subsequent to the taxation year 1983.

**37.** (1) Section 190 of the said Act is amended by replacing subsections 1 and 2 by the following subsections:

**“190.** (1) Where an individual who was the sole proprietor of a business disposed of it during a fiscal period of the business, the fiscal period may, if the individual so elects, be deemed to have ended at the time it would have ended if the individual had not disposed of the business during the fiscal period.

(2) An election under subsection 1 is not valid unless the individual is resident in Canada at the time when the fiscal period of the individual would, if the election were valid, be deemed to have ended.”

(2) This section has effect from 29 October 1985.

**38.** (1) Sections 215 and 216 of the said Act are replaced by the following sections:

**“215.** In computing the income of a taxpayer for a taxation year from a business that is the professional practice of an accountant, dentist, lawyer, physician, veterinarian or chiropractor, there shall not be included any amount in respect of work in progress at the end of the year if the taxpayer so elects in his fiscal return filed under this Part for the year.

**“216.** A taxpayer who has made an election under section 215 for a taxation year shall apply that section in computing his income from the same business for subsequent taxation years unless he revokes his election with the concurrence of the Minister and on such terms and conditions as the Minister specifies.”

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

**39.** (1) Sections 217 and 217.1 of the said Act are repealed.

(2) This section, where it repeals section 217 of the Taxation Act, applies from the taxation year 1985 and, where it repeals section 217.1 of the said Act, it applies from the taxation year 1984.

**40.** (1) Section 232 of the said Act is amended by replacing the first paragraph by the following paragraph:

**“232.** A capital gain or a capital loss arises from the disposition of any property other than intangible capital property, an indexed security, timber resource property, a Canadian resource property, a foreign resource property or an insurance policy including a life insurance policy within the meaning of paragraph *e* of section 835, except that part of a life insurance policy in respect of which a policyholder is deemed, by section 851.11, to have an interest in a related segregated fund trust contemplated in section 851.2.”

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

**41.** (1) Section 236.1 of the said Act is amended by replacing the second paragraph by the following paragraph:

“In the case of a share that is not a share that was acquired after 31 December 1971 from a person with whom the taxpayer was dealing at arm’s length, but that is a share referred to in the first paragraph of section 232.1 that was issued before 1 January 1972 or a share, in this paragraph and in the third paragraph referred to as a “substituted share”, that was substituted or exchanged for such a share issued before 1 January 1972 or for a substituted share, the aggregate of all amounts that the taxpayer, his spouse or a trust of which the taxpayer or his spouse was a beneficiary received after 31 December 1971 and before or upon the disposition of the share as a taxable dividend on the share or on any other share in respect of which the share disposed of is a substituted share or which are receivable as such by one of such persons at the time of the disposition of the share must also be deducted from the loss determined in accordance with this Title.”

(2) This section applies from the taxation year 1984.

**42.** (1) Section 255 of the said Act, amended by section 54 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended:

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

“(c.2) the reasonable costs incurred by the taxpayer before the particular time of surveying or valuing the property for the purpose of its acquisition or disposition to the extent that those costs are not otherwise deducted by the taxpayer in computing his income for any taxation year or attributable to any other property;”;

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

“(f) where the property is a share of the capital stock of a corporation, the amount of the benefit which with respect to the acquisition of the property by the taxpayer is deemed, under sections 48 to 58, to be conferred on him or to a person with whom he was not dealing at arm’s length, in a taxation year commencing before the particular time and ending after 31 December 1971;”;

(3) by replacing subparagraph iii of paragraph *i* by the following subparagraph:

“iii. the share of the taxpayer in the amount by which any proceeds of a life insurance policy received by the partnership after 31 December 1971 and before the particular time by reason of the death of any person whose life was insured under that policy exceed the adjusted cost basis of that policy, within the meaning of sections 976 and 976.1, to the partnership, immediately before that death;”;

(4) by repealing subparagraph vi of paragraph *i*.

(2) Paragraph 1 of subsection 1 applies with respect to expenses incurred after 31 December 1984.

(3) Paragraph 2 of subsection 1 applies to the computation of the adjusted cost basis of a share of the capital stock of a corporation acquired after 31 December 1984.

(4) Paragraph 3 of subsection 1 has effect from 29 October 1985.

(5) Paragraph 4 of subsection 1 applies with respect to dispositions occurring after 31 December 1984; but for property disposed of by a partnership prior to 1 January 1985, subparagraph vi of paragraph *i* of section 255 of the Taxation Act, repealed by it, applies and is read as it was at the time of the disposition, having regard to any subsequent amendment having effect retroactively to that time.

**43.** (1) Section 257 of the said Act is amended

(1) by replacing subparagraph ii of paragraph *l* by the following subparagraph:

“ii. an amount with respect to each fiscal period of the partnership ending after 31 December 1971 and before the particular time, except a fiscal period subsequent to that in which the taxpayer ceased to be a member of the partnership, equal to the share of the taxpayer in the aggregate of Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property



expenses incurred by the partnership in the fiscal period and the amounts which, but for paragraph *d* of section 600, would be deductible in computing the income of the partnership for the fiscal period under the Act respecting the application of the Taxation Act (1972, chapter 24) in respect of exploration and development expenses;”;

(2) by inserting, after subparagraph viii of paragraph *l*, the following subparagraph:

“ix. an amount equal to the amount of all assistance received by the taxpayer before that time that has resulted in a reduction of the capital cost of a depreciable property to the partnership by virtue of section 101.4;”;

(3) by inserting, after subparagraph iv of paragraph *n*, the following subparagraph:

“v. an amount equal to the amount of all assistance received by the taxpayer before that time that has resulted in a reduction of the capital cost of a depreciable property to the trust by virtue of section 101.4;”;

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

“(o) where the property is a capital interest in a trust not resident in Canada which the taxpayer has purchased after 31 December 1971 from a person not resident in Canada, at a time when the fair market value of the property of the trust referred to in section 258 was not less than 50 per cent of the fair market value of all property of the trust and of the amount of money of the trust on hand, the portion of the excess of such value of the property referred to in the said section at the particular time over the specified cost to the trust of such property at the same time, that the fair market value, at the particular time,”.

(2) Paragraph 1 of subsection 1 applies to taxation years commencing after 31 December 1984.

(3) Paragraphs 2 and 3 of subsection 1 apply with respect to property acquired after 9 May 1985.

(4) Paragraph 4 of subsection 1 applies in computing the adjusted cost basis of property owned by a taxpayer after 9 May 1985.

**44.** (1) Section 257.1 of the said Act is replaced by the following section:

**“257.1** For the purposes of paragraphs *d*, *l* and *n* of section 257, where a taxpayer has deducted an amount by virtue of subsection 5 of section 127 of the Income Tax Act (Statutes of Canada) in computing his tax payable for a taxation year under that Act and that amount may reasonably be attributed to the amounts added in computing the investment tax credit, within the meaning of subsection 9 of the said section 127, determined at the end of the year in respect of the taxpayer and that are related to a property acquired or an expenditure made in a taxation year subsequent to that taxation year, the taxpayer is deemed to have made the deduction in that subsequent taxation year.”

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

**45.** (1) Section 258 of the said Act is amended by replacing paragraph *a* by the following paragraph:

“(a) a Canadian resource property;”.

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

**46.** (1) Section 270 of the said Act is amended by replacing subsection 2 by the following subsection:

“(2) If the taxpayer is thereafter bound to spend an amount in execution of the obligation contemplated in subsection 1 in the year of disposition or in a subsequent taxation year, he must consider such amount to be a loss from the disposition of capital property in computing his income for the year in which such amount is payable.”

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

**47.** (1) Section 274 of the said Act, amended by section 55 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing what precedes paragraph *a* by the following:

**“274.** The principal residence of an individual for a taxation year, for the purposes of this Title, is the housing unit, including a leasehold interest in that housing unit, ordinarily inhabited in the year by him, his spouse or former spouse or his child who, during the year, is a person described in paragraph *b* or *c* of section 695, or in respect of which he has made an election contemplated in sections 284 to 286.2 for the year, if, in every case,”.

(2) This section applies from the taxation year 1982; but, in its application to the taxation years 1982 to 1985, that part of section 274 of the Taxation Act which precedes paragraph *a*, enacted by this section, must be read as though the words “a person described in paragraph *b* or” were replaced by

(a) the following: “wholly dependent upon him for support and is less than 16 years of age or, if he is 16 years of age or over, is a person described in paragraph” for the taxation years 1982 to 1984;

(b) the following: “dependent upon him for support and is less than 16 years of age or, if he is 16 years of age or over, is dependent upon him for support and is a person described in subparagraph i or ii of paragraph” for the taxation year 1985.

**48.** (1) The said Act is amended by inserting, after section 274.1, the following section:

**“274.2** Where, in circumstances to which section 688 applies and section 691 does not apply, property has been acquired by a taxpayer in satisfaction of all or any part of his capital interest in a trust, the taxpayer is deemed, for the purposes of sections 271, 274, 275.1 to 277 and 285 to have owned the property continuously since the trust last acquired it.”

(2) This section applies with respect to dispositions occurring after 9 May 1985.

**49.** (1) Section 275 of the said Act is replaced by the following section:

**“275.** For the purposes of determining whether any property of a trust contemplated in section 440 or 454 was its principal residence for a taxation year, the reference to the individual, in section 274, shall be read as if it were a reference to the spouse.”

(2) This section applies with respect to dispositions occurring after 9 May 1985.

**50.** (1) The said Act is amended by inserting, after section 275, the following section:

**“275.1** For the purposes of paragraphs *b* and *c* of section 274, a property designated by a trust referred to in section 440 or 454 is deemed to be property designated by the spouse who is a beneficiary of the trust and property designated by the spouse who is a beneficiary of any such trust is deemed to be a property designated by the trust.”

(2) This section applies with respect to dispositions occurring after 9 May 1985.

**51.** (1) Section 279.1 of the said Act is replaced by the following section:

**“279.1** In computing the amount of any claim in respect of property contemplated in paragraph *a* of section 279, that paragraph shall be read as if the reference therein to “1/5” and “4” were references to “1/10” and “9” respectively, where the property referred to therein is an immovable property in respect of the disposition of which the rules provided in sections 459 to 462 apply.”

(2) This section has effect from 29 October 1985.

**52.** (1) The said Act is amended by inserting, after section 286, the following sections:

**“286.1** Where at any time a property that was acquired by a taxpayer for the purpose of gaining or producing income therefrom or for the purpose of gaining or producing income from a business ceases to be used for that purpose and becomes the principal residence of the taxpayer, sections 281 to 283 shall not apply to deem the taxpayer to have disposed of the property at that time and to have reacquired it immediately thereafter if he so elects by notifying the Minister in writing on or before the earlier of the day that is 90 days after a demand by the Minister for an election under this section is sent to him, and 30 April following the year in which the property is actually disposed of by him.

**“286.2** Notwithstanding section 286.1, an election described therein is deemed not to have been made in respect of a property if any deduction in respect thereof has been allowed for any taxation year ending after 31 December 1984 under paragraph *a* of section 130 or of section 670 to the taxpayer, his spouse or a trust under which his spouse is a beneficiary.”

(2) This section applies with respect to property that a taxpayer commences to use as a principal residence after 31 December 1981, except that for any such property actually disposed of in taxation years ending after 31 December 1981 and before 1 January 1985, the reference in section 286.1 of the Taxation Act, as enacted by it, to “April 30 following the year in which the property is actually disposed of by him” is replaced by a reference to *(insert here the date occurring 90 days after the date of assent to this Act)*.

**53.** (1) Section 288 of the said Act is replaced by the following section:

**“288.** A loss from the disposition of any personal-use property shall not be allowable as a loss, except in the case of precious property or a debt referred to in section 300.”

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

**54.** (1) Section 300 of the said Act is amended by replacing what precedes paragraph *a* by the following:

**“300.** Where, at the end of a taxation year, a taxpayer establishes that a debt which is a personal-use property and which is then owing to him by a person with whom he deals at arm’s length is a bad debt for the year, such taxpayer is deemed:”.

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

**55.** (1) Section 301 of the said Act is replaced by the following section:

**“301.** Where shares of the capital stock of a corporation have been acquired by a taxpayer in exchange for a capital property of the taxpayer that was a share, bond, debenture or note of the corporation which conferred upon the holder the right to make the exchange and no consideration was received by the taxpayer other than those shares, the following rules apply:

(a) the exchange is deemed not to have been a disposition of property;

(b) the cost to the taxpayer of all the shares of a particular class acquired by him on the exchange is deemed to be that proportion of the adjusted cost basis to him of the exchanged capital property immediately before the exchange that the fair market value, of all the shares of the particular class acquired by him on the exchange is of that of all the shares acquired by him on the exchange.”

(2) This section applies with respect to exchanges of property occurring after 9 May 1985 and with respect to such an exchange occurring before 10 May 1985 and after 31 December 1983 where the taxpayer so elects by notifying the Minister in writing before (*insert here the date occurring 90 days after the date of assent to this Act*).

**56.** (1) Section 301.1 of the said Act is amended

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

**“301.1** Notwithstanding section 301, where shares of the capital stock of a corporation have been acquired by a taxpayer in exchange for a capital property described in the said section 301, in circumstances such that, but for this section, section 301 would have applied, where the fair market value of the capital property immediately before the exchange exceeds the fair market value of the shares immediately after the exchange, and where it is reasonable to regard any portion of such excess as a benefit that the taxpayer desired to have conferred on a person related to the taxpayer, the following rules apply:”;

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

“(c) the cost to the taxpayer of all the shares of a particular class acquired in exchange for the capital property is deemed to be that proportion of the lesser of the adjusted cost base to him of the capital property immediately before the exchange, and the aggregate of the fair market value immediately after the exchange of the shares acquired by him, on the exchange, for the capital property and the amount that, but for paragraph *b*, would have been the taxpayer’s capital loss from the disposition of the capital property that the fair market value, immediately after the exchange, of all the shares of the particular class acquired by him on the exchange is of the fair market value of all the shares acquired by him on the exchange.”

(2) This section applies with respect to exchanges of property occurring after 9 May 1985 and with respect to such an exchange occurring before 10 May 1985 and after 31 December 1983 where the taxpayer so elects by notifying the Minister in writing before (*insert here the date occurring 90 days after the date of assent to this Act*).

**57.** (1) Section 307 of the said Act is replaced by the following section:

**“307.** The taxpayer who acquires, at any time after 31 December 1971, property as a prize in connection with a lottery, is deemed to acquire such property at a cost equal to its fair market value at that time.”

(2) This section has effect from 29 October 1985.

**58.** (1) Section 312 of the said Act, amended by section 60 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing, in the French text, that part of paragraph *c.1* which precedes subparagraph *i* by the following:

“c.1) un montant payé à titre de rente à l’égard d’un intérêt dans un contrat de rente que le contribuable détient au moment du paiement, sauf dans la mesure où l’ensemble de tels montants à l’égard d’un intérêt dans un contrat de rente donné dépasse l’excédent, à la fin de l’année civile qui prend fin dans l’année, du fonds accumulé à l’égard de cet intérêt, déterminé en la manière prescrite, sur l’ensemble du coût de base rajusté pour lui de cet intérêt et du montant du revenu non attribué couru avant le 1<sup>er</sup> janvier 1982 à l’égard de cet intérêt, déterminé en la manière prescrite, s’il s’agit:”.

(2) This section has effect from 29 October 1985.

**59.** (1) Sections 328 to 329.1 of the said Act are repealed.

(2) This section applies with respect to dispositions occurring in a taxation year beginning after 31 December 1984; but, to the extent that it repeals section 328 of the Taxation Act, it applies with respect to taxation years beginning after 31 December 1984.

**60.** (1) Section 330 of the said Act is amended by replacing paragraph *a* by the following paragraph:

“(a) the amount, if any, by which the proceeds of disposition of a foreign resource property exceeds any outlays or expenses made or incurred by him for the purpose of making the disposition and that were not otherwise deductible for the purposes of this Part to the extent that the proceeds become receivable in the year;”.

(2) This section applies with respect to dispositions occurring in taxation years beginning after 31 December 1984.

**61.** (1) Sections 331 and 332 of the said Act are repealed.

(2) This section applies with respect to dispositions occurring in taxation years beginning after 31 December 1984.

**62.** (1) Section 332.1 of the said Act, amended by section 63 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended

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

“(a) 33<sup>1</sup>/<sub>3</sub>% 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 or a second successor corporation to the predecessor, as the case may be;" ;

(2) by replacing paragraphs *e* and *f* by the following paragraphs:

"(e) 66<sup>2</sup>/<sub>3</sub>% 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 or a second successor corporation to the predecessor corporation, as the case may be;

"(f) 33<sup>1</sup>/<sub>3</sub>% of each amount that became receivable by him in the year but after 19 April 1983 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 resource exploration base of the taxpayer, of a person with whom he was not dealing at arm's length or of a specified predecessor of the taxpayer."

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

**63.** (1) Section 332.3 of the said Act is amended by replacing paragraphs *a* and *b* by the following paragraphs:

"(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, and that, with respect to acquisitions of property after 16 November



1978, except in the case of an amalgamation or a winding-up, has jointly elected with the predecessor corporation under section 404.1, 415.3 or 418.11;

“(b) “second 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 corporation that was a successor corporation, all or substantially all of the Canadian resource properties of that other corporation, and that, with respect to acquisitions of property after 16 November 1978, except in the case of an amalgamation or a winding-up, has jointly elected with the successor corporation under section 404.1, 415.3 or 418.11;”.

(2) This section applies with respect to acquisitions occurring after 31 December 1982; but in the case of acquisitions occurring after 31 December 1982 and in taxation years beginning before 1 January 1985, the following rules apply:

(a) paragraph *a* of section 332.3 of the Taxation Act as enacted by this section must be read as though the words “Canadian resource properties of the predecessor” were replaced by the following: “property of the predecessor corporation used by it in carrying on in Canada any of the businesses described in paragraphs *a* to *g* of section 363 as were carried on by it”;

(b) paragraph *b* of section 332.3 of the Taxation Act as enacted by this section must be read as though the words “Canadian resource properties of that other corporation” were replaced by the following: “property of the first successor corporation used by it in carrying on in Canada any of the businesses described in paragraphs *a* to *g* of section 363 as were carried on by it”.

**64.** (1) Section 335 of the said Act, amended by section 66 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing what precedes paragraph *a* by the following:

“**335.** Where an individual is deemed to have been resident in Québec during part of or the whole of a taxation year under sections 8, 9 and 10, sections 336 to 341 and 347 to 356.0.1 apply in his respect for the relevant time taking into account the following rules:”.

(2) This section applies from the taxation year 1986.

**65.** (1) Section 336 of the said Act, amended by section 67 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended

(1) by replacing paragraph *d* of subsection 1 by the following paragraph:

“(d) an overpayment of a pension or supplement received under the Old Age Security Act (Statutes of Canada), of a benefit paid under the Act respecting the Québec Pension Plan (R.S.Q., chapter R-9) or a similar plan within the meaning of that Act, of a benefit paid under the Labour Adjustment Benefits Act (Statutes of Canada), or under the Unemployment Insurance Act, 1971 (Statutes of Canada), or of a training allowance under the National Training Act (Statutes of Canada), received by an individual and included in computing his income for the year or a preceding taxation year, up to the amount reimbursed by him in the year otherwise than under Part VIII of the Unemployment Insurance Act, 1971;”;

(2) by replacing subparagraph *i* of paragraph *g* of subsection 1 by the following subparagraph:

“i. such amount has been included in computing his income for the year or a preceding taxation year as an amount contemplated in paragraph *g* or *h* of section 312 paid to him by such person;”;

(3) by striking out the word “and” at the end of subparagraph *v* of paragraph *g* of subsection 1;

(4) by replacing the period at the end of paragraph *h* of subsection 1 by a semicolon;

(5) by inserting, after paragraph *h* of subsection 1, the following paragraph:

“(i) the aggregate of payments made by the taxpayer in the year in respect of a policy loan within the meaning of paragraph *b.2* of section 966 made under a life insurance policy, not exceeding the amount, if any, by which the aggregate of all amounts required by section 968 and by reason of such policy loan made after 31 March 1978 in respect of that policy to be included in computing his income for the year or a preceding taxation year exceeds the aggregate of all repayments made by the taxpayer in respect of the policy loan that were deductible in computing his income for a preceding taxation year.”

(2) Paragraphs 1 and 2 of subsection 1 apply from the taxation year 1984.

(3) Paragraphs 3 to 5 of subsection 1 apply from the taxation year 1982.

**66.** (1) Section 348 of the said Act, amended by section 72 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing paragraph *d* of subsection 3 by the following paragraph:

“(d) any reimbursement or allowance received by him for such expenses is included in computing his income.”

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

**67.** (1) Section 359 of the said Act is amended by inserting, after paragraph *c*, the following paragraph:

“(c.1) “proceeds of disposition” and “disposition” have the meanings assigned by sections 251 and 248, respectively;”.

(2) This section applies in respect of dispositions occurring in taxation years beginning after 31 December 1984.

**68.** (1) Section 360 of the said Act is replaced by the following section:

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

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

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

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

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

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

**69.** (1) Section 364 of the said Act is amended by replacing paragraph *f* by the following paragraph:

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

(2) This section applies in respect of operations occurring in taxation years beginning after 31 December 1984.

**70.** (1) Sections 368 and 369 of the said Act are replaced by the following section:

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

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

**71.** (1) Section 370 of the said Act is amended

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

“**370.** For the purposes of this chapter, a Canadian resource property of a taxpayer is any property of the taxpayer which is:”;

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

“(f) a right to or interest in any property contemplated in any of paragraphs *a* to *e*, other than such a right or interest that the taxpayer has by virtue of being a beneficiary of a trust.”

(2) Paragraph 1 of subsection 1 applies to taxation years beginning after 31 December 1984.

(3) Paragraph 2 of subsection 1 applies in respect of operations occurring in taxation years beginning after 31 December 1984.

**72.** (1) Section 374 of the said Act is amended by replacing subparagraph ii of paragraph *b* by the following subparagraph:

“ii. the aggregate of each amount relating to a foreign resource property which he has disposed of, equal to the amount by which the amount included in computing his income for the year under section 330 exceeds the amount deducted from it for the same year under section 357.”

(2) This section applies in respect of operations occurring in taxation years beginning after 31 December 1984.

**73.** (1) Section 376 of the said Act is replaced by the following section:

**“376.** A corporation that acquires from another person at any time after 31 December 1971, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of that person, may deduct, in computing its income for a taxation year, the aggregate of the Canadian exploration and development expenses incurred before that time by the person from whom property is so acquired, up to the amount computed under section 377 and only to the extent that such expenses were not deductible in computing the income of the corporation for a previous taxation year nor in computing that of the person from whom property is so acquired, for any taxation year.”

(2) This section applies in respect of acquisitions occurring after 31 December 1982 except that with respect to acquisitions occurring after 31 December 1982 and in a taxation year commencing before 1 January 1985, section 376 of the Taxation Act enacted thereby shall be read with the words “Canadian resource properties of that person” replaced by the following: “property of that person, used by him in a business described in paragraphs *a* to *g* of section 363 carried on by him in Canada”.

**74.** (1) Section 377 of the said Act is amended by replacing paragraph *a* by the following paragraph:

**“(a)** the disposition of any Canadian resource property owned by the person from whom property was acquired in accordance with the said section 376, immediately before the acquisition;”.

(2) This section applies in respect of operations occurring in taxation years beginning after 31 December 1984.

**75.** (1) Section 378 of the said Act is replaced by the following section:

**“378.** A corporation that acquires from another corporation hereinafter called “first successor corporation”, at any time after 31 December 1971, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or of

a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of the first successor corporation which had itself acquired Canadian resource properties from another person in accordance with section 376, may deduct, in computing its income for a taxation year, up to that part of its income that would be determined under section 377 if the reference to this section and section 403 were omitted therefrom, the aggregate of Canadian exploration and development expenses incurred by the latter before the acquisition of the property by the first successor corporation, to the extent that those expenses were not deductible in computing the income of the corporation for a previous taxation year nor in computing that of the first successor corporation or of the other person for any taxation year."

(2) This section applies in respect of acquisitions occurring after 31 December 1982, except that with respect to acquisitions occurring after 31 December 1982 and in a taxation year beginning before 1 January 1985, section 378 of the Taxation Act as enacted thereby shall be read with the words "Canadian resource properties of the first successor corporation which had itself acquired Canadian resource properties" replaced by the following: "property of the first successor corporation used by it in a business described in any of paragraphs *a* to *g* of section 363 carried on by it in Canada, which first successor corporation had itself acquired property".

**76.** (1) Section 380 of the said Act is amended

(1) by replacing subsection 1 by the following subsection:

**"380.** (1) A Canadian corporation that acquires from another person, at any time after 1971, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the foreign resource properties of that person, may deduct, in computing its income for a taxation year, up to the amount computed under subsection 2, the aggregate of the foreign exploration and development expenses, incurred before that time by the person from whom property was so acquired and only to the extent that such expenses were not deductible in computing the income of the corporation for a previous taxation year nor in computing that of the person from whom property was so acquired for any taxation year.";

(2) by replacing paragraph *a* of subsection 2 by the following paragraph:

“(a) the disposition of a foreign resource property owned by the person from whom property was acquired in accordance with subsection 1 immediately before the acquisition;”;

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

“(3) A Canadian corporation that acquires from another corporation hereinafter called the “first successor corporation”, at any time after 1971, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the foreign resource properties of the first successor corporation which had itself acquired foreign resource properties from another person in accordance with subsection 1, may deduct, in computing its income for a taxation year, up to that part of its income that would be determined under subsection 2 if the reference therein to this subsection were omitted, the aggregate of the foreign exploration and development expenses incurred by the latter before the time of the acquisition of the property by the first successor corporation, to the extent that such expenses were not deductible in computing the income of the corporation for a previous taxation year nor in computing the income of the first successor corporation or of the other person for any taxation year.”

(2) Paragraphs 1 and 3 of subsection 1 apply in respect of acquisitions occurring after 31 December 1982 except that with respect to acquisitions occurring after 31 December 1982 and in a taxation year beginning before 1 January 1985,

(a) subsection 1 of section 380 of the Taxation Act, as enacted by the said paragraph 1, shall be read with the words “foreign resource properties of that person” replaced by the words “property of that person used by him in a business described in any of paragraphs *a* to *g* of section 363 carried on by him outside Canada”; and

(b) subsection 3 of section 380 of the Taxation Act, as enacted by the said paragraph 3, shall be read with the words “foreign resource properties of the first successor corporation which had itself acquired foreign resource properties” replaced by the following: “property of the first successor corporation used by it in a business described in any of paragraphs *a* to *g* of section 363 carried on by it outside Canada, which first successor corporation had itself acquired property”.

(3) Paragraph 2 of subsection 1 applies in respect of operations occurring during taxation years beginning after 31 December 1984.

**77.** (1) Section 384.1 of the said Act is amended

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

“(b) the corporation is deemed to have acquired at that time from another person all or substantially all of the Canadian resource properties and foreign resource properties owned by that person immediately before that time;”;

(2) by replacing subparagraph *i* of paragraph *d* by the following subparagraph:

“i. any disposition by the corporation, in the year before that time, of Canadian resource property or foreign resource property is deemed to be a disposition mentioned in paragraph *a* of section 377, paragraph *a* of subsection 2 of section 380 or paragraph *a* of section 404;”.

(2) This section applies in respect of operations occurring in taxation years beginning after 31 December 1984.

**78.** (1) Section 384.2 of the said Act is amended by replacing that part of subsection 1 which precedes paragraph *a* by the following:

“**384.2** (1) Where a corporation acquires from another corporation, after 12 November 1981, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of that other corporation and where section 384.1 applies in respect of the deduction of exploration and development expenses contemplated in the latter section incurred by the corporation from which property is so acquired, the following rules apply:”.

(2) This section applies in respect of operations occurring in taxation years beginning after 31 December 1984.

**79.** (1) Section 390 of the said Act is replaced by the following section:

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

(2) This section applies in respect of operations occurring in taxation years beginning after 31 December 1984.



**80.** (1) Section 395 of the said Act, amended by section 80 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing paragraphs *c* and *c.1* by the following paragraphs:

“(c) an expense incurred by him to determine the existence of a mineral resource in Canada, to locate such a resource or to determine the extent or quality thereof, including any expense incurred in the course of prospecting, carrying out geological, geophysical or geochemical surveys, drilling and trenching or digging test pits or preliminary sampling, other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well, and other than any Canadian development expense or any expense that may reasonably be related to a mine which has come into production in reasonable commercial quantities or to an actual or potential extension of such a mine;

“(c.1) an expense incurred by him after 16 November 1978 to bring a new mine in a mineral resource in Canada into production in reasonable commercial quantities, including clearing, removing overburden and stripping, sinking a mine shaft and constructing an adit or other underground entry, to the extent that these expenses were incurred prior to the commencement of production from the new mine in reasonable commercial quantities;”.

(2) This section applies in respect of expenses incurred after 9 May 1985.

**81.** (1) Sections 401 to 403 of the said Act are replaced by the following sections:

“**401.** A taxpayer not contemplated in section 400 may deduct in computing his income for a taxation year, an amount not exceeding his cumulative Canadian exploration expenses at the end of the year.

“**402.** A corporation which, after 6 May 1974 in the case of an oil business or after 31 March 1975 in the case of a mining business, acquires from another person, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of that person, may deduct, in computing its income for a taxation year, an amount not exceeding the lesser of the amount computed under section 404 and the cumulative Canadian exploration expenses of the person from whom property was so acquired, determined immediately

after the acquisition was made and only to the extent that such expenses were not deducted in computing the income of the corporation for a previous taxation year nor in computing that of the person from whom property was so acquired for any taxation year.

**“403.** A corporation which, after 6 May 1974 in the case of an oil business or after 31 March 1975 in the case of a mining business, acquires from another corporation hereinafter called the “first successor corporation”, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of the first successor corporation which had itself acquired Canadian resource properties from another person in accordance with section 402, may deduct, in computing its income for a taxation year, an amount not exceeding the lesser of the amount that would be determined under section 404 if any reference to subparagraph ii of paragraph *a* and section 376 and to this section were omitted and the cumulative Canadian exploration expenses of the person from whom property was acquired in accordance with section 402, determined immediately after the acquisition of property by the first successor corporation, to the extent that such expenses were not deducted in computing the income of the corporation for a previous taxation year nor in computing the income of the first successor corporation or of the other person for any taxation year.”

(2) Subsection 1, where it enacts section 401 of the Taxation Act, applies from the taxation year 1985.

(3) Subsection 1, where it enacts sections 402 and 403 of the Taxation Act, applies in respect of acquisitions occurring after 31 December 1982, except that with respect to acquisitions occurring after 31 December 1982 and in a taxation year commencing before 1 January 1985,

(a) the said section 402 shall be read with the words “Canadian resource properties of that person” replaced by the following: “property of that person used by him in a business described in any of paragraphs *a* to *g* of section 363 carried on by him in Canada”; and

(b) the said section 403 shall be read

i. with the words “Canadian resource properties of the first successor corporation which had itself acquired Canadian resource properties” replaced by the following: “property of the first successor corporation used by it in a business described in any of paragraphs

*a* to *g* of section 363 carried on by it in Canada, which first successor corporation had itself acquired property”; and

ii. by striking out the words “subparagraph ii of paragraph *a* and”.

**82.** (1) Section 404 of the said Act is amended by replacing paragraph *a* by the following:

“(a) 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 in the year or a previous taxation year of any Canadian resource property owned by the person from whom property was acquired in accordance with the said section 402 immediately before the acquisition, to the extent that the proceeds of such disposition have not been included

i. in determining an amount under this paragraph in a preceding taxation year; or

ii. in determining an amount under section 403 where it refers to this paragraph in the year or a preceding taxation year;”.

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

**83.** (1) Section 408 of the said Act is amended

(1) by striking out the word “or” at the end of subparagraph iii of paragraph *a*;

(2) by adding the word “or” at the end of subparagraph iv of paragraph *a*;

(3) by adding, after subparagraph iv of paragraph *a*, the following subparagraph:

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

(4) by replacing paragraph *c* by the following paragraph:

“(c) notwithstanding section 144, the cost to the taxpayer of property contemplated in paragraph *b*, *d.1* or *e* of section 370 or in paragraph *f* of section 370 in respect of property contemplated in paragraph *b*, *d.1* or *e* of the latter section, excluding any payment made to a person contemplated in section 90 for the preservation of a

taxpayer's rights in respect of a Canadian resource property and excluding a payment to which subsection 1 of section 144 applies by reason of paragraph *b* of the said subsection 1;”.

(2) Paragraphs 1 to 3 of subsection 1 apply to the expenses incurred after 31 December 1981.

(3) Paragraph 4 of subsection 1 applies in respect of dispositions occurring in taxation years beginning after 31 December 1984.

**84.** (1) Section 412 of the said Act is amended by replacing that part of paragraph *b* which precedes subparagraph ii by the following:

“(b) all amounts each of which is, in respect of the disposition by the taxpayer before that time of any property contemplated in paragraph *b*, *d.1* or *e* of section 370 or paragraph *f* of section 370 in respect of any property contemplated in paragraph *b*, *d.1* or *e* of that section, is equal to the amount by which

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

(2) This section applies in respect of dispositions occurring in taxation years beginning after 31 December 1984, except that with respect to dispositions occurring in taxation years beginning before 1 January 1985, paragraph *b* of section 412 of the Taxation Act shall apply and be read as it was at the time the disposition occurred having regard to any subsequent amendments to the said paragraph that applied at that time.

**85.** (1) Section 414 of the said Act is amended

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

“(b) the amount by which the aggregate of the following amounts, before any deduction under any of sections 360 to 418 or under the Act respecting the application of the Taxation Act in respect of this section, other than the deductions allowed by sections 415 and 415.1,

exceeds the aggregate of amounts deducted in computing his income for the year under section 357 in respect of a Canadian resource property or under section 358:";

(2) by replacing subparagraph ii of paragraph *b* of the second paragraph by the following subparagraph:

"ii. the aggregate of the amounts included in computing his income for the year under paragraph *b*, *d* or *e* of section 330, but to the extent that paragraph *b* of the said section refers to section 357, only the amounts deducted 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."

(2) Paragraph 1 of subsection 1 applies to taxation years beginning after 31 December 1984.

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

**86.** (1) Section 415 of the said Act is amended

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

**"415.** (1) A corporation which, after 6 May 1974 in the case of an oil business or after 31 March 1975 in the case of a mining business, acquires from another person, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of the person, may deduct, in computing its income for a taxation year, an amount not exceeding the lesser of the amount computed under section 415.2 and the amount by which";

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

"(c) where the corporation is not a development corporation and carries on a mining business, the greater of 30 per cent of the excess contemplated in subsection 1 and the amount by which the aggregate of the following amounts, before any deduction under any of sections 360 to 418 or under the Act respecting the application of the Taxation Act in respect of this section, other than the deduction allowed by section 415.1, exceeds 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 subsection 3 or under section 358 in respect of property described in the said subsection 3:";

(3) by replacing subparagraph ii of paragraph *c* of subsection 2 by the following subparagraph:

“ii. the aggregate of the amounts included in computing its income for the year under paragraph *b*, *d* or *e* of section 330 in respect of a property described in subsection 3, but to the extent to which paragraph *b* of section 330 refers to section 357, only the amounts deducted 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.”

(2) Paragraph 1 of subsection 1 applies in respect of acquisitions occurring after 31 December 1982, except that with respect to acquisitions occurring after 31 December 1982 and in a taxation year beginning before 1 January 1985, that part of subsection 1 of section 415 of the Taxation Act enacted by it shall be read with the words “Canadian resource property of the person” replaced by the following: “property of the person, used by him in a business described in any of paragraphs *a* to *g* of section 363 carried on by him in Canada”.

(3) Paragraph 2 of subsection 1 applies to taxation years beginning after 31 December 1984.

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

**87.** (1) Section 415.1 of the said Act is amended

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

“**415.1** (1) A corporation which, after 6 May 1974 in the case of an oil business or after 31 March 1975 in the case of a mining business, acquires from another corporation hereinafter called the “first successor corporation”, in any manner whatever, other than as a result of an amalgamation referred to in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of the first successor corporation which had itself acquired Canadian resource properties from another person in accordance with section 415, may deduct, in computing its income for a taxation year, an amount not exceeding the lesser of the amount that would be determined under section 415.2 if any reference to this section was omitted and the amount by which”;

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

“(c) where the corporation is not a development corporation and carries on a mining business, the greater of 30 per cent of the excess referred to in subsection 1 and the amount by which the aggregate of the following amounts, before any deduction under any of sections 360 to 418 or under the Act respecting the application of the Taxation Act in respect of this section, other than the deduction allowed by section 415.1, exceeds the aggregate of amounts deducted in computing its income for the year under section 357 in respect of a Canadian resource property which is a property described in subsection 3 or under section 358 in respect of property described in the said subsection 3.”;

(3) by replacing subparagraph ii of paragraph *c* of subsection 2 by the following subparagraph:

“ii. the aggregate of the amounts included in computing its income for the year under paragraph *b*, *d* or *e* of section 330 in respect of a property described in subsection 3, but to the extent to which paragraph *b* of section 330 refers to section 357, only the amounts deducted 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.”

(2) Paragraph 1 of subsection 1 applies in respect of acquisitions occurring after 31 December 1982, except that with respect to acquisitions occurring after 31 December 1982 and in a taxation year beginning before 1 January 1985, that part of subsection 1 of section 415.1 of the Taxation Act enacted by it shall be read with the words “Canadian resource properties of the first successor corporation which had itself acquired Canadian resource properties” replaced by the following: “property of the first successor corporation that was used by it in a business described in any of paragraphs *a* to *g* of section 363 carried on by it in Canada and which had itself acquired property”.

(3) Paragraph 2 of subsection 1 applies to taxation years beginning after 31 December 1984.

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

**88.** (1) Section 418.2 of the said Act is amended by replacing paragraph *a* by the following paragraph:

“(a) notwithstanding section 144, the cost to the taxpayer of a property described in paragraph *a*, *c* or *d* of section 370 or in paragraph *f* of section 370 in respect of property contemplated in paragraph *a*, *c* or *d* of the latter section, or an amount paid or payable to Her Majesty in right of the Province of Saskatchewan as a net royalty payment

pursuant to a net royalty petroleum and natural gas lease that was in effect on 31 March 1977 to the extent that such payment can reasonably be regarded as a cost of acquiring the lease, but not including any payment made to any of the persons referred to in section 90 for the preservation of a taxpayer's rights in respect of a Canadian resource property, and not including a payment, other than a net royalty payment referred to in this paragraph, to which subsection 1 of section 144 applies by reason of paragraph *b* of the said subsection;”.

(2) This section applies in respect of dispositions occurring in a taxation year beginning after 31 December 1984.

**89.** (1) Section 418.6 of the said Act is amended by replacing that part of paragraph *b* which precedes subparagraph ii by the following:

“(b) of any amount which in respect of the disposition of property by the taxpayer before that time of property referred to in paragraph *b*, *d.1* or *e* of section 370 or in paragraph *f* of section 370 in respect of a property referred to in paragraph *b*, *d.1* or *e* of the latter section is equal to

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

(2) This section applies in respect of dispositions occurring in taxation years beginning after 31 December 1984, except that with respect to dispositions occurring in taxation years beginning before 1 January 1985, paragraph *b* of section 418.6 of the Taxation Act shall apply and be read as it was at the time the disposition occurred, having regard to any subsequent amendments thereto that applied at that time.

**90.** (1) Section 418.8 of the said Act is amended by replacing what precedes paragraph *a* by the following:

“**418.8** A corporation which acquires from another person, in any manner whatever, other than as a result of an amalgamation described in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of that person, may deduct in computing its income for a taxation year any amount not exceeding the lesser of the amount computed under section 418.10 and 10% of the amount by which”.



(2) This section applies in respect of acquisitions occurring after 31 December 1982, except that with respect to acquisitions occurring after 31 December 1982 and in taxation years beginning before 1 January 1985, that part of section 418.8 of the Taxation Act enacted by it shall be read with the words “Canadian resource properties of that person” replaced by the following: “property of that person used by him in a business described in any of paragraphs *a* to *g* of section 363 carried on by him in Canada”.

**91.** (1) Section 418.9 of the said Act is amended by replacing what precedes paragraph *a* by the following:

**“418.9** A corporation which acquires from another corporation hereinafter called the “first successor corporation”, in any manner whatever, other than as a result of an amalgamation described in subsection 4 of section 544 or of a winding-up to which the rules provided in sections 556 to 564.1 and 565 apply, all or substantially all of the Canadian resource properties of the first successor corporation which had itself acquired Canadian resource properties from another person in accordance with section 418.8, may deduct, in computing its income for a taxation year, an amount not exceeding the lesser of the amount that would be determined under section 418.10 if any reference to this section were omitted therein, and 10% of the amount by which”.

(2) This section applies in respect of acquisitions occurring after 31 December 1982, except that with respect to acquisitions occurring after 31 December 1982 and in taxation years beginning before 1 January 1985, that part of section 418.9 of the Taxation Act enacted by it shall be read with the words “Canadian resource properties of the first successor corporation which had itself acquired Canadian resource properties” replaced by the following: “property of the first successor corporation used by it in a business described in any of paragraphs *a* to *g* of section 363 carried on by it in Canada which first successor corporation had itself acquired property”.

**92.** (1) Section 423 of the said Act is replaced by the following section:

**“423.** For purposes of computing his income under this Part, the taxpayer who pays or agrees to pay to a person not resident in Canada with whom he is not dealing at arm’s length as price, rental, royalty or other payment for or for the use or reproduction of any property, or as consideration for the carriage of goods or passengers or for other services, an amount greater than the amount that would have been reasonable in the circumstances if the non-resident person and the

taxpayer had been dealing at arm's length, shall compute such income as if the said reasonable amount was the amount he paid or agreed to pay.

Similarly, if he neither receives nor agrees to receive such a reasonable amount therefor from such a person, he shall compute his income under this Part as if he received or agreed to receive the reasonable amount therefor."

(2) This section applies in respect of transactions or events occurring after 9 May 1985.

**93.** (1) Section 426 of the said Act is amended by replacing paragraphs *a* and *b* by the following:

"(a) in the case of a disposition by the taxpayer to a person referred to in section 90, the amount by which

i. the average proceeds of disposition of a like unit that become receivable by that person in the month that includes the time of the disposition from a person other than the person referred to in section 90, exceed

ii. the average aggregate of reasonable and necessary expenses, including depreciation, but not the cost of acquisition, incurred by that person referred to in section 90 in respect of such a unit for that month, that may reasonably be attributed to the transporting, marketing or processing of that unit; and,

iii. in respect of the unit disposed of by the taxpayer, the amount that may reasonably be attributed as being an amount that became receivable by Her Majesty in right of Canada for the use and benefit of a band as defined in the Indian Act (Statutes of Canada), and

"(b) in the case of an acquisition by the taxpayer from a person referred to in section 90, the aggregate of

i. the amount paid or payable to the taxpayer by that person in respect of that unit, and

ii. the amount in respect of that unit paid or payable to Her Majesty in right of Canada by that person for the use and benefit of a band as defined in the Indian Act (Statutes of Canada)."

(2) This section applies from the taxation year 1978.

**94.** (1) Section 429 of the said Act is amended by replacing the second paragraph by the following paragraph:

“However, the legal representative of an individual may elect, not later than the day that is one year after the date of death or the day that is 90 days after the mailing of a notice of assessment, whichever is the later, in respect of the tax of the individual for the year of his death, not to include such value in computing the income of the individual for the year of his death; in that case, he shall file a separate return of income for that year under this Part and pay the tax for the year under this Part as if

(a) the individual were another person;

(b) that other person’s only income for the year were the value of the rights and property; and

(c) subject to section 693.1, that other person were entitled to the deductions to which the individual was entitled under sections 693 to 725.1 in computing his taxable income for the year.”

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

**95.** (1) Section 432 of the said Act is replaced by the following section:

“**432.** For the purposes of this division, a right or property does not include an interest in a life insurance policy, other than an annuity contract of a taxpayer where the payment made by him for its acquisition was deductible in computing his income under paragraph *f* of section 339, intangible capital property, land included in the inventory of a business, a Canadian resource property or a foreign resource property.”

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

**96.** (1) Section 433 of the said Act is replaced by the following section:

“**433.** For the purposes of paragraph *a* of section 330 and of subparagraph *i* of paragraph *b* of each of sections 412 and 418.6, the individual who has died is deemed to have disposed, immediately before his death, of each property owned by him to the disposition of which the said paragraph and subparagraphs apply, and to have received proceeds therefor equal to its fair market value at the same time.”

(2) This section applies with respect to deaths occurring in taxation years beginning after 31 December 1984.

**97.** (1) Section 435 of the said Act is amended by replacing what precedes paragraph *c* by the following:

**“435.** Notwithstanding sections 433 and 434, where a property referred to therein is, on or after and as a consequence of the death of an individual who was resident in Canada immediately before his death, transferred or assigned to his spouse or to a trust referred to in sections 440 and 443, and it can be established, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual’s legal representative before the expiry of that period, within such longer period deemed reasonable by the Minister, that the property has been vested indefeasibly in the spouse or trust:

(a) in the case of a Canadian resource property or a foreign resource property to which section 433 applies, the individual is deemed to have disposed of that property immediately before his death for proceeds not in excess of the fair market value thereof at that time and specified by his legal representatives in his fiscal return under subparagraph *c* of subsection 2 of section 1000, and the spouse or the trust is deemed to have acquired at the same time the property at a cost equal to the amount included in computing the income of the individual under paragraph *a* of section 330 or, as the case may be, in the amount referred to in subparagraph *i* of paragraph *b* of section 412 or 418.6 in respect of the property;”.

(2) This section applies with respect to deaths occurring after 31 December 1984; it also applies with respect to any property of an individual who died after 31 December 1981 and before 1 January 1985 if his legal representative and each person to whom an interest in the property has been transferred or assigned as a consequence of the death of the individual jointly elect to have this paragraph apply by notifying the Minister in writing not later than 90 days after the assent to this Act; in this last case, however, for the application of paragraph *a* of section 435 of the Taxation Act as enacted by this section, the expression “a Canadian resource property or a foreign resource property” shall be read as a reference to “a property referred to in any of paragraphs *a* to *e* of section 328”.

**98.** (1) Section 440 of the said Act is amended

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

**“440.** Notwithstanding sections 436 and 438, where property contemplated in such sections is, on or after the death of an individual who was resident in Canada immediately before his death, transferred

or assigned as a consequence of the death to his spouse who was resident therein immediately before such death or to a trust created by his will, which was resident therein immediately after the time when the property was indefeasibly vested in him:";

(2) by adding the word "and" at the end of subparagraph ii of paragraph *a*;

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

(4) by repealing paragraph *c*.

(2) This section applies in respect of transfers, assignments or acquisitions occurring after 31 December 1981.

**99.** (1) Section 443 of the said Act is amended by replacing the second paragraph by the following paragraph:

"It also does not apply unless it can be established, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual's legal representative before the expiry of that period, within such longer period deemed reasonable by the Minister, that the property being the object thereof has been indefeasibly vested in his spouse or in the trust."

(2) This section applies with respect to deaths occurring after 31 December 1984; it also applies with respect to any property of an individual who died after 31 December 1981 and before 1 January 1985 if his legal representative and each person to whom an interest in the property has been transferred or assigned as a consequence of the death of the individual jointly elect to have this paragraph apply by notifying the Minister in writing not later than 90 days after the assent to this Act.

**100.** (1) Section 444 of the said Act, replaced by section 81 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is amended by replacing what precedes paragraph *a* by the following:

**"444.** Notwithstanding sections 436 and 438, where property contemplated therein is, immediately before the death of an individual, a share of the capital stock of a family farm corporation of the individual or an interest in a family farm partnership of the individual or is land or depreciable property of a prescribed class situated in Canada and used, immediately before the death, by the individual, his spouse or one of his children, in the business of farming, where the property is transferred or assigned as a consequence of the death to a child of the individual who was resident in Canada immediately before the death,

and where it can be established, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual's legal representative before the expiry of that period, within such longer period deemed reasonable by the Minister, that the property has been indefeasibly vested in the child,".

(2) This section applies with respect to deaths occurring after 31 December 1984; it also applies with respect to any property of an individual who died after 31 December 1981 and before 1 January 1985 if his legal representative and each person to whom an interest in the property has been transferred or assigned as a consequence of the death of the individual jointly elect to have this paragraph apply by notifying the Minister in writing not later than 90 days after the assent to this Act.

**101.** (1) Section 444.1 of the said Act is amended by replacing what precedes paragraph *a* by the following:

**"444.1** Notwithstanding section 436, where property contemplated therein was, immediately before the death of the individual, a share of the capital stock of a small business corporation, other than a share of the capital stock of a family farm corporation of the individual and the share is, on or after the death of the individual, transferred or assigned as a consequence of the death to a child of the individual who was resident in Canada immediately before the death, the following rules apply if it can be established, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual's legal representative before the expiry of that period, within such longer period deemed reasonable by the Minister, that the share has been indefeasibly vested in the child:".

(2) This section applies with respect to deaths occurring after 31 December 1984; it also applies with respect to any property of an individual who died after 31 December 1981 and before 1 January 1985 if his legal representative and each person to whom an interest in the property has been transferred or assigned as a consequence of the death of the individual jointly elect to have this paragraph apply by notifying the Minister in writing not later than 90 days after the assent to this Act.

**102.** (1) Section 450 of the said Act, amended by section 82 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing what precedes paragraph *a* of the first paragraph by the following:

**“450.** Where property of an individual has been transferred or assigned to a trust referred to in sections 440 and 443 or 454 and the property was, immediately before that transfer or assignment, a share of the capital stock of a Canadian corporation, that would be a share of the capital stock of a family farm corporation of the individual, an interest in a family farm partnership of the individual, land situated in Canada or depreciable property of a prescribed class situated in Canada and that property or, if that property is such land or such depreciable property, a property that is a capital replacement property therefor in respect of which the trust has made an election under section 96 or 279, was, immediately before the death of the individual’s spouse who was a beneficiary under the trust, either, in the case of such a share, a share of the capital stock of a Canadian corporation, that would be a share of the capital stock of a family farm corporation if subparagraphs i and ii of paragraph *a* of section 451 were read without the words “and in which that person, his spouse or his child was actively engaged”, or, in the case of such an interest, an interest in a partnership, that carried on the business of farming in Canada in which it used all or substantially all of its property in carrying on that business, or, in the case of such land, such depreciable property or such capital replacement property, property used in carrying on farming business, the following rules apply if that property, on the death of the spouse and as a consequence thereof, is transferred or assigned and indefeasibly vested in a child of the individual who was resident in Canada immediately before the death”.

(2) This section applies from the taxation year 1984.

**103.** (1) Section 450.1 of the said Act is amended by replacing paragraphs *b* and *c* by the following paragraphs:

“(b) the trust is deemed to have disposed of the share immediately before the death and the child to have acquired it for proceeds or cost, as the case may be, equal to the amount by which the fair market value of the share immediately before the death exceeds the amount elected by the trust in respect of the transfer of the share, which must not exceed the lesser of the capital gain otherwise determined of the trust from the disposition of the share and the amount by which the individual’s cumulative small business gains account immediately after his death exceeds the aggregate of amounts which, but for this section, would have been capital gains of the trust from a previous disposition; and

“(c) where several such shares are disposed of at the same time, this section applies to each of them separately in the order designated by the trust or, if no such designation is made, in the order designated by the Minister.”

(2) This section has effect from 29 October 1985.

**104.** (1) Section 450.2 of the said Act is replaced by the following section:

**“450.2** For the purposes of sections 436, 438, 439, 444.1 and 450.1, the fair market value, immediately before the death of the taxpayer referred to in any of those sections, of any share of the capital stock of a corporation deemed to have been disposed of as a consequence of his death shall be determined as though the fair market value of a life insurance policy at that time under which the taxpayer is the person whose life is insured were equal to the cash surrender value, within the meaning of paragraph *d* of section 966, of the policy at that time.”

(2) This section applies with respect to deaths occurring after 1 December 1982.

**105.** (1) Section 450.4 of the said Act is amended by replacing what precedes paragraph *b* by the following:

**“450.4** Paragraph *e* of section 450.3 applies only where all indexed securities which belonged to the deceased individual under an indexed security investment plan immediately before his death and all obligations outstanding at that time in respect of options written under the Plan have, upon or after the death of the individual and as a consequence thereof, been transferred or assigned to or assumed by the individual's spouse referred to in section 440 or a trust referred to in sections 440, 441 and 443 and only if it can be established, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual's legal representative before the expiry of that period, within such longer period deemed reasonable by the Minister, that

(*a*) all rights and obligations of the individual under the contract evidencing the Plan have been transferred to or assumed by the spouse or, as the case may be, the trust; and”.

(2) This section, where it enacts the part of section 450.4 of the Taxation Act that precedes the words “within the period”, applies with respect to transfers, assignments or acquisitions occurring after 30 September 1983 and, where it enacts the other part of that section, it applies with respect to deaths occurring after 31 December 1984 and with respect to a property of an individual who died after 30 September 1983 and before 1 January 1985 if his legal representative and each person to whom an interest in the property has been transferred



or assigned as a consequence of the death of the individual jointly elect to have this paragraph apply by notifying the Minister in writing not later than 90 days after the assent to this Act.

**106.** (1) Section 450.7 of the said Act, enacted by section 83 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is replaced by the following section:

**“450.7** Notwithstanding section 436, where capital property of an individual that was, immediately before his death, a share of the capital stock of a small business corporation was acquired by the individual in circumstances where any of section 444.1, 450.1 or 463.1 applied, where as a consequence of the death of the individual after 31 December 1983, it has been transferred or assigned to the father or mother of the individual who was resident in Canada immediately before the death of the individual, where it can be established, within the period ending 36 months after the death of the individual or, where written application therefor has been made to the Minister by the individual’s legal representative before the expiry of that period, within such longer period deemed reasonable by the Minister, that the property has been indefeasibly vested in the father or mother of the individual and where the individual’s legal representative has so elected in the individual’s fiscal return under this Part for the year in which he died, the individual is deemed to have disposed of the capital property immediately before his death and his father or mother, as the case may be, is deemed to have acquired it for proceeds or at a cost, as the case may be, equal to the amount the legal representative has elected in respect of the capital property in accordance with section 450.8.”

(2) This section applies with respect to deaths occurring after 31 December 1984; it also applies with respect to any property of an individual who died in 1984 if his legal representative and each person to whom an interest in the property has been transferred or assigned as a consequence of the death of the individual jointly elect to have this paragraph apply, by notifying the Minister in writing not later than 90 days after the assent to this Act.

**107.** (1) Section 459 of the said Act is replaced by the following section:

**“459.** Where an individual transfers after 31 December 1971 to one of his children who was resident in Canada immediately before the transfer, property which is land situated in Canada, depreciable property of a prescribed class situated in Canada or intangible capital property in respect of a business carried on by the individual in Canada,

if such property was then used by him, his spouse or one of his children in the business of farming, or property that was, immediately before the transfer, a share of the capital stock of a family farm corporation of the individual or an interest in a family farm partnership of the individual, the individual is deemed to dispose of that property at the time of that transfer for proceeds of disposition which, except in the cases mentioned in sections 460 and 461, are equal to the proceeds of disposition otherwise determined.”

(2) This section applies with respect to transfers occurring, after 31 December 1981.

**108.** (1) The said Act is amended by inserting, after section 467, the following section:

“**467.1** Section 467 does not apply to property held in a taxation year

(a) by 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, a registered retirement income fund or an employee benefit plan;

(b) by an employee trust, a segregated fund trust within the meaning of paragraph *k* of section 835 or a trust contemplated in paragraph *m* of section 998;

(c) by a trust that is not resident in Canada, is resident in a country under the laws of which an income tax is imposed, is exempt under the laws of the country in which it is resident from the payment of income tax to the government of that country, and was established principally in connection with, or the principal purpose of which is to administer or provide benefits under, one or more superannuation, pension or retirement funds or plans or any funds or plans established to provide employee benefits;

(d) by a prescribed trust.”

(2) This section applies from the taxation year 1982.

**109.** (1) Section 485 of the said Act is amended

(1) by replacing paragraph *b* of subsection 3 by the following paragraph:

“(b) the obligation is such that, where interest was paid or payable by the taxpayer in respect of it pursuant to a legal obligation, or if interest had been paid or payable by the taxpayer in respect of it pursuant to a legal obligation, no amount in respect of the interest was or would have been deductible under this Part in computing his income if this Act were read without reference to sections 135.4, 164, 169, 170 and 180 to 182;”;

(2) by striking out the word “or” at the end of paragraph *c* of subsection 3;

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

(4) by adding, after paragraph *d* of subsection 3, the following paragraphs:

“(e) the excess contemplated in subsection 1 would be deemed, under section 263, to be a capital gain of the taxpayer for the year from the disposition of a capital property if this Part were interpreted without reference to this section; or

“(f) the obligation is settled or extinguished by way of succession or will.”

(2) This section applies with respect to obligations settled or extinguished after 9 May 1985.

**110.** (1) Section 485.2 of the said Act is replaced by the following section:

**“485.2** Where an obligation of a subsidiary to pay an amount to the parent or an obligation of a parent to pay an amount to the subsidiary is settled or extinguished on the winding-up to which sections 556 to 565 apply, without any payment by the subsidiary or by the payment of an amount less than both the principal of the obligation and the amount contemplated in the second paragraph, the obligation is deemed to be settled or extinguished on the winding-up by the payment made by the amount contemplated in the second paragraph.

The amount contemplated in the first paragraph is the amount that would have been the cost amount of the obligation to the parent or the subsidiary, as the case may be, immediately before the winding-up if the definition of the expression “cost amount” in section 1 were read without reference to paragraph *c* thereof.

The rule prescribed in the first paragraph applies only if the parent so elects in prescribed form not later than the day the parent is required to file a fiscal return pursuant to section 1000 for the taxation year in which the obligation is settled or extinguished.”

(2) This section applies with respect to obligations settled or extinguished after 31 December 1983 except that an election provided for in the third paragraph of section 485.2 of the Taxation Act, as enacted by this section, in respect of the settlement or extinguishment of the obligation of a parent toward its subsidiary may be filed in prescribed form on or before the later of the following days:

(a) the day on or before which, under section 485.2, the election shall be filed;

(b) 31 December 1986.

**111.** (1) This Act is amended by inserting, after section 485.2, the following section:

“**485.3** For the purposes of sections 485 and 485.2, an amount of interest payable by a taxpayer on an obligation shall be deemed to have a principal amount equal to the portion thereof that was deducted, or would, but for sections 135.4, 164 and 180 to 182, have been deductible, in computing his income for a taxation year under this Part.”

(2) This section applies in respect of obligations settled or extinguished after 9 May 1985.

**112.** (1) Section 487.2 of the said Act, amended by section 85 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing what precedes subparagraph *a* of the first paragraph by the following:

“**487.2** The amount provided for in section 487.1 is obtained by subtracting the amount computed under section 487.2.1 from the aggregate of the interest, computed at the prescribed rate, in respect of each such debt for the period of the year in which it was unpaid and the interest paid or payable for the year in respect of each such debt”.

(2) This section applies from the taxation year 1984.

**113.** (1) The said Act is amended by inserting, after section 487.2, the following section:

“**487.2.1** The amount referred to in section 487.2 is the aggregate of

(a) the interest for the year paid on each such debt not later than 30 days after the end of the year; and

(b) the portion of the interest paid or payable for the year in respect of each such debt by a person or entity contemplated in subparagraph *a*, *b* or *c* of the first paragraph of section 487.2 that is reimbursed by the debtor in the year or within 30 days after the end of the year to the person or entity who made the payment referred to in that paragraph.”

(2) This section applies from the taxation year 1984.

**114.** (1) Section 487.4 of the said Act is replaced by the following section:

“**487.4** The amount provided for by section 487.3 is obtained by subtracting the interest paid for the year in respect of each such debt not later than 30 days after the end of the year or on 31 December 1982, whichever is later, from the interest in respect of each such debt, computed at the prescribed rate, in respect of the debt for the period of the year in which it was unpaid.”

(2) This section has effect from 29 October 1985.

**115.** (1) Sections 494 and 495 of the said Act are replaced by the following sections:

“**494.** An individual is not required to include in computing his income the income for the year from property acquired by him or on his behalf as indemnity for, or pursuant to an action for, damages in respect of physical or mental injury to him, or from any property substituted for the first property and any taxable capital gain for the year from the disposition of any such property,

(a) where the income was income from the property, if the income was earned in respect of a period before the end of the taxation year in which the individual attained the age of 21 years;

(b) in any other case, if the individual was less than 21 years of age during any part of the year.

“**495.** An individual is not required to include in computing his income the income for the year from any income that is by virtue of section 494 or this section not required to be included in computing his income, unless the income is attributable to any period after the end of the taxation year in which the individual attained the age of 21 years.”

(2) This section applies from the taxation year 1984.

**116.** (1) Section 499 of the said Act is replaced by the following section:

**“499.** If the deduction granted to an individual in respect of his spouse, under paragraph *a* of section 695 and section 696, was decreased by reason of the inclusion of an amount in the income of his spouse for the year under section 497, the individual may elect, in his fiscal return for the year, that dividends received from a taxable Canadian corporation which have to be included in the income of his spouse under the latter section be deemed to have been received by him in such year and not by his spouse.”

(2) This section applies from the taxation year 1986.

**117.** (1) The said Act is amended by inserting, after section 510, the following section:

**“510.0.1** Where the shareholder of a corporation disposes of a share of the capital stock of the corporation as a result of the redemption, acquisition or cancellation of the share by the corporation, he is, for the purpose of this Part, deemed to dispose of the share to the corporation.”

(2) This section has effect from 29 October 1985.

**118.** (1) Section 518 of the said Act, amended by section 86 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing the first paragraph by the following paragraph:

**“518.** A taxpayer who, after 6 May 1974, disposes of property owned by him which is capital property, property included in an inventory, a Canadian resource property, a foreign resource property or an intangible capital property, to a taxable Canadian corporation for consideration which includes a share of the capital stock of the corporation, may elect jointly with the latter, in prescribed form and on or before the earliest day on which one of the two must file his fiscal return under section 1000 for the taxation year in which the disposition occurs, that the rules provided in this chapter apply.”

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

**119.** (1) Section 544 of the said Act is amended

(1) by replacing subsections 4 and 4.1 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 86 to 90 and 95 to 98 of the Act respecting the application of the Taxation Act (1972, chapter 24) and sections 332.1, 332.2 and 362 to 418.14, 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) by replacing that part of subsection 5 which precedes paragraph *a* by the following:

“(5) For the purposes of subsections 3 and 4 and this subsection, and notwithstanding section 1, the expression “subsidiary wholly-owned corporation” of a particular corporation means a corporation all the issued and outstanding shares of the capital stock of which are owned by”.

(2) This section applies in respect of amalgamations occurring after 31 December 1982.

**120.** (1) Section 557 of the said Act is amended by replacing the second paragraph by the following paragraph:

“However, in the case of a Canadian resource property or foreign resource property those proceeds are deemed to be nil.”

(2) This section applies with respect to windings-up commencing in a taxation year beginning after 31 December 1984.

**121.** (1) Section 563 of the said Act is replaced by the following section:

“**563.** For the purposes of computing an amount deductible under section 710 in computing the taxable income of the parent for one of its taxation years ending after the winding-up of the subsidiary, gifts made by the subsidiary in one of its particular taxation years are deemed, to the extent that they were not deducted under section 710 in computing the taxable income of the subsidiary for any taxation year, to have been made by the parent in its taxation year in which the particular taxation year of the subsidiary ended and not to have been so deductible for any taxation year of the parent ending not later than the day the subsidiary is wound-up.”

(2) This section applies from the taxation year 1984.

**122.** (1) Section 564.2 of the said Act is replaced by the following section:

**“564.2** For the purposes of computing the taxable income of the parent for any taxation year commencing after the commencement of a winding-up described in section 556 or that would be if the expression “taxable Canadian corporation” were replaced by the expression “Canadian corporation”, such portion of any non-capital loss, restricted farm loss or farm loss of the subsidiary for a particular taxation year as may reasonably be regarded as its loss from carrying on a particular business, any other portion of any non-capital loss of the subsidiary for any such year as may reasonably be regarded as being derived from any other source or as being due to an amount added to its taxable income under section 726.5 or the net capital loss sustained by the subsidiary for any such year is deemed, for the purposes of sections 727, 728.2, 729, 731, 734 and 735, to be a non-capital loss, restricted farm loss or farm loss of the parent from carrying on a particular business of the subsidiary, a non-capital loss of the parent from the source from which the subsidiary sustained such portion of a non-capital loss or a loss due to an amount added to its taxable income under section 726.5 or a net capital loss, respectively, sustained by the parent for its taxation year during which the particular taxation year of the subsidiary ended and that was not deductible in computing the taxable income of the parent for any taxation year that commenced before the commencement of the winding-up.”

(2) This section applies with respect to non-capital losses for taxation years subsequent to the taxation year 1984.

**123.** (1) Section 564.4.1 of the said Act is replaced by the following section:

**“564.4.1** Where section 564.2 applies and where, at any time, control of the parent or subsidiary has been acquired by one or several persons each of whom is in section 564.4.2 referred to as the “purchaser”, the portion of the subsidiary’s non-capital loss or farm loss for a taxation year ending before that time as may reasonably be regarded as its loss from carrying on a particular business is deductible by the parent for a particular taxation year ending after that time only if business was carried on by the subsidiary or parent for profit or with a reasonable expectation of profit, either throughout the portion of the particular year after that time, where the control of the parent or subsidiary was acquired in the particular year, or throughout the year, in other cases, and only up to the amount computed under section 564.4.2.”



(2) This section applies with respect to winding-up commencing after the taxation year 1982.

**124.** (1) Section 564.4.2 of the said Act is amended by replacing paragraph *b* by the following paragraph:

“(b) the amount by which

i. the aggregate of the parent’s taxable capital gains for the particular year from the disposition of property owned by the subsidiary not later than at the time contemplated in the said section, other than property that was acquired by the subsidiary within the two-year period ending at that time from the purchaser or from a person that did not deal at arm’s length with the purchaser, exceeds

ii. the aggregate of the parent’s allowable capital losses for the particular year from the disposition of property described in subparagraph i.”

(2) This section applies with respect to acquisitions of control occurring after 9 May 1985, except that where it enacts subparagraph i of paragraph *b* of section 564.4.2 of the Taxation Act, it applies with respect to acquisitions of control occurring after the taxation year 1983.

**125.** (1) Section 564.6 of the said Act is amended by replacing what precedes paragraph *a* by the following:

“**564.6** For the purposes of sections 230.1 to 230.10 and this section, where the rules in sections 556 to 564.1 and 565 apply to the winding-up of a subsidiary, the following rules apply for the purpose of computing the income of the parent for a taxation year commencing after the subsidiary has been wound up:”.

(2) This section applies with respect to windings-up commencing after 31 December 1982.

**126.** (1) The said Act is amended by inserting, after section 565, the following section:

“**565.1** For the purposes of sections 85 to 90, 97 and 98 of the Act respecting the application of the Taxation Act (1972, chapter 24) and sections 332.1, 332.2, 362 to 418.14 and 419.1 to 419.4, 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 with respect to windings-up commencing after 31 December 1982.

**127.** (1) Section 566 of the said Act is replaced by the following section:

**“566.** The rules provided in this chapter apply to the winding-up after 1978 of a Canadian corporation other than a subsidiary to the winding-up of which the rules in sections 556 to 564.1 and 565 apply where, at a particular time in the course of the winding-up, all or substantially all of the property owned by the corporation immediately before such time is distributed to its shareholders.”

(2) This section applies with respect to windings-up commencing after 31 December 1982.

**128.** (1) The said Act is amended by inserting, after section 577, the following section:

**“577.1** Notwithstanding section 577, a taxpayer who, immediately before a prescribed reorganization, held a common share of the capital stock of a prescribed corporation, referred to as a “share of the corporation” in the second paragraph, and who elects that the rules in the second paragraph apply for the purposes of this Part is not required to include, in computing his income for the taxation year 1984, the amount which, under section 577 and but for this section, should have been included, as a consequence of the reorganization, in respect of the value of a share of the capital stock of a prescribed regional holding company that he received at the time of the reorganization, referred to as a “distributed share” in the second paragraph.

For the purposes of computing the adjusted cost base, at any particular time after the reorganization, to the taxpayer contemplated in the first paragraph, of each share of the corporation and each distributed share owned by him immediately after the reorganization and thereafter without interruption until the particular time, the following rules apply:

(a) the taxpayer is deemed to have disposed, at the time of the reorganization, of the share of the corporation for proceeds of disposition equal to its adjusted cost basis to him immediately before the reorganization and to have reacquired it immediately after the reorganization at a cost equal to the proportion of the adjusted cost base to him, immediately before the reorganization, of all the shares of the corporation held by him immediately before the reorganization that the fair market value of the share of the corporation, immediately

after the reorganization, is of the fair market value of the aggregate of the shares of the corporation and the distributed shares held by him immediately after the reorganization; and

(b) the taxpayer is deemed to have acquired, immediately after the reorganization, the distributed share at a cost equal to the proportion of the adjusted cost base to him, immediately before the reorganization, of all the shares of the corporation held by him immediately before the reorganization, that the fair market value of the distributed share, immediately after the reorganization, is of the fair market value of the aggregate of the shares of the corporation and the distributed shares held by him immediately after the reorganization.”

(2) This section has effect from 1 January 1984.

**129.** (1) Section 594 of the said Act is amended by replacing what precedes subparagraph *a* of the first paragraph by the following:

“**594.** The rules provided in this chapter apply for a taxation year of a foreign trust, other than an *inter vivos* trust created before 1 January 1960 by a person who, at that time, was not resident in Canada or other than a testamentary trust that arose as a consequence of the death of an individual before 1 January 1976, where before the end of the year that trust or a corporation not resident in Canada that would be a controlled foreign affiliate of the trust, if the trust were resident therein, has, other than in prescribed circumstances, acquired property, in any manner whatever, from”.

(2) This section has effect from 29 October 1985.

**130.** (1) Section 600 of the said Act is 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 the first paragraph of section 360, sections 362 to 418.14 or the Act respecting the application of the Taxation Act (1972, chapter 24) relating to this paragraph;”.

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

**131.** (1) Section 600.2 of the said Act is replaced by the following section:

**“600.2** However, where a person not resident in Canada is a member of a partnership that is deemed under section 1096.2 to have disposed of a property, the deemed amount in respect of him under the said section 600.1 respecting the said section 412 or 418.6, as the case may be, is then so deemed for his taxation year that is deemed under section 1096.1 to have ended.”

(2) This section applies with respect to dispositions occurring in taxation years beginning after 31 December 1984.

**132.** (1) Section 603 of the said Act is amended by replacing what precedes paragraph *a* by the following:

**“603.** Where a taxpayer who was a member of a partnership during a fiscal period thereof ending after 31 December 1971 has, for the purposes of computing his income from the partnership for the fiscal period, made an election provided for by the regulations made under section 104, by sections 96, 110.1, 156, 180 to 182, 184, 199, 215, 216, 250.1, 279, 280.3 and 614, and where the election would, but for this section, be valid, the following rules apply:”.

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

**133.** (1) Section 614 of the said Act is amended by replacing that part of the second paragraph which precedes subparagraph *a* by the following:

“Notwithstanding any other provision of this Act other than sections 527.1 and 527.2, where a taxpayer disposes, after 12 November 1981, of capital property, a Canadian resource property, a foreign resource property, intangible capital property or property included in an inventory to a partnership that, immediately after the disposition, is a Canadian partnership of which the taxpayer is a member, the taxpayer and all the other members of the partnership may elect jointly in prescribed form and within the time referred to in section 604 that the following rules apply:”.

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

**134.** (1) Section 653 of the said Act is amended by replacing what precedes subparagraph *a* of the first paragraph by the following:

**“653.** A trust is deemed to dispose of and immediately reacquire all its capital property, and all its lands included in the inventory of a business of the trust on the following days:”.

(2) This section applies to taxation years of a trust beginning after 31 December 1984.

**135.** (1) The said Act is amended by inserting, after section 656.1, the following section:

**“656.2** Where a trust owns a Canadian resource property or a foreign resource property on any day determined under section 653 in respect of the trust, the following rules apply:

(a) for the purpose of determining the amounts under paragraphs *a* and *e* of section 330 and sections 371, 374, 411, 412, 418.5, 418.6 and 418.12, the trust is deemed

i. to have a taxation year ending on that date and a new taxation year beginning on the following day;

ii. to have disposed, immediately before the end of the taxation year so deemed to end, of each of its Canadian resource properties and foreign resource properties for proceeds that become receivable at that time equal to its fair market value at that time and to have reacquired, at the beginning of the new taxation year, each such property for an amount equal to that fair market value; and

(b) for the particular taxation year of the trust that included that day, the trust shall

i. include in computing its income for the particular taxation year the amount, if any, determined under paragraph *e* of section 330 in respect of the taxation year deemed to end in accordance with subparagraph i of paragraph *a* and the amount so included is, for the purposes of paragraph *b* of section 411, deemed to have been included in computing its income for a preceding taxation year, and

ii. deduct in computing its income for the particular taxation year the amount, if any, determined under sections 371 and 374 in respect of the taxation year deemed to end in accordance with subparagraph i of paragraph *a* and the amount so deducted is, for the purposes of section 371, deemed to have been deducted for a preceding taxation year.”

(2) This section applies to taxation years of a trust beginning after 31 December 1984.

**136.** (1) Section 677 of the said Act is amended by replacing subparagraphs *b* and *c* of the second paragraph by the following subparagraphs:

“(b) a trust created after 12 November 1981 if, before the end of the taxation year, property was contributed to the trust otherwise than by an individual on or after his death, and as a consequence thereof, and

“(c) a trust created before 13 November 1981 if after 28 June 1982 property has been contributed to the trust otherwise than by an individual on or after his death and as a consequence thereof, or if before the end of the taxation year, the fair market value of the property owned by the trust that was contributed to the trust otherwise than by an individual on or after his death and as a consequence thereof and the property owned by the trust that was substituted for such property exceeds the fair market value of the property owned by the trust that was contributed by an individual on or after his death and as a consequence thereof and the property owned by the trust that was substituted for such property, and for the purposes of this paragraph, the fair market value of any property shall be determined as at the time it was acquired by the trust.”

(2) This section applies to taxation years beginning after 12 November 1981.

**137.** (1) Section 681 of the said Act is replaced by the following section:

**“681.** Where an individual with an income from a testamentary trust died after the end of a taxation year of the trust and before the end of the calendar year during which that taxation year ended, his income from the trust for the period commencing immediately after the end of the taxation year of the trust and ending at the time of death shall be included in computing the individual’s income for the year in which he died unless his legal representative has elected otherwise, in which case the legal representative shall file a separate fiscal return under this Part for the period comprised between the end of the taxation year of the trust and the date of the death and pay the tax for the period under this Part as if

(a) the individual were another person,

(b) the period were a taxation year,

(c) that other person’s only income for the period were the individual’s income from the trust for that period, and

(d) subject to section 693.1, that other person were entitled to the deductions to which the individual was entitled under sections 695 to 725.1 for the period in computing his taxable income for the period.”

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

**138.** (1) Section 691 of the said Act is amended by replacing what precedes paragraph *a* by the following:

**“691.** Notwithstanding paragraphs *a* to *c* of section 688, if the trust contemplated in the said section is a trust described in subparagraph *a* of the first paragraph of section 653 and in the second paragraph of that section, if the property is capital property, a Canadian resource property, a foreign resource property or land included in the inventory of a business of the trust, if the taxpayer to whom the property is transferred is not the spouse and if the spouse is alive at the time of the transfer, the following rules apply:”.

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

**139.** (1) The said Act is amended by inserting, after section 693, the following section:

**“693.1** Where a separate fiscal return with respect to an individual is filed under any of sections 429, 681 or 1003 for a particular period and another fiscal return under this Part with respect to the same individual is filed for a period ending in the calendar year in which the particular period ends, for the purpose of computing the taxable income under this Part of the individual in such fiscal returns, the aggregate of all deductions claimed in all such returns under any of sections 702 to 725.1 shall not exceed the aggregate that could be deducted under such section for the year with respect to the individual if a separate fiscal return were not filed under any of sections 429, 681 or 1003.”

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

**140.** (1) Section 710 of the said Act is amended by replacing that part which precedes paragraph *a* by the following:

**“710.** A taxpayer may deduct the aggregate of gifts made by him in the year and the gifts he made during the preceding five taxation years to the extent that the amount of such gifts was not deducted for any preceding taxation year, to”.

(2) This section applies from the taxation year 1984, except that for the purposes of section 710 of the Taxation Act, the amount of the gifts made by a taxpayer in a taxation year before 1986 for which the taxpayer claimed a deduction under section 722 of the said Act, as it read before it was repealed by section 106 of chapter (*insert here*

*the chapter number of Bill 2*) of the statutes of 1986, is deemed to have been deducted in that taxation year.

**141.** (1) Section 711 of the said Act is replaced by the following section:

**“711.** The deductions allowed in paragraphs *c* to *j* of section 710 must not exceed in aggregate 20% of the income of the taxpayer for the year, computed before any deduction under section 800; the deduction allowed by paragraph *a* of the said section 710 must not exceed the taxpayer’s income decreased by the amounts deducted under paragraphs *c* to *j* of that section; the deduction allowed by paragraph *b* of that section must not exceed the taxpayer’s income decreased by the amounts deducted under paragraphs *a* and *c* to *j* of the said section 710.”

(2) This section applies from the taxation year 1984, except that for the purposes of section 711 of the Taxation Act, the amount of the gifts made by a taxpayer in a taxation year before 1986 for which the taxpayer claimed a deduction under section 722 of the said Act, as it read before it was repealed by section 106 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is deemed to have been deducted in that taxation year.

**142.** (1) Section 712.1 of the said Act is replaced by the following section:

**“712.1** For the purposes of sections 710 to 712, a gift made by an individual in the year of his death is deemed to have been made by him in the preceding year to the extent that the amount thereof is not deducted in computing his taxable income for the year of his death.”

(2) This section applies from the taxation year 1984.

**143.** (1) Section 717 of the said Act is replaced by the following section:

**“717.** An individual may deduct the amount of that part of the medical expenses provided for by the regulations exceeding 3 per cent of his income if paid by the individual or by his legal representatives.”

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

**144.** (1) Section 719 of the said Act is amended by replacing paragraph *b* by the following paragraph:



“(b) during a period of 24 months including the day of his death, if the individual died in the year and if the amount has not already been deducted as a medical expense for a previous year.”

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

**145.** (1) Section 720 of the said Act is repealed.

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

**146.** (1) Section 721 of the said Act is replaced by the following section:

“**721.** The medical expenses for which an individual or his legal representatives have received a reimbursement or are entitled thereto are not deductible as a medical expense paid by such individual or his legal representatives except to the extent that the amount of the expenses is required to be included in computing the individual's income under this Part.”

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

**147.** (1) Section 724 of the said Act, amended by section 108 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing paragraph *b* by the following paragraph:

“(b) no deduction is claimed, under the regulations provided for in section 717, by the individual or by another person as remuneration for a full-time attendant or care in a nursing home by reason of the person's blindness, illness, injury or affliction.”

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

**148.** (1) The said Act is amended by inserting, after section 724, the following section:

“**724.1** Where more than one individual is, in respect of a taxation year, entitled to deduct an amount under section 724 in respect of the same person, the aggregate of all amounts deductible for the year by those individuals in respect of that person shall not exceed the amount that would be deductible under that section if that individual were the only individual entitled to deduct an amount under that section in respect of that person and where the individuals cannot agree as to what portion of the amount each can deduct, the Minister may fix the portions.”

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

**149.** (1) The said Act is amended by inserting, after section 726.4, the following:

“TITLE VI.4

“ADDITIONS FOR FOREIGN TAX DEDUCTIONS

**“726.5** A corporation shall add to its taxable income otherwise determined for a taxation year an amount equal to the amount it adds for the year to its taxable income computed for the purposes of the Income Tax Act (Statutes of Canada) pursuant to section 110.5 of the said Act.”

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

**150.** (1) Section 728 of the said Act is amended by replacing what precedes paragraph *b* by the following:

**“728.** For the purposes of section 727, the “non-capital loss” of a taxpayer for a taxation year means the amount by which the aggregate of

(a) the amount determined pursuant to section 728.0.1 for the year in respect of the taxpayer, and

(a.1) the amount to be added by the taxpayer to his taxable income for the year pursuant to section 726.5, exceeds the aggregate of”.

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

**151.** (1) The said Act is amended by inserting, after section 728, the following section:

**“728.0.1** The amount contemplated in paragraph *a* of section 728 is the amount by which

(a) the aggregate of his losses for the year from an office, employment, business or property, his allowable business investment losses for the year and of all amounts deductible in computing his taxable income for the year pursuant to sections 725, 738 to 746 or 845 exceeds

(b) the amount by which the aggregate of the amounts determined under paragraphs *a* and *b* of section 28, for the year, in respect of the taxpayer, exceeds the amount determined under subparagraph *i* of paragraph *c* of the said section 28.”

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

**152.** (1) Section 730 of the said Act is replaced by the following section:

**“730.** For the purposes of this title, the net capital loss of a taxpayer for a taxation year consists of the aggregate of the following amounts:

(a) the amount by which the amount obtained under subparagraph ii of paragraph *b* of section 28, for the year, exceeds the amount obtained under subparagraph i of paragraph *b* of section 28, after deducting, in the case of an individual, the lesser of \$1 000 and the amount of the income that would be determined for the year according to section 28 exclusive of subparagraph iii of paragraph *c* of section 28; and

(b) the lesser of the following amounts:

i. the amount of his allowable business investment losses for his seventh preceding taxation year; and

ii. the amount by which his non-capital loss for his seventh preceding taxation year exceeds the aggregate of the amounts relating to the non-capital loss deducted by him in computing his taxable income for the taxation year or for a preceding taxation year or in respect of which he made an election under section 1029.1 for the taxation year in which the non-capital loss was sustained.”

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

**153.** (1) Section 736.0.1 of the said Act is amended

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

“If throughout the part of the particular taxation year that is after that time, where control of the corporation was acquired in the particular year, or throughout the particular year in any other case, the business was carried on by the corporation for profit or with a reasonable expectation of profit, the corporation may deduct for the particular year such portion of the loss up to the aggregate of”;

(2) by replacing subparagraph *b* of the second paragraph by the following subparagraph:

“(b) the amount by which

i. the aggregate of its taxable capital gains derived, for the particular year, from the disposition of property owned by the corporation at or before the time of the acquisition of control of the corporation and that

the corporation had not acquired, within the two-year period ending at that time, from a purchaser referred to in the first paragraph or from a person who did not deal at arm's length with such a purchaser, exceeds

ii. the aggregate of its allowable capital losses for the particular year from dispositions referred to in subparagraph i."

(2) This section applies in respect of acquisitions of control occurring in a taxation year after the taxation year 1983; however, in respect of acquisitions of control occurring before 10 May 1985 in a taxation year after the taxation year 1983, subparagraph ii of subparagraph *b* of the second paragraph of section 736.0.1 of the Taxation Act, enacted by paragraph 2 of subsection 1 of this section, shall be read as follows:

"ii. the amount by which his allowable capital losses exceed his allowable business investment losses derived, for the particular year, from the disposition of property referred to in subparagraph i."

**154.** (1) Section 737.1 of the said Act is amended

(1) by replacing paragraph *a*, in the French text, by the following paragraph:

"(a) "année d'étalement": une année d'imposition pour laquelle un particulier déduit un montant en vertu de l'article 737.4;"

(2) by replacing subparagraph ii of paragraph *b* by the following subparagraph:

"ii. in the case of the taxation year in which he died, nil, where the tax payable by the individual under this Part for that year is computed under sections 758 to 766.1, and the excess amount referred to in paragraph *a* of section 737.2 in any other case;"

(2) Paragraph 1 of subsection 1 has effect from 29 October 1985.

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

**155.** (1) Section 737.3 of the said Act is replaced, in the French text, by the following section:

**"737.3** Le revenu rajusté d'un particulier pour une année d'imposition s'obtient en multipliant son revenu pour l'année par le rapport entre l'indice des prix à la consommation au Canada, publié par Statistique Canada en vertu de la Loi sur la statistique (Statuts du Canada), pour la période de 12 mois prenant fin le 30 septembre précédant l'année d'étalement et celui qui a été ainsi publié pour la

période de 12 mois prenant fin le 30 septembre précédant l'année d'imposition, lequel rapport doit être rajusté et arrondi de la manière mentionnée au paragraphe *b* de l'article 737.2."

(2) This section has effect from 29 October 1985.

**156.** (1) Section 737.4 of the said Act is amended by replacing that part which precedes paragraph *a*, in the French text, by the following:

**"737.4** Un particulier qui n'est pas une fiducie et qui a résidé au Canada tout au long d'une année d'étalement et des deux années d'imposition précédentes peut déduire dans le calcul de son revenu imposable pour l'année d'étalement un montant qui n'est pas inférieur à 1 000 \$ ni supérieur au moindre des montants suivants:"

(2) This section has effect from 29 October 1985.

**157.** (1) Section 737.5 of the said Act is amended by replacing paragraphs *a* and *b*, in the French text, by the following paragraphs:

"*a*) le total de:

i. l'ensemble des revenus du particulier pour l'année d'étalement provenant de la production d'une oeuvre littéraire, dramatique, musicale ou artistique ou de ses activités en tant qu'athlète, musicien ou professionnel du spectacle, notamment comme artiste de théâtre, de cinéma, de radio ou de télévision; et

ii. de la moitié de l'excédent de l'ensemble des montants inclus en vertu du deuxième alinéa de l'article 234 ou du sous-paragraphe ii du paragraphe *a* de l'article 279 dans le calcul du gain du particulier pour l'année d'étalement provenant de l'aliénation d'un bien sur l'ensemble des montants qu'il déduit dans ce calcul en vertu de l'article 234 ou du paragraphe *a* de l'article 279;

"*b*) l'excédent du revenu du particulier pour l'année d'étalement sur 110% du quotient obtenu en divisant:

i. l'ensemble de ses revenus rajustés pour celles des trois années d'imposition qui précèdent immédiatement l'année d'étalement qui sont des années tout au long desquelles il a résidé au Canada; par

ii. le nombre des années d'imposition visées au sous-paragraphe i."

(2) This section has effect from 29 October 1985.

**158.** (1) Section 737.6 of the said Act is replaced, in the French text, by the following section:

**“737.6** L'article 737.4 ne s'applique que si le particulier produit au ministre, avec sa déclaration fiscale en vertu de la présente partie pour l'année d'étalement et au plus tard le jour où il doit produire cette déclaration, un choix en la forme prescrite.”

(2) This section has effect from 29 October 1985.

**159.** (1) Section 737.7 of the said Act is replaced by the following section:

**“737.7** The election referred to in section 737.6 is not valid for a year of averaging unless the individual files with the Minister, on or before the day on which the election must be filed,

(a) a fiscal return for each taxation year referred to in subparagraph i of paragraph b of section 737.5 for which tax was payable by him under this Part, and

(b) with his fiscal return for the year of averaging, a prescribed form for each taxation year referred to in subparagraph i of paragraph b of section 737.5 for which no tax was payable by him under this Part and no fiscal return has been filed by him with the Minister.”

(2) This section applies to elections filed for a taxation year subsequent to the taxation year 1983, and to elections filed by a taxpayer for the taxation years 1982 and 1983 if the taxpayer makes a request to that effect, in writing, to the Minister before (*insert here the date of the ninetieth day after the date of assent to this Act*).

**160.** (1) Section 737.12 of the said Act is repealed.

(2) This section applies from the taxation year 1982.

**161.** (1) The said Act is amended by inserting, after section 737.12, the following section:

**“737.12.1** An election filed by an individual under section 737.6 or 737.8 for a taxation year may be revoked by the individual or his legal representative by filing a notice of revocation, in writing, with the Minister not later than,

(a) where the individual died in the year in which the election was filed, the day on or before which the individual's fiscal return for the year of death is required to be filed, or would be required to be filed if tax under this Part were payable by him for the year of death; and

(b) in any other case, the 30th day following the day of mailing of a notice of assessment of an amount payable by him under this Part for the year.”

(2) This section applies from the taxation year 1982, except that where the taxation year referred to in section 737.12.1 of the Taxation Act, enacted by this section, is the taxation year 1982, 1983, 1984 or 1985, the notice of revocation referred to in the said section 737.12.1 may be filed with the Minister at any time on or before the day on which it would be required to be filed in accordance with the said section 737.12.1 or (*insert here the date of the ninetieth day after the date of assent to this Act*), whichever is later.

**162.** (1) Section 740.1 of the said Act is amended by replacing subparagraph *a* of the second paragraph by the following subparagraph:

“(a) a corporation described in paragraphs *b* to *f* of section 250.3;”.

(2) This section has effect from 29 October 1985.

**163.** (1) Section 759 of the said Act is amended by replacing paragraph *a* of subsection 1 by the following paragraph:

“(a) subtract from his income for each year of the averaging period, meaning in this division the taxation year and the preceding four years for which he filed a fiscal return, all deductions permitted for that year under Book IV, except those contemplated in sections 695 to 701 or 737.1 to 737.12.1 and except a loss in the three years following the year of averaging or deducted, pursuant to this paragraph, from the income for a preceding taxation year included in the averaging period;”.

(2) This section applies from the taxation year 1980, except that in its application to the taxation years 1980 and 1981, paragraph *a* of subsection 1 of section 759 of the Taxation Act, as enacted by it, must be read without taking into account the following words and figures: “or 737.1 to 737.12.1”.

**164.** (1) Section 766.1 of the said Act is replaced by the following section:

“**766.1** Paragraph *u* of section 87 and sections 101 and 257 do not apply to such portion of an amount deducted by a taxpayer under subsection 5 of section 127 of the Income Tax Act (Statutes of Canada) in computing his tax payable under the said Act for a particular taxation year or a subsequent taxation year, as may reasonably be attributed to the amount added, under subsection 9 of section 119 of the said Act,

in computing the investment tax credit, within the meaning of subsection 9 of the said section 127, determined at the end of the particular taxation year in respect of the taxpayer.”

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

**165.** (1) Section 810 of the said Act is amended by replacing paragraph *a* by the following paragraph:

“(a) the aggregate of the losses it has sustained during the year from the disposition of obligations owned by it and issued by other than a member institution;”.

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

**166.** (1) Section 813 of the said Act is amended by replacing paragraph *e* by the following paragraph:

“(e) any amount otherwise deductible under section 141 in respect of debts owing to it by its member institutions, and which has not been included in computing its income for the year or a preceding taxation year.”

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

**167.** (1) Section 840 of the said Act is amended by replacing that part of paragraph *d* which precedes subparagraph iii by the following:

“(d) the reserves for policy dividends, equal to the lesser of:

i. the amount of the policy dividends which, according to the financial statements of the insurer at the end of the year, will become payable by the insurer in the following year in accordance with the terms of its participating life insurance policies;

ii. 110 per cent of the aggregate of the policy dividends which will become payable by the insurer in the following year in accordance with the terms of its participating life insurance policies; and”.

(2) This section has effect from 29 October 1985.

**168.** (1) Section 841 of the said Act is amended by replacing subparagraph i of paragraph *a* by the following subparagraph:

“i. the excess of the aggregate of the policy dividends to the extent that they are not paid out of a segregated fund, which have become payable by the insurer after his 1968 taxation year and before the end



of the year in accordance with the terms of its participating life insurance policies, over the aggregate of the amounts deductible in computing his income under this paragraph for the preceding taxation years, and”.

(2) This section has effect from 29 October 1985.

**169.** (1) Section 841.1 of the said Act is amended by replacing paragraphs *a* and *b*, in the French text, by the following paragraphs:

“*a*) l’excédent de la déduction pour participations de police en 1975-1976, au sens des règlements, d’un assureur est réputé être un montant qui était admissible en déduction dans le calcul de son revenu en vertu de ce paragraphe pour les années d’imposition antérieures à son année d’imposition 1977; et

“*b*) l’excédent de la déduction pour participations de police en 1977, au sens des règlements, d’un assureur est réputé être un montant qui était admissible en déduction dans le calcul de son revenu en vertu de ce paragraphe pour les années d’imposition antérieures à son année d’imposition 1978.”

(2) This section has effect from 29 October 1985.

**170.** (1) Section 923.2 of the said Act, enacted by section 132 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is amended by replacing paragraph *b* by the following paragraph:

“(b) “qualified farm property” of an individual means a property described in section 923.2.1;”.

(2) This section applies from the taxation year 1984.

**171.** (1) The said Act is amended by inserting, after section 923.2, the following section:

“**923.2.1** The qualified farm property of an individual contemplated in section 923.2 means

(a) a property that was owned on 31 December 1983 by the individual or his spouse and that, at any time after 31 December 1971 and before 1 January 1984, was

i. immovable property used by the individual, his spouse or any of his children, a corporation, a share of the capital stock of which is a share of the capital stock of a family farm corporation of the individual, his spouse or any of his children, or a partnership, an interest in which is an interest in a family farm partnership of the individual, his spouse

or any of his children in the course of carrying on the business of farming in Canada,

ii. a share of the capital stock of a family farm corporation of the individual or his spouse, or

iii. an interest in a family farm partnership of the individual or his spouse;

(b) a replacement for a former property or a capital replacement property for a qualified farm property of the individual in respect of which the individual or his spouse has made an election under section 96 or 279;

(c) a share of the capital stock of a family farm corporation of the individual all or substantially all of the properties of which were

i. qualified farm properties described in paragraph *a* or *b* of the individual, or

ii. replacement for former properties or capital replacement properties described in subparagraph i in respect of which the corporation has made an election under section 96 or 279; or

(d) an interest in a family farm partnership of the individual all or substantially all of the properties of which were

i. qualified farm properties described in paragraph *a* or *b* of the individual, or

ii. replacement for former properties or capital replacement properties described in subparagraph i in respect of which the partnership has made an election under section 96 or 279."

(2) This section applies from the taxation year 1984.

**172.** (1) Section 931.1 of the said Act, amended by section 133 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing the first paragraph by the following paragraph:

**"931.1** Where at any particular time in a taxation year an amount from a plan to which an individual has paid a premium deductible under section 923 would be required by the second paragraph of section 914, if read without reference to the words "minus the amount required by section 931.1 to be included in computing the income of the individual's spouse", to be included in computing the income for the year of the spouse of the individual, the individual shall include in

computing his income for the year all or any part of the lesser of that amount and the aggregate of the premiums paid by him to that plan and deductible under section 923 in computing his income for the year or deducted under that section in computing his income for each of the two immediately preceding taxation years.”

(2) This section applies in respect of an amount to which the second paragraph of section 914 of the Taxation Act applies after 15 February 1984.

**173.** (1) Section 966 of the said Act, amended by section 151 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended

(1) by replacing, in the French text, that part of paragraph *a* which precedes subparagraph i by the following:

“*a*) “aliénation” d’un intérêt dans une police d’assurance sur la vie comprend le rachat de la police, un prêt sur police consenti après le 31 mars 1978 à l’égard de la police, la dissolution de cet intérêt en raison de l’échéance de la police, l’aliénation de cet intérêt par le seul effet de la loi ainsi qu’un paiement donné qui n’est pas un paiement de rente, un prêt sur police ni une participation de police et qui est versé par l’assureur à l’égard de la police, si celle-ci est un contrat de rente viagère, au sens des règlements, conclu après le 16 novembre 1978 et avant le 13 novembre 1981 et n’est pas une police visée au deuxième alinéa de l’article 968, mais ne comprend pas:”;

(2) by striking out, at the end of subparagraph iii of paragraph *a*, the word “nor”;

(3) by inserting, after subparagraph v of paragraph *a*, the following subparagraph:

“vi. any event or transaction by which an individual becomes entitled to receive, under the terms of an exempt policy, all of the proceeds, including or excluding policy dividends, payable under the policy in the form of an annuity contract or annuity payments, if, at the time of the event or transaction, the individual whose life is insured under the policy was totally and permanently disabled;”;

(4) by replacing paragraph *b* by the following paragraph:

“(b) “segregated fund trust”, “segregated fund”, “interest” and “amount payable” have the meaning assigned by section 835;”;

(5) by replacing, in the French text, paragraph *d* by the following paragraph:

“*d*) “valeur de rachat” d’une police d’assurance sur la vie, à un moment donné, signifie sa valeur de rachat à ce moment, calculée sans tenir compte des prêts sur police consentis en vertu de la police, des participations de police qui ne sont pas des surplus d’assurance libérée et qui sont à payer en vertu de la police, ni des intérêts à payer sur ces participations.”

(2) Paragraphs 1, 4 and 5 of subsection 1 have effect from 29 October 1985.

(3) Paragraph 3 of subsection 1 applies in respect of events or transactions occurring after 1 December 1982.

**174.** (1) Section 967 of the said Act is amended

(1) by replacing, in the French text, paragraph *a* by the following paragraph:

“*a*) le titulaire d’une police d’assurance qui acquiert le droit de recevoir, aux termes d’une police d’assurance sur la vie, un montant à titre ou en paiement intégral ou partiel d’une participation de police est réputé alors aliéner un intérêt dans la police et ce montant est réputé être le produit qu’il a droit de recevoir de l’aliénation de cet intérêt;”;

(2) by replacing subparagraphs *i* and *ii* of paragraph *b* by the following subparagraphs:

“*i.* the policyholder, where the policy was last acquired after 1 December 1982 and is not an exempt policy or an annuity contract, is deemed to dispose of his interest in the policy immediately before the death and the policyholder immediately after such death is deemed to have acquired the interest at a cost equal to the accumulating fund in respect of that interest, as determined in prescribed manner, immediately after the death; and

“*ii.* the holder of the contract, where the contract is neither a life annuity contract within the meaning of the regulations under section 966, entered into before 13 November 1981, nor a prescribed annuity contract is deemed to dispose of his interest in the contract immediately before the death and the holder of the contract immediately after the death is deemed to have acquired the interest at a cost equal to the accumulating fund in respect of that interest, as determined in prescribed manner, immediately after the death;”.

(2) Paragraph 1 of subsection 1 applies in respect of dispositions occurring after 12 November 1981, except that, as regards its application for the period preceding 29 October 1985, paragraph *a* of the French text of section 967 of the Taxation Act, as enacted by the said paragraph, shall read as though the words “une participation de” were replaced by the words “un dividende sur”.

(3) Paragraph 2 of subsection 1 applies in respect of deaths occurring in taxation years commencing after 31 December 1982.

**175.** (1) Section 968 of the said Act is amended by replacing the first paragraph by the following paragraph:

“**968.** A policyholder must include in computing his income for a taxation year in respect of the disposition of an interest in a life insurance policy, the excess of the proceeds of disposition of such interest in the policy that the holder, beneficiary or assignee, as the case may be, of the policy becomes entitled to receive in the year over the adjusted cost basis, to the holder, of such interest immediately before the disposition.”

(2) This section has effect from 29 October 1985.

**176.** (1) Section 968.1 of the said Act is replaced by the following section:

“**968.1** A taxpayer must include in computing his income for a taxation year in respect of the disposition of an interest in a life insurance policy that is a policy referred to in section 968 and, which is a life annuity contract, within the meaning of the regulations under section 966 entered into after 16 November 1978 and before 13 November 1981, the amount by which a particular amount referred to in paragraph *a* of section 966 that he becomes entitled to receive in the year exceeds the amount that would be the adjusted cost basis to him of his interest in the policy immediately before the disposition if, for the purposes of sections 976 and 976.1, he were, in respect of that interest in the policy, the policyholder.”

(2) This section has effect from 29 October 1985.

**177.** (1) Section 970 of the said Act is amended

(1) by replacing, in the French text, that which precedes paragraph *a* by the following:

“**970.** Lorsque, en vertu des modalités d’une police d’assurance sur la vie qui n’est pas un contrat de rente et qui a été acquise pour

la dernière fois avant le 2 décembre 1982, un titulaire de police acquiert le droit de recevoir de l'assureur, à un moment quelconque avant le décès de la personne dont la vie était assurée en vertu de cette police, la totalité du produit à payer à ce moment, sans tenir compte des participations de police, en vertu de la police sous forme d'un contrat de rente ou de paiements de rente, les règles suivantes s'appliquent:";

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

"(b) the purchase price of the annuity contract is deemed to be the adjusted cost basis of the policy to the holder immediately before the first payment under that contract becomes payable; and".

(2) This section has effect from 29 October 1985.

**178.** (1) Section 971.1 of the said Act, enacted by section 153 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is replaced by the following section:

"**971.1** Notwithstanding any other provision in this title, where an interest in a life insurance policy other than an annuity contract has been transferred to the policyholder's spouse or child for no consideration, to the spouse or a former spouse of the policyholder in settlement of rights arising out of their marriage, or to an individual if the transfer is made pursuant to a decree, order or judgment of a competent tribunal made in accordance with prescribed provisions of the law of a province if that individual is a person within a prescribed class of persons referred to in such provisions, and where the transferee or a child of the policyholder or transferee is the person whose life is insured under the policy, the interest is deemed to have been disposed of by the policyholder for proceeds of disposition equal to the adjusted cost basis to the policyholder of the interest immediately before the transfer, and the transferee is deemed to have acquired the interest at a cost equal to those proceeds."

(2) This section has effect from 29 October 1985.

**179.** (1) Section 976 of the said Act is amended

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

"**976.** In this title, sections 92.9 to 92.20 and paragraph *c.1* of section 312, the adjusted cost basis to the holder of a life insurance policy of his interest in the policy at a particular time means the amount by which the amount computed under section 976.1, exceeds the aggregate of:";

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

“(d) the amounts repaid, except any repayment deductible under paragraph *k* of section 157 as it read before its repeal or under paragraph *i* of subsection 1 of section 336, after 31 March 1978 and before that particular time of a policy loan in respect of the policy, not exceeding the aggregate of the proceeds from the disposition of an interest in the policy in respect of that loan, and the amount payable on 31 March 1978 in respect of a policy loan in respect of the policy;”.

(2) Paragraph 1 of subsection 1 has effect from 29 October 1985.

(3) Paragraph 2 of subsection 1 applies from the taxation year 1982.

**180.** (1) Section 977 of the said Act is amended by replacing what precedes paragraph *a* by the following:

“**977.** In computing the adjusted cost basis of a policy to a policyholder, where all or any part of the reserves of an insurer in respect of the life insurance policy vary with the fair market value of the property of a segregated fund, the following rules apply:”.

(2) This section has effect from 29 October 1985.

**181.** (1) Section 977.1 of the said Act is amended by replacing, in the French text, the first paragraph by the following paragraph:

“**977.1** Aux fins du calcul du revenu d'un contribuable provenant de l'aliénation d'une partie de son intérêt dans un contrat de rente ou dans une police d'assurance sur la vie qui n'est pas un tel contrat et qui a été acquise pour la dernière fois après le 1<sup>er</sup> décembre 1982, le coût de base rajusté pour lui de cette partie, immédiatement avant l'aliénation, s'obtient en multipliant le coût de base rajusté pour lui de son intérêt, immédiatement avant l'aliénation, par le rapport entre le produit de l'aliénation de cette partie et le fonds accumulé à l'égard de son intérêt, déterminé en la manière prescrite, immédiatement avant l'aliénation.”

(2) This section has effect from 29 October 1985.

**182.** (1) Section 997 of the said Act, amended by section 169 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing what precedes paragraph *a* by the following:

“**997.** Where the main object of a club, society or association contemplated in section 996 is to provide dining, recreational or sporting

facilities for its members, an *inter vivos* trust is deemed, after 31 December 1971, to have been created and the following rules apply:".

(2) This section has effect from 29 October 1985.

**183.** (1) Section 999.1 of the said Act is amended by replacing paragraph *b* by the following paragraph:

"(b) the corporation is deemed, immediately before that time, to dispose, for an amount equal to its fair market value at that time, of any property, other than Canadian or foreign resource property, that was owned by it immediately before that time and to reacquire it immediately thereafter at a cost equal to that market value;".

(2) This section applies in respect of taxation years beginning after 31 December 1984.

**184.** (1) Section 1003 of the said Act is replaced by the following section:

"**1003.** Where a taxpayer who is the owner of a business or a partner died after the close of a fiscal period of the business or partnership but before the end of the calendar year in which the fiscal period closed, his income as owner of the business or partner for the period commencing immediately after the end of the fiscal period and ending at the time of death shall be included in computing the taxpayer's income for the taxation year in which he died unless his legal representative has elected otherwise, in which case the legal representative shall file a separate fiscal return for the period under this Part and pay the tax for the period under this Part as if

(a) the taxpayer were another person;

(b) the period were a taxation year;

(c) that other person's only income for the period were his income as owner of the business or partner for that period; and

(d) subject to section 693.1, that other person were entitled to the deductions to which the taxpayer was entitled under sections 695 to 725.1 for the period in computing his taxable income for the period."

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

**185.** (1) Section 1004 of the said Act is amended by adding the following paragraph:



“The requirement provided in the first paragraph does not apply to an individual, other than a trust, who is required to file a return under this title where, with the permission of the Minister, he files a calculation-free return in prescribed form containing the prescribed information.”

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

**186.** (1) Section 1006 of the said Act is amended by replacing the first paragraph by the following paragraph:

“**1006.** Where the Minister determines the amount of a taxpayer’s non-capital loss, net capital loss, restricted farm loss or farm loss for a taxation year and the taxpayer did not report that amount as such loss in his fiscal return for that year in accordance with section 1000, he shall, at the request of the taxpayer, determine, with all due dispatch, the amount of such loss, and shall send a notice of determination to the person by whom the return was filed.”

(2) This section has effect from 29 October 1985.

**187.** (1) Section 1015 of the said Act is amended

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

“(d) a death benefit,”;

(2) by inserting, after paragraph *p*, the following paragraph:

“(q) an amount described in paragraph *e* of section 1093,”.

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

(3) Paragraph 2 of subsection 1 has effect from 29 October 1985.

**188.** (1) Section 1027 of the said Act, amended by section 178 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing subparagraph ii of subparagraph *a* of the first paragraph by the following subparagraph:

“ii. on or before the last day of each of the first two months of the current taxation year, an amount equal to  $\frac{1}{12}$  of its second basic provisional account, established in the prescribed manner, for the year and, on or before the last day of each of the following months of the year, an amount equal to  $\frac{1}{10}$  of the excess of its first basic provisional account contemplated in subparagraph i over the amount computed in respect of the first two months of the year; and”.

(2) This section applies from the taxation year 1986.

**189.** (1) Section 1028 of the said Act, replaced by section 179 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again replaced by the following section:

**“1028.** Where a corporation has held forth the prospect that it will make the allocations contemplated in sections 786 to 796 to its customers of a taxation year or where it is a savings and credit union and its taxable income for the year or for the preceding taxation year is not more than \$10 000, it may, at the end of the period mentioned in subparagraph *b* of the first paragraph of section 1027 and instead of making the payments provided for in the said section, pay to the Minister the whole of its tax as estimated for the year under section 1004.”

(2) This section applies from the taxation year 1986.

**190.** (1) Section 1030 of the said Act is amended by replacing subsection 3 by the following subsection:

**“(3)** Where the Minister sends to a person required under sections 1000 to 1003 to file the fiscal return of a taxpayer for a taxation year a notice of assessment of the taxes, interest and penalties exigible for the year from the taxpayer or in respect of him, the person shall, within thirty days of the date of mailing of the notice of assessment, pay to the Minister the unpaid balance of those exigible taxes, interest and penalties to the extent that he has or had at any time since the end of the taxation year, in his possession or control, property belonging to the taxpayer or his estate and he is deemed upon payment of that balance to have made that payment on behalf of the taxpayer.”

(2) This section applies in respect of notices of assessment sent after 29 October 1985.

**191.** (1) Section 1038 of the said Act, amended by section 182 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing the first paragraph by the following paragraph:

**“1038.** In addition to the interest payable under section 1037, the taxpayer liable to make a payment under sections 1025 to 1029 shall pay interest, on every payment or part of a payment which he has not made on or before the date of expiry of the time granted for making it, at the rate fixed in section 28 of the Act respecting the Ministère du Revenu (R.S.Q., chapter M-31), for the period extending from that date to the day of payment or to the day when he becomes liable to pay interest under section 1037, whichever is earlier.”

(2) This section has effect from 29 October 1985.

**192.** (1) Section 1044 of the said Act is amended by replacing subparagraphs *a* to *c* of the second paragraph by the following subparagraphs:

“(a) the day on which the taxpayer files with the Minister an amended fiscal return or a prescribed form in accordance with section 297 or 1012 so as to exclude from his income or deduct the amount for the particular taxation year;

“(b) where, as a consequence of a request in writing, the Minister reassessed the taxpayer’s tax for the year so as to exclude from his income or deduct the amount for the particular taxation year the day on which the request was made;

“(c) the day immediately following the end of the subsequent taxation year relating to the amount excluded from the taxpayer’s income or deducted for the particular taxation year;

“(d) the day on which the taxpayer files his fiscal return under this Part for the subsequent taxation year referred to in subparagraph *c*.”

(2) This section applies with respect to subsequent taxation years referred to in section 1044 of the Taxation Act, amended by this section, and ending after 31 December 1984.

**193.** (1) Section 1052 of the said Act is amended by replacing paragraphs *c* and *d* by the following paragraphs:

“(c) where the taxpayer is an individual, the sixty-first day following the day on or before which the fiscal return giving rise to the overpayment was required to be filed under sections 1000 to 1003 or should have been filed if the taxpayer had had any tax to pay under this Part for the taxation year relating to the return or where the taxpayer is a corporation, the one hundred and twentieth day following the end of the taxation year giving rise to the overpayment;

“(d) the sixty-first day following the day on which the taxpayer filed, under sections 1000 to 1003, his fiscal return giving rise to the overpayment, unless the return was filed on or before the day on or before which it was required to be filed or should have been filed if the taxpayer had had any tax to pay under this Part for the taxation year relating to the return.”

(2) This section applies with respect to overpayments refunded to a taxpayer or applied to another of his liabilities after 31 December

1984, other than overpayments by a taxpayer relating to his taxes for a taxation year prior to the taxation year 1985.

**194.** (1) Section 1053 of the said Act is amended by replacing paragraphs *a* to *c* by the following paragraphs:

“(a) the sixty-first day following the day on which the taxpayer files with the Minister an amended fiscal return or a prescribed form in accordance with section 297 or 1012 so as to exclude from his income or deduct the amount for the taxation year;

“(b) where, as a consequence of a request in writing, the Minister reassessed the taxpayer’s tax for the year so as to exclude from his income or deduct the amount for the taxation year, the sixty-first day following the day on which the request was made;

“(c) the sixty-first day following the day immediately following the end of the subsequent taxation year relating to the amount excluded from the taxpayer’s income or deducted for the taxation year;

“(d) the sixty-first day following the day on which the taxpayer files his fiscal return under this Part for the subsequent taxation year referred to in subparagraph *c*.”

(2) This section applies with respect to subsequent taxation years referred to in section 1053 of the Taxation Act, amended by this section, and ending after 31 December 1984.

**195.** (1) Section 1074 of the said Act is replaced by the following section:

“**1074.** Such appeal may, on the application of the taxpayer, be heard *in camera* if the taxpayer establishes to the satisfaction of the Court that the circumstances of the case justify *in camera* proceedings.”

(2) This section has effect from 29 October 1985.

**196.** (1) Section 1089 of the said Act is amended

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

“(d) the portion that is reasonably attributable to the disposition of a Québec resource property within the meaning of the regulations or to expenses incurred in Québec of the amount by which the amount required by paragraph *e* of section 330 to be included in computing his income for the year exceeds any portion of that amount that was

included in computing his income from a business carried on by him in Canada;”;

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

“(j) where, in the year, he carried on a business in Canada described in paragraphs *a* to *g* of section 363, the amounts in respect of any Québec resource property within the meaning of paragraph *d* that the individual would be required to include in computing his income for the year under Part I if he were resident in Québec, to the extent that such amounts are not already included in computing his income under paragraph *b* or *d*;”.

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

**197.** (1) Section 1090 of the said Act is amended by replacing paragraph *j* by the following paragraph:

“(j) where, in the year, he has carried on a business in Canada described in paragraphs *a* to *g* of section 363, the amounts in respect of any Canadian resource property that he would be required to include in computing his income for the year under Part I if he were resident in Canada at any time in the year to the extent that such amounts are not already included in computing his income under paragraph *b* or *d*;”.

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

**198.** (1) Section 1091 of the said Act is amended by replacing paragraph *a* by the following paragraph:

“(a) the deductions permitted by sections 710 to 712, 723, 725 and 725.1;”.

(2) This section applies from the taxation year 1982.

**199.** (1) Section 1094 of the said Act is amended by replacing paragraph *e* by the following paragraph:

“(e) an interest in a partnership if, at a particular time during the twelve months preceding the disposition of that interest, the fair market value of the partnership property which then was a Canadian resource property, a timber resource property, an interest in the income of a trust resident in Canada or any other property referred to in this section, was not less than 50 % of the aggregate of the fair market value, at

that time, of all the property of the partnership and any amount of money that the partnership had on hand at that time;”.

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

**200.** (1) Section 1096 of the said Act is amended by replacing paragraph *a* by the following paragraph:

“(a) a taxable Québec property or a taxable Canadian property does not include a share of the capital stock of a non-resident owned investment corporation if, on the first day of the taxation year of the corporation in which the disposition of the share was made, such corporation did not own any property that was a Canadian resource property, a timber resource property or an interest in the income of a trust resident in Canada or of any property referred to in one or other of the said sections, as the case may be; and”.

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

**201.** (1) Sections 1096.1 and 1096.2 of the said Act are replaced by the following sections:

**“1096.1** Where, in a taxation year, a person not resident in Canada ceases at any particular time to carry on a business described in paragraphs *a* to *g* of section 363 that was carried on by him immediately before such cessation in one or more fixed places of business in Canada and where he does not commence after that time and during the same year to carry on such a business at a fixed place of business in Canada or where he disposes of Canadian resource property at any time in the year during which he was not carrying on such business at a fixed place of business in Canada, his taxation year is deemed to end at the particular time and a new taxation year is deemed to commence immediately thereafter.

**“1096.2** For the purposes of computing the income earned in Québec or the income earned in Canada by a person contemplated in section 1096.1 for the taxation year that is deemed, under section 1096.1, to end at the particular time contemplated therein or to commence immediately thereafter, such person or any partnership, other than a prescribed partnership, of which he is a member immediately after the particular time, is deemed, in the first case, to have disposed immediately before that time of each Canadian resource property that was owned by the person or partnership immediately after that time and to have received proceeds of disposition therefor, immediately before that time,

equal to its fair market value at that time and, in the second case, to have reacquired, immediately after the particular time, each of such properties at a cost equal to the proceeds of disposition that the person or partnership is deemed to have received therefor.”

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

**202.** (1) Section 1102 of the said Act, amended by section 197 of chapter (*insert here the chapter number of Bill 2*) of the statutes of 1986, is again amended by replacing what precedes paragraph *a* of the first paragraph by the following:

“**1102.** Where a person who is not resident in Canada disposes or proposes to dispose of a life insurance policy described in paragraph *k* of section 1089, a Québec resource property within the meaning of paragraph *d* of section 1089 or a property which is or would be, if he disposed of it, a taxable Québec property that is depreciable property or that is referred to in section 1097, to any person with whom he is not dealing at arm’s length, for no consideration or for consideration less than its fair market value at the time of the disposition or proposed disposition, or to any person by way of gift *inter vivos*, the following rules apply:”.

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

**203.** (1) Section 1102.1 of the said Act is replaced by the following section:

“**1102.1** Where a person who is not resident in Canada disposes or proposes to dispose to a taxpayer, in a taxation year, of a life insurance policy described in paragraph *k* of section 1089, a Québec resource property within the meaning of paragraph *d* of section 1089 or depreciable property that is or would be, if he disposed of it, a taxable Québec property and where to such effect, he pays to the Minister, on account of his tax payable for the year, an amount that the Minister considers reasonable taking into account the disposition or proposed disposition of such property or furnishes security acceptable to the Minister in respect of the disposition or proposed disposition, the Minister shall forthwith issue to that person and to the taxpayer a certificate in prescribed form indicating the amount of the proceeds of the disposition or proposed disposition of the property or such other amount as is reasonable in the circumstances.”

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

**204.** (1) Section 1113 of the said Act is amended by replacing subsection 2 by the following subsection:

“(2) The election contemplated in subsection 1 shall be valid only if made, in prescribed manner and form, for the total amount of the dividend.”

(2) This section applies in respect of dividends paid after 31 December 1984.

**205.** (1) Section 1125 of the said Act is replaced by the following section:

“**1125.** Except for the purposes of sections 544 and 566 to 568, a non-resident owned investment corporation which would, but for this section, be a Canadian corporation, a taxable Canadian corporation or a private corporation, is nevertheless deemed not to be such a corporation.”

(2) This section has effect from 1 January 1985.

**206.** (1) Section 1138 of the said Act, amended by section 202 of chapter *(insert here the chapter number of Bill 2)* of the statutes of 1986, is again amended by replacing the first paragraph of subsection 1 by the following paragraph:

“**1138.** (1) The paid-up capital of a corporation computed after the application of sections 1136 and 1137 shall be reduced in the proportion that the aggregate of the value of its investments in shares and bonds of other corporations, the amounts of the loans and advances to other corporations and the amounts of the loans and advances to a partnership or joint venture, to the extent that the amounts of the latter loans or advances are included in computing the paid-up capital of a corporation that has an interest in the partnership or joint venture is to the total of its assets.”

(2) This section applies from the taxation year 1984.

**207.** (1) Sections 42 and 60 of the Act respecting the application of the Taxation Act (R.S.Q., chapter I-4) are repealed.

(2) This section has effect from 29 October 1985.



**208.** (1) Section 68 of the said Act is amended by replacing subparagraph *c* of the first paragraph by the following subparagraph:

“(c) the amount by which the aggregate of the proceeds of disposition, determined without taking account of sections 93.1 to 93.3 of the Taxation Act, of capital property and of the amounts required to be deducted by section 257 of the said Act in computing the adjusted cost base to the taxpayer immediately before the disposition and of the amounts described in paragraph *e* of section 70 and relevant to such computation at that time, exceeds the aggregate of the amounts required to be included by section 255 of the said Act, without taking account of its paragraphs *c.1* and *f.1*, in such computation at the same time and of the amounts described in paragraph *b* of section 70 and relevant to that computation at the same time.”

(2) This section applies in respect of dispositions occurring after 12 November 1981, except dispositions made in accordance with a written agreement made on or before that date.

**209.** (1) Section 73 of the said Act is amended by replacing paragraph *d* by the following paragraph:

“(d) for the purpose of distinguishing any such capital property from an otherwise identical property acquired and disposed of by the taxpayer before 1 January 1972, he is deemed to have disposed of the properties he acquired at a particular time before acquiring another property after that time; likewise, for the purpose of distinguishing it from an otherwise identical property, except an indexed security, acquired by the taxpayer after 31 December 1971, he is deemed to have first disposed of properties owned by him on 31 December 1971 before acquiring it.”

(2) This section has effect from 1 October 1983.

**210.** (1) Sections 91 and 103 of the said Act are repealed.

(2) This section has effect from 29 October 1985.

**211.** Section 93.17 of the Act respecting the Ministère du Revenu (R.S.Q., chapter M-31) is replaced by the following section:

“**93.17** A summary appeal may, on the application of the individual, be heard *in camera* if he establishes to the satisfaction of the Court that the circumstances of the case justify *in camera* proceedings.”

**212.** (1) Sections 56, 57 and 93 of the Act respecting the application of the Taxation Act (1972, chapter 24) are repealed.

(2) This section has effect from 29 October 1985.

**213.** (1) Section 93*a* of the said Act, enacted by section 281 of chapter 22 of the statutes of 1975, is repealed.

(2) This section has effect from 29 October 1985.

**214.** (1) Section 94 of the said Act, amended by section 44 of chapter 18 of the statutes of 1973, is repealed.

(2) This section has effect from 29 October 1985.

**215.** (1) Sections 101 to 103 of the said Act are repealed.

(2) This section has effect from 29 October 1985.

**216.** (1) Sections 103*c* and 103*d* of the said Act, enacted by section 283 of chapter 22 of the statutes of 1975, are repealed.

(2) This section has effect from 29 October 1985.

**217.** (1) Sections 104 and 107 of the said Act are repealed.

(2) This section has effect from 29 October 1985.

**218.** (1) Section 107*a* of the said Act, enacted by section 157 of chapter 17 of the statutes of 1973, is repealed.

(2) This section has effect from 29 October 1985.

**219.** (1) Section 108 of the said Act, amended by section 158 of chapter 17 of the statutes of 1973, is repealed.

(2) This section has effect from 29 October 1985.

**220.** (1) Sections 109 and 110 of the said Act are repealed.

(2) This section has effect from 29 October 1985.

**221.** (1) Section 111 of the said Act, amended by section 285 of chapter 22 of the statutes of 1975, is repealed.

(2) This section has effect from 29 October 1985.

**222.** (1) Section 112 of the said Act is repealed.

(2) This section has effect from 29 October 1985.

**223.** (1) Section 113 of the said Act, amended by section 101 of chapter 26 of the statutes of 1972, is repealed.

(2) This section has effect from 29 October 1985.

**224.** (1) Section 114 of the said Act, amended by section 102 of chapter 26 of the statutes of 1972 and replaced by section 159 of chapter 17 of the statutes of 1973, is repealed.

(2) This section has effect from 29 October 1985.

**225.** (1) Sections 115, 116 and 119 to 121 of the said Act are repealed.

(2) This section has effect from 29 October 1985.

**226.** (1) Section 122 of the said Act, amended by section 103 of chapter 26 of the statutes of 1972, is repealed.

(2) This section has effect from 29 October 1985.

**227.** (1) Section 123 of the said Act is repealed.

(2) This section has effect from 29 October 1985.

**228.** (1) Section 124 of the said Act, amended by section 160 of chapter 17 of the statutes of 1973, is repealed.

(2) This section has effect from 29 October 1985.

**229.** (1) Sections 125 and 129 of the said Act are repealed.

(2) This section has effect from 29 October 1985.

**230.** (1) Section 130 of the said Act is replaced by the following section:

“**130.** For the purpose of section 135 a corporation is a designated personal corporation if its taxation year overlaps the commencement of the year 1972 and if it has retained the status of a personal corporation within the meaning of section 97 of the former Provincial Income Tax

Act throughout the period commencing on 18 June 1971 or at the beginning of its 1972 taxation year, if it is prior to that date, and ending at the end of its 1972 taxation year.”

(2) This section has effect from 29 October 1985.

**231.** (1) Sections 131 to 134 and 136 to 138 of the said Act are repealed.

(2) This section has effect from 29 October 1985.

**232.** (1) Section 139 of the said Act, amended by section 105 of chapter 26 of the statutes of 1972, is repealed.

(2) This section has effect from 29 October 1985.

**233.** (1) Section 140 of the said Act, amended by section 106 of chapter 26 of the statutes of 1972, is repealed.

(2) This section has effect from 29 October 1985.

**234.** (1) Section 140*a* of the said Act, enacted by section 107 of chapter 26 of the statutes of 1972, is replaced by the following section:

“**140*a*.** For the purposes of the application of the Taxation Act and this Act, the amounts of the total depreciation, of the undepreciated capital cost and the capital cost of a property of a prescribed class, on the first day of the 1972 taxation year of a corporation constituted, administered and conducted on a cooperative basis under paragraph 3 of section 40 of the former Corporation Tax Act are deemed to be respectively equal to what they would have been on that day in respect of that property if the corporation had always been subject to the former Corporation Tax Act.”

(2) This section has effect from 29 October 1985.

**235.** (1) Sections 149 to 152 of the said Act are repealed.

(2) This section has effect from 29 October 1985.

**236.** (1) Section 154 of the said Act, amended by section 162 of chapter 17 of the statutes of 1973, is repealed.

(2) This section has effect from 29 October 1985.

**237.** (1) Section 154*b* of the said Act, enacted by section 163 of chapter 17 of the statutes of 1973, is repealed.

(2) This section has effect from 29 October 1985.

**238.** This Act comes into force on *(insert here the date of assent to this Act)*.