

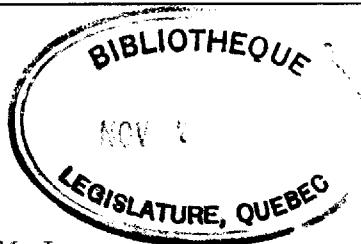
THIRD SESSION
THIRTY-FIRST LEGISLATURE

ASSEMBLÉE NATIONALE DU QUÉBEC

Bill 65

**An Act to amend the Taxation Act and
certain fiscal legislation**

First reading
Second reading
Third reading



M. JACQUES PARIZEAU

Ministre du revenu

L'ÉDITEUR OFFICIEL DU QUÉBEC

1 9 7 8

EXPLANATORY NOTES

This bill gives effect to the policy statement made by the Ministre des finances on 21 December 1977, and it includes most of the amendments proposed to the federal income tax law by Bill C-11, assented to on 15 December 1977, as well as certain measures respecting charities contained in Bill C-22, assented to on 24 February 1977.

This bill also gives effect to the Budget Speech of 18 April 1978, making provision wherever required for the readjustment of personal exemptions, the simplification of income tax computation, the revision of the taxation rate tables and the introduction of stricter rules regarding certain expenses, automobile expenses particularly.

Finally, this bill contains several provisions designed to make certain rules more precise, to stop up loop-holes and to facilitate application of the Taxation Act. It also contains a number of concordance provisions affecting the Act to authorize payment of allowances to certain self-employed workers.

Bill 65

An Act to amend the Taxation Act and certain fiscal legislation

1. (1) Section 1 of the Taxation Act (1972, chapter 23), amended by section 31 of chapter 26 of the statutes of 1972, section 1 of chapters 17 and 18 of the statutes of 1973, section 1 of chapters 21 and 22 of the statutes of 1975 and by section 1 of chapter 26 of the statutes of 1977, is again amended:

(a) by inserting, after the definition of the expression “foreign resource property”, the following definition:

“ “former business property” of a taxpayer means a capital property that was used by him primarily for the purpose of gaining or producing income from a business, and that was real property of the taxpayer or an interest therein, but does not include:

(a) a real property owned by the taxpayer whether jointly with another person or otherwise, if the property is used by the taxpayer in the taxation year to which the expression “former business property” is being applied principally for the purpose of gaining or producing gross revenue that is rent other than a property leased by the taxpayer to a lessee, in the ordinary course of the taxpayer’s business of selling goods or rendering services under a contract by which the lessee undertakes to use the property to carry on the business of selling or promoting the sale of the taxpayer’s goods or services,

(b) land subjacent to a property referred to in paragraph *a*,

(c) land contiguous to land referred to in paragraph *b* that is a parking area, driveway, yard or garden or that is otherwise necessary for the use of the property referred to in paragraph *a*,
or

(d) a leasehold interest in any property described in paragraphs *a*, *b* and *c*;”;

(b) by striking out the definition of the expression “paid-up capital deficiency”;

(c) by inserting after the definition of the expression “capital property”, the following definition:

““charity” means a charitable organization or charitable foundation, within the meaning of section 717a;”;

(c¹) by inserting after the definition of “public corporation” the following definition:

““registered charity” means a charitable organization or a charitable foundation, within the meaning of section 717a, registered with the Minister or deemed registered in accordance with section 717e;”;

(d) by inserting, at the end of paragraph *a* of the definition of the expression “gross revenue”, the word “and” and by replacing paragraphs *b* and *c* of that definition by the following paragraph:

“(b) all amounts, other than amounts referred to in paragraph *a*, included in computing the taxpayer’s income from a business or property for the year by virtue of section 81*b* or 81*e*;”;

(e) by striking out the definitions of the following expressions: “1971 undistributed income on hand”, “1971 capital surplus on hand”, “designated surplus” and “tax-paid undistributed surplus on hand”.

(2) Paragraphs *a* and *b* of subsection 1 apply after 31 March 1977.

(3) Paragraph *c* of subsection 1 applies to the taxation year 1977 and subsequent taxation years.

(4) Paragraph *d* of subsection 1 applies in respect of a taxation year ending after 25 May 1976.

(5) Paragraph *e* of subsection 1 applies after 1978 except to the extent that it refers to the striking out of the definition of the expression “designated surplus”, which applies after 31 March 1977.

2. (1) The said act is amended by inserting after section 1, the following section:

“**1*a*.** In this Part, an interest in real property includes a leasehold interest in such property but does not include an interest as security only derived by virtue of a mortgage, hypothec, agreement for sale or other similar obligation.”

(2) This section applies after 31 March 1977.

3. (1) The said act is amended by inserting, after section 16, the following chapter and sections:

“CHAPTER IV

“CONTROL OF A CORPORATION

“**16a.** This chapter applies in respect of the control of a corporation for the purposes of sections 351, 439*e* to 439*g* and 554.

“**16b.** Where there has been an amalgamation, within the meaning of section 422, of several corporations after 31 March 1977, and a person or a group of related persons controlling the new corporation immediately after the amalgamation did not control a particular predecessor corporation immediately before the amalgamation, that person or group of related persons is deemed to have acquired control of the particular predecessor corporation immediately before the amalgamation.

“**16c.** Where shares of a corporation are acquired by a person after 31 March 1977, that person is deemed not to have acquired control of that corporation by virtue of that share acquisition if that person was, immediately before that acquisition, related to the corporation, if he acquires the shares by way of a distribution of the property from the estate of a person with whom he was related or if he is testamentary executor, trustee or administrator of an estate who acquires the shares by virtue of the death of another person.”

(2) This section applies with respect to a taxation year ending after 31 March 1977.

4. (1) The said act is amended by inserting, after section 31, the following section:

“**31a.** An individual referred to in section 385*d* who is an employee or an individual related to an employee must include, in computing his income for the year from his office or employment, every amount deemed, under section 385*c*, to be a benefit received by him during that year.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

5. (1) Section 33 of the said act is amended by replacing paragraph *f* by the following paragraph:

“(f) allowances he receives from a government, municipality or other public authority as a volunteer fireman, to a maximum aggregate amount of \$600, for expenses incurred by him in respect of such duties, in such capacity; and”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

6. (1) Section 35 of the said act, amended by section 8 of chapter 17 of the statutes of 1973, is again amended by replacing the last three paragraphs by the following paragraphs:

“The value of such right of use must not be less than two per cent of the capital cost of such automobile for each thirty day period during which the automobile was made available to the employee while remaining the property of the employer; for such purpose, sixteen days or more shall count as such a period.

Where the automobile is leased, the value of such right of use must not be less than two-thirds of the excess of the cost payable for such purpose to the lessor by the employer over that part of such cost reasonably attributable to the cost of insurance against loss, damage or liability in respect of such automobile for the number of days during which the automobile is made available to the employee.

Where the taxpayer is principally employed in selling automobiles, he may elect that the second paragraph apply to him as if the words “two per cent” were replaced by the words “one and one-half per cent”; in such case, the capital cost of the automobile concerned to the employer is the quotient of the division of the cost for him of all new automobiles acquired by him in the year for resale in the course of the operation of his business by the number of such automobiles.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

7. (1) Section 58 of the said act is replaced by the following section:

“**58.** An individual entitled to a deduction under section 56 or 57 may also deduct any interest he paid in the year on a loan made to purchase an automobile used only in the performance of his duties.

He may also deduct such part of the capital cost of an automobile used by him in the performance of his duties as regulations allow.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

8. (1) The said act is amended by inserting, after section 58, the following section:

“**58a.** Notwithstanding section 56, 57 or 58, an individual who uses an automobile partly to gain an income from an office or employment and partly for his personal use shall not, in computing a deduction allowed by the said sections, deduct any amount disbursed by him during the year in respect of that automobile as

(a) registration and insurance fees that he would be required to pay if he used the automobile solely for his personal use;

(b) fees for obtaining a driver's licence; or

(c) parking or garage expenses for the automobile at his ordinary place of residence or at the place of business of his employer at which he habitually works or to which he is ordinarily attached.

Furthermore, maintenance, repair and fuel expenses relating to the personal use of that automobile are deemed, in that computation, not to be less than \$75 for each month during which the automobile is so used in the year."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

9. (1) Section 62 of the said act is amended by striking out the word "or" at the end of paragraph *b*, by replacing the period at the end of paragraph *c* by a semicolon, and by inserting, after paragraph *c*, the following paragraphs:

"(d) annual dues to a parity committee where such payment is required by virtue of the Collective Agreement Decrees Act (Revised Statutes, 1964, chapter 143); or

"(e) annual dues to the Office de la construction du Québec in accordance with the Construction Industry Labour Relations Act (1968, chapter 45)."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

10. (1) Section 63 of the said act, amended by section 40 of chapter 26 of the statutes of 1972, is replaced by the following section:

"63. Notwithstanding paragraphs *a*, *b* and *e* of section 62, the annual dues contemplated therein are not allowable to the extent that they are in fact collected under a retirement, annuities or insurance plan or one for similar benefits or for any other purpose not directly connected with the ordinary operations of the association or body to which they are paid."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

11. (1) Section 81 of the said act, amended by section 3 of chapter 18 of the statutes of 1973, section 7 of chapter 22 of the statutes of 1975 and by section 6 of chapter 26 of the statutes of 1977, is again amended by striking out the word "and" at the end of paragraph *n*, by replacing the period at the end of paragraph *o*

by the following:“; and”, and by inserting, after paragraph *o*, the following paragraph:

“(p) any prescribed amount deducted by him for the year as employment tax credit.”

(2) This section has effect from 2 February 1978.

12. (1) Section 81*b* of the said act, replaced by section 7 of chapter 26 of the statutes of 1977, is again replaced by the following section:

“**81*b*.** 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 81*c*, as a royalty 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 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 1971, or to the production in Canada of petroleum, natural gas or other related hydrocarbons, or metal or minerals to any stage that is not beyond the prime metal stage or its equivalent, from an oil or gas well or mineral resource situated in Canada from which the taxpayer then had the right to take or remove such substance.”

(2) This section applies in respect of any amount that becomes receivable either after 6 May 1974, in relation to the period after that date, in the case of an oil business, or after 31 March 1975, in relation to the period after that date, in the case of a mining business.

13. (1) Section 81*c* of the said act, enacted by section 8 of chapter 22 of the statutes of 1975, is replaced by the following section:

“**81*c*.** Section 81*b* applies where the amount mentioned therein becomes receivable by Her Majesty in right of Canada or a province, an agent of Her Majesty, or a corporation, commission or association controlled, directly or indirectly, in any manner whatever, by Her Majesty or an agent of Her Majesty.”

(2) This section applies with respect to an amount that becomes receivable either after 6 May 1974, in relation to the period after that date, in the case of an oil business, or after 31 March 1975, in relation to the period after that date, in the case of a mining business.

14. (1) Section 81*d* of the said act, enacted by section 8 of chapter 22 of the statutes of 1975 and amended by section 8 of chapter 26 of the statutes of 1977, is replaced by the following section:

“81*d*. Section 81*b* does not apply to an amount to which section 132*a* applies or to a tax or portion thereof that may reasonably be considered to be a school or municipal tax, or to a prescribed amount.”

(2) This section applies with respect to an amount that becomes receivable either after 6 May 1974, in relation to the period after that date, in the case of an oil business, or after 31 March 1975, in relation to the period after that date, in the case of a mining business.

15. (1) Section 82 of the said act, amended by section 9 of chapter 22 of the statutes of 1975 and by section 9 of chapter 26 of the statutes of 1977, is again amended:

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

“82. In this division, in sections 119*a*, 131 and 137 and in the regulations made under paragraph *a* of section 119, the expression”;

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

“(b) “total depreciation” allowed to a taxpayer before any time for property of a prescribed class means the aggregate of the amounts allowed to the taxpayer in respect of property of that class under regulations made under paragraph *a* of section 119 or deemed to have been so allowed under section 119*a*, in computing his income for the taxation years ending before that time;”;

(*c*) by replacing subparagraphs iv and v of paragraph *d* by the following subparagraphs:

“iv. for each disposition by the taxpayer before that time of property of that class, other than a timber resource property, the lesser of the proceeds of disposition of the property, minus any expenses made or incurred by him for the purpose of making the disposition, and the capital cost to him of the property;

“ v. for each disposition by the taxpayer before that time of a timber resource property of that class, the proceeds of disposition of the property, minus any expenses made or incurred by him for the purpose of making the disposition, and”.

(2) Paragraphs *a* and *b* of subsection 1 apply to a taxation year commencing after 25 May 1976 and terminating after 31 March 1977.

(3) Paragraph *c* of subsection 1 applies to the computation of the undepreciated capital cost to a taxpayer of depreciable property of a prescribed class at any time after 31 March 1977.

16. (1) Section 85 of the said act, replaced by section 12 of chapter 26 of the statutes of 1977, is again replaced by the following section:

“85. Where a taxpayer is an individual and his income for a taxation year includes income from a business the fiscal period of which does not coincide with the calendar year, and the taxpayer has disposed of depreciable property acquired for the purpose of gaining or producing income from the business,

(*a*) the expression “taxation year” in sections 83 and 119*a* means “fiscal period” except so far as the said sections apply to a disposition by a taxpayer, after ceasing to operate a business, of depreciable property of a prescribed class he had acquired to gain income from the business and had subsequently used for no other purpose; and

(*b*) the expression “his income”, in section 83, means “his income from the business”.”

(2) This section applies to a taxation year commencing after 25 May 1976 and terminating after 31 March 1977.

17. (1) Section 86 of the said act, replaced by section 11 of chapter 22 of the statutes of 1975 and amended by section 13 of chapter 26 of the statutes of 1977, is again replaced by the following section:

“86. (1) Subsection 2 applies where an amount in respect of the disposition in a taxation year of depreciable property of a prescribed class of a taxpayer, in this section referred to as “former property”, would, but for this section, be the amount determined under subparagraph iv or v of paragraph *d* of section 82 in respect of the disposition of the former property that is either

(*a*) property the proceeds of disposition of which were a compensation or an amount described in subparagraph ii, iii or iv of paragraph *e* of the said section 82, or

(*b*) a property that was, immediately before the disposition, a former business property of the taxpayer.

(2) The taxpayer, in his fiscal return filed in accordance with section 732 for the taxation year in which he acquires, as a replacement for the former property, a replacement property, may elect that the following rules apply:

(a) the amount determined under subparagraph iv or v of paragraph *d* of section 82 in respect of the disposition of the former property shall be reduced by the lesser of the amount by which the amount otherwise determined under the said subparagraph iv or v, with respect to such disposition, exceeds the undepreciated capital cost to the taxpayer of property of the prescribed class to which the former property belonged at the time immediately before the time that the former property was disposed of, and the amount used by the taxpayer, in the case of a former property referred to in paragraph *a* of subsection 1, before the end of the second taxation year following the year referred to in the said subsection 1, or, in any other case, before the end of the first taxation year following the end of the year referred to in the said subsection 1, to acquire a replacement property that he has not disposed of before the time at which he disposed of the former property; and

(b) the amount of the reduction determined under paragraph *a* is deemed to be proceeds of disposition of a depreciable property of the taxpayer that had a capital cost equal to that amount and that was property of the same class as the replacement property, from a disposition made on the later of the time the replacement property was acquired by the taxpayer and the time the former property was disposed of by the taxpayer.

(3) For the purposes of this section, a replacement for a former property of a taxpayer is a depreciable property of a prescribed class of a taxpayer:

(a) that was acquired by the taxpayer for a use similar to the use to which he put the former property;

(b) where the former property was used by the taxpayer for the purpose of gaining or producing income from a business, that was acquired for the purpose of gaining or producing income from a similar business; and

(c) where the taxpayer was not resident in Canada at the time he acquired the property, that, in addition to the requirements prescribed in paragraphs *a* and *b*, is taxable Canadian property."

(2) This section applies in respect of any disposition of property made after 31 March 1977.

18. (1) The said act is amended by inserting, after section 87, the following section:

"87a. Where at any time in a taxation year, a taxpayer acquires a particular property in respect of which, immediately before that time, he had a leasehold interest that was included in

a prescribed class, for the purposes of this division, sections 119*a*, 131 and 137 and the regulations made under paragraph *a* of section 119, the following rules apply:

(*a*) the leasehold interest is deemed to have been disposed of by the taxpayer at that time for proceeds of disposition equal to the amount by which the capital cost of the leasehold interest, immediately before that time, exceeds the aggregate of all amounts claimed by the taxpayer in respect of the leasehold interest that were deductible under paragraph *a* of section 119 in computing his income for previous taxation years;

(*b*) the property is deemed to be depreciable property of a prescribed class of the taxpayer acquired by him at that time and the taxpayer shall add to the capital cost of that property an amount equal to the capital cost referred to in paragraph *a*; and

(*c*) the taxpayer shall add the aggregate referred to in paragraph *a* to the total depreciation allowed to the taxpayer before that time in respect of the class to which that property belongs."

(2) This section applies in respect of property acquired after 31 March 1977.

19. (1) Section 88 of the said act, amended by section 4 of chapter 18 of the statutes of 1974, is again amended by replacing the first paragraph by the following paragraph:

"**88.** Where, in calculating the amount of a deduction allowed under section 119*a* or regulations made under paragraph *a* of section 119, in respect of depreciable property of a prescribed class there has been added to the capital cost of property of that class the capital cost of property of another prescribed class, the added property is, for the purposes of this division, sections 119*a*, 131 and 137 and the said regulations, if the Minister so directs with reference to any taxation year for which he may make any assessment or reassessment, in accordance with section 740, deemed to have been, at all times before the commencement of that year, property of the class in which the capital cost was added and not of the other class."

(2) This section applies to a taxation year commencing after 25 May 1976 and terminating after 31 March 1977.

20. (1) Section 89 of the said act, amended by section 13 of chapter 22 of the statutes of 1975 and by section 14 of chapter 26 of the statutes of 1977, is again amended by replacing that part which precedes paragraph *a* by the following:

"**89.** For the purposes of this division, sections 119*a*, 131 and 137 and any regulations made under paragraph *a* of section 119, the following rules apply:".

(2) This section applies to a taxation year commencing after 25 May 1976 and terminating after 31 March 1977.

21. (1) The said act is amended by inserting, after section 90a, the following sections:

“90b. For the purposes of subparagraph iii of paragraph *d* of section 82, an insurer is deemed to have deducted for depreciation for property of a prescribed class under regulations made under paragraph *a* of section 119 in computing its income for taxation years before its 1977 taxation year, an amount equal to that prescribed by regulation.

“90c. For the purposes of subparagraph iii of paragraph *d* of section 82, a life insurer is deemed to have deducted for depreciation for property of a prescribed class under the regulations made under paragraph *a* of section 119, in computing its income for taxation years before its taxation year 1978, an amount equal to the amount provided for by regulation.

(2) This section applies to the taxation year 1977 and subsequent taxation years except to the extent that it enacts section 90c of the said act, in which case it applies to the taxation year 1978 and subsequent taxation years.

22. (1) Section 94 of the said act is replaced by the following section:

“94. Where, at the end of a taxation year, the aggregate determined under paragraph *b* of section 96 in respect of a business of a taxpayer exceeds the aggregate determined under paragraph *a* of the said section in respect of that business, the taxpayer must include the excess in computing his income from that business for the year.”

(2) This section applies in respect of a taxation year ending after 31 March 1977.

23. (1) Section 96 of the said act is replaced by the following section:

“96. The eligible intangible capital amount of a taxpayer in respect of a business at a particular time is the amount by which

(a) the aggregate of all amounts included by virtue of section 94 in computing the taxpayer's income from the business for a taxation year ending prior to that time and one-half of the aggregate of the intangible capital amounts, in respect of the business, payable or disbursed by the taxpayer before that time, exceeds

(b) the aggregate of

i. all amounts each of which is an amount in respect of any taxation year of the taxpayer ending before that time, equal to the amount deducted, under paragraph *b* of section 119, in computing the taxpayer's income for that year from the business, and

ii. the aggregate of all amounts each of which is equal to one-half of the amount by which an amount that, as a result of a transaction occurring after 1971, became payable to the taxpayer before that time in respect of a business carried on or formerly carried on by him where the consideration would constitute for him an intangible capital amount in respect of the business if that amount was payable by him, exceeds any expenses made or incurred by him for the purpose of receiving that amount."

(2) This section applies for the purposes of computing the eligible intangible capital amount of a taxpayer in respect of a business at any time after 31 March 1977.

24. (1) Section 97 of the said act is replaced by the following section:

"97. Where under this Part an amount is deemed the taxpayer's proceeds from disposition of property at a particular time, that amount is for the purposes of this division deemed to have become payable to him at that time."

(2) This section applies in respect of a taxation year ending after 31 March 1977.

25. (1) Section 98 of the said act, amended by section 6 of chapter 18 of the statutes of 1974, is repealed.

(2) This section applies in respect of a taxation year ending after 31 March 1977.

26. (1) The said act is amended by inserting, after section 99, the following section:

"99a. (1) Where in a taxation year, an amount has become payable to a taxpayer in respect of a disposition of an intangible capital property, in this section referred to as his "former property", and the taxpayer so elects, under this section, in his fiscal return filed in accordance with section 732, for the taxation year in which he acquires, as a replacement property for his former property, a replacement property, that part of such amount which would otherwise be included in the aggregate determined under subparagraph ii of paragraph *b* of section 96 in respect of a business as has been used by the taxpayer before the end of the first taxation year following the year during which he disposes of

the former property to acquire the replacement property, shall be included in that aggregate, for the purposes of computing the intangible capital amount of the taxpayer in respect of the business, only from the later of the time the replacement property was acquired by the taxpayer and the time the former property was disposed of by the taxpayer.

(2) For the purposes of this section, a replacement property for a former property of a taxpayer is an intangible capital property of the taxpayer

(a) acquired by the taxpayer for a use similar to that to which he put the former property;

(b) acquired by the taxpayer for the purpose of gaining or producing income from a business similar to the business in which the former property was used; and

(c) where the taxpayer was not resident in Canada at the time he acquired the property, in addition to the requirements provided under paragraphs *a* and *b*, that property was acquired for use by him in a business carried on by him in Canada.”

(2) This section applies in respect of dispositions of intangible capital property after 31 March 1977.

27. (1) Section 101 of the said act, amended by section 7 of chapter 18 of the statutes of 1974, is replaced by the following section:

“**101.** Section 100 does not apply if the amount or value mentioned therein is deemed to be a dividend under sections 398 to 404 and 405 or if it arises out of the reduction of capital of a corporation, the acquisition, the cancellation or the redemption by it of shares of its capital stock or the winding-up, discontinuance or reorganization of its business, a transaction to which sections 434 to 440c apply, the payment of a dividend or the conferring on all holders of common shares of the capital stock of the corporation of a right to buy additional common shares from that corporation.”

(2) This section applies after 31 March 1977.

28. (1) Sections 102 to 105 of the said act are replaced by the following sections:

“**102.** A shareholder of a corporation or a person that does not deal at arm’s length with that shareholder to whom a loan was granted in a taxation year by such corporation, by a corporation related to that corporation or by a partnership of which either of the corporations is a member shall include the amount of that loan in computing his income for the year.

“103. Section 102 does not apply if the powers of the lender include that of lending money, if the loan is granted in the ordinary course of its business and if *bona fide* arrangements are made at the time the loan is made for its repayment within a reasonable delay.

Section 102 also does not apply where the person to whom the loan is granted is also an employee of the lender, if such arrangements are made and if that loan is granted to that person to enable or assist him to purchase or erect a dwelling house for his own use, to purchase an automobile to be used by him in the performance of his duties, or, where the lender is a corporation, to purchase for his own benefit fully paid shares of the corporation sold to him by the latter.

“104. Section 102 does not apply if the loan is repaid within one year from the end of the taxation year of the lender during which it has been granted and if it is established that the repayment has not been made as part of a series of loans and repayments.

“105. Section 102 does not apply where the loan is granted to a corporation resident in Canada or to a person not resident in Canada by another such person or, in the case where the loan is granted to a person that does not deal at arm's length with a shareholder of a corporation, where such person is a foreign affiliate of such corporation or a foreign affiliate of a person that is resident in Canada and does not deal at arm's length with that corporation.”

(2) This section applies in respect of a loan granted after 31 March 1977.

29. (1) Section 107 of the said act is replaced by the following section:

“107. Sections 100 to 106 apply to the computing, for the purposes of this Part, of the income of a shareholder of a corporation or of a person that does not deal at arm's length with that shareholder, whether or not the corporation or the lender, as case may be, has resided or carried on business in Canada.”

(2) This section applies after 31 March 1977.

30. (1) The said act is amended by inserting, after section 108, the following section:

“108a. For the purposes of section 100, an individual referred to in section 385*d* who is either a shareholder of a corporation or an individual related to that shareholder is deemed to be a

shareholder of a corporation and the benefit that he is deemed, under section 385*c*, to receive during a taxation year is deemed to be received by him as a shareholder.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

31. (1) Section 110 of the said act is amended by replacing paragraphs *b* and *c* by the following paragraph:

“(b) in satisfaction of the rights of the taxpayer under a life annuity contract, as defined by regulation.”

(2) This section applies to an amount received after 31 March 1978.

32. (1) Section 115 of the said act is replaced by the following section:

“115. 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 at a reasonable rate having been included in computing the lender’s income, it is, for the purpose of computing such income, deemed to have received, on the last day of each taxation year during all or part of which the loan has been outstanding, interest on such loan, computed at the prescribed rate for the taxation year or part of the year during which the loan was outstanding.”

(2) This section applies to the computation of the interest deemed to have been received by a corporation after 1978.

33. (1) The said act is amended by inserting, after section 119, the following section:

“119*a*. Notwithstanding sections 117, 118 and 122, no taxpayer may deduct any amount in computing his income for a taxation year under paragraph *a* of section 119 in respect of his depreciable property of a prescribed class where, at the end of the year, the aggregate of the amounts determined under subparagraphs i and ii of paragraph *d* of section 82 exceeds the aggregate of the amounts determined under subparagraphs iii to vi of the said paragraph *d* in respect of his depreciable property of that class and, at that time, the taxpayer no longer owns any property of that class.

However, subject to the third paragraph, the taxpayer must deduct that excess amount in computing his income for the year and that excess amount is deemed to have been deducted under paragraph *a* of section 119 in computing his income for the year from a business or property.

Where that excess amount concerns a prescribed class and includes an automobile, the taxpayer must deduct, in computing his income for the year, an amount equal to what the excess amount would be if the capital cost of the automobile did not exceed the prescribed amount or, if the taxpayer is an individual who uses the automobile partly to gain income from a business or property and partly for his personal use and does not hold a permit for the transportation of passengers for remuneration, an amount equal to one-fifth of that deemed excess amount; in such cases, the excess amount referred to in the first paragraph is deemed to have been deducted under paragraph *a* of section 119 in computing his income for the year from a business or property."

(2) This section applies to a taxation year commencing after 25 May 1976 and terminating after 31 March 1977; however, to the extent that it enacts the third paragraph of section 119*a* of the Taxation Act, it applies to the taxation year 1978 and subsequent taxation years.

34. The said act is amended by inserting, after section 122, the following section:

"122*a*. An individual who uses an automobile partly to gain an income from a business or property and partly for his personal use shall not deduct any amount disbursed or paid by him in the year in respect of that automobile as

(*a*) registration and insurance fees that he would be required to pay if he used the automobile solely for his personal use;

(*b*) fees for obtaining a driver's licence; or

(*c*) parking or garage expenses for the automobile at his ordinary place of residence or at the place where he carries on his business.

Furthermore, maintenance, repairs and fuel expenses relating to the personal use of that automobile are deemed, for the purposes of section 117, not to be less than \$75 for each month during which the automobile is so used in the year."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

35. (1) Section 132*a* of the said act, enacted by section 17 of chapter 22 of the statutes of 1975, is replaced by the following section:

"132*a*. No taxpayer may deduct an amount paid or that becomes payable in the year which is of the nature of an amount contemplated in sections 81*b* to 81*d* and which would be included

in computing his income pursuant to such sections, but for the exception provided in the said section 81*d* in respect of an amount referred to in this section."

(2) This section applies in respect of an amount paid or which becomes payable either after 6 May 1974, in respect of the period after that date, in the case of an oil business, or after 31 March 1975, in respect of the period after that date, in the case of a mining business.

36. (1) Section 145 of the said act, amended by section 4 of chapter 21 of the statutes of 1975 and by section 16 of chapter 26 of the statutes of 1977, is again amended by striking out the word "and" at the end of paragraph *i*, by replacing the period at the end of paragraph *j* by a semicolon, and by inserting, after the said paragraph *j*, the following paragraph:

"(*k*) an amount repaid by the taxpayer during the year in respect of all or part of any policy loan, within the meaning of paragraph *h* of section 626, up to the amount by which that part of such a loan made after 31 March 1978 in respect of that policy which must, pursuant to section 700, be included in computing his income for the year or a previous year exceeds that part of such a loan, in respect of that policy, repaid by the taxpayer, that was deductible under this paragraph in computing his income for a previous year."

(2) This section applies to a taxation year ending after 31 March 1978.

37. (1) Section 149 of the said act is amended by replacing paragraphs *a* and *b* by the following paragraphs:

"(*a*) a loan used to acquire property the income from which would be exempt from tax, to acquire a life insurance policy within the meaning of paragraph *e* of section 626, other than a policy which is a registered retirement plan, a registered retirement savings plan, a deferred profit sharing plan or an income-averaging annuity contract, or which is issued under any such plan or contract, or to acquire, in the case of an individual, an automobile used by him partly to gain income from a business or property and partly for his personal use; or

(*b*) an amount payable for property referred to in paragraph *a* or for property representing an interest in a life insurance policy referred to in the said paragraph."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

38. (1) The said act is amended by inserting, after section 153, the following section:

“153a. Where a taxpayer who is a member of a partnership is obligated to pay an amount as interest or in full or partial payment of interest on a loan made by him before 1 April 1977 and used to acquire land owned by the partnership prior to such date or pursuant to an obligation entered into by him before 1 April 1977 to pay for the land, and where, in a taxation year of the taxpayer, the partnership disposes of all or part of the land, or the taxpayer disposes of all or part of his interest in the partnership to a person other than a person with whom the taxpayer does not deal at arm's length, the latter may, in computing his income for the year or any subsequent taxation year, deduct that part of such amount which may reasonably be attributed to that part of the land or interest in the partnership, as the case may be, that is so disposed of and that was not:

(a) deductible under section 152 in computing the income of the taxpayer for any previous year,

(b) deductible in computing the income of another taxpayer for any taxation year,

(c) included in computing the adjusted cost base to the taxpayer of any property, nor

(d) deductible, under this section, in computing the income of the taxpayer for a previous taxation year.”

(2) This section applies in respect of land owned by the partnership before 1 April 1977.

39. (1) Section 219 of the said act, replaced by section 35 of chapter 22 of the statutes of 1975, is amended by replacing the first paragraph by the following paragraph:

“219. A capital gain or a capital loss arises from the disposition of any property other than intangible capital property, timber resource property, property contemplated in section 301a or a life insurance policy within the meaning of paragraph *e* of section 626, except that part of a policy in respect of which a policyholder is deemed, by section 639k, to have an interest in a related segregated fund trust contemplated in section 639b or an annuity contract that is not a life annuity contract as defined by regulation.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

40. (1) Section 226a of the said act, enacted by section 23 of chapter 26 of the statutes of 1977, is amended by striking out the second paragraph.

(2) This section applies in respect of a transfer of property after 25 May 1976.

41. (1) The said act is amended by inserting, after section 232, the following division and sections:

“DIVISION IIA

“DEEMED CAPITAL PROPERTY

“232a. Subject to section 232c, where a Canadian security has been disposed of by a taxpayer in a taxation year, the taxpayer may elect, in his fiscal return for that year, that every Canadian security owned by him during that year and every Canadian security owned by him in a subsequent taxation year be deemed to be a capital property owned by him and that every disposition by the taxpayer of any such security be deemed to be a disposition by him of capital property.

“232b. For the purposes of this division, “Canadian security” means a security, other than a prescribed security, that is a share of the capital stock of a corporation resident in Canada or a bond, debenture, bill, note, hypothec, mortgage or other similar obligation issued by a person resident in Canada.

“232c. An election contemplated in section 232a does not apply to a disposition of a Canadian security by a taxpayer who, at the time the security is disposed of, is

- (a) a trader or dealer in securities;
- (b) a bank to which the Bank Act (Statutes of Canada) or the Quebec Savings Banks Act (Statutes of Canada) applies;
- (c) a corporation licensed or otherwise authorized by the statutes of Canada or a province to offer therein its services as trustee;
- (d) a savings and credit union;
- (e) a life insurance corporation;
- (f) a corporation whose principal business is the lending of money or the purchasing of sales contracts, accounts receivable, chattel mortgages, bills of exchange or other obligations representing part or all of the sale price of merchandise or services, or any combination of any of these activities; or
- (g) a person not resident in Canada.”

(2) This section applies in respect of a disposition of property made during the taxation year 1977 or a subsequent taxation year.

42. (1) Section 233 of the said act, amended by section 41 of chapter 22 of the statutes of 1975, is replaced by the following section:

“233. Proceeds of disposition of property include, for the purposes of this title, the same elements as proceeds of disposition of property contemplated in paragraph *e* of section 82 and an amount deemed not to be a dividend under paragraph *b* of section 440c; it does not include an amount deemed to be a dividend under sections 399 and 400 and not deemed not to be a dividend under paragraph *b* of the said section 440c, nor a prescribed amount.”

(2) This section applies in respect of a disposition of property after 1978 to which section 399 or 400 or paragraph *b* of section 440c of the Taxation Act applies; however, where section 233 of the said act, as it read before being replaced by this section, applies in respect of a disposition of property after 31 March 1977 and before 1979, that section must be read while substituting, for the words “or, under section 404b if, in the latter case, it is a taxable dividend”, the words “nor a prescribed amount”.

43. (1) Section 237 of the said act, amended by section 23 of chapter 17 of the statutes of 1973, section 13 of chapter 18 of the statutes of 1974, section 42 of chapter 22 of the statutes of 1975 and by section 24 of chapter 26 of the statutes of 1977, is again amended:

(a) by inserting, after paragraph *ba*, the following paragraph:

“(bb) where the property has been disposed of by a corporation to the taxpayer, where section 416 does not apply in respect of the disposition and where the corporation’s loss from the disposition is not deductible pursuant to section 225, the amount of that loss;”;

(b) by replacing subparagraph *i* of paragraph *g* by the following subparagraph:

“i. an amount in respect of each fiscal period of the partnership ending after 1971 and before the particular time, equal to the taxpayer’s share, other than a share under an agreement referred to in section 459a, of the income of the partnership from any source for that fiscal period computed as if this Part were construed without reference to the words “one-half of” in section 94 as it applied to a fiscal period of the partnership ending before 1 April 1977, and sections 96, 218 and 245 and as if paragraph *b* of each of sections 189 and 190, paragraph *i*, section 283, subsection 2 of section 392 and the provisions of the Act respecting the application of the Taxation Act (1972, chapter 24), in respect of income from the operation of new mines, did not exist;”;

(c) by replacing subparagraph *v* of paragraph *g* by the following subparagraph:

“v. the value, at the time of the taxpayer’s death, of the rights or property referred to in section 361 in respect of a partnership interest held by him immediately before his death, other than an interest referred to in section 459e, where the particular time is immediately before the taxpayer’s death and the taxpayer was at the particular time a member of the partnership;”;

(d) by striking out the word “and” at the end of subparagraph vi of paragraph *g*, by inserting the word “and” at the end of subparagraph vii of the said paragraph, and by inserting after the said subparagraph vii, the following subparagraph:

“viii. an amount deemed, before the particular time, under section 455a, to be an amount referred to in paragraph *b* of section 354d or in paragraph *b* or *c* of section 354p in respect of the taxpayer;”;

(e) by inserting, after paragraph *ga*, the following paragraph:

“(gb) where the property is an interest in a segregated fund trust referred to in section 639b:

i. each amount deemed by section 639c to be an amount payable to the taxpayer before the particular time in respect of that interest;

ii. each amount required by section 639l to be added before the particular time in respect of that interest;

iii. each amount in respect of that interest that is a capital gain deemed to have been allocated under section 639u to the taxpayer before the particular time; and

iv. each amount in respect of that interest that before the particular time was deemed under section 639p to have been a capital gain of the taxpayer;”.

(2) Paragraph *a* of subsection 1 applies in respect of dispositions of property occurring after 31 March 1977.

(3) Paragraph *b* of subsection 1 applies in respect of the fiscal period of a partnership ending after 31 March 1977.

(4) Paragraphs *c* and *d* of subsection 1 apply to the taxation year 1977 and subsequent taxation years.

(5) Paragraph *e* of subsection 1 applies to the taxation year 1978 and subsequent taxation years.

44. (1) Section 238 of the said act, amended by section 24 of chapter 17 of the statutes of 1973, section 14 of chapter 18 of the statutes of 1974, section 44 of chapter 22 of the statutes of 1975 and by section 25 of chapter 26 of the statutes of 1977, is again amended:

(a) by inserting, after paragraph *ea*, the following paragraph:

“(eb) where the property is a debt owing to the taxpayer by a corporation, the amount required by sections 404a and 405a to 405f to be deducted before the particular time in computing the adjusted cost base of that debt;”;

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

“(f) where the property is a share of the capital stock of a corporation resident in Canada,

i. any amount received by the taxpayer after 1971 and before the particular time as a dividend other than a taxable dividend or a dividend in respect of which the corporation has elected, in accordance with sections 396 and 397, in respect of the full amount thereof;

ii. any amount required by sections 405a to 405f to be deducted before the particular time in computing the adjusted cost base of that share;

iii. any amount received by the taxpayer after 1971 and before the particular time on a reduction of the paid-up capital of the corporation in respect of that share, except to the extent that that amount is deemed by section 402 to be a dividend received by him;”;

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

“i. an amount in respect of each fiscal period of the partnership ending after 1971 and before the particular time, equal to the taxpayer’s share, other than a share under an agreement referred to in section 459a, of any loss of the partnership from any source for that fiscal period, computed as if this Part were construed without reference to the words “one-half of” in section 94, as it applied to each fiscal period of the partnership ending before 1 April 1977, and sections 96 and 218, as if sections 194 and 283 did not exist and without taking account of sections 221a, 223, 226, 226a, 265 and 270;”;

(d) by replacing the period at the end of paragraph *l* by a semicolon, and by inserting, after paragraph *l*, the following paragraph:

“(m) where the property is an interest in a segregated fund trust referred to in section 639b:

i. each amount in respect of that interest that is a capital loss deemed, under section 639u, to have been allocated to the taxpayer before the particular time; and

ii. each amount in respect of that interest that before the particular time was deemed by section 639p to have been a capital loss of the taxpayer.”

(2) Paragraph *a* of subsection 1 applies after 31 March 1977.

(3) Paragraph *b* of subsection 1 applies for the purposes of computing the adjusted cost base of a share after 31 March 1977.

(4) Paragraph *c* of subsection 1 applies in respect of a fiscal period of a partnership ending after 31 March 1977.

(5) Paragraph *d* of subsection 1 applies to the taxation year 1978 and subsequent taxation years.

45. (1) Section 251 of the said act, amended by section 25 of chapter 17 of the statutes of 1973, is replaced by the following section:

“251. (1) The individual who disposes of a property that is or was his principal residence after the time that is the later of 31 December 1971 and the day on which he last acquired it may deduct from his gain therefrom an amount equal to that proportion of that gain that the number of years ending after that time during which the property was his principal residence while he was resident in Canada is of the number of years ending after that time during which he owned the property.

(2) For the purposes of the computation provided for in subsection 1, one year is added to those ending after the time referred to therein during which the property was the principal residence of the individual while he was resident in Canada.”

(2) This section applies in respect of dispositions of property occurring after 31 March 1977.

46. (1) Section 253 of the said act is amended by replacing paragraph *b* by the following paragraph:

“(b) if the individual so elects with respect to such land in the prescribed manner, his gain for the year from the disposition of such land including his principal residence, determined without regard to paragraph *a* and section 251, less the aggregate of \$1,000 and \$1,000 for each taxation year ending after the time referred to in subsection 1 of the said section during which such property was his principal residence and during which he was resident in Canada.”

(2) This section applies in respect of dispositions of property occurring after 31 March 1977.

47. (1) Division VII of Chapter IV of Title IV of Book III of Part I of the said act, which includes sections 258, 258*a* and 258*c*, is replaced by the following division:

“DIVISION VII

“CAPITAL REPLACEMENT PROPERTY

“258. Notwithstanding section 221, this division applies where, at any time during a taxation year, proceeds of disposition become receivable by a taxpayer in respect of a capital property, referred to in this division as “former property”, that is either a property the proceeds of disposition of which are described in section 258*b* or a property that was, immediately before the disposition, a former business property of the taxpayer, and the taxpayer acquires, where the former property is a property the proceeds of disposition of which are described in the said section 258*b*, before the end of the second taxation year following the end of the year or, in any other case, before the end of the first taxation year following the end of the year, a capital replacement property that he has not disposed of before the time he has disposed of the former property.

“258*a*. In the case provided for in section 258, if the taxpayer so elects under this section in his fiscal return filed in accordance with section 732 for the year during which he acquires the capital replacement property referred to in the said section 258,

(*a*) the gain from the disposition of the former property is deemed to be that part of the proceeds of that disposition which exceeds the cost or, in the case of a depreciable property, the capital cost, to him, determined in each case without reference to paragraph *b*, of the capital replacement property, up to the gain otherwise determined; and

(*b*) the cost or, in the case of depreciable property, the capital cost, to him, of the capital replacement property, at any time after the time he disposed of the former property, is deemed to be the cost otherwise determined, minus the amount by which the gain so determined from that disposition exceeds the gain determined under paragraph *a*.

“258*b*. For the purposes of this Part, where a taxpayer has disposed of a property for which there are proceeds of disposition referred to in subparagraph ii, iii or iv of paragraph *e* of section 82, the time of disposition of that property and the time where those proceeds become receivable by the taxpayer are deemed to be the earliest of the following times, and the taxpayer is deemed to have owned the property continuously until that date:

(*a*) the day the taxpayer has agreed to an amount as final compensation for that property;

(b) where a claim or other proceeding has been taken before a competent court or tribunal, the day on which the compensation is finally determined by that tribunal or court;

(c) where a claim or other proceeding referred to in paragraph *b* has not been taken within two years of the event giving rise to the compensation, the day that is two years following the day of that event;

(d) the time at which the taxpayer is deemed under sections 227 or 362*c* to 367*h* to have disposed of the property; and

(e) where the taxpayer is a corporation other than a subsidiary referred to in section 434, the time immediately before the winding-up of the corporation.

“258c. A taxpayer who makes an election under section 86 or section 258*a*, as the case may be, in respect of a former property that was a depreciable property of the taxpayer, is deemed to also make an election under section 258*a* or section 86, as the case may be, in respect of the same property.

“258d. For the purposes of this division, paragraphs *a*, *b* and *c* of subsection 3 of section 86 apply *mutatis mutandis* where it must be determined if a particular capital property of a taxpayer is a capital replacement property for a former property of the taxpayer.”

(2) This section applies in respect of dispositions of property after 31 March 1977.

48. (1) Section 285 of the said act is replaced by the following section:

“285. The amounts contemplated in section 284 include those in respect of a registered retirement savings plan, to the extent provided for in sections 669 to 693, and those required under section 700 to be included in computing the taxpayer's income for the year in respect of the disposition of an interest in a life insurance policy.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

49. (1) The said act is amended by inserting, after section 287*a*, the following section:

“287b. The taxpayer must also include an amount received by him in the year as a grant under a prescribed programme relating to home insulation or so received in the year by his spouse who resided with him at that time and whose income for

the year, determined without reference to this section, is less than the taxpayer's income so determined for the year, except where that taxpayer resides with his spouse and the taxpayer's income for the year, determined without reference to this section, is less than the income so determined of his spouse for the year."

(2) This section applies to the taxation year 1977 and subsequent taxation years.

50. (1) Section 291 of the said act, amended by section 58 of chapter 22 of the statutes of 1975, is replaced by the following section:

"291. A taxpayer must include an amount which he receives as a pension benefit, including a pension, supplement or spouse's allowance under the Old Age Security Act (Statutes of Canada), a similar payment under an act of a province and a benefit paid under the Québec Pension Plan (1965, 1st session, chapter 24), or a similar plan within the meaning of that act, excluding however a social assistance payment made on a means or a needs test basis by a registered charity or under a prescribed programme provided for by an act of Québec, Canada or another province."

(2) This section applies to the taxation year 1977 and subsequent taxation years.

51. (1) The said act is amended by inserting, after section 304*a*, the following sections:

"304*b*. Where in a particular taxation year, proceeds of disposition, described under subparagraph iv of paragraph *e* of section 82, of any property referred to in paragraph *a*, *c* or *d* of section 301*a*, are deemed, under section 258*b*, to have become receivable by a taxpayer, and where that taxpayer, in his fiscal return filed for the year in accordance with section 732, has elected to have this section and sections 304*c* and 304*d* apply in respect of those proceeds, the taxpayer may deduct in computing his income for the year an amount which does not exceed the least of the following amounts:

(*a*) the aggregate of all such proceeds so becoming receivable in the year by the taxpayer, to the extent that they have been included in the amount referred to in paragraph *b* of section 354*p* in respect of the taxpayer;

(*b*) the amount required to be included in computing the taxpayer's income for the year by virtue of paragraph *e* of section 302*a*;

(c) the taxpayer's income for the year computed without reference to this section or to sections 304c and 304d.

"304c. (1) A taxpayer must include in computing his income for the year in respect of which he made the election provided for under section 304b, the amount by which the amount deducted under the said section exceeds the aggregate of such of the Canadian exploration expenses and Canadian development expenses incurred by the taxpayer in his ten taxation years immediately following the year as are designated by him in his fiscal return filed for the year in which the expenses are incurred.

(2) Notwithstanding paragraph *b* of subsection 2 of section 740 and section 741, the Minister shall, if necessary, make a reassessment to re-determine the tax, interest and penalties to be paid by the taxpayer under this Part in respect of any taxation year to give effect to the inclusion referred to in subsection 1.

"304d. Any Canadian exploration expenses or Canadian development expenses incurred by a taxpayer in a taxation year and designated by him in his fiscal return filed in accordance with section 304c is deemed not to be such an expense, except for the purposes of sections 352a, 352b, 352f and 352g and the computing of his earned depletion base within the meaning of the regulations made under section 327."

(2) This section applies to any amount deemed to become receivable after 1976.

52. (1) Section 306 of the said act, amended by section 9 of chapter 18 of the statutes of 1973, section 17 of chapter 18 of the statutes of 1974 and by section 9 of chapter 21 of the statutes of 1975, is again amended by inserting, after paragraph *b* of subsection 1, the following paragraph:

"(ba) an amount paid by the taxpayer as legal or extra-legal expenses incurred either for the purpose of collecting an amount owing to him that he would have to include in computing his income under paragraph *a* or *b* of section 287 or section 287a if it were received, for the purpose of obtaining a review of the right to receive or the obligation to pay an amount which would be referred to in the said paragraphs or in the said section 287a or in paragraph *a* or *b* of subsection 1 of section 306 or in subsection 1a of the said section 306 if it were received or paid, as the case may be, to the extent that the taxpayer has not been reimbursed, is not entitled to be reimbursed, and has not deducted that amount in computing his income for a preceding taxation year;"

(2) This section applies to the taxation year 1978 and subsequent taxation years.

53. (1) Section 309 of the said act, amended by section 35 of chapter 17 of the statutes of 1973, section 18 of chapter 18 of the statutes of 1974, section 10 of chapter 21 of the statutes of 1975 and by section 30 of chapter 26 of the statutes of 1977, is again amended:

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

“(b) any amount deductible under sections 669 to 693 in computing his income for the year;”;

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

“(ba) any amount deductible under sections 693*a* to 693*x* in computing his income for the year;”;

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

“(c) that part of any amount included in computing his income for the year, under paragraph *a* of section 286 or section 291 or 666, or of any prescribed refund of deductions as deferred pay, which does not exceed:”.

(2) Paragraphs *a* and *b* of subsection 1 have effect as of 15 December 1977 and paragraph *c* of the said subsection applies after 31 March 1977.

54. (1) Section 313 of the said act, amended by section 10 of chapter 18 of the statutes of 1973 and by section 65 of chapter 22 of the statutes of 1975, is again amended by replacing subparagraph *ii**a* of paragraph *a* by the following subparagraph:

“*ii**a*. the excess of the amount included in computing his income for the year under sections 302*a* and 303 over the aggregate of the amounts deducted in that computation under sections 304*b*, 326, 326*a* and 329 to 354*u* and section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24);”.

(2) This section applies in respect of the taxation year 1978 and subsequent taxation years.

55. (1) Section 319 of the said act is amended by striking out the word “and” at the end of paragraph *d* and by replacing the period at the end of paragraph *e* by the following: “; and”, and by inserting, after paragraph *e*, the following paragraph:

“(f) the legal expenses incurred for the acquisition of his new residence that are required for that acquisition, and any taxes imposed on the transfer or registration of the deed of sale of the said residence where his old residence is sold by the taxpayer or his spouse as a result of the move.”

(2) This section applies in respect of expenses incurred after 1976.

56. (1) Section 326 of the said act, replaced by section 66 of chapter 22 of the statutes of 1975 and amended by section 33 of chapter 26 of the statutes of 1977, is again amended by replacing subsection 2 by the following subsection:

“(2) Subsection 1 and section 326*a* do not apply if the taxpayer, at the end of the year or at any time in the next year, was exempt from tax under a provision of this Part, or was not resident in Canada and did not carry on business in Canada.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

57. (1) Section 329 of the said act, amended by section 37 of chapter 17 and section 13 of chapter 18 of the statutes of 1973 and by section 69 of chapter 22 of the statutes of 1975, is replaced by the following section:

“**329.** A development corporation may deduct, in computing its income for a taxation year, the aggregate of the Canadian exploration and development expenses it incurs before the end of the taxation year, to the extent that they were not deductible in computing its income for a previous taxation year, up to the amount which would be its income if no deduction were allowed under this section or section 327, 328 or 354*e*, less the deductions allowed for the year under sections 556 to 562*c*.”

(2) This section applies in respect of any taxation year ending after 6 May 1974 in the case of an oil business or after 31 March 1975 in the case of a mining business.

58. (1) Section 336 of the said act, amended by section 40 of chapter 17 and section 14 of chapter 18 of the statutes of 1973, section 74 of chapter 22 of the statutes of 1975 and by section 34 of chapter 26 of the statutes of 1977, is again amended:

(*a*) by replacing the lines preceding paragraph *a* by the following:

“**336.** The amount deductible under section 335 must not exceed the greater of the following amounts:”.

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

“(*b*) the amount by which the aggregate of the following amounts, before any deduction under sections 327, 328, 335, 354*e* or 354*f* exceeds the aggregate of the amounts deducted in computing his income for the year under section 326 in respect of property contemplated in paragraph *a* or *c* of section 310*a* or under section 326*a*:”.

(2) This section applies in respect of a taxation year ending after 6 May 1974 in the case of an oil business or after 31 March 1975 in the case of a mining business.

59. (1) Section 341 of the said act, amended by section 41 of chapter 17 and section 15 of chapter 18 of the statutes of 1973, section 78 of chapter 22 of the statutes of 1975 and by section 35 of chapter 26 of the statutes of 1977, is again amended:

(a) by replacing the lines preceding paragraph *a* by the following:

“341. The amount referred to in section 338 must not exceed the greater of the following amounts:”;

(b) by replacing the first line of paragraph *b* by the following:

“(b) the aggregate, before any deduction under any of sections 327 to 329, 335, 338, 354*e* and 354*f*, of:”.

(2) This section applies in respect of a taxation year ending after 6 May 1974.

60. (1) Section 343 of the said act, amended by section 16 of chapter 18 of the statutes of 1973 and by section 80 of chapter 22 of the statutes of 1975, is replaced by the following section:

“343. A corporation which acquires at any time after 1971, in any manner whatever, including an acquisition as a result of an amalgamation referred to in section 422, all or substantially all of the property of another corporation, which used that property in a business described in paragraphs *a* to *g* of section 330 carried on by it in Canada, may deduct in computing its income for a taxation year, the aggregate of the Canadian exploration and development expenses, incurred before that time, of the corporation from which the property was so acquired, up to the amount computed under section 344 and only to the extent that such expenses were not deductible in computing the income of either of such corporations for a previous taxation year, or in computing that of the corporation from which the property was so acquired, for the taxation year of the acquisition.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

61. (1) Section 344 of the said act, amended by section 42 of chapter 17 and section 17 of chapter 18 of the statutes of 1973 and by section 81 of chapter 22 of the statutes of 1975, is replaced by the following section:

“344. The amount referred to in section 343 is that part of the income of the corporation for the year, before any deduction under this section, sections 354*a* to 354*l* or the Act respecting the application of the Taxation Act (1972, chapter 24) in respect of this section, other than the deductions allowed for exploration and development expenses by the regulations made pursuant to the said act and other than those allowed by sections 334, 345 and 354*h*, minus the deductions allowed for the year by sections 556 to 562*c*, that may reasonably be attributed to:

(*a*) the disposition of any property described in any of paragraphs *a* to *f* of section 337 owned by the corporation from which the property was acquired in accordance with the said section 343, immediately before the acquisition; and

(*b*) the production from wells or mines situated in Canada in respect of which the corporation from which the property was acquired in accordance with the said section 343 had, immediately before the acquisition, an interest or a right of removal.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

62. (1) Section 345 of the said act, amended by section 18 of chapter 18 of the statutes of 1973 and by section 82 of chapter 22 of the statutes of 1975, is replaced by the following section:

“345. A corporation that acquires, at any time after 1971, in any manner whatever, including an acquisition as a result of an amalgamation referred to in section 422, all or substantially all of the property of another corporation, hereinafter called “first successor corporation”, which used such property in a business described in any of paragraphs *a* to *g* of section 330 carried on by it in Canada and had itself acquired such property from another corporation in accordance with section 343, may deduct, in computing its income for a taxation year, up to that part of its income that would be determined under section 344 if the reference to this section and section 354*h* 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 either of those corporations for a previous taxation year nor in that of the first successor corporation for the taxation year in which the property of the latter was so acquired.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

63. (1) Section 347 of the said act, replaced by section 84 of chapter 22 of the statutes of 1975, is again replaced by the following section:

“347. (1) A Canadian corporation that acquires, at any time after 1971, in any manner whatever, including an acquisition as a result of an amalgamation referred to in section 422, all or substantially all of the property of another corporation which used such property in a business described in any of paragraphs *a* to *g* of section 330 carried on by it outside Canada, 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, of the corporation from which the property was so acquired and only to the extent that such expenses were not deductible in computing the income of either of such corporations for a previous taxation year nor in computing that of the corporation from which the property was so acquired for the taxation year of the acquisition.

(2) The amount referred to in subsection 1 is that part of the income of the corporation for the year, before any deduction under this section, sections 354*a* to 354*l*, other than those allowed by sections 334, 343 and 345, subsection 3 and sections 354*g* and 354*h*, minus the deductions allowed for the year by sections 556 to 562*c*, which may reasonably be attributed to:

(*a*) the disposition of any property that would be described in paragraphs *a* to *f* of section 337, if the words “in Canada” were replaced therein by the words “outside Canada”, owned by the corporation from which the property was acquired in accordance with subsection 1, immediately before the acquisition; and

(*b*) the production from wells or mines situated outside Canada in respect of which the corporation from which the property was acquired in accordance with subsection 1 had, immediately before the acquisition, an interest or a right of removal.

(3) A Canadian corporation that acquires at any time after 1971, in any manner whatever, including an acquisition resulting from an amalgamation referred to in section 422, all or substantially all of the property of another corporation, hereinafter called the “first successor corporation”, which used such property in a business described in any of paragraphs *a* to *g* of section 330 carried on by it outside Canada and which had itself acquired such property from another corporation 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 such property by the first successor corporation, to the extent that such expenses were not deductible in computing the income of either of the corporations for a previous taxation year nor in computing the income of the first successor corporation for the taxation year during which the property of the latter was so acquired.

(4) The corporation from which property was acquired in accordance with subsection 1 or 3 shall not deduct the foreign exploration and development expenses included in the aggregate referred to in the said subsections in computing its income for a taxation year subsequent to that during which the property was so acquired."

(2) This section applies to the taxation year 1977 and subsequent taxation years.

64. (1) Section 348 of the said act is replaced by the following section:

"348. A joint exploration corporation may, in accordance with section 350, elect in prescribed form, in any particular taxation year or within six months from the end of that year, to renounce in favour of a shareholder corporation an agreed portion of the aggregate of its Canadian exploration and development expenses incurred before the end of that year, to the extent that such aggregate exceeds the amount deductible in respect thereof under section 329 in computing the income of the joint exploration corporation for a taxation year previous to the particular taxation year."

(2) This section applies to an election made in respect of the taxation year 1977 or any subsequent taxation year of a joint exploration corporation.

65. Section 350 of the said act, amended by section 44 of chapter 17 of the statutes of 1973, section 85 of chapter 22 of the statutes of 1975 and by section 36 of chapter 26 of the statutes of 1977, is again amended by replacing subsection 2 by the following subsection:

"(2) Where an election is so exercised, that portion of the expenses contemplated in section 348 is, for the purposes of section 329 or 335, deemed to have been incurred in Canada by the shareholder corporation in its taxation year during which the particular taxation year referred to in section 348 ends and the joint exploration corporation must, for the purposes of the said section 329, subtract that part of the expenses from the aggregate of its Canadian exploration and development expenses contemplated in section 348."

(2) This section applies to an election made in respect of the taxation year 1977 or any subsequent taxation year of a joint exploration corporation.

66. (1) Section 351 of the said act, amended by section 86 of chapter 22 of the statutes of 1975, is replaced by the following section:

“351. Where control of a corporation has, after 31 March 1977 and after the corporation last ceased to carry on active business, been acquired by a person or persons who did not control the corporation at the time it so ceased to carry on active business, the following rules apply:

(a) the amount by which the Canadian exploration and development expenses or the foreign exploration and development expenses, as the case may be, incurred by the corporation before the time it ceased to carry on active business exceeds the aggregate of all amounts otherwise deductible respectively in respect of such expenses in computing its income for the taxation years ending before control was acquired, is deemed to have been deductible under sections 329 to 354 in computing its income for the taxation years ending before control was so acquired;

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

(2) This section applies to acquisitions of control of corporations after 31 March 1977.

67. (1) Section 354c of the said act, enacted by section 90 of chapter 22 of the statutes of 1975 and amended by section 38 of chapter 26 of the statutes of 1977, is again amended by replacing paragraph *a* by the following paragraph:

“(a) the expenses referred to in section 354a incurred, or deemed incurred, by the taxpayer before that time;”.

(2) This section applies in respect of a taxation year ending after 6 May 1974.

68. (1) Section 354e, enacted by section 90 of chapter 22 of the statutes of 1975, is replaced by the following section:

“354e. A development corporation or any other taxpayer carrying on a mining business must deduct, in computing its income for a taxation year, its cumulative Canadian exploration expenses at the end of the year not exceeding the amount its income for the year would be if no deduction were allowed under this section and sections 327 and 328, minus the deductions allowed for the year under sections 556 to 562c.”

(2) This section applies in respect of a taxation year ending after 6 May 1974, in the case of an oil business, or after 31 March 1975, in the case of a mining business.

69. (1) Section 354f, replaced by section 40 of chapter 26 of the statutes of 1977, is amended by replacing subparagraph ii of paragraph *b* by the following subparagraph:

“ii. the greater of 30 per cent of the excess contemplated in subparagraph i and the amount that would be determined in paragraph *b* of section 336 if the reference to sections 335 and 354e were omitted.”

(2) This section applies in respect of a taxation year ending after 25 May 1976.

70. (1) Sections 354g to 354l of the said act, enacted by section 90 of chapter 22 of the statutes of 1975, are replaced by the following sections:

“354g. 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, in any manner whatever, including an acquisition as a result of an amalgamation referred to in section 422, all or substantially all of the property of another corporation used by it in carrying on in Canada a business described in any of paragraphs *a* to *g* of section 330, may deduct in computing its income for a taxation year, an amount not exceeding the lesser of the amount computed under section 354i and the cumulative Canadian exploration expenses of the corporation from which the 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 either corporation for a previous year or in computing that of the corporation from which the property was so acquired for the taxation year in which the acquisition was made.

“354h. 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, in any manner whatever, including an acquisi-

tion as a result of an amalgamation referred to in section 422, all or substantially all of the property of another corporation, hereinafter called the “first successor corporation”, which used that property in a business described in any of paragraphs *a* to *g* of section 330 carried on by it in Canada and which had itself acquired that property from another corporation in accordance with section 354*g*, 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 354*i* if any reference to section 343 and to this section were omitted and the cumulative Canadian exploration expenses of the corporation from which such property was acquired in accordance with section 354*g*, determined immediately after the acquisition of such property by the first successor corporation, to the extent that such expenses were not deducted in computing the income of either corporation for a previous taxation year nor in computing the income of the first successor corporation for the taxation year in which the property of the latter was so acquired.

“354*i*. The amount referred to in section 354*g* is that part of the income of the corporation for the year, before any deduction is made under this division, any of sections 327 to 354 or under the Act respecting the application of the Taxation Act (1972, chapter 24) in respect of this section, other than the deductions allowed for exploration and development expenses by the regulations made under the said act and other than those allowed by sections 334, 343, 345 and 354*h*, minus the deductions allowed for the year by sections 556 to 562*c*, that may reasonably be attributed to:

(*a*) the disposition of any property described in paragraphs *a* to *f* of section 337 owned by the corporation from which the property was acquired in accordance with the said section 354*g* immediately before the acquisition; and

(*b*) the production from wells or mines situated in Canada in respect of which the corporation from which the property was acquired in accordance with the said section 354*g* had, immediately before the acquisition, an interest or a right of removal.

“354*j*. The corporation from which property was acquired in accordance with section 354*g* or 354*h* may not deduct the expenses included in the cumulative Canadian exploration expenses mentioned in the said sections in computing its income for a taxation year subsequent to that during which the property was so acquired.

“354*k*. A joint exploration corporation, within the meaning of section 349, may, in any particular taxation year or within 6

months from the end of that year, elect in prescribed form to renounce in favour of a shareholder corporation an agreed portion of the aggregate of its Canadian exploration expenses incurred before the end of that year, to the extent that such aggregate exceeds the amount deductible in respect thereof under section 354*e* in computing the income of the joint exploration corporation for a taxation year previous to the particular taxation year; subsections 1 and 3 of section 350 apply *mutatis mutandis* to that election.

“354*l*. Where an election is made under section 354*k*, the portion of the expenses referred to therein is deemed, for the purposes of sections 354*a* to 354*d*, to have been incurred in Canada by the shareholder corporation in its taxation year during which the particular taxation year referred to in the said section 354*k* ends and the joint exploration corporation shall, in computing its cumulative Canadian exploration expenses, deduct that portion under paragraph *a* of section 354*d*.”

(2) This section applies to the taxation year 1977 and subsequent taxation years except to the extent that it replaces sections 354*k* and 354*l* of the Taxation Act, in which case it applies to an election made in respect of the taxation year 1977 or any subsequent taxation year of a joint exploration corporation.

71. (1) Section 354*m* of the said act, enacted by section 90 of chapter 22 of the statutes of 1975 and amended by section 41 of chapter 26 of the statutes of 1977, is again amended by replacing paragraph *d* by the following paragraph:

“(d) notwithstanding section 132*a*, the cost to the taxpayer of a Canadian resource property 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 it can reasonably be regarded as a cost of acquiring the lease, excluding any payment made to a person contemplated in section 81*c* for the preservation of a taxpayer’s rights in respect of a Canadian resource property or a property that would have been a Canadian resource property if it had been acquired by the taxpayer after 1971, and excluding a payment, other than a net royalty payment referred to in this paragraph, to which section 132*a* applies and that may reasonably be regarded as being in relation to the production in Canada of petroleum, natural gas and other related hydrocarbons, or metal or minerals to any stage that is not beyond the prime metal stage or its equivalent, from an oil or gas well or mineral resource situated in Canada from which the taxpayer then had the right to take or remove such substance;”.

(2) This section applies to an amount paid or payable after 6 May 1974 in relation to the period after that date.

72. (1) Section 354*o* of the said act, enacted by section 90 of chapter 22 of the statutes of 1975 and amended by section 43 of chapter 26 of the statutes of 1977, is again amended by replacing paragraph *a* by the following paragraph:

“(a) The expenses referred to in section 354*m* incurred, or deemed to have been incurred, by the taxpayer before that time;”.

(2) This section applies in respect of a taxation year ending after 6 May 1974.

73. (1) Section 354*qa* of the said act, enacted by section 45 of chapter 26 of the statutes of 1977, is amended by replacing that part of paragraph *b* of the second paragraph that precedes subparagraph *i*, by the following:

“(b) the amount by which the aggregate of the following amounts, before any deduction under any of sections 327 to 354*u* or under the Act respecting the application of the Taxation Act (1972, chapter 24) in respect of this section, other than the deductions allowed by section 354*r*, exceeds the aggregate of amounts deducted in computing his income for the year under section 326 in respect of property contemplated in paragraph *a* or *c* of section 301*a* or under section 326*a*:”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

74. (1) Section 354*r* of the said act, enacted by section 90 of chapter 22 of the statutes of 1975 and amended by section 46 of chapter 26 of the statutes of 1977, is replaced by the following section:

“354*r*. Sections 354*g* to 354*j* apply *mutatis mutandis* to the deduction of cumulative Canadian development expenses with the following changes:

(a) that part of section 354*i* that precedes paragraph *a* must be read as follows:

“354*i*. The amount referred to in section 354*g* is that part of the income of the corporation for the year, before any deduction is made under sections 327 to 354*u* or under the Act respecting the application of the Taxation Act (1972, chapter 24) in respect of this section, other than the deduction allowed by section 354*r* to the extent that the latter section refers to the application of section 354*h*, *mutatis mutandis*, in the case of such

an application of section 354*g*, minus the deductions allowed for the year by sections 556 to 562*c*, that may reasonably be attributed to:"; and

(b) the deduction so computed is, in addition, limited to the amount that would be determined in respect of the corporation for the year under sections 354*q* and 354*qa*:

i. if the words "other than the deduction allowed by section 354*r*", mentioned in paragraph *b* of the second paragraph of section 354*qa*, were replaced by the words "other than the deduction allowed under section 354*r* to the extent that the latter section refers to the application of section 354*h*, *mutatis mutandis*, in the case of such an application of section 354*g*";

ii. if the cumulative Canadian development expenses referred to in sections 354*q* and 354*qa* were the expenses, referred to in this section, of the corporation from which the property was acquired in accordance with section 354*g*;

iii. if the property referred to in subparagraph ii of paragraph *a* of the first paragraph of section 354*q* and in paragraph *b* of the second paragraph of section 354*qa* referred only to such property as was, immediately before the acquisition referred to in the said section 354*g*, owned by the corporation from which the property was acquired in accordance with section 354*g*; and

iv. if the reference to a mine in subparagraph i of paragraph *b* of the second paragraph of section 354*qa* were only a reference to a mine in respect of which the corporation from which the property was acquired in accordance with section 354*g* had, immediately before the acquisition referred to in the latter section, an interest or a right of removal."

(2) This section applies to the taxation year 1977 and subsequent taxation years.

75. (1) Section 354*s* of the said act, enacted by section 90 of chapter 22 of the statutes of 1975, is replaced by the following section:

"354*s*. For the purposes of section 354*q*, cumulative Canadian development expenses are incurred in Québec when they concern expenses that would be described in section 354*m* if the words "in Canada" were replaced by the words "in Québec" and if paragraph *d* of the said section 354*m* applied only to a property which would be described in section 337 if the words "in Canada" were replaced by the words "in Québec"."

(2) This section applies in respect of an amount paid or payable after 6 May 1974.

76. (1) Section 354*t* of the said act, enacted by section 90 of chapter 22 of the statutes of 1975 and amended by section 47 of chapter 26 of the statutes of 1977, is replaced by the following section:

“354*t*. A joint exploration corporation, within the meaning of section 349, may, in any particular year or within six months from the end of that year, elect in prescribed form to renounce in favour of a shareholder corporation an agreed portion of the aggregate of its Canadian development expenses incurred before the end of that year to the extent that such aggregate exceeds the total of amounts deducted in respect thereof under sections 354*q* and 354*qa* in computing the income of the joint exploration corporation for any taxation year previous to that particular year; subsections 1 and 3 of section 350 apply *mutatis mutandis* to that election.”

(2) This section applies to an election made in respect of the taxation year 1977 or any subsequent year of a joint exploration corporation.

77. (1) Section 354*u* of the said act, enacted by section 90 of chapter 22 of the statutes of 1975, is replaced by the following section:

“354*u*. Where an election is made under section 354*t*, the portion of the expenses referred to therein is deemed for the purposes of sections 354*m* to 354*p* to have been incurred in Canada by the shareholder corporation in its taxation year during which the particular taxation year referred to in the said section 354*t* ends and the joint exploration corporation must, in computing its cumulative Canadian development expenses, deduct that portion under paragraph *a* of section 354*p*.”

(2) This section applies to an election made in respect of the taxation year 1977 or any subsequent taxation year of a joint exploration corporation.

78. (1) Section 362 of the said act, amended by section 93 of chapter 22 of the statutes of 1975, is replaced by the following section:

“362. Where, within the delay mentioned in the second paragraph of section 361, a right or property referred to in the said section, except any compensation or amount referred to in subparagraph ii, iii or iv of paragraph *e* of section 82, has been transferred or assigned to an heir, the said section 361 does not apply in respect of such right or property and the heir shall include in computing his income the amount that he received upon

the realization or disposition of such right or property for the year in which such amount is received.”

(2) This section applies in respect of a transfer or assignment of a right or property made after 31 March 1977.

79. (1) Section 368 of the said act, amended by section 101 of chapter 22 of the statutes of 1975, is replaced by the following section:

“368. In computing the income of a taxpayer for the taxation year in which he died and the preceding year, subparagraph iii of paragraph *c* of section 23 applies without reference to the expression “up to \$1,000”; moreover, in computing his income for the taxation year during which he died, sections 141, 197, 326 and 326*a* and paragraph *b* of section 221 do not apply, subject to section 369.

(2) This section applies in respect of a death that occurred after 31 March 1977.

80. (1) Section 379*i* of the said act, enacted by section 53 of chapter 17 of the statutes of 1973 and amended by section 107 of chapter 22 of the statutes of 1975, is again amended by replacing paragraph *c* by the following paragraph:

“(c) in computing his taxable income for the taxation year in which he acquired the property, the taxpayer may deduct the excess of the amount received by him as a dividend by reason of such acquisition over the aggregate of the amounts deductible for the year in respect of such dividend under sections 448*c* to 448*g* and 562 to 562*c* in computing his income or taxable income, as the case may be;”.

(2) This section applies to the taxation year 1972 and subsequent taxation years.

81. (1) Section 385*a* of the said act, enacted by section 108 of chapter 22 of the statutes of 1975 and replaced by section 57 of chapter 26 of the statutes of 1977, is amended by replacing that part preceding paragraph *a* by the following:

“385*a*. Where a taxpayer, under a contract, reimburses another person for an amount paid or that becomes payable by that other person and such amount is included in computing the income of that other person under section 81*b* or denied as a deduction in computing the income of such other person under section 132*a* and the taxpayer, at the time of the reimbursement, was resident in Canada or carrying on business in Canada, the following rules apply for the purposes of this Part:”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

82. (1) The said act is amended by inserting, after section 385*b*, the following sections:

“385*c*. An individual contemplated in section 385*d* is deemed to receive a benefit in a particular taxation year equal to the amount by which interest, computed at the rate prescribed for that year, on a loan contemplated in the said section received by him during that year, exceeds the interest he pays in respect of that year before the end of the immediately following taxation year, on such a loan.

“385*d*. The individual mentioned in section 385*c* is either an employee or an individual related to an employee, who has received a loan by virtue of his office or employment or by virtue of the office or employment of a person to whom he is related, or is a shareholder of a corporation or an individual related to that shareholder, who has received a loan from that corporation, from a corporation related to that corporation or from a partnership of which either of these corporations is a member.

“385*e*. Section 385*c* does not apply to a loan made by an individual, other than a trust, to another individual with whom he is not dealing at arm's length nor to the portion of any loan included in computing the income of the individual to whom it is made.”

(2) This act applies to the taxation year 1978 and subsequent taxation years.

83. (1) Section 387 of the said act, amended by section 56 of chapter 17 of the statutes of 1973 and by section 14 of chapter 21 and section 109 of chapter 22 of the statutes of 1975, is again amended by replacing paragraph *c* by the following paragraph:

“(c) the amount of any social assistance payment made on a means or a needs test basis by a registered charity or under a prescribed programme provided for by an act of Canada or of a province;”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

84. (1) Section 392 of the said act, amended by section 110 of chapter 22 of the statutes 1975, is again amended by replacing subsection 2 by the following subsection:

“(2) He shall also include therein, if he is an individual other than a trust that is a registered charity, one-half of the aggregate of the amounts contemplated in subsection 1 which he receives from a taxable Canadian corporation.”

(2) This section applies to the taxation year 1977 and subsequent taxation years; however, to the extent that subsection 2 of section 392 of the Taxation Act refers to the expression “one-half”, the said subsection applies with respect to taxable dividends received after 1977.

85. (1) Section 395 of the said act, amended by section 59 of chapter 17 of the statutes of 1973, is replaced by the following section:

“395. Where a dividend contemplated in section 395*a* is paid, the following rules apply:

(*a*) no part of that dividend shall be included in computing the income of a shareholder of the corporation under this title; and

(*b*) in computing the adjusted cost base of a share on which such a dividend is paid, the shareholder must deduct, in respect of that dividend, an amount as provided by subparagraph *i* of paragraph *f* of section 238.”

(2) This section applies in respect of dividends that become payable after 1978; however, to the extent that it strikes out the second paragraph of section 395 of the Taxation Act as it read before being replaced by this section, it applies after 1978.

(3) In the case of dividends that become payable after 31 March 1977 and before 1979, the first paragraph of section 395 of the Taxation Act must be read as follows:

“395. Where a dividend becomes payable at a particular time after 1971 and before 1979 by a Canadian corporation on a share of a class of its capital stock, the corporation may elect that the following rules apply:

(*a*) the dividend is deemed payable out of the corporation's tax-paid undistributed surplus on hand to the extent of the amount it may claim that does not exceed the lesser of the amount of the dividend and such surplus immediately before such particular time;

(*b*) the dividend is deemed payable out of the corporation's 1971 capital surplus on hand to the extent of the lesser, immediately before that particular time, of such surplus or the portion of the dividend which exceeds the portion of the dividend which is deemed payable out of its tax-paid undistributed surplus on hand under subparagraph *a*;

(c) no part of the dividend shall be included in computing the income of a shareholder of the corporation under this title; and

(d) in computing the adjusted cost base of a share of that class of the corporation, the shareholder must deduct, in respect of such dividend, an amount as provided by subparagraph i of paragraph f of section 238.”

86. (1) The said act is amended by inserting, after section 395, the following sections:

“**395a.** A dividend referred to in section 395 is a dividend on a share that is outstanding on 31 March 1977 of a prescribed series of tax-deferred preferred shares of a class of the capital stock of a public corporation, where that dividend becomes payable by the corporation after 1978 and, according to the case that applies to that series, not later than,

(a) where the holder of each share of that series was entitled, under the terms and conditions in force on 31 March 1977 of those shares, to exchange it after a particular date for a share of another series or class of preferred shares of the capital stock of the corporation, that particular date;

(b) where the corporation was required, under the terms and conditions in force on 31 March 1977 of the shares of that series, to offer to purchase from all of the holders of those shares, no later than a particular date, all of the shares of that series, that particular date; or

(c) in any other case, 1 October 1991.

“**395b.** A dividend that would otherwise be referred to in section 395a is deemed not to be such a dividend if, at the time the dividend becomes payable, the terms of the shares of the series referred to in the said section differ from the terms in force on 31 March 1977 of those shares or if the corporation issued additional shares of that series after 31 March 1977.”

(2) This section applies in respect of dividends that become payable after 1978.

87. (1) Section 396 of the said act, amended by section 60 of chapter 17 of the statutes of 1973, is again amended by replacing paragraph a by the following paragraph:

“(a) the dividend is deemed a capital dividend to the extent of its capital dividend account immediately before the particular time; and”.

(2) This section applies in respect of dividends that become payable after 31 March 1977.

88. (1) Section 397 of the said act, replaced by section 61 of chapter 26 of the statutes of 1977, is again replaced by the following section:

“397. The election referred to in section 396 is valid only if it is made in prescribed manner and form for the total amount of the dividend.”

(2) This section applies in respect of dividends that become payable after 1978.

89. (1) Sections 399 to 401 of the said act are replaced by the following sections:

“399. A corporation resident in Canada the funds or property of which have, at any time after 31 March 1977, been distributed or otherwise appropriated in any manner whatever to or for the benefit of the shareholders of any class of shares in its capital stock, pursuant to the winding-up, discontinuance or reorganization of its business, is deemed to have paid at that time a dividend on the shares of that class equal to the amount by which the amount of the funds or value of the property so distributed or appropriated exceeds the amount of the reduction of the paid-up capital in respect of the shares of that class pursuant to that distribution or appropriation.

“400. A corporation resident in Canada which, at any time after 1977, by way of a transaction other than that described in section 399, redeems, acquires or cancels a share of any class of its capital stock, is deemed to pay at that time, on a separate class of shares comprising the shares that are the subject of that transaction, a dividend equal to the amount by which the amount paid for that transaction by the corporation exceeds the paid-up capital in respect of those shares immediately before that time.

“401. A corporation resident in Canada which has, at any time after 31 March 1977, reduced the paid-up capital in respect of any class of shares of its capital stock in a manner other than those referred to in section 399 or 400, is deemed to have paid at that time, on the shares of that class, a dividend equal to the amount by which the amount it pays in respect to that reduction exceeds the amount of that reduction.”

(2) This section applies to transactions occurring after 31 March 1977; however, in the case of transactions occurring after 31 March 1977 and before 1978, section 400 of the said act must be read as follows:

“400. A corporation resident in Canada which, at any time after 31 March 1977, by way of a transaction other than that described in section 399, or other than a transaction respecting the acquisition or redemption with premiums, of shares other than common shares issued on or before 18 June 1971 provided that the premium payable was fixed in accordance with the act governing the corporation and has not been increased since that date, redeems, acquires or cancels a share of any class of shares of its capital stock, is deemed to pay at that time, on the shares of a separate class of shares comprising the shares that are the subject of that transaction, a dividend equal to the amount by which the amount paid by the corporation for that transaction exceeds the paid-up capital in respect of those shares immediately before that time.”

90. (1) Section 402 of the said act is amended by replacing paragraph *a* by the following paragraph:

“(a) the number of shares of that class which he holds immediately before that particular time is of the total number of issued shares of that class immediately before that time, in the cases contemplated in sections 399 and 401, or the number of shares of that separate class which he holds at that time is of the total number of shares of that separate class, in the case contemplated in section 400; or”.

(2) This section applies to transactions occurring after 31 March 1977.

91. (1) Section 403 of the said act is replaced by the following section:

“403. For the purposes of sections 399 to 402, where the property referred to in section 399 or the amount paid by the corporation and referred to in section 400 or 401 includes a share of the capital stock of that corporation, the following rules apply:

(a) in computing the value of that property at any time, the share must be valued at an amount equal to its paid-up capital at that time; and

(b) in computing that amount at any time, the share must be valued at an amount equal to the amount by which the paid-up capital in respect of the class of shares in which it is comprised has increased by virtue of its issue.”

(2) This section applies to transactions occurring after 1976; however, where it applies to transactions occurring before 1 April 1977, the reference in section 403 of the Taxation Act to “section 400 or 401” must be replaced by a reference to “paragraph *b* of section 400 or section 401”.

92. (1) Sections 404*a* to 404*f* of the said act, enacted by section 113 of chapter 22 of the statutes of 1975, are replaced by the following section:

“404*a*. In computing the adjusted cost base, after 31 March 1977, of a debt owing to an individual by a corporation on 31 March 1977, the individual must deduct the amount of any dividend he would be deemed to have received on that date if the corporation had paid the debt in full on that date.

However, this section does not apply where the debt contemplated in the first paragraph is converted, after 31 March 1977 and before 1979, into shares of a particular class of the capital stock of the corporation and the debt was owing to the individual by the corporation continuously from 31 March 1977 until the time of that conversion.”

(2) This section applies after 31 March 1977.

93. (1) The said act is amended by inserting, after section 405, the following chapter and sections:

“CHAPTER IIIA

“NON-ARM’S LENGTH DISPOSITION OF SHARES

“405*a*. The rules provided in this chapter apply where, at any particular time in a taxation year, after 31 March 1977, a taxpayer resident in Canada other than a corporation disposes of a share that is capital property for him, of any class of the capital stock of a corporation resident in Canada in favour of another corporation that, immediately after the disposition controls that corporation within the meaning of paragraph *b* of section 557 and does not deal at arm’s length with the taxpayer.

“405*b*. The taxpayer referred to in section 405*a* is deemed to make for the year referred to therein a capital gain from the disposition of a capital property equal to the amount by which the lesser of

(*a*) the adjusted cost base to the taxpayer, immediately before the disposition, of the share so disposed of, and

(*b*) the fair market value of any consideration other than a debt owing by, or share of the capital stock of, the other corporation received by the taxpayer from that other corporation for the share so disposed of, exceeds the paid-up capital in respect of the share so disposed of immediately before the disposition.

“405c. In computing the adjusted cost base to the taxpayer referred to in section 405*a*, at any time after the disposition referred to therein, of any property received by him as consideration for the share so disposed of that is a debt owing by, or a share of the capital stock of, the other corporation, the taxpayer must deduct from the adjusted cost base to him of the property otherwise determined an amount equal to that proportion of the amount by which the lesser of the amount referred to in paragraph *a* of section 405*b* and the aggregate of the amount referred to in paragraph *b* of the said section, the principal amounts of all the debts so received and the paid-up capital in respect of all the shares so received, exceeds the greater of the amount referred to in the said paragraph *b* and the paid-up capital referred to in the said section 405*b* that the cost to him of the debt or share, as the case may be, so received is of the aggregate of the cost to him of all the debts and shares so received.

“405d. For the purposes of this chapter, where after 1971 a taxpayer other than a corporation acquires a share from a person with whom he does not deal at arm's length, he is deemed, for the purposes of computing the adjusted cost base to him of the share, to have acquired it at a cost equal to its adjusted cost base to that person immediately before that acquisition and the first paragraph of section 72 of the Act respecting the application of the Taxation Act (1972, chapter 24) must be read without reference to paragraph *c*.

“405e. For the purposes of this chapter, a taxpayer who is a member of a group of less than ten persons who act in concert to control a corporation is deemed not to deal with the corporation at arm's length.

“405f. Notwithstanding sections 405*a* to 405*c*, this chapter does not apply in respect of a share to which section 405*a* would otherwise apply in respect of a taxpayer referred to therein, where the taxpayer acquired that share after 1971 and the latter was owned, after 1971 and before the taxpayer acquired it, by a person with whom he was dealing at arm's length.”

(2) This section applies in respect of dispositions of shares after 31 March 1977.

94. (1) Section 406*a* of the said act, enacted by section 116 of chapter 22 of the statutes of 1975 and replaced by section 62 of chapter 26 of the statutes of 1977, is amended:

(*a*) by replacing that part preceding paragraph *a* by the following:

“406a. Notwithstanding section 406, an election which was not made within the delay prescribed therein is deemed to be made within such delay if it is made within three years following the expiry of such delay in the prescribed form and is accompanied with the payment by the taxpayer of a penalty, estimated by him, equal to the lesser of:”;

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

“(b) \$4,000.”

(2) Paragraph *a* of subsection 1 applies to elections the final date for making which is after 6 May 1974 in respect of dispositions of property made during the taxation year 1975 or a subsequent taxation year.

(3) Paragraph *b* of subsection 1 applies in respect of elections made after 1977.

95. (1) Section 417*a* of the said act, enacted by section 122 of chapter 22 of the statutes of 1975, is amended by replacing subparagraph *b* of the second paragraph by the following subparagraph:

“(b) immediately after the exchange, the taxpayer or persons with whom he is not dealing at arm’s length, separately or together, controlled, directly or indirectly, in any manner whatever, the said corporation, or owned shares of the capital stock of the latter having a fair market value of more than 50 per cent of all of the outstanding shares of its capital stock;”.

(2) This section applies in respect of exchanges occurring after 31 March 1977.

96. (1) Section 422 of the said act, amended by section 126 of chapter 22 of the statutes of 1975, is again amended by adding the following subsection:

“(3) For the purposes of paragraph *c* of subsection 1, where there is a merger of a corporation and of one or more of its subsidiary wholly-controlled corporations or of several corporations each of which is a subsidiary wholly-controlled corporation of the same corporation, any share of the capital stock of a predecessor corporation owned by a shareholder, except a predecessor corporation, immediately before the merger that was not cancelled on the merger is deemed to be a share of the capital stock of the new corporation received by the shareholder by virtue of the merger as consideration for the disposition of a share of the capital stock of the predecessor corporation.”

(2) This section applies in respect of amalgamations or mergers occurring after 14 December 1975.

97. (1) Section 425 of the said act is amended by replacing subsection 2 by the following subsection:

“(2) The sections referred to in subsection 1 also do not have the effect of enabling the new corporation to deduct a restricted farm loss sustained by a predecessor corporation.”

(2) This section applies in respect of amalgamations or mergers occurring after 31 March 1977.

98. (1) The said act is amended by inserting, after section 425, the following section:

“**425a.** Where a predecessor corporation had a non-capital loss or a net capital loss for a taxation year any portion of which was not deductible by it in computing its taxable income for any taxation year, but would have been so for its first taxation year beginning at the time of amalgamation if such a year had existed and if the corporation had then had a sufficient income, these losses are deemed to have been those of the new corporation and the amounts deductible in their respect in computing the taxable income of the predecessor corporation for a taxation year ending before the amalgamation are deemed to have been so deductible in computing the taxable income of the new corporation for such a year, for the purposes of determining either the non-capital loss or the net capital loss, as the case may be, of the new corporation for any taxation year preceding any taxation year of the new corporation, or the extent to which sections 552 to 554 have the effect of restricting the deductibility by the new corporation of such a loss.

However, this section must not affect the determination of the fiscal period or of the income of the new corporation or any predecessor corporation or that of the taxable income of, or the tax payable under this act by, any predecessor corporation.”

(2) This section applies in respect of amalgamations or mergers occurring after 31 March 1977.

99. (1) Section 428 of the said act, replaced by section 128 of chapter 22 of the statutes of 1975, is again replaced by the following section:

“**428.** For the purposes of this Part, the amount for the new corporation, at a particular time, of its capital dividend account and its capital gains dividend account designates the amount determined under the rules prescribed for such purposes.”

(2) This section applies after 1978.

100. (1) Section 436 of the said act, amended by section 63 of chapter 17 and section 22 of chapter 18 of the statutes of 1973 and by section 139 of chapter 22 of the statutes of 1975, is again amended by replacing paragraph *a* by the following paragraph:

“(a) the lesser of:

- i. the paid-up capital in respect of all the shares of the capital stock of the subsidiary immediately before the winding-up; and
- ii. the amount by which the aggregate of the amounts each of which is in respect of any property owned by the subsidiary immediately before the winding-up and equal to the cost amount to it of the property at the same time, plus its cash then on hand, exceeds the aggregate of all the debts of the subsidiary immediately before the winding-up and of the amount of each allowance deducted by the subsidiary in computing its income for the taxation year during which its property was distributed to the parent on the winding-up, other than an allowance contemplated in sections 141, 221, 326 and 326*a*; or”.

(2) This section applies in respect of corporate wind-ups commencing after 31 March 1977, except to the extent that it replaces subparagraph i of paragraph *a* of section 436 of the taxation Act, in which case it applies after 31 March 1977.

101. (1) Section 437 of the said act, amended by section 140 of chapter 22 of the statutes of 1975, is replaced by the following section:

“**437.** The cost to the parent of each property of the subsidiary distributed to the parent on the winding-up is deemed equal to the proceeds of the disposition, as provided in section 435, plus, in the case of capital property, other than depreciable property, owned by the subsidiary at the time the parent last acquired, otherwise than by an amalgamation, control of the subsidiary and thereafter without interruption until such time as it was distributed to the parent on the winding-up, the part referred to in section 438 of the amount by which the aggregate determined under paragraph *b* of section 436 exceeds the amount of the excess determined under subparagraph ii of paragraph *a* of the said section.”

(2) This section applies in respect of corporate wind-ups commencing after 31 March 1977.

102. (1) Section 438 of the said act is amended by replacing the second paragraph by the following paragraph:

“However, the part of that excess that is added must not exceed, in respect of a capital property contemplated in section 437, that part of the fair market value of the property at the time

the parent last acquired, otherwise than by an amalgamation, control of the subsidiary, that exceeds the cost amount of the capital property to the subsidiary immediately before the winding-up.”

(2) This section applies in respect of corporate wind-ups commencing after 31 March 1977.

103. (1) The said act is amended by inserting, after section 439c, the following sections:

“439d. For the purposes of sections 559 to 561, where the parent acquires pursuant to a winding-up described in section 434 a share owned by the subsidiary, any taxable dividend received by the subsidiary on that share and deductible in computing its taxable income for a taxation year under sections 556 to 561*b* is deemed to be such a dividend received by the parent and deductible in computing its taxable income for a taxation year under the said sections 556 to 561*b*.

“439e. In computing the taxable income of the parent for any taxation year commencing after the commencement of a winding-up described in section 434 commencing after 31 March 1977, the non-capital loss or the net capital loss sustained by the subsidiary for any particular taxation year is deemed, for the purposes of sections 545, 547, 552 and 553, to be a non-capital loss or a net capital loss, as the case may be, 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.

“439f. Section 439*e* does not apply except to the extent that the loss referred to therein was not deductible in computing the taxable income of the subsidiary for any taxation year and would be deductible in that computation for the first taxation year of the subsidiary commencing after the commencement of the winding-up if the subsidiary had such a taxation year, as well as sufficient income and taxable capital gains for that year.

“439g. Section 439*e* does not have the effect of enabling the parent, for the purposes of computing its taxable income for any particular taxation year, to deduct

(a) the net capital loss of the subsidiary for any taxation year if the control of the parent or of the subsidiary has been acquired before the end of the particular taxation year by one or several persons who did not control the parent or subsidiary, as the case may be, at the end of the taxation year of the subsidiary during which that loss was sustained, or

(b) the part of the non-capital loss of the subsidiary for a taxation year that may reasonably be regarded as a loss sustained by the subsidiary pursuant to the carrying on of any particular business if

i. control of the parent or of the subsidiary has been acquired before the end of the particular taxation year by one or several persons who did not control the parent or the subsidiary, as the case may be, at the end of the taxation year of the subsidiary during which that loss was sustained and the parent was not during the particular taxation year carrying on that business, or

ii. control of the parent or of the subsidiary was acquired, before the end of the particular taxation year and after the winding-up or discontinuance of that business, by one or several persons who did not at any time control the parent or the subsidiary, as the case may be, during the taxation year of the subsidiary during which that loss was sustained and during which that business was carried on.

“439h. For the purposes of sections 439e to 439g, 545, 547, 552 and 553, where a parent corporation was incorporated or otherwise formed after the end of a taxation year during which one of its subsidiaries sustained a loss is deemed, for the purposes of computing its taxable income for any taxation year, to have been in existence during the period commencing immediately before the end of the first year during which the subsidiary sustained a loss and ending immediately after its incorporation, to have had throughout that period fiscal periods ending on the day of the year on which its first fiscal period ended and to have been controlled throughout that period by the person or group of persons who controlled it immediately after its incorporation.”

(2) This section applies in respect of taxation years ending after 31 March 1977, except where it enacts section 439d of the Taxation Act, in which case it applies to wind-ups ending after 6 May 1974.

104. (1) Chapter VIIA of Title IX of Book III of Part I of the said act, comprising sections 440a to 440c, is replaced by the following chapter:

“CHAPTER VIIA

“WINDING-UP OF A CANADIAN CORPORATION

“440a. The rules provided in this chapter apply to the winding-up after 1978 of a Canadian corporation other than a sub-

subsidiary described in section 434 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.

“440b. For the purposes of computing for the corporation, at the time immediately before the particular time referred to in section 440a, its capital dividend account, its capital gains dividend account and its pre-1972 capital surplus on hand within the meaning of the regulations, the taxation year of the corporation that would normally include the particular time is deemed to have ended immediately before the time of computation and a new taxation year to have commenced at the time of computation; furthermore, the corporation is deemed to have disposed immediately before the end of the taxation year so deemed to have ended, of each property distributed to shareholders at the particular time for proceeds equal to the fair market value thereof immediately before the particular time.

“440c. The following rules apply where the corporation is deemed to pay a dividend at a particular time under section 399 on shares of any class of its capital stock:

(a) for the purposes of the election provided for in section 396 and, if the corporation has so elected, for all other purposes, as the case may be, such dividend is deemed to be a separate dividend to the extent that it does not exceed its capital dividend account or its capital gains dividend account within the meaning of the regulations made under section 440b, as the case may be, immediately before that time;

(b) the portion of the dividend equal to the lesser of its pre-1972 capital surplus on hand within the meaning of the regulations made under section 440b, immediately before the particular time, and the amount by which the dividend exceeds the portion that has been the subject of an election under section 396 is deemed not to be a dividend;

(c) the portion of the dividend that exceeds the aggregate of the amount deemed, under paragraph a, to be a separate dividend for all purposes and the portion deemed under paragraph b not to be a dividend is deemed, notwithstanding paragraph g of section 441, to be a separate dividend that is a taxable dividend;

(d) every person who holds shares of that class at that particular time is deemed to receive the proportion of any separate dividend determined under paragraph a or c represented by the proportion between the number of shares of that class held by him immediately before the particular time and the number of shares of that class then issued and outstanding.”

(2) This section applies in respect of winding-ups that give rise to dividends that are deemed to have been paid after 1978.

105. (1) Section 441 of the said act, amended by section 147 of chapter 22 of the statutes of 1975, is again amended by replacing paragraphs *g* to *k* by the following paragraph:

“(g) “taxable dividend” means a dividend other than a dividend in respect of which the corporation paying it elects in accordance with section 395 as it reads before 1979, or with section 396, or other than a dividend contemplated in section 395a.”

(2) This section applies after 1978; however, to the extent that it strikes out paragraphs *h* and *i* of section 441 of the Taxation Act, it applies after 31 March 1977.

106. (1) Section 455 of the said act, amended by section 165 of chapter 22 of the statutes of 1975, is again amended by replacing paragraph *d* by the following paragraph:

“(d) in computing each income or loss of the partnership for a taxation year, no account may be taken of section 302, of paragraph *b* of section 303, of sections 352a, 352b and 352e or of the first paragraph of sections 352f and 352g, and no deduction is permitted under sections 327 to 354u or the Act respecting the application of the Taxation Act (1972, chapter 24) relating to exploration and development expenses, Canadian exploration expenses or Canadian development expenses;”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

107. (1) The said act is amended by inserting after section 455, the following section:

“**455a.** The share of a member of a partnership of an amount that would be an amount referred to in paragraph *b* of section 354d or in paragraph *b* or *c* of section 354p in respect of the partnership for a taxation year of the partnership, but for paragraph *d* of section 455, is deemed to be an amount referred to in paragraph *b* of the said section 354d or in paragraph *b* or *c* of the said section 354p, as the case may be, in respect of the member for the taxation year of the member in which the taxation year of the partnership ends.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

108. (1) Section 456 of the said act is replaced by the following section:

“456. The fiscal period of a partnership that, but for subsection 1 of section 464, would have been dissolved at a particular time, is deemed to have ended immediately before that time.

However, the individual who is then a member of such partnership or who is a member of a partnership immediately before its dissolution may, for the purposes of computing his income, elect that the fiscal period of the partnership be deemed to have ended immediately before the time it would have normally ended if the partnership had continued to exist.”

(2) This section applies to the taxation year 1972 and subsequent taxation years.

109. (1) Section 484 of the said act, amended by section 179 of chapter 22 of the statutes of 1975, is again amended by replacing the third paragraph by the following paragraph:

“For the purposes of sections 489 to 492*a*, 497 to 500, 503 and 515 to 523 and of paragraph *b* of section 493, a trust does not include a unit trust, 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 or a registered home ownership savings plan, a segregated fund trust referred to in section 639*b* or a trust referred to in section 639*y*.”

(2) This section applies to the taxation year 1977 and subsequent taxation years; however, where applicable to the taxation year 1977, the third paragraph of section 484 of the Taxation Act must be read without taking account of the words “a segregated fund trust referred to in section 639*b*”.

110. (1) The said act is amended by inserting, after section 492, the following section:

“492*a*. For the purposes of sections 491 and 492:

(*a*) the expressions “at the end of a taxation year” and “of a prescribed class of a taxpayer” in section 83 must be read respectively “ at the particular time a trust is deemed, under section 491, to dispose of its depreciable property of a prescribed class” and “of that class”, and

(*b*) for the purposes of computing the excess referred in the said section 83, at the end of the taxation year of the trust including the day of the deemed disposition referred to in section 491, any amount that has been included on that day in computing its income for the year by virtue of the said section 83, as the latter section must be read by virtue of paragraph *a*, is deemed to be an

amount included in computing its income by virtue of sections 82 to 93 for a prior taxation year.”

(2) This section applies in respect of taxation years commencing after 25 May 1976.

111. (1) Section 498 of the said act, amended by section 76 of chapter 17 of the statutes of 1973, section 185 of chapter 22 of the statutes of 1975 and by section 71 of chapter 26 of the statutes of 1977, is again amended:

(a) by replacing subparagraph *i* of paragraph *b* by the following subparagraph:

“*i.* if at the end of the year the preferred beneficiary was a member of a class of beneficiaries who are all entitled, as such, to share equally among themselves in an income of the trust, the portion of the accumulating income of the trust for the year that may reasonably be regarded as having been earned for the benefit of the beneficiaries of such class, divided by the number of beneficiaries of that class, at the end of the year, other than registered charities, and”; and

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

“(c) where it refers to a case not contemplated in paragraphs *a* and *b* and each beneficiary whose share of the accumulating income of the trust depends upon the exercise of or failure to exercise the faculty to elect is a preferred beneficiary or would be such a beneficiary if he were resident in Canada, or is a registered charity, the portion of the accumulating income of the trust for the year equal to the amount determined in prescribed manner to be the discretionary share of such beneficiary in the accumulating income of the trust for the year; and”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

112. (1) Section 501 of the said act is replaced by the following section:

“**501.** The income of a trust for a taxation year, before any deduction under section 119*a*, paragraphs *a* and *b* of section 493 and the regulations made under paragraph *a* of section 119, must also be included in computing the income of a beneficiary for the year to the extent that it has become payable to him in the year, whether or not it is paid to him, and must not be included for the year in which payment is made.”

(2) This section applies to taxation years commencing after 25 May 1976 and ending after 31 March 1977.

113. (1) Section 506*a* of the said act, enacted by section 17 of chapter 21 of the statutes of 1975 and amended by section 187 of chapter 22 of the statutes of 1975, is replaced by the following section:

“506*a*. The amount of the deduction which would be determined under section 531*a* in respect of a trust for a taxation year if the said section applied to the trust and no account were taken of the \$1000 limit, of the mention of the grossed-up dividends nor of subsection 2 of the said section, is deemed to be interest for the year in the hands of a particular beneficiary and not of the trust to the extent that such amount, having regard to the circumstances and the terms and conditions of the trust arrangement, may reasonably be considered to be part of the amount included, by virtue of sections 497 or 499 to 501, in computing the income of the particular beneficiary for the taxation year, and subsection 2 of section 506 applies *mutatis mutandis* to such presumption.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

114. (1) Section 507 of the said act is replaced by the following section:

“507. The beneficiary of a trust may deduct from the amount included in his income under section 497 or 501 the portion, determined by the trust, of the deduction that would otherwise be allowed to it for the taxation year under section 119*a* or the regulations made under paragraph *a* of section 119; such portion must however be subtracted by the trust from the deduction which would otherwise be allowed to it for the year and, for the purposes of sections 82 to 93, it is deemed to have been allowed to it in computing its income for the year under the said regulations.”

(2) This section applies to taxation years commencing after 25 May 1976 and ending after 31 March 1977.

115. (1) Section 508*b* of the said act, enacted by section 188 of chapter 22 of the statutes of 1975 and amended by section 73 of chapter 26 of the statutes of 1977, is again amended by replacing paragraph *a* by the following paragraph:

“(a) such part of its income for the taxation year, before any deduction under section 119*a*, paragraph *a* or *b* of section 493 or under the regulations made under paragraph *a* of section 119, as would, but for this section, be payable in the taxation year to a beneficiary under the trust; and”.

(2) This section applies to taxation years commencing after 25 May 1976 and ending after 31 March 1977.

116. (1) Section 508*c* of the said act, enacted by section 188 of chapter 22 of the statutes of 1975 and replaced by section 74 of chapter 26 of the statutes of 1977, is amended by replacing the first paragraph by the following paragraph:

“508*c*. The amount that must be deducted by a trust from the aggregate determined in section 508*b* is the proportion of the amount by which its designated income for the taxation year exceeds its income for the taxation year before any deduction under section 119*a*, paragraph *a* or *b* of section 493 or under the regulations made under paragraph *a* of section 119, minus the amount determined in the second paragraph, that the aggregate of amounts each of which is an amount in respect of that part of its income for the taxation year, before any deduction under section 119*a*, paragraph *a* or *b* of section 493 or the regulations made under paragraph *a* of section 119, that would be payable in the year to a beneficiary contemplated in section 508*a*, but for section 508*b*, is of the amount determined in the second paragraph.”

(2) This section applies to taxation years commencing after 25 May 1976 and ending after 31 March 1977.

117. (1) Section 508*d* of the said act, enacted by section 188 of chapter 22 of the statutes of 1975, is amended by replacing that part preceding paragraph *a* by the following:

“508*d*. The designated income of a trust for a taxation year, for the purposes of section 508*c*, is its income for the year that would be determined under section 23 but for sections 119*a* and 500, paragraphs *a* and *b* of section 493*d*, and the regulations made under paragraph *a* of section 119, if:”.

(2) This section applies to taxation years commencing after 25 May 1976 and ending after 31 March 1977.

118. (1) Section 525 of the said act, amended by section 53 of chapter 26 of the statutes of 1972, section 83 of chapter 17 of the statutes of 1973, section 25 of chapter 18 of the statutes of 1974, section 194 of chapter 22 of the statutes of 1975 and by section 8 of chapter 18 of the statutes of 1976, is replaced by the following section:

“525. An individual may deduct an amount of \$3,600, plus

(*a*) \$2,700 if he supports his spouse, less that part of the spouse's income which exceeds \$1,000, while married, for that year;

(*b*) \$2,700 less that part of the income of the dependent person contemplated in subparagraph ii which exceeds \$1,000 for the

year, if he is not entitled to the deduction provided for in paragraph *a* and, during the year

i. is unmarried or, being married, does not support or live with his spouse and is not supported by her, and

ii. maintains, alone or jointly with one or more persons, a self-contained domestic establishment where he lives and supports a person wholly dependent on him or upon him and them and connected with him or with him and such one or more other persons by blood relationship, marriage or adoption;

(*c*) for each child or grandchild of the individual who, during the year, is wholly dependent on him,

i. \$900 if he is 21 years of age or over and dependent on him by reason of mental or physical infirmity or full-time attendance at a school or university, or is 18 years of age or over and under 21 years of age, less that part of the income of that child or grandchild which, for the year, exceeds \$2,000;

ii. \$550 if he is 16 or 17 years of age, less that part of the income of such child or grandchild which, for the year, exceeds \$2,000;

(*d*) for each niece or nephew of the individual or his spouse who, during the year, is wholly dependent upon him and is resident in Canada, if during the year the mother of the dependent person is living apart from her spouse or former spouse pursuant to a divorce, judicial separation or written separation agreement and is not in receipt of any amount as alimony or other allowance payable on a periodic basis for the maintenance of the dependent person, or if the father of the dependent person, during the year, is mentally or physically infirm or is deceased and the mother has not remarried,

i. \$900 if, during the year, the dependent person fulfils the conditions contemplated in subparagraph i of paragraph *c*, less that part of the income of that person which, during the year, exceeds \$2,000;

ii. \$550 if, during the year, the dependent person fulfils the conditions contemplated in subparagraph ii of paragraph *c*, less that part of the income of that person which, during the year, exceeds \$2,000;

(*e*) any amount expended by the individual during the year for the support, during that year,

i. of his father, mother, grandfather or grandmother dependent upon him by reason of mental or physical infirmity or his sister or brother who meets the conditions contemplated in subparagraph i of paragraph *c*, up to \$900 less that part of the income of the dependent person which, for the year, exceeds \$2,000;

ii. of his sister or brother who fulfils the conditions contemplated in subparagraph ii of paragraph *c*, up to \$550 less that part of the income of the dependent person which, for the year, exceeds \$2,000;

(*f*) any amount expended by the individual during the year for the support of a person who is his aunt, his uncle or the aunt or uncle of his spouse if during that year such person is resident in Canada and is dependent on him by reason of mental or physical infirmity, up to:

i. \$900 if the dependent person is 18 years of age or over, during the year, less that part of the income of that person which, for the year, exceeds \$2,000;

ii. \$550 if the dependent person is under 18 years of age, during the year, less that part of the income of that person which, for the year, exceeds \$2,000;

(*g*) \$2,700 if he is a member of a religious order, has taken vows of perpetual poverty and is not entitled to any deduction under paragraph *a* or *b*; and

(*h*) \$1,500 if he has reached the age of 65 years before the end of the year."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

119. (1) Section 531*b* of the said act, enacted by section 18 of chapter 21 of the statutes of 1975 and amended by section 196 of chapter 22 of the statutes of 1975 and section 81 of chapter 26 of the statutes of 1977, is again amended:

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

"(*b*) an annuity payment under a deferred profit sharing plan, a plan revoked in accordance with section 657, a registered retirement savings plan or a new plan referred to in section 677 to which the first paragraph of the said section 677 applied before 26 May 1976;"

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

"(*h*) an amount described in section 531*g* or 531*h* or that would be so but for section 531*i*; or".

(2) Paragraph *a* of subsection 1 applies after 25 May 1976.

(3) Paragraph *b* of subsection 1 applies to the taxation year 1977 and subsequent taxation years.

120. (1) Section 531*c* of the said act, enacted by section 18 of chapter 21 of the statutes of 1975, is replaced by the following section:

“531c. For the purposes of this title and subject to section 531b, interest included in computing an individual's income for a taxation year is deemed to include:

(a) the amount by which an amount included therein under section 700 in respect of the disposition of an interest in a life insurance policy exceeds the portion of that amount that is a policy loan, within the meaning of paragraph *bb* of section 698, granted after 31 March 1978 in respect of that policy; and

(b) the amount by which an annuity payment he receives in the year, other than that contemplated in paragraph *b* of section 531b, exceeds the capital element of such payment as determined in paragraph *f* of subsection 1 of section 306.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

121. (1) Section 531g of the said act, enacted by section 198 of chapter 22 of the statutes of 1975, is amended by replacing paragraph *d* by the following paragraph:

“(d) as an amount by which an annuity payment other than an annuity payment described in paragraph *b* or *c* or than an income-averaging annuity payment exceeds the capital element of that payment as determined in paragraph *f* of subsection 1 of section 306, if the individual has attained the age of 65 years before the end of the year unless he elects, in his fiscal return filed for the year in accordance with section 732, to include that excess in computing his income as interest for the purposes of section 531a.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

122. (1) Section 532 of the said act, amended by section 54 of chapter 26 of the statutes of 1972 and section 199 of chapter 22 of the statutes of 1975, is again amended by replacing paragraphs *b* and *c* by the following paragraphs:

“(b) a registered charity;

“(c) a registered Canadian amateur athletic association;”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

123. (1) Section 534 of the said act is replaced by the following section:

“534. A deduction is granted only if the proof of the gift is made by receipt filed with the Minister; in the case of a donation made to a registered charity or a registered Canadian amateur

athletic association, the receipt must contain the prescribed information.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

124. (1) Section 543 of the said act, amended by section 26 of chapter 18 of the statutes of 1974, is again amended by replacing that part preceding paragraph *a* by the following:

“**543.** An individual may deduct an amount of \$1,500 if he”.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

125. (1) Section 543*b* of the said act, enacted by section 12 of chapter 18 of the statutes of 1976, is amended by replacing that part preceding paragraph *a* by the following:

“**543*b*.** An individual may deduct the excess of \$1,500 over the taxable income for the year, computed before making any deduction allowed by section 543, of any person resident in Canada at any time in the year who is a dependent child under 16 years of age or in respect of whom he has claimed a deduction under paragraph *b* or *c* of section 525 or could have claimed such deduction if such person had had no income during the year, if”.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

126. (1) Section 544*a* of the said act, enacted by section 13 of chapter 18 of the statutes of 1976, is amended by replacing paragraph *b* by the following paragraph:

“(b) the amount by which his spouse’s income for the year exceeds the amount of \$3,600 deductible under section 525.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

127. (1) Sections 545 and 546 of the said act are replaced by the following sections:

“**545.** A taxpayer may deduct his non-capital losses for the five taxation years preceding and for that following the year, up to his income for the year decreased by any amount deductible under section 633 and all deductions allowed by this book other than those provided under this section, section 547 or sections 525 to 531.

“546. For the purposes of section 545, the non-capital losses for a taxation year of a taxpayer consist of the aggregate of all his losses for the year from an office, employment, business or property and all amounts deductible from the income of the taxpayer for the year under sections 556 to 562 or 633 less the aggregate of the amounts determined in paragraphs *a* and *b* of section 23 which exceed the amount determined in subparagraph *i* of paragraph *c* of section 23.”

(2) This section applies to the taxation year 1972 and subsequent taxation years.

128. (1) The said act is amended by inserting, after section 554, the following sections:

“554a. For the purposes of this title, where an insurer has made an election provided for in section 618 in respect of its taxation year 1975, its non-capital loss for each of its taxation years 1972 to 1976 is, up to the amount referred to in the second paragraph, deemed, for the purposes of computing the amount deductible as such in computing its taxable income for its taxation year 1977 and its subsequent taxation years, to have been deductible under this title in computing its taxable income for a taxation year ending before 1977.

The amount referred to in the first paragraph is equal to the lesser of the prescribed amount and the portion of that loss, determined without taking account of this section, that would be deductible in computing the insurer's taxable income for its taxation year 1977 if its income for that year were sufficient.

“554b. Notwithstanding section 545, for the purposes of computing the taxable income of a life insurer for its taxation year 1978 and its subsequent taxation years, the amount deductible as a non-capital loss for each of its taxation years 1972 to 1977 is deemed to be nil.”

(2) This section applies to the taxation year 1977 and subsequent taxation years; however, to the extent that it enacts section 554*b* of the Taxation Act, it applies to the taxation year 1978 and subsequent taxation years.

129. (1) Section 555 of the said act, amended by section 55 of chapter 26 of the statutes of 1972 and by section 86 of chapter 17 of the statutes of 1973, is again amended by adding the following paragraph:

“For the purposes of the first paragraph, the net capital loss of the taxpayer for the year in which he dies and the preceding year must be computed as if section 548 read without taking account of the expression “the lesser of \$1,000 and”.”

(2) This section applies in respect of a death occurring after 31 March 1977.

130. (1) Section 556 of the said act is amended by striking out the second paragraph.

(2) This section applies in respect of dividends received after 31 March 1977.

131. (1) Section 559 of the said act, replaced by section 203 of chapter 22 of the statutes of 1975, is amended by replacing paragraph *a* by the following paragraph:

“(a) as a taxable dividend on the share to the extent that the amount of that dividend was deductible from the corporation’s income for a taxation year by virtue of this title or section 633 and was not an amount on which it was required to pay a prescribed tax; or”.

(2) This section applies after 31 March 1977.

132. (1) Section 561 of the said act, replaced by section 205 of chapter 22 of the statutes of 1975, is again replaced by the following section:

“**561.** The amount of any loss sustained by a taxpayer arising from transactions relating to a share he owned that was not capital property and in respect of which he received a dividend, is deemed to be the amount of that loss otherwise determined, minus the aggregate of all amounts received by him as dividends on that share, other than capital gains dividends within the meaning of sections 829 and 831, to the extent that the amount was not an amount on which he was required to pay a prescribed tax.”

(2) This section applies after 31 March 1977.

133. (1) Sections 561*a* and 561*b* of the said act, enacted by section 206 of chapter 22 of the statutes of 1975, are replaced by the following sections:

“**561a.** For the purposes of section 77 and the regulations made thereunder, the taxpayer referred to in section 561 shall, in computing at any particular time after 18 November 1974 the fair market value of a share described therein, add to such value otherwise determined the aggregate of all amounts he has received before that time as dividends on the share, other than capital gains dividends within the meaning of sections 829 and 831, to the extent that the amount was not an amount on which he was required to pay a prescribed tax.

“561b. Section 559 applies to a share acquired by a corporation at a particular time in exchange for another share arising from a transaction to which sections 277, 417a to 417e or 418 to 433a apply, as though the acquired share and the exchanged share were the same share, except that the amounts that reduce the loss referred to in section 559 in respect of the acquired share are deemed to be the aggregate of the amounts that would reduce the loss by virtue of the said section in respect of the dividends received by the corporation on that share only, and that proportion of the aggregate of all amounts received by it as taxable dividends or capital dividends on all shares exchanged at that time, to the extent that the corporation was not required to pay a prescribed tax on those amounts, that the adjusted cost base to it of the acquired share immediately after the exchange is of the adjusted cost base to it at the same time of all shares thus acquired.”

(2) This section applies after 31 March 1977.

134. (1) Section 563 of the said act, amended by section 209 of chapter 22 of the statutes of 1975, is replaced by the following section:

“563. The tax payable by an individual, under this Part, on his taxable income is, for each taxation year, the following:

(a) 13 per cent of that part of taxable income that does not exceed \$577;

(b) \$75.01 plus 14 per cent of that part of taxable income that exceeds \$577 if such income exceeds \$577 but does not exceed \$1,244;

(c) \$168.39 plus 15 per cent of that part of taxable income that exceeds \$1,244 if such income exceeds \$1,244 but does not exceed \$2,015;

(d) \$284.04 plus 16 per cent of that part of taxable income that exceeds \$2,015 if such income exceeds \$2,015 but does not exceed \$2,906;

(e) \$426.60 plus 17 per cent of that part of taxable income that exceeds \$2,906 if such income exceeds \$2,906 but does not exceed \$3,936;

(f) \$601.70 plus 18 per cent of that part of taxable income that exceeds \$3,936 if such income exceeds \$3,936 but does not exceed \$5,127;

(g) \$816.08 plus 19 per cent of that part of taxable income that exceeds \$5,127 if such income exceeds \$5,127 but does not exceed \$6,504;

(*h*) \$1,077.71 plus 20 per cent of that part of taxable income that exceeds \$6,504 if such income exceeds \$6,504 but does not exceed \$8,095;

(*i*) \$1,395.91 plus 21 per cent of that part of taxable income that exceeds \$8,095 if such income exceeds \$8,095 but does not exceed \$9,935;

(*j*) \$1,782.31 plus 22 per cent of that part of taxable income that exceeds \$9,935 if such income exceeds \$9,935 but does not exceed \$12,061;

(*k*) \$2,250.03 plus 23 per cent of that part of taxable income that exceeds \$12,061 if such income exceeds \$12,061 but does not exceed \$14,519;

(*l*) \$2,815.37 plus 24 per cent of that part of taxable income that exceeds \$14,519 if such income exceeds \$14,519 but does not exceed \$17,360;

(*m*) \$3,497.21 plus 25 per cent of that part of taxable income that exceeds \$17,360 if such income exceeds \$17,360 but does not exceed \$20,644;

(*n*) \$4,318.21 plus 26 per cent of that part of taxable income that exceeds \$20,644 if such income exceeds \$20,644 but does not exceed \$24,441;

(*o*) \$5,305.43 plus 27 per cent of that part of taxable income that exceeds \$24,441 if such income exceeds \$24,441 but does not exceed \$28,829;

(*p*) \$6,490.19 plus 28 per cent of that part of taxable income that exceeds \$28,829 if such income exceeds \$28,829 but does not exceed \$33,902;

(*q*) \$7,910.63 plus 29 per cent of that part of taxable income that exceeds \$33,902 if such income exceeds \$33,902 but does not exceed \$39,766;

(*r*) \$9,611.19 plus 30 per cent of that part of taxable income that exceeds \$39,766 if such income exceeds \$39,766 but does not exceed \$46,544;

(*s*) \$11,644.59 plus 31 per cent of that part of taxable income that exceeds \$46,544 if such income exceeds \$46,544 but does not exceed \$54,380;

(*t*) \$14,073.75 plus 32 per cent of that part of taxable income that exceeds \$54,380 if such income exceeds \$54,380 but does not exceed \$60,714;

(*u*) \$16,100.63 plus 33 per cent of that part of taxable income that exceeds \$60,714 if such income is over \$60,714."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

135. (1) Section 565 of the said act, amended by section 87 of chapter 17 of the statutes of 1973, is again amended by replacing paragraphs *a* and *b* by the following paragraphs:

“(a) the tax which would be payable by him if he could deduct medical expenses under sections 537 to 541 in relation to a dependent person under 16 years of age or in relation to any other dependent person in respect of whom he could make a deduction in computing his taxable income for the year under sections 525 to 531, if the income of such person for the year did not exceed \$2,550 if he is less than 18 years of age or \$2,900 if he is 18 years of age or over and

“(b) 58 per cent of the excess of the income of the person contemplated in paragraph *a* over \$2,550 if he is less than 18 years of age, or over \$2,900 if he is 18 years of age or over.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

136. (1) Section 570 of the said act, amended by section 210 of chapter 22 of the statutes of 1975 and by section 1 of chapter 17 of the statutes of 1976, is again amended by replacing paragraph *b* by the following paragraph:

“(b) the income of an individual for any year referred to in section 567 is deemed to be not less than \$3,700;”.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

137. (1) Section 580 of the said act is replaced by the following section:

“**580.** An individual may deduct from his tax otherwise payable under this Part, thirty-seven and one-half per cent of the amount he must include in computing his income for the year under subsection 2 of section 392.”

(2) This section applies in respect of taxable dividends received after 1977.

138. (1) Section 613 of the said act is replaced by the following section:

“**613.** In this title, the property used or held by an insurer in the year in the course of carrying on an insurance business in Canada is, in the case of an insurer described in section 616 that carries on an insurance business in Canada and elsewhere, the property determined in accordance with the prescribed rules.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

139. (1) Sections 613*a* and 613*b* of the said act, enacted by section 83 of chapter 26 of the statutes of 1977, are repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

140. (1) Section 614 of the said act, amended by section 84 of chapter 26 of the statutes of 1977, is repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

141. (1) Section 618 of the said act, amended by section 85 of chapter 26 of the statutes of 1977, is replaced by the following section:

“618. An insurer carrying on an insurance business in Canada and elsewhere in a taxation year must include in computing its income derived for the year from the carrying on of such business in Canada the portion of its gross investment income for the year from property used or held by it in the year in the course of carrying on that business in Canada.

For the purposes of this section, gross investment income of an insurer for a taxation year is the aggregate of

(*a*) all taxable dividends, interest, rentals and royalties included in its gross income for the year;

(*b*) its income for the year from each trust of which it is a beneficiary or from each partnership of which it is a member;

(*c*) all amounts required by section 109 to be included in computing its income for the year; and

(*d*) all amounts required by sections 81*e*, 155 and 156 to be included in computing its income for the year, except to the extent that such amounts have been included in computing its gross investment income by virtue of paragraph *a*.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

142. (1) The said act is amended by inserting, after section 618, the following section:

“618*a*. Where an insurer has made an election under section 618 for a taxation year, that part of its gross investment income that it has included in computing its income for the year from carrying on an insurance business in Canada and that it has

indicated in its fiscal return filed for the year in conformity with section 732,

(a) shall not be reduced except with the consent of, and as directed by, the Minister; and

(b) is deemed to be its gross investment income from property that it has indicated in that fiscal return as being used or held by it in the course of carrying on an insurance business in Canada for the purposes of this Part."

(2) This section applies to the taxation year 1972 and subsequent taxation years.

143. (1) Section 619 of the said act, amended by section 94 of chapter 17 of the statutes of 1973, is repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

144. (1) Section 620 of the said act is repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

145. (1) Section 621 of the said act, amended by section 86 of chapter 26 of the statutes of 1977, is replaced by the following section:

"621. Notwithstanding any other provision of this Part, an insurer that carries on an insurance business in Canada and elsewhere in a taxation year shall not include in computing its income for the year its taxable capital gains and its allowable capital losses for the year resulting from the disposition of property used or held by it in the year in the course of carrying on an insurance business but not resulting from the disposition of property used or held by it in the year in the course of carrying on an insurance business in Canada."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

146. (1) Section 622 of the said act, amended by section 95 of chapter 17 of the statutes of 1973, is repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years; furthermore, where section 622 of the Taxation Act applies to the taxation years 1972 to 1977, the said section 622 must be read as follows:

"622. The portion of any taxable capital gain for a taxation year which a life insurer makes following the disposition of prop-

erty included in a segregated fund and which, but for this section, would have been included in computing the income of the insurer for the year is deemed not to be a taxable capital gain of the insurer for the year from the disposition of capital property, if the insurer allocates that portion in the year to a policyholder, and is deemed, except where the policy was issued or subscribed for as a registered retirement savings plan or issued in accordance with a registered retirement plan, to be such a gain from that disposition for the policyholder.”

147. (1) Sections 622*a* and 622*b*, enacted by section 87 of chapter 26 of the statutes of 1977, are repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

148. (1) Section 625 of the said act is replaced by the following section:

“625. Where a life insurance corporation, constituted under the laws of a province, sets aside an amount for the payment of its shares which it redeems in accordance with a law of such province, providing thereby for its conversion into a mutual corporation, no part of such amount, notwithstanding sections 100 to 108*a*, shall be included in computing the income of a shareholder of the corporation.

Similarly, no part of such amount is deemed to have been paid to the shareholders for the purposes of sections 634 to 638 or to have been received as a dividend for the purposes of sections 398 to 404 and 405.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

149. (1) Section 626 of the said act, amended by section 88 of chapter 26 of the statutes of 1977, is again amended:

(*a*) by replacing subparagraphs i and ii of paragraph *d* by the following subparagraphs:

“i. the aggregate of the cost to the insurer of acquiring the security and any amount in respect of the security that, for a taxation year ending before or concurrently with that time, has been included in computing the insurer’s income under paragraph *c* of section 632, or has been deemed by virtue of paragraph *a* of section 622*a* as it read for the taxation year 1977 to be a gain, exceeds

ii. the aggregate of all amounts that, before that time, the insurer became entitled to receive as full or partial payment of the principal amount of the security and any amount in respect of

the security that, for a taxation year ending at or before that time, was deductible under paragraph *e* of section 629 in computing the insurer's income or has been deemed under paragraph *b* of section 622*a* as it read for the taxation year 1977 to be a loss;"

(*b*) by replacing the period at the end of paragraph *f* by a semicolon and by inserting, after the said paragraph, the following paragraphs:

"(*g*) "segregated fund policy" means a life insurance policy under which the amount of benefits payable varies in accordance with the fair market value of the property of the segregated fund relating to the policy;

"(*h*) "policy loan" means an amount advanced by an insurer to a policyholder in accordance with the terms and conditions of a life insurance policy in Canada;

"(*i*) "interest", in relation to a policy loan, means the amount that must be paid in respect of the loan, in accordance with the terms and conditions of the policy in respect of which the loan is granted in order to maintain the policyholder's interest in the policy;

"(*j*) "amount payable", in respect of a policy loan at a particular time, means the amount of the loan and the interest thereon that is outstanding at that time;

"(*k*) "segregated fund trust" means a trust referred to in section 639*b*."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

150. (1) Section 626*a* of the said act, enacted by section 219 of chapter 22 of the statutes of 1975, is replaced by the following section:

"626*a*. For the purposes of sections 239 and 240, any property of a life insurer that would otherwise be a property identical to any other such property is deemed not to be so unless both properties are properties not included in a segregated fund and are properties used or held during the year either, both of them, in carrying on a life insurance business in Canada, or, both of them, in carrying on an insurance business in Canada other than a life insurance business."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

151. (1) Section 626*c* of the said act, enacted by section 89 of chapter 26 of the statutes of 1977, is amended by replacing the first paragraph by the following paragraph:

“626c. For the purposes of paragraph *d* of section 626, where in a taxation year ending after 1968 but before the particular time referred to in the said paragraph, an insurer carries on a life insurance business in Canada and an insurance business elsewhere and has not made the election provided for in section 618, as it read for the taxation year 1977, in respect of that year, each of the amounts referred to in subparagraphs *i* and *ii* of the said paragraph, except the cost of acquiring the security and an amount that the insurer was entitled to receive as full or partial payment of the principal amount of the security, is deemed, in respect of that year, to be equal to the greater of that amount and such proportion of that amount as the value for the year of the insurer’s specified Canadian assets is of the insurer’s Canadian investment fund for the year.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

152. (1) Section 628 of the said act, amended by section 220 of chapter 22 of the statutes of 1975, is again amended by striking out paragraph *b*.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

153. (1) Section 629 of the said act, amended by section 96 of chapter 17 of the statutes of 1973, is again amended:

(a) by striking out paragraph *c*;

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

“(f) any policy loan granted by him in the year and after 1977.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

154. (1) The said act is amended by inserting, after section 629, the following section:

“629a. For the purposes of subparagraph *i* of paragraph *a* of section 629,

(a) an insurer’s 1975/1976 excess policy dividend deduction, within the meaning of the regulations, is deemed to be an amount that was deductible under the said paragraph in computing its income for taxation years before its taxation year 1977; and

(b) an insurer’s 1977 excess policy dividend deduction, within the meaning of the regulations, is deemed to be an amount

that was deductible under the said paragraph in computing its income for taxation years before its taxation year 1978.”

(2) This section applies to the taxation year 1977 and subsequent taxation years; however, to the extent that it enacts paragraph *b* of section 629*a* of the Taxation Act, it applies to the taxation year 1978 and subsequent taxation years.

155. (1) Section 630 of the said act is replaced by the following sections:

“630. Notwithstanding any other provision of this act, an insurer referred to in section 616 shall not make any deduction:

(*a*) under sections 129 or 199 to 202 in computing its income for a taxation year from its life insurance business in Canada in respect of a premium or other consideration for a life insurance policy in Canada or in respect of a Canadian security or interest thereon, or

(*b*) under section 148 or 151 in computing its income for a taxation year from carrying on an insurance business in Canada, except to the extent provided for in section 630*a*.

“630*a*. An insurer referred to in section 616 may however claim in computing its income for a taxation year from carrying on an insurance business in Canada a deduction under section 148 or 151 in respect of interest,

(*a*) on borrowed money used to acquire property used or held by it in the course of carrying on that business to the extent that that interest is paid or payable in respect of that portion of the year during which that property is so used or held;

(*b*) on an amount payable for property acquired and used or held by it in the course of carrying on that business to the extent that that interest is paid or payable in respect of that portion of the year during which that property is so used or held; or

(*c*) on deposits received or other amounts held by it in connection with life insurance policies in Canada.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

156. (1) Section 632 of the said act, amended by section 98 of chapter 17 of the statutes of 1973, is again amended:

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

“(a) each amount that it has deducted as a reserve under paragraph *a*, *c* or *d* of section 628 in computing its income for the preceding taxation year;”;

(b) by striking out the word “and” at the end of paragraph *b*, by replacing the period at the end of paragraph *c* by the following: “; and”, and by inserting, after the said paragraph *c* the following paragraph:

“(d) every amount received by the insurer in the year as repayment of a policy loan or as interest on that loan.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

157. (1) The said act is amended by inserting, after section 632, the following section:

“**632a.** For the purposes of paragraph *a* of section 632, an insurer is deemed to have deducted in computing its income for its taxation year 1976 or its taxation year 1977, as the case may be, the prescribed amounts.”

(2) This section applies in computing the income of an insurer for its taxation year 1977 and subsequent taxation years.

158. (1) Section 633 of the said act, amended by section 99 of chapter 17 of the statutes of 1973, is replaced by the following section:

“**633.** A life insurer shall not claim any deduction under sections 556 to 561*b* in computing its taxable income for a taxation year.

It may however deduct in computing its taxable income the aggregate of taxable dividends included in computing its income for the year and received by it in the year from a taxable Canadian corporation.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

159. (1) Section 634 of the said act is replaced by the following section:

“**634.** The taxable income of a life insurer resident in Canada, for a taxation year, is obtained by adding to its taxable income for the year, computed according to the other provisions of this Part, twice the aggregate of the amounts paid after the end of its taxation year 1968 and before the end of the taxation year, as dividends or stock dividends in respect of the shares of its capital stock, after deducting from such dividends the aggregate of the amounts provided for in sections 635 to 638.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

160. (1) Section 635 of the said act is amended by replacing the first paragraph by the following paragraph:

“635. Where, in a taxation year, the insurer referred to in section 634 carries on an insurance business elsewhere than in Canada, it shall deduct from the dividends mentioned in the said section, the lesser of the aggregate of the dividends and stock dividends that it pays during the year on shares of its capital stock, and the amount of the tax for the year paid by it to the government of a country other than Canada under the income tax laws of that other country.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

161. (1) Section 636 of the said act is replaced by the following section:

“636. Where, in a taxation year, the insurer referred to in section 634 does not carry on an insurance business elsewhere than in Canada, it must deduct from the dividends mentioned in the said section the lesser of the aggregate of dividends and stock dividends that it pays during the year on shares of its capital stock, and the amount of tax that it pays for the year to the government of a country other than Canada under the income tax laws of that other country.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

162. (1) Section 637 of the said act is amended by replacing paragraph *c* by the following paragraph:

“(c) the insurer’s contributed surplus;”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

163. (1) Section 638 of the said act is replaced by the following section:

“638. For the purposes of paragraph *b* of section 637, the surplus operating fund of the insurer at the end of a particular taxation year referred to therein means the aggregate, for each taxation year included in the period beginning with its taxation year 1969 and ending with that particular taxation year, of its income from all the insurance businesses that it carries on, to which shall be added the aggregate of the amounts deemed, under section 554*a*, to have been deductible in computing its income for its taxation years ending before 1977, and all the profits or gains

that it makes during this period upon the disposition of property not included in a segregated fund and which it uses or holds in the course of carrying on such a business in Canada, to the extent that they are not or have not been included in computing its income or loss from that business for a taxation year included in that period, less the aggregate of the following amounts, for the same period:

(a) the loss that the insurer sustains in carrying on all its insurance businesses, to which must be added the loss which it sustains upon disposition of property not included in a segregated fund that it uses or holds in the course of carrying on such a business in Canada, to the extent that they have not been included in computing its income or loss from that business for a taxation year included in that period;

(b) the taxes payable by the insurer under this Part, except those which failing section 634 would not have been payable and any income tax payable to the government of Canada and that of another province;

(c) the gifts that the insurer makes to a person or organization described in paragraphs *a* or *b* to *h* of section 532; and

(d) the excess, for the particular year, of the amount determined in subparagraph i of paragraph *a* of the said section 629 over that determined in subparagraph ii of the said paragraph."

(2) This section applies to the taxation year 1977 and subsequent taxation years.

164. (1) Section 639 of the said act is repealed.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

165. (1) The said act is amended by inserting after section 639, the following chapter, divisions and sections:

"CHAPTER IV

"RULES APPLICABLE TO SEGREGATED FUNDS

"DIVISION I

"GENERALITIES

"639a. For the purposes of this Part, the rules provided in this chapter apply where all or any portion of an insurer's reserves in respect of life insurance policies vary depending on the fair market value of a specified group of properties.

“639b. An *inter vivos* trust is deemed to be created in respect of an insurer’s segregated fund at the time that is the later of the day that the segregated fund is created and the day on which the insurer’s taxation year 1978 commences, and to continue in existence throughout the period during which the fund determines any portion of the benefits payable under its segregated fund policies.

Property of the fund and any income accruing on that property are deemed to be the property and income of that trust and the insurer is deemed to be the trustee having control of the property of the trust.

“639c. For the purposes of paragraph *a* of section 493 and sections 488 and 501, the income of a segregated fund trust for a taxation year is deemed to be an amount payable in the year to the beneficiaries of the trust and the amount payable to each beneficiary is equal to the amount determined in conformity with the terms and conditions of the segregated fund policy relating to the trust.

“639d. The expression “terms and conditions of the trust arrangement” in sections 483 to 514 is deemed to include the terms and conditions of a segregated fund policy and the trustee is deemed to have designated the amounts referred to in the said sections in accordance with those terms and conditions.

“DIVISION II

“RULES RELATING TO AN INSURER

“639e. Where property of a segregated fund trust is used or held by an insurer in the course of carrying on his life insurance business in Canada, the insurer is deemed to be a resident of Canada in respect of that property and a non-resident of Canada in respect of the other property of the trust.

“639f. Where, at a particular time, a segregated fund trust has property that was not funded with premiums paid under a segregated fund policy relating to the trust, the insurer is deemed to have an interest in the trust that is not in respect of any particular property or separate source of income.

The cost at a particular time of that interest to an insurer is deemed to be equal to the aggregate of the amount that would be the adjusted cost base, to the insurer, of the property described in the first paragraph at that time that it allocated to the segregated fund prior to 1978 if that interest had been a capital property at all times prior to 1978 and if the rules provided in this chapter had applied to the taxation years 1972 to 1977, and the fair market value, at the

time the insurer last allocated it to the fund, of the other property described in the said paragraph at that particular time that the insurer allocated to the segregated fund after 1977.

“639g. Where any portion of the benefits payable by an insurer under a segregated fund policy varies with the fair market value of the property of the segregated fund at the time the benefits become payable, the obligations of the insurer in respect of that portion of the benefits are deemed to be obligations of the trustee of the segregated fund trust relating to that policy.

“639h. Where, at a particular time, the fair market value of property transferred by an insurer to a segregated fund results in both an increase at that time in the portion of the insurer’s reserves in respect of a segregated fund policy that vary with the fair market value of the property of the fund and a decrease in the portion of those reserves that do not so vary, the amount of that increase is deemed, for the purposes of computing the income of the insurer, to be a payment made by it in accordance with the terms and conditions of the policy at that time.

“639i. Where, at a particular time, the fair market value of property from a segregated fund transferred by an insurer results in both a decrease, at that time, in that portion of the insurer’s reserves in respect of a segregated fund policy that vary with the fair market value of the property of the fund and an increase in the portion of those reserves that do not so vary, the amount of that increase is deemed, for the purposes of the income of the insurer, to be a premium received by it at that time.

“639j. Where an insurer holds property at the end of its taxation year 1977 in connection with a segregated fund, the following rules apply:

(a) the insurer is deemed to have disposed of the property on the day referred to in section 639b for proceeds equal to its adjusted cost base to the insurer on that day and the segregated fund trust is deemed to have acquired that property on the same day at a cost equal to those proceeds;

(b) the transaction referred to in paragraph a is deemed to be made between persons not dealing at arm’s length; and

(c) the insurer is deemed, for the purposes of computing its income for the taxation year 1978, to have paid in the year to its policyholders in satisfaction of their rights under their segregated fund policies, an amount equal to that portion of the amount deducted under paragraph a of section 628 in computing its income for the taxation year 1977 that is in respect of segregated fund policies other than deposit administration policies.

"DIVISION III

"RULES RELATING TO POLICYHOLDERS

"639k. Where, at a particular time, a segregated fund trust has property that was funded with a portion of the premiums paid before that time under a segregated fund policy relating to the trust, that portion of the premiums is deemed not to have been paid in respect of those premiums and the holder of such a policy is deemed to have an interest in the trust that is not in respect of any particular property or any separate source of income.

The cost of that interest to the policyholder at a particular time is deemed to be equal to the aggregate of the amount that would be the adjusted cost base on 31 December 1977, to the insurer, of the property described in the first paragraph if that interest had been a capital property at all times prior to 1978 and if the rules provided in this chapter, but for the words "capital loss" and "loss" in section 639p, had applied to the taxation years 1972 to 1977, and the portion, other than that representing the costs of acquisition, of the premiums described in the said paragraph and paid before that time but after the insurer's taxation year 1977, that the insurer has used or must use to fund the property of the segregated fund.

"639l. For the purposes of computing the adjusted cost base to the holder of a segregated fund policy of his interest in the segregated fund relating to that policy, the amount of the increase referred to in section 639h in respect of that policy must, at the particular time referred to in the said section, be added to the cost to him of that interest.

For the purposes of section 707, the amount of that increase is deemed to be the proceeds of the disposition of an interest in the policy that the holder becomes entitled to receive at that time.

"639m. In the case referred to in section 639g, any amount that the holder of the segregated fund policy receives or becomes entitled to receive at a particular time in conformity with an obligation referred to in the said section is deemed to be the proceeds of the disposition of an interest in the segregated fund trust relating to that policy.

"639n. Where, at a particular time, the holder of a segregated fund policy disposes of all or a portion of his interest in the segregated fund trust relating to that policy, the trust is deemed to sustain a capital loss that is equal to the amount computed under section 639o and that, for the purposes of section 639p, reduces by that amount the benefits payable to the policyholder under that policy.

“639o. The amount referred to in section 639n is equal to that proportion of the amount by which the acquisition fee of the segregated fund policy exceeds the aggregate of the amounts determined under the said section in respect of the policy before the particular time, that the fair market value, at the particular time, of the interest disposed of is of the fair market value, immediately before the particular time, of the policyholder’s interest in the segregated fund trust relating to that policy.

“639p. A capital gain or capital loss of a segregated fund trust from the disposition of any property is deemed to be a capital gain or a capital loss, as the case may be, of a holder of a segregated fund policy relating to the trust or of another beneficiary of the trust to the extent that the benefits payable to that policyholder under his policy or the interest of that other beneficiary in the trust are affected by that gain or that loss.

“639q. For the purposes of this chapter, the expression “acquisition fee” means the amount by which the aggregate of the amounts described in section 639r exceeds the aggregate of the portions of each of those amounts that may reasonably be considered to be in respect of an interest in the segregated fund that was disposed of before 1978.

“639r. The amounts referred to in section 639q are the following:

(a) the amount of that portion of a premium under a segregated fund policy that cannot reasonably be regarded as an amount required to fund a mortality or maturity benefit or that is not included in the segregated fund relating to that policy;

(b) the amount of a transfer from a segregated fund that cannot reasonably be regarded as an amount required to fund a mortality or maturity benefit, except annual administration fees;

(c) the amount of the decrease in the proceeds payable to the holder of a segregated fund policy on the surrender or partial surrender of the policy to the extent that that amount may reasonably be regarded as a surrender fee.

“639s. For the purposes of this chapter, where a segregated fund policy is issued or effected as a registered retirement savings plan or issued pursuant to a registered retirement plan, the policyholder is deemed to be a trust described in paragraph *g* of section 730 or a trust or corporation described in paragraph *d* of the said section 730, as the case may be.

“DIVISION IV

“CAPITAL PROPERTY OF A
SEGREGATED FUND TRUST

“**639t.** (1) Where, at a particular time after 1977, the holder of a segregated fund policy withdraws all or part of his interest in that policy, the trustee of the segregated fund trust relating to that policy may elect, in prescribed manner and form, to treat any capital property of the trust as having been disposed of on the day designated by him for proceeds equal to the amount referred to in subsection 2 and to have been reacquired by the trust immediately thereafter at a cost equal to those proceeds.

(2) The amount referred to in subsection 1 is that designated by the trustee and that is:

(a) the fair market value of the capital property on the day of disposition;

(b) the adjusted cost base to the trust of the capital property on the day of disposition; or

(c) an amount that is neither greater than the greater of nor less than the lesser of the amounts determined under paragraphs *a* and *b*.

“**639u.** Where the trustee of a segregated fund trust has made the election provided for in subsection 1 of section 639t, the following rules apply:

(a) the trustee must allocate to any policyholder who withdraws, at the particular time referred to in the said subsection, all or part of his interest in a segregated fund policy relating to the trust, the amount of any capital gain or capital loss resulting from the disposition referred to therein to the extent that the amount of benefits payable to that policyholder under his policy at that time is affected by the capital gain or capital loss in respect of property held by the trust at that time;

(b) the allocation mentioned in paragraph *a* is deemed to have been made immediately before the withdrawal referred to therein;

(c) any capital gain that is not allocated in accordance with paragraph *a* is deemed to be allocated in accordance with the terms and conditions of the segregated fund policy; and

(d) any capital loss that is not allocated in accordance with paragraph *a* is deemed to be a non-deductible loss for each policyholder to the extent that the benefits payable under his policy would be affected by that loss.

“**639v.** At any particular time, the adjusted cost base of each capital property of a segregated fund trust is deemed to be

the amount by which the adjusted cost base of the property to the trust immediately before that time exceeds the aggregate of amounts each of which is an amount in respect of the disposition by the holder of a segregated fund policy relating to the trust of all or part of his interest in the trust at that time equal to that proportion of the amount by which the adjusted cost base to the policyholder of his interest in the trust at that time exceeds his proceeds of the disposition of such interest that the fair market value of the capital property at that time is of the fair market value of all capital property of the trust at the same time."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

166. (1) The said act is amended by inserting, before Book VII of Part I, the following title, chapters and sections:

"TITLE V

"RELIGIOUS ORGANIZATIONS

"CHAPTER I

"DEFINITIONS AND GENERALITIES

"639w. In this title,

(a) "adult" means an individual who is married or has attained the age of eighteen years;

(b) "business agency" means a corporation, a trust or any other person under the effective management or control of a congregation;

(c) "congregation" means a body of individuals, whether or not incorporated, that adheres to the practices and beliefs of the religious organization of which it is a constituent part;

(d) "family" means an adult, his spouse and their children who are not adults or, in the case of an unmarried adult, that person and his children who are not adults, but does not include an individual who is included in any other family or who is not a member of the congregation in which the family is included;

(e) "member of a congregation" means an adult, living with the members of the congregation, who conforms to the practices of the religious organization of which the congregation is a constituent part whether or not he has been formally accepted into the organization, and a child, other than an adult, of such adult, if the child lives with members of the congregation; and

(f) “religious organization” means an organization, other than a registered charity, of which a congregation is a constituent part, that adheres to beliefs, evidenced by the religious and philosophical tenets of the organization, that include a belief in the existence of a supreme being.

“**639x.** The rules included in sections 639y to 639za apply to a congregation, the members of which live and work together, that does not permit any of its members to own any property in his own right, that requires that its members devote their working lives to the activities of the congregation, and that carries on a business or has the effective management or control of a business agency that carries on a business for purposes that include supporting or sustaining its members or the members of any other congregation.

“**639y.** The property of the congregation and the property of all business agencies of the congregation are deemed to be the property of an *inter vivos* trust which is deemed to have existed continuously since 31 December 1976, and the corporation, where the congregation is a corporation, or other group of persons charged with the management of the congregation, in other cases, is deemed to be the trustee having control of the trust property.

“**639z.** The congregation and all business agencies of the congregation are deemed to act and have always acted as agents for the trust in respect of their business and other activities, and the members of the congregation are deemed to be the beneficiaries under the trust.

“**639za.** In computing the income of the trust for any taxation year, no deduction may be made in respect of salaries, wages or benefits of any kind whatever, paid to the members of the congregation.

“CHAPTER II

“ELECTION BY A TRUST

“**639zb.** A trust referred to in section 639y may, in accordance with section 639zc, elect that the amount that would be its taxable income for a taxation year if no deductions were made in respect of expenses incurred for the support, maintenance and satisfaction of the personal needs of the members of the congregation or under sections 531a to 531i, be deemed to have been payable by the trust in the year to the beneficiaries thereunder in accordance with sections 639zd to 639zf.

“639zc. An election under section 639zb in respect of a taxation year is not binding on the Minister unless the election is made on or before the day on or before which the trust is required by section 732 to file a fiscal return for the year, and unless all tax, interest and penalties payable under this Part by adult members referred to in section 639ze have been paid within the time required by this act.

“639zd. For the purposes of section 639zb, the trust is deemed to allocate to each family in the congregation at the end of the year the amount equal to the aggregate of:

(a) the amount referred to in the said section 639zb divided by $1\frac{1}{4}$ times the number of adults who are members of the congregation at the end of the year and multiplied by the number of adults in the family at that time; and

(b) the portion, determined by the congregation, of the amount by which the amount referred to in the said section 639zb exceeds the aggregate of amounts allocated under subparagraph a to the families in the congregation.

Where the trust, in its election under section 639zb, has not determined the portion of the excess, referred to in subparagraph b of the first paragraph, to be allocated to each family, this portion is deemed to be equal to the proportion of the excess that the number of adults in the family at the end of the year is of the number of adults who are members of the congregation at that time.

“639ze. The amount allocated to a family under section 639zd is deemed to have been payable by the trust in the year to, and to have been received in the year by, the adult member of the family who is specified in the election under section 639zb; that member of the family is deemed to have supported each of the other members of the family and the latter are deemed to have been wholly dependent on that member during that year.

“639zf. Where an adult member of a family is specified in an election under section 639zb for a taxation year, no other member of that family may be so specified in respect of the family for any subsequent taxation year if, at the end of that subsequent year, that adult is still a member of the family.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

167. (1) Section 645 of the said act, amended by section 100 of chapter 17 of the statutes of 1973 and by section 90 of chapter 26 of the statutes of 1977, is again amended by replacing subparagraph e of the first paragraph by the following subparagraph:

“(e) a dividend received by the trust from a taxable Canadian corporation, other than a dividend described in section 395, to the extent allocated by the trust to the beneficiary;”.

(2) This section applies to dividends received by a trust after 25 May 1976.

168. (1) Section 677 of the said act, amended by section 98 of chapter 26 of the statutes of 1977, is again amended by replacing the second paragraph by the following paragraph:

“In such case, the individual who was the annuitant under the plan before such operation must, in computing his income for a taxation year, include as income received at the time of that operation, an amount equal to the fair market value of all the property of the plan immediately before that time minus the amount required by section 689c to be included in computing the income of the individual’s spouse.”

(2) This section applies after 31 March 1977, except that in its application in respect of plans to which the first paragraph of section 677 of the Taxation Act applied before 26 May 1976, the second paragraph of the said section is deemed to read as on 25 May 1976.

169. (1) Section 686 of the said act is replaced by the following section:

“**686.** Where a trust governed by a registered retirement savings plan disposes in a taxation year of a property that, when acquired, was a non-qualified investment, the taxpayer who is the annuitant under the plan may deduct in computing his income for the year the lesser of the amount included in computing his income under section 691 in respect of the acquisition of that property and the proceeds of disposition of the property.”

(2) This section has effect from 15 December 1977.

170. (1) Section 689 of the said act, amended by section 226 of chapter 22 of the statutes of 1975, is replaced by the following section:

“**689.** A taxpayer shall include in computing his income for a taxation year an amount, other than an amount that is included in computing his income pursuant to the second paragraph of section 677, received by him in the year as a benefit out of or under a registered retirement savings plan.”

(2) This section applies after 31 March 1977.

171. (1) The said act is amended by inserting, after section 689b, the following sections:

“689c. 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 684a would be required by the second paragraph of section 677, if read without reference to the words “minus the amount required by section 689c 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 premiums paid by him to that plan and deductible under section 684a in computing his income for the year or deducted under that section in computing his income for either of the two immediately preceding taxation years not exceeding, in the aggregate, the particular amount.

“689d. For the purposes of section 689c, a plan to which a payment or transfer described in section 676 has been made from a plan to which an individual has paid a deductible premium under section 684a is deemed to be a plan referred to in the said section 689c.

“689e. Where an individual has paid more than one premium to a plan referred to in section 689c, any premium paid by him at any time is deemed to have been included in computing his income by virtue of the said section before those paid by him after that time.

“689f. Where all or any part of an amount has, by virtue of section 689c, been included at any particular time by an individual in computing his income for a taxation year, that amount or part, as the case may be, shall not subsequently be included by him in computing his income.

“689g. Section 689c does not apply in respect of

- (a) an individual during the taxation year in which he dies;
- (b) an individual where either the individual or his spouse is not resident in Canada at the particular time referred to in the said section; and
- (c) the amounts paid out of or under a new plan referred to in section 677 to which the first paragraph of the said section applied before 26 May 1976.”

(2) This section applies after 31 March 1977.

172. (1) Section 693d of the said act, enacted by section 23 of chapter 21 of the statutes of 1975, is amended by replacing paragraph c by the following paragraph:

“(c) the beneficiary or his spouse with whom he is residing does not own, alone or jointly with another person, or does not have

an interest in a partnership that so owns, an immoveable which has been used in whole or in part at any time in the taxation year as a dwelling place by an individual.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

173. (1) Section 693*dc* of the said act, enacted by section 103 of chapter 26 of the statutes of 1977, is replaced by the following section:

“**693*dc*.** For the purposes of the application of subparagraph *a* of the first paragraph of section 693*f* and of sections 693*n* and 693*x*, the first registered home ownership savings plan of a beneficiary and any new similar plan, referred to in section 693*da*, of such beneficiary are deemed to be one plan.”

(2) This section has effect from 15 December 1977.

174. (1) Section 693*f* of the said act, enacted by section 23 of chapter 21 of the statutes of 1975 and amended by section 104 of chapter 26 of the statutes of 1977, is again amended by replacing subparagraph *b* by the following subparagraph:

“(b) the Minister is satisfied that the requirements of subsection 1 of section 693*a* and of sections 693*c* and 693*d* were not complied with at the time the plan was registered or that the plan subsequently failed to meet the requirements of subsection 1 of the said section 693*a* or of the said section 693*c*; or”.

(2) This section applies after 31 March 1977.

175. (1) Section 693*n* of the said act, enacted by section 23 of chapter 21 of the statutes of 1975, is replaced by the following section:

“**693*n*.** An individual who, at any time in a taxation year, is a beneficiary under a registered home ownership savings plan, may deduct in computing his income for the year the amount of the premium paid by him to the plan during the year not exceeding the lesser of \$1 000 and \$10 000 minus the aggregate of premiums paid by him in respect of previous years.”

(2) This section applies to the taxation year 1978 and subsequent taxation years; however, where section 693*n* of the Taxation Act applies to the taxation year 1978, the said section 693*n* shall be read as follows:

“**693*n*.** An individual who, at any time in a taxation year, is a beneficiary under a registered home ownership savings plan, may deduct in computing his income for the year the amount of the

premium paid by him to that plan in the year, to the extent that he did not deduct such amount in computing his income for a previous year, not exceeding the lesser of \$1 000 and \$10 000 minus the aggregate of premiums paid by him in respect of previous years.”

176. (1) The said act is amended by inserting after section 693*n*, the following section:

“693*na*. Where, by virtue of section 693*q*, an individual has included an amount in computing his income for a particular taxation year, he may deduct in computing his income for the taxation year in which he acquires his owner-occupied home and that is one of the three taxation years next succeeding the particular taxation year, the lesser of

(a) the aggregate of all amounts that were used by him in the particular year or in any of these three years to acquire his owner-occupied home, and

(b) the amount by which the amount so included in computing his income exceeds the portion of such amount that has been deducted pursuant to paragraph *c* of section 309 or section 311 to 314 in computing his income for the particular year.”

(2) This section applies to payments out of a registered home ownership savings plan that were included in computing an individual’s income for the taxation year 1975 or any subsequent taxation year.

177. (1) Section 693*o* of the said act, enacted by section 23 of chapter 21 of the statutes of 1975, is replaced by the following section:

“693*o*. No amount may be deducted by an individual under section 693*n* for a taxation year if, in that year and the preceding year, he or his spouse with whom he resided during both years,

(a) had an owner-occupied home as defined in section 693*e* if that section were read without reference to the period of 60 days; or

(b) owned, alone or jointly with another person, or had an interest in a partnership that so owned an immoveable that was used in whole or in part at any time of those years as a dwelling place by an individual.”

(2) This section applies to the taxation year 1977 and subsequent taxation years; however, where section 693*o* of the Taxation Act applies to the taxation year 1977, the said section 693*o* shall be read while replacing the expression “he or his spouse with whom he resided during both years” by the word “he” and the word “immoveable” by the expression “immoveable in Canada”.

178. (1) Section 693p of the said act, enacted by section 23 of chapter 21 of the statutes of 1975, is replaced by the following section:

“693p. Sections 686 and 688 apply *mutatis mutandis* to the deduction allowable for a beneficiary where a trust governed by a registered home ownership savings plan disposes in a taxation year of a property that, when acquired, was a non-qualified investment or where a loan for which a property of the trust was used as security ceases to be extant, as if a reference to section 691 were a reference to section 693s.”

(2) This section has effect as from 15 December 1977.

179. (1) Section 693q of the said act, enacted by section 23 of chapter 21 of the statutes of 1975 and amended by section 105 of chapter 26 of the statutes of 1977, is replaced by the following section:

“693q. An individual shall include in computing his income for a taxation year the aggregate of all amounts he receives in the year from a trust governed by a registered home ownership savings plan, except to the extent that such amount:

(a) is a payment to the individual and is used by him in the year or within the 60 following days, to acquire his owner-occupied home, except that which, immediately preceding such acquisition, is owned by his spouse;

(b) is deemed to have been received by a beneficiary under section 693u and is included in computing the income of a taxpayer; or

(c) is the refund, made within 120 days after the end of the preceding year, of the excess described in subparagraph a of the first paragraph of section 693f.”

(2) This section applies to the taxation year 1977 and subsequent taxation years; however, where paragraph a of section 693q of the Taxation Act applies to the taxation year 1977, the said paragraph shall be read while inserting, after the word “spouse”, the following: “, or prescribed home-furnishings for his owner-occupied home or that of his spouse”, and while assuming that the exclusion mentioned therein only applies to a transaction made after 12 April 1977.

180. (1) The said act is amended by inserting, after section 693w, the following section:

“693x. In respect of a particular taxation year of a beneficiary under a registered home ownership savings plan that is

the twenty-first taxation year of the beneficiary after his taxation year in which the plan was entered into, and in respect of taxation years subsequent thereto:

(a) the beneficiary is deemed to have received in the particular year, from a trust governed by such a plan, an amount equal to the fair market value of all the property of the trust as at the end of the preceding year;

(b) notwithstanding sections 693na and 693q, no amount may be deducted in computing the beneficiary's income in respect of any amounts used to acquire an owner-occupied home in the particular year or any subsequent year; and

(c) the plan is deemed, for the purposes of this Part, not to be such a plan any longer."

(2) This section has effect as from 15 December 1977.

181. (1) Section 698 of the said act, amended by section 26 of chapter 18 of the statutes of 1973, is again amended:

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

"(a) "disposition", in relation to an interest in a life insurance policy, includes the surrender of the policy, a policy loan made after 31 March 1978 in respect of the policy, the dissolution of that interest by virtue of the maturity of the policy and the disposition of that interest by operation of law only, but does not include:

(i) the termination of the policy in consequence of the death or total and permanent incapacity of a person whose life was insured under the policy,

(ii) the assignment of all or any part of an interest in the policy for the purpose of securing a debt or a loan other than a policy loan,

(iii) the lapse of the policy in consequence of non-payment of the premiums, if the policy was reinstated within the 60 days after the end of the calendar year in which the lapse occurred, nor

(iv) an annuity payment under a life annuity contract;"

(b) by inserting, after paragraph *a*, the following paragraph:

"(aa) "insurer" or "life insurer" includes a person who is licensed or otherwise authorized under a law of Canada or a province to issue contracts that are life annuity contracts within the prescribed meaning of that term;"

(c) by replacing paragraph *b* by the following paragraphs:

"(b) "segregated fund trust", "segregated fund", "interest", "amount payable" and "life insurance policy" have the meaning assigned by section 626;

“(ba) “person whose life was insured” includes an annuitant under a life annuity contract within the meaning of the regulations;

“(bb) “policy loan” means an amount advanced by an insurer to a policyholder in accordance with the terms and conditions of a life insurance policy;

“(bc) “premium” under a life insurance policy includes interest paid after 1977 to a life insurer in respect of a policy loan in respect of such policy;

“(bd) “proceeds of the disposition” of an interest in a life insurance policy means the amount of the proceeds that the policyholder, beneficiary or assignee, as the case may be, is entitled to receive on a disposition of such interest and also means,

(i) in respect of a surrender or maturity of the policy, the amount by which the cash surrender value of that interest in the policy at the time of surrender or maturity, excluding that portion of the cash surrender value that is applicable to a policyholder’s interest in the segregated fund trust related to that policy as referred to in section 693k, exceeds the aggregate of the amounts payable at that time by the policyholder in respect of a policy loan in respect of the policy or a premium under the policy that is due but unpaid at that time;

(ii) in respect of a policy loan in respect of that policy made after 31 March 1978, the amount of the policy loan;”.

(2) This section applies after 31 March 1978, except to the extent that paragraph c of subsection 1 enacts the definition of the expression “segregated fund trust”, in which case it applies to the taxation year 1978 and subsequent taxation years.

182. (1) Section 699 of the said act is replaced by the following section:

“699. For the purposes of sections 700 and 707, where at a particular time a policyholder becomes entitled to receive, under a life insurance policy, an amount as, on account, in lieu or in satisfaction of a policy dividend, such holder is deemed to dispose at that time of an interest in the policy and that amount is deemed to be the proceeds of disposition that he is entitled to receive for such interest.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

183. (1) Section 700 of the said act is replaced by the following section:

“700. (1) 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 such policy becomes entitled to receive in the year over the adjusted cost base, for the holder, of such interest immediately before the disposition.

(2) For the purposes of subsection 1, a “life insurance policy” does not include an annuity contract that is not a life annuity contract as defined by regulation, or a policy that is a registered pension fund or plan, a registered retirement savings plan, a deferred profit sharing plan or an income-averaging annuity contract or that is issued pursuant to such a plan or such an annuity contract.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

184. (1) Section 701 of the said act, amended by section 110 of chapter 17 of the statutes of 1973, is repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years; moreover, where subsection 2 of section 701 of the Taxation Act is applicable to the taxation years 1972 to 1977, the said subsection shall be read as follows:

“(2) The rule provided by subsection 1 does not apply in the case of a policy that is subscribed or issued as a registered retirement savings plan or issued pursuant to a registered pension plan.”

185. (1) Section 703 of the said act is amended by replacing the first paragraph by the following paragraph:

“**703.** Where a policyholder disposes to a person, by gift *inter vivos* or by will, by distribution from a corporation or by operation of law only, of his interest in a life insurance policy other than an annuity contract that is not a life annuity contract as defined by regulation, he is deemed to be entitled thereby to receive proceeds of disposition equal to the value of the interest at the time of such disposition, which value is deemed to be the cost of acquisition of such interest for the person in favour of whom such disposition is made.”

(2) This section applies to the taxation year 1978 and subsequent taxation years.

186. (1) Section 704 of the said act is replaced by the following section:

“**704.** For the purposes of this title, where all or part of the reserves of an insurer in respect of a life insurance policy vary with the fair market value of the assets of a segregated fund, the pro-

ceeds of disposition of an interest in the policy are deemed not to include the portion of such proceeds payable out of the segregated fund."

(2) This section applies to the taxation year 1978 and subsequent taxation years.

187. (1) Section 705 of the said act is repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

188. (1) Section 705*a* of the said act, enacted by section 24 of chapter 21 of the statutes of 1975 and amended by section 228 of chapter 22 of the statutes of 1975 and by section 16 of chapter 18 of the statutes of 1976, is repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

189. (1) Section 706 of the said act is repealed.

(2) This section applies to the taxation year 1978 and subsequent taxation years.

190. (1) Section 707 of the said act is replaced by the following section:

"707. In this title, the adjusted cost base to a policyholder of his interest in a life insurance policy, at a particular time, means the amount by which the aggregate of all proceeds of disposition of his interests in the policy which he became entitled to receive before that time, the amount to be paid on 31 March 1978 in respect of a policy loan in respect of the policy and the amounts received before that particular time in respect of such policy and deductible in computing his income for a taxation year under paragraph *f* of subsection 1 of section 306, is exceeded by the aggregate of

(*a*) the cost to him of each interest acquired by him in the policy before that particular time but not including an amount referred to in paragraph *b* or *d*;

(*b*) the amounts paid before that particular time, by him or on his behalf, in respect of a premium under the policy;

(*c*) the amounts in respect of the disposition of an interest in the policy before that particular time that he was required to include in computing his income for a taxation year under sections 109 to 114, paragraph *c* of section 287 or section 700;

(*d*) the amounts repaid after 31 March 1978 and before that particular time of a policy loan in respect of the policy, but not

including any repayment of a loan deductible pursuant to paragraph *k* of section 145; and

(*e*) the amount by which the cash surrender value of the policy as at its first anniversary date after 31 March 1977 exceeds the adjusted cost base, determined under the provisions of this Part which were then applicable but without taking sections 709 and 710 into account, of his interest in the policy on that anniversary date."

(2) This section applies after 31 March 1978.

191. (1) Sections 709 and 710 of the said act are repealed.

(2) This section applies after 31 March 1978.

192. (1) The said act is amended by inserting, after section 717, the following chapter, divisions and sections:

"CHAPTER IIIA

"CHARITIES

"DIVISION I

"DEFINITIONS AND GENERALITIES

"717a. In this chapter,

(*a*) "taxation year" means, in the case of a registered charity, a fiscal period;

(*b*) "qualified donee" means a donee referred to in paragraphs *a* and *b* to *h* of section 532;

(*c*) "related business" in relation to a charity includes a business that is unrelated to the purposes of the charity if substantially all of the persons employed by the charity in the carrying on of that business are not remunerated for such employment;

(*d*) "charitable foundation" means a corporation or trust, other than a charitable organization, constituted and operated exclusively for charitable purposes, including the payment of funds to a qualified donee, if no part of the income of such corporation or trust is payable to, or is otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settlor thereof;

(*e*) "private foundation" means a charitable foundation that is not a public foundation;

(*f*) "public foundation" means a charitable foundation of which more than 50% of the directors or trustees deal with each

other and with each of the other directors or trustees at arm's length, and of which not more than 75% of the capital contributed or otherwise paid in to the foundation has been so contributed or otherwise paid in by one person or by a group of persons who do not deal with each other at arm's length;

(g) "charitable organization" means an organization, whether or not incorporated, all the resources of which are devoted to charitable activities carried on by the organization itself and no part of the income of which is payable to, or is otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settlor thereof.

"717b. A charitable organization is considered to be devoting its resources to charitable activities carried on by it to the extent that

(a) it carries on a related business;

(b) in any taxation year, it disburses not more than 50% of its income for that year to qualified donees;

(c) it disburses part of its income to a registered charity that the Minister has designated in writing as a charity associated with it under section 717c; or

(d) it pays to a qualified donee an amount that is not paid out of the income of the charitable organization.

"717c. On application made to him in prescribed form, the Minister may, in writing, designate a registered charity as a charity associated with one or more specified registered charities, where he is satisfied that the charitable aim or activity of each of these registered charities is substantially the same, and on and after a date specified in such designation, the charities to which it relates are, until such designation is revoked, deemed to be associated charities.

"717d. On application made to him by a private foundation, the Minister may, on such terms and conditions as he determines, designate the foundation to be a public foundation, and on and after the date specified in such designation, the foundation shall, until such designation is revoked, be deemed to be a public foundation.

"DIVISION II

"REGISTRATION

"717e. (1) On application made to him in prescribed form, the Minister may approve for registration a charitable organiza-

tion or a charitable foundation that is resident in Canada and was either created or established in Canada.

(2) An organization that, on 31 December 1976, was a registered Canadian charitable organization prescribed within the meaning of the regulations made under section 532, as they read in their application to the 1976 taxation year and whose registration has not been revoked by the Minister, or a charity that is in conformity with the standards prescribed for such purpose, shall be considered to be a registered charity.

“DIVISION III

“REVOCATION OF REGISTRATION

“**717f.** The Minister may, in the manner provided in sections 788 and 789, revoke the registration of a charitable organization where the organization

(a) carries on a business that is not a related business; or

(b) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts that, in the aggregate, are at least equal to the percentage determined in section 717j of the aggregate of amounts for which it issued receipts referred to in section 534 in its preceding taxation year.

“**717g.** The Minister may, in the manner provided in sections 788 and 789, revoke the registration of a public foundation where the foundation

(a) carries on a business that is not a related business;

(b) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts that are at least equal to the greater of

(i) the percentage determined in section 717j of the aggregate of amounts for which it issued receipts referred to in section 534 in its preceding taxation year, other than gifts described in paragraph *a* of section 717n, and

(ii) 90% of its income for the year;

(c) has, since 1 June 1950, acquired control of any corporation; for such purpose, a corporation is controlled by a charitable foundation if more than 50% of its issued share capital, having full voting rights under all circumstances, belongs to the foundation or both the foundation and persons with whom the foundation does not deal at arm's length; however, a charitable foundation is deemed not to have acquired control of a corporation if it has not

purchased or otherwise acquired for a consideration any of the shares in the capital stock of the corporation;

(*d*) has, since 1 June 1950, incurred debts, other than debts for current operating expenses, debts incurred in connection with the purchase and sale of investments and debts incurred in the course of administering charitable activities; or

(*e*) at any time within the 24 month period preceding the day on which notice is given to the public foundation by the Minister pursuant to section 788 and at a time when the public foundation was a private foundation, failed to expend amounts or took any action such that the Minister was entitled, pursuant to section 717*h*, to revoke its registration as a private foundation.

“717*h*. The Minister may, in the manner provided in sections 788 and 789, revoke the registration of a private foundation in the cases provided for in paragraphs *c* and *d* of section 717*g* or where the foundation

(*a*) carries on any business; or

(*b*) fails to expend in any taxation year, on charitable activities carried on by it and by way of gifts made by it to qualified donees, amounts that, in the aggregate, are at least equal to the amount determined in section 717*i* for that year.

“717*i*. The aggregate referred to in section 717*h*, for a taxation year of a private foundation, is equal to the aggregate of

(*a*) the greater of

(i) 5% of the fair market value of all capital properties of the foundation, as of the beginning of the year but excluding its qualified investments referred to in section 717*k*, its capital properties used directly by it in charitable activity or in its administration and any other property accumulated by it with the consent of the Minister given pursuant to section 717*o*, and

(ii) 90% of its income for the year derived from its capital properties referred to in subparagraph i; and

(*b*) 90% of the amount by which the income of the foundation for the year exceeds its income derived in that year from its capital properties referred to in subparagraph i of paragraph *a*.

“717*j*. The percentage referred to in paragraph *b* of each of sections 717*f* and 717*g* and in section 717*l* is, where the preceding taxation year is

(*a*) 1976, 50%;

(*b*) 1977, 60%;

(*c*) 1978, 70%; and

(d) 1979 or any subsequent taxation year, 80%.

“717k. For the purposes of paragraph *a* of section 717i, a qualified investment of a private foundation is

(a) an investment referred to in paragraphs *a* to *e* and *h* of section 692;

(b) a mortgage, hypothec or any right therein, secured by real property situated in Canada, except if the debtor is

(i) a director, trustee or employee of the foundation or a person with whom any such director, trustee or employee does not deal at arm's length, or

(ii) a person or a member of a group of persons who do not deal with each other at arm's length, who or that contributed or otherwise paid to the foundation more than 75% of the capital contributed to or otherwise paid in to it;

(c) an interest in a corporation referred to in paragraph *b* of section 727;

(d) a share in the capital stock of a company referred to in paragraph *c* of section 730;

(e) a share in the capital stock of a mutual fund corporation;

(f) a unit of a mutual fund trust;

(g) a share in the capital stock of a public corporation;

(h) a warrant or right listed on a prescribed stock exchange in Canada that gives the owner thereof the right to acquire any qualified investment referred to in this section, except an investment referred to in this paragraph;

(i) a share in the capital of a savings and credit union; and

(j) any other prescribed investment.

“717l. Notwithstanding paragraph *b* of section 717f and subparagraph *i* of paragraph *b* of section 717g, the Minister shall not revoke the registration of a charity under these provisions, where, in a taxation year of the charity in which it fails to meet the requirements of these provisions and in its immediately preceding taxation years subsequent to 1976 but not exceeding four in number, it expended on charitable activities carried on by it and by way of gifts made by it to qualified donees an amount at least equal to the relevant percentages, determined in section 717j, of those amounts for which it issued receipts referred to in section 534 in its taxation years subsequent to 1975 but not exceeding five in number, immediately preceding the year in which it so fails to meet the requirements of such provisions.

“DIVISION IV

“RULES RELATING TO COMPUTATION OF INCOME

“**717m.** For the purposes of this chapter, in computing an amount that is at least equal to a specified percentage of the income of a charity for a period, the income of such charity is deemed to be the amount of such income otherwise determined, computed without taking into account capital gains and losses.

“**717n.** For the purposes of this chapter, a charity must include, in computing its income for a taxation year, all gifts it has received in the year other than

(a) any gift subject to a trust clause or a stipulation to the effect that the property received as a gift, or property substituted therefor, is to be held by the charity for a period of not less than 10 years;

(b) any gift or portion of a gift made by a donor who is not a charity and in respect of which he has not deducted any amount under paragraphs *b* to *h* of section 532 or was not taxable under sections 17 to 22 for the taxation year in which the gift was made; or

(c) any gift or portion of a gift made by a donor that is a charity, if such gift was not made out of the income of the donor.

“**717o.** A registered charity may, with the approval of the Minister, accumulate property for a particular purpose, on such terms and conditions and over such period of time as specified in the approval; any property so accumulated, including any income related thereto, is deemed to have been expended on charitable activities carried on by the charity in the taxation year in which it was so accumulated.

“**717p.** Property accumulated by a registered charity as provided in section 717o, including any income related thereto, that is not used for the purpose provided in the said section before the expiration of the period specified therein or at any earlier time at which a decision has been made in such respect by the charity, is deemed to be income of the charity for its taxation year in which such period expires or such decision is made, as the case may be.

“**717q.** For the purposes of this chapter, paragraphs *a* and *b* of section 493 are not applicable in computing the income of a charitable foundation that is a trust.

“**717r.** In computing its income for a taxation year, a charitable foundation may, for the purposes of subparagraph ii of

paragraph *b* of section 717*g* and of paragraph *b* of section 717*i*, deduct an amount not exceeding its income for the preceding taxation year before the application of this section; it shall include, in such computation and for the same purposes, any amount deducted therefrom for the preceding taxation year under this section.

“DIVISION V

“RULES OF APPLICATION

“**717s.** For the purposes of determining whether a charitable foundation has complied with the requirements of subparagraph ii of paragraph *b* of section 717*g* or of paragraph *b* of section 717*h* in respect of the amounts expended in a taxation year, the foundation, if it so elects, is deemed to have expended in its first taxation year and not in the subsequent taxation year, the amounts it expends in its subsequent taxation year.

“**717t.** Where a charity has, with the prior approval of the Minister, expended a disbursement excess for a taxation year for a particular purpose and on the terms and conditions specified in such approval, the charity may, for the purpose of determining whether it has complied with the requirements of paragraph *b* of section 717*f*, of subparagraph ii of paragraph *b* of section 717*g* or of paragraph *b* of section 717*h*, as the case may be, for its taxation years immediately subsequent to that taxation year but not exceeding three in number, include in the computation of the amounts expended for charitable activities carried on by it and by way of gifts made by it to qualified donees, such portion of the disbursement excess for that taxation year as was not so included under this section for a previous taxation year.

“**717u.** The disbursement excess referred to in section 717*t* is the amount by which the aggregate of amounts expended in the year by the charity on charitable activities carried on by it or by way of gifts made to qualified donees exceeds

(a) in the case of a charitable foundation, the aggregate of its income for the year computed without regard to section 717*r*, and the amount required by the said section 717*r* to be included in computing its income for the year; or

(b) in the case of a charitable organization, the aggregate of amounts for which it issued receipts referred to in section 534 in its preceding taxation year.

“DIVISION VI

“INFORMATION RETURNS

“717v. Every registered charity shall, within three months from the end of each taxation year, file with the Minister an information return for the year in prescribed form and containing prescribed information, without notice or demand therefor.

“DIVISION VII

“EXEMPTION FROM TAX

“717w. A registered charity is exempt from tax.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

(3) Where section 717*i* of the Taxation Act is applicable to the taxation years 1977 and 1978 of private foundations, the expression “5 per cent” mentioned therein shall be read as follows:

(a) in respect of 1977 taxation years commencing in 1976, “zero per cent”;

(b) in respect of 1977 and 1978 taxation years commencing in 1977, “3 per cent”; and

(c) in respect of all other 1978 taxation years, “4 per cent”.

(4) Where section 717*r* of the Taxation Act is applicable to the taxation year 1977 of a charitable foundation, the said section shall be read as follows:

“717r. In computing its income for a taxation year, a charitable foundation may, for the purposes of subparagraph ii of paragraph *b* of section 717*g* and of paragraph *b* of section 717*i*, deduct an amount not exceeding its income for the preceding taxation year before the application of section 724 as it read for that year; it shall include, in such computation and for the same purposes, any amount deducted therefrom for the preceding taxation year under the said section 724.”

193. (1) The heading of Chapter IV of Title II of Book VIII of Part I, preceding section 718, is replaced by the following:

“OTHER ORGANIZATIONS”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

194. (1) Section 718 of the said act, amended by section 230 of chapter 22 of the statutes of 1975, is again amended by replacing subsection 3 by the following subsection:

“(3) Subsection 1 does not apply to a club, society or association referred to in section 728 if the proprietor, member or shareholder referred to in the said subsection is a club, society or association referred to in the said section having as its primary purpose and primary function, the promotion of amateur athletics in Canada.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

195. (1) Section 719 of the said act is repealed.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

196. (1) Section 720 of the said act, amended by section 112 of chapter 17 of the statutes of 1973 and by section 231 of chapter 22 of the statutes of 1975, is repealed.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

197. (1) Section 721 of the said act is repealed.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

198. (1) Section 722 of the said act, amended by section 113 of chapter 17 of the statutes of 1973, section 31 of chapter 18 of the statutes of 1974 and by section 232 of chapter 22 of the statutes of 1975, is repealed.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

199. (1) Section 724 of the said act is replaced by the following section:

“**724.** A corporation may, in order to comply with section 723 for a taxation year, deduct in computing its income for the taxation year an amount not exceeding its income for the preceding taxation year before applying this section; it must include any amount deducted in computing its income for the preceding taxation year under this section.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

200. (1) Section 725 of the said act is replaced by the following section:

“725. For the purpose of determining whether it has complied with the conditions provided in section 723 in regard to expenses for a taxation year, a corporation is deemed, if it so elects, to have expended in its first taxation year, and not in the subsequent year, the amounts it expends in the subsequent taxation year.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

201. (1) Section 726 of the said act is replaced by the following section:

“726. For the purposes of section 723, a corporation is deemed to be controlled by another corporation, if more than 50 per cent of its issued capital stock having full voting rights is owned by such other corporation or at once by such other corporation and by persons with whom such other corporation does not deal at arm's length; however, such corporation is not deemed to have acquired control of a corporation if it has not purchased or otherwise acquired subject to payment any share in the capital stock of such corporation.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

202. (1) Section 728 of the said act is replaced by the following section:

“728. A club, society or association, established and operated exclusively for non-profit purposes, that, in the Minister's opinion, is not a charity, is exempt from tax.”

(2) This section applies to the taxation year 1977 and subsequent taxation years.

203. Section 737*a* of the said act, enacted by section 109 of chapter 26 of the statutes of 1977, is replaced by the following section:

“737*a*. Where the Minister ascertains that the amount of a taxpayer's non-capital loss, net capital loss or restricted farm loss for a taxation year is different from the amount reported by the taxpayer in his return of income for that year in accordance with section 732, 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.

Such determination is binding on both the Minister and the taxpayer for the purposes of calculating the taxable income of the taxpayer in any other year, subject to the taxpayer's rights of objection and appeal in respect of the determination and subject to any redetermination by the Minister."

204. Section 737*b* of the said act, enacted by section 109 of chapter 26 of the statutes of 1977, is amended by adding the following paragraph:

"However, sections 737 and 738 do not apply to determinations made under section 737*a* and an original determination of a taxpayer's loss referred to in the said section 737*a* for a taxation year may be made by the Minister only at the request of the taxpayer."

205. (1) Section 754 of the said act, amended by section 71 of chapter 26 of the statutes of 1972 and by section 112 of chapter 26 of the statutes of 1977, is again amended by replacing the second paragraph by the following paragraph:

"However, subparagraph *a* of the preceding paragraph does not apply to any individual whose tax for the year or whose basic provisional account for the preceding year is less than \$600 nor to any individual who would be referred to in section 746 but for a taxable capital gain made by him in the year."

(2) This section applies to the taxation year 1977 and subsequent taxation years.

206. (1) Section 773 of the said act is replaced by the following section:

"773. Every person who, knowingly or under circumstances amounting to gross negligence, makes a statement or omission in a return, certificate, statement or answer, in this section referred to as a "return", made or filed under this act in respect of a taxation year, or participates or acquiesces therein, is liable to a penalty of twenty-five per cent of the amount by which the tax that would be payable by him for the year under this act if his taxable income for the year, such as indicated by him in that return, were computed by adding that portion of the amount referred to in the second paragraph that is reasonably attributable to such statement or omission, exceeds the tax that would have been payable by him for the year under this act had his tax been assessed on the basis of the information provided in such return.

The amount referred to in the first paragraph in respect of a person is the aggregate of

(a) the amount by which the portion of his gross revenue for the year not reported by him in his return, and each amount not reported by him therein that was required to be included in computing his income for the year under paragraph *d* or *e* of section 81, the second paragraph of section 221 or paragraph *b* of section 302a, exceeds the aggregate of amounts, other than those provided for in sections 119 and 183 to 186, deductible by him in computing his income for the year under this act in respect of such portion or amounts and not deducted by him in computing his income for the year indicated by him in such return;

(b) the amount by which the aggregate of amounts deducted by him in computing his income for the year indicated by him in his return exceeds the aggregate of amounts deductible in computing his income for the year under this act; and

(c) the amount by which the aggregate of amounts, other than those provided for in sections 545 to 555, deducted by him in computing his taxable income for the year indicated by him in his return exceeds the aggregate of amounts, other than those provided for in sections 545 to 555, deductible in computing his taxable income for the year under this act.

For the purposes of the first paragraph, the taxable income reported by a person in his return for a taxation year is deemed not to be less than nil."

(2) This section is applicable after 31 March 1977.

207. (1) Section 779 of the said act, replaced by section 35 of chapter 18 of the statutes of 1974 and amended by section 239 of chapter 22 of the statutes of 1975, is again amended by replacing paragraph *b* by the following paragraph:

"(b) of all depreciable property of a prescribed class of the estate the undepreciated capital cost of which, at the end of the first taxation year of the estate, is deductible under section 119a or the regulations made under paragraph *a* of section 119, in computing the income of the estate for that year."

(2) This section applies to a taxation year commencing after 25 May 1976 and ending after 31 March 1977.

208. (1) Title VIII of Book IX of Part I of the said act is replaced by the following title:

"TITLE VIII

"REVOCATION OF REGISTRATION OF
CERTAIN ORGANIZATIONS AND ASSOCIATIONS

"787. The Minister may revoke the registration of a charity or of an amateur athletic association the registration of which has been recognized or authorized by this Part or by regulation, if such organization or association

(a) applies therefor;

(b) fails to comply with the conditions imposed by this Part or the regulations for the maintenance of its registration;

(c) fails to file an information return as and when required under this Part or a regulation;

(d) issues a receipt for a gift or donation otherwise than in accordance with this Part and the regulations or that contains false information;

(e) fails to comply with or contravenes section 34 of the Revenue Department Act (1972, chapter 22); or

(f) in the case of a prescribed Canadian amateur athletic association, accepts a gift or donation the granting of which was expressly or impliedly conditional upon the association making a gift or donation to another person, club, society or association.

"788. The Minister shall, before revoking the registration of an organization or association contemplated in section 787, give notice of his intention by registered mail except if the revocation is effected upon the application of the organization or association."

"789. (1) The revocation shall be by means of the publication of a notice for that purpose given by the Minister in the *Gazette officielle du Québec*.

(2) The Minister may publish such notice forthwith in the case provided for in paragraph *a* of section 787; in all other cases, he may publish it upon the expiry of the delay to appeal contemplated in section 793 if an appeal is not brought from the decision or after final judgment in other cases."

(2) This section applies to the taxation year 1977 and subsequent taxation years.

209. (1) Section 793 of the said act, amended by section 26 of chapter 21 of the statutes of 1975, is again amended by replacing subparagraph *a* of the first paragraph by the following subparagraph:

“(a) refusing registration of a charity or amateur athletic association, or giving notice that he proposes to revoke such registration;”.

(2) This section applies to the taxation year 1977 and subsequent taxation years.

210. (1) Section 813 of the said act, amended by section 124 of chapter 17 of the statutes of 1973 and by section 242 of chapter 22 of the statutes of 1975, is again amended by replacing paragraphs *d* and *da* by the following paragraphs:

“(d) the portion that is reasonably attributable to the disposition of a Québec resource property within the meaning of the regulations or which would be such a property if it had been acquired by such individual after 1971 or to expenses incurred in Québec of the amount by which the amount required by paragraph *e* of section 302a 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;

“(da) the portion that is reasonably attributable to the disposition of a Québec timber resource property within the meaning of the regulations of the amount by which the amounts that are required by sections 82 to 93 to be included in computing his income for the year in respect of the disposition of a timber resource property exceed any portion of those amounts that was included in computing his income from a business carried on by him in Canada;”.

(2) This section applies to the taxation year 1977 and subsequent taxation years; however, to the extent that it replaces paragraph *da* of section 813 of the Taxation Act, it applies in respect of a taxation year commencing after 25 May 1976.

211. (1) Section 814 of the said act, amended by section 125 of chapter 17 of the statutes of 1973 and by section 243 of chapter 22 of the statutes of 1975, is again amended by replacing paragraphs *d* and *da* by the following paragraphs:

“(d) the amount by which the amount required by paragraph *e* of section 302a 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;

“(da) the amount by which the amounts required by sections 82 to 93 to be included in computing his income for the year in respect of the disposition of a timber resource property exceed any portion of those amounts that was included in computing his income from a business carried on by him in Canada;”.

(2) This section applies to the taxation year 1977 and subsequent taxation years; however, to the extent that it replaces paragraph *da* of section 814 of the Taxation Act, it applies in respect of a taxation year commencing after 25 May 1976.

212. (1) Section 830*b* of the said act, enacted by section 41 of chapter 18 of the statutes of 1974, is amended by replacing the first paragraph by the following paragraph:

“830*b*. A mortgage investment corporation may deduct in computing its income the taxable dividends, other than capital gains dividends, which it pays during the year or within the 90 days following the end of such year.”

(2) This section applies in respect of a taxation year commencing after 1971.

213. (1) Section 840 of the said act, amended by section 132 of chapter 17 of the statutes of 1973, is replaced by the following section:

“840. Except for the purposes of sections 422 and 440*a* to 440*c*, a non-resident owned investment corporation which would, but for this section, be a Canadian corporation or a private corporation, is nevertheless deemed not to be such a corporation.”

(2) This section applies after 1978.

214. (1). Section 906 of the said act is replaced by the following section:

“906. The tax payable by an individual under this Part is equal to 20 per cent of the aggregate taxable value of the gifts made by him in the year.”

(2) This section applies in respect of a gift made after 18 April 1978; however, in respect of gifts made in the year 1978, the tax payable under Part VIII of the said act shall be computed as if the period preceding 19 April and that following 18 April were two distinct years, except that the donor shall not deduct under section 919 of the said act in respect of each donee other than his spouse an amount of more than \$3 000 for the aggregate of these two periods of time, without exceeding for all the donees other than his spouse an amount of \$15 000.

215. (1) Section 907 of the said act, amended by section 48 of chapter 18 of the statutes of 1974, is again amended by replacing the period at the end of paragraph *g* by a semicolon and by inserting, after the said paragraph *g*, the following paragraph:

“(h) a gift made by a donor to his spouse.”

(2) This section applies in respect of a gift made after 18 April 1978.

216. (1) Section 915 of the said act is amended by adding the following paragraph:

“In the case of a promise or covenant to pay an amount of money on demand, the individual is deemed to have made each year to that person a gift equal to that proportion of the amount by which the annual interest computed at the prescribed rate on the unpaid balance at the end of the year exceeds the annual interest payable pursuant to such promise or covenant on such balance, that the number of days in the year during which such balance remains unpaid is of 365.”

(2) For the purposes of computing the proportion referred to in the second paragraph of section 915 of the said act for the year 1978, the number of days mentioned therein of the period preceding the coming into force of this act shall not be taken into account.

217. (1) Section 919 of the said act, amended by section 138 of chapter 17 of the statutes of 1973 and section 255 of chapter 22 of the statutes of 1975, is replaced by the following section:

“**919.** There may be deducted in computing the taxable value of a gift made by a donor in a year to a donee who is an individual except a gift by settlement or the transfer of property to a trust, the lesser of the value of the gift and the amount by which \$3 000 exceeds the value of all other gifts made by the donor to the donee in the year and before the date when the gift was made, except gifts exempt from tax under this Part and gifts made by settlement or the transfer of property to a trust.

Not more than \$15 000 may thus be deducted in a year in computing the taxable value of all gifts made by the donor in the year.”

(2) This section has effect from 19 April 1978.

218. (1) Section 920 of the said act, amended by section 139 of chapter 17 of the statutes of 1973, is replaced by the following section:

“**920.** In addition to the deduction provided for in section 919, every person may deduct, in computing the taxable value of his gifts in a year, only once in his lifetime, an amount not exceeding \$75 000 in respect of a gift that he makes to his children of a property used in the operation of a farm, or of shares of a cooperative or corporation whose main source of revenue is agriculture.”

(2) This section is applicable in respect of a gift made after 18 April 1978.

219. (1) Section 926 of the said act, amended by section 257 of chapter 22 of the statutes of 1975, is replaced by the following section:

“926. For the purposes of computing the liability of a donee under section 923, the following rules are applicable for establishing the taxable value of a gift made to him:

(a) the deduction of \$15 000 granted under section 919 to the donor must be apportioned among the donees to whom the donor made gifts in the year, proportionately to the aggregate value of the gifts made to each donee, except that a deduction not exceeding \$3 000 must be granted in respect of the gifts made to a donee under this paragraph; and

(b) the taxable value of the gifts received by each donee must be established as being the value of such gifts, minus the part of the deduction granted to such donee.”

(2) This section has effect from 19 April 1978.

220. (1) Section 32 of the Act respecting the application of the Taxation Act (1972, chapter 24), amended by section 50 of chapter 18 of the statutes of 1974 and section 266 of chapter 22 of the statutes of 1975, is replaced by the following section:

“32. Where sections 364, 365, 406 to 409b, 411 to 415, 423 to 427, 434 to 440d, the second paragraph of section 460 and sections 466 to 477a and 519 of the Taxation Act apply in the case of a death, a winding-up or a transaction, including a gift, whereby a taxpayer has acquired at any particular time after 1971 depreciable property of a prescribed class from a person who had acquired it before 1972 and owned it without interruption from 31 December 1971 until that time, such taxpayer is deemed, for the purposes of section 30, to have acquired such property before 1972 and to have owned it without interruption from 31 December 1971 until the time of its subsequent disposition.”

(2) This section is applicable in respect of the disposition of property after 1971.

221. (1) Section 50 of the said act, amended by section 144 of chapter 17 of the statutes of 1973, is replaced by the following section:

“50. Where, pursuant to a transaction made after 1971, an amount becomes receivable by a taxpayer in respect of a business

that he has carried on throughout the period beginning on 1 January 1972 and ending immediately after the transaction, for the purposes of sections 94 to 99*a* of the Taxation Act, such amount is deemed equal to the aggregate of the amount computed under section 50*a* and the product obtained when the excess of such receivable amount, over the part of it contemplated in paragraph *a* of the said section, is multiplied by a percentage equal to 40 per cent plus 5 per cent for each full calendar year that ended in that period and before that transaction, such additional percentage not however exceeding 60 per cent."

(2) This section is applicable in respect of an amount that becomes receivable after 31 March 1977.

222. (1) The said act is amended by inserting, after section 51, the following sections:

"51*a*. Where after 1971 a taxpayer has acquired a particular governmental right referred to in section 50*a* from a person with whom he was not dealing at arm's length or pursuant to an agreement with a person with whom he was not dealing at arm's length, if under the terms of the agreement that person allowed the right to expire so that the taxpayer could acquire a substantially similar right from the authority referred to in section 50*b* that had issued the right to that person, and an amount referred to in section 50 subsequently becomes receivable by the taxpayer as consideration for the disposition by him of, or for his allowing the expiry of, such right or any other governmental right acquired by the taxpayer for the purpose of effecting the continuation without interruption, of rights that are substantially similar to the rights that he previously had under the particular governmental right, for the purposes of sections 94 to 99*a* of the Taxation Act, such amount is deemed to be the amount that would have been determined under the said section 50 if that person and the taxpayer had at all times been the same person.

"51*b*. For the purposes of this chapter, an amalgamation, within the meaning of section 422 of the Taxation Act, is deemed to be a transaction between persons not dealing at arm's length."

(2) This section is applicable in respect of acquisitions after 1971.

223. (1) Section 72 of the said act, replaced by section 272 of chapter 22 of the statutes of 1975, is amended by replacing paragraph *c* by the following paragraph:

"(c) at the time when the capital property became vested in the subsequent owner after 1971, the latter shall add to the cost to him of the capital property, as determined under section 71,

the amount by which the aggregate of amounts referred to in paragraph *a*, *b*, *ba* or *bb* of section 72*a* exceeds the aggregate of those referred to in paragraph *c* or *d* of the said section or, if they are less, he shall deduct the difference thereof.”

(2) This section applies to the taxation year 1972 and subsequent taxation years.

224. (1) Section 72*a* of the said act, enacted by section 152 of chapter 17 of the statutes of 1973 and amended by section 273 of chapter 22 of the statutes of 1975, is again amended by inserting, after paragraph *ba*, the following paragraph:

“(bb) an amount that the person described in paragraph *a* has subtracted, under sections 251 and 253 of the Taxation Act, from his gain otherwise determined;”.

(2) This section applies to the taxation year 1972 and subsequent taxation years.

225. (1) Section 80 of the said act is replaced by the following section:

“**80.** For the purpose of computing, at any particular time after 1971, the adjusted cost base to a taxpayer of an interest in a partnership of which he was a member on 31 December 1971 and thereafter without interruption until that time, the words “in respect of income”, in subparagraph *i* of paragraph *g* of section 237 of the Taxation Act, shall be read “in respect of sections 94 to 99*a* or of income”.

Similarly, there shall be added after the number “270” in subparagraph *i* of paragraph *i* of section 238 of the said act, the words “; or those provisions of the Act respecting the application of the Taxation Act that regard sections 94 to 99*a*,”.

(2) This section applies to the computation of the adjusted cost base of an interest in a partnership after 31 March 1977.

226. (1) Section 84 of the said act, amended by section 155 of chapter 17 of the statutes of 1973, is again amended by replacing paragraph *c* by the following paragraph:

“(c) “intangible capital amount” means any property of a taxpayer the disposition of which after 1971 would produce an amount that would constitute an intangible capital amount within the meaning of sections 94 to 99*a* of the Taxation Act.”

(2) This section applies to the computation of the tax equity of a partnership after 31 March 1977.

227. Section 95 of the said act is repealed.

228. Section 96 of the said act, amended by section 99 of chapter 26 of the statutes of 1972, is repealed.

229. Section 103*a* of the said act, enacted by section 156 of chapter 17 of the statutes of 1973, is repealed.

230. (1) Section 135 of the said act, amended by section 104 of chapter 26 of the statutes of 1972, is replaced by the following section:

“135. The capital dividend account of a specified personal corporation, at a particular time after its taxation year 1972, is determined in accordance with the rules provided for that purpose by regulations.”

(2) This section applies after 1978.

231. (1) Section 59 of the Act to authorize payment of allowances to certain self-employed workers (Revised Statutes, 1964, chapter 66), enacted by section 1 of chapter 27 of the statutes of 1966/1967 and amended by section 164 of chapter 17 of the statutes of 1973 and section 1 of chapter 24 of the statutes of 1975, is again amended by replacing paragraph *c* by the following paragraph:

“(c) “income” means the income established under Part I of the Taxation Act (1972, chapter 23) for a year, without taking account of the deductions permitted by Book IV plus, in the case of an individual referred to in paragraph *a* or *b* of section 525 of the said act, the amount by which his spouse’s income while married, for that year, or of the income of the dependent person referred to in paragraph *b* of the said section 525 for such same year, exceeds \$1 000;”.

(2) This section applies in respect of contributions for the taxation year 1978 and subsequent taxation years.

232. (1) Section 60 of the said act, replaced by section 1 of chapter 19 of the statutes of 1974 and amended by section 2 of chapter 24 of the statutes of 1975, is again amended by replacing subsection 1 by the following subsection:

“60. (1) The government may pay to every self-employed worker who, during a year, is an individual contemplated by paragraph *a*, *b* or *g* of section 525 of the Taxation Act (1972, chapter 23) and whose income for such year is less than \$6 400, a sum equal to the lesser of the following amounts:

(a) one-half of the contribution that he has paid as a self-employed worker for such year under the Québec Pension Plan, or

(b) the difference between \$6 400 and the amount of his income for such year.”

(2) This section applies in respect of a contribution for the year 1978 and subsequent years.

233. This act comes into force on the day of its sanction.

