NATIONAL ASSEMBLY

SECOND SESSION THIRTY-FIFTH LEGISLATURE

Bill 8

An Act to amend the Taxation Act and other legislative provisions

Introduction

Introduced by
Mr Roger Bertrand
Minister for Revenue

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EXPLANATORY NOTES

The main object of this bill is to harmonize the fiscal legislation in Québec with that of Canada. It consequently gives effect to various harmonization measures contained in the Budget Speech delivered by the Minister of Finance on 12 May 1994, in the Minister's Statement of 21 December 1994 and in Information Bulletins 94-3 and 95-4 published by the Ministère des Finances respectively on 31 March 1994 and 5 July 1995.

The bill amends the Act to promote the capitalization of small and medium-sized businesses to bring a technical amendment to the date by which the Société de développement industriel du Québec must issue the validation certificate in respect of an investment giving entitlement to a refundable tax credit to promote the capitalization of such businesses.

The bill amends the Mining Duties Act primarily to allow a mining operator to take into account contributions made to a mining reclamation trust as well as withdrawals subsequently made from the trust in computing his profit or loss.

The bill amends the Taxation Act primarily to bring amendments similar to those brought to the Income Tax Act by federal Bills C-59 (S.C., 1995, chapter 3) and C-70 (S.C., 1995, chapter 21), assented to respectively on 26 March 1995 and 22 June 1995. In particular, the amendments concern

(1) the elimination of the $100,000 lifetime capital gains exemption for gains realized on dispositions made after 22 February 1994 and the implementation of a mechanism to recognize capital gains accrued to that date;

(2) the tax treatment applicable to debt forgiveness and to the surrender of property by a debtor in favour of the debtor's creditor;

(3) the computation of income by financial institutions in respect of securities they hold in the ordinary course of business;

(4) the deductibility of contributions made to a mining reclamation trust and the taxation of trust income and amounts withdrawn from the trust;

(5) the tax treatment applicable to funeral arrangements;

(6) the rules pertaining to the home-ownership plan, including extension of the rules to amounts withdrawn from a registered retirement savings plan after 1 March 1994;

(7) the broadening, to include butterfly reorganizations, of the rule that in certain circumstances prevents a corporation from converting a capital gain into a tax-free inter-corporate dividend;

(8) the inclusion to be made in computing income by members of a limited partnership and certain other inactive members of the partnership, as a capital gain, of the negative adjusted cost base of their interest in the partnership at the end of a partnership's fiscal period; and

(9) the tax-free conversion of a mutual fund corporation into a mutual fund trust and the tax-free amalmagation of such trusts.

The bill amends various other legislation to introduce consequential and terminology-related amendments.

LEGISLATION AMENDED BY THIS BILL:

– Act to promote the capitalization of small and medium-sized businesses (R.S.Q., chapter A-33.01);

– Mining Duties Act (R.S.Q., chapter D-15);

– Act respecting municipal taxation (R.S.Q., chapter F-2.1);

– Taxation Act (R.S.Q., chapter I-3);

– Act respecting the application of the Taxation Act (R.S.Q., chapter I-4);

– Act respecting the application of the Taxation Act (1972, chapter 24);

– Act to again amend the Taxation Act and other fiscal legislation (1991, chapter 25);

– Act to amend the Taxation Act and other fiscal legislation (1993, chapter 16);

– Act to amend the Taxation Act and other fiscal provisions (1995, chapter 49);

– Act to amend the Taxation Act, the Act respecting the Québec sales tax and other legislative provisions (1995, chapter 63).

Bill 8

An Act to amend the Taxation Act and other legislative provisions

THE PARLIAMENT OF QUÉBEC ENACTS AS FOLLOWS:

ACT TO PROMOTE THE CAPITALIZATION OF SMALL AND MEDIUM-SIZED BUSINESSES

1. (1) Section 12 of the Act to promote the capitalization of small and medium-sized businesses (R.S.Q., chapter A-33.01), amended by section 1 of chapter 63 of the statutes of 1995, is again amended by replacing the second paragraph by the following paragraph:

"No validation certificate shall be issued pursuant to the first paragraph after 9 May 1995. However, the Société may issue a validation certificate in the following cases:

(1) in respect of a qualified investment made on or before 9 May 1995, if the investment meets the requirements of this Act and the regulations and if

(*a*) the application for the validation certificate in respect of the qualified investment meets all the requirements of the Act and the regulations and is filed with the Société on or before 30 September 1995, and

(*b*) the amount of the qualified investment certified in the validation certificate does not exceed the amount specified in that respect in the application referred to in subparagraph *a*;

(2) in respect of a qualified investment made on or before 31 December 1995, if the application for the validation certificate was made on or before 9 May 1995."

(2) Subsection 1 has effect from 10 May 1995.

2. (1) Section 1 of the Mining Duties Act (R.S.Q., chapter D-15), replaced by section 1 of chapter 47 of the statutes of 1994 and amended by section (*insert here the number of the section in Bill 5 that amends section 1 of the Mining Duties Act*) of chapter (*insert here the chapter number of Bill 5*) of the statutes of (*insert here the year of assent to Bill 5*), is again amended

(1) by replacing the portion before the definition of "amalgamation" by the following:

"**1.** In this Act, unless the context indicates otherwise,";

(2) by inserting, after the definition of "mining operation", the following definition:

" "mining reclamation trust" means a mining reclamation trust, within the meaning assigned by section 21.39 of the Taxation Act (chapter I-3), that is resident in Québec for the purposes of Part I of that Act;".

(2) Subsection 1 has effect from 13 May 1994.

3. (1) Section 8 of the said Act, replaced by section 8 of chapter 47 of the statutes of 1994 and amended by section (*insert here the number of the section in Bill 5 that amends section 8 of the Mining Duties Act*) of chapter (*insert here the chapter number of Bill 5*) of the statutes of (*insert here the year of assent to Bill 5*), is again amended

(1) by striking out the word "sur", in the French text, at the end of subparagraph *c* of paragraph 1;

(2) by adding, after subparagraph *c* of paragraph 1, the following subparagraph:

"(*d*) the lesser of the operator's cumulative contributions account at the end of the fiscal period and the aggregate of all amounts each of which is an amount included, under paragraph *z* or *z*.1 of section 87 of the Taxation Act (chapter I-3), in computing the operator's income for the fiscal period for the purposes of that Act, in respect of a mining reclamation trust under which the operator is a beneficiary;";

(3) by adding, after subparagraph *j* of paragraph 2, the following subparagraph:

"(*k*) the aggregate of all amounts each of which is an amount deductible under paragraph *r* or *s* of section 157 of the Taxation Act in computing the operator's income for the fiscal period for the purposes of that Act, in respect of a mining reclamation trust under which the operator is a beneficiary;".

(2) Paragraphs 1 and 2 of subsection 1 have effect from 13 May 1994.

(3) Paragraph 3 of subsection 1 applies to contributions or considerations paid by the operator after 12 May 1994.

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

"**8.0.0.1** The cumulative contributions account of a particular operator at any time is the amount by which

(1) the aggregate of

(*a*) all amounts each of which is a contribution paid by the particular operator after 12 May 1994 and before that time to a mining reclamation trust under which the particular operator is a beneficiary,

(*b*) all amounts each of which is the consideration paid by the particular operator after 12 May 1994 and before that time for the acquisition of all or part of the particular operator's interest as a beneficiary under a mining reclamation trust from another person or partnership, other than consideration that is the assumption of a mining reclamation obligation in respect of the trust,

(*c*) the amount of the cumulative contributions account of an operator in respect of the mining reclamation trust all or part of whose interest as a beneficiary is acquired by the particular operator as consideration for the assumption of a mining reclamation obligation in respect of the trust, determined immediately before the time of acquisition, and

(*d*) the aggregate of all amounts each of which is a balance of the cumulative contributions account of the particular operator, as determined, before that time, under paragraph 8 of section 35.3; exceeds

(2) the aggregate of

(*a*) all amounts each of which is an amount included, under subparagraph *d* of paragraph 1 of section 8, in computing the operator's annual profit for a fiscal period ending before that time, and

(*b*) the amount included in determining the operator's cumulative contributions account, under subparagraph *c* of paragraph 1, because of the acquisition by the operator of all or part of the interest of the particular operator, as a beneficiary under a mining reclamation trust."

(2) Subsection 1 has effect from 13 May 1994.

5. (1) Section 35.3 of the said Act, enacted by section 38 of chapter 47 of the statutes of 1994 and amended by section (*insert here the number of the section in Bill 5 that amends section 35.3 of the Mining Duties Act*) of chapter (*insert here the chapter number of Bill 5*) of the statutes of (*insert here the year of assent to Bill 5*), is again amended by adding, after paragraph 7, the following paragraph:

"(8) for the purposes of subparagraph *d* of paragraph 1 of section 8.0.0.1, the cumulative contributions account of a predecessor legal person, determined immediately before the amalgamation, is deemed, immediately after the amalgamation, to be the balance of the cumulative contributions account of the new legal person."

(2) Subsection 1 has effect from 13 May 1994.

ACT RESPECTING MUNICIPAL TAXATION

6. (1) Section 204 of the Act respecting municipal taxation (R.S.Q., chapter F-2.1), amended by section 75 of chapter 2 of the statutes of 1994, by section 23 of chapter 23 of the statutes of 1994, by section 1 of chapter 7 of the statutes of 1995, by section 122 of chapter 65 of the statutes of 1995 and by section 2 of chapter 73 of the statutes of 1995, is again amended by replacing, in the French text of subparagraph *b* of paragraph 10, the words "organisme de charité" by the words "organisme de bienfaisance".

(2) Subsection 1 applies to taxation years that end after 30 November 1991.

7. (1) Section 208.1 of the said Act is amended by replacing, in the French text of subparagraph *b* of the first paragraph, the words "organisme de charité" by the words "organisme de bienfaisance".

(2) Subsection 1 applies to taxation years that end after 30 November 1991.

TAXATION ACT

8. (1) Section 1 of the Taxation Act (R.S.Q., chapter I-3), amended by section 11 of chapter 1 of the statutes of 1995, by section 1 of chapter 49 of the statutes of 1995 and by section 12 of chapter 63 of the statutes of 1995, is again amended

(1) by inserting the following definition, which is to be ordered alphabetically:

" "eligible funeral arrangement" has the meaning assigned by section 979.19;";

(2) by replacing the definition of "dividend rental arrangement" by the following definition:

" "dividend rental arrangement" of a person means any arrangement entered into by the person where it may reasonably be considered that the main reason for the person entering into the arrangement is to enable the person to receive a dividend on a share of the capital stock of a corporation, other than a dividend on a prescribed share or a share described in section 21.6.1 or an amount deemed, by reason of the first paragraph of section 119, to be received as a dividend on a share of the capital stock of a corporation, and under the arrangement someone other than that person enjoys the opportunity for profit or gain or bears the risk of loss with respect to the share in any material respect, and includes any arrangement under which

(*a*) a corporation at any time receives on a particular share a taxable dividend that would, but for section 740.4.1, be deductible in computing its taxable income for the taxation year that includes that time, and

(*b*) the corporation is obligated to pay to another person an amount as compensation for any of the following dividends that, if paid, would be deemed by section 21.32 to have been received by that other person as a taxable dividend:

i. the dividend referred to in paragraph *a*,

ii. a dividend on a share that is identical to the particular share, or

iii. a dividend on a share that, during the term of the arrangement, can reasonably be expected to provide to a holder of the share the same or substantially the same proportionate opportunity for gain or risk of loss as the particular share;";

(3) by inserting the following definition, which is to be ordered alphabetically:

" "property of the bankrupt" has the meaning assigned by the Bankruptcy and Insolvency Act;";

(4) by striking out, in the French text, the definition of "corporation de fonds mutuels";

(5) by inserting the following definition, which is to be ordered alphabetically:

" "registered securities dealer" means a person registered or licensed under the laws of a province to trade in securities, in the capacity of an agent or principal, without any restriction as to the types or kinds of securities in which that person may trade;";

(6) by inserting, after paragraph *c* of the definition of "cost amount", the following paragraph:

"(*c*.1) where the taxpayer is a financial institution, within the meaning assigned by section 851.22.1, in its taxation year that includes that time and the property is mark-to-market property, within the meaning assigned by that section, for the year, the cost to the taxpayer of the property;";

(7) by inserting, after paragraph *d* of the definition of "cost amount", the following paragraphs:

"(*d*.1) where the property was a loan or lending asset, other than a net income stabilization account or a property in respect of which any of paragraphs *b* to *c*.1 and *d*.2 applies, the amortized cost of the property to the taxpayer at that time;

"(*d*.2) where the taxpayer is a financial institution within the meaning assigned by section 851.22.1 in its taxation year that includes that time and the property is a specified debt obligation within the meaning assigned by that section, other than a mark-to-market property within the meaning assigned by that section for the year, the tax basis, within the meaning assigned by section 851.22.7, of the property to the taxpayer at that time;";

(8) by replacing paragraphs *e* and *e*.1 of the definition of "cost amount" by the following paragraphs:

"(*e*) where the property was a right of the taxpayer to receive an amount, other than property that is a debt the amount of which was deducted under section 141 in computing the taxpayer's income for a taxation year that ended before that time, a net income stabilization account, or a right in respect of which any of paragraphs *b* to *c*.1, *d*.1 and *d*.2 applies, the amount the taxpayer has a right to receive;

"(*e*.1) in the case of a policy loan, within the meaning assigned by paragraph *h* of section 835, of an insurer or an interest of a beneficiary under a mining reclamation trust, an amount equal to zero;";

(9) by replacing, in the French text, the definition of "dividende" by the following definition:

" «dividende» comprend un dividende en actions, autre qu'un tel dividende versé à une corporation ou à une fiducie de fonds commun de placements par une corporation qui ne réside pas au Canada;";

(10) by inserting the following definitions, which are to be ordered alphabetically:

" "bankrupt" has the meaning assigned by the Bankruptcy and Insolvency Act (Revised Statutes of Canada, 1985, chapter B-3);

" "bankruptcy" has the meaning assigned by the Bankruptcy and Insolvency Act;";

(11) by replacing, in the French text, the definition of "fiducie de fonds mutuels" by the following definition:

" «fiducie de fonds commun de placements» a le sens que lui donne le livre IV de la partie III;";

(12) by inserting the following definition, which is to be ordered alphabetically:

" "mining reclamation trust" has the meaning assigned by section 21.39;";

(13) by replacing, in the English text, the definition of "group term life insurance policy" by the following definition:

" "group term life insurance policy" means a group life insurance policy under which the only amounts payable by the insurer are

(*a*) amounts payable on the death or disability of individuals whose lives are insured because of, or in the course of, their office or employment or former office or employment, and

(*b*) policy dividends or experience rating refunds;";

(14) by striking out, in the French text, the definition of "police collective d'assurance temporaire sur la vie";

(15) by inserting, in the French text and after the definition of "police d'assurance sur la vie au Canada", the following definition:

" «police d'assurance sur la vie collective temporaire» signifie une police d'assurance sur la vie collective en vertu de laquelle seuls les montants suivants sont payables par l'assureur:

a) les montants payables en cas de décès ou d'invalidité de particuliers dont la vie est assurée en raison ou à l'occasion de leur charge ou de leur emploi, actuel ou antérieur;

b) les participations de police ou les remboursements de surprime d'expérience;";

(16) by inserting, in the French text of the definition of "principal", after the words "relativement à une obligation", the words "de payer un montant";

(17) by inserting the following definition, which is to be ordered alphabetically:

" "adjusted cost base" has the meaning assigned by Chapter III of Title IV of Book III;";

(18) by inserting, in the French text and after the definition of "société canadienne", the following definition:

" «société d'investissement à capital variable» a le sens que lui donne le livre III de la partie III;";

(19) by replacing the definition of "lending assets" by the following definition:

" "lending asset" means a bond, debenture, note, obligation secured by mortgage, agreement of sale or any other indebtedness, or a prescribed share, but does not include a prescribed security;".

(2) Paragraph 1 of subsection 1 has effect from 1 January 1993.

(3) Paragraph 2 of subsection 1 applies in respect of dividends received at any time by a corporation on shares acquired before that time and after

(1) 30 April 1989, where the corporation so elects by notifying the Minister of Revenue in writing on or before (*insert here the date that is 180 days after the date of assent to this Act*);

(2) 30 June 1994, in any other case.

(4) Paragraphs 3 and 10 of subsection 1 apply to taxation years that end after 21 February 1994.

(5) Paragraph 5 of subsection 1 has effect from 27 April 1989.

(6) Paragraph 6 of subsection 1 applies to taxation years that begin after 31 October 1994.

(7) Paragraph 7, and paragraph 8 where it replaces paragraph *e* of the definition of "cost amount" in section 1 of the said Act, of subsection 1 apply to the determination of the cost amount at a time after 22 February 1994.

(8) Paragraph 8 where it replaces paragraph *e*.1 of the definition of "cost amount" in section 1 of the said Act, and paragraph 12 of subsection 1 have effect from 1 January 1994.

(9) Paragraphs 13 to 15 of subsection 1 apply to insurance provided in respect of periods that are after 30 June 1994.

9. Section 1.1 of the said Act is replaced by the following section:

"**1.1** In this Act and the regulations, an interest in real property includes a leasehold interest in real property but does not include an interest as security only derived by virtue of a mortgage, agreement of sale or other similar obligation."

10. (1) Section 1.2 of the said Act is amended by replacing the words "subsection 1 of section 618" by the words "paragraph *a* of section 618".

(2) Subsection 1 applies from the taxation year 1985.

11. (1) Section 6 of the said Act is amended by replacing the second paragraph by the following paragraph:

"The reference to a fiscal period ending in a taxation year includes a reference to a fiscal period the end of which coincides with the end of that taxation year."

(2) Subsection 1 applies to fiscal periods that end after 31 December 1993.

12. (1) Section 6.2 of the said Act, amended by section 5 of chapter 49 of the statutes of 1995, is again amended by replacing, in paragraph *c*, "section 999.1" by "sections 851.22.23 and 999.1".

(2) Subsection 1 has effect from 23 February 1994.

13. (1) The said Act is amended by inserting, after section 7.15, enacted by section 8 of chapter 49 of the statutes of 1995, the following sections:

"**7.16** Where at a particular time a person or partnership, in this section referred to as the "debtor", becomes liable to repay money borrowed by the debtor or becomes liable to pay an amount, other than interest, as consideration for any property acquired by the debtor or services rendered to the debtor, or that is deductible in computing the debtor's income, for the purpose of applying this Part relating to the liability, the liability is deemed to be an obligation, issued at that time by the debtor, that has a principal amount at that time equal to the amount of the liability at that time.

"**7.17** For the purposes of this Part,

(*a*) unless the context requires otherwise, an obligation issued by a debtor includes any part of a larger obligation that was issued by the debtor;

(*b*) the principal amount of that part is deemed to be the portion of the principal amount of that larger obligation that relates to that part; and

(*c*) the amount for which that part was issued is deemed to be the portion of the amount for which that larger obligation was issued that relates to that part."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

14. (1) The said Act is amended by inserting, after section 11.3, enacted by section 10 of chapter 49 of the statutes of 1995, the following section:

"**11.4** For the purposes of this Part, where a trust resident in Canada would be a mining reclamation trust at any time if it were resident at that time in the province in which the mine to which the trust relates is situated, the trust is deemed to be resident at that time in that province and in no other province."

(2) Subsection 1 has effect from 1 January 1994.

15. (1) The said Act is amended by inserting, after section 16.1.1, enacted by section 13 of chapter 63 of the statutes of 1995, the following section:

"**16.1.2** For the purposes of subparagraph *a* of the first paragraph of section 21.32 and sections 125.1 and 740, where a person is not resident in Canada but is resident in a country with which Québec has entered into a tax agreement that has the force of law in Québec for the purpose of avoiding double taxation or, in the absence of such an agreement, with which Canada has entered into a tax agreement or convention that has the force of law in Canada to avoid double taxation and the expression "permanent establishment" is defined in the agreement or convention, the establishment of the person means, notwithstanding sections 12 to 16.1, the permanent establishment of the person, within the meaning assigned by that agreement or convention, as the case may be."

(2) Subsection 1 applies after 10:00 p.m. Eastern Daylight Saving Time, on 26 April 1989.

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

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

"**21.1** Sections 21.2 and 21.3 apply in respect of the control of a corporation for the purposes of sections 6.2, 93.4, 222 to 230.0.0.2,

308.0.1 to 308.6, 384, 384.4, 384.5, 418.26 to 418.30, 485 to 485.18, paragraph *d* of section 485.42 and sections 518.2, 547.1, 564.2 to 564.4.2, 727 to 737 and 776.1.5.6.";

(2) by replacing, in the French text, the second paragraph by the following paragraph:

"L'article 21.4 s'applique à l'égard du contrôle d'une corporation pour l'application de la présente partie.";

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

"Section 21.4.1 applies in respect of the control of a corporation for the purposes of sections 6.2, 93.4, 222 to 230.0.0.2, 308.0.1 to 308.6, 384, 384.4, 384.5, 418.26 to 418.30, 485 to 485.18, paragraph *d* of section 485.42 and sections 727 to 737 and 776.1.5.6."

(2) Paragraph 1 of subsection 1 applies in respect of amalgamations, redemptions, acquisitions or cancellations that occur after 21 February 1994.

(3) Paragraph 3 of subsection 1 applies in respect of acquisitions that occur after 21 February 1994. However, where the third paragraph of section 21.1 of the said Act, enacted by that paragraph 3, applies in respect of acquisitions that occur before 24 June 1994, it shall be read without reference to "308.0.1 to 308.6,".

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

"**21.4.1** A taxpayer who acquires a right referred to in paragraph *b* of section 20 is deemed to acquire at that time the shares to which the right is attached if it can reasonably be concluded that one of the main purposes of the acquisition of the right is

(*a*) to avoid any limitation on the deductibility of any net capital loss, non-capital loss or farm loss or any amount referred to in section 384 or sections 418.26 to 418.30;

(*b*) to avoid the application of any of sections 93.4, 225, 308.1, 384.4, 384.5, 736 and 736.0.3.1 or paragraph *a* or *b* of section 736.0.2; or

(*c*) to affect the application of sections 485 to 485.18."

(2) Subsection 1 applies in respect of acquisitions that occur after 21 February 1994. However, where paragraph *b* of section 21.4.1 of the said Act, enacted by subsection 1, applies in respect of acquisitions that occur before 24 June 1994, that paragraph *b* shall be read without reference to "308.1,".

18. (1) Section 21.26 of the said Act is amended by inserting, after paragraph *c*, the following paragraph:

"(*c*.1) the aggregate of all amounts each of which is an amount in respect of the loan or lending asset that was included in computing the taxpayer's income for a taxation year that ended at or before that time in respect of changes in the value of the loan or lending asset attributable to the fluctuation in the value of a foreign currency relative to Canadian currency;".

(2) Subsection 1 applies to taxation years that begin after 17 June 1987 and end after 31 December 1987.

19. (1) Section 21.27 of the said Act is amended

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

"(*a*.1) the aggregate of all amounts each of which is an amount in respect of the loan or lending asset that was deducted in computing the taxpayer's income for a taxation year that ended at or before that time in respect of changes in the value of the loan or lending asset attributable to the fluctuation in the value of a foreign currency relative to Canadian currency;";

(2) by replacing, in the French text of paragraph *b*, the words "de tous les" by the words "l'ensemble des".

(2) Paragraph 1 of subsection 1 applies to taxation years that begin after 17 June 1987 and end after 31 December 1987.

20. (1) Section 21.32 of the said Act is amended by replacing subparagraph *b* of the first paragraph by the following subparagraph:

"(*b*) from or by a person resident in Canada who is a registered securities dealer where the amount is received or paid, as the case may be, in the ordinary course of the business of trading in securities carried on by the dealer."

(2) Subsection 1 applies in respect of transfers, loans and payments made after 26 April 1989.

21. (1) Section 21.33 of the said Act is replaced by the following section:

"**21.33** In computing a taxpayer's income from a business or property,

(*a*) where the taxpayer is not a registered securities dealer, no deduction shall be made in respect of an amount that, if paid, would be deemed by section 21.32 to have been received by another person as a taxable dividend; and

(*b*) where the taxpayer is a registered securities dealer, no deduction shall be made in respect of more than 2/3 of the amount referred to in paragraph *a*."

(2) Subsection 1 applies in respect of payments made after 30 June 1989.

22. (1) The said Act is amended by inserting, after section 21.33, the following section:

"**21.33.1** Notwithstanding section 21.33, there may be deducted in computing a corporation's income from a business or property for a taxation year an amount equal to the lesser of

(*a*) the amount that the corporation is obligated to pay to another person under an arrangement described in paragraphs *a* and *b* of the definition of "dividend rental arrangement" in section 1 that, if paid, would be deemed by section 21.32 to have been received by another person as a taxable dividend, and

(*b*) the amount of the dividends received by the corporation under the arrangement referred to in paragraph *a* that were identified in its fiscal return under this Part for the year as dividends in respect of which no amount was deductible because of section 740.4.1 in computing its taxable income."

(2) Subsection 1 applies in respect of payments made

(1) after 30 April 1989, where the corporation has elected under subsection (*insert here the subsection number of the section in this Bill that is the date of application of the amendment to the definition of "dividend rental arrangement" in section 1 of the Taxation Act*) of section (*insert here the number of the section in this Bill that amends section 1 of the Taxation Act*); however, for the purposes of paragraph *b* of section 21.33.1 of the said Act, enacted by subsection 1,

a dividend received after 30 April 1989 and before 30 June 1994 that was identified in the corporation's fiscal return under Part I of the said Act for its first taxation year that ends after (*insert here the date of assent to this Act*), shall be deemed to have been identified in its fiscal return under Part I of the said Act for its taxation year in which the dividend was received; and

(2) after 30 June 1994, in any other case.

23. (1) The said Act is amended by inserting, after section 21.38, the following:

"CHAPTER XIII

"MINING RECLAMATION TRUST

"**21.39** A mining reclamation trust at any time means a trust resident in a province and maintained at that time for the sole purpose of funding the reclamation of a mine in the province, where

(*a*) the first contribution to the trust was made after 31 December 1991;

(*b*) no amount was distributed before 23 February 1994 from the trust;

(*c*) the maintenance of the trust is provided for, or may become provided for, pursuant to the terms of a contract entered into with the Government of Canada or the government of the province or pursuant to a law of Canada or the province; and

(*d*) the trust is none of the trusts described in the second paragraph.

The trusts to which subparagraph *d* of the first paragraph refers include

(*a*) a trust in respect of which the contract or the law providing for its maintenance was not entered into or enacted, as the case may be, on or before the later of 1 January 1996 and the day that is one year after the day the trust was created;

(*b*) a trust that relates to the reclamation of a mine that at the time referred to in the first paragraph, in this paragraph referred to as "the particular time", is a deposit of peat, a gravel pit, a peat bog, a sand pit, a shale pit, a stone quarry or a clay pit, other than a kaolin pit, or that relates to the reclamation of a well;

(*c*) a trust that is not maintained at the particular time to secure the mining reclamation obligations of one or more persons or partnerships that are beneficiaries under the trust;

(*d*) a trust that at the particular time has a trustee other than the Government of Canada or the government of the province referred to in the first paragraph, or a corporation resident in Canada that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering its services as trustee;

(*e*) a trust that borrows money at the particular time;

(*f*) a trust that acquired at the particular time any property that is not described in any of paragraphs *a*, *b* and *f* of the definition of "qualified investment" in section 204 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement);

(*g*) a trust that did not comply with prescribed conditions at the particular time;

(*h*) a trust that was, at any time before the particular time but after 31 December 1993, not a mining reclamation trust;

(*i*) a trust that was not resident in Québec and that was not a mining reclamation trust for the purposes of the Income Tax Act because of an election by the trust to that effect in accordance with subsection 8 of section 52 of the Act to amend the Income Tax Act and the Income Tax Application Rules (Statutes of Canada, 1995, chapter 3); and

(*j*) a trust that was resident in Québec, to which the first contribution was made before 23 February 1994, and that elected, by notice in writing to the Minister on or before 31 December 1996, not to be a mining reclamation trust."

(2) Subsection 1 has effect from 1 January 1994.

24. (1) Section 23 of the said Act, amended by section 17 of chapter 49 of the statutes of 1995, is again amended by replacing subparagraph *a* of the second paragraph by the following subparagraph:

"(*a*) the individual's income for any period in the year throughout which the individual was resident in Canada, computed without regard to section 346.1 and as if that period were a whole taxation year, and".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

25. (1) Section 37.0.1 of the said Act is replaced by the following section:

"**37.0.1** For the purposes of section 37, a benefit is deemed to have been enjoyed by an individual at any time an obligation issued by any debtor, including the individual, is settled or extinguished and the value of that benefit is deemed to be the forgiven amount at that time in respect of the obligation.

In the first paragraph, the "forgiven amount" at any time in respect of an obligation issued by a debtor has the meaning that would be assigned by section 485 if

(*a*) the obligation were a commercial obligation, within the meaning assigned by section 485, issued by the debtor;

(*b*) no amount included in computing income because of the obligation being settled or extinguished at that time were taken into account;

(*c*) the definition of "forgiven amount" in section 485 were read without reference to paragraphs *f* and *h*; and

(*d*) section 485.3 were read without reference to subparagraphs *b* and *r* of the first paragraph of that section."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

26. (1) Section 47.6 of the said Act, amended by section 28 of chapter 49 of the statutes of 1995 and by section 24 of chapter 63 of the statutes of 1995, is again amended by replacing, in the French text of the second paragraph, the words "police collective d'assurance temporaire sur la vie" by the words "police d'assurance sur la vie collective temporaire".

(2) Subsection 1 applies to insurance provided in respect of periods that are after 30 June 1994.

27. (1) Section 87 of the said Act, amended by section 21 of chapter 1 of the statutes of 1995, by section 32 of chapter 49 of the statutes of 1995 and by section 26 of chapter 63 of the statutes of 1995, is again amended by adding, after paragraph *y*, the following paragraphs:

"(*z*) any amount received by the taxpayer in the year as a beneficiary under a mining reclamation trust, whether or not such amount is included because of section 692.1 in computing the taxpayer's income for any taxation year;

"(*z*.1) any consideration received by the taxpayer in the year for the disposition to another person or partnership of all or part of the taxpayer's interest as a beneficiary under a mining reclamation trust, other than consideration that is the assumption of a mining reclamation obligation in respect of the trust;

"(*z*.2) any amount required because of section 485.13 or 485.17 to be included in computing the taxpayer's income for the year; and

"(*z*.3) any amount required because of section 979.21 to be included in computing the taxpayer's income for the year."

(2) Subsection 1, where it enacts paragraphs *z* and *z*.1 of section 87 of the said Act, applies to taxation years that end after 22 February 1994.

(3) Subsection 1, where it enacts paragraph *z*.2 of section 87 of the said Act, applies to taxation years that end after 21 February 1994.

(4) Subsection 1, where it enacts paragraph *z*.3 of section 87 of the said Act, applies from the taxation year 1993.

28. (1) Section 92.21 of the said Act is replaced by the following section:

"**92.21** Where an insurer has deducted an amount under section 157.12 in computing its income for its taxation year that includes 23 February 1994, it shall include in computing its income for that taxation year and each subsequent taxation year that begins before 1 January 2004, the prescribed portion for the year of the amount so deducted."

(2) Subsection 1 applies to taxation years that end after 22 February 1994.

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

(1) by inserting, after subparagraph iii of paragraph *e*, the following subparagraph:

"iii.1 all amounts each of which is an amount by which the undepreciated capital cost to the taxpayer of depreciable property of that class is required, otherwise than because of a reduction in the capital cost to the taxpayer of depreciable property, to be reduced at or before that time because of section 485.6;";

(2) by replacing subparagraph viii of paragraph *f* by the following subparagraph:

"viii. any amount included, because of sections 484 to 484.6, in computing a taxpayer's proceeds of disposition of property."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

30. (1) Section 99 of the said Act, amended by section 37 of chapter 49 of the statutes of 1995, is again amended

(1) by replacing subparagraphs i and ii of paragraph *d*.1 by the following subparagraphs:

"i. where the transferor was an individual resident in Canada or a partnership any member of which was either an individual resident in Canada or another partnership and the cost of the property to the particular person or partnership at that time determined without reference to this paragraph exceeds the cost or, where the property was depreciable property, the capital cost of the property to the transferor immediately before the transferor disposed of it, the capital cost of the property to the particular person or partnership at that time is deemed to be the amount, in this subparagraph referred to as "the particular amount", that is equal to the aggregate of the cost or capital cost, as the case may be, of the property to the transferor immediately before that time and 3/4 of the amount by which the transferor's proceeds of disposition of the property exceed the aggregate of the cost or capital cost, as the case may be, of the property to the transferor immediately before that time, the amount required by section 726.9.4 to be deducted in computing the capital cost to the particular person or partnership of the property at that time, and 4/3 of the amount deducted by any person under Title VI.5 of Book IV in respect of the amount by which the transferor's proceeds of disposition of the property exceed the cost or capital cost, as the case may be, of the property to the transferor immediately before that time and, for the purposes of paragraph *b* and subparagraph i of paragraph *d*, the cost of the property to the particular person or partnership is deemed to be equal to the particular amount,

"ii. where the transferor was not a transferor described in subparagraph i, the rules provided in that subparagraph, which shall be read as if the reference therein to "exceed the aggregate of the cost or capital cost" were a reference to "exceed the cost or capital cost" and without reference to ", the amount required by section 726.9.4 to be deducted in computing the capital cost to the particular person or partnership of the property at that time, and 4/3 of the amount deducted by any person under Title VI.5 of Book IV in respect of the amount by which the transferor's proceeds of disposition of the property exceed the cost or capital cost, as the case may be, of the property to the transferor immediately before that time", apply in the same manner, and";

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

"(*d*.1.1) where a taxpayer is deemed by subparagraph *a* of the first paragraph of section 726.9.2 to have disposed of and reacquired a property that immediately before the disposition was a depreciable property, the taxpayer is deemed to have acquired the property from himself and, in so having acquired the property, not to have been dealing with himself at arm's length;".

(2) Subsection 1 applies from the taxation year 1994.

31. (1) Section 101 of the said Act is replaced by the following section:

"**101.** For the purposes of this Part, where the capital cost to a taxpayer of a depreciable property was reduced, because of sections 485 to 485.18 or a taxpayer deducted a particular amount, other than a prescribed amount, under subsection 5 or 6 of section 127 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) in respect of a depreciable property in computing his tax payable under the said Act or received or is entitled to receive assistance, other than prescribed assistance, from a government, municipality or other public authority in respect of, or for the acquisition of, depreciable property, whether as a subsidy, grant, forgivable loan, deduction from tax, investment allowance or as any other form, the capital cost of the property to the taxpayer at any particular time is deemed to be the amount by which the aggregate of the capital cost of the property, determined without reference to this section and sections 101.6, 101.7 and 485 to 485.18 and the amount of the assistance, in respect of that property, repaid by the taxpayer, pursuant to an obligation to do so, before the disposition of the property and before the particular time, exceeds the aggregate of

(*a*) where the property was acquired in a taxation year ending before the particular time, all particular amounts deducted under the said subsections 5 and 6 by the taxpayer, in respect of that property, for a taxation year ending before the particular time and before the disposition of that property;

(*b*) the amount of assistance the taxpayer has received or is entitled, before the particular time, to receive in respect of that property before the disposition thereof; and

(*c*) any amount by which the capital cost of the property to the taxpayer is required, because of sections 485 to 485.18, to be reduced at or before that particular time."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

32. (1) Section 105 of the said Act is amended by replacing subparagraph ii of paragraph *a* by the following subparagraph:

"ii. the amount determined by the formula in section 105.2 shall be included in computing the taxpayer's income from the business for the year and, for the purposes of Title VI.5 of Book IV and of paragraph *b* of section 28 as it applies for the purposes of that Title, the aggregate of all amounts each of which is the portion of the amount so included that can reasonably be attributed to proceeds of a disposition in the year of a qualified farm property, within the meaning assigned by section 726.6, in excess of the taxpayer's cost of the property is deemed to be a taxable capital gain of the taxpayer from the disposition in the year of qualified farm property;".

(2) Subsection 1 applies to fiscal periods that end after 22 February 1994 otherwise than by reason of an election under subsection 1 of section 190 of the said Act.

33. (1) The said Act is amended by inserting, after section 105.1, enacted by section 38 of chapter 49 of the statutes of 1995, the following section:

"**105.2** The formula referred to in subparagraph ii of paragraph *a* of section 105 is the following:

$$A - B - C - D.$$

For the purposes of the formula in the first paragraph,

(*a*) A is the excess referred to in section 105;

(*b*) B is the amount determined under subparagraph i of paragraph *b* of section 107 at the end of the year in respect of the business;

(*c*) C is 1/2 of the amount determined under subparagraph 2 of subparagraph i of paragraph *b* of section 107 at the end of the year in respect of the business; and

(*d*) D is such amount as the taxpayer claims, not exceeding the taxpayer's exempt gains balance in respect of the business for the year."

(2) Subsection 1 applies to fiscal periods that end after 22 February 1994 otherwise than by reason of an election under subsection 1 of section 190 of the said Act.

34. Section 106 of the said Act is amended in subsection 2

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

"*d*) à un créancier du contribuable à titre de paiement d'une dette ou à titre de remboursement, d'annulation ou d'achat d'une obligation ou d'une débenture;";

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

"(*f*) that is the cost or any part of the cost of an interest in a trust or partnership, a share, bond, debenture, obligation secured by mortgage, note, bill or other similar property, or an interest in, or a right to acquire, any such property."

35. (1) The said Act is amended by inserting, after section 106.1, the following sections:

"**106.2** For the purposes of this Part, where a taxpayer received or is entitled to receive assistance from a government, municipality or other public authority in respect of, or for the acquisition of, property the cost of which is an intangible capital amount of the taxpayer in respect of a business, whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance, that intangible capital amount is at a particular time deemed to be the amount by which

(*a*) the aggregate of

i. that intangible capital amount, determined without reference to this section, and

ii. such part of the assistance as the taxpayer repaid before the taxpayer ceased to carry on the business and before that particular time under a legal obligation to pay all or any part of the assistance; exceeds

(*b*) the amount of the assistance the taxpayer received or is entitled to receive before the earlier of that particular time and the time the taxpayer ceases to carry on the business.

"**106.3** For the purposes of section 106.2, where at a particular time a taxpayer who is a beneficiary under a trust or a member of a partnership received or is entitled to receive assistance from a government, municipality or other public authority, whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or as any other form of assistance, the amount of the assistance that can reasonably be considered to be in respect of, or for the acquisition of, property the cost of which was an intangible capital amount of the trust or partnership is deemed to have been received at that time by the trust or partnership, as the case may be, as assistance from the government, municipality or other public authority for the acquisition of such property."

(2) Subsection 1 applies in respect of assistance that a taxpayer receives or becomes entitled to receive after 21 February 1994 and repayments of such assistance.

36. (1) Section 107 of the said Act is amended

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

"ii. the aggregate of

(1) all amounts each of which is an amount that would have been included under subparagraph ii of paragraph *a* of section 105 in computing the taxpayer's income from the business for a taxation year that ended before the particular time but after 22 February 1994 if the amount determined under subparagraph *d* of the second paragraph of section 105.2 for the year were nil,

(2) all amounts included under paragraph *b* of section 105 in computing the taxpayer's income from the business for taxation years that ended before the particular time but after the taxpayer's adjustment time, and

(3) all taxable capital gains included, because of the application of subparagraph ii of paragraph *a* of section 105 to the taxpayer in respect of the business, in computing the taxpayer's income for taxation years that began before 23 February 1994,";

(2) by adding, after subparagraph 2 of subparagraph i of paragraph *b*, the following subparagraph:

"(3) the aggregate of all amounts each of which is an amount by which the intangible capital amount of the taxpayer in respect of the business is required to be reduced at or before the particular time because of section 485.7;".

(2) Paragraph 1 of subsection 1 applies to fiscal periods that end after 22 February 1994 otherwise than by reason of an election under subsection 1 of section 190 of the said Act.

(3) Paragraph 2 of subsection 1 applies to taxation years that end after 21 February 1994.

37. (1) The said Act is amended by inserting, after section 107.1, the following sections:

"**107.2** The exempt gains balance of an individual in respect of a business of the individual for a taxation year is the amount by which the aggregate of all amounts each of which is the amount determined under subparagraph *d* of the second paragraph of section 105.2 in respect of the business for a preceding taxation year is exceeded by the lesser of

(*a*) the amount by which

i. the amount that would have been the individual's taxable capital gain determined under subparagraph *b* of the first paragraph of section 726.9.2 in respect of the business if

(1) the amount designated in an election under section 726.9.2 in respect of the business were equal to the fair market value at the end of 22 February 1994 of the aggregate of the intangible capital property owned at that time by the elector in respect of the business, and

(2) this Act were read without reference to section 726.9.3, exceeds

ii. the amount determined by the formula

$$0.75(A - 1.1B);$$ and

(*b*) the individual's taxable capital gain determined under subparagraph *b* of the first paragraph of section 726.9.2 in respect of the business.

For the purposes of the formula in subparagraph ii of subparagraph *a* of the first paragraph,

(*a*) A is the amount designated in the election that was made under section 726.9.2 in respect of the business; and

(*b*) B is the fair market value at the end of 22 February 1994 of the property referred to in subparagraph 1 of subparagraph i of subparagraph *a* of the first paragraph.

"**107.3** Where an individual elects under section 726.9.2 in respect of a business, the individual is deemed to have received proceeds of a disposition on 23 February 1994 of intangible capital property in respect of the business equal to 4/3 of the amount by which the amount determined in respect of the business under subparagraph ii of subparagraph *a* of the first paragraph of section 107.2 exceeds the amount determined in respect of the business under subparagraph i of the said subparagraph *a*."

(2) Subsection 1 applies to fiscal periods that end after 22 February 1994 otherwise than by reason of an election under subsection 1 of section 190 of the said Act.

38. (1) Section 111.1 of the said Act is replaced by the following section:

"**111.1** For the purposes of section 111, the value of the benefit where an obligation issued by a debtor is settled or extinguished at any time is deemed to be the forgiven amount at that time in respect of the obligation.

In the first paragraph, the "forgiven amount" at any time in respect of an obligation issued by a debtor has the meaning that would be assigned by section 485 if

(*a*) the obligation were a commercial obligation, within the meaning assigned by section 485, issued by the debtor;

(*b*) no amount included in computing income, otherwise than pursuant to section 37, because of the obligation being settled or extinguished at that time were taken into account;

(*c*) the definition of "forgiven amount" in section 485 were read without reference to paragraphs *f* and *h*; and

(*d*) section 485.3 were read without reference to subparagraphs *b* and *r* of the first paragraph of that section."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

39. Section 119.2 of the said Act, amended by section 42 of chapter 49 of the statutes of 1995 and by section 27 of chapter 63 of the statutes of 1995, is again amended by replacing, in the portion of the definition of "qualifying debt obligation" before paragraph *a*, "hypothec, mortgage or" by "obligation secured by mortgage or".

40. Section 119.15 of the said Act, amended by section 43 of chapter 49 of the statutes of 1995, is again amended by replacing, in the portion of the definition of "qualifying debt obligation" before paragraph *a*, "hypothec, mortgage or" by "obligation secured by mortgage or".

41. Section 122 of the said Act is amended by replacing "the expression "bond" means a bond, bill of exchange, hypothec, mortgage or other evidence of indebtedness" by " "obligation" means a bond, debenture, bill, obligation secured by mortgage or other similar obligation".

42. Section 123 of the said Act, amended by section 44 of chapter 49 of the statutes of 1995, is replaced by the following section:

"**123.** Where an obligation is issued at a discount, the first owner of the obligation who is resident in Canada, who is not a person exempt, because of sections 980 to 998, from tax on part or on all of the person's taxable income and of whom the obligation is a capital property shall include, in computing his income for the taxation year in which he has become the owner of the obligation, the amount by which the principal amount of the obligation exceeds the amount for which the obligation was issued,

(*a*) in the case of an obligation issued after 20 December 1960 and before 19 June 1971, if the stipulated rate of interest payable on the obligation is less than 5% annually and if the yield from the obligation, expressed in terms of an annual rate on the amount for which the obligation was issued, exceeds such annual rate of interest by more than one-third; or

(*b*) in the case of an obligation issued after 18 June 1971, other than an obligation that is a prescribed debt obligation for the purposes of section 92.5, if the yield from the obligation, expressed in the same manner, exceeds by more than one-third the stipulated rate of interest payable on such obligation."

43. Section 124 of the said Act is amended by replacing the word "bond" wherever it appears by the word "obligation".

44. Section 125 of the said Act is amended by replacing the words "bond" and "bonds" wherever they appear by the words "obligation" and "obligations", respectively.

45. Section 125.1 of the said Act is amended by replacing, in the French text of the portion before paragraph *a*, the words "joindre à" by the words "transmettre avec".

46. Section 125.2 of the said Act is amended in the French text of paragraph *b* by replacing, in the portion before subparagraph i and in subparagraph ii, the words "en produisant" by the words "en transmettant".

47. (1) Section 142.1 of the said Act, amended by section 236 of chapter 49 of the statutes of 1995, is again amended by replacing subparagraph 1 of subparagraph ii of paragraph *a* by the following subparagraph:

"(1) all amounts each of which is the taxable capital gain of the taxpayer determined under section 105 for the year or a preceding taxation year and in respect of which a deduction can reasonably be considered to have been claimed under Title VI.5 of Book IV, or an amount determined under subparagraph *d* of the second paragraph of section 105.2 in respect of the taxpayer for the year or a preceding taxation year, and".

(2) Subsection 1 applies to taxation years that end after 22 February 1994.

48. Section 149 of the said Act is amended by replacing the portion before subparagraph *b* of the first paragraph by the following:

"**149.** Where a taxpayer has in a taxation year disposed of depreciable property to a person with whom he was dealing at arm's length and the proceeds of disposition, within the meaning assigned by paragraph *f* of section 93, include an agreement to sell, or an obligation secured by mortgage on, land that the taxpayer has, in a subsequent taxation year, sold to a person with whom he was dealing at arm's length, he may deduct in computing his income for the subsequent year the lesser of

(*a*) the amount by which the principal amount of the agreement to sell or the obligation outstanding at the time of the sale exceeds the consideration paid by the purchaser to the taxpayer for the agreement to sell or the obligation; and".

49. (1) Section 153 of the said Act is amended by replacing the first paragraph by the following paragraph:

"**153.** Where an amount included in computing the taxpayer's income from a business for the year or for a preceding taxation year in respect of a property sold in the course of the business is payable to the taxpayer after the end of the year and, except where the property is real property, all or part of the amount was, at the time of the sale, not due until at least two years after that time, the taxpayer may deduct a reasonable amount as a reserve in respect of such part of the amount so included in computing his income as can reasonably be regarded as a portion of the profit from the sale."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

50. (1) Section 157 of the said Act, amended by section 46 of chapter 49 of the statutes of 1995, is again amended

(1) by replacing, in the French text of paragraph *f*, the words "sa place d'affaires" by the words "son lieu d'affaires";

(2) by inserting, after paragraph *o*, the following paragraph:

"(*o*.1) 3/4 of any amount, other than an amount to which subparagraph ii of paragraph *a* of section 106.2 applies in respect of a taxpayer, repaid by the taxpayer in the year pursuant to a legal obligation to repay all or part of an amount to which paragraph *b* of section 106.2 applies in respect of the taxpayer;";

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

"(*r*) a contribution made in the year by the taxpayer to a mining reclamation trust under which the taxpayer is a beneficiary;

"(*s*) the consideration paid by the taxpayer in the year for the acquisition from another person or partnership of all or part of the taxpayer's interest as a beneficiary under a mining reclamation trust, other than consideration that is the assumption of a mining reclamation obligation in respect of the trust; and

"(*t*) any amount deducted in computing the taxpayer's income for the year because of paragraph *a* of section 485.15 or section 485.27."

(2) Paragraph 2 of subsection 1 applies in respect of amounts repaid after 21 February 1994.

(3) Paragraph 3 of subsection 1, where it enacts paragraphs *r* and *s* of section 157 of the said Act, applies to taxation years that end after 22 February 1994 and, for the purposes of paragraph *r* of section 157 of the said Act, each contribution made by a taxpayer to a trust before 23 February 1994 shall be deemed to have been made on 23 February 1994.

(4) Paragraph 3 of subsection 1, where it enacts paragraph *t* of section 157 of the said Act, applies to taxation years that end after 21 February 1994.

51. Section 157.12 of the said Act is replaced by the following section:

"**157.12** An insurer may deduct, in computing its income for its taxation year that includes 23 February 1994, an amount not exceeding the amount of the insurer's unpaid claims reserve adjustment, within the meaning of the regulations."

52. (1) Section 175.1.3 of the said Act is amended

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

"**175.1.3** Where at any time in a taxation year of a borrower a debt obligation of the borrower is settled or extinguished or the

holder of the obligation acquires or reacquires property of the borrower in circumstances in which sections 484 to 484.6 apply in respect of the debt obligation and, at that time, the aggregate determined in the second paragraph exceeds the aggregate determined in the third paragraph, which excess is in this section referred to as the "excess amount", the following rules apply:

(*a*) for the purpose of applying sections 484 to 484.6 in respect of the borrower, the principal amount at that time of the debt obligation is deemed to be equal to the amount by which the principal amount at that time of the debt obligation exceeds the excess amount; and

(*b*) the excess amount shall be deducted at that time in computing the forgiven amount in respect of the obligation, within the meaning assigned by section 485.";

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

"(*a*) the aggregate of all amounts each of which is an amount paid at or before that time in satisfaction, in whole or in part, of the obligation to pay interest on the debt obligation in respect of a period or part of a period that is after the particular time; and".

(2) Paragraph 1 of subsection 1, where it replaces the portion of the first paragraph of section 175.1.3 of the said Act before subparagraph *b*, applies from the taxation year 1992. However, where the portion of the first paragraph of section 175.1.3 of the said Act before subparagraph *b*, enacted by subsection 1, applies to taxation years that end before 22 February 1994, it shall be read as follows:

"**175.1.3** Where at any time in a taxation year of a borrower a debt obligation of the borrower is settled or extinguished or the holder of the obligation acquires or reacquires property of the borrower in circumstances in which section 484 applies in respect of the debt obligation and, at that time, the aggregate determined in the second paragraph exceeds the aggregate determined in the third paragraph, which excess is in this section referred to as the "excess amount", the following rules apply:

(*a*) for the purpose of applying section 484 in respect of the borrower, the principal amount at that time of the debt obligation is deemed to be equal to the amount by which the principal amount at that time of the debt obligation exceeds the excess amount; and".

(3) Paragraph 1 of subsection 1, where it replaces subparagraph *b* of the first paragraph of section 175.1.3 of the said Act, and paragraph 2 of that subsection 1 apply to taxation years that end after 21 February 1994. However, they do not apply to any obligation settled or extinguished

(1) before 22 February 1994;

(2) after 21 February 1994 under the terms of an agreement in writing entered into on or before that date, or under the terms of any amendment to such an agreement, where that amendment was entered into in writing before 12 July 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement;

(3) before 1 January 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before 22 February 1994;

(4) before 1 January 1996 in connection with a proposal, or notice of intention to make a proposal, that was filed under the Bankruptcy and Insolvency Act (Revised Statutes of Canada, 1985, chapter B-3), or similar legislation of a country other than Canada, before 22 February 1994; or

(5) before 1 January 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before 22 February 1994.

53. (1) Section 175.7 of the said Act is amended by replacing the portion before subparagraph *a* of the first paragraph by the following:

"**175.7** Subject to section 851.22.28 and notwithstanding any other provision of this Act, where a taxpayer, other than an insurer, who was resident in Canada at any time in a taxation year and whose ordinary business during that year included the lending of money, or who at any time in the year carried on a business of lending money in Canada, has sustained a loss on a disposition of property used or held in that business that is a share or a loan, bond, debenture, note, obligation secured by mortgage, agreement of sale or any other indebtedness, other than a property that is a capital property of the taxpayer, no amount shall be deducted in computing the income of the taxpayer from that business for the year in respect of the loss where".

(2) Subsection 1 applies in respect of dispositions that occur after 30 October 1994.

54. Section 179 of the said Act is amended by replacing, in the portion of subsection 1 before paragraph *a*, "bill, mortgage, hypothec or similar security" by "debenture, bill, obligation secured by mortgage or other similar obligation".

55. (1) Section 189 of the said Act is amended by replacing paragraph *d* by the following paragraph:

"(*d*) for the purpose of determining after that time, in respect of any subsequent disposition of property of the business, the amount deemed by subparagraph ii of paragraph *a* of section 105 to be the spouse's taxable capital gain, and the amount to be included under the said subparagraph ii or paragraph *b* of that section in computing the income of the spouse or corporation, an amount equal to the amount determined under subparagraph 2 of subparagraph i of paragraph *b* of section 107 in respect of the business of the individual immediately before that time shall be added to the amount otherwise determined under the said subparagraph 2."

(2) Subsection 1 applies to fiscal periods that end after 22 February 1994.

56. (1) Section 194 of the said Act is amended

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

"(*d*) the aggregate of all amounts each of which is an amount included because of section 94, 105, 485.13 or 485.17, the second paragraph of section 487 or section 487.0.3 in computing the taxpayer's income from the business for the year.";

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

"(*c*) the aggregate of all amounts each of which is an amount deducted for the year under paragraph *a* or *b* of section 130, section 130.1, paragraph *t* of section 157, section 188 or 198, the first paragraph of section 487 or section 487.0.2 in respect of the business."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

57. (1) Section 207 of the said Act is replaced by the following section:

"**207.** For the purposes of this Part, a taxpayer's restricted farm loss for a taxation year is the amount by which the amount determined under subparagraph i of paragraph *a* of section 205 in respect of the taxpayer for the year exceeds the aggregate of the amount determined under subparagraph ii of that paragraph *a* in respect of the taxpayer for the year and all amounts each of which is an amount by which the taxpayer's restricted farm loss for the year is required to be reduced because of sections 485 to 485.18."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

58. Section 209.4 of the said Act is amended by replacing the second paragraph by the following paragraph:

"Notwithstanding the first paragraph, in the case of a plan that is a trust, the income of the plan for a year is the amount that would be its income for the year but for sections 652, 653 to 657.3, 659 to 660.1, 663 to 663.2, 664, 666 to 668.3, 671 to 671.4 and 678 to 682."

59. (1) Section 222 of the said Act is amended by replacing the portion before paragraph *a* of subsection 1 by the following:

"**222.** (1) A taxpayer who carries on a business in Canada in a particular taxation year and who files with the Minister by the day on or before which the taxpayer's fiscal return under this Part for the taxpayer's following taxation year is required to be filed, or, where the taxpayer is not required to file such a fiscal return for that following year, by the day on or before which the taxpayer's fiscal return under this Part for that following year would be required to be filed if tax under this Part were payable by the taxpayer for that following year, a prescribed form containing prescribed information may deduct in computing the taxpayer's income from the business for the particular taxation year an amount not exceeding the aggregate of all amounts each of which is an expenditure of a current nature made by the taxpayer in the particular year, or in a preceding taxation year ending after 31 December 1973, on scientific research and experimental development related to a business of the taxpayer and directly undertaken in Canada by or on behalf of the taxpayer, or by way of a payment described in section 222.1 where the taxpayer is a corporation, or by way of a payment to be used for scientific research and experimental development carried on in Canada, related to a business of the taxpayer, provided that the

taxpayer is entitled to exploit the results of that scientific research and experimental development and that the payment was made to one of the following entities:".

(2) Subsection 1 has effect from 22 February 1994 in respect of expenditures incurred at any time. However, where an expenditure is incurred in a taxation year that ends before (*insert here the date of assent to this Act*), the taxpayer may file the prescribed form referred to in subsection 1 of section 222 of the said Act, as amended by subsection 1 of this section, by the later of the day referred to in subsection 1 of that section 222 and (*insert here the date that is 90 days after the date of assent to this Act*).

60. (1) Section 225 of the said Act is amended by inserting, after paragraph *c*, the following paragraph:

"(*c*.1) the aggregate of all amounts each of which is the lesser of the amount deducted under section 346.2 in computing the taxpayer's income for a preceding taxation year and the amount by which the amount that was deductible under sections 222 to 225 in computing the taxpayer's income for that preceding year exceeds the amount deducted under those sections in computing the taxpayer's income for that preceding year;".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

61. (1) The said Act is amended by inserting, after section 230.0.0.4, enacted by section 29 of chapter 1 of the statutes of 1995, the following section:

"**230.0.0.5** For the purposes of subsection 1 of section 222, a taxpayer is not required to file the prescribed form referred to in that subsection in respect of an expenditure, referred to in that subsection or in section 223 or 224, incurred in a taxation year by the taxpayer where the expenditure is reclassified by the Minister on an assessment of the taxpayer's tax payable under this Part for the year, or on a determination that no tax under this Part is payable by the taxpayer for the year, as an expenditure in respect of scientific research and experimental development."

(2) Subsection 1 has effect from 22 February 1994 in respect of expenditures incurred at any time.

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

"**232.** A capital gain or a capital loss arises from the disposition of any property other than the following property:

(*a*) intangible capital property;

(*b*) a timber resource property;

(*c*) a Canadian resource property;

(*d*) a foreign resource property;

(*e*) an insurance policy, including a life insurance policy within the meaning assigned by paragraph *e* of section 835, except for that part of a life insurance policy in respect of which a policyholder is deemed by section 851.11 to have an interest in a related segregated fund trust contemplated in section 851.2;

(*f*) an interest of a beneficiary under a mining reclamation trust; or

(*g*) a property to the disposition of which section 851.22.11, 851.22.13 or 851.22.14 applies."

(2) Subsection 1 applies to taxation years that end after 22 February 1994, except where it enacts subparagraph *g* of the first paragraph of section 232 of the said Act, in which case it applies in respect of dispositions that occur after that date.

63. (1) Section 234 of the said Act is amended

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

"i. a reasonable amount that the taxpayer may claim as a reserve in respect of the portion of the gain that is proportional to the portion of the proceeds of disposition that are payable to the taxpayer after the end of the year; and";

(2) by replacing the word "allowance" wherever it appears in the English text of the second paragraph by the word "reserve".

(2) Paragraph 1 of subsection 1 applies to taxation years that end after 21 February 1994.

64. (1) Section 238 of the said Act, amended by section 58 of chapter 49 of the statutes of 1995, is again amended

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

"(*a*) is a deemed disposition under section 242 as it read before 1 January 1993, or any of sections 281, 283, 299 to 300, 436, 440, 444, 450, 450.6, 653, 785.1, 785.2, paragraph *f* of section 785.5, section 832.1 or 851.22.15, paragraph *b* of section 851.22.23 or any of sections 861, 862 and 999.1;";

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

"(*c*) is contemplated in section 264.0.1 or 534;".

(2) Paragraph 1 of subsection 1 applies in respect of dispositions that occur after 22 February 1994. However, where paragraph *a* of section 238 of the said Act, enacted by paragraph 1 of subsection 1, applies before 1 July 1994, it shall be read without reference to "paragraph *f* of section 785.5,".

(3) Paragraph 2 of subsection 1 applies to taxation years that end after 21 February 1994.

65. Section 248 of the said Act is amended

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

"(*b*) any redemption or cancellation of a share, bond, debenture, bill, obligation secured by mortgage, agreement of sale, debt or other similar property, or an interest therein;";

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

"(*b*) an issue by a corporation of a bond, debenture, bill or obligation secured by mortgage;".

66. Section 250.2 of the said Act is replaced by the following section:

"**250.2** In 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, a unit of a mutual fund trust, or a bond, debenture, bill, note, obligation secured by mortgage or similar obligation issued by a person resident in Canada."

67. (1) Section 250.3 of the said Act is amended

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

"(*b*) a financial institution, within the meaning assigned by section 851.22.1;";

(2) by striking out paragraphs *c* to *e*.

(2) Subsection 1 applies in respect of dispositions that occur after 22 February 1994, other than the disposition of property in a taxation year that begins before 1 November 1994 where the property is mark-to-market property for the year.

68. (1) The said Act is amended by inserting, after section 250.4, the following:

"DIVISION II.2

"SPECIFIED PROPERTY

"**250.5** In this Title, specified property of a taxpayer is capital property of the taxpayer that is

(*a*) a share;

(*b*) an interest in a partnership;

(*c*) a capital interest in a trust; or

(*d*) an option to acquire a property described in any of paragraphs *a* to *c* or an option to acquire such an option."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

69. (1) The said Act is amended by inserting, after section 251, the following:

"CHAPTER II.1

"CAPITAL GAINS REDUCTION

"**251.1** In this chapter,

"exempt capital gains balance" of an individual for a taxation year that ends before 1 January 2005 in respect of a flow-through entity means the amount determined by the formula

A – B – C;

"flow-through entity" means

(*a*) a mutual fund trust;

(*b*) a segregated fund trust referred to in section 851.2;

(*c*) a trust all or substantially all of the properties of which consist of shares of the capital stock of a corporation, where the trust was established pursuant to an agreement between two or more shareholders of the corporation and one of the main purposes of the trust is to provide for the exercise of voting rights in respect of those shares pursuant to that agreement;

(*d*) a trust established exclusively for the benefit of one or more persons each of whom was, at the time the trust was created, either a person from whom the trust received property or a creditor of that person, where one of the main purposes of the trust is to secure the payments required to be made by or on behalf of that person to such creditor;

(*e*) a trust maintained primarily for the benefit of employees of a corporation or two or more corporations that do not deal at arm's length with each other, where one of the main purposes of the trust is to hold interests in shares of the capital stock of the corporation or corporations, as the case may be, or any corporation not dealing at arm's length therewith;

(*f*) a trust governed by a profit sharing plan;

(*g*) a partnership;

(*h*) an investment corporation;

(*i*) a mortgage investment corporation; and

(*j*) a mutual fund corporation.

For the purposes of the formula in the definition of "exempt capital gains balance" in the first paragraph,

(*a*) A is

i. if the entity is a trust referred to in any of paragraphs *b* to *f* of the definition of "flow-through entity" in the first paragraph, the amount determined under subparagraph *c* of the first paragraph of section 726.9.2 in respect of the individual's interest or interests therein, and

ii. in any other case, the lesser of

(1) 4/3 of the aggregate of the taxable capital gains that resulted from elections made under section 726.9.2 in respect of the individual's interests in or shares of the capital stock of the entity, and

(2) the amount that would be determined under subparagraph 1 if this Act were read without reference to section 726.9.3 and the amount designated in the election in respect of each interest or share were equal to the amount by which the fair market value of the interest or share at the end of 22 February 1994 exceeds the portion of the amount designated in the election in respect of that interest or share that exceeds 11/10 of its fair market value at that time;

(*b*) B is the aggregate of all amounts each of which is the amount by which the individual's capital gain for a preceding taxation year, determined without reference to section 251.2, from the disposition of an interest in or a share of the capital stock of the entity was reduced under that section; and

(*c*) C is

i. if the entity is a trust described in any of paragraphs *a* and *c* to *e* of the definition of "flow-through entity" in the first paragraph, 4/3 of the aggregate of all amounts each of which is the amount by which the individual's taxable capital gain otherwise determined for a preceding taxation year that resulted from a designation made under section 668 by the trust was reduced under section 251.3,

ii. if the entity is a partnership, 4/3 of the aggregate of all amounts each of which is

(1) the amount by which the individual's share otherwise determined of the partnership's taxable capital gains for its fiscal period that ended in a preceding taxation year was reduced under section 251.4, or

(2) the amount by which the individual's share otherwise determined of the partnership's income from a business for its fiscal period that ended in a preceding taxation year was reduced under section 251.5, and

iii. in any other case, the aggregate of all amounts each of which is the amount by which the aggregate of the individual's capital gains otherwise determined under sections 851.16, 851.21, 860, 1106, 1113 and 1116 for a preceding taxation year in respect of the entity was reduced under section 251.6.

"**251.2** Where at any time after 22 February 1994 an individual disposes of an interest in or a share of the capital stock of a flow-through entity, the individual's capital gain otherwise determined for a taxation year from the disposition shall be reduced by such amount as the individual claims, not exceeding the amount determined by the formula

A – B – C.

For the purposes of the formula in the first paragraph,

(*a*) A is the exempt capital gains balance of the individual for the year in respect of the entity;

(*b*) B is

i. if the entity made a designation under section 668 in respect of the individual for the year, 4/3 of the amount claimed under section 251.3 by the individual for the year in respect of the entity,

ii. if the entity is a partnership, 4/3 of the aggregate of the amounts claimed under sections 251.4 and 251.5 by the individual for the year in respect of the entity, and

iii. in any other case, the amount claimed under section 251.6 by the individual for the year in respect of the entity; and

(*c*) C is the aggregate of all reductions under this section in the individual's capital gains otherwise determined for the year from the disposition of other interests in or shares of the capital stock of the entity.

"**251.3** The taxable capital gain otherwise determined under section 668 of an individual for a taxation year as a result of a designation made under that section by a flow-through entity shall

be reduced by such amount as the individual claims, not exceeding 3/4 of the individual's exempt capital gains balance for the year in respect of the entity.

"**251.4** An individual's share otherwise determined for a taxation year of a taxable capital gain of a partnership from the disposition of a property, other than property acquired by the partnership after 22 February 1994 in a transfer to which the second paragraph of section 614 applied, for its fiscal period that ends in the year and after 22 February 1994 shall be reduced by such amount as the individual claims, not exceeding the amount by which 3/4 of the individual's exempt capital gains balance for the year in respect of the partnership exceeds the aggregate of all amounts claimed by the individual under this section in respect of other taxable capital gains of the partnership for that fiscal period.

"**251.5** An individual's share otherwise determined for a taxation year of the income of a partnership from a business for the partnership's fiscal period that ends in the year and the individual's share of the partnership's taxable capital gain arising under subparagraph ii of paragraph *a* of section 105 shall be reduced by such amount as the individual claims, not exceeding the lesser of

(*a*) the amount by which 3/4 of the individual's exempt capital gains balance for the year in respect of the partnership exceeds the aggregate of

i. the amount claimed under section 251.4 by the individual for the year in respect of the partnership, and

ii. all amounts claimed under this section by the individual for the year in respect of other businesses of the partnership; and

(*b*) the amount determined by the formula

$$A \times \frac{B}{C}.$$

For the purposes of the formula in subparagraph *b* of the first paragraph,

(*a*) A is the amount included under subparagraph ii of paragraph *a* of section 105 in computing the income of the partnership from the business for the fiscal period;

(*b*) B is the amount that would otherwise be the individual's share of the partnership's income from the business for the fiscal period; and

(*c*) C is the partnership's income from the business for the fiscal period.

"**251.6** The aggregate of capital gains otherwise determined under sections 851.16, 851.21, 860, 1106, 1113 and 1116 of an individual for a taxation year as a result of one or more elections, allocations or designations made after 22 February 1994 by a flow-through entity shall be reduced by such amount as the individual claims, not exceeding the individual's exempt capital gains balance for the year in respect of the entity.

"**251.7** Notwithstanding section 251.1, where at any time an individual ceases to be a member or shareholder of, or a beneficiary under, a flow-through entity, the exempt capital gains balance of the individual in respect of the entity for each taxation year that begins after that time is deemed to be nil."

(2) Subsection 1 applies from the taxation year 1994. However, where the definition of "flow-through entity" in the first paragraph of section 251.1 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read

(*a*) as if the reference in paragraph *a* to "fiducie de fonds commun de placements" were a reference to "fiducie de fonds mutuels"; and

(*b*) as if the reference in paragraph *j* to "société d'investissement à capital variable" were a reference to "corporation de fonds mutuels".

70. (1) The said Act is amended by inserting, after section 252, the following section:

"**252.1** Where any property of the taxpayer is property that was reacquired by the taxpayer after having been previously disposed of by the taxpayer, no adjustment to the cost to the taxpayer of the property that was required to be made under this chapter before its reacquisition by the taxpayer shall be made under this chapter to the cost to the taxpayer of the property as reacquired property of the taxpayer.

The first paragraph does not apply in respect of property that is an interest in or a share of the capital stock of a flow-through entity within the meaning assigned by section 251.1 that was last reacquired by the taxpayer as a result of an election under section 726.9.2."

(2) Subsection 1 applies from the taxation year 1994.

71. (1) Section 253 of the said Act is replaced by the following section:

"**253.** In no case shall the adjusted cost base to a taxpayer of any property at any time be less than zero."

(2) Subsection 1 applies from the taxation year 1994.

72. (1) Section 255 of the said Act, amended by section 61 of chapter 49 of the statutes of 1995, is again amended

(1) by replacing paragraph *c*.1 by the following paragraph:

"(*c*.1) where the taxpayer is a taxable Canadian corporation and the property has been disposed of by another taxable Canadian corporation to the taxpayer in circumstances such that paragraph *f*.1 does not apply so as to increase the adjusted cost base to the other corporation of shares of the capital stock of the taxpayer and the corporation's capital loss from the disposition is not allowable pursuant to section 239 or 264.0.1 or is deemed by paragraph *a* of section 535 to be nil, the amount that would otherwise be the corporation's capital loss from the disposition;";

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

"(*c*.1.1) where the property was disposed of by a person, other than a person not resident in Canada or a person exempt from tax under this Part on the person's taxable income, or by an eligible Canadian partnership, within the meaning assigned by section 485, to the taxpayer in circumstances such that paragraph *c*.1 does not apply so as to increase the adjusted cost base to the taxpayer of the property, paragraph *f*.1 does not apply so as to increase the adjusted cost base to that person of shares of the capital stock of the taxpayer and the person's capital loss from the disposition is deemed by section 264.0.1 not to be allowable or deemed by paragraph *a* of section 535 to be nil, the amount that would otherwise be the person's capital loss from the disposition;";

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

"(*c*.4) where the property is an interest in or a share of the capital stock of a flow-through entity within the meaning assigned by section 251.1 and the time is after 31 December 2004, an amount equal to the product obtained by multiplying the amount that would, if the definition of "exempt capital gains balance" in section 251.1 were read without reference to "that ends before 1 January 2005", be the taxpayer's exempt capital gains balance in respect of the entity for the taxpayer's taxation year 2005 by the proportion that the fair market value at that time of the property is of the fair market value at that time of all the taxpayer's interests in or shares of the capital stock of the entity;

"(*c*.5) any amount required under paragraph *d* of section 259, paragraph *b* of any of sections 259.1 to 259.3 and 296.1, subparagraph *b*.2 of the first paragraph of section 301, subparagraph *b* of the first paragraph of section 543.2 or paragraph *b* of section 553.2 to be added;";

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

"(*h*) the excess of the principal amount of a bond, debenture, bill, obligation secured by mortgage or similar obligation over the amount for which it has been issued, if such excess must be included, under sections 122 to 125, in computing the income of the taxpayer for a taxation year beginning before such particular time;";

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

"(*h*.0.0.1) where the property is a particular commercial obligation, within the meaning assigned by section 485, payable to the taxpayer as consideration for the settlement or extinguishment of another commercial obligation payable to the taxpayer and the taxpayer's loss from the disposition of the other obligation was reduced because of section 264.0.2, the proportion of the reduction that the principal amount of the particular obligation is of the aggregate of all amounts each of which is the principal amount of a commercial obligation payable to the taxpayer as consideration for the settlement or extinguishment of that other obligation;";

(6) in subparagraph i of paragraph *i*, by striking out ", 308 to 308.6" and by inserting "Division XV of Chapter IV," after "sections 200 and 201,";

(7) by inserting, after subparagraph v of paragraph *i*, the following subparagraph:

"v.1 any amount deemed by section 261.1 to be a gain of the taxpayer;";

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

"vii. any amount deemed by paragraph *c* of section 618 or section 642 to be a gain of the taxpayer;";

(9) by adding, after subparagraph xi of paragraph *i*, the following subparagraph:

"xii. any amount required by subparagraph *a* of the first paragraph of section 726.9.6 to be added at that time in computing the adjusted cost base to the taxpayer of the interest;";

(10) by replacing paragraph *j*.2 by the following paragraph:

"(*j*.2) where the property is a unit in a mutual fund trust, any amount required by section 1121.3 to be added in computing the adjusted cost base to the taxpayer of the unit;".

(2) Paragraphs 1 and 2, paragraph 3 where it enacts paragraph *c*.5 of section 255 of the said Act, and paragraph 5 of subsection 1 apply to taxation years that end after 21 February 1994.

(3) Paragraph 3, where it enacts paragraph *c*.4 of section 255 of the said Act, and paragraph 9 of subsection 1 apply from the taxation year 1994.

(4) Paragraph 6 of subsection 1 has effect from 13 September 1988.

(5) Paragraph 7 of subsection 1 has effect from 22 February 1994.

(6) Paragraph 8 of subsection 1 applies from the taxation year 1985.

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

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

"(*b*) where sections 485 to 485.18 apply, the amount by which the adjusted cost base is required to be reduced before the particular time;";

(2) by inserting, after paragraph *b*, the following paragraph:

"(*b*.1) any amount required under paragraph *c* of section 259, paragraph *a* of any of sections 259.1 to 259.3 and 296.1, subparagraph *b*.1 of the first paragraph of section 301, subparagraph *a* of the first paragraph of section 543.2 or paragraph *a* of section 553.2 to be deducted in computing the adjusted cost base of the property or any amount by which that adjusted cost base is required to be reduced because of any of sections 485.9 to 485.11;";

(3) by inserting, after paragraph *f*.4, the following paragraphs:

"(*f*.5) where the property was at the end of 22 February 1994 a non-qualifying immovable property of the taxpayer within the meaning assigned by section 726.6.1 as that section applies to the taxation year 1994, any amount required by paragraph *b* of section 726.9.4 to be deducted in computing the adjusted cost base to the taxpayer of the property;

"(*f*.6) where the taxpayer elected under section 726.9.2 in respect of the property, any amount required by section 726.9.5 to be deducted in computing the adjusted cost base to the taxpayer of the property at the particular time;";

(4) in subparagraph i of paragraph *l*, by striking out ", 308 to 308.6" and by inserting "Division XV of Chapter IV," after "section 157,";

(5) by inserting, after subparagraph i.1 of paragraph *l*, the following subparagraphs:

"i.2 any amount deemed by section 261.2 to be a loss of the taxpayer;

"i.3 where at the particular time the taxpayer would be a member described in section 261.1 of the partnership, if the fiscal period of the partnership that includes that time ended at that time, the unpaid principal amount of any debt of the taxpayer at that time in respect of which recourse against the taxpayer is limited, either immediately or in the future and either absolutely or contingently, and that can reasonably be considered to have been used to acquire the property;";

(6) by adding, after subparagraph xi of paragraph *l*, the following subparagraph:

"xii. any amount required by subparagraph *b* of the first paragraph of section 726.9.6 to be deducted at that time in computing the adjusted cost base to the taxpayer of the interest;".

(2) Paragraphs 1 and 2 of subsection 1 apply to taxation years that end after 21 February 1994.

(3) Paragraphs 3 and 6 of subsection 1 apply from the taxation year 1994.

(4) Paragraph 4 of subsection 1 has effect from 13 September 1988.

(5) Paragraph 5 of subsection 1, where it enacts subparagraph i.2 of paragraph *l* of section 257 of the said Act, has effect from 22 February 1994 and, where it enacts subparagraph i.3 of paragraph *l* of that section 257, applies in respect of debts entered into by a taxpayer after 26 September 1994 other than such a debt entered into pursuant to an agreement in writing entered into by the taxpayer before 27 September 1994.

74. (1) The heading of Division IV of Chapter III of Title IV of Book III of Part I of the said Act is replaced by the following heading:

"IDENTICAL PROPERTIES AND SPECIAL CASES".

(2) Subsection 1 has effect from 22 February 1994.

75. (1) Section 259 of the said Act is amended

(1) by replacing the word ", and" at the end of paragraph *a* by a semicolon;

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

"(*c*) the taxpayer shall deduct, after the particular time, in computing the adjusted cost base to the taxpayer of each such first and new identical property, an amount equal to the quotient obtained by dividing the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing immediately before the particular time the adjusted cost base to the taxpayer of the first properties

i. by the number of such identical properties owned by the taxpayer immediately after the particular time, or

ii. in the case of properties referred to in subparagraph ii of paragraph *b*, by the quotient determined under that subparagraph in respect of the acquisition; and

"(*d*) the taxpayer shall add, after the particular time, in computing the adjusted cost base to the taxpayer of each such first and new identical property the amount determined under paragraph *c* in respect of the identical property."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

76. (1) The said Act is amended by inserting, after section 259, the following sections:

"**259.1** Where at any time in a taxation year a person or partnership, in this section referred to as the "vendor", disposes of a specified property and the proceeds of disposition of the property are determined under paragraph *a* of section 247.2, sections 433 to 451, 454 to 462.0.1, section 518, 537 or 552, paragraph *a* of section 553.1, the first or the second paragraph of section 557, the second paragraph of section 614, section 619, 625, 631 or 654, paragraph *a* of section 688, 688.1, 691 or 692, subparagraph *c* of the second paragraph of section 736 or section 785.1 or 785.2, the following rules apply to the person or partnership, in this section referred to as the "transferee", who acquires or reacquires the property at or immediately after that time:

(*a*) the transferee shall deduct after that time in computing the adjusted cost base to the transferee of the property the amount by which the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before that time, the adjusted cost base to the vendor of the property, exceeds the amount that would be the vendor's capital gain for the year from that disposition if this Part were read without reference to subparagraph *b* of the first paragraph of section 234 and section 638; and

(*b*) the transferee shall add after that time, in computing the adjusted cost base to the transferee of the property, the amount determined under paragraph *a* in respect of that disposition.

"**259.2** Where at any time in a taxation year a person or partnership, in this section referred to as the "vendor", disposes of a specified property to another person or partnership, in this section referred to as the "transferee", the vendor and the transferee do not deal with each other at arm's length, or would not deal with each other at arm's length if this section applied with reference to subparagraph *k* of the first paragraph of section 485.3, and the proceeds of disposition of the property at that time are not determined under any of the provisions referred to in section 259.1,

(*a*) the transferee shall deduct after that time in computing the adjusted cost base to the transferee of the property the amount by which the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before that time, the adjusted cost base to the vendor of the property exceeds the amount that would be the vendor's capital gain for the year from that disposition if this Part were read without reference to subparagraph *b* of the first paragraph of section 234 and section 638; and

(*b*) the transferee shall add after that time, in computing the adjusted cost base to the transferee of the property, the amount determined under paragraph *a* in respect of that disposition.

"**259.3** Where a capital property that is a specified property is acquired by a corporation at any time as a result of the amalgamation or merger of two or more corporations, each of which is referred to in this section as a "predecessor corporation",

(*a*) the corporation shall deduct after that time in computing the adjusted cost base to the corporation of the capital property the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before that time, the adjusted cost base to a predecessor corporation of the property, unless those amounts are otherwise deducted under that paragraph *b*.1 in computing the adjusted cost base to the corporation of the capital property; and

(*b*) the corporation shall add after that time, in computing the adjusted cost base to the corporation of the capital property, the amount deducted under paragraph *a* in respect of the acquisition."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

77. (1) Section 261 of the said Act is amended by replacing the portion before paragraph *a* by the following:

"**261.** Except where section 261.1 applies, where the aggregate of all amounts required by section 257, except paragraph *l* of that section, to be deducted in computing the adjusted cost base to a taxpayer of any property at any time in a taxation year exceeds the aggregate of the cost to the taxpayer of the property determined for the purpose of computing the adjusted cost base to the taxpayer of that property at that time and of all amounts required by section 255 to be added to the cost to the taxpayer of the property in computing the adjusted cost base to the taxpayer of that property at that time, the following rules apply:".

(2) Subsection 1 has effect from 22 February 1994.

78. (1) The said Act is amended by inserting, after section 261, the following:

"DIVISION I.1

"INTEREST IN A PARTNERSHIP

"**261.1** Where, at the end of a fiscal period of a partnership, a member of the partnership is a limited partner of the partnership or is a member of the partnership who was a specified member of the partnership at all times since becoming a member, except where the member's partnership interest was held by the member on 22 February 1994 and is an excluded interest at the end of the fiscal period, and except where paragraph *c* of section 618 or section 642 applies:

(*a*) the amount determined under the second paragraph is deemed to be a gain from the disposition, at the end of the fiscal period, of the member's interest in the partnership; and

(*b*) for the purposes of Title VI.5 of Book IV, the interest is deemed to have been disposed of by the member at that time.

The amount to which subparagraph *a* of the first paragraph refers in respect of a member's interest in a partnership at the end of a fiscal period of the partnership is the amount by which the aggregate of all amounts required by section 257 to be deducted in computing the adjusted cost base to the member of the interest in the partnership at that time exceeds the aggregate of

(*a*) the cost to the member of the interest determined for the purpose of computing the adjusted cost base to the member of that interest at that time; and

(*b*) all amounts required by section 255 to be added to the cost to the member of the interest in computing the adjusted cost base to the member of that interest at that time.

"**261.2** Where, at the end of a fiscal period of a partnership, a corporation, an individual other than a trust, or an *inter vivos* trust, each of which is referred to in this section as the "taxpayer", is a member of the partnership, the taxpayer is deemed to have a loss from the disposition at that time of the member's interest in the partnership equal to the amount that the taxpayer elects in the taxpayer's fiscal return under this Part for the taxation year that includes that time, not exceeding the lesser of

(*a*) the amount by which the aggregate of all amounts each of which is an amount deemed by section 261.1 to be a gain of the taxpayer from a disposition of the interest before that time exceeds the aggregate of all amounts each of which is an amount deemed by this section to be a loss of the taxpayer from a disposition of the interest before that time; and

(*b*) the adjusted cost base to the taxpayer of the interest at that time.

"**261.3** For the purpose of applying sections 255 to 258 at any time in respect of a member of a partnership who would be a member described in section 261.1 of the partnership if the fiscal period of the partnership that includes that time ended at that time, where at any time after 21 February 1994 the member of the partnership makes a contribution of capital to the partnership, the contribution is deemed not to have been made where

(*a*) the partnership or a person or partnership with whom the partnership does not deal at arm's length makes a loan to the member or to a person with whom the member does not deal at arm's length, or pays an amount as a payment or distribution of the member's share in the profits or capital of the partnership, or the member or a person with whom the member does not deal at arm's length becomes indebted to the partnership or a person or partnership with whom the partnership does not deal at arm's length; and

(*b*) it is established, by subsequent events or otherwise, that the loan, payment or indebtedness was made or arose as part of a series of contributions, loans, payments or other similar transactions.

"**261.4** For the purposes of section 261.1, a member of a partnership who acquired an interest in the partnership after 22 February 1994 is deemed to have held the interest on 22 February 1994 where the member acquired the interest

(*a*) in circumstances in which

i. subparagraph *a*.1 of the first paragraph of section 440 applied,

ii. the interest was held, on 22 February 1994,

(1) where the member is an individual, by the member's spouse,

(2) where the member is a trust, by the individual by whose will the trust was created, and

iii. the interest was, immediately before the death of the spouse or the individual, as the case may be, an excluded interest;

(*b*) in circumstances in which

i. subparagraph *a*.1 of the first paragraph of section 444 applied,

ii. the member's father or mother held the interest on 22 February 1994, and

iii. the interest was, immediately before the death of the member's father or mother, an excluded interest;

(*c*) in circumstances in which

i. subparagraph *b*.1 of the first paragraph of section 450 applied,

ii. the trust referred to in section 450 or the individual by whose will the trust was created held the interest on 22 February 1994, and

iii. the interest was, immediately before the death of the spouse referred to in section 450, an excluded interest; or

(*d*) before 1 January 1995 pursuant to a document referred to in paragraph *a*, *e* or *f* of section 261.7.

"**261.5** In section 261.1, a member of a partnership at a particular time is a limited partner of that partnership at that time if, at that time or within three years after that time,

(*a*) by operation of any law governing the partnership arrangement, the liability of the member as a member of the partnership is limited;

(*b*) the member or a person with whom the member does not deal at arm's length is entitled to receive an amount or obtain a benefit that would be described in paragraph *b* of section 613.3 if that paragraph were read without reference to subparagraphs ii and vi thereof;

(*c*) one of the reasons for the existence of the member who owns the interest

i. can reasonably be considered to be to limit the liability of any person with respect to that interest, and

ii. cannot reasonably be considered to be to permit any person who has an interest in the member to carry on the person's business, other than an investment business, in the most effective manner; or

(*d*) one of the main reasons for the existence of an agreement or other arrangement for the disposition of an interest in the partnership can reasonably be considered to be to attempt to avoid the application of this section to the member.

"**261.6** In this division, an excluded interest in a partnership at any time means an interest in a partnership that actively carries on a business that was carried on by it throughout the period beginning on 22 February 1994 and ending at that time, or that earns income from a property that was owned by it throughout that period, unless in that period there was a substantial contribution of capital to the partnership or a substantial increase in the indebtedness of the partnership.

"**261.7** For the purposes of section 261.6, a contribution of capital or an increase in the indebtedness will be considered not to be substantial where

(*a*) the amount was raised pursuant to the terms of a written agreement entered into by a partnership before 22 February 1994 to issue an interest in the partnership and was expended on expenditures contemplated by the agreement before 1 January 1995, or before 2 March 1995 in the case of amounts expended to acquire

i. a film production prescribed for the purposes of subparagraph ii of paragraph *b* of section 613.3 the principal photography of which or, in the case of such a production that is a television series, one episode of the series, commences before 1 January 1995 and the production is completed before 2 March 1995, or

ii. an interest in one or more partnerships all or substantially all of the property of which is a film production referred to in subparagraph i;

(*b*) the amount was raised pursuant to the terms of a written agreement, other than an agreement referred to in paragraph *a*, entered into by a partnership before 22 February 1994 and was expended on expenditures contemplated by the agreement before 1 January 1995, or before 2 March 1995 in the case of amounts expended to acquire a property described in subparagraph i or ii of paragraph *a*;

(*c*) the amount was used by the partnership before 1 January 1995, or before 2 March 1995 in the case of amounts expended to acquire a property described in subparagraph i or ii of paragraph *a*, to make an expenditure required to be made pursuant to the terms of a written agreement entered into by the partnership before 22 February 1994;

(*d*) the amount was used to repay a loan, debt or contribution of capital that had been received or incurred in respect of an expenditure referred to in any of paragraphs *a* to *c*;

(*e*) the amount was

i. raised before 1 January 1995 pursuant to the terms of a prospectus, preliminary prospectus, offering memorandum or registration statement filed before 22 February 1994 with a public authority in Canada in accordance with the securities legislation of Canada or of a province and, where required by law, accepted for filing by the public authority, and

ii. expended before 1 January 1995, or before 2 March 1995 in the case of amounts expended to acquire a film production prescribed for the purposes of subparagraph ii of paragraph *b* of section 613.3, or an interest in one or more partnerships all or substantially all of the property of which is such a film production, on expenditures contemplated by the document referred to in subparagraph i that was filed before 22 February 1994;

(*f*) the amount was raised before 1 January 1995 pursuant to the terms of an offering memorandum distributed as part of an offering of securities where

i. the memorandum contained a complete or substantially complete description of the securities contemplated in the offering as well as the terms and conditions of the offering,

ii. the memorandum was distributed before 22 February 1994,

iii. solicitations in respect of the sale of the securities contemplated by the memorandum were made before 22 February 1994,

iv. the sale of the securities was substantially in accordance with the memorandum, and

v. the funds were expended in accordance with the memorandum before 1 January 1995 or, in the case of a partnership all or substantially all of the property of which is property described in subparagraph i or ii of paragraph *a*, before 2 March 1995; or

(*g*) the amount was used for an activity that was carried on by the partnership on 22 February 1994 but not for a significant expansion of the activity nor for the acquisition or production of a film production.

"**261.8** For the purposes of section 261.6, a partnership in respect of which any of paragraphs *a* to *f* of section 261.7 applies shall be considered to have actively carried on the business contemplated by the document referred to in any of those paragraphs, or earned income from the property described in any of those paragraphs, throughout the period beginning 22 February 1994 and ending on the earlier of 1 January 1995 and the closing date stipulated in the document."

(2) Subsection 1 has effect from 22 February 1994. However, section 261.1 of the said Act, enacted by subsection 1, does not apply in respect of a member of a partnership before the end of the partnership's fifth fiscal period that ends after 31 December 1994 where the following conditions are met:

(1) the member acquires the interest in the partnership before 1 January 1995;

(2) all or substantially all of the property, other than money, of the partnership is a film production or an interest in one or more partnerships all or substantially all of the property of which is a film production;

(3) the principal photography of the production, or, in the case of a television series, one episode of the series, commences before 1 January 1995;

(4) the funds used to produce the film production are raised before 1 January 1995 and the principal photography of the production is completed, and the funds are expended, before 1 January 1995 or, in the case of a film production prescribed for the purposes of subparagraph ii of paragraph *b* of section 613.3 of the said Act, before 2 March 1995;

(5) one of the following conditions is met:

(*a*) the producer of the film production has, before 22 February 1994, entered into a written agreement for the pre-production, distribution, broadcasting, financing or acquisition of the production or the acquisition of the screenplay for the production or has entered into a written contract with a screenwriter to write the screenplay for the production;

(*b*) the producer of the film production receives before 1 January 1995 a commitment for funding or government assistance, or an advance ruling or active status letter in respect of eligibility for such funding or other government assistance, for the production from an agency of the Government of Canada or of a provincial government the mandate of which is related to the provision of assistance to film productions in Canada; or

(*c*) the production is a continuation of a television series an episode of which satisfies the requirements of this subsection.

79. The heading of Division III of Chapter IV of Title IV of Book III of Part I of the said Act is amended by replacing the word "BONDS" by the words "BONDS OR DEBENTURES".

80. (1) Sections 263 and 264 of the said Act are replaced by the following sections:

"**263.** Where a taxpayer has issued any bond, debenture or similar obligation and has at any subsequent time after 1971 purchased the obligation in the open market, in the manner in which any such obligation would normally be purchased by any member of the public,

(*a*) the amount by which the amount for which the obligation was issued exceeds the purchase price paid or agreed to be paid is deemed to be a capital gain of the taxpayer for the taxation year from the disposition of a capital property; and

(*b*) the amount by which the purchase price paid or agreed to be paid for the obligation exceeds the greater of the principal amount of the obligation and the amount for which it was issued is deemed to be a capital loss of the taxpayer for the taxation year from the disposition of a capital property.

An amount may be deemed to be a capital gain or a capital loss of a taxpayer under the first paragraph to the extent that the amount would not, if this Part were read without reference to sections 485.12 and 485.13, otherwise be included or be deductible, as the case may be, in computing the taxpayer's income for the year or any other year.

"**264.** The loss to a corporation from the disposition of a bond or debenture shall be decreased by the aggregate of the amounts it has received as interest on such bond or debenture, as the case may be, that have not been included in computing its income under paragraph *d* of section 489."

(2) Subsection 1, where it enacts the second paragraph of section 263 of the said Act, applies to taxation years that end after 21 February 1994.

81. (1) The said Act is amended by inserting, after section 264, the following sections:

"**264.0.1** A taxpayer's loss from the disposition at any time to a particular person or partnership, in this section referred to as the "transferee", of an obligation that was, immediately after that time, payable by another person or partnership, in this section referred to as the "debtor", to the transferee shall not be allowable where the taxpayer, the transferee and the debtor are related to each other at that time or would be related to each other at that time if this section applied with reference to subparagraph *k* of the first paragraph of section 485.3.

"**264.0.2** Where a taxpayer sustains a loss on the settlement or extinguishment of a commercial obligation, within the meaning assigned by section 485, issued by a person or partnership and payable to the taxpayer, the loss, where the consideration given by the person or partnership for the settlement or extinguishment of

the obligation consists of one or more other commercial obligations issued by the person or partnership to the taxpayer, is deemed to be the amount determined by the formula

$$A \times \frac{(B - C)}{B}.$$

For the purposes of the formula in the first paragraph,

(*a*) A is the amount of the taxpayer's loss, otherwise computed, from the disposition of the commercial obligation;

(*b*) B is the total fair market value of the consideration given by the person or partnership for the settlement or extinguishment of the commercial obligation; and

(*c*) C is the total fair market value of the other commercial obligations."

(2) Subsection 1, where it enacts section 264.0.1 of the said Act, applies in respect of dispositions that occur after 12 July 1994, other than dispositions pursuant to agreements in writing entered into on or before 12 July 1994.

(3) Subsection 1, where it enacts section 264.0.2 of the said Act, applies in respect of dispositions that occur after 20 December 1994, other than dispositions pursuant to agreements in writing entered into on or before 20 December 1994.

82. (1) Section 264.6 of the said Act, amended by section 236 of chapter 49 of the statutes of 1995, is replaced by the following section:

"**264.6** Where an amount is received in a taxation year on account of a debt in respect of which a deduction for bad debts had been made under section 142.1 in computing the taxpayer's income for a preceding taxation year, the amount by which 3/4 of the amount so received exceeds the amount determined under paragraph *i*.1 of section 87 in respect of the amount so received is deemed to be a taxable capital gain of the taxpayer from a disposition of capital property by the taxpayer in the year."

(2) Subsection 1 applies from the taxation year 1994. However, where section 264.6 of the said Act, enacted by subsection 1, applies to the taxation year 1994, it shall be read as follows:

"**264.6** Where an amount is received in a taxation year on account of a debt in respect of which a deduction for bad debts had been made under section 142.1 in computing the taxpayer's income for a preceding taxation year, the amount by which 3/4 of the amount so received exceeds the amount determined under paragraph *i*.1 of section 87 in respect of the amount so received is deemed to be a taxable capital gain of the taxpayer from a disposition of capital property by him in the year and, for the purposes of Title VI.5 of Book IV, that property is deemed to have been disposed of by him on the day on which he received the amount."

83. (1) Section 271 of the said Act is replaced by the following section:

"**271.** The individual's gain for a taxation year from the disposition of a property that is or was the individual's principal residence at any time after the date, in this section referred to as the "acquisition date", that is the later of 31 December 1971 and the day on which the individual last acquired it, is the amount determined by the formula

$$A - (A \times \frac{B}{C}) - D.$$

For the purposes of the formula in the first paragraph,

(*a*) A is the amount that would, if this Act were read without reference to this section and sections 726.9.2 and 726.9.4, be the individual's gain from the disposition of the property for the year;

(*b*) B is one plus the number of taxation years that end after the acquisition date for which the property was the individual's principal residence and during which the individual was resident in Canada;

(*c*) C is the number of taxation years that end after the acquisition date during which the individual owned the property whether jointly with another person or otherwise; and

(*d*) D is

i. where the acquisition date is before 23 February 1994 and the individual or a spouse of the individual elected under section 726.9.2 in respect of the property or an interest therein that was owned, immediately before the disposition, by the individual, 4/3 of the lesser of

(1) the aggregate of all amounts each of which is the taxable capital gain of the individual or of a spouse of the individual that would have resulted from an election by the individual or spouse under section 726.9.2 in respect of the property or interest if this Act were read without reference to section 726.9.3 and the amount designated in the election were equal to the amount by which the fair market value of the property or interest at the end of 22 February 1994 exceeds the amount designated in the election that was made in respect of the property or interest that exceeds 11/10 of its fair market value at that time, and

(2) the aggregate of all amounts each of which is the taxable capital gain of the individual or of a spouse of the individual that would have resulted from an election that was made under section 726.9.2 in respect of the property or interest if the property were the principal residence of neither the individual nor the spouse for each particular taxation year unless the property was designated, in a fiscal return for the taxation year that includes 22 February 1994 or for a preceding taxation year, to be the principal residence of either of them for the particular taxation year, and

ii. in any other case, zero."

(2) Subsection 1 applies in respect of dispositions that occur after 22 February 1994.

84. (1) Section 273 of the said Act is amended by replacing the words "in subsection 1 of the said section" in paragraph *b* by the words "in the first paragraph of that section 271".

(2) Subsection 1 applies in respect of dispositions that occur after 22 February 1994.

85. (1) Section 274.1 of the said Act is amended by replacing paragraph *b* by the following paragraph:

"(*b*) his gain calculated in accordance with section 271 on the assumption that that section applies and that

i. subparagraph *b* of the second paragraph of that section is read without reference to the words "one plus", and

ii. the individual acquired the property on 1 January 1982 at a cost equal to its proceeds of disposition as determined under paragraph *a*, exceeds".

(2) Subsection 1 applies in respect of dispositions that occur after 22 February 1994.

86. (1) The said Act is amended by inserting, after section 274.2, the following section:

"**274.3** Where an election was made under section 726.9.2 in respect of a property of a taxpayer that was the taxpayer's principal residence for the taxation year 1994 or that, in the taxpayer's fiscal return for the taxation year in which the taxpayer disposes of the property or grants an option to acquire the property, is designated as the taxpayer's principal residence, in determining, for the purposes of sections 271, 272, 274.1 and 274.2, the day on which the property was last acquired by the taxpayer and the period throughout which the property was owned by the taxpayer this Act shall be read without reference to section 726.9.2."

(2) Subsection 1 applies in respect of dispositions that occur after 22 February 1994.

87. The heading of Division VI.1 of Chapter IV of Title IV of Book III of Part I of the said Act is replaced, in the French text, by the following heading:

"DOMAINE VIAGER SUR UN BIEN IMMEUBLE".

88. Section 277.1 of the said Act, amended by section 66 of chapter 49 of the statutes of 1995, is again amended, in the French text,

(1) by replacing, in the portion before paragraph *a*, the words "*remainder interest*" and "*estate pur* autre vie" by the words "droit résiduel" and "domaine à vie d'autrui", respectively;

(2) by replacing the words "*life estate*" wherever they appear by the words "domaine viager".

89. Section 277.2 of the said Act is amended, in the French text,

(1) by replacing the words "*life estate*" wherever they appear in the portion before subparagraph ii of paragraph *b* by the words "domaine viager";

(2) by replacing, in the portion of paragraph *b* before subparagraph i and in subparagraph ii of that paragraph, the words "*remainder interest*" by the words "droit résiduel".

90. (1) Section 279 of the said Act is amended by replacing the portion of paragraph *a* before subparagraph i by the following:

"(*a*) the gain for a particular taxation year from the disposition of his former property is deemed to be equal to the amount by which either of the following amounts, as the case may be, exceeds the amount that the taxpayer may claim, not exceeding, subject to section 279.1, the lesser of a reasonable amount as a reserve in respect of such of the proceeds of disposition of the former property that are payable to him after the end of the particular year as can reasonably be regarded as a portion of the amount determined under subparagraph i in respect of the property, and an amount equal to the product obtained when 1/5 of the amount determined under that subparagraph i in respect of the property is multiplied by the amount by which 4 exceeds the number of preceding taxation years of the taxpayer ending after the disposition of the property:".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

91. (1) The said Act is amended by inserting, after section 296, the following sections:

"**296.1** Where at any time a taxpayer exercises an option to acquire a specified property,

(*a*) the taxpayer shall deduct after that time in computing the adjusted cost base to the taxpayer of the specified property the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before that time, the adjusted cost base to the taxpayer of the option; and

(*b*) the taxpayer shall add, after that time, in computing the adjusted cost base to the taxpayer of the specified property, the amount determined under paragraph *a* in respect of that acquisition.

"**296.2** Where an individual, other than a trust, who disposes of property pursuant to the exercise of an option that was granted by the individual before 23 February 1994 so elects in the individual's fiscal return for the taxation year in which the disposition occurs, section 296 does not apply in respect of the disposition in computing the income of the individual."

(2) Subsection 1, where it enacts section 296.1 of the said Act, applies to taxation years that end after 21 February 1994 and, where it enacts section 296.2 of the said Act, applies in respect of dispositions that occur after 22 February 1994.

92. (1) Section 299 of the said Act, amended by section 236 of chapter 49 of the statutes of 1995, is again amended

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

"**299.** Where a taxpayer establishes that a debt owing to him at the end of a taxation year, other than a debt resulting from the disposition of a personal-use property, is a bad debt for the year, he is deemed, if he so elects in the taxpayer's fiscal return filed under this Part for the year, to have disposed of it at that time for proceeds equal to nil and to have reacquired it immediately thereafter at a cost equal to nil.";

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

"(*a*) a corporation that has during the year become a bankrupt;";

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

"(*c*) a corporation that is insolvent at the end of the year if, at that time,

i. neither the corporation nor a corporation controlled by it carries on business,

ii. the fair market value of the share is nil, and

iii. it is reasonable to expect that the corporation will be dissolved or wound up and will not recommence to carry on any business."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

93. (1) Section 301 of the said Act, amended by section 70 of chapter 49 of the statutes of 1995, is again amended

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

"**301.** Lorsqu'un contribuable acquiert une action du capital-actions d'une corporation en échange d'une immobilisation du contribuable qui est soit une autre action de la corporation, soit une obligation, une débenture ou un billet de la corporation qui confère à son détenteur le droit de faire cet échange, et que le contribuable ne reçoit pas d'autre contrepartie que cette action, les règles suivantes s'appliquent:";

(2) by inserting, after paragraph *b*, the following paragraphs:

"(*b*.1) the taxpayer shall deduct, after the exchange, in computing the adjusted cost base to the taxpayer of a share acquired by the taxpayer on the exchange, the amount determined by the formula

$$A \times \frac{B}{C};$$

"(*b*.2) the taxpayer shall add, after the exchange, in computing the adjusted cost base to the taxpayer of a share, the amount determined under paragraph *b*.1 in respect of the share;";

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

"For the purposes of the formula in subparagraph *b*.1 of the first paragraph,

(*a*) A is the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before the exchange, the adjusted cost base to the taxpayer of the exchanged capital property;

(*b*) B is the fair market value, immediately after the exchange, of the share referred to in subparagraph *b*.1 of the first paragraph; and

(*c*) C is the fair market value, immediately after the exchange, of all the shares acquired by the taxpayer on the exchange."

(2) Paragraphs 2 and 3 of subsection 1 apply to taxation years that end after 21 February 1994.

94. (1) The said Act is amended by inserting, after section 301.2, enacted by section 71 of chapter 49 of the statutes of 1995, the following:

"DIVISION XIII.1

"EXCHANGE OF DEBT OBLIGATIONS

"**301.3** Where a taxpayer acquires a bond, debenture or note of a debtor, in this section referred to as the "new obligation", in exchange for a capital property of the taxpayer that is another bond, debenture or note of the same debtor that conferred on the holder the right to make the exchange and the principal amount of the new obligation is equal to the principal amount of the exchanged capital property, the cost to the taxpayer of the new obligation and the proceeds of disposition of the exchanged capital property are deemed to be equal to the adjusted cost base to the taxpayer of the exchanged capital property immediately before the exchange."

(2) Subsection 1 applies in respect of exchanges that occur after 31 October 1994.

95. The heading of Division XV of Chapter IV of Title IV of Book III of Part I of the said Act is replaced by the following heading:

"ANTI-AVOIDANCE RULE".

96. (1) The said Act is amended by inserting, before section 308.1, the following section:

"**308.0.1** In this division,

"distribution" means a direct or indirect transfer of property of a corporation, referred to in this division as the "distributing corporation", to one or more corporations, each of which is referred to in this division as a "transferee corporation", where, in respect of each type of property owned by the distributing corporation immediately before the transfer, each transferee corporation receives property of that type the fair market value of which is equal to or approximates the proportion of the fair market value, immediately before the transfer, of all property of that type owned at that time by the distributing corporation that

(*a*) the fair market value, immediately before the transfer, of all the shares of the capital stock of the distributing corporation owned at that time by the transferee corporation is of

(*b*) the fair market value, immediately before the transfer, of all the issued shares of the capital stock of the distributing corporation;

"permitted acquisition", in relation to a distribution by a distributing corporation, means an acquisition of property by a person or partnership on, or as part of,

(*a*) a distribution, or

(*b*) a permitted exchange or permitted redemption in relation to a distribution by another distributing corporation;

"permitted exchange", in relation to a distribution by a distributing corporation, means

(*a*) an exchange of shares for shares of the capital stock of the distributing corporation to which section 301 or sections 541 to 543 apply or would, if the shares were capital property to the holder thereof, apply, other than an exchange that resulted in an acquisition of control of the distributing corporation by any person or group of persons, and

(*b*) an exchange of shares of the capital stock of the distributing corporation by one or more shareholders of the distributing corporation, each of whom is referred to in this paragraph and the second paragraph as a "participant", for shares of the capital stock of another corporation, referred to in this paragraph and the second paragraph as the "acquirer", in contemplation of the distribution where no share of the capital stock of the acquirer outstanding immediately after the exchange, other than directors' qualifying shares, is owned at that time by any person or partnership other than a participant, and either

i. the acquirer owns, immediately before the distribution, all the shares each of which is a share of the capital stock of the distributing corporation that was owned immediately before the exchange by a participant, or

ii. the fair market value, immediately before the distribution, of each participant's shares of the capital stock of the acquirer is equal to or approximates the amount determined by the formula

$$(A \times \frac{B}{C}) + D;$$

"permitted redemption", in relation to a distribution by a distributing corporation, means

(*a*) a redemption or purchase for cancellation by the distributing corporation, as part of the reorganization in which the distribution was made, of all the shares of its capital stock owned by a transferee corporation in relation to the distributing corporation,

(*b*) a redemption or purchase for cancellation by a transferee corporation in relation to the distributing corporation, as part of the reorganization in which the distribution was made, of all the shares of its capital stock owned by the distributing corporation, and

(*c*) a redemption or purchase for cancellation by the distributing corporation, in contemplation of the distribution, of all the shares of its capital stock each of which is

i. a share of a specified class the cost of which, at the time of its issuance, to its original owner was equal to the fair market value at that time of the consideration for which it was issued, or

ii. a share that was issued, in contemplation of the distribution, by the distributing corporation in exchange for a share described in subparagraph i;

"specified class" means a class of shares of the capital stock of a distributing corporation where

(*a*) the paid-up capital in respect of the class immediately before the beginning of the series of transactions or events that includes a distribution by the distributing corporation was not less than the fair market value of the consideration for which the shares of that class then outstanding were issued,

(*b*) under neither the terms and conditions of the shares nor any agreement in respect of the shares are the shares convertible into or exchangeable for shares other than shares of a specified class or shares of the capital stock of a transferee corporation in relation to the distributing corporation, and

(*c*) under neither the terms and conditions of the shares nor any agreement in respect of the shares is any holder of the shares entitled to receive on the redemption, cancellation or acquisition of the shares by the corporation or by any person with whom the corporation does not deal at arm's length, excluding any premium for early redemption, an amount greater than the total of the fair market value of the consideration for which the shares were issued and the amount of any unpaid dividends thereon.

For the purposes of the formula in subparagraph ii of paragraph *b* of the definition of "permitted exchange" in the first paragraph,

(*a*) A is the fair market value, immediately before the distribution, of all the shares of the capital stock of the acquirer then outstanding, other than shares issued to participants in consideration for shares of a specified class all the shares of which were acquired by the acquirer on the exchange;

(*b*) B is the fair market value, immediately before the exchange, of all the shares of the capital stock of the distributing corporation, other than shares of a specified class none or all of the shares of which were acquired by the acquirer on the exchange, owned at that time by the participant;

(*c*) C is the fair market value, immediately before the exchange, of all the shares, other than shares of a specified class none or all of the shares of which were acquired by the acquirer on the exchange and shares to be redeemed, acquired or cancelled by the distributing corporation pursuant to the exercise of a statutory right of dissent by the holder of the share, of the capital stock of the distributing corporation outstanding immediately before the exchange; and

(*d*) D is the fair market value, immediately before the distribution, of all the shares issued to the participant by the acquirer in consideration for shares of a specified class all of the shares of which were acquired by the acquirer on the exchange."

(2) Subsection 1 applies in respect of dividends received after 21 February 1994, other than dividends received before 1 January 1995 in the course of a reorganization that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994.

97. (1) Section 308.2 of the said Act is amended by replacing paragraph *b* by the following paragraph:

"(*b*) as part of a transaction or event or a series of transactions or events that resulted in a disposition of property to a person, other than the corporation, to whom that corporation was not related or a significant increase in the interest in any corporation of any person, other than the corporation that received the dividend, to whom the corporation that received the dividend was not related."

(2) Subsection 1 applies in respect of dividends received after 21 February 1994, other than dividends received as part of a transaction or event or a series of transactions or events that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994.

98. (1) Section 308.3 of the said Act is replaced by the following section:

"**308.3** Section 308.1 does not apply if the dividend was received by a corporation

(*a*) in the course of a reorganization in which a distributing corporation made a distribution to one or more transferee corporations and in which either the distributing corporation was wound up or all of the shares of its capital stock owned by each transferee corporation immediately before the distribution were redeemed or cancelled otherwise than on an exchange to which any of sections 301, 518 and 541 to 543 applies; and

(*b*) on a permitted redemption in relation to the distribution referred to in paragraph *a* or on the winding-up of the distributing corporation."

(2) Subsection 1 applies in respect of dividends received after 21 February 1994, other than dividends received before 1 January 1995 in the course of a reorganization that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994.

99. (1) Section 308.3.1 of the said Act, enacted by section 73 of chapter 49 of the statutes of 1995, is replaced by the following section:

"**308.3.1** Section 308.3 does not apply to a dividend where

(*a*) in contemplation of and before a distribution made in the course of the reorganization in which the dividend was received, property became property of the distributing corporation, a corporation controlled by it or a predecessor corporation of any such corporation otherwise than as a result of

i. an amalgamation of corporations each of which was related to the distributing corporation,

ii. an amalgamation of a predecessor corporation of the distributing corporation and one or more corporations controlled by that predecessor corporation,

iii. a reorganization in which a dividend was received to which section 308.1 would, but for section 308.3, apply, or

iv. a disposition of property by the distributing corporation, a corporation controlled by it or a predecessor corporation of any such corporation to a corporation controlled by the distributing corporation or a predecessor corporation of the distributing corporation,

v. a disposition of property by a corporation controlled by the distributing corporation or by a predecessor corporation of the distributing corporation to the distributing corporation or predecessor corporation, as the case may be, or

vi. a disposition of property by the distributing corporation, a corporation controlled by it or a predecessor corporation of any such corporation for consideration that consists only of money or indebtedness that is not convertible into other property, or of any combination thereof;

(*b*) the dividend was received as part of a series of transactions or events in which

i. a person or partnership, referred to in this subparagraph as the "vendor", disposed of property and

(1) the property is a share of the capital stock of a distributing corporation that made a distribution as part of the series or of a transferee corporation in relation to the distributing corporation or property 10% or more of the fair market value of which was, at any time during the course of the series, derived from one or more such shares,

(2) the vendor was, at any time during the course of the series, a specified shareholder of the distributing corporation or of the transferee corporation, and

(3) the property or any other property, other than property received by the transferee corporation on the distribution, acquired by any person or partnership in substitution therefor was acquired, otherwise than on a permitted acquisition, permitted exchange or permitted redemption in relation to the distribution, by a person, other than the vendor, who was not related to the vendor or, as part of the series, ceased to be related to the vendor or by a partnership,

ii. control of a distributing corporation that made a distribution as part of the series or of a transferee corporation in relation to the distributing corporation was acquired, otherwise than as a result of a permitted acquisition, permitted exchange or permitted redemption in relation to the distribution, by any person or group of persons; or

iii. in contemplation of a distribution by a distributing corporation, a share of the capital stock of the distributing corporation was acquired, otherwise than on a permitted acquisition or permitted exchange in relation to the distribution or on an amalgamation of two or more predecessor corporations of the distributing corporation, by

(1) a transferee corporation in relation to the distributing corporation or by a person or partnership with whom the transferee corporation did not deal at arm's length from a person to whom the acquirer was not related or from a partnership,

(2) a person or any member of a group of persons who acquired control of the distributing corporation as part of the series,

(3) a particular partnership any interest in which is held, directly or indirectly through one or more partnerships, by a person referred to in subparagraph 2, or

(4) a person or partnership with whom a person referred to in subparagraph 2 or a particular partnership referred to in subparagraph 3 did not deal at arm's length;

(c) the dividend was received by a transferee corporation from a distributing corporation that, immediately after the reorganization in the course of which a distribution was made and the dividend was received, was not related to the transferee corporation and the aggregate of all amounts each of which is the fair market value, at the time of acquisition, of a property that satisfies the conditions set out in subparagraphs i and ii is greater than 10% of the fair market value, at the time of the distribution, of all the property, other than money and indebtedness that is not convertible into other property, received by the transferee corporation on the distribution:

i. the property was acquired, as part of the series of transactions or events that includes the receipt of the dividend, by a person, other than the transferee corporation, who was not related to the transferee corporation or, as part of the series, ceased to be related to the transferee corporation, or by a partnership, otherwise than

(1) as a result of a disposition in the ordinary course of business,

(2) on a permitted acquisition in relation to a distribution, or

(3) as a result of an amalgamation of two or more corporations that were related to each other immediately before the amalgamation, and

ii. the property is a property, other than money, indebtedness that is not convertible into other property, a share of the capital stock of the transferee corporation and property more than 10% of the fair market value of which is attributable to one or more such shares,

(1) that was received by the transferee corporation on the distribution,

(2) more than 10% of the fair market value of which was, at any time after the distribution and before the end of the series of transactions or events, attributable to property received by the transferee corporation on the distribution, or

(3) to which, at any time during the course of the series of transactions or events, more than 10% of the fair market value of a property referred to in subparagraph 1 was attributable; or

(*d*) the dividend was received by a distributing corporation that, immediately after the reorganization in the course of which a distribution was made and the dividend was received, was not related to the transferee corporation that paid the dividend and the aggregate of all amounts each of which is the fair market value, at the time of acquisition, of a property that satisfies the conditions set out in subparagraphs i and ii is greater than 10% of the fair market value at the time of the distribution, of all the property, other than money and indebtedness that is not convertible into other property, owned immediately before that time by the distributing corporation and not disposed of by it on the distribution:

i. the property was acquired, as part of the series of transactions or events that includes the receipt of the dividend, by a person, other than the distributing corporation, who was not related to the distributing corporation or, as part of the series, ceased to be related to the distributing corporation, or by a partnership, otherwise than

(1) as a result of a disposition in the ordinary course of business,

(2) on a permitted acquisition in relation to a distribution, or

(3) as a result of an amalgamation of two or more corporations that were related to each other immediately before the amalgamation, and

ii. the property is a property, other than money, indebtedness that is not convertible into other property, a share of the capital stock of the distributing corporation and property more than 10% of the fair market value of which is attributable to one or more such shares,

(1) that was owned by the distributing corporation immediately before the distribution and not disposed of by it on the distribution,

(2) more than 10% of the fair market value of which was, at any time after the distribution, attributable to property described in subparagraph 1, or

(3) to which, at any time during the course of the series of transactions or events, more than 10% of the fair market value of a property referred to in subparagraph 1 was attributable."

(2) Subsection 1 applies in respect of dividends received after 21 February 1994, other than dividends received before 1 January 1995 in the course of a reorganization that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994. However, where section 308.3.1 of the said Act, enacted by subsection 1, applies in respect of dividends received before 23 June 1994, the portion of that section after subparagraph 1 of subparagraph i of paragraph *b* shall be read as follows:

"(2) the property or any other property, other than property received by the transferee corporation on the distribution, acquired by any person or partnership in substitution therefor was acquired, otherwise than on a permitted acquisition, permitted exchange or permitted redemption in relation to the distribution, by a person, other than the vendor, who was not related to the vendor or, as part of the series, ceased to be related to the vendor, or by a partnership, and

(3) either control of the distributing corporation or of a transferee corporation in relation to the distributing corporation was acquired, otherwise than as a result of a permitted acquisition, permitted exchange or permitted redemption in relation to the distribution, by any person or group of persons, or the vendor was, at any time during the course of the series, a specified shareholder of the distributing corporation or a transferee corporation in relation to the distributing corporation, or

ii. a share of the capital stock of a distributing corporation was acquired, otherwise than on a permitted acquisition or permitted exchange in relation to a distribution by the distributing corporation or on an amalgamation of two or more predecessor corporations of the distributing corporation, in contemplation of a distribution by the distributing corporation, by

(1) a transferee corporation in relation to the distributing corporation, or by any person or partnership with whom the transferee corporation did not deal at arm's length from a person to whom the acquirer was not related,

(2) a person or any member of a group of persons who acquired control of the distributing corporation as part of the series,

(3) a particular partnership any interest in which is held, directly or indirectly through one or more partnerships, by a person referred to in subparagraph 2, or

(4) a person or partnership with whom a person referred to in subparagraph 2 or a particular partnership referred to in subparagraph 3 did not deal at arm's length."

100. (1) The said Act is amended by inserting, after section 308.3.1, enacted by section 73 of chapter 49 of the statutes of 1995, the following section:

"**308.3.2** For the purposes of paragraph *b* of section 308.3.1,

(*a*) in determining whether the vendor referred to in subparagraph i of the said paragraph *b* is at a particular time a specified shareholder of a transferee corporation or of a distributing corporation, the references in sections 21.17 and 21.18 to "taxpayer" shall be read as references to "person or partnership", with the necessary modifications;

(*b*) a corporation that is formed by the amalgamation of two or more corporations is deemed to be a continuation of each of the predecessor corporations;

(*c*) subject to paragraph *d*, each particular person who acquired a share of the capital stock of a distributing corporation in contemplation of a distribution by the distributing corporation is deemed, in respect of that acquisition, not to be related to the person from whom the particular person acquired the share unless

i. the particular person acquired all the shares of the capital stock of the distributing corporation that were owned, at any time during the course of the series of transactions or events that included the distribution and before the acquisition, by the other person, or

ii. immediately after the reorganization in the course of which the distribution was made, the particular person was related to the distributing corporation;

(*d*) where a share is acquired by an individual from a personal trust in satisfaction of all or a part of the individual's capital interest in the trust, the individual is deemed, in respect of that acquisition, to be related to the trust;

(*e*) subject to paragraph *f*, where at any time a share of the capital stock of a corporation is redeemed or cancelled, otherwise than on an amalgamation where the only consideration received or receivable for the share by the shareholder on the amalgamation is a share of the capital stock of the corporation formed by the amalgamation, the corporation is deemed to have acquired the share at that time;

(*f*) where a share of the capital stock of a corporation is redeemed, acquired or cancelled by the corporation pursuant to the exercise of a statutory right of dissent by the holder of the share, the corporation is deemed not to have acquired the share; and

(*g*) control of a corporation is deemed not to have been acquired by a person or group of persons where it is so acquired solely because of

i. the incorporation of the corporation, or

ii. the acquisition by an individual of one or more shares for the sole purpose of qualifying as a director of the corporation."

(2) Subsection 1 applies in respect of dividends received after 21 February 1994, other than dividends received before 1 January 1995 in the course of a reorganization that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994. However, where section 308.3.2 of the said Act, enacted by subsection 1, applies in respect of dividends received before 23 June 1994, it shall be read without reference to paragraphs *c* and *e* thereof.

101. (1) Section 308.4 of the said Act is repealed.

(2) Subsection 1 applies in respect of dividends received after 21 February 1994, other than dividends received before 1 January 1995 in the course of a reorganization that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994.

102. (1) Section 308.5 of the said Act is replaced by the following section:

"**308.5** For the purposes of this division, where it can reasonably be considered that one of the main purposes of one or more transactions or events was to cause two or more persons to be related to each other or to cause a corporation to control another corporation, so that section 308.1 would, but for this section, not apply to a dividend, those persons shall be deemed not to be related to each other or the corporation shall be deemed not to control the other corporation, as the case may be."

(2) Subsection 1 applies in respect of dividends received after 21 February 1994, other than dividends received as part of a transaction or event or a series of transactions or events that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994.

103. (1) Section 308.6 of the said Act, amended by section 236 of chapter 49 of the statutes of 1995, is again amended in the first paragraph

(1) by replacing the portion before subparagraph *a* by the following:

"**308.6** For the purposes of this division, the following rules apply:";

(2) by replacing subparagraph *e* by the following subparagraph:

"(*e*) in determining whether two or more persons are related to each other, in determining whether a person is at any time a specified shareholder of a corporation and in determining whether control of a corporation has been acquired by a person or group of persons,

i. a person is deemed to be dealing with another person at arm's length and not to be related to the other person if the person is the brother or sister of the other person,

ii. where at any time a person is related to each beneficiary, other than a registered charity, under a trust who is or may, otherwise than by reason of the death of another beneficiary under the trust, be entitled to share in the income or capital of the trust, the person and the trust are deemed to be related at that time to each other and, for this purpose, a person is deemed to be related to himself,

iii. a person and a trust are deemed not to be related to each other unless they are deemed by paragraph *d* of section 308.3.2 or subparagraph ii to be related to each other or the person is a corporation that is controlled by the trust, and

iv. persons who are related to each other solely because of a right referred to in paragraph *b* of section 20 are deemed not to be related to each other; and".

(2) Subsection 1 applies in respect of dividends received after 21 February 1994, other than dividends received as part of a transaction or event or a series of transactions or events that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994.

104. (1) Section 310 of the said Act, replaced by section 74 of chapter 49 of the statutes of 1995, is again replaced by the following section:

"**310.** The amounts a taxpayer is required to include in computing his income under section 309 include those in respect of a registered retirement savings plan or a registered retirement income fund, to the extent provided in Title IV of Book VII, and those provided for in sections 900, 935.4 to 935.6, 965.20, 965.49, 965.50, 968 and 968.1."

(2) Subsection 1 applies from the taxation year 1994.

105. (1) The said Act is amended by inserting, after section 313.6, the following sections:

"**313.7** There shall be included in computing an individual's income for a taxation year during which the individual was not a bankrupt the amount deducted under section 346.1 in computing the individual's income for the preceding taxation year.

"**313.8** There shall be included in computing a taxpayer's income for a taxation year during which the taxpayer was not a bankrupt the amount deducted under section 346.4 in computing the taxpayer's income for the preceding taxation year."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

106. (1) The said Act is amended by inserting, after section 346, the following:

"CHAPTER VI.1

"DEBT FORGIVENESS

"**346.1** There may be deducted in computing the income for a taxation year of an individual, other than a trust, resident in Canada throughout the year such amount as the individual claims not exceeding the amount determined by the formula

$$A + B - 0.2(C - \$40{,}000).$$

For the purposes of the formula in the first paragraph,

(*a*) A is the amount by which the aggregate of all amounts each of which is an amount that, because of the application of sections 485 to 485.18 to an obligation payable by the individual, or a partnership of which the individual was a member, was included under section 485.13 in computing the income of the individual for the year or the income of the partnership for a fiscal period that ends in the year, to the extent that, where the amount was included in computing income of a partnership, it relates to the individual's share of that income, exceeds the aggregate of all amounts deducted because of paragraph *a* of section 485.15 in computing the individual's income for the year;

(*b*) B is the amount included under section 313.7 in computing the individual's income for the year; and

(*c*) C is the greater of $40,000 and the individual's income for the year, determined without reference to this section, section 313.7, paragraph *j* of subsection 1 of section 336, section 485.13 and paragraph *a* of section 485.15.

"**346.2** Subject to section 346.3, there shall be deducted in computing the income for a taxation year of a corporation that is not exempt from tax under this Part on its taxable income, the lesser of

(*a*) the amount by which the aggregate of all amounts each of which is an amount that, because of the application of sections 485 to 485.18 to a commercial obligation, within the meaning assigned by section 485, issued by the corporation, or a partnership of which the corporation was a member, was included under section 485.13 in computing the income of the corporation for the year or the income of the partnership for a fiscal period that ends in the year, to the extent that the amount, where it was included in computing income of a partnership, relates to the corporation's share of that income, exceeds the aggregate of all amounts deducted because of paragraph *a* of section 485.15, in computing the corporation's income for the year; and

(*b*) the amount determined by the formula

$$A - 2(B - C - D - E).$$

For the purposes of the formula in subparagraph *b* of the first paragraph,

(*a*) A is the amount determined under subparagraph *a* of the first paragraph in respect of the corporation for the year;

(*b*) B is the aggregate of

i. the fair market value of the assets of the corporation at the end of the year,

ii. the amounts paid before the end of the year on account of the corporation's tax payable under this Part or any of Parts III.11, IV, IV.1, VI and VII for the year or on account of a tax payable by the corporation for the year, under any of Parts I, I.3, II, VI and XIV of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) or under any similar part of an Act of a province other than Québec, and

iii. all amounts paid by the corporation in the 12-month period preceding the end of the year to a person with whom the corporation does not deal at arm's length

(1) as a dividend, other than a stock dividend,

(2) on a reduction of paid-up capital in respect of any class of shares of its capital stock,

(3) on a redemption, acquisition or cancellation of its shares, or

(4) as a distribution or appropriation in any manner whatever to or for the benefit of the shareholders, to the extent that the distribution or appropriation cannot reasonably be considered to have resulted in a reduction in the amount otherwise determined under subparagraph *c* in respect of the corporation for the year;

(*c*) C is the total liabilities of the corporation at the end of the year determined in accordance with the rules set out in the second paragraph and without reference to any tax payable by the corporation for the year under this Part and Parts III.11, IV, IV.1, VI and VII or to a tax payable by the corporation for the year under any of Parts I, I.3, II, VI and XIV of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) or under any similar part of an Act of a province other than Québec,

(*d*) D is the aggregate of all amounts each of which is the principal amount at the end of the year of a distress preferred share, within the meaning assigned by section 485, issued by the corporation; and

(*e*) E is 50% of the amount by which the amount that would be the corporation's income for the year if that amount were determined without reference to this section and sections 346.3, 346.4 and 485.17, exceeds the amount determined under subparagraph *a* of the first paragraph in respect of the corporation for the year.

For the purposes of subparagraph *c* of the second paragraph, except as otherwise provided therein, the total liabilities of a corporation shall

(*a*) where the corporation is not an insurance corporation or a bank to which subparagraph *b* or *c* applies and the balance sheet as of the end of the year was prepared in accordance with generally accepted accounting principles and was presented to the shareholders of the corporation, be considered to be the total liabilities shown on that balance sheet;

(*b*) where the corporation is a bank or an insurance corporation that is required to report to the Superintendent of Financial Institutions of Canada and the balance sheet as of the end of the year was accepted by the Superintendent, be considered to be the total liabilities shown on that balance sheet;

(*c*) where the corporation is an insurance corporation that is required to report to the superintendent of insurance or other similar officer or authority of the province under whose laws the corporation is incorporated, or the Inspector General of Financial Institutions, and the balance sheet as of the end of the year was accepted by that officer or authority, be considered to be the total liabilities shown on that balance sheet; and

(*d*) in any other case, be considered to be the amount that would be shown as total liabilities of the corporation at the end of the year on a balance sheet prepared in accordance with generally accepted accounting principles.

Subparagraph *c* of the second paragraph and the third paragraph apply, subject to section 7.12.

"**346.3** Section 346.2 does not apply in respect of a corporation for a taxation year where property was transferred in the 12-month period preceding the end of the year or the corporation became indebted in that period and it can reasonably be considered that one of the reasons for the transfer or the indebtedness was to increase the amount that the corporation would, but for this section, be entitled to deduct under that section 346.2.

"**346.4** There may be deducted as a reserve in computing the income for a taxation year of a taxpayer that is a corporation or trust resident in Canada throughout the year or a person not resident in Canada who carried on business through a fixed place of business in Canada at the end of the year such amount as the taxpayer claims not exceeding the least of

(*a*) the amount determined by the formula

$$A - B;$$

(*b*) the aggregate of

i. 4/5 of the amount that would be determined under subparagraph *a* of the second paragraph in respect of the taxpayer for the year if that value did not take into account amounts included

or deducted in computing the taxpayer's income for any preceding taxation year,

ii. 3/5 of the amount that would be determined under subparagraph *a* of the second paragraph in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for the year or any preceding taxation year other than the last preceding taxation year,

iii. 2/5 of the amount that would be determined under subparagraph *a* of the second paragraph in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for the year or any preceding taxation year, other than the second last preceding taxation year, and

iv. 1/5 of the amount that would be determined under subparagraph *a* of the second paragraph in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for the year or any preceding taxation year, other than the third last preceding taxation year; and

(*c*) where the taxpayer is a corporation that commences to wind up in the year, otherwise than in circumstances to which the rules in sections 556 to 564.1 and 565 apply, zero.

For the purposes of the formula in subparagraph *a* of the first paragraph,

(*a*) A is the amount by which the aggregate of all amounts each of which is an amount that, because of the application of sections 485 to 485.18 to a commercial obligation, within the meaning assigned by section 485, issued by the taxpayer, or a partnership of which the taxpayer was a member, was included under section 485.13 in computing the income of the taxpayer for the year or a preceding taxation year or of the partnership for a fiscal period that ends in that year or preceding year, to the extent that, where the amount was included in computing income of a partnership, it relates to the taxpayer's share of that income, exceeds the aggregate of

i. all amounts deducted under paragraph *a* of section 485.15 in computing the taxpayer's income for the year or a preceding taxation year, and

ii. all amounts deducted under section 346.2 in computing the taxpayer's income for the year or a preceding taxation year; and

(*b*) B is the amount by which the amount determined under subparagraph *a* in respect of the taxpayer for the year exceeds the aggregate of

i. the amount that would be determined under subparagraph *a* in respect of the taxpayer for the year if that value did not take into account amounts included or deducted in computing the taxpayer's income for any preceding taxation year, and

ii. the amount included under section 313.8 in computing the taxpayer's income for the year."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

107. Section 359.10 of the said Act is amended by replacing, in the French text of the portion of the first paragraph before paragraph *a*, the words "auquel sont jointes une somme de 200 $ et une copie" by the words "accompagné d'une somme de 200 $ et d'une copie".

108. (1) Section 371 of the said Act is replaced by the following section:

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

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

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

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

109. (1) Section 374 of the said Act is amended by replacing the portion before paragraph *b* by the following:

"**374.** The amount referred to in paragraph *b* of section 371 shall not exceed the greater of the following amounts:

(*a*) such amount as the taxpayer may claim not exceeding 10% of the amount determined under paragraph *a* of section 371; and".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

110. (1) Section 395.1 of the said Act is replaced by the following section:

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

(2) Subsection 1 has effect from 12 January 1995.

111. (1) Section 399 of the said Act, amended by section 101 of chapter 49 of the statutes of 1995, is again amended by inserting, after paragraph *e*, the following paragraph:

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

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

112. (1) Section 412 of the said Act, amended by section 105 of chapter 49 of the statutes of 1995, is again amended by inserting, after paragraph *h*, the following paragraph:

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

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

113. (1) Section 412.1 of the said Act, enacted by section 106 of chapter 49 of the statutes of 1995, is amended

(1) by adding, after subparagraph *b* of the first paragraph, the following subparagraph:

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

(2) by adding, after subparagraph ii of subparagraph *a* of the second paragraph, the following subparagraph:

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

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

114. (1) Section 418.6 of the said Act, amended by section 107 of chapter 49 of the statutes of 1995, is again amended

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

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

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

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

115. (1) Section 418.6.1 of the said Act, enacted by section 108 of chapter 49 of the statutes of 1995, is amended

(1) by adding, after subparagraph *c* of the first paragraph, the following subparagraph:

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

(2) by adding, after subparagraph iii of subparagraph *a* of the second paragraph, the following subparagraph:

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

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

116. (1) Section 418.6.2 of the said Act, enacted by section 108 of chapter 49 of the statutes of 1995, is amended

(1) by adding, after subparagraph *b* of the first paragraph, the following subparagraph:

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

(2) by adding, after subparagraph ii of subparagraph *a* of the second paragraph, the following subparagraph:

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

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

117. (1) Section 418.16 of the said Act is amended by replacing subparagraph *b* of the third paragraph by the following subparagraph:

"(*b*) the aggregate of

i. any other amount deducted for the year under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r.2) refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), this section and any of sections 418.18, 418.19 and 418.21, that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph *a* in respect of the particular property, and

ii. any other amount added, because of section 485.13 or 485.17, in computing the amount determined under subparagraph *a*."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

118. (1) Section 418.17 of the said Act, amended by section 110 of chapter 49 of the statutes of 1995, is again amended

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

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

(*a*) the amount of foreign exploration and development expenses incurred by the original owner before the disposition of the particular property by the original owner, to the extent that those expenses were not otherwise deducted in computing the income of the corporation for the year, were not deducted in computing the income of the corporation for a preceding taxation year or in computing income of any predecessor owner of the particular property for any taxation year and were not deductible in computing the income of the original owner for any taxation year, exceeds

(*b*) the aggregate of all amounts by which the amount determined under this paragraph is required, because of section 485.8, to be reduced at or before the end of the year.";

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

"(*b*) the aggregate of

i. any other amount deducted for the year under this section and section 418.19 as a result of the application of subparagraph *c* of the first paragraph of section 418.20 that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph i of subparagraph *a* in respect of the particular property,

ii. any other amount deducted for the year under this section that can reasonably be regarded as attributable to the part of its income referred to in subparagraph 1 of subparagraph ii of subparagraph *a* for the year in respect of which an amount is designated by the corporation under the said subparagraph 1, and

iii. any other amount added, because of section 485.13 or 485.17, in computing the amount determined under subparagraph i of subparagraph *a*."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

119. (1) Section 418.18 of the said Act, amended by section 111 of chapter 49 of the statutes of 1995, is again amended

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

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

(*a*) the aggregate of the cumulative Canadian exploration expense of the original owner determined immediately after the disposition of the particular property by the original owner, and all amounts required to be added under paragraph *c* of section 418.25 to the cumulative Canadian exploration expense of the original owner in respect of a predecessor owner of the particular property, or in respect of the corporation, as the case may be, at any time after the disposition of the particular property by the original owner and before the end of the year, to the extent that an amount in respect of that aggregate was not

i. otherwise deducted in computing the corporation's income for the year or deducted in computing the corporation's income for a preceding taxation year or in computing the income of a predecessor owner of the particular property for any taxation year, and

ii. deducted or required to be deducted under section 400 or 401 in computing the income of the original owner for any taxation year, or designated by the original owner for any taxation year for the purposes of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) pursuant to subsection 14.1 of section 66 of that Act; exceeds

(*b*) the aggregate of all amounts by which the amount determined under this paragraph is required, because of section 485.8, to be reduced at or before the end of the year.";

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

"(*b*) the aggregate of

i. any other amount deducted under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24), to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r.2) refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), this section and sections 418.16, 418.19 and 418.21 for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph *a* in respect of the particular property, and

ii. any other amount added, because of section 485.13 or 485.17, in computing the amount determined under subparagraph *a*."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

120. (1) Section 418.19 of the said Act, amended by section 112 of chapter 49 of the statutes of 1995, is again amended

(1) by adding, after subparagraph ii of subparagraph *b* of the second paragraph, the following subparagraph:

"iii. any amount by which the amount determined under this paragraph is required, because of section 485.8, to be reduced at or before the end of the year.";

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

"(*b*) the aggregate of

i. any other amount deducted under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r.2) refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), this section and sections 418.16, 418.18 and 418.21 for the year that can reasonably be regarded as attributable to the part of its income for the year described in subparagraph *a* in respect of the particular property, and

ii. any other amount added, because of section 485.13 or 485.17, in computing the amount determined under subparagraph *a*."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

121. (1) Section 418.20 of the said Act is amended

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

"(*c*) where the corporation referred to in section 418.19 is not a development corporation and carries on a mining business, to the higher of either 30% of the excess amount referred to in the second paragraph of the said section, or the amount by which the total, before any deduction under section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24) or sections 359 to

419.6, of the following amounts exceeds the amount described in the second paragraph:

i. its income for the year that can reasonably be regarded as attributable to ore production, other than iron ore and tar sands, from a resource property that is property described in the third paragraph, processed to any stage that is not beyond the prime metal stage or its equivalent, to the production of iron ore from such property, processed to any stage that is not beyond the pellet stage or its equivalent, and to any rental or royalty from such property, computed by reference to the amount or value of ore production,

ii. the aggregate of all amounts included in computing its income for the year under paragraph *b*, *d* or *e* of section 330, other than an amount referred to in subparagraph iii, in respect of property described in the third paragraph, but to the extent that paragraph *b* of section 330 refers to section 357, only the amounts deducted in computing its income, under the last mentioned section, for the preceding taxation year in respect of the disposition of a Canadian resource property may be taken into consideration, and

iii. the aggregate of all amounts included in computing its income for the year under paragraph *e* of section 330, that can reasonably be regarded as attributable to the disposition by the corporation, in the year or in a preceding taxation year, of any interest in or right to a property described in the third paragraph, to the extent that the proceeds of the disposition were not included in computing any amount for a preceding taxation year under this subparagraph, subparagraph i of subparagraph *a* of the third paragraph of section 418.16 or 418.18, section 418.28 and section 86 of the Act respecting the application of the Taxation Act, to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r.2) refers to clause A of subparagraph i of paragraph *d* of subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement).";

(2) by inserting, after the first paragraph, the following paragraph:

"The amount to which subparagraph *c* of the first paragraph refers is the total of the following amounts:

(*a*) the aggregate of all amounts deducted in computing its income for the year under section 357 in respect of a Canadian resource property that is property described in the third paragraph

or under section 358 in respect of property described in that paragraph;

(*b*) the aggregate of the other amounts deducted for the year under section 86 of the Act respecting the application of the Taxation Act to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act refers to subsection 25 of section 29 of the Income Tax Application Rules, any of sections 418.16 to 418.19 and section 418.21 that can reasonably be regarded as attributable to the amounts referred to in subparagraphs i to iii of subparagraph *c* of the first paragraph for the year;

(*c*) any other amount added, because of section 485.13 or 485.17, in computing the total amount determined under subparagraph *c* of the first paragraph.";

(3) by replacing the second paragraph by the following paragraph:

"Any property to which subparagraphs i to iii of subparagraph *c* of the first paragraph and subparagraph *a* of the second paragraph refer is property owned immediatly before the acquisition referred to in that section by the person from which the property was acquired pursuant to section 418.19."

(2) Subsection 1, except where it replaces the words "métal brut" in the French text of subparagraph i of subparagraph *c* of the first paragraph of section 418.20 of the said Act by the words "métal primaire", applies to taxation years that end after 21 February 1994.

122. (1) Section 418.21 of the said Act, amended by section 113 of chapter 49 of the statutes of 1995, is again amended

(1) by replacing the portion of the second paragraph before subparagraph *a* by the following:

"The first amount to which the first paragraph refers is equal to 10% of the excess amount, over the aggregate of all amounts each of which is an amount by which the amount determined under this paragraph is required, because of section 485.8, to be reduced at or before the end of the year, of the amount by which";

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

"(*b*) the aggregate of

i. any other amount deducted under section 86 of the Act respecting the application of the Taxation Act to the extent that section 86.4 of the Regulation respecting the application of the Taxation Act (1972) (R.R.Q., 1981, chapter I-4, r.2) refers to subsection 25 of section 29 of the Income Tax Application Rules (Revised Statutes of Canada, 1985, chapter 2, 5th Supplement), this section and section 418.16, 418.18 or 418.19 for the year that may reasonably be regarded as attributable to the part of its income for the year described in subparagraph *a* in respect of the particular property, and

ii. any amount added, because of section 485.13 or 485.17, in computing the amount determined under subparagraph *a*."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

123. (1) Section 419 of the said Act is replaced by the following section:

"**419.** Any share of the capital stock of a corporation or any interest in any such shares or right thereto acquired by a taxpayer under circumstances described in paragraph *e* of section 395 or 408, or in paragraph *c* of section 418.2 is deemed,

(*a*) if it was acquired before 13 November 1981, not to be a capital property of the taxpayer but, subject to section 851.22.25, to be inventory of the taxpayer acquired at a cost to him of nil; and

(*b*) if it was acquired after 12 November 1981, to have been acquired by the taxpayer at a cost to him of nil."

(2) Subsection 1 applies to taxation years that begin after 31 October 1994.

124. Section 421.2 of the said Act, amended by section 41 of chapter 1 of the statutes of 1995 and by section 236 of chapter 49 of the statutes of 1995, is again amended by replacing, in the French text of paragraph *e*, the words "une de ses places d'affaires donnée" by the words "un de ses lieux d'affaires donné".

125. (1) Section 437 of the said Act, amended by section 122 of chapter 49 of the statutes of 1995, is again amended by replacing paragraph *d* by the following paragraph:

"(*d*) for the purpose of determining, after the individual's death, the amount deemed by subparagraph ii of paragraph *a* of section 105 to be the taxable capital gain of the person referred to in paragraph *b* and the amount to be included under the said subparagraph ii or paragraph *b* of that section in computing the person's income in respect of any subsequent disposition of the property of the business, there shall be added to the amount determined under subparagraph 2 of subparagraph i of paragraph *b* of section 107 the proportion of the amount determined under the said subparagraph 2 in respect of the business of the individual immediately before his death that the fair market value of the intangible capital property of the individual immediately before his death is of the fair market value immediately before his death of the aggregate of the intangible capital property of the individual in respect of the business."

(2) Subsection 1 applies in respect of dispositions or acquisitions that occur after 22 February 1994.

126. Section 447 of the said Act is amended by replacing the words "by mortgage or hypothec" by the words "by a mortgage".

127. Section 449 of the said Act is amended by replacing the words "by mortgage or hypothec" by the words "by a mortgage".

128. (1) Section 462 of the said Act is amended by replacing the third paragraph by the following paragraph:

"For the purpose of determining after the time of the transfer the amount deemed by subparagraph ii of paragraph *a* of section 105 to be the taxable capital gain of the child referred to in subparagraph *c* of the first paragraph and the amount to be included under the said subparagraph ii or paragraph *b* of that section in computing the child's income in respect of any subsequent disposition of the property of the business, there shall be added to the amount otherwise determined under subparagraph 2 of subparagraph i of paragraph *b* of section 107 in respect of the child the proportion of the amount determined under the said subparagraph 2 in respect of the business of the individual immediately before the time of the transfer that the fair market value of the property transferred, immediately before the time of the transfer, is of the fair market value immediately before the time of the transfer of the aggregate of the intangible capital property of the individual in respect of the business."

(2) Subsection 1 applies in respect of transfers that occur after 22 February 1994.

129. (1) Section 462.0.1 of the said Act, amended by section 236 of chapter 49 of the statutes of 1995, is again amended, in paragraph *a*,

(1) by replacing the portion before subparagraph i by the following:

"(*a*) where the interest is disposed of to the taxpayer's spouse, former spouse or an individual referred to in subparagraph *d* of the second paragraph of section 454, as it applies in respect of transfers of property that occurred before 1 January 1993, in settlement of rights arising out of their marriage, on or after the breakdown of the marriage, that amount is not deemed to have been paid to the taxpayer if";

(2) by replacing, in the French text of subparagraph ii, the word "alinéa" by the word "paragraphe".

(2) Subsection 1 applies in respect of dispositions that occur after 31 December 1990. However, where the portion of paragraph *a* of section 462.0.1 of the said Act before subparagraph i, enacted by subsection 1, applies in respect of dispositions that occurred before 1 January 1993, the reference therein to "marriage" shall be read as a reference to "marriage or other conjugal relationship".

130. (1) Section 462.6 of the said Act is replaced by the following section:

"**462.6** Where an individual is deemed to have a taxable capital gain or an allowable capital loss for a taxation year under any of sections 457 and 458, as they read before their repeal for that year, 462.5, 463 and 467, such portion of the gain or loss as may reasonably be considered to relate to the disposition of a property by another person in the year is deemed, for the purposes of sections 28 and 727 to 737, as they apply for the purposes of Title VI.5 of Book IV, to arise from the disposition of that property by the individual in the year, and that property is deemed, for the purposes of that Title, to have been disposed of by the individual on the day on which it was disposed of by the other person."

(2) Subsection 1 applies from the taxation year 1994.

131. Section 462.16 of the said Act is amended by replacing, in the French text, "produit, dans sa déclaration fiscale" by "transmet, avec sa déclaration fiscale".

132. (1) Section 467.1 of the said Act is amended by inserting, after paragraph *c*, the following paragraph:

"(*c*.1) by a mining reclamation trust; or".

(2) Subsection 1 applies to taxation years that end after 22 February 1994.

133. Section 469 of the said Act is amended by replacing, in the portion before paragraph *a*, "mortgage, hypothec, negotiable instrument or other evidence of indebtedness" by "obligation secured by mortgage, bill or similar obligation".

134. (1) The heading of Chapter VI of Title VII of Book III of Part I of the said Act is replaced by the following heading:

"SPECIAL RULES".

(2) Subsection 1 has effect from 22 February 1994.

135. (1) The said Act is amended by inserting, after the heading of Chapter VI of Title VII of Book III of Part I, the following:

"DIVISION I

"OUTSTANDING DEBTS".

(2) Subsection 1 has effect from 22 February 1994.

136. (1) Section 480 of the said Act is repealed.

(2) Subsection 1 applies in respect of exchanges that occur after 31 October 1994.

137. (1) The said Act is amended by inserting, after section 483.1, the following:

"DIVISION II

"SURRENDER OF PROPERTY

"§ 1. — *Interpretation*".

(2) Subsection 1 has effect from 22 February 1994.

138. (1) Section 484 of the said Act is replaced by the following section:

"**484.** In this division,

"creditor" of a particular person includes a person to whom the particular person is obligated to pay an amount under an obligation secured by mortgage or similar security and, where property was sold to the particular person under a conditional sales agreement, the seller of the property, or any assignee of the obligation with respect to the agreement;

"debt" includes an obligation to pay an amount secured by mortgage or similar security or under a conditional sales agreement;

"person" includes a partnership;

"property" does not include any sum of money, or debt owed by or guaranteed by the government of a country, or a province, state, or other political subdivision of that country;

"specified amount" at any time of a debt owed or assumed by a person means the unpaid principal amount of the debt at that time and unpaid interest accrued to that time on the debt."

(2) Subsection 1 applies in respect of property acquired or reacquired after 21 February 1994, other than property acquired or reacquired pursuant to a court order made before 22 February 1994, and, where a taxpayer so elects by notifying the Minister of Revenue in writing, section 484 of the said Act, replaced by subsection 1, shall apply to the taxpayer in respect of property reacquired by the taxpayer after 31 December 1991 and in respect of which subsection 1 does not apply,

(1) as if the following paragraph were inserted after paragraph *c*:

"(*c*.1) where the property is capital property of the creditor and was disposed of by the creditor to the debtor in the year and subsequently reacquired by the creditor in the year, the creditor's proceeds of disposition of the property are deemed to be the lesser of the proceeds of disposition of the property to the creditor, determined without reference to this paragraph, and the amount that is the greater of

i. the amount by which such proceeds, determined without reference to this paragraph, exceed such portion of the proceeds as is represented by the creditor's obligation, and

ii. the cost amount to the creditor of the property immediately before its disposition by the creditor;";

(2) as if paragraph *d* were read as follows:

"(*d*) the creditor is deemed to have reacquired the property at the amount by which the cost at that time of the creditor's obligation exceeds either of the amounts described in paragraph *c* in respect of that property or the amount by which the proceeds of disposition of the property are reduced because of paragraph *c*.1, as the case may be;".

139. (1) The said Act is amended by inserting, after section 484, the following:

"§ 2. — *Rules applicable to debtors*

"**484.1** For the purposes of this subdivision, a property is surrendered at any time by a person to another person where the beneficial ownership of the property is acquired or reacquired at that time from the person by the other person and the acquisition or reacquisition of the property was in consequence of the person's failure to pay all or part of one or more specified amounts of a debt owed by the person to the other person immediately before that time.

"**484.2** Where a particular property is surrendered at any time by a person, in this section referred to as the "debtor", to a creditor of the debtor, the debtor's proceeds of disposition of the particular property is deemed to be the amount determined by the formula

$$(A + B + C + D + E - F) \times \frac{G}{H}.$$

For the purposes of the formula in the first paragraph,

(*a*) A is the aggregate of all specified amounts of debts of the debtor that are in respect of properties surrendered at that time by the debtor to the creditor and that are owing immediately before that time to the creditor;

(*b*) B is the aggregate of all amounts each of which is a specified amount of a debt that is owed by the debtor immediately before that time to a person, other than the creditor, to the extent that the amount ceases to be owing by the debtor as a consequence of

properties being surrendered at that time by the debtor to the creditor;

(*c*) C is the aggregate of all amounts each of which is a specified amount of a particular debt that is owed by the debtor immediately before that time to a person, other than a specified amount included in the amount determined under subparagraph *a* or *b* as a consequence of properties being surrendered at that time by the debtor to the creditor, where

i. any property surrendered at that time by the debtor to the creditor was security for

(1) the particular debt, and

(2) another debt that is owed by the debtor immediately before that time to the creditor, and

ii. the other debt is subordinate to the particular debt in respect of the property referred to in subparagraph i;

(*d*) D is

i. where a specified amount of a debt owed by the debtor immediately before that time to a person, other than the creditor, ceases, as a consequence of the surrender at that time of properties by the debtor to the creditor, to be secured by all properties owned by the debtor immediately before that time, the lesser of

(1) the amount by which the aggregate of all amounts each of which is such a specified amount exceeds the portion of that aggregate included in any amount determined under subparagraph *b* or *c* as a consequence of properties being surrendered at that time by the debtor to the creditor, and

(2) the amount by which the total cost amount to the debtor of all properties surrendered at that time by the debtor to the creditor exceeds the amount that would, but for this subparagraph and subparagraph *f*, be determined under this section as a consequence of the surrender, and

ii. in any other case, nil;

(*e*) E is

i. where the property is surrendered at that time by the debtor in circumstances in which paragraph *c* of section 422 would, but for this section, apply and the fair market value of all properties surrendered at that time by the debtor to the creditor exceeds the amount that would, but for this subparagraph and subparagraph *f*, be determined under this section as a consequence of the surrender, that excess, and

ii. in any other case, nil;

(*f*) F is the aggregate of all amounts each of which is the lesser of

i. the portion of a particular specified amount of a particular debt included in the amount determined under any of subparagraphs *a* to *d* in computing the debtor's proceeds of disposition of the particular property, and

ii. the aggregate of

(1) all amounts included under section 37 or 111 in computing the income of any person because the particular debt was settled, or deemed by section 485.25 to have been settled, at or before the end of the taxation year that includes that time,

(2) all amounts renounced under section 381, 406, 417 or 418.13 by the debtor in respect of the particular debt,

(3) all amounts each of which is a forgiven amount, within the meaning assigned by section 485, in respect of the debt at a previous time that the particular debt was deemed by section 485.25 to have been settled,

(4) where the particular debt is an excluded obligation, within the meaning assigned by section 485, the particular specified amount, and

(5) the amount described in the third paragraph;

(*g*) G is the fair market value at that time of the particular property; and

(*h*) H is the fair market value at that time of all properties surrendered by the debtor to the creditor at that time.

The amount to which subparagraph 5 of subparagraph ii of subparagraph *f* of the second paragraph refers is the lesser of

(*a*) the unpaid interest accrued to that time on the particular debt; and

(*b*) the aggregate of

i. the amount by which the aggregate of all amounts included because of sections 487.1 to 487.5.4 in computing the debtor's income for the taxation year that includes that time or for a preceding taxation year in respect of interest on the particular debt exceeds the aggregate of all amounts paid before that time on account of interest on the particular debt, and

ii. such portion of that unpaid interest as would, if it were paid, be included in the amount determined under subparagraph *a* of the third paragraph of section 194 in respect of the debtor.

"**484.3** An amount paid at any time by a person as, on account of or in satisfaction of, a specified amount of a debt that can reasonably be considered to have been included in the amount determined under subparagraph *a*, *c* or *d* of the second paragraph of section 484.2 in respect of a property surrendered before that time by the person is deemed to be a repayment of assistance, at that time in respect of the property, to which

(*a*) section 264.7 applies, where the property was capital property, other than depreciable property, of the person immediately before its surrender;

(*b*) paragraph *o*.1 of section 157 applies, where the cost of the property to the person was an intangible capital amount;

(*c*) paragraph *e* of section 398 or paragraph *d* of section 411 or 418.5, as the case may be, applies, where the cost of the property to the person was a Canadian exploration expense, a Canadian development expense or a Canadian oil and gas property expense; or

(*d*) paragraph *o* of section 157 applies, in any other case.

"**484.4** Any amount included under section 37 or 111 in computing a person's income for a taxation year that can reasonably be considered to have been included in the amount determined under subparagraph *a*, *c* or *d* of the second paragraph of section 484.2 as a consequence of a property being surrendered before the year by the person is deemed to be a repayment by the person, immediately before the end of the year, of assistance to which section 484.3 applies.

"**484.5** Where a specified amount of a debt is included in the amount determined at any time under any of subparagraphs *a* to *d* of the second paragraph of section 484.2 in respect of a property surrendered at that time by a person to a creditor of the person, for the purpose of computing the person's income, no amount shall be considered to have been paid or repaid by the person as a consequence of the acquisition or reacquisition of the surrendered property by the creditor.

"**484.6** Where a debt is denominated in a foreign currency, any amount determined under any of subparagraphs *a* to *d* of the second paragraph of section 484.2 in respect of the debt shall be determined with reference to the relative value of that currency and Canadian currency at the time the debt was issued.

"§ 3. — *Rules applicable to creditors*

"**484.7** For the purposes of this subdivision, "specified cost" to a person of a debt owing to the person means

(*a*) where the debt is capital property of the person, the adjusted cost base to the person of the capital property; and

(*b*) in any other case, the amount by which the cost amount to the person of the debt exceeds such portion of that cost amount as would be deductible in computing the person's income, otherwise than in respect of the principal amount of the debt, if the debt were established by the person to have become a bad debt.

"**484.8** For the purposes of this subdivision, a property is seized at any time by a person in respect of a debt where the beneficial ownership of the property is acquired or reacquired at that time by the person and the acquisition or reacquisition of the property was in consequence of another person's failure to pay to the person all or part of the specified amount of the debt.

"**484.9** Where a property is seized at any time in a particular taxation year by a creditor in respect of a debt, for the purpose of computing the income of the creditor for the particular year,

(*a*) the amount claimed by the creditor as a reserve under subparagraph *b* of the first paragraph of section 234 or under paragraph *a* of section 279 for the preceding taxation year in respect of any disposition before the particular year of the property is deemed to be the amount by which the amount so claimed exceeds the aggregate of all amounts determined under paragraphs *a* and *b* of section 484.11 in respect of the seizure; and

(*b*) the amount deducted under section 153 in computing the income of the creditor for the preceding taxation year in respect of any disposition of the property before the particular year is deemed to be the amount by which the amount so deducted exceeds the aggregate of all amounts determined under paragraphs *a* and *b* of section 484.11 in respect of the seizure.

"**484.10** Where a property is seized at any time in a taxation year by a creditor in respect of one or more debts and the property was capital property of the creditor that was disposed of by the creditor at a previous time in the year, the proceeds of disposition of the property to the creditor at the previous time are deemed to be the lesser of the amount of the proceeds, determined without reference to this section, and the amount that is the greater of

(*a*) the amount by which the amount of such proceeds, determined without reference to this section, exceeds such portion of the proceeds as is represented by the specified amounts of those debts immediately before that time; and

(*b*) the cost amount to the creditor of the property immediately before the previous time.

"**484.11** Where a particular property is seized at any time in a taxation year by a creditor in respect of one or more debts, the cost to the creditor of the particular property is deemed to be the amount by which the aggregate of the following amounts exceeds the amount described in the second paragraph:

(*a*) that proportion of the total specified costs immediately before that time to the creditor of those debts that the fair market value of the particular property immediately before that time is of the fair market value of all properties immediately before that time that were seized by the creditor at that time in respect of those debts; and

(*b*) all amounts each of which is an outlay or expense made or incurred, or a specified amount at that time of a debt that is assumed, by the creditor at or before that time to protect the creditor's interest in the particular property, except to the extent the outlay, expense or specified amount, as the case may be,

i. was included in the cost to the creditor of property other than the particular property,

ii. was included before that time in computing, for the purposes of this Part, any balance of undeducted outlays, expenses or other amounts of the creditor, or

iii. was deductible in computing the creditor's income for the year or a preceding taxation year.

The amount to which the first paragraph refers is the amount deducted or claimed under section 153, subparagraph *b* of the first paragraph of section 234 or paragraph *a* of section 279, as the case may be, in respect of the particular property in computing the creditor's income or capital gain for the preceding taxation year or the amount by which the proceeds of disposition of the creditor of the particular property are reduced because of section 484.10 in respect of a disposition of the particular property by the creditor occurring before that time and in the year.

"**484.12** Where a property is seized at any time in a taxation year by a creditor in respect of a particular debt,

(*a*) the creditor is deemed to have disposed of the particular debt at that time;

(*b*) the amount received as consideration for the particular debt as a consequence of the seizure is deemed to be received at that time and to be equal to

i. where the particular debt is capital property, the adjusted cost base to the creditor of the particular debt, and

ii. in any other case, the cost amount to the creditor of the particular debt;

(*c*) where any portion of the particular debt is outstanding immediately after that time, the creditor is deemed to have reacquired that portion immediately after that time at a cost equal to

i. where the particular debt is capital property, zero, and

ii. in any other case, the amount by which the cost amount to the creditor of the particular debt exceeds the specified cost to the creditor of the particular debt; and

(*d*) where no portion of the particular debt is outstanding immediately after that time and the particular debt is not capital

property, the creditor may deduct as a bad debt in computing the creditor's income for the year the amount described in subparagraph ii of paragraph *c* in respect of the seizure.

"**484.13** Where a property is seized at any time in a taxation year by a creditor in respect of a debt, no amount in respect of the principal amount of the debt shall be

(*a*) deducted in computing the creditor's income for the year or a subsequent taxation year as a bad or doubtful debt; or

(*b*) included after that time in computing, for the purposes of this Part, any balance of undeducted outlays, expenses or other amounts of the creditor as a bad or doubtful debt.

"DIVISION III

"DEBT FORGIVENESS

"§ 1. — *Interpretation and miscellaneous provisions*".

(2) Subsection 1 has effect from 22 February 1994, except where it enacts subdivision 2 of Division II of Chapter VI of Title VII of Book III of Part I of the said Act, in which case it applies in respect of property acquired or reacquired after 21 February 1994, other than property acquired or reacquired pursuant to a court order made before 22 February 1994.

140. (1) Section 485 of the said Act, amended by section 43 of chapter 1 of the statutes of 1995, is replaced by the following section:

"**485.** In this division,

"commercial debt obligation" means a debt obligation issued by a debtor and, where interest was paid or payable by the debtor in respect of it pursuant to a legal obligation, or if interest had been paid or payable by the debtor in respect of it pursuant to a legal obligation, in respect of which an amount in respect of the interest was or would have been deductible in computing the debtor's income or taxable income earned in Canada, as the case may be, if this Part were read without reference to sections 119.4, 119.17, 135.4, 164, 166, 169 and 180 to 182;

"commercial obligation" issued by a debtor means a commercial debt obligation issued by the debtor, or a distress preferred share issued by the debtor;

"debtor" includes any corporation that has issued a distress preferred share and any partnership;

"directed person" at any time in respect of a debtor means

(*a*) a taxable Canadian corporation or an eligible Canadian partnership by which the debtor is controlled at that time; or

(*b*) a taxable Canadian corporation or an eligible Canadian partnership that is controlled at that time by

i. the debtor,

ii. the debtor and one or more persons related to the debtor, or

iii. a person or group of persons by which the debtor is controlled at that time;

"distress preferred share" at any time means a share issued after 21 February 1994, other than a share issued pursuant to an agreement in writing entered into on or before that date, by a corporation that is a share described in section 21.6.1 that would, but for paragraphs *c* and *e* of section 21.6, be a term preferred share at that time;

"eligible Canadian partnership" at any time means a Canadian partnership none of the members of which is, at that time,

(*a*) an investment corporation owned by persons not resident in Canada;

(*b*) a person exempt, pursuant to Book VIII, from tax under this Part on all or part of the person's taxable income;

(*c*) a partnership, other than an eligible Canadian partnership; or

(*d*) a trust, other than a trust in which no person not resident in Canada and no person described in any of paragraphs *a* to *c* is beneficially interested;

"eligible transferee" of a debtor at any time is a directed person at that time in respect of the debtor or a taxable Canadian corporation or eligible Canadian partnership related, otherwise than because of a right referred to in paragraph *b* of section 20, at that time to the debtor;

"excluded obligation" means an obligation issued by a debtor where

(*a*) the amount for which the obligation was issued

i. were included in computing the debtor's income or, but for the expression ", other than a prescribed amount," in paragraph *w* of section 87, would have been so included,

ii. were deducted in computing, for the purposes of this Part, any balance of undeducted outlays, expenses or other amounts, or

iii. were deducted in computing the capital cost or cost amount to the debtor of any property of the debtor;

(*b*) an amount paid by the debtor in satisfaction of the entire principal amount of the obligation is included in the amount determined under subparagraph *a* of the third paragraph of section 194 or section 198 in respect of the debtor;

(*c*) sections 481 to 483.1 apply to the obligation;

(*d*) the principal amount of the obligation would, if this Act were read without reference to sections 484 to 485.18 and the obligation were settled without any amount being paid in satisfaction of its principal amount, be included in computing the debtor's income because of the settlement of the obligation; or

(*e*) remittance of the principal amount of the obligation is made in accordance with the first paragraph of section 39 of the residential renovation incentive program implemented by the Société d'habitation du Québec pursuant to Order in Council 153-94 dated 19 January 1994;

"excluded property" at any time means property of a debtor who is not resident in Canada that would not be taxable Canadian property of the debtor if it were disposed of at that time by the debtor;

"excluded security" issued by a corporation to a person as consideration for the settlement of a debt means

(*a*) a distress preferred share issued by the corporation to the person; or

(*b*) a share issued by the corporation to the person under the terms of the debt, where the debt was a bond, debenture or note listed on a prescribed stock exchange in Canada and the terms for its conversion to a share were not established or substantially modified after the later of 22 February 1994 and the time that the bond, debenture or note was issued;

"forgiven amount" at any time in respect of a commercial obligation issued by a debtor is the amount by which the lesser of the amount for which the obligation was issued and the principal amount of the obligation exceeds the aggregate of

(*a*) the amount paid at that time in satisfaction of the principal amount of the obligation;

(*b*) the amount included under section 37 or 111 in computing the income of any person because of the settlement of the obligation at that time;

(*c*) the amount deducted at that time under subparagraph *b* of the first paragraph of section 175.1.3 in computing the forgiven amount in respect of the obligation;

(*d*) the capital gain of the debtor resulting from the application of section 263 to the purchase at that time of the obligation by the debtor;

(*e*) such portion of the principal amount of the obligation as relates to an amount renounced under section 381, 406, 417 or 418.13 by the debtor;

(*f*) any portion of the principal amount of the obligation that is included in the amount determined in any of subparagraphs *a* to *d* of the second paragraph of section 484.2 in respect of the debtor for the taxation year of the debtor that includes that time or for a preceding taxation year;

(*g*) the aggregate of all amounts each of which is a forgiven amount at a previous time that the obligation was deemed by section 485.25 or 485.26 to have been settled;

(*h*) such portion of the principal amount of the obligation as can reasonably be considered to have been included under sections 487.1 to 487.5.4 in computing the debtor's income for his taxation year that includes that time or for a preceding taxation year;

(*i*) where the debtor is a bankrupt at that time, the principal amount of the obligation;

(*j*) such portion of the principal amount of the obligation as represents the principal amount of an excluded obligation;

(*k*) where the debtor is a partnership and the obligation was, since the later of the creation of the partnership or the issue of the obligation, always payable to a member of the partnership actively engaged, on a regular, continuous and substantial basis, in the activities of the partnership that are other than the financing of the partnership business, the principal amount of the obligation; and

(*l*) the amount given at or before that time by the debtor to another person as consideration for the assumption by the other person of the obligation;

"person" includes a partnership;

"relevant loss balance" at a particular time for a commercial obligation and in respect of a debtor's non-capital loss, farm loss, restricted farm loss or net capital loss, as the case may be, for a taxation year means, subject to section 485.2, the amount of such loss that would be deductible in computing the debtor's taxable income or taxable income earned in Canada, as the case may be, for the taxation year that includes that time if

(*a*) the debtor had sufficient incomes and sufficient taxable capital gains for such purposes;

(*b*) sections 485.4 and 485.5 did not apply to reduce such loss at or after the particular time; and

(*c*) subparagraph *a* of the first paragraph of section 736 and sections 736.0.1 and 736.0.1.1 did not apply to the debtor;

"specified cost" of a debt owing to a person at any time means

(*a*) where the debt is capital property of the person at that time, the adjusted cost base to the person of the debt at that time; and

(*b*) in any other case, the indicated cost amount to the person;

"successor pool" at any time for a commercial obligation and in respect of an amount determined in relation to a debtor means,

subject to section 485.1, such portion of that amount as would be deductible under section 418.17, 418.18, 418.19 or 418.21 in computing the debtor's income for the taxation year that includes that time, if

(*a*) the debtor had sufficient incomes for such purposes;

(*b*) section 485.8 did not apply to reduce the particular amount so determined at that time;

(*c*) the taxation year ended immediately after that time; and

(*d*) the first paragraph of section 418.20 and the second paragraph of section 418.21 were read without reference to "30% of" and "10% of", respectively;

"taxable dividend" does not include any capital gains dividends within the meaning assigned by sections 1106 and 1116;

"unrecognized loss" at a particular time, in respect of an obligation issued by a debtor, from the disposition of a property means the amount that would, but for section 240, be a capital loss from the disposition at or before the particular time of a debt or other right to receive an amount, except where the debtor is a corporation the control of which was acquired before the particular time and after the time of the disposition by a person or group of persons, in which case the unrecognized loss at the particular time in respect of the obligation is deemed to be nil unless

(*a*) the obligation was issued by the debtor before, and not in contemplation of, the acquisition of control, or

(*b*) all or substantially all of the amount for which the obligation was issued was used to satisfy the principal amount of another obligation to which paragraph *a* or this paragraph would apply if the other obligation were still outstanding."

(2) Subsection 1, subject to subsections 3 and 4, applies to taxation years that end after 21 February 1994. However, subsection 1 does not apply, except for the purposes of sections 37.0.1, 111.1 and 484 to 484.6 of the said Act, to any obligation settled or extinguished

(1) before 22 February 1994;

(2) after 21 February 1994 under the terms of an agreement in writing entered into on or before that date, or under the terms of any amendment to such an agreement, where that amendment was

entered into in writing before 12 July 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement;

(3) before 1 January 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before 22 February 1994;

(4) before 1 January 1996 in connection with a proposal, or notice of intention to make a proposal, that was filed under the Bankruptcy and Insolvency Act (Revised Statutes of Canada, 1985, chapter B-3), or similar legislation of a country other than Canada, before 22 February 1994; or

(5) before 1 January 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before 22 February 1994.

(3) Where the definition of "taxable dividend" in section 485 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the reference therein to "dividende sur les gains en capital" were a reference to "dividende à même les gains en capital".

(4) Where paragraph *d* of the definition of "eligible Canadian partnership" in section 485 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the reference therein to "droit à titre bénéficiaire" were a reference to "*beneficial interest*".

141. (1) Sections 485.1 to 485.3 of the said Act are replaced by the following sections:

"**485.1** Notwithstanding the definition of "successor pool" in section 485, the successor pool at any time for a commercial obligation in respect of a specified amount in relation to a debtor is deemed to be nil unless

(*a*) the obligation was issued by the debtor before, and not in contemplation of, the event described in paragraph *a* of section 485.8 that gives rise to the deductibility under section 418.17, 418.18, 418.19 or 418.21, as the case may be, of all or part of that amount in computing the debtor's income; or

(*b*) all or substantially all of the amount for which the obligation was issued was used to satisfy the principal amount of another obligation to which paragraph *a* or this paragraph would apply if the other obligation were still outstanding.

"**485.2** Notwithstanding the definition of "relevant loss balance" in section 485, the relevant loss balance at a particular time for a commercial obligation and in respect of a debtor's non-capital loss, farm loss, restricted farm loss or net capital loss, as the case may be, for a taxation year is deemed to be nil where the debtor is a corporation the control of which was acquired at a time before the particular time by a person or group of persons and the taxation year ended before the previous time, unless

(*a*) the obligation was issued by the debtor before, and not in contemplation of, the acquisition of control, or

(*b*) all or substantially all of the amount for which the obligation was issued was used to satisfy the principal amount of another obligation to which paragraph *a* or this paragraph would apply if the other obligation were still outstanding.

"**485.3** For the purposes of this subdivision and subdivision 2,

(*a*) an obligation issued by a debtor is settled at a particular time where the obligation is settled or extinguished at that time, otherwise than by way of a succession or will or as consideration for the issue of a share described in paragraph *b* of the definition of "excluded security" in section 485;

(*b*) an amount of interest payable by a debtor in respect of an obligation issued by the debtor is deemed to be an obligation that was issued by the debtor for an amount, and that has a principal amount, equal to the portion of the amount of such interest that was deductible or would, but for sections 135.4, 164 and 180 to 182, have been deductible in computing the debtor's income for a taxation year;

(*c*) sections 485.4 to 485.13 apply in numerical order to the forgiven amount in respect of a commercial obligation;

(*d*) the applicable fraction of the unapplied portion of a forgiven amount at any time in respect of an obligation issued by a debtor is

i. in respect of a loss for a taxation year that ends after 31 December 1989, 3/4,

ii. in respect of a loss for a taxation year that ended before 1 January 1988, 1/2, and

iii. in respect of a loss for any other taxation year, the fraction required to be used under the first paragraph of section 231 for that year;

(*e*) where an applicable fraction, as determined under subparagraph *d*, of the unapplied portion of a forgiven amount is at any time applied under section 485.5 to reduce a loss for a taxation year, the portion of the forgiven amount so applied is, except for the purpose of reducing the loss, deemed to be the quotient obtained when the amount of the reduction under that section 485.5 is divided by the applicable fraction;

(*f*) where 3/4 of the unapplied portion of a forgiven amount is applied under section 485.7 to reduce the eligible intangible capital amount, except for the purpose of reducing the eligible intangible capital amount, the portion of the forgiven amount so applied is deemed to be 4/3 of the amount of the reduction under that section 485.7;

(*g*) where a share, other than an excluded security, is issued by a corporation to a person as consideration for the settlement of a debt issued by the corporation and payable to the person, the amount paid in satisfaction of the debt as a consequence of the issue of the share is deemed to be equal to the fair market value of the share at the time it was issued;

(*h*) where a debt issued by a corporation and payable to a person is settled at any time, the amount that can reasonably be considered to be the increase, as a consequence of the settlement of the debt, in the fair market value of the shares of the capital stock of the corporation owned by the person, other than shares acquired by the person as consideration for the settlement of the debt, is deemed to be paid at that time in satisfaction of the debt;

(*i*) where the consideration given by a debtor to another person for the settlement at any time of a particular commercial debt obligation issued by the debtor and payable to the other person includes a new commercial debt obligation issued by the debtor to the other person

i. an amount equal to the principal amount of the new obligation is deemed to have been paid by the debtor at that time, because of the issue of the new obligation, in satisfaction of the principal amount of the particular obligation, and

ii. the new obligation is deemed to have been issued for an amount equal to the amount by which the principal amount of the new obligation exceeds the amount by which the principal amount of the new obligation exceeds the amount for which the particular obligation was issued;

(*j*) where two or more commercial obligations issued by a debtor are settled at the same time, those obligations shall be treated as if they were settled at different times in the order designated by the debtor in a prescribed form filed with the debtor's fiscal return under this Part for the debtor's taxation year that includes the time of the settlement or, if the debtor does not so designate any such order, in the order designated by the Minister;

(*k*) for the purpose of determining, at any time, whether two persons are related to each other or whether any person is controlled by any other person, the following rules apply:

i. each partnership and each trust is deemed to be a corporation having a capital stock of a single class of voting shares divided into 100 issued shares,

ii. each member of a partnership and each beneficiary under a trust is deemed to own at that time the number of issued shares of that class that is equal to the proportion of 100 that the fair market value at that time of the member's interest in the partnership or the beneficiary's interest in the trust, as the case may be, is of the fair market value at that time of all members' interests in the partnership or all beneficiaries' interests in the trust, as the case may be, and

iii. where a beneficiary's share of the income or capital of a trust depends on the exercise by any person of, or the failure by any person to exercise, any discretionary power, the fair market value at any time of the beneficiary's interest in the trust is equal to

(1) where the beneficiary is not entitled to receive or otherwise obtain the use of all or part of the income or capital of the trust before the death after that time of one or more other beneficiaries under the trust, nil, and

(2) in any other case, the fair market value at that time of all beneficiaries' interests in the trust;

(*l*) where an obligation is denominated in a foreign currency, the forgiven amount at any time in respect of the obligation shall be determined with reference to the relative value of that currency and Canadian currency at the time the obligation was issued;

(*m*) where an amount is paid in satisfaction of the principal amount of a particular commercial obligation issued by a debtor and, as a consequence of the payment, the debtor is legally obliged to pay that amount to another person, the obligation to pay that amount to the other person is deemed to be a commercial obligation that was issued by the debtor at the same time and in the same circumstances as the particular obligation;

(*n*) the amount that can be applied because of sections 485 to 485.18 to reduce another amount may not exceed that other amount;

(*o*) except for the purposes of this paragraph, where a commercial debt obligation issued by a debtor is settled at any time, the debtor is at that time a member of a partnership, and the obligation was, under the agreement governing the obligation, considered immediately before that time as a debt owed by the partnership, the obligation is deemed to have been issued by the partnership and not by the debtor;

(*p*) notwithstanding subparagraph *o*, where a commercial debt obligation for which a particular person is solidarily liable with one or more other persons is settled at any time in respect of the particular person but not in respect of all of the other persons, the portion of the obligation that can reasonably be considered to be the particular person's share of the obligation is deemed to have been issued by the particular person and settled at that time and not at any subsequent time;

(*q*) a commercial debt obligation issued by an individual that is outstanding at the time of the individual's death and settled at a time subsequent to the death is, if the succession of the individual was liable for the obligation immediately before the subsequent time, deemed to have been issued by the succession at the same time at which, and in the same circumstances in which, the obligation was issued by the individual; and

(*r*) where a commercial debt obligation issued by an individual would, but for this paragraph, be settled at any time in the period ending six months after the death of an individual, or within such longer period as is acceptable to the Minister and the succession of the individual, and the succession of the individual was liable immediately before that time for the obligation, the following rules apply, subject to the second paragraph:

i. the obligation is deemed to have been settled at the beginning of the day on which the individual died and not at that time,

ii. any amount paid at that time by the succession in satisfaction of the principal amount of the obligation is deemed to have been paid at the beginning of the day on which the individual died,

iii. any amount given by the estate at or before that time to another person as consideration for assumption by the other person of the obligation is deemed to have been given at the beginning of the day on which the individual died, and

iv. subparagraph *b* shall not apply in respect of the settlement to interest that accrues within that period.

Subparagraph *r* of the first paragraph does not apply in circumstances in which any amount is, because of the settlement of the commercial debt obligation referred to in that subparagraph, included under section 37 or 111 in computing the income of any person, or in which sections 484 to 484.6 apply in respect of that obligation."

(2) Subsection 1, subject to subsections 3 and 4, applies to taxation years that end after 21 February 1994. However, subsection 1 does not apply, except for the purposes of sections 37.0.1, 111.1 and 484 to 484.6 of the said Act, to any obligation settled or extinguished

(1) before 22 February 1994,

(2) after 21 February 1994 under the terms of an agreement in writing entered into on or before that date, or under the terms of any amendment to such an agreement, where that amendment was entered into in writing before 12 July 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement,

(3) before 1 January 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before 22 February 1994,

(4) before 1 January 1996 in connection with a proposal, or notice of intention to make a proposal, that was filed under the Bankruptcy and Insolvency Act (Revised Statutes of Canada, 1985, chapter B-3), or similar legislation of a country other than Canada, before 22 February 1994, or

(5) before 1 January 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before 22 February 1994.

(3) Where subparagraph *b* of the first paragraph of section 485.3 of the said Act, enacted by subsection 1, applies to interest accruing before 14 July 1990, the words "was deductible" in that subparagraph shall be read as "was deducted".

(4) The form referred to in subparagraph *j* of the first paragraph of section 485.3 of the said Act, enacted by subsection 1, is deemed to have been filed in respect of the settlement of two or more commercial obligations, within the time determined in that subsection where a copy of the similar form required to be filed under paragraph *i* of subsection 2 of section 80 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), in respect of the settlement of such obligations, is filed with the Minister of Revenue on or before (*insert here the date that is 180 days after the date of assent to this Act*).

142. (1) The said Act is amended by inserting, after section 485.3, the following:

"§ 2. — *Reduced or included amounts*

"**485.4** Where a commercial obligation issued by a debtor is settled at any time, the forgiven amount at that time in respect of the obligation shall be applied to reduce at that time, in the following order,

(*a*) the debtor's non-capital loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the amount, in section 485.5 referred to as the debtor's "ordinary non-capital loss at that time for the year", that would be the relevant loss balance at that time for the obligation and in respect of the debtor's non-capital loss for the year if paragraph *a* of section 728.0.1 were read without reference to "his allowable business investment losses for the year,", and

ii. does not, because of this section, reduce the debtor's non-capital loss for a preceding taxation year;

(*b*) the debtor's farm loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the relevant loss balance at that time for the obligation and in respect of the debtor's farm loss for the year, and

ii. does not, because of this section, reduce the debtor's farm loss for a preceding taxation year; and

(*c*) the debtor's restricted farm loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the relevant loss balance at that time for the obligation and in respect of the debtor's restricted farm loss for the year, and

ii. does not, because of this section, reduce the debtor's restricted farm loss for a preceding taxation year.

"**485.5** Where a commercial obligation issued by a debtor is settled at any time, the applicable fraction of the remaining unapplied portion of a forgiven amount at that time in respect of the obligation shall be applied to reduce at that time, in the following order,

(*a*) the debtor's non-capital loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the amount by which the relevant loss balance at that time for the obligation and in respect of the debtor's non-capital loss for the year exceeds the debtor's ordinary non-capital loss, within the meaning assigned by subparagraph i of paragraph *a* of section 485.4, at that time for the year, and

ii. does not, because of this section, reduce the debtor's non-capital loss for a preceding taxation year; and

(*b*) the debtor's net capital loss for each taxation year that ended before that time, to the extent that the amount so applied

i. does not exceed the relevant loss balance at that time for the obligation and in respect of the debtor's net capital loss for the year, and

ii. does not, because of this section, reduce the debtor's net capital loss for a preceding taxation year.

"**485.6** Where a commercial obligation issued by a debtor is settled at any time, the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied, subject to the second paragraph, in such manner as is designated by the debtor in a prescribed form filed with the debtor's fiscal return under this Part for the taxation year that includes that time, to reduce immediately after that time the following amounts:

(*a*) the capital cost to the debtor of a depreciable property that is owned by the debtor immediately after that time; and

(*b*) the undepreciated capital cost to the debtor of depreciable property of a prescribed class immediately after that time.

The remaining unapplied portion of the forgiven amount in respect of a commercial obligation at the time of settlement of the obligation may be applied to reduce, immediately after that time, the capital cost to the debtor of a depreciable property only to the extent that

(*a*) in the case of a depreciable property of a prescribed class, the undepreciated capital cost to the debtor of depreciable property of that class at that time exceeds the aggregate of all other reductions immediately after that time to that undepreciated capital cost; and

(*b*) in the case of a depreciable property other than a depreciable property of a prescribed class, the capital cost to the debtor of the property at that time exceeds the aggregate of all amounts each of which is an amount allowed to the debtor before that time in respect of the property

i. in accordance with the method authorized under Part XVII of the regulations made under the Income Tax Act (Revised Statutes of Canada, 1952, chapter 148), as it read on 31 December 1971, followed by the debtor under the Corporation Tax Act (R.S.Q., 1964, chapter 67) or the Provincial Income Tax Act (R.S.Q., 1964, chapter 69);

ii. under section 130R200 of the Regulation respecting the Taxation Act (R.R.Q., 1981, chapter I-3, r.1).

"**485.7** Where a commercial obligation issued by a debtor is settled at any time, 3/4 of the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied, to the extent designated in a prescribed form filed with the debtor's fiscal return under this Part for the taxation year that includes that time, to reduce immediately after that time the eligible intangible capital amount of the debtor in respect of each business of the debtor or, where the debtor is at that time not resident in Canada, in respect of each business carried on in Canada by the debtor.

"**485.8** Where a commercial obligation issued by a debtor is settled at any time, the remaining unapplied portion of the forgiven

amount at the time of settlement of the obligation in respect of the obligation shall be applied, to the extent designated in a prescribed form filed with the debtor's fiscal return under this Part for the taxation year that includes that time, to reduce immediately after that time the following amounts:

(*a*) where the debtor is a corporation resident in Canada throughout that year, each particular amount determined in respect of the debtor under the second paragraph of section 418.17, 418.18 or 418.19, or that would be determined under the second paragraph of section 418.21 if that second paragraph were read without reference to "10% of", as a consequence of the acquisition of control of the debtor by a person or group of persons, the debtor ceasing to be exempt from tax under this Part on its taxable income or the acquisition of properties by the debtor by way of an amalgamation or merger, where the amount so applied does not exceed the successor pool immediately after that time for the obligation and in respect of the particular amount;

(*b*) the cumulative Canadian exploration expense, within the meaning assigned by section 398, of the debtor;

(*c*) the cumulative Canadian development expense, within the meaning assigned by section 411, of the debtor;

(*d*) the cumulative Canadian oil and gas property expense, within the meaning assigned by section 418.5, of the debtor; and

(*e*) the amount determined under paragraph *a* of section 371 in respect of the debtor, where

i. the debtor is resident in Canada throughout that year, and

ii. the amount so applied does not exceed such portion of the aggregate of the debtor's foreign exploration and development expenses, within the meaning assigned by section 372, as were incurred by the debtor before that time and would be deductible under section 371 in computing the debtor's income for that year if the aggregate determined in respect of the debtor under paragraph *b* of section 374 were sufficient and if that year ended at that time.

"**485.9** Subject to section 485.18, where a commercial obligation issued by a debtor is settled at any time and amounts have been designated under sections 485.6 to 485.8 to the maximum extent permitted in respect of the settlement of the obligation,

(*a*) the remaining unapplied portion of the forgiven amount at that time in respect of the obligation shall be applied, to the extent designated in a prescribed form filed with the debtor's fiscal return under this Part for the taxation year that includes that time, to reduce immediately after that time the adjusted cost bases to the debtor of capital properties, other than shares of the capital stock of corporations of which the debtor is a specified shareholder at that time, debts issued by corporations of which the debtor is a specified shareholder at that time, interests in partnerships that are related to the debtor at that time, depreciable property that is not of a prescribed class, personal-use properties and excluded properties, that are owned by the debtor immediately after that time;

(*b*) an amount may be applied under this section to reduce, immediately after that time, the capital cost to the debtor of a depreciable property of a prescribed class only to the extent that the capital cost immediately after that time to the debtor of the property, determined without reference to the settlement of the obligation at that time, exceeds the capital cost of the property immediately after that time to the debtor for the purposes of sections 64, 78.4, 93 to 104, 130 and 130.1 and any regulations made under paragraph *a* of section 130 or section 130.1, determined without reference to the settlement of the obligation at that time; and

(*c*) for the purposes of sections 64, 78.4, 93 to 104, 130 and 130.1 and any regulations made under paragraph *a* of section 130 or section 130.1, no amount shall be considered to have been applied under this section.

"**485.10** Subject to section 485.18, where a commercial obligation issued by a debtor is settled at any time in a taxation year and amounts have been designated by the debtor under sections 485.6 to 485.9 to the maximum extent permitted in respect of the settlement of the obligation, the remaining unapplied portion of the forgiven amount in respect of the obligation shall be applied, to the extent that it is designated in a prescribed form filed with the debtor's fiscal return under this Part for the year, to reduce immediately after that time the adjusted cost bases to the debtor of capital properties, owned by the debtor immediately after that time, that are shares of the capital stock of corporations of which the debtor is a specified shareholder at that time and debts issued by such corporations, other than shares of the capital stock of corporations related to the debtor at that time, debts issued by corporations related to the debtor at that time and excluded properties.

"**485.11** Subject to section 485.18, where a commercial obligation issued by a debtor is settled at any time in a taxation year and amounts have been designated by the debtor under sections 485.6 to 485.10 to the maximum extent permitted in respect of the settlement of the obligation, the remaining unapplied portion of the forgiven amount in respect of the obligation shall be applied, to the extent that it is designated in a prescribed form filed with the debtor's fiscal return under this Part for the year, to reduce immediately after that time the adjusted cost bases to the debtor of

(*a*) shares or debts that are capital properties, other than excluded properties and properties the adjusted cost bases of which are reduced at that time under section 485.9 or 485.10, owned by the debtor immediately after that time; and

(*b*) interests in partnerships that are related to the debtor at that time that are capital properties, other than excluded properties, owned by the debtor immediately after that time.

"**485.12** Where a commercial obligation issued by a debtor, other than a partnership, is settled at any time in a taxation year and amounts have been designated by the debtor under sections 485.6 to 485.9 to the maximum extent permitted in respect of the settlement of the obligation,

(*a*) the debtor is deemed to have a capital gain for the year from the disposition of capital property or, where the debtor is an individual not resident in Canada at the end of the year, of taxable Canadian property, equal to the lesser of

i. the remaining unapplied portion of the forgiven amount at that time in respect of the obligation, and

ii. the amount by which the aggregate of the debtor's capital losses from the dispositions of properties, other than precious property and excluded properties, and 4/3 of the amount that would, because of sections 564.2 to 564.4 and 564.4.4, be deductible under section 729 in computing the debtor's taxable income for the year, if the debtor had sufficient incomes and taxable capital gains for the year for such purposes, exceeds the aggregate of the debtor's capital gains for the year from the dispositions of such properties, determined without reference to this section, and the aggregate of the amounts each of which is an amount deemed by this section to be a capital gain of the debtor for the year as a consequence of the application of this section to another commercial obligation settled before that time; and

(*b*) the forgiven amount at that time in respect of the obligation shall be considered to have been applied under this section to the extent of the amount deemed by this section to be a capital gain of the debtor for the year as a consequence of the application of this section to the settlement of the obligation at that time.

"**485.13** Where a commercial obligation issued by a debtor is settled at any time in a taxation year, there shall be added, in computing the debtor's income for the year from the source in connection with which the obligation was issued, the amount determined by the formula

$$(A + B - C - D) \times E.$$

For the purposes of the formula in the first paragraph,

(*a*) A is the remaining unapplied portion of the forgiven amount at that time in respect of the obligation;

(*b*) B is the lesser of

i. the aggregate of all amounts designated under section 485.11 by the debtor in respect of the settlement of the obligation at that time, and

ii. the aggregate of the residual balance at that time in respect of the settlement of the obligation and the amount by which the amount determined under subparagraph *c* in respect of the settlement exceeds the amount determined under subparagraph *a* in respect of the settlement;

(*c*) C is the aggregate of the amounts each of which is an amount specified in an agreement filed under subdivision 6 in respect of the settlement of the obligation at that time;

(*d*) D is

i. where the debtor has designated amounts under sections 485.6 to 485.10 to the maximum extent permitted in respect of the settlement of the obligation, the amount by which the aggregate of the amounts each of which is an unrecognized loss at that time, in respect of the obligation, from the disposition of a property exceeds 4/3 of the aggregate of the amounts each of which is an amount by which the amount determined before that time under this section in respect of a settlement of an obligation issued by the debtor has been reduced because of an amount determined under this subparagraph, and

ii. in any other case, zero, and

(*e*) E is equal to 75% or, where the debtor is a partnership, is equal to 100%.

"**485.14** For the purposes of section 485.13, the residual balance at any time in a taxation year in respect of the settlement of a particular commercial obligation issued by a debtor is the amount by which the aggregate described in the second paragraph is exceeded by the aggregate of

(*a*) all amounts each of which is an amount that would be applied under any of sections 485.4 to 485.10 and 485.12 in respect of the settlements of separate commercial obligations issued by directed persons at that time in respect of the debtor if

i. those obligations were issued at that time by those directed persons and were settled immediately after that time,

ii. an amount equal to the forgiven amount at that time in respect of the particular obligation were the forgiven amount immediately after that time in respect of each of those obligations,

iii. amounts were designated under sections 485.6 to 485.10 by those directed persons to the maximum extent permitted in respect of the settlement of each of those obligations, and

iv. no amounts were designated under section 485.11 by any of those directed persons in respect of the settlement of any of those obligations; and

(*b*) where the debtor is a partnership, all amounts each of which is 1/4 of an amount deducted because of subparagraph *a* or *b* of the second paragraph in computing the residual balance at that time in respect of the settlement of the particular obligation.

The aggregate to which the first paragraph refers is the aggregate of

(*a*) all amounts each of which is 4/3 of the amount that would be included under section 485.13 in computing the debtor's income for the year in respect of the settlement at or before that time of a commercial obligation issued by the debtor if the amounts determined under subparagraphs *b* and *d* of the second paragraph of that section were nil;

(*b*) all amounts each of which is 4/3 of an amount that would, if the amount determined under subparagraph *d* of the second paragraph of section 485.13 were nil, be included under that section in computing the income of any of the directed persons referred to in subparagraph *a* of the first paragraph in respect of the settlement of an obligation that is deemed by paragraph *a* of section 485.42 to have been issued by the directed person because of the filing of an agreement under subdivision 6 in respect of the settlement at or before that time and in the year of a commercial obligation issued by the debtor;

(*c*) any amount specified in an agreement, other than an agreement with any of the directed persons referred to in subparagraph *a* of the first paragraph, filed under subdivision 6 in respect of the settlement at or before that time and in the year of a commercial obligation issued by the debtor; and

(*d*) all amounts each of which is the lesser of

i. the aggregate of the amounts designated under section 485.11 in respect of the settlement before that time and in the year of another commercial obligation issued by the debtor, and

ii. the residual balance of the debtor at that previous time.

"**485.15** Where a commercial debt obligation issued by a partnership, in this section referred to as the "partnership obligation", is settled at any time in a fiscal period of the partnership that ends in a taxation year of a member of the partnership,

(*a*) the member may deduct, in computing the member's income for the year, such amount as the member claims not exceeding the relevant limit in respect of the partnership obligation;

(*b*) for the purposes of paragraph *a*, the relevant limit in respect of the partnership obligation is the amount that would be included in computing the member's income for the year as a consequence of the application of sections 485.13 and 599 to 613.10 to the settlement of the partnership obligation if the partnership had designated amounts under sections 485.6 to 485.10 to the maximum extent permitted in respect of each obligation settled in that fiscal period and if income arising from the application of section 485.13 were from a source of income separate from any other sources of partnership income; and

(*c*) for the purposes of sections 485 to 485.18 and 485.42 to 485.52,

i. the member is deemed to have issued a commercial debt obligation that was settled at the end of that fiscal period,

ii. the amount deducted under paragraph *a* in respect of the partnership obligation in computing the member's income shall be treated as if it were the forgiven amount at the end of that fiscal period in respect of the obligation referred to in subparagraph i,

iii. subject to subparagraph iv, the obligation referred to in subparagraph i is deemed to have been issued at the same time at which, and in the same circumstances in which, the partnership obligation was issued,

iv. where the member is a corporation the control of which was acquired at a particular time that is before the end of that fiscal period and before the corporation became a member of the partnership and the partnership obligation was issued before the particular time,

(1) subject to the application of this subparagraph iv to an acquisition of control of the corporation after the particular time and before the end of that fiscal period, the obligation referred to in subparagraph i is deemed to have been issued by the member after the particular time, and

(2) paragraph *b* of the definition of "unrecognized loss" in section 485 and paragraph *b* of sections 485.1 and 485.2 do not apply in respect of that acquisition of control, and

v. the source in connection with which the obligation referred to in subparagraph i was issued is deemed to be the source in connection with which the partnership obligation is issued.

"**485.16** Where a commercial obligation issued by a debtor is settled at any time in a taxation year and, as a consequence of the settlement of the obligation, an amount would, but for this section, be deducted under section 346.1 or 346.2 in computing the debtor's income for the year and the debtor has not designated amounts under sections 485.6 to 485.11 to the maximum extent possible in respect of the settlement of the obligation,

(*a*) the Minister may designate amounts under sections 485.6 to 485.11 to the extent that the debtor would have been permitted to designate those amounts under those sections; and

(*b*) the amounts designated by the Minister shall, except for the purposes of this section, be deemed to have been designated by the debtor under sections 485.6 to 485.11.

"**485.17** Where a commercial obligation issued by a corporation is settled at any time in a taxation year and, as a consequence of the settlement, an amount is deducted under section 346.2 in computing the corporation's income for the year, unless the corporation has commenced to wind up on or before the day that is 12 months after the end of the year there shall be included in computing the corporation's income for the year from the source in connection with which the obligation was issued 50% of the lesser of

(*a*) the aggregate of the amounts designated under section 485.11 by the corporation in respect of the settlement of the obligation at that time; and

(*b*) the amount by which the lesser of the following amounts exceed the aggregate of the amounts included because of this section in computing the corporation's income for the year in respect of a settlement before that time of a commercial obligation issued by the corporation:

i. the residual balance, within the meaning assigned by section 485.14, of the corporation at that time in respect of the settlement of the obligation, and

ii. the amount by which the amount deducted under section 346.2 in computing the corporation's income for the year exceeds the amount deducted because of paragraph *c*.1 of section 225 in determining the aggregate of the amounts that may be deducted in computing, after the end of the year, the corporation's income under sections 222 to 224 because of an amount deducted under section 346.2 in computing the corporation's income for the year.

"**485.18** Where a commercial obligation issued by a partnership is settled at any time after 20 December 1994, the amount designated under any of sections 485.9 to 485.11 in respect of the settlement by the partnership to reduce the adjusted cost base of a capital property acquired by the partnership shall not exceed the amount by which the adjusted cost base at that time to the partnership of the property exceeds the fair market value at that time of the property.

"§ 3. — *Deemed settlement of an obligation*

"**485.19** For the purposes of this subdivision,

(*a*) notwithstanding section 485, "forgiven amount" in respect of an obligation has the meaning assigned by the second paragraph of section 37.0.1 or 111.1, as the case may be, where an amount would be included in computing a person's income under section 37 or 111 as a consequence of the settlement of the obligation if the obligation were settled without any payment being made in satisfaction of its principal amount;

(*b*) subparagraphs *a*, *b*, *k*, *m* and *o* of the first paragraph of section 485.3 apply; and

(*c*) a person is deemed to have a significant interest in a corporation at any time if the person owned at that time shares of the capital stock of the corporation

i. that would give the person 25% or more of the votes that could be cast under all circumstances at the annual meeting of shareholders of the corporation, or

ii. having a fair market value of 25% or more of the fair market value of all the issued shares of the corporation.

For the purposes of subparagraph *c* of the first paragraph, a person is deemed to own at any time each share of the capital stock of a corporation that is owned, otherwise than because of this paragraph, at that time by another person with whom the person does not deal at arm's length.

"**485.20** Where a commercial obligation or another obligation, in this section referred to as the "indebtedness", of a debtor that is a corporation to pay an amount to a creditor that is another corporation is settled on an amalgamation of the debtor and the creditor, the indebtedness is deemed to have been settled immediately before the time that is immediately before the amalgamation by a payment made by the debtor and received by the creditor of an amount that would be the creditor's cost amount of the indebtedness at that time if the definition of "cost amount" in section 1 were read without reference to paragraph *e* of that definition and if that cost amount included amounts added in computing the creditor's income in respect of the portion of the indebtedness representing unpaid interest, to the extent those amounts have not been deducted in computing the creditor's income as bad debts in respect of that unpaid interest.

"**485.21** Where there is a winding-up of a subsidiary to which sections 556 to 564.1 and 565 apply and a debt or other obligation, in this section referred to as the "subsidiary's obligation", of the

subsidiary to pay an amount to the parent, or a debt or other obligation, in this section referred to as the "parent's obligation", of the parent to pay an amount to the subsidiary is, as a consequence of the winding-up, settled at a particular time without any payment of an amount or by the payment of an amount that is less than the principal amount of the subsidiary's obligation or the parent's obligation, as the case may be,

(*a*) where that payment is less than the amount that would be the cost amount to the subsidiary or parent of the subsidiary's obligation or the parent's obligation immediately before the particular time if the definition of "cost amount" in section 1 were read without reference to paragraph *e* of that definition, and the parent so elects in a prescribed form on or before the day on or before which the parent is required to file a fiscal return pursuant to section 1000 for the taxation year that includes the particular time, the amount paid at that time in satisfaction of the principal amount of the subsidiary's obligation or the parent's obligation is deemed to be equal to the amount that would be the cost amount to the subsidiary or the parent, as the case may be, of the subsidiary's obligation or the parent's obligation immediately before the particular time if the definition of "cost amount" were read without reference to paragraph *e* of that definition, and if that cost amount included amounts added in computing the subsidiary's income or the parent's income in respect of the portion of the indebtedness representing unpaid interest, to the extent that the subsidiary or the parent has not deducted any amounts as bad debts in respect of that unpaid interest; and

(*b*) for the purpose of applying sections 485 to 485.18 to the subsidiary's obligation, where property is distributed at any time in circumstances to which the first paragraph of section 557 or section 558 applies and the subsidiary's obligation is settled as a consequence of the distribution, the subsidiary's obligation is deemed to have been settled immediately before the time that is immediately before the time of the distribution and not at any later time.

"**485.22** Where there is a winding-up of a subsidiary to which sections 556 to 564.1 and 565 apply and, as a consequence of the winding-up, a distress preferred share issued by the subsidiary and owned by the parent, or a distress preferred share issued by the parent and owned by the subsidiary, is settled at any time without any payment of an amount or by the payment of an amount that is less than the principal amount of the share,

(*a*) where there was no payment or the payment was less than the adjusted cost base of the share to the parent or the subsidiary,

as the case may be, immediately before that time, for the purpose of applying the provisions of this Part to the issuer of the share, an amount equal to the adjusted cost base to the parent or to the subsidiary, as the case may be, is deemed to be paid at that time in satisfaction of the principal amount of the share; and

(*b*) for the purpose of applying sections 485 to 485.18 to the share, where property is distributed at any time in circumstances to which the first paragraph of section 557 or section 558 applies and the share is settled as a consequence of the distribution, the share is deemed to have been settled immediately before the time that is immediately before the time of the distribution and not at any later time.

"**485.23** For the purposes of section 485.24, "specified obligation" of a debtor at a particular time means an obligation issued by the debtor where

(*a*) at any previous time, other than a time before the last time the obligation became a parked obligation before the particular time,

i. a person who owned the obligation dealt at arm's length with the debtor and, where the debtor is a corporation, did not have a significant interest in the debtor, or

ii. the obligation was acquired by the holder of the obligation from another person who was, at the time of that acquisition, not related to the holder or related to the holder only because of paragraph *b* of section 20; or

(*b*) the obligation is deemed by section 299 to have been reacquired at the particular time.

"**485.24** For the purposes of this section and sections 485.23, 485.25 and 485.27,

(*a*) an obligation issued by a debtor is a parked obligation at any time where at that time

i. the obligation is a specified obligation of the debtor, and

ii. the holder of the obligation does not deal at arm's length with the debtor or, where the debtor is a corporation and the holder acquired the obligation after 12 July 1994, otherwise than pursuant to an agreement in writing entered into on or before that date, has a significant interest in the debtor; and

(*b*) an obligation that is, at any time, acquired or reacquired in circumstances to which subparagraph ii of paragraph *a* of section 485.23 or paragraph *b* of that section applies is, if the obligation is a parked obligation immediately after that time, deemed to have become a parked obligation at that time.

"**485.25** Where at any particular time after 21 February 1994, a commercial debt obligation that was issued by a debtor becomes a parked obligation, otherwise than pursuant to an agreement in writing entered into before 22 February 1994, and the specified cost at the particular time to the holder of the obligation is less than 80% of the principal amount of the obligation, for the purpose of applying the provisions of this Part to the debtor,

(*a*) the obligation is deemed to have been settled at the particular time; and

(*b*) the forgiven amount at the particular time in respect of the obligation shall be determined as if the debtor had paid an amount at the particular time in satisfaction of the principal amount of the obligation equal to that specified cost.

"**485.26** Where at any particular time after 21 February 1994, a commercial debt obligation issued by a debtor that is payable to a person other than a person with whom the debtor is related at that time becomes unenforceable in a competent court because of a statutory limitation period and the obligation would, but for this section, not have been settled or extinguished at the particular time, for the purpose of applying the provisions of this Part to the debtor, the obligation is deemed to have been settled at the particular time.

"**485.27** Where a commercial debt obligation issued by a debtor is first deemed by section 485.25 or 485.26 to have been settled at a particular time, at a subsequent time a payment is made by the debtor of an amount in satisfaction of the principal amount of the obligation and it cannot reasonably be considered that one of the reasons the obligation became a parked obligation or became unenforceable, as the case may be, before the subsequent time was to have this section apply to the payment, in computing the debtor's income for the taxation year, in this section referred to as the "subsequent year", that includes the subsequent time from the source in connection with which the obligation was issued, there may be deducted the amount determined by the formula

$$0.75(A - B) - C.$$

For the purposes of the formula in the first paragraph,

(*a*) A is the amount of the payment;

(*b*) B is the amount by which the principal amount of the obligation exceeds the aggregate of

i. all amounts each of which is a forgiven amount in respect of a particular portion of the obligation at any time in the period that began at the particular time referred to in the first paragraph and ended immediately before the subsequent time referred to therein, and at which a particular portion of the obligation is deemed by section 485.25 or 485.26 to be settled in respect of the particular portion, and

ii. all amounts paid in satisfaction of the principal amount of the obligation in the period referred to in subparagraph i; and

(*c*) C is the amount by which the aggregate of the following amounts exceeds the aggregate of the amounts described in the third paragraph:

i. all amounts deducted by the debtor under section 346.2 in computing the debtor's income for the subsequent year or a preceding taxation year,

ii. all amounts added by the debtor because of section 485.13 in computing the debtor's income for the subsequent year or a preceding taxation year in respect of a settlement under section 485.25 or 485.26 in a period during which the debtor was exempt from tax under this Part on its taxable income, and

iii. all amounts added by the debtor because of section 485.13 in computing the debtor's income for the subsequent year or a preceding taxation year in respect of a settlement under section 485.25 or 485.26 in a period during which the debtor was not resident in Canada, other than any of those amounts added in computing the debtor's income or taxable income earned in Canada.

The aggregate to which subparagraph *c* of the second paragraph refers is the aggregate of

(*a*) the amount deducted by the debtor because of paragraph *c*.1 of section 225 in computing the aggregate, determined immediately after the subsequent year, of the amounts deductible under sections 222 to 224 by the debtor; and

(*b*) all amounts by which, because of subparagraph *c* of the second paragraph, the amount deductible by the debtor under this section in respect of a payment made by the debtor before the subsequent time referred to in the first paragraph in computing the debtor's income for the subsequent year or a preceding year has been reduced.

"**485.28** Where an obligation issued by a debtor is denominated in a foreign currency and the obligation is deemed by section 485.25 or 485.26 to have been settled, those sections do not apply for the purpose of determining any gain or loss of the debtor on the settlement that is attributable to a fluctuation in the value of the foreign currency relative to the value of Canadian currency.

"§ 4. — *Distress preferred shares*

"**485.29** For the purpose of applying this Part to an issuer of a distress preferred share,

(*a*) the principal amount, at any time, of the share is deemed to be the amount, determined at that time, for which the share was issued;

(*b*) the amount for which the share was issued is, at any time, deemed to be the amount by which the aggregate of the following amounts exceeds the aggregate of all amounts each of which is an amount paid before that time on a reduction of the paid-up capital in respect of the share, except to the extent that the amount is deemed by sections 504 to 510.1 to have been paid as a dividend:

i. the amount for which the share was issued, determined without reference to this subparagraph, and

ii. all amounts by which the paid-up capital in respect of the share increased after the share was issued and before that time;

(*c*) the share is deemed to be settled at such time as it is redeemed, acquired or cancelled by the issuer; and

(*d*) a payment in satisfaction of the principal amount of the share means any payment made on a reduction of the paid-up capital in respect of the share to the extent that the payment is proceeds of disposition of the share within the meaning that would be assigned by section 251 if that section were read without reference to "an amount deemed to be a dividend received under section 508 to the extent that it refers to a dividend deemed paid under sections 505

and 506 and not deemed not to be a dividend under paragraph *a* of section 308.1 or under paragraph *b* of section 568,".

"**485.30** Where the consideration given by a corporation to another person for the settlement or extinguishment at any time of a commercial debt obligation that was issued by the corporation and owned immediately before that time by the other person includes a distress preferred share issued by the corporation to the other person,

(*a*) for the purposes of sections 485 to 485.18, the amount paid at that time in satisfaction of the principal amount of the obligation because of the issue of that share is deemed to be equal to the lesser of the principal amount of the obligation and the amount by which the paid-up capital in respect of the class of shares that includes that share increases because of the issue of that share; and

(*b*) for the purposes of subparagraph i of paragraph *b* of section 485.29, the amount for which the share was issued is deemed to be equal to the amount deemed by paragraph *a* to have been paid at that time.

"**485.31** Where the consideration given by a corporation to another person for the settlement at any time of a distress preferred share that was issued by the corporation and owned immediately before that time by the other person includes a commercial debt obligation issued by the corporation to the other person, sections 485 to 485.18 apply with reference to the following rules:

(*a*) the amount paid at that time in satisfaction of the principal amount of the share because of the issue of that obligation is deemed to be equal to the principal amount of the obligation; and

(*b*) the amount for which the obligation was issued is deemed to be equal to its principal amount.

"**485.32** Where the consideration given by a corporation to another person for the settlement at any time of a particular distress preferred share that was issued by the corporation and owned immediately before that time by the other person includes another distress preferred share issued by the corporation to the other person, sections 485 to 485.18 apply with reference to the following rules:

(*a*) the amount paid at that time in satisfaction of the principal amount of the particular share because of the issue of the other

share is deemed to be equal to the amount by which the paid-up capital in respect of the class of shares that includes the other share increases because of the issue of the other share; and

(*b*) for the purposes of subparagraph i of paragraph *b* of section 485.29, the amount for which the other share was issued is deemed to be equal to the amount deemed by paragraph *a* to have been paid at that time.

"**485.33** Where the consideration given by a corporation to another person for the settlement at any time of a distress preferred share that was issued by the corporation and owned immediately before that time by the other person includes another share, other than a distress preferred share, or an obligation, other than a commercial obligation, issued by the corporation to the other person, for the purposes of sections 485 to 485.18, the amount paid at that time in satisfaction of the principal amount of the distress preferred share because of the issue of the other share or obligation is deemed to be equal to the fair market value of the other share or obligation, as the case may be, at that time.

"**485.34** Where at any time a distress preferred share becomes a share that is not a distress preferred share, sections 485 to 485.18 apply with reference to the following rules:

(*a*) the share is deemed to have been settled immediately before that time; and

(*b*) a payment equal to the fair market value of the share at that time is deemed to have been made immediately before that time in satisfaction of the principal amount of the share.

"§ 5. — *Subsequent dispositions*

"**485.35** Where at any time in a taxation year a person surrenders a particular capital property, other than a distress preferred share, that is a share, an interest in a partnership or a capital interest in a trust, the person is deemed to have a capital gain from the disposition at that time of another capital property or, where the particular capital property is a taxable Canadian property, another taxable Canadian property, equal to the amount by which the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing the adjusted cost base to the person of the particular capital property immediately before that time exceeds the aggregate of

(*a*) the amount that would, but for section 638, be the person's capital gain for the year from the disposition of the particular capital property; and

(*b*) where, at the end of the year, the person is resident in Canada or is a person not resident in Canada who carries on business in Canada through a fixed place of business, the amount designated under section 485.40 by the person in respect of the disposition, at that time or immediately after that time, of the particular capital property.

"**485.36** For the purposes of section 485.35, a person shall be considered to have surrendered a property at any time only where

(*a*) in the case of a share of the capital stock of a particular corporation,

i. the person is a corporation that disposed of the share at that time and the proceeds of disposition of the share are determined under section 558, or

ii. the person is a corporation that owned the share at that time and, immediately after that time, amalgamates or merges with the particular corporation;

(*b*) in the case of a capital interest in a trust, the person disposed of the interest at that time and the proceeds of disposition are determined under paragraph *c* of section 688; and

(*c*) in the case of an interest in a partnership, the person disposed of the interest at that time and the proceeds of disposition are determined under section 621 or 627.

"**485.37** Where at any time in a taxation year a corporation disposes of a particular capital property that is a share, an interest in a partnership or a capital interest in a trust, otherwise than by way of a disposition referred to in the second paragraph, the corporation is deemed to have a capital gain from the disposition at that time of another capital property or, where the particular property is a taxable Canadian property, another taxable Canadian property, equal to the amount by which the lesser of the following amounts exceeds the aggregate described in the third paragraph:

(*a*) the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing the adjusted cost base to the corporation of the particular capital property immediately before that time;

(*b*) where the particular capital property is a share, the aggregate of all amounts each of which is

i. a taxable dividend on the share that was received in the specified period relating to the disposition of the share, to the extent that the dividend is deductible in computing taxable income of a holder of the share or a beneficiary under a trust that held the share, or

ii. a capital dividend on the share that was received in the specified period relating to the disposition of the share;

(*c*) where the particular capital property is an interest in a partnership, the aggregate of all amounts each of which is

i. the share of a taxable dividend relating to the interest that was received after 12 July 1994 and in a fiscal period of the partnership that ended in the specified period relating to the disposition of the interest, to the extent that such share is deductible in computing taxable income of a person holding the interest in the partnership or a beneficiary under a trust that held the interest in the partnership, or

ii. the share of a capital dividend relating to the interest that was received after 12 July 1994 and in a fiscal period of the partnership that ended in the specified period relating to the disposition of the interest, or

(*d*) where the particular capital property is a capital interest in a trust, the aggregate of all amounts each of which is such portion of a taxable dividend that was received by the trust in the specified period relating to the disposition of the capital interest and that was deemed by section 666 to have been received in respect of the capital interest, to the extent that such portion was deductible in computing taxable income of a person holding the capital interest.

A disposition to which the first paragraph refers is a disposition to which section 259.3 or 485.35 applies, a disposition to another corporation in circumstances in which section 259.2 applies, or a disposition the proceeds from which are determined under any of sections 259 and 541 to 543.2 or under any provision to which section 259.1 refers other than the second paragraph of section 614.

The aggregate of the amounts to which the first paragraph refers is the aggregate of

(*a*) the amount that would be the corporation's capital gain for the year from the disposition of the particular capital property if this Part were read without reference to subparagraph *b* of the first paragraph of section 234 and section 638; and

(*b*) where the corporation is resident in Canada at the end of the year or is a person not resident in Canada who carries on business in Canada through a fixed place of business at the end of the year, the amount designated under section 485.40 by the corporation in respect of the disposition of the particular capital property.

"**485.38** For the purposes of section 485.37, the specified period relating to a disposition at a particular time of a property by a person is the period that began at or on the later of 12 July 1994 and the last time before the particular time that the person acquired the property and that ended at the particular time.

"**485.39** For the purposes of this section and section 485.38, where, as a consequence of the disposition at a particular time of a property to a person, an amount is deducted under paragraph *b*.1 of section 257 in computing the adjusted cost base of the property after the particular time, the person is deemed to have acquired the property at the time it was last acquired before the particular time and not to have acquired the property at the particular time.

"**485.40** For the purposes of sections 485 to 485.18, 485.35 and 485.37, where at any time in a taxation year a person disposes of a property and the person designates an amount in a prescribed form filed with the person's fiscal return under this Part for the year

(*a*) the person is deemed to have issued a commercial debt obligation at that time that is settled immediately after that time;

(*b*) the lesser of the amount so designated and the amount that would, but for this section, be a capital gain determined in respect of the disposition because of section 485.35 or 485.37 shall be treated as if it were the forgiven amount at the time of the settlement in respect of the obligation referred to in paragraph *a*;

(*c*) the source in connection with which the obligation referred to in subparagraph *a* was issued is deemed to be the business, if any, carried on by the person at the end of the year, and

(*d*) where the person does not carry on a business at the end of the year, the person is deemed to carry on an active business at the

end of the year and the source in connection with which the obligation referred to in subparagraph *a* was issued is deemed to be the business deemed by this paragraph to be carried on.

"**485.41** Where, as a consequence of the disposition at any time by an individual or a partnership of a property that is a qualified farm property of the individual, within the meaning assigned by the first paragraph of section 726.6, a qualified small business corporation share of the individual, within the meaning assigned by the first paragraph of section 726.6.1, or a resource property of the individual or partnership, within the meaning assigned by section 726.20.1, the individual or partnership is deemed by section 485.35 to have a capital gain at that time from the disposition of another property, for the purposes of sections 28, 462.7 to 462.10 and 727 to 737, as they apply for the purposes of sections 726.6 to 726.20.4, the other property is deemed to be a qualified farm property or a qualified small business corporation share, as the case may be, of the individual, or a resource property of the individual or partnership, as the case may be.

"§ 6. — *Transfer agreements*

"**485.42** Where a particular commercial obligation issued by a debtor, other than an obligation deemed by paragraph *a* to have been issued, is settled at a particular time, amounts have been designated by the debtor under sections 485.6 to 485.10 to the maximum extent permitted in respect of the settlement of the particular obligation at the particular time, the debtor and an eligible transferee of the debtor at the particular time file under this subdivision an agreement between them in respect of that settlement, and an amount is specified in that agreement, the following rules apply:

(*a*) except for the purposes of section 485.11, the transferee is deemed to have issued a commercial debt obligation that was settled at the particular time;

(*b*) the specified amount is deemed to be the forgiven amount at the particular time in respect of the obligation referred to in paragraph *a*;

(*c*) subject to paragraph *d*, the obligation referred to in paragraph *a* is deemed to have been issued at the same time, in paragraph *d* referred to as the "time of issue", at which, and in the same circumstances in which, the particular obligation was issued;

(*d*) where the transferee is a corporation the control of which was acquired by a person or group of persons after the time of issue and the transferee and the debtor were not related to each other immediately before that acquisition of control,

i. the obligation referred to in paragraph *a* is deemed to have been issued after that acquisition of control, and

ii. paragraph *b* of the definition of "relevant loss balance" in section 485 and paragraph *b* of sections 485.1 and 485.2 do not apply in respect of that acquisition of control;

(*e*) the source in connection with which the obligation referred to in paragraph *a* was issued is deemed to be the source in connection with which the particular obligation was issued; and

(*f*) for the purposes of sections 346.2 to 346.4, the amount included under section 485.13 in computing the income of the eligible transferee in respect of the settlement of the obligation referred to in paragraph *a* or deducted under paragraph *a* of section 485.15 in respect of such income is deemed to be nil.

"**485.43** This subdivision applies with reference to subparagraphs *a*, *b*, *k*, *m* and *o* of the first paragraph of section 485.3.

"**485.44** For the purposes of this Part, where property is acquired at any time by an eligible transferee as consideration for entering into an agreement with a debtor that is filed under this subdivision

(*a*) where the property was owned by the debtor immediately before that time,

i. the debtor is deemed to have disposed of the property at that time for proceeds equal to the fair market value of the property at that time, and

ii. no amount may be deducted by the debtor in computing the debtor's income as a consequence of the transfer of the property, except any amount arising as a consequence of the application of subparagraph i;

(*b*) the cost at which the property was acquired by the eligible transferee at that time is deemed to be equal to the fair market value of the property at that time;

(*c*) the eligible transferee is not required to add an amount in computing income solely because of the acquisition at that time of the property; and

(*d*) no benefit is deemed to have been conferred on the debtor as a consequence of the debtor entering into an agreement filed under this subdivision.

"**485.45** Subject to section 485.46, a particular agreement between a debtor and an eligible transferee in respect of a commercial obligation issued by the debtor that was settled at any time is deemed not to have been filed under this subdivision

(*a*) where it is not filed with the Minister in a prescribed form

i. on or before the later of

(1) the day on or before which the debtor's fiscal return under this Part is required to be filed for the taxation year or fiscal period, as the case may be, that includes that time, or would be required to be filed if tax under this Part were payable by the debtor for the year, and

(2) the day on or before which the transferee's fiscal return under this Part is required to be filed for the taxation year or fiscal period, as the case may be, that includes that time, or

ii. within the period within which the debtor or the transferee may serve a notice of objection to an assessment of tax payable under this Part for a taxation year or fiscal period, as the case may be, described in subparagraph 1 or 2 of subparagraph i, as the case may be;

(*b*) where it is not accompanied by,

i. where the debtor is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made,

ii. where the debtor is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made,

iii. where the transferee is a corporation and its directors are legally entitled to administer its affairs, a certified copy of their resolution authorizing the agreement to be made, and

iv. where the transferee is a corporation and its directors are not legally entitled to administer its affairs, a certified copy of the document by which the person legally entitled to administer its affairs authorized the agreement to be made; or

(*c*) if an agreement amending the particular agreement has been filed in accordance with this subdivision, except where section 485.47 applies to the particular agreement.

"**485.46** Where a commercial obligation is settled at any time in a fiscal period of a partnership, it shall be assumed for the purposes of section 485.45 that

(*a*) the partnership is required to file a fiscal return under this Part for the fiscal period on or before the latest day on or before which any member of the partnership during the fiscal period is required to file a fiscal return for the taxation year in which that fiscal period ends, or would be required to file such a fiscal return if tax under this Part were payable by the member for that year; and

(*b*) the partnership may serve a notice of objection described in subparagraph ii of paragraph *a* of section 485.45 within each period within which any member of the partnership during the fiscal period may serve a notice of objection to tax payable under this Part for a taxation year in which that fiscal period ends.

"**485.47** Where at any time a corporation becomes related to another corporation and it can reasonably be considered that the main purpose of the corporation becoming related to the other corporation is to enable the corporations to file an agreement under this subdivision, the amount specified in the agreement is deemed to be nil for the purposes of subparagraph *c* of the second paragraph of section 485.13.

"**485.48** Notwithstanding sections 1010 to 1011, the Minister shall under this Part assess or reassess the tax, interest and penalties payable by a taxpayer in order to take into account an agreement filed under this subdivision.

"**485.49** Without affecting the liability of any person under any other provision of this Act, where a debtor and an eligible transferee file an agreement between them under this subdivision in respect of a commercial obligation issued by the debtor that was settled at any time, the debtor is, to the extent of 30% of the amount specified in the agreement, liable to pay

(*a*) where the transferee is a corporation, all taxes payable under this Part by it for taxation years that end in the period that begins at that time and ends 10 calendar years after that time;

(*b*) where the transferee is a partnership, the aggregate of all amounts each of which is the tax payable under this Part by a person for a taxation year that begins or ends in the period referred to in paragraph *a* and that includes the end of a fiscal period of the partnership during which the person was a member of the partnership; and

(*c*) interest and penalties in respect of such taxes.

"**485.50** Where taxes, interest and penalties are payable under this Part by a person for a taxation year and those taxes, interest and penalties are payable by a debtor because of section 485.49, the debtor and the person are solidarily liable to pay those amounts.

"**485.51** Where a debtor and an eligible transferee file an agreement between them under this subdivision in respect of a commercial obligation issued by the debtor that was settled at a particular time,

(*a*) where the debtor is an individual or a corporation, the Minister may at any subsequent time assess the debtor in respect of taxes, interest and penalties for which the debtor is liable because of section 485.49; and

(*b*) where the debtor is a partnership, the Minister may at any subsequent time assess any person who has been a member of the partnership in respect of taxes, interest and penalties for which the partnership is liable because of section 485.49, to the extent that those amounts relate to taxation years of the transferee or, where the transferee is also a partnership, members of that partnership, that end at or after

i. where the person was not a member of the partnership at the particular time, the first subsequent time the person becomes a member of the partnership, and

ii. in any other case, the particular time.

Sections 1000 to 1079 apply, with the necessary modifications, to the assessment made under the first paragraph as if the assessment had been made under Title II of Book IX.

"**485.52** For the purposes of this section and paragraph *b* of sections 485.49 and 485.51, where a partnership is at any time a member of another partnership, each member of the partnership is deemed to be a member of the other partnership at that time.

"DIVISION IV

"MISCELLANEOUS CASES".

(2) Subsection 1 has effect from 22 February 1994, except where it enacts the portion before Division IV of Chapter VI of Title VII of Book III of Part I of the said Act, in which case, subject to subsection 3, it applies to taxation years that end after 21 February 1994. However, except for the purposes of sections 37.0.1, 111.1 and 484 to 484.6 of the said Act, sections 485.4 to 485.52 of the said Act, enacted by subsection 1, do not apply to any obligation settled or extinguished

(1) before 22 February 1994;

(2) after 21 February 1994 under the terms of an agreement in writing entered into on or before that date, or under the terms of any amendment to such an agreement, where that amendment was entered into in writing before 12 July 1994 and the amount of the settlement or extinguishment was not substantially greater than the settlement or extinguishment provided under the terms of the agreement;

(3) before 1 January 1996 pursuant to a restructuring of debt in connection with a proceeding commenced in a court in Canada before 22 February 1994;

(4) before 1 January 1996 in connection with a proposal, or notice of intention to make a proposal, that was filed under the Bankruptcy and Insolvency Act (Revised Statutes of Canada, 1985, chapter B-3) or similar legislation of a country other than Canada, before 22 February 1994; or

(5) before 1 January 1996 in connection with a written offer that was made by, or communicated to, the holder of the obligation before 22 February 1994.

(3) The form referred to in any of sections 485.6 to 485.11 and 485.40 or in paragraph *a* of section 485.45 of the said Act, enacted by subsection 1, is deemed to have been filed, in respect of the settlement of a commercial obligation, within the time prescribed in the section or paragraph, as the case may be, if a copy of a similar form required

to be filed, respectively, under any of subsections 5 and 7 to 11 of section 80, paragraph *a* of subsection 7 of section 80.03 or paragraph *a* of subsection 6 of section 80.04 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), in respect of the settlement of the obligation, is filed with the Minister of Revenue on or before (*insert here the date that is 180 days after the date of assent to this Act*).

143. Section 489 of the said Act is amended by replacing, in paragraph *d*, the words "bill, note, mortgage, hypothec or similar obligation" by the words "debenture, bill, note, obligation secured by mortgage or similar obligation".

144. (1) Section 491 of the said Act, amended by section 132 of chapter 49 of the statutes of 1995, is again amended by replacing paragraph *b* by the following paragraph:

"(*b*) a pension payment, a grant or an allowance in respect of death or injury sustained in the explosion in Halifax in 1917 and received from the Halifax Relief Commission the incorporation of which was confirmed by An Act respecting the Halifax Relief Commission (Statutes of Canada, 1918, chapter 24) or received pursuant to the Halifax Relief Commission Pension Continuation Act (Statutes of Canada, 1974-75-76, chapter 88);".

(2) Subsection 1 has effect from 15 September 1995.

145. (1) Section 518.1 of the said Act is amended

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

"(*g*) a property, other than a capital property or inventory or, where the taxpayer is a financial institution, within the meaning assigned by section 851.22.1, in the year, a mark-to-market property, within the meaning assigned by that section, for the year, that is a security or debt obligation used or held by the taxpayer in the year in the course of carrying on the business of insurance or lending money;";

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

"(*g*.1) where the taxpayer is a financial institution, within the meaning assigned by section 851.22.1, in the year, a specified debt obligation, other than a mark-to-market property, within the meaning assigned by that section, for the year;".

(2) Paragraph 1 of subsection 1 applies in respect of dispositions occurring in taxation years that begin after 31 October 1994.

(3) Paragraph 2 of subsection 1 applies in respect of dispositions that occur after 22 February 1994.

146. (1) Section 524 of the said Act is amended

(1) by replacing, in the French text, paragraphs *a* and *b* by the following paragraphs:

"*a*) soit une immobilisation intangible, relativement à une entreprise du contribuable, dont le produit de l'aliénation serait autrement inférieur au moindre des montants suivants:

i. les 4/3 de la partie admise des immobilisations intangibles du contribuable à l'égard de l'entreprise, immédiatement avant l'aliénation;

ii. le coût du bien pour le contribuable;

iii. la juste valeur marchande du bien au moment de son aliénation;

"*b*) soit un bien amortissable d'une catégorie prescrite dont le produit de l'aliénation serait autrement inférieur au moindre des montants suivants:

i. la partie non amortie du coût en capital, pour le contribuable, de tous les biens de cette catégorie, immédiatement avant l'aliénation;

ii. le coût du bien pour le contribuable;

iii. la juste valeur marchande du bien au moment de son aliénation;";

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

"(*c*) capital property, other than depreciable property of a prescribed class, an inventory, a NISA Fund No. 2 or a property that is eligible property, within the meaning of section 518.1, because of paragraph *g* or *g*.1 of that section, and the amount agreed upon in the election in respect of the property is less than the lesser of

i. the fair market value of the property at the time of the disposition, and

ii. the cost amount to the taxpayer of the property at the time of disposition."

(2) Subsection 1 applies in respect of dispositions that occur after 22 February 1994.

147. (1) Section 524.0.1 of the said Act, amended by section 139 of chapter 49 of the statutes of 1995, is again amended

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

$$\text{"}(A \times \frac{B}{C}) - 2(D - E).\text{"};$$

(2) by replacing subparagraphs *d* and *e* of the second paragraph by the following subparagraphs:

"(*d*) D is the amount that would be included under section 105 in computing the taxpayer's income as a result of the disposition if

i. the amounts determined under subparagraphs *c* and *d* of the second paragraph of section 105.2 were nil, and

ii. paragraph *b* of section 105 were read as follows:

"(*b*) in any other case, the excess shall be included in computing the taxpayer's income from that business for the year.";

"(*e*) E is the amount that would be included under section 105 in computing the taxpayer's income as a result of the disposition if the amount determined under subparagraph *d* of the second paragraph of section 105.2 were nil.";

(3) by striking out subparagraphs *f* and *g* of the second paragraph.

(2) Subsection 1 applies in respect of dispositions of property in respect of a business that occur in a fiscal period of the business that ends after 22 February 1994 otherwise than because of an election under subsection 1 of section 190 of the said Act.

148. Section 528 of the said Act is amended in the French text by replacing, in paragraphs *a* and *c*, the words "à la date de l'aliénation" by the words "au moment de l'aliénation" and, in

paragraph *a*, the words "à la même date" by the words "au même moment".

149. (1) Section 535 of the said Act, amended by section 140 of chapter 49 of the statutes of 1995, is again amended by replacing the portion of paragraph *b* before subparagraph i by the following:

"(*b*) the taxpayer shall, except where the property so disposed of pursuant to section 534 was, immediately after the disposition, an obligation that was payable to the corporation referred to therein by another corporation that is related to the corporation or by a corporation or a partnership that would be related to the corporation if this paragraph applied with reference to subparagraph *k* of the first paragraph of section 485.3, add, in computing the adjusted cost base of all shares of any class of the capital stock of the corporation referred to therein owned by the taxpayer immediately after the disposition, the proportion that the fair market value, immediately after the disposition, of all shares of that class owned by him is of the fair market value, immediately after the disposition, of all shares of the capital stock of the corporation then owned by him, of the amount by which the cost amount to the taxpayer immediately before the disposition of the property disposed of exceeds".

(2) Subsection 1 applies in respect of property disposed of after 12 July 1994, other than property disposed of pursuant to an agreement in writing entered into on or before that date.

150. (1) The said Act is amended by inserting, after section 543.1, the following section:

"**543.2** The following rules apply in respect of each share receivable by a taxpayer as consideration for the disposition referred to in section 541:

(*a*) the taxpayer shall deduct after the disposition, in computing the adjusted cost base to the taxpayer of the share, the amount determined by the formula

$$A \times \frac{B}{C};$$

(*b*) the taxpayer shall add after the disposition, in computing the adjusted cost base to the taxpayer of the share, the amount determined under subparagraph *a* in respect of the acquisition.

For the purposes of the formula in subparagraph *a* of the first paragraph,

(*a*) A is the amount by which

i. the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before the disposition, the adjusted cost base to the taxpayer of the shares disposed of, exceeds

ii. the amount that would be, but for subparagraph *b* of the first paragraph of section 234, the taxpayer's capital gain for the taxation year that includes the time of the disposition, from the disposition of the shares disposed of;

(*b*) B is the fair market value of the share referred to in subparagraph *a* of the first paragraph at the time it was acquired by the taxpayer as consideration for the disposition of the shares disposed of; and

(*c*) C is the fair market value of all shares receivable by the taxpayer in consideration for the disposition at the time referred to in subparagraph *b*."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

151. Section 550.4 of the said Act is replaced by the following section:

"**550.4** For the purposes of sections 21.12 to 21.15, where, following an amalgamation after 16 November 1978, a debt or other obligation, both referred to as a "debt" in this section, of the new corporation is issued in consideration for the disposition of an income bond or income debenture of a predecessor corporation and the terms and conditions of the debt are similar to the terms and conditions of the bond or debenture so disposed of, the debt is deemed to have been issued at the same time as the bond or debenture disposed of and under the same agreement as that under which the bond or debenture disposed of was issued."

152. (1) Section 551 of the said Act is replaced by the following section:

"**551.** This division applies to a taxpayer who, immediately before an amalgamation, owned a capital property that was a share of the capital stock of a predecessor corporation, an option to acquire

such a share, or a bond, a debenture, an obligation secured by mortgage, a note or other similar obligation of such corporation and who received from the new corporation, by reason of such amalgamation, no consideration for the disposition of such capital property other than a property that is, as the case may be, a share of the capital stock of the new corporation, an option to acquire such share, a bond, a debenture, an obligation secured by mortgage, a note or another similar obligation, respectively, of the new corporation.

However, this division does not apply if the taxpayer is himself a predecessor corporation or if the amount payable on the maturity of the bond, debenture, obligation secured by mortgage, note or other similar obligation received as consideration for the capital property disposed of on the amalgamation is not the same as the amount that would have been payable on the maturity of such capital property disposed of."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

153. (1) The said Act is amended by inserting, after section 553.1, the following section:

"**553.2** Where the cost to a taxpayer referred to in section 551 of a property received as consideration for the disposition that is an option or a bond, debenture or note is determined at any time under section 553 and the terms of the bond, debenture or note conferred upon the holder the right to exchange that bond, debenture or note for shares,

(*a*) the taxpayer shall deduct after that time, in computing the adjusted cost base to the taxpayer of the property, the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing, immediately before that time, the adjusted cost base to the taxpayer of the capital property disposed of; and

(*b*) the taxpayer shall add, after that time, in computing the adjusted cost base to the taxpayer of the property, the amount determined under paragraph *a*."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

154. (1) Section 554 of the said Act is replaced by the following section:

"**554.** Where the capital property disposed of that is referred to in section 551 is a share or an option to acquire such a share which is, to the taxpayer, taxable Québec property or taxable Canadian property, as the case may be, the share or the option received as consideration is deemed to be such property, respectively, of the taxpayer."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

155. Section 555.3 of the said Act is amended by replacing, in the French text of subsection 2, the words "le *beneficial ownership*" by the words "la propriété à titre bénéficiaire".

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

"However,

(*a*) in the case of a Canadian resource property or foreign resource property, those proceeds are deemed to be equal to zero; and

(*b*) in the case of a specified debt obligation, within the meaning assigned by section 851.22.1, other than a mark-to-market property, within the meaning assigned by that section, the property is deemed, except for the purposes of section 427.4, not to have been disposed of where the subsidiary was a financial institution, within the meaning assigned by section 851.22.1, in its taxation year in which its property was distributed to the parent on the winding-up and the parent was such a financial institution in its taxation year in which it received the property of the subsidiary on the winding-up."

(2) Subsection 1 applies in respect of windings-up that begin after 22 February 1994.

157. (1) Section 559 of the said Act is amended

(1) by replacing the portion before subparagraph *a* of the second paragraph by the following:

"**559**. Notwithstanding the reference to section 546 in section 564, except where section 546 applies in respect of a property to which subparagraph *b* of the second paragraph of section 557 applies, the cost to the parent of each property of the subsidiary distributed to the parent on the winding-up is deemed, subject to the second paragraph, to be equal

(*a*) in the case of a property that is an interest in a partnership, to the amount that but for this section would be the cost to the parent of the property; and

(*b*) in any other case, to the amount by which the amount that, but for section 427.4, would be deemed by section 557 to be the proceeds of disposition of the property exceeds the amount by which the cost amount to the subsidiary has been reduced because of sections 485 to 485.18 on the winding-up.

Where the property referred to in the first paragraph is a capital property, other than property described in the third paragraph, owned by the subsidiary at the time the parent last acquired control of the subsidiary and thereafter without interruption until such time as it was distributed to the parent on the winding-up, there shall be added to the cost to the parent of the property, as otherwise determined under the first paragraph, the part, determined in accordance with section 560 in respect of the capital property, of the amount by which the aggregate determined under paragraph *b* of section 558 exceeds the aggregate";

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

"(*b*) property transferred to the parent on the winding-up where the transfer is part of a distribution, within the meaning assigned by section 308.0.1, made in the course of a reorganization in which a dividend was received to which section 308.1 would, but for section 308.3, apply,";

(3) by adding "or" at the end of subparagraph *c* of the third paragraph and by adding the following subparagraph after the said subparagraph:

"(*d*) property disposed of by the parent as part of the series of transactions or events that includes the winding-up where, as part of the series,

i. the parent acquired control of the subsidiary, and

ii. the property or any other property acquired by any person in substitution therefor is acquired by

(1) a particular person, other than a specified person, that, at any time during the course of the series and before control of the subsidiary was last acquired by the parent, was a specified shareholder of the subsidiary,

(2) two or more persons, other than specified persons, if a particular person would have been, at any time during the course of the series and before control of the subsidiary was last acquired by the parent, a specified shareholder of the subsidiary if all the shares that were then owned by those two or more persons were owned at that time by the particular person, or

(3) a corporation, other than a specified person, of which a particular person referred to in subparagraph 1 is, at any time during the course of the series and after control of the subsidiary was last acquired by the parent, a specified shareholder or of which a particular person would be, at any time during the course of the series and after control of the subsidiary was last acquired by the parent, a specified shareholder if all the shares then owned by persons, other than specified persons, referred to in subparagraph 2 were owned at that time by the particular person."

(2) Subsection 1 applies in respect of windings-up that begin after 21 February 1994. However,

(1) where the portion of the first paragraph of section 559 of the said Act before subparagraph *a*, enacted by paragraph 1 of subsection 1, applies in respect of windings-up that begin on 22 February 1994, it shall be read without reference to "except where section 546 applies in respect of a property to which subparagraph *b* of the second paragraph of section 557 applies,";

(2) where subparagraphs 2 and 3 of subparagraph ii of subparagraph *d* of the third paragraph of section 559 of the said Act, enacted by paragraph 3 of subsection 1, apply in respect of windings-up that begin before 1 December 1994, they shall be replaced by the following subparagraph:

"(2) or any person, other than a specified person, that at any time during the course of the series did not deal at arm's length with a particular person, other than a specified person, referred to in subparagraph 1."

(3) In addition, where, in respect of windings-up that began after 13 July 1990 but before 22 February 1994, the first paragraph of section 559 of the said Act applies

(1) to taxation years that end before 22 February 1994, it shall be read as if the reference therein to "by reason of subsection 2 of section 485" were a reference to "because of sections 485 to 485.3";

(2) to taxation years that end after 21 February 1994, it shall be read as if the reference therein to "by reason of subsection 2 of section 485" were a reference to "because of sections 485 to 485.18".

158. (1) The said Act is amended by inserting, after section 560.1, the following section:

"**560.1.1** For the purposes of this section and subparagraph *d* of the third paragraph of section 559,

(*a*) "specified person" at a particular time means the parent and each person that would, but for paragraph *b* of section 20, be related to the parent at that time and, for this purpose, a person is deemed not to be related to the parent where it can reasonably be considered that one of the main purposes of one or more transactions or events was to cause the person to be related to the parent so as to prevent a property that was distributed to the parent on the winding-up from being, for the purposes of section 559, a property described in the third paragraph of that section; and

(*b*) where at a particular time a property is owned or acquired by a partnership or a trust,

i. the partnership or the trust, as the case may be, is deemed to be a corporation having one class of issued shares, which shares have full voting rights under all circumstances,

ii. each member of the partnership or beneficiary under the trust, as the case may be, is deemed to own at that time the proportion of the number of issued shares of the capital stock of the corporation that the fair market value at that time of that member's interest in the partnership or that beneficiary's interest in the trust, as the case may be, is of the fair market value at that time of all the members' interests in the partnership or beneficiaries' interests in the trust, as the case may be, and

iii. the property is deemed to have been owned or acquired at that time by the corporation."

(2) Subsection 1 applies in respect of windings-up that begin after 21 February 1994.

159. (1) The said Act is amended by inserting, after section 564.0.1, the following section:

"**564.0.2** For the purposes of section 851.22.15, the subsidiary's taxation year in which its property was distributed to the parent on the winding-up is deemed to have ended immediately before the time when the property was distributed."

(2) Subsection 1 applies in respect of windings-up that begin after 31 October 1994.

160. Section 570 of the said Act is amended, in the French text, by replacing paragraph *b* by the following paragraph:

"*b*) «compte de dividendes en capital» d'une corporation, à un moment donné, désigne le montant déterminé en vertu des règles prescrites à cette fin;".

161. (1) Section 571 of the said Act is replaced by the following section:

"**571.** In this Title, "foreign affiliate", at a particular time, of a taxpayer resident in Canada means a corporation not resident in Canada in which, at that time,

(*a*) the taxpayer's equity percentage is not less than 1%, and

(*b*) the total of the equity percentages in the corporation of the taxpayer and of each person related to the taxpayer, where each such equity percentage is determined as if the determinations, in applying the rule provided in subparagraph *b* of the first paragraph of section 573, were made without reference to the equity percentage of any person in the taxpayer or in any person related to the taxpayer, is not less than 10%.

However, no corporation may be a foreign affiliate of a non-resident-owned investment corporation."

(2) Subsection 1 applies to taxation years of foreign affiliates of taxpayers

(1) that begin after 31 December 1994 unless paragraph 2 is applicable;

(2) that end after 31 December 1994 where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after 22 February 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before 22 February 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 31 December 1994 began at a time that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

162. (1) Section 576.1 of the said Act is replaced by the following section:

"**576.1** In this Title, "excluded property" of a foreign affiliate of a taxpayer means any property that constitutes excluded property of the foreign affiliate for the purposes of subdivision i of Division B of Part I of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th supplement)."

(2) Subsection 1 applies to taxation years of foreign affiliates of taxpayers

(1) that begin after 31 December 1994 unless paragraph 2 is applicable;

(2) that end after 31 December 1994 where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after 22 February 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before 22 February 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 31 December 1994 began at a time that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

163. (1) Section 598 of the said Act is replaced by the following section:

"**598.** For the purposes of this Title, except section 577,

(*a*) any person or partnership having a right under a contract or otherwise, either immediately or in the future and either absolutely

or contingently, to shares of the capital stock of a corporation, is deemed to own those shares, if it can reasonably be considered that the principal purpose for the existence of the right is to permit any person to avoid, reduce or defer the payment of tax or any other amount that would otherwise be payable under this Act; and

(*b*) where a person or partnership acquires or disposes of shares of the capital stock of a corporation, either directly or indirectly, and it can reasonably be considered that the principal purpose for the acquisition or disposition of the shares is to permit a person to avoid, reduce or defer the payment of tax or any other amount that would otherwise be payable under this Act, those shares are deemed not to have been acquired or disposed of, as the case may be, and where the shares were unissued by the corporation immediately prior to the acquisition, those shares are deemed not to have been issued."

(2) Subsection 1 applies to taxation years of foreign affiliates of taxpayers

(1) that begin after 31 December 1994, except where paragraph 2 applies;

(2) that end after 31 December 1994, where there has been a change in the taxation year of a foreign affiliate of a taxpayer in 1994 and after 22 February 1994, unless

(*a*) such foreign affiliate had requested that change in the taxation year in writing before 22 February 1994 from the income taxation authority of the country in which it was resident and subject to income taxation; or

(*b*) the first taxation year of such foreign affiliate that began after 31 December 1994 began at a time that is earlier than the time that that taxation year would have begun if there had not been that change in the taxation year of such foreign affiliate.

164. (1) Section 601 of the said Act is amended by replacing the words "subsection 1 of section 618" in the first paragraph by the words "section 618".

(2) Subsection 1 applies from the taxation year 1985.

165. (1) Section 603 of the said Act, amended by section 47 of chapter 1 of the statutes of 1995, is replaced by the following section:

"**603.** Where a taxpayer who was a member of a partnership during a fiscal period has, for the purpose of computing the taxpayer's income from the partnership for the fiscal period, made or executed an agreement, a designation or an election under or in respect of the regulations made under section 104 or any of sections 96, 110.1, 156, 180 to 182, 184, 199, 215, 216, 230, 279, 280.3, 299, 485.6, 485.9, 485.10, 485.11, 485.42 to 485.52 and 614, and where the agreement, designation or election, as the case may be, would, but for this section, be valid, the following rules apply:

(*a*) the agreement, designation or election is not valid unless it was made or executed on behalf of the taxpayer and each other member of the partnership during the fiscal period and the taxpayer had authority to act for the partnership;

(*b*) if the agreement, designation or election is valid because of paragraph *a*, each other member of the partnership during the fiscal period is deemed to have made or executed the agreement, designation or election, as the case may be;

(*c*) notwithstanding paragraph *a*, any agreement, designation or election deemed to have been made or executed, as the case may be, by a member under paragraph *b* is deemed to be a valid agreement, designation or election made or executed by that member."

(2) Subsection 1, where it replaces the portion of section 603 of the said Act before paragraph *a*, applies to fiscal periods that end after 2 December 1992. However, where that portion, enacted by subsection 1, applies to fiscal periods that end before 22 February 1994, it shall be read as follows:

"**603.** Where a taxpayer who was a member of a partnership during a fiscal period has, for the purpose of computing the taxpayer's income from the partnership for the fiscal period, made an election provided for by the regulations made under section 104 or by any of sections 96, 110.1, 156, 180 to 182, 184, 199, 215, 216, 230, 279, 280.3, 299 and 614, and where the election would, but for this section, be valid, the following rules apply:".

(3) Subsection 1, where it replaces paragraphs *a* to *c* of section 603 of the said Act, applies to fiscal periods that end after 21 February 1994.

166. (1) Section 613.3 of the said Act, amended by section 46 of chapter 63 of the statutes of 1995, is again amended by replacing paragraph *a* by the following paragraph:

"(*a*) the aggregate of all amounts each of which is an amount owing at the particular time to the partnership or to a person or partnership with whom the partnership does not deal at arm's length by the taxpayer or by a person or partnership with whom the taxpayer does not deal at arm's length, other than any such amount deducted under subparagraph i.3 of paragraph *l* of section 257 in computing the adjusted cost base to the taxpayer of the taxpayer's interest in the partnership at that time; and".

(2) Subsection 1 has effect from 27 September 1994.

167. (1) Section 615 of the said Act is amended by replacing paragraph *b* by the following paragraph:

"(*b*) in computing, after the disposition, the adjusted cost base to him of his interest in the partnership immediately after the disposition, he shall, except where the property so disposed of was, immediately after the disposition, an obligation that was payable to the partnership by a corporation that is related to the taxpayer or by a corporation or partnership that would be related to the taxpayer if this paragraph applied with reference to subparagraph *k* of the first paragraph of section 485.3, add the amount by which the cost amount to him, immediately before the disposition, of the property exceeds the proceeds of the disposition."

(2) Subsection 1 applies in respect of property disposed of after 12 July 1994, other than property disposed of pursuant to an agreement in writing entered into on or before that date.

168. (1) Section 618 of the said Act is replaced by the following section:

"**618.** For the purposes of this Part, where, but for this section, at any time after 31 December 1971 a partnership would be dissolved, the following rules apply:

(*a*) until such time as all the partnership property and any property substituted therefor has been distributed to the persons entitled by law to receive it, the partnership is deemed to continue to exist, and each person who was a member of the partnership is deemed to still be a member of the partnership;

(*b*) the right of each such person to share in that property is deemed to be an interest in the partnership; and

(*c*) notwithstanding section 261, where at the end of a fiscal period of the partnership, in respect of an interest in the partnership, the aggregate of all amounts required by section 257, to be deducted in computing the adjusted cost base to a taxpayer of the interest at that time exceeds the aggregate of the cost to the taxpayer of the interest determined for the purpose of computing the adjusted cost base to the taxpayer of that interest at that time and all amounts required by section 255 to be added to the cost to the taxpayer of the interest in computing the adjusted cost base to the taxpayer of that interest at that time, the amount of the excess is deemed to be a gain of the taxpayer for the taxpayer's taxation year that includes that time from a disposition at that time of that interest and, for the purposes of Title VI.5.1 of Book IV, that interest is deemed to have been disposed of by the taxpayer at that time."

(2) Subsection 1 applies from the taxation year 1985. However, where paragraph *c* of section 618 of the said Act, enacted by subsection 1, applies

(1) to the taxation years 1985 to 1991, it shall be read as if the reference therein to "Title VI.5.1" were a reference to "Title VI.5";

(2) to the taxation years 1992 to 1995, it shall be read as if the reference therein to "Title VI.5.1" were a reference to "Titles VI.5 and VI.5.1".

169. (1) Section 624.1 of the said Act is amended by replacing paragraph *c* by the following paragraph:

"(*c*) for the purpose of determining after the particular time the amount deemed under subparagraph ii of paragraph *a* of section 105 to be the person's taxable capital gain or the amount to be included under the said subparagraph ii or paragraph *b* of that section in computing the person's income, as the case may be, in respect of any subsequent disposition of the property of the business, the amount determined under subparagraph 2 of subparagraph i of paragraph *b* of section 107 is deemed to be equal to that person's share of the amount determined under the said subparagraph 2 in respect of the partnership's business immediately before the particular time."

(2) Subsection 1 applies in respect of acquisitions of property that occur after 22 February 1994.

170. (1) Section 630.1 of the said Act is amended by replacing paragraph *b* by the following paragraph:

"(*b*) for the purpose of determining after the particular time the amount deemed under subparagraph ii of paragraph *a* of section 105 to be the person's taxable capital gain or the amount to be included under the said subparagraph ii or paragraph *b* of that section in computing the person's income, as the case may be, in respect of any subsequent disposition of the property of the business, the amount determined under subparagraph 2 of subparagraph i of paragraph *b* of section 107 is deemed to be equal to the amount determined under the said subparagraph 2 in respect of the partnership's business immediately before the particular time."

(2) Subsection 1 applies in respect of acquisitions of property that occur after 22 February 1994.

171. (1) Section 642 of the said Act is replaced by the following section:

"**642.** Paragraph *c* of section 618 applies to the residual interest of a taxpayer at the end of a fiscal period of the partnership."

(2) Subsection 1 applies from the taxation year 1985.

172. (1) Section 647 of the said Act is amended by adding, after subparagraph *c* of the third paragraph, the following subparagraph:

"(*d*) a trust governed by an eligible funeral arrangement."

(2) Subsection 1 applies from the taxation year 1993.

173. (1) Section 649 of the said Act is amended

(1) by replacing subparagraphs ii and iii of paragraph *b* by the following subparagraphs:

"ii. its only undertaking is

(1) the investing of its funds in property, other than real property,

(2) the acquiring, holding, maintaining, improving, leasing or managing of any real property that is capital property of the trust, or

(3) any combination of the activities described in subparagraphs 1 and 2;

"iii. at least 80% of its property consists of any combination of shares, bonds, obligations secured by mortgage, marketable securities, cash, real property situated in Canada or rights to or interests in any rental or royalty, computed by reference to the volume or value of production from a natural accumulation of petroleum or natural gas in Canada, from an oil or gas well in Canada, or from a mineral resource in Canada;";

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

"v. not more than 10% of its property consists of bonds, securities or shares of the capital stock of any one corporation or debtor other than the government of a province, the Government of Canada or a Canadian municipality;";

(3) by striking out subparagraph vi of paragraph *b*;

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

"(*c*) where the trust would not be a unit trust at the particular time if subparagraph iii of paragraph *b* were read without reference to the words "real property situated in Canada", the units of the trust are listed at any time in the year that includes the particular time or in the following taxation year on a prescribed stock exchange in Canada."

(2) Subsection 1 applies from the taxation year 1994.

174. (1) Sections 668.1 and 668.2 of the said Act are replaced by the following sections:

"**668.1** Where, for the purposes of section 668, a personal trust designates an amount in respect of a beneficiary in respect of its net taxable capital gains for a taxation year, in this section and section 668.2 referred to as the "designation year", the following rules apply:

(*a*) the trust shall in its fiscal return under this Part for the designation year designate an amount in respect of its eligible taxable capital gains for the designation year in respect of the beneficiary equal to the amount determined in respect of the beneficiary under each of subparagraphs i and ii of paragraph *b*;

(*b*) the beneficiary is deemed, for the purposes of sections 28, 462.8 to 462.10 and 727 to 737 as they apply for the purposes of

Title VI.5 of Book IV, to have a taxable capital gain for the beneficiary's taxation year in which the designation year ends:

i. from a disposition of capital property that is qualified farm property of the beneficiary equal to the amount determined by the formula

$$\frac{A \times B \times C}{D \times E}, \text{ or}$$

ii. from a disposition of capital property that is a qualified small business corporation share of the beneficiary equal to the amount determined by the formula

$$\frac{A \times B \times F}{D \times E}; \text{ and}$$

(*c*) for the purposes of Title VI.5 of Book IV, the capital property referred to in paragraph *b* is deemed to have been disposed of by the beneficiary in the beneficiary's taxation year in which the designation year ends.

"**668.2** For the purposes of the formulas in subparagraphs i and ii of paragraph *b* of section 668.1,

(*a*) A is the lesser of

i. the amount by which the aggregate of amounts designated under section 668 for the designation year by the trust exceeds the aggregate of amounts designated under section 663.2 for the designation year by the trust, and

ii. the trust's eligible taxable capital gains for the designation year;

(*b*) B is the amount by which the amount designated under section 668 for the designation year by the trust in respect of the beneficiary exceeds the amount designated under section 663.2 for the year by the trust in respect of the beneficiary;

(*c*) C is the amount that would be determined under paragraph *b* of section 28 for the designation year in respect of the trust's capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties of the trust disposed of by it after 31 December 1984;

(*d*) D is the aggregate of all amounts each of which is the amount determined under paragraph *b* for the designation year in respect of a beneficiary under the trust;

(*e*) E is the aggregate of the amounts determined under paragraphs *c* and *f* for the designation year in respect of the beneficiary; and

(*f*) F is the amount that would be determined under paragraph *b* of section 28 for the designation year in respect of the trust's capital gains and capital losses if the only properties referred to in that paragraph were qualified small business corporation shares of the trust, other than qualified farm property, disposed of by it after 17 June 1987."

(2) Subsection 1 applies to trusts' taxation years that begin after 22 February 1994 and, where sections 668.1 and 668.2 of the said Act, replaced by subsection 1, apply to a trust's taxation year that includes 22 February 1994,

(1) the portion of section 668.1 before paragraph *a* shall be read as follows:

"**668.1** Where, for the purposes of section 668, a trust, other than a mutual fund trust, designates an amount in respect of a beneficiary in respect of its net taxable capital gains for a taxation year, in this section and section 668.2 referred to as the "designation year", the following rules apply:";

(2) paragraph *c* of section 668.1 shall be read as follows:

"(*c*) for the purposes of Title VI.5 of Book IV, each taxable capital gain referred to in paragraph *b* of a beneficiary is deemed to be a taxable capital gain of the beneficiary for the beneficiary's taxation year in which the designation year ends from the disposition of a property that occurred on 22 February 1994.";

(3) paragraphs *a* to *c* of section 668.2 shall be read as follows:

"(*a*) A is the lesser of

i. the amount by which the aggregate of amounts designated under section 668 for the designation year by the trust exceeds the aggregate of amounts designated under section 663.2 for the designation year by the trust, and

ii. the trust's eligible taxable capital gains for the designation year;

"(*b*) B is the amount by which the amount designated under section 668 for the designation year by the trust in respect of the beneficiary exceeds the amount designated under section 663.2 for the year by the trust in respect of the beneficiary;

"(*c*) C is the aggregate of all amounts each of which is the amount determined under paragraph *b* for the designation year in respect of a beneficiary under the trust;".

175. (1) Section 668.4 of the said Act, amended by section 153 of chapter 49 of the statutes of 1995, is again amended

(1) by striking out the definitions of "non-qualifying immovable property" and "eligible immovable property gain";

(2) by replacing the definition of "eligible taxable capital gains" by the following definition:

" "eligible taxable capital gains" of a personal trust for a taxation year means the lesser of

(*a*) its annual gains limit, within the meaning assigned by the first paragraph of section 726.6, for the year; and

(*b*) the amount by which its cumulative gains limit, within the meaning assigned by the first paragraph of section 726.6, at the end of the year, exceeds the aggregate of all amounts designated under sections 668.1 and 668.2 by the trust in respect of beneficiaries for taxation years before that year.";

(3) by striking out the definition of "eligible immovable property loss".

(2) Subsection 1 applies to taxation years that begin after 22 February 1994.

176. (1) Section 686 of the said Act, amended by section 156 of chapter 49 of the statutes of 1995, is again amended by replacing subsection 1 by the following subsection:

"**686.** (1) In computing a taxpayer's taxable capital gain from the disposition of property that is all or any part of the taxpayer's capital interest in a personal trust or a prescribed trust, the adjusted

cost base to the taxpayer of such property immediately before the disposition is deemed to be the greater of its adjusted cost base, otherwise determined, to the taxpayer immediately before that time and the amount by which its cost amount to the taxpayer immediately before that time exceeds the aggregate of all amounts deducted under paragraph *b*.1 of section 257 in computing its adjusted cost base to the taxpayer immediately before the disposition, and, in computing an allowable capital loss, the adjusted cost base is the adjusted cost base otherwise determined."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

177. (1) Section 688 of the said Act is amended by replacing subparagraph iii of paragraph *e* by the following subparagraph:

"iii. for the purpose of determining after the particular time the amount deemed under subparagraph ii of paragraph *a* of section 105 to be the taxpayer's taxable capital gain or the amount to be included under the said subparagraph ii or paragraph *b* of that section in computing the taxpayer's income, as the case may be, in respect of any subsequent disposition of the property of the business, there shall be added to the amount otherwise determined under subparagraph 2 of subparagraph i of paragraph *b* of section 107, the proportion of the amount determined under the said subparagraph 2 in respect of the business of the trust immediately before the particular time, that the fair market value, immediately before the particular time, of the intangible capital property is of the fair market value, immediately before the particular time, of all the intangible capital property of the trust in respect of the business."

(2) Subsection 1 applies in respect of distributions of property that occur after 22 February 1994.

178. (1) The said Act is amended by inserting, after section 692, the following:

"CHAPTER IX

"MINING RECLAMATION TRUSTS

"**692.1** Where a taxpayer is a beneficiary under a mining reclamation trust in a taxation year of the trust, in this section referred to as the "trust's year", that ends in a particular taxation year of the taxpayer,

(*a*) subject to paragraph *b*, the taxpayer's income, non-capital loss and net capital loss for the particular year shall be computed as if the amount of the income or loss of the trust for the trust's year from any source in Canada or from sources in another place were the income or loss of the taxpayer from that source in Canada or from sources in that other place for the particular year, to the extent of the portion thereof that can reasonably be considered to be the taxpayer's share of such income or loss; and

(*b*) where the taxpayer is not resident in Canada at any time in the particular year and an income or loss described in paragraph *a* or an amount to which paragraph *z* or *z*.1 of section 87 applies would not otherwise be included in computing the taxpayer's taxable income or taxable income earned in Canada, as the case may be, notwithstanding any other provision of this Act, the income, the loss or the amount shall be attributed to the carrying on of business in Canada by the taxpayer through a fixed place of business located in the province in which the mine to which the trust relates is maintained.

"**692.2** Where property of a mining reclamation trust is transferred at any time to a beneficiary under the trust in satisfaction of all or any part of the beneficiary's interest as a beneficiary under the trust,

(*a*) the trust is deemed to have disposed of the property at that time and to have received proceeds of disposition equal to its fair market value at that time; and

(*b*) the beneficiary is deemed to have acquired the property at that time at a cost equal to its fair market value at that time.

"**692.3** Where a trust ceases at a particular time to be a mining reclamation trust,

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

(*b*) the trust is deemed to dispose immediately before the time immediately preceding the particular time of each property it holds immediately before the particular time and to receive proceeds of disposition equal to its fair market value at the particular time, and to reacquire at the particular time each such property at a cost equal to that fair market value;

(*c*) each beneficiary under the trust immediately before the particular time is deemed to receive at that time from the trust, as a beneficiary under a mining reclamation trust, an amount equal to the portion of the fair market value of the properties of the trust at the particular time that can reasonably be considered to be the beneficiary's interest in the trust; and

(*d*) each beneficiary under the trust is deemed to acquire at the particular time an interest in the trust at a cost equal to the amount deemed by paragraph *c* to be received by the beneficiary from the trust.

"**692.4** Sections 661 to 663, 665, 665.1, 684 to 689, 690.0.1 and 691 to 692 do not apply to a trust with respect to a taxation year during which it is a mining reclamation trust."

(2) Subsection 1 applies to taxation years that end after 22 February 1994.

179. (1) Section 726.6 of the said Act, amended by section 164 of chapter 49 of the statutes of 1995, is again amended by replacing subparagraph 2 of subparagraph i of subparagraph *b* of the first paragraph by the following subparagraph:

"(2) the amount that would be determined in respect of the individual for the year under paragraph *b* of section 28 in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by the individual after 31 December 1984 and qualified small business corporation shares disposed of by the individual after 17 June 1987, and".

(2) Subsection 1 applies from the taxation year 1994. However, where subparagraph 2 of subparagraph i of subparagraph *b* of the first paragraph of section 726.6 of the said Act, enacted by subsection 1, applies to the taxation years 1994 and 1995, it shall be read as follows:

"(2) the amount that would be determined in respect of the individual for the year under paragraph *b* of section 28 in respect of capital gains and capital losses if the only properties referred to in that paragraph were properties disposed of by the individual after 31 December 1984 and, except where the properties were at the time of the disposition qualified farm properties or qualified small business corporation shares of the individual, before 23 February 1994, if no amount were included under paragraph *b* of section 28 in

respect of a taxable capital gain of the individual that resulted from an election made under section 726.9.2 by a personal trust unless the individual was a beneficiary under the trust on 22 February 1994, and that portion of such a taxable capital gain that can reasonably be regarded as being in respect of an amount that is included in computing the individual's income because of an interest in the trust that was acquired by the individual after 22 February 1994, if, in determining the individual's taxable capital gain for the taxation year 1995 from the disposition of a property, other than a qualified farm property or qualified small business corporation share, this Act were read without reference to the second paragraph of section 234 and subparagraph ii of paragraph *a* of section 279, except for the purpose of determining the individual's share of a taxable capital gain of a partnership for its fiscal period that includes 22 February 1994 or a taxable capital gain of the individual resulting from a designation made under Chapter V of Title XII of Book III by a trust for its taxation year that includes that day, and if the individual's capital gains and capital losses for the year from dispositions of non-qualifying immovable property of the individual were equal to the individual's eligible immovable property gains and eligible immovable property losses, respectively, for the year from those dispositions, and".

180. (1) Section 726.6.1 of the said Act, amended by section 165 of chapter 49 of the statutes of 1995, is again amended

(1) by striking out the definitions of "eligible immovable property gain", "eligible immovable property loss" and "non-qualifying immovable property" in the first paragraph;

(2) by striking out the fifth and sixth paragraphs.

(2) Paragraph 1 of subsection 1 and paragraph 2 of subsection 1, where it strikes out the fifth paragraph of section 726.6.1 of the said Act, have effect from 1 January 1996.

(3) Paragraph 2 of subsection 1, where it strikes out the sixth paragraph of section 726.6.1 of the said Act, applies from the taxation year 1996.

181. Section 726.7 of the said Act is amended by replacing paragraph *d* by the following paragraph:

"(*d*) the amount that would be determined in respect of the individual for the year under paragraph *b* of section 28 in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by the

individual after 31 December 1984 otherwise, where the year is the taxation year 1994 or 1995, than because of an election made under section 726.9.2."

182. Section 726.7.1 of the said Act is amended by replacing paragraph *d* by the following paragraph:

"(*d*) the amount that would be determined in respect of the individual for the year under paragraph *b* of section 28, other than an amount included in determining the amount in respect of the individual under paragraph *d* of section 726.7, in respect of capital gains and capital losses if the only properties referred to in paragraph *b* of section 28 were qualified small business corporation shares disposed of by the individual after 17 June 1987 otherwise, where the year is the taxation year 1994 or 1995, than because of an election made under section 726.9.2."

183. (1) Section 726.8 of the said Act is repealed.

(2) Subsection 1 applies from the taxation year 1996 and, where section 726.8 of the said Act, repealed by subsection 1, applies to the taxation years 1994 and 1995, the portion of that section before paragraph *a* shall be read as follows:

"**726.8** An individual other than a trust, in computing his taxable income for a taxation year, may deduct, if he was resident in Canada throughout the year and disposed of property other than property the capital gain or capital loss from the disposition of which is included in determining an amount under paragraph *d* of section 726.7 or 726.7.1, such amount as the individual may claim, not exceeding the least of".

184. (1) Section 726.9 of the said Act is amended by replacing the portion before paragraph *a* by the following:

"**726.9** Notwithstanding sections 726.7 and 726.7.1, the total amount that may be deducted under this Title in computing an individual's taxable income for a taxation year shall not exceed the amount by which $375,000 exceeds the aggregate of the following amounts:".

(2) Subsection 1 applies from the taxation year 1996.

185. (1) Section 726.9.1 of the said Act is replaced by the following section:

"**726.9.1** For the purposes of subparagraph 1 of subparagraph iii of paragraph *a* of section 726.7, amounts deducted under this Title in computing an individual's taxable income for a taxation year that ended before 1 January 1990 are deemed to have first been deducted in respect of amounts that were included in computing the individual's income under this Part for the year because of subparagraph ii of paragraph *a* of section 105 before being deducted in respect of any other amounts that were included in computing the individual's income under this Part for the year."

(2) Subsection 1 applies from the taxation year 1996.

186. (1) The said Act is amended by inserting, after section 726.9.1, the following:

"CHAPTER II.1

"ELECTION FOR PROPERTY OWNED BY AN INDIVIDUAL ON 22 FEBRUARY 1994

"**726.9.2** Subject to section 726.9.3, where an individual, other than a trust, or a personal trust, each of which is referred to in this chapter as the "elector", elects in prescribed form to have the provisions of this section apply in respect of

(*a*) a capital property, other than an interest in a trust referred to in any of paragraphs *b* to *f* of the definition of "flow-through entity" in the first paragraph of section 251.1, owned at the end of 22 February 1994 by the elector, the property is deemed, except for the purposes of sections 48 to 58 and 218 to 220 and paragraph *a* of section 725.3,

i. to have been disposed of by the elector at that time for proceeds of disposition equal to the greater of

(1) the amount by which the amount designated in respect of the capital property in the election exceeds the amount that would, if the disposition were a disposition for the purposes of sections 48 to 58 or 218 to 220, be included under those sections as a result of the disposition in computing the income of the elector, and

(2) the adjusted cost base to the elector of the capital property immediately before the disposition, and

ii. to have been reacquired by the elector immediately after that time at a cost equal to

(1) where the capital property is an interest in or a share of the capital stock of a flow-through entity, within the meaning assigned by section 251.1, of the elector, the cost to the elector of the property immediately before the disposition referred to in subparagraph i,

(2) where an amount would, if the disposition referred to in subparagraph i were a disposition for the purposes of sections 48 to 58 or 218 to 220, be included under those sections as a result of the disposition in computing the income of the elector, the lesser of the elector's proceeds of disposition of the property determined under subparagraph i, and the amount determined by the formula

A – B,

(3) in any other case, the lesser of the amount designated in respect of the capital property in the election, and the amount by which the fair market value of the property at that time exceeds the amount determined by the formula

C – 1.1D;

(*b*) a business carried on by the elector, otherwise than as a member of a partnership, on 22 February 1994,

i. the amount that would be determined under subparagraph ii of paragraph *a* of section 105 at the end of 22 February 1994 in respect of the elector if the fiscal period of the business ended at that time and all the intangible capital property owned at that time by the elector in respect of the business were disposed of by the elector immediately before that time for proceeds of disposition equal to the amount designated in the election in respect of the business is deemed to be a taxable capital gain of the elector for the taxation year in which the fiscal period of the business that includes that time ends from the disposition of a particular property, and

ii. for the purposes of subparagraph *b* of the first paragraph of section 106.1, the amount of the taxable capital gain determined under subparagraph i is deemed to have been claimed, by a person who does not deal at arm's length with each particular person or partnership that does not deal at arm's length with the elector, as a deduction under this Title in respect of a disposition at that time of the intangible capital property; and

(*c*) an interest owned at the end of 22 February 1994 by the elector in a trust referred to in any of paragraphs *b* to *f* of the definition of "flow-through entity" in the first paragraph of section

251.1, the elector is deemed to have a capital gain for the year from the disposition on 22 February 1994 of property equal to the lesser of

i. the total of amounts designated in elections made under this section by the elector in respect of interests in the trust, and

ii. 4/3 of the amount that would, if all of the trust's capital properties were disposed of at the end of 22 February 1994 for proceeds of disposition equal to their fair market value at that time and that portion of the trust's capital gains and capital losses or its net taxable capital gains, as the case may be, arising from the dispositions as can reasonably be considered to represent the elector's share thereof were allocated to or designated in respect of the elector, be the increase in the annual gains limit of the elector for the 1994 taxation year as a result of the dispositions.

For the purposes of the formulas in subparagraphs 2 and 3 of subparagraph ii of subparagraph *a* of the first paragraph,

(*a*) A is the amount by which the fair market value of the capital property at the end of 22 February 1994 exceeds the amount that would, if the disposition referred to in subparagraph i of subparagraph *a* of the first paragraph were a disposition for the purposes of sections 48 to 58 or 218 to 220, be included under those sections as a result of the disposition in computing the income of the elector; and

(*b*) B is the amount that would be determined by the formula in subparagraph 3 of subparagraph ii of subparagraph *a* of the first paragraph in respect of the capital property if that subparagraph 3 applied to the property; and

(*c*) C is the amount designated in respect of the capital property in the election; and

(*d*) D is the fair market value of the capital property at the end of 22 February 1994.

For the purposes of this Title, the elector is deemed to have disposed of the particular property referred to in subparagraph i of subparagraph *b* of the first paragraph at the end of 22 February 1994.

"**726.9.3** Section 726.9.2 applies to a property or to a business of an elector only if

(*a*) where the elector is an individual, other than a trust,

i. its application to all of the properties in respect of which elections were made under that section by the elector or a spouse of the elector and to all the businesses in respect of which elections were made under that section by the elector

(1) would result in an increase in the amount deductible under section 726.8 in computing the taxable income of the elector or a spouse of the elector, and

(2) in respect of each of the taxation years 1994 and 1995, where no part of the taxable capital gain resulting from an election by the elector is included in computing the income of a spouse of the elector, would not result in the amount determined under paragraph *a* of section 726.8 for the year in respect of the elector being exceeded by the lesser of the amounts determined under paragraphs *b* and *c* of section 726.8 for the year in respect of the elector, and where no part of the taxable capital gain resulting from an election by the elector is included in computing the income of the elector, would not result in the amount determined under paragraph *a* of section 726.8 for the year in respect of a spouse of the elector being exceeded by the lesser of the amounts determined under paragraphs *b* and *c* of section 726.8 for the year in respect of the spouse,

ii. the amount designated in the election in respect of the property exceeds 11/10 of its fair market value at the end of 22 February 1994, or

iii. the amount designated in the election in respect of the business is $1.00 or exceeds 11/10 of the fair market value at the end of 22 February 1994 of all the intangible capital property owned at that time by the elector in respect of the business; and

(*b*) where the elector is a personal trust, its application to all of the properties in respect of which an election was made under that section 726.9.2 by the elector would result in

i. an increase in the amount deemed by section 668.1 to be a taxable capital gain of an individual, other than a trust, who was a beneficiary under the trust at the end of 22 February 1994 and resident in Canada at any time in the individual's taxation year in which the trust's taxation year that includes that day ends, or

ii. where section 726.19 applies to the trust for the trust's taxation year that includes 22 February 1994, an increase in the

amount deductible under that section in computing the trust's taxable income for that year.

"**726.9.4** Where an elector is deemed by section 726.9.2 to have disposed of a non-qualifying immovable property,

(*a*) in computing the elector's taxable capital gain from the disposition, there shall be deducted an amount equal to 3/4 of the amount by which the elector's capital gain from the disposition exceeds the elector's eligible immovable property gain from the disposition; and

(*b*) in determining at any time after the disposition the capital cost to the elector of the property, where it is a depreciable property, and the adjusted cost base to the elector of the property in any other case, other than where the property was at the end of 22 February 1994 an interest in or a share of the capital stock of a flow-through entity within the meaning assigned by the first paragraph of section 251.1, there shall be deducted 4/3 of the amount determined under paragraph *a* in respect of the property.

"**726.9.5** Where an elector is deemed by subparagraph *a* of the first paragraph of section 726.9.2 to have reacquired a property, there shall be deducted in computing the adjusted cost base to the elector of the property at any time after the reacquisition the amount by which

(*a*) the amount by which the amount designated in the election under section 726.9.2 in respect of the property exceeds the product obtained by multiplying 1.1 by the fair market value of the property at the end of 22 February 1994, exceeds

(*b*) where the property is an interest in or a share of the capital stock of a flow-through entity, within the meaning assigned by the first paragraph of section 251.1, 4/3 of the taxable capital gain that would have resulted from the election if the amount designated in the election were equal to the fair market value of the property at the end of 22 February 1994 and, in any other case, the fair market value of the property at the end of 22 February 1994.

"**726.9.6** Where an elector is deemed by section 726.9.2 to have disposed of an interest in a partnership, in computing the adjusted cost base to the elector of the interest immediately before the disposition

(*a*) there shall be added the amount determined by the formula

$$(A - B) \times \frac{C}{D} + E; \text{ and}$$

(*b*) there shall be deducted the amount determined by the formula

$$(B - A) \times \frac{C}{D} - E.$$

For the purposes of the formulas in subparagraphs *a* and *b* of the first paragraph,

(*a*) A is the aggregate of all amounts each of which is the elector's share of the partnership's income, other than a taxable capital gain from the disposition of a property, from a source in Canada or from sources in another place for its fiscal period that includes 22 February 1994, in this paragraph referred to as the "particular period";

(*b*) B is the aggregate of all amounts each of which is the elector's share of the partnership's loss, other than an allowable capital loss from the disposition of a property, from a source in Canada or from sources in another place for the particular period;

(*c*) C is the number of days in the period that begins the first day of the particular period and ends on 22 February 1994;

(*d*) D is the number of days in the particular period; and

(*e*) E is 4/3 of the amount that would be determined under paragraph *b* of section 28 in computing the elector's income for the taxation year in which the particular period ends if the elector had no taxable capital gains or allowable capital losses other than those arising from dispositions of property by the partnership that occurred before 23 February 1994.

"**726.9.7** An election made under section 726.9.2 shall be filed with the Minister

(*a*) where the elector is an individual, other than a trust,

i. if the election is in respect of a business of the elector, on or before the day on or before which the individual is required to file

his fiscal return under section 1000 for the taxation year in which the fiscal period of the business that includes 22 February 1994 ends, and

ii. in any other case, on or before the day on or before which the individual is required to file his fiscal return under section 1000 for the taxation year 1994; and

(*b*) where the elector is a personal trust, on or before 31 March of the calendar year following the calendar year in which the taxation year of the trust that includes 22 February 1994 ends.

"**726.9.8** Subject to section 726.9.11, an elector may revoke an election made under section 726.9.2 by filing a written notice of the revocation with the Minister on or before 31 December 1997.

"**726.9.9** Where an election made under section 726.9.2 is filed with the Minister after the time prescribed in section 726.9.7, it is deemed for the purposes of this Title, except section 726.9.12, to have been filed within the time prescribed if it is filed within two years after the expiry of the time limit and if an estimate of the penalty under section 726.9.12 is paid by the elector.

"**726.9.10** Subject to section 726.9.11, an election made under section 726.9.2 in respect of a property or a business is deemed to be amended and the election, as amended, is deemed to have been filed within the time prescribed in section 726.9.7 if an amended election in prescribed form in respect of the property or the business is filed with the Minister on or before 31 December 1997 and an estimate of the penalty under section 726.9.12 is paid by the elector.

"**726.9.11** An election made under section 726.9.2 cannot be revoked or amended where the amount designated in the election exceeds 11/10 of, if the election is in respect of a property, the fair market value of the property at the end of 22 February 1994, and, if the election is in respect of a business, the fair market value at the end of 22 February 1994 of all the intangible capital property owned at that time by the elector in respect of the business.

"**726.9.12** The penalty in respect of an election to which section 726.9.9 or 726.9.10 applies is the amount determined by the formula

$$\frac{A \times B}{300}.$$

For the purposes of the formula in the first paragraph,

(*a*) A is the number of months each of which is a month all or part of which is during the period that begins the day after the expiry of the time prescribed in section 726.9.7 and ends the day the election to which section 726.9.9 applies or the amended election to which section 726.9.10 applies, as the case may be, is filed with the Minister; and

(*b*) B is the amount by which the aggregate of all amounts each of which is the taxable capital gain of the elector or a spouse of the elector that results from the application of section 726.9.2 to the property or the business in respect of which the election is made exceeds, where section 726.9.10 applies to the election, the aggregate of all amounts each of which would, if this Act were read without reference to sections 726.9.3 and 726.9.10, be the taxable capital gain of the elector or a spouse of the elector that resulted from the application of section 726.9.2 to the property or the business.

"**726.9.13** The Minister shall, with all due dispatch, examine each election to which section 726.9.9 or 726.9.10 applies, assess the penalty payable and send a notice of assessment to the elector who made the election, and the elector shall pay forthwith to the Minister the unpaid balance of the penalty."

(2) Subsection 1 applies from the taxation year 1994.

187. (1) Section 726.10 of the said Act is replaced by the following section:

"**726.10** For the purposes of sections 726.7 and 726.7.1, an individual is deemed to have been resident in Canada throughout a particular taxation year where he was resident in Canada at any time in the particular year and throughout the preceding taxation year or the following taxation year."

(2) Subsection 1 applies from the taxation year 1996.

188. (1) Section 726.11 of the said Act is amended by replacing the portion before paragraph *a* by the following:

"**726.11** Notwithstanding sections 726.7 and 726.7.1, where an individual has a capital gain for a particular taxation year from the disposition of a capital property, no amount may be deducted under this Title in respect of the capital gain in computing his taxable income for the particular year or any subsequent taxation

year where, knowingly or under circumstances amounting to gross negligence,".

(2) Subsection 1 applies from the taxation year 1996.

189. (1) Sections 726.13 and 726.14 of the said Act are replaced by the following sections:

"**726.13** Notwithstanding sections 726.7 and 726.7.1, where an individual has a capital gain for a taxation year from the disposition of property, no amount in respect of that capital gain shall be deducted under this Title in computing the individual's taxable income for the year if the disposition of property is part of a series of transactions or events

(*a*) to which section 308.1 would, but for section 308.3, apply; or

(*b*) in which any property is acquired by a corporation or partnership for consideration that is significantly less than the fair market value of the property at the time of acquisition, other than an acquisition as the result of an amalgamation or merger of corporations or the winding-up of a corporation or partnership or a distribution of property of a trust in satisfaction of all or part of a corporation's capital interest in the trust.

"**726.14** Notwithstanding sections 726.7 and 726.7.1, where an individual has a capital gain for a taxation year from the disposition of property, no amount in respect of that capital gain shall be deducted under this Title in computing the individual's taxable income for the year where it may reasonably be concluded, having regard to all the circumstances, that a significant portion of the capital gain is attributable to the fact that dividends were not paid on a share, other than a prescribed share, of a corporation or that dividends paid on such a share in the year or in any preceding taxation year were less than 90% of the average annual rate of return thereon for that year."

(2) Subsection 1, where it replaces the portion of section 726.13 of the said Act before paragraph *a* and where it replaces, at the end of paragraph *a* of that section, "; or" by a semicolon, applies from the taxation year 1996.

(3) Subsection 1, where it replaces in paragraph *a* of section 726.13 of the said Act "sections 308.3 and 308.4" by "section 308.3", applies in respect of dividends received after 21 February 1994, other than dividends received before 1 January 1995 in the

course of a reorganization that was required on 22 February 1994 to be carried out pursuant to a written agreement entered into before 22 February 1994.

(4) Subsection 1, where it replaces section 726.14 of the said Act, applies from the taxation year 1996.

190. (1) Section 726.19 of the said Act is amended by replacing paragraph *b* by the following paragraph:

"(*b*) the amount that would be determined in respect of the trust for the year under paragraph *b* of section 28 in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by it after 31 December 1984 and qualified small business corporation shares disposed of by it after 17 June 1987;".

(2) Subsection 1 applies to taxation years that end after 22 February 1994. However, where paragraph *b* of section 726.19 of the said Act, enacted by subsection 1, applies to taxation years that end after 22 February 1994 and before 1 January 1997, it shall be read as follows:

"(*b*) the aggregate of the following amounts:

i. the least of

(1) the amount determined in respect of the trust for that year under paragraph *b* of section 28 in respect of capital gains and capital losses,

(2) the amount that would be determined in respect of the trust for that year under paragraph *b* of section 28 in respect of capital gains and capital losses if the only properties referred to in that paragraph were properties, other than properties referred to in subparagraph ii, disposed of by it after 31 December 1984 and before 23 February 1994, if the trust's capital gains and capital losses for the year from dispositions of non-qualifying immovable property of the trust were equal to its eligible immovable property gains and eligible immovable property losses, respectively, for that year from those dispositions, if no amount were included under paragraph *b* of section 28 in respect of a capital gain of the trust that resulted from an election made under section 726.9.2 by another trust unless the trust was a beneficiary under the other trust on 22 February 1994, and if, in determining the trust's taxable capital gain for a taxation year that begins after that day from the disposition of a property,

other than a qualified farm property or a qualified small business corporation share, this Act were read without reference to the second paragraph of section 234 and subparagraph ii of paragraph *a* of section 279, except for the purpose of determining the trust's share of a taxable capital gain of a partnership for the partnership's fiscal period that includes 22 February 1994 or a taxable capital gain of the trust resulting from a designation made under Chapter V of Title XII of Book III by another trust for the other trust's taxation year that includes that day, and

(3) the amount by which $75,000 exceeds the aggregate of all amounts each of which is an amount deducted under section 726.8 in computing the taxable income of the taxpayer's spouse for the taxation year in which the spouse died or a preceding taxation year or an amount determined under subparagraph ii or iii of paragraph *a* of section 726.8 in respect of the taxpayer's spouse for the taxation year in which the spouse died;

ii. the amount that would be determined in respect of the trust for that year under paragraph *b* of section 28 in respect of capital gains and capital losses if the only properties referred to in that paragraph were qualified farm properties disposed of by it after 31 December 1984 and qualified small business corporation shares disposed of by it after 17 June 1987;".

191. (1) Section 726.20.1 of the said Act, amended by section 62 of chapter 1 of the statutes of 1995, is again amended by replacing subparagraph i of paragraph *c* of the definition of "resource property" by the following subparagraph:

"i. the new property was then acquired by the individual through a transaction in respect of which an election was made under section 518, 614 or 620 or in respect of which sections 536 to 539, 541 to 543.2 or 626 to 632 apply, on the winding-up of a Canadian corporation in respect of which sections 556 to 564.1 and 565 apply, or by reason of an amalgamation within the meaning of section 544, and".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

192. (1) Section 726.20.2 of the said Act, amended by section 63 of chapter 1 of the statutes of 1995, is again amended

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

"(*d*) the amount by which the amount determined in respect of the individual for the year under paragraph *b* of section 28 in respect of capital gains and capital losses exceeds the aggregate of the amount of the net capital losses of the individual in other taxation years deducted under section 729 in computing the individual's taxable income for the year and the amount deducted under Title VI.5 by the individual in computing the individual's taxable income for the year.";

(2) by striking out paragraph *e*.

(2) Subsection 1 applies from the taxation year 1994.

193. (1) Section 726.20.4 of the said Act is replaced by the following section:

"**726.20.4** Any reference in section 261, 261.1, 270, 462.6, 517.4.2 or 517.4.4, to Title VI.5 or to sections 726.6 to 726.20 is deemed to include a reference to this Title."

(2) Subsection 1 has effect from 22 February 1994.

194. (1) Section 728 of the said Act is amended

(1) by adding the words "the aggregate of" at the end of paragraph *a*;

(2) by replacing paragraphs *b* and *c* by the following paragraphs:

"(*b*) any amount specified by him in his election for the year under section 737.8;

"(*c*) the amount that would be his farm loss for the year if section 728.2 were read without the second paragraph thereof; and";

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

"(*d*) any amount by which the non-capital loss of the taxpayer for the year is required, because of sections 485 to 485.18, to be reduced."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

195. (1) Section 728.2 of the said Act is amended by replacing the portion before subparagraph *a* of the first paragraph by the following:

"**728.2** In section 728.1, the farm loss of a taxpayer for a taxation year means the amount by which the lesser of the two following amounts exceeds the aggregate of all amounts by which the farm loss of the taxpayer for the year is required, because of sections 485 to 485.18, to be reduced and the amount determined under the second paragraph:".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

196. (1) Section 730 of the said Act is amended

(1) by replacing the portion before subparagraph *a* of the first paragraph by the following:

"**730.** In this Title, the net capital loss of a taxpayer for a taxation year means the amount by which the aggregate of the following amounts exceeds the aggregate of all amounts by which the net capital loss of the taxpayer for the year is required, because of sections 485 to 485.18, to be reduced:";

(2) by adding, after subparagraph ii of subparagraph *b* of the first paragraph, the following subparagraph:

"iii. where the taxpayer is a corporation the control of which was acquired by a person or group of persons before the end of the year and after the end of the taxpayer's seventh preceding taxation year, nil.";

(3) by striking out the second paragraph.

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

197. (1) Section 739 of the said Act is amended

(1) by replacing, in the French text of the portion before paragraph *a*, the words "Aux fins" by the words "Pour l'application";

(2) by replacing, in the French text of paragraph *a*, the words "à même" by the word "sur";

(3) by striking out the word "and" at the end of paragraph *a*;

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

"(*c*) "mark-to-market property" and "financial institution" have the meanings assigned by section 851.22.1."

(2) Paragraphs 3 and 4 of subsection 1 apply to taxation years that begin after 31 October 1994.

198. (1) Section 741 of the said Act is amended

(1) by replacing the portion before subparagraph *a* of the first paragraph by the following:

"**741.** Subject to sections 744.3 to 744.5, a corporation that receives a taxable dividend, a capital dividend or a life insurance capital dividend in respect of a share it owns that is a capital property shall subtract from the amount otherwise computed of any loss of the corporation arising from transactions with reference to the share, the aggregate of the amounts received by it in respect of the share as";

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

"Subject to sections 744.3 to 744.5, the same rule applies in respect of the computation of the corporation's share of any loss of a partnership arising in respect of a share that is a capital property of the partnership, where the corporation is a member of the partnership and receives a taxable dividend, a capital dividend or a life insurance capital dividend in respect of the share."

(2) Subsection 1 applies in respect of dispositions that occur after 30 October 1994.

199. (1) Section 742 of the said Act is replaced by the following section:

"**742.** Subject to sections 744.3 to 744.5, a trust, other than a prescribed trust, that owns a share that is capital property and of which a beneficiary is a corporation that receives a taxable dividend on that share pursuant to a designation under section 666 or to which a designation of capital dividend or life insurance capital dividend on the share is made under section 667, shall subtract from the amount otherwise computed of any loss of the trust arising in respect of the share, the aggregate of all amounts designated to a corporation that was its beneficiary, under section 666 or 667, in respect of the share as a taxable dividend, a capital dividend or a life insurance capital dividend."

(2) Subsection 1 applies in respect of dispositions that occur after 30 October 1994.

200. (1) Section 743 of the said Act, amended by section 169 of chapter 49 of the statutes of 1995, is again amended, in the first paragraph,

(1) by replacing the portion before subparagraph *a* by the following:

"**743.** Subject to sections 744.3 to 744.5, the amount of any loss of a taxpayer arising from transactions with reference to a share he owned that was not a capital property and in respect of which he received a dividend, is deemed to be equal to the amount by which the amount of that loss otherwise determined exceeds";

(2) by replacing, in the French text of subparagraphs *a* and *b*, the words "dividende à même les gains en capital" by the words "dividende sur les gains en capital".

(2) Paragraph 1 of subsection 1 applies in respect of dispositions that occur after 30 October 1994.

201. (1) Section 744 of the said Act, amended by section 170 of chapter 49 of the statutes of 1995, is again amended, in the first paragraph,

(1) by replacing the portion before subparagraph *a* by the following:

"**744.** Subject to section 744.3 and for the purposes of section 83 and the regulations made thereunder, where a taxpayer, other than a prescribed trust, or a partnership holds a share that is not a capital property and receives a dividend in respect of that share, there shall, in computing the fair market value of the share at any time after 12 November 1981, be added to such value otherwise computed, an amount equal to";

(2) by replacing, in the French text of subparagraphs *a* to *c*, the words "dividende à même les gains en capital" by the words "dividende sur les gains en capital".

(2) Paragraph 1 of subsection 1 applies in respect of dispositions that occur after 30 October 1994.

202. (1) Section 744.1 of the said Act, amended by section 171 of chapter 49 of the statutes of 1995, is again amended, in the first paragraph,

(1) by replacing the portion before subparagraph *a* by the following:

"**744.1** Subject to sections 744.3 to 744.5, a taxpayer who is a member of a partnership and who receives a dividend in respect of a share that is not a capital property of the partnership shall compute his share of any loss of the partnership arising in respect of the share by subtracting from the amount of the loss, otherwise computed, an amount equal to";

(2) by replacing, in the French text of subparagraphs *a* and *b*, the words "dividende à même les gains en capital" by the words "dividende sur les gains en capital".

(2) Paragraph 1 of subsection 1 applies in respect of dispositions that occur after 30 October 1994.

203. (1) Section 744.2 of the said Act is replaced by the following section:

"**744.2** Subject to sections 744.3 to 744.5, a trust, other than a prescribed trust, that owns a share that is not capital property and of which a beneficiary is a taxpayer who receives a taxable dividend on the share pursuant to a designation under section 666 or to whom a designation of dividend, other than a taxable dividend, on the share is made under section 667, shall subtract from the amount otherwise computed of any loss of the trust arising in respect of the share, the aggregate of all amounts designated to the taxpayer under section 666 or 667 in respect of the share as a dividend other than a capital gains dividend within the meaning assigned by sections 1106 and 1116."

(2) Subsection 1 applies in respect of dispositions that occur after 30 October 1994. However, where section 744.2 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the reference therein to "dividende sur les gains en capital" were a reference to "dividende à même les gains en capital".

204. (1) The said Act is amended by inserting, after section 744.3, the following sections:

"**744.4** The rules set out in sections 741 to 743, 744.1 and 744.2 do not apply to the disposition of a share by a taxpayer in a taxation year that begins after 31 October 1994 where the share is a mark-to-market property for the year and the taxpayer is a financial institution in the year, or section 744.6 applies to the disposition.

"**744.5** In determining whether any of sections 741 to 743, 744.1 and 744.2 apply to the disposition of a share by a taxpayer, each of those sections shall be read without reference to paragraph *a* of section 744.3 where

(*a*) the disposition occurs, because of section 851.22.15, in a taxation year that includes 31 October 1994 or, because of paragraph *b* of section 851.22.23, after 30 October 1994; or

(*b*) the share was a mark-to-market property of the taxpayer for a taxation year that begins after 31 October 1994 in which the taxpayer was a financial institution.

"**744.6** A taxpayer who disposes of a share at a particular time in a taxation year is deemed to dispose of it for the proceeds of disposition determined in the second paragraph where

(*a*) the taxpayer is a financial institution in the year, the share is a mark-to-market property for the year, and the taxpayer received a dividend on the share at a time when the taxpayer and persons with whom the taxpayer was not dealing at arm's length held in total more than 5% of the issued shares of any class of the capital stock of the corporation that paid the dividend; or

(*b*) the disposition is an actual disposition, the taxpayer held the share for less than 365 days, and the share was a mark-to-market property of the taxpayer for a taxation year that begins after 31 October 1994 and in which the taxpayer was a financial institution.

Subject to section 744.7, the proceeds of disposition referred to in the first paragraph are deemed to be the amount determined by the formula

$$A + B - (C - D).$$

For the purposes of the formula in the second paragraph,

(*a*) A is the taxpayer's proceeds of disposition of the share determined without reference to this section;

(*b*) B is the lesser of

i. the loss from the disposition of the share that would be determined before the application of this section if the cost of the share to any taxpayer were determined without reference to

(1) sections 521 to 526 and 528, where the provisions of those sections apply because of subparagraph *a* of the second paragraph of section 832.3, and

(2) sections 546 and 559, subparagraph *a* of the second paragraph of section 832.3, paragraph *b* of section 851.22.15 and paragraph *d* of section 851.22.23, and

ii. the aggregate of all amounts each of which is

(1) where the taxpayer is a corporation, a taxable dividend received by the taxpayer on the share, to the extent of the amount of the dividend that was deductible under any of sections 738 to 745, 845 and 1091 in computing the taxpayer's taxable income or taxable income earned in Canada for any taxation year,

(2) where the taxpayer is a partnership, a taxable dividend received by the taxpayer on the share, to the extent of the amount of the dividend that was deductible under any of sections 738 to 745, 845 and 1091 in computing the taxable income or taxable income earned in Canada for any taxation year of members of the partnership,

(3) where the taxpayer is a trust, an amount designated under section 666 in respect of a taxable dividend on the share, or

(4) a dividend, other than a taxable dividend or a dividend deemed by sections 1106 and 1116 to be a capital gains dividend, received by the taxpayer on the share;

(*c*) C is the aggregate of all amounts each of which is the amount by which

i. the taxpayer's proceeds of disposition on a deemed disposition of the share before the particular time were increased because of this section,

ii. where the taxpayer is a corporation or trust, a loss of the taxpayer on a deemed disposition of the share before the particular time was reduced because of the first paragraph of section 741 or section 742, 743 or 744.2, or

iii. where the taxpayer is a partnership, a loss of a member of the partnership on a deemed disposition of the share before the particular time was reduced because of the second paragraph of section 741 or section 744.1;

(*d*) D is the aggregate of all amounts each of which is the amount by which the taxpayer's proceeds of disposition on a deemed disposition of the share before the particular time were decreased because of this section.

"**744.7** For the purpose of determining the cost of a share to a taxpayer on a deemed reacquisition of the share after a deemed disposition of the share, the taxpayer's proceeds of disposition of the share shall be determined without reference to section 744.6.

"**744.8** Where a taxpayer disposes of a share at a particular time,

(*a*) for the purpose of determining whether section 744.6 applies to the disposition, the conditions in the first paragraph of that section shall be applied without reference to a deemed disposition and reacquisition of the share before that time; and

(*b*) any aggregate of amounts under the third paragraph of section 744.6 in respect of the disposition shall be determined from the time when the taxpayer actually acquired the share."

(2) Subsection 1, where it enacts sections 744.4 and 744.6 to 744.8 of the said Act, applies in respect of dispositions occurring in taxation years that begin after 31 October 1994. However, where section 744.6 of the said Act applies before (*insert here the date of assent to this Act*), the reference in the French text of subparagraph 4 of subparagraph ii of subparagraph *b* of the third paragraph to "dividende sur les gains en capital" shall be read as a reference to "dividende à même les gains en capital".

(3) Subsection 1, where it enacts section 744.5 of the said Act, applies in respect of dispositions that occur after 30 October 1994.

205. Section 748 of the said Act is replaced by the following section:

"**748.** In the case provided for in section 746, such portion of any dividend received between the taxation years 1971 and 1976 of the affiliate as exceeds the amount deductible under paragraph *d* of that section is deemed, for the purposes of paragraph *a* of that

section, to be the portion of the dividend prescribed to have been paid out of the exempt surplus of the affiliate."

206. (1) Section 752.0.27 of the said Act is amended by striking out ", within the meaning of section 777".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

207. (1) Section 771.1.5.3 of the said Act, enacted by section 70 of chapter 63 of the statutes of 1995, is amended by replacing paragraphs *a* to *c* by the following paragraphs:

"(*a*) in respect of a corporation contemplated in any of subparagraphs *a* to *c* of the first paragraph of section 1132, its paid-up capital determined for that year in accordance with Book III of Part IV;

"(*b*) in respect of an insurance corporation, other than a corporation referred to in paragraph *a*, or a savings and credit union within the meaning assigned by section 797, its paid-up capital that would, if the corporation were a bank and if paragraph *a* of section 1140 were replaced by paragraph *a* of section 1136, be determined for that year in accordance with Title II of Book III of Part IV;

"(*c*) in respect of a cooperative governed by the Cooperatives Act (chapter C-67.2) or a cooperative syndicate governed by the Cooperative Syndicates Act (chapter S-38), its paid-up capital determined for that year in accordance with Title I of Book III of Part IV."

(2) Subsection 1 applies to taxation years that end after 30 June 1994.

208. (1) Section 771.6 of the said Act, amended by section 73 of chapter 63 of the statutes of 1995, is again amended by replacing subparagraph *b* of the second paragraph by the following subparagraph:

"(*b*) its paid-up capital that, but for sections 1138.0.1 and 1141.3, would be determined in accordance with section 771.1.5.3 for the taxation year preceding the year or, where the corporation's year is its first fiscal period, that is determined on the basis of its financial statements prepared at the beginning of the fiscal period in accordance with generally accepted accounting principles, exceeds $10,000,000."

(2) Subsection 1 applies to taxation years that begin after 30 June 1994.

209. (1) Section 772.2 of the said Act, enacted by section 82 of chapter 63 of the statutes of 1995, is amended

(1) by replacing, in paragraph *a* of the definition of "tax otherwise payable", "to 776.1.5.6" by "to 776.1.6";

(2) by replacing subparagraph vi of paragraph *d* of the definition of "non-business-income tax" by the following subparagraph:

"vi. that may reasonably be attributed to all or part of the taxable capital gain in respect of which the taxpayer or the taxpayer's spouse claimed a deduction under any of sections 726.7 to 726.9 and 726.20.2,".

(2) Paragraph 1 of subsection 1 applies to taxation years that end after 22 February 1994.

(3) Paragraph 2 of subsection 1 applies from the taxation year 1994.

210. (1) The said Act is amended by inserting, after section 776.1.5.6, the following:

"TITLE III.2

"TAX CREDIT IN RESPECT OF MINING RECLAMATION TRUSTS

"**776.1.6** There may be deducted from a taxpayer's tax otherwise payable under this Part for a taxation year such amount as the taxpayer claims not exceeding the taxpayer's Part III.12 tax credit, within the meaning assigned by section 1029.8.36.52, for the year."

(2) Subsection 1 applies to taxation years that end after 22 February 1994.

211. Section 776.7 of the said Act is amended by replacing subparagraph ii of paragraph *a* by the following subparagraph:

"ii. a bond, debenture, bill, obligation secured by mortgage or similar obligation; or".

212. (1) Section 776.38 of the said Act is replaced by the following section:

"**776.38** No individual is entitled to the deduction described in section 776.32 for a taxation year if he or his spouse during the year, where applicable, is exempt from tax for that year under section 982 or 983 or under any of subparagraphs *a* to *d* of the first paragraph of section 96 of the Act respecting the Ministère du Revenu (chapter M-31)."

(2) Subsection 1 applies from the taxation year 1988.

213. (1) Section 776.56 of the said Act is amended by replacing the portion before paragraph *a* by the following:

"**776.56** For the purposes of section 776.51, except in respect of a disposition of property occurring before 1 January 1986 or to which sections 484 to 484.6 apply,".

(2) Subsection 1 applies in respect of property acquired or reacquired after 21 February 1994, other than property acquired or reacquired pursuant to a court order made before 22 February 1994.

214. (1) Section 776.61 of the said Act is amended by replacing subparagraph ii of paragraph *b* by the following subparagraph:

"ii. the aggregate of all amounts that would be deductible under section 729 if section 776.56 were applicable in computing the excess amount referred to in section 730 for a taxation year commencing after 31 December 1985."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

215. (1) Section 777 of the said Act is repealed.

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

216. (1) Section 778 of the said Act is replaced by the following section:

"**778.** For the purposes of this Part, the trustee is deemed to be the agent of the bankrupt and the estate of the bankrupt is deemed not to be a trust or a succession.

The income derived directly or indirectly from the property of the bankrupt is the income of the bankrupt and not of the trustee."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

217. (1) Section 779 of the said Act, replaced by section 92 of chapter 1 of the statutes of 1995, by section 178 of chapter 49 of the statutes of 1995 and by section 93 of chapter 63 of the statutes of 1995, is again replaced by the following section:

"**779.** Except for the purposes of Title VII of Book V, section 935.4 and Divisions II.13 to II.15 of Chapter III.1 of Title III of Book IX, the taxation year of the bankrupt is deemed to begin on the date of the bankruptcy and the current taxation year is deemed to end on the day before the date of the bankruptcy."

(2) Subsection 1 applies from the taxation year 1994.

218. (1) Section 781 of the said Act, amended by section 199 of chapter 1 of the statutes of 1995, is again amended by replacing, in the English text, the word "estate" by the word "property".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

219. (1) Section 781.1 of the said Act is amended by striking out "within the meaning of section 777".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

220. (1) The said Act is amended by inserting, after section 785.3, enacted by section 179 of chapter 49 of the statutes of 1995, the following:

"TITLE I.2

"MUTUAL FUND REORGANIZATIONS

"**785.4** In this Title,

"qualifying exchange" means a transfer at any time, referred to in this Title as the "transfer time", of all or substantially all of the property of a mutual fund corporation or mutual fund trust to a mutual fund trust, referred to in this Title as the "transferor" or "transferee", respectively, and as the "funds", where

(*a*) all or substantially all of the shares issued by the transferor and outstanding immediately before the transfer time are within 60 days after the transfer time disposed of to the transferor,

(*b*) no person disposing of shares in the transferor to the transferor within that 60-day period receives any consideration for those shares, other than units of the transferee, and

(*c*) the funds jointly elect, by filing a prescribed form with the Minister within 6 months after the transfer time, to have this Title apply with respect to the transfer;

"share" means a share of the capital stock of a mutual fund corporation and a unit of a mutual fund trust.

"**785.5** Where a mutual fund corporation or a mutual fund trust has at any time disposed of a property to a mutual fund trust in a qualifying exchange,

(*a*) the transferee is deemed to have acquired the property at the time, in this section referred to as the "acquisition time", that is immediately after the time that is immediately after the transfer time, and not to have acquired the property at the transfer time;

(*b*) the last taxation years of the funds that began before the transfer time are deemed to have ended at the acquisition time, and their next taxation years are deemed to have begun immediately after those last taxation years ended;

(*c*) the transferor's proceeds of disposition of the property and the transferee's cost of the property are deemed to be the lesser of

i. the fair market value of the property at the transfer time, and

ii. the greatest of

(1) the cost amount to the transferor of the property at the transfer time or, where the property is depreciable property, the lesser of its capital cost and its cost amount to the transferor immediately before the transfer time,

(2) the amount that the funds have agreed upon in respect of the property in their election in respect of the qualifying exchange, and

(3) the fair market value at the transfer time of the consideration, other than units of the transferee, received by the transferor for the disposition of the property;

(*d*) where the property is depreciable property and its capital cost to the transferor exceeds the transferor's proceeds of disposition of the property under paragraph *c*, for the purposes of sections 93 to 104, 130 and 130.1 and any regulations made under paragraph *a* of section 130 or section 130.1,

i. the property's capital cost to the transferee is deemed to be the amount that was its capital cost to the transferor, and

ii. the excess is deemed to have been allowed to the transferee as depreciation in respect of the property for taxation years ending before the transfer time;

(*e*) where two or more depreciable properties of a prescribed class are disposed of by the transferor to the transferee in the same qualifying exchange, paragraph *c* applies as if each property so disposed of had been separately disposed of in the order designated by the transferor at the time of making the election in respect of the qualifying exchange or, if the transferor does not so designate any such order, in the order designated by the Minister;

(*f*) each property of a fund, other than depreciable property of a prescribed class to which paragraph *g* would, but for this paragraph, apply, and property disposed of by the transferor to the transferee at the transfer time, is deemed to have been disposed of, and to have been reacquired by the fund, immediately before the acquisition time for an amount equal to the lesser of

i. the fair market value of the property at the transfer time, and

ii. the greater of

(1) its cost amount or, where the property is depreciable property, the lesser of its capital cost and its cost amount to the disposing fund at the transfer time, and

(2) the amount that the fund designates in respect of the property in a notification to the Minister filed with the election in respect of the qualifying exchange;

(*g*) where the undepreciated capital cost to a fund of depreciable property of a prescribed class immediately before the acquisition

time exceeds the aggregate of the fair market value of all the property of that class immediately before the acquisition time, and the amount in respect of property of that class otherwise allowed as depreciation under paragraph *a* of section 130 or deductible under the second paragraph of section 130.1 in computing the fund's income for the taxation year that includes the transfer time, the excess shall be deducted in computing the fund's income for the taxation year that includes the transfer time and is deemed to have been allowed as depreciation in respect of property of that class under paragraph *a* of section 130;

(*h*) the transferor's cost of any particular property received by the transferor from the transferee as consideration for the disposition of the property is deemed to be

i. nil, where the particular property is a unit of the transferee, and

ii. the particular property's fair market value at the transfer time, in any other case;

(*i*) the transferor's proceeds of disposition of any units of the transferee received as consideration for the disposition of the property that were disposed of by the transferor within 60 days after the transfer time in exchange for shares of the transferor are deemed to be nil;

(*j*) where shares of the transferor have been disposed of by a taxpayer to the transferor in exchange for units of the transferee within 60 days after the transfer time,

i. the taxpayer's proceeds of disposition of the shares and the cost to the taxpayer of the units are deemed to be equal to the cost amount to the taxpayer of the shares immediately before the transfer time, and

ii. where all of the taxpayer's shares of the transferor have been so disposed of, for the purpose of applying sections 251.1 to 251.7 in respect of the taxpayer after that disposition, the transferee is deemed to be the same entity as the transferor;

(*k*) where a share to which paragraph *j* applies would, but for this paragraph, cease to be a qualified investment within the meaning assigned by subsection 1 of section 146, subsection 1 of section 146.3 or section 204 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement) as a consequence of the qualifying

exchange, the share is deemed to be a qualified investment until the earlier of the day that is 60 days after the transfer time and the day on which it is disposed of in accordance with paragraph *j*;

(*l*) no amount in respect of a non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss of a fund for a taxation year that began before the transfer time is deductible in computing its taxable income for a taxation year that begins after the transfer time;

(*m*) where the transferor is a mutual fund trust, for the purposes of sections 1121.1, 1121.2 and 1121.4 to 1121.6, the transferee is deemed after the transfer time to be the same mutual fund trust as, and a continuation of, the transferor;

(*n*) the transferor is, notwithstanding sections 1117 and 1120, deemed to be neither a mutual fund corporation nor a mutual fund trust for taxation years beginning after the transfer time."

(2) Subsection 1 has effect from 1 July 1994. However,

(1) an election referred to in paragraph *c* of the definition of "qualifying exchange" in section 785.4 of the said Act, enacted by subsection 1, is deemed to have been made within the time prescribed in that paragraph *c* where it is made before the end of the sixth month that ends after the month in which this Act is assented to;

(2) where sections 785.4 and 785.5 of the said Act, enacted by subsection 1, apply before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the references therein to "fiducie de fonds commun de placements" and "société d'investissement à capital variable" were references to "fiducie de fonds mutuels" and "corporation de fonds mutuels", respectively.

221. Section 805 of the said Act is amended by replacing, in subparagraph *a* of the first paragraph, the words "notes, hypothecs, mortgages or other similar obligations" by the words "debentures, notes, obligations secured by mortgage or similar obligations".

222. (1) Section 825 of the said Act is amended, in the second paragraph,

(1) by replacing the portion before subparagraph *b* by the following:

"For the purposes of this section, gross investment income of an insurer for a taxation year is the amount by which the aggregate of the following amounts exceeds the aggregate of all amounts each of which is an amount deemed by paragraph *b* of section 125.0.1 to be paid by it in respect of the year as interest, or an amount deductible under paragraph *b* of section 851.22.4 in computing its income for the year:

(*a*) any amount included in its gross revenue for the year, that is a taxable dividend or an amount received or receivable as, on account of, in lieu of or in satisfaction of, interest, rentals or royalties, other than an amount in respect of a debt obligation to which section 851.22.4 applies for the year;";

(2) by replacing subparagraph *d* by the following subparagraph:

"(*d*) any amount required under paragraph *a* of section 851.22.4 to be included in computing its income for the year or, except to the extent that such amount has been included in computing its gross investment income by virtue of subparagraph *a*, under section 92 or 167; and".

(2) Paragraph 1 of subsection 1, where it replaces the portion of the second paragraph of section 825 of the said Act before subparagraph *a*, applies to taxation years that end after 16 October 1991. However, where the portion of the second paragraph of section 825 of the said Act before subparagraph *a*, enacted by subsection 1, applies to taxation years that end before 23 February 1994, it shall be read as follows:

"For the purposes of this section, gross investment income of an insurer for a taxation year is the amount by which the aggregate of the following amounts exceeds all amounts each of which is an amount deemed by paragraph *b* of section 125.0.1 to be paid by it in respect of the year as interest:".

(3) Paragraph 1, where it replaces subparagraph *a* of the second paragraph of section 825 of the said Act, and paragraph 2 of subsection 1 apply to taxation years that end after 22 February 1994.

223. (1) The said Act is amended by inserting, after section 825, the following section:

"**825.0.1** Where in a taxation year an insurer carried on an insurance business in Canada and in a country other than Canada, in computing the income of the insurer for the year from carrying on an insurance business in Canada,

(*a*) sections 851.22.4, 851.22.5 and 851.22.14 to 851.22.22 apply with respect to property used by it in the year in, or held by it in the year in the course of, carrying on that business; and

(*b*) sections 851.22.6 to 851.22.13 apply in respect of the disposition of property that, in the taxation year in which the insurer disposed of it, was property used by it in the year in, or held by it in the year in the course of, carrying on that business."

(2) Subsection 1 applies to taxation years that end after 22 February 1994.

224. (1) Section 832.1 of the said Act is amended

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

"**832.1** Subject to section 832.1.1, a life insurer resident in Canada, or an insurer not resident in Canada, that carries on an insurance business in Canada and in a country other than Canada and, at any time, acquires any of the property described in the second paragraph is deemed to dispose of that property, at a later time referred to therein in respect of that property for proceeds of disposition equal to its fair market value at that later time and to reacquire it immediately thereafter at a cost equal to that fair market value.";

(2) by striking out subparagraphs *c* and *d* of the second paragraph;

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

"However, this section does not apply for the purposes of subparagraph i of paragraph *e* of section 93, subparagraph iv of the said paragraph where it refers to the capital cost of property, section 140 or 140.1, or the regulations under section 818."

(2) Paragraphs 1 and 3 of subsection 1 apply in respect of changes in use of property occurring in taxation years that begin after 31 October 1994.

(3) Paragraph 2 of subsection 1 applies in respect of changes in use of property that occur after 22 February 1994.

225. (1) The said Act is amended by inserting, after section 832.1, the following section:

"**832.1.1** Section 832.1 does not apply in respect of a change in use of a property of an insurer where the insurer is deemed by section 851.22.15 to have disposed of the property in the taxation year that ended before the change in use."

(2) Subsection 1 applies in respect of changes in use of property occurring in taxation years that begin after 31 October 1994.

226. (1) Section 832.2 of the said Act is replaced by the following section:

"**832.2** Notwithstanding any other provision of this Part, where an insurer has a loss for a taxation year from the disposition, because of section 832.1, of a property other than a specified debt obligation, as defined in section 851.22.1, and the loss would, but for this section, have been deductible for the year, the loss shall be deductible only in the taxation year in which the taxpayer disposes of the property otherwise than because of section 832.1."

(2) Subsection 1 applies in respect of property deemed by section 832.1 of the said Act to be disposed of after 31 December 1994.

227. (1) Section 832.2.1 of the said Act is repealed.

(2) Subsection 1 applies in respect of changes in use of property that occur after 22 February 1994.

228. (1) Section 832.3 of the said Act is amended, in the second paragraph,

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

"(*a*) subject to subparagraph *g*.1, where the fair market value, at the time referred to in subparagraph *a* of the first paragraph, of the consideration, other than shares of the capital stock of the transferee or a right to receive any such shares, received or receivable by the transferor for the transferred property does not exceed the aggregate of the cost amounts to the transferor, at that time, of the transferred property, the proceeds of disposition of the transferor and the cost to the transferee of the transferred property are deemed to be equal to the cost amount, at that time, to the transferor of the transferred property, and, in any other case, sections 521 to 526 and 528 shall be applied in respect of the transfer;";

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

"(*g*) for the purposes of this chapter, sections 87 to 87.4, 89 to 92.7, 92.21, 92.22, 128, 130 and 130.1, paragraph *b* of section 135, sections 137 to 143, 145 to 154, 155, 156, 157 to 157.3, 157.5 to 158, 160 to 163.1, 167, 167.1, 176 to 179, 183 and 835 to 851.22, paragraphs *c* and *d* of section 851.22.11 and sections 851.22.18, 851.22.20 and 966 to 977.1, the transferee is deemed, for its taxation years following its taxation year referred to in subparagraph *d*, to be a continuation of the transferor in respect of the transferred property, the business referred to in subparagraph *a* of the first paragraph and the obligations referred to in subparagraph *c* of that paragraph;";

(3) by inserting, after subparagraph *g*, the following subparagraphs:

"(*g*.1) except for the purposes of this section, where the provisions of sections 521 to 526 and 528 are not required to be applied in respect of the transfer, the following rules apply to each transferred property that is a specified debt obligation, other than a mark-to-market property, within the meaning assigned by section 851.22.1:

i. the transferor is deemed not to have disposed of that property, and

ii. the transferee is deemed, in respect of that property, to be a continuation of the transferor;

"(*g*.2) for the purposes of sections 744.6 and 744.8 and the definition of "mark-to-market property" in section 851.22.1, the transferee is deemed to be a continuation of the transferor in respect of the transferred property;".

(2) Paragraph 1 of subsection 1 and paragraph 3 of that subsection, where it enacts subparagraph *g*.1 of the second paragraph of section 832.3 of the said Act, apply in respect of transfers of insurance businesses that occur after 22 February 1994.

(3) Paragraph 2 of subsection 1 applies in respect of transfers of insurance businesses that occur after 31 October 1994.

(4) Paragraph 3 of subsection 1, where it enacts subparagraph *g*.2 of the second paragraph of section 832.3 of the said Act, applies in respect of transfers of insurance businesses that occur at any time.

229. (1) Section 832.8 of the said Act is amended by replacing the portion before paragraph *e* by the following:

"**832.8** Where, at any time in a taxation year, the beneficial ownership of property is acquired or reacquired by the insurer in consequence of another person's failure to pay all or any part of an amount, in this section referred to as the "insurer's claim", owing to the insurer at that time in respect of a bond, debenture, obligation secured by mortgage, agreement of sale or any other form of indebtedness owned by the insurer, the following rules apply to the insurer:

(*a*) sections 484.7 to 484.13 do not apply in respect of the acquisition or reacquisition;

(*b*) the insurer is deemed to have acquired or reacquired, as the case may be, the property at an amount equal to its fair market value, immediately before that time;

(*c*) the insurer is deemed to have disposed at that time of the portion of the indebtedness represented by the insurer's claim for proceeds of disposition equal to the fair market value referred to in paragraph *b* and, immediately after that time, to have reacquired that portion of the indebtedness at a cost of nil;

(*d*) the acquisition or reacquisition is deemed to have no effect on the form of the indebtedness;".

(2) Subsection 1 applies in respect of property acquired or reacquired after 21 February 1994, other than acquisitions or reacquisitions pursuant to a court order made before 22 February 1994. However, where the portion of section 832.8 of the said Act before paragraph *a*, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the reference therein to "la propriété à titre bénéficiaire" were a reference to "le *beneficial ownership*".

230. (1) Section 835 of the said Act, amended by section 186 of chapter 49 of the statutes of 1995, is again amended

(1) by striking out paragraph *c*;

(2) by replacing, in the French text of paragraphs *h* and *i*, the word "détenteur" by the word "titulaire".

(2) Paragraph 1 of subsection 1 applies to taxation years that begin after 22 February 1994.

231. (1) Section 838 of the said Act is amended by replacing the first paragraph by the following paragraph:

"**838.** Where in a taxation year ending after 31 December 1968 but before 1 January 1978, an insurer carried on a life insurance business in Canada and an insurance business in a country other than Canada, the insurer did not make an election under section 825, as it read for that year, and the ratio of the value for the year of the insurer's specified Canadian assets to its Canadian investment fund for the year exceeded one, each of the amounts included or deducted as follows in respect of the year shall be multiplied by that ratio:

(*a*) under paragraph *c* or *d* of section 21.26 or paragraph *a* or *c* of section 21.27, in determining the amortized cost of a debt obligation to the insurer; or

(*b*) under paragraph *c* or *d* of the definition of "tax basis" in section 851.22.7 or paragraph *c* or *d* of section 851.22.8, in determining the tax basis of a debt obligation to the insurer."

(2) Subsection 1 applies to taxation years that end after 22 February 1994.

232. (1) Section 841 of the said Act is amended by striking out paragraphs *d* and *e*.

(2) Subsection 1, where it strikes out paragraph *d* of section 841 of the said Act, applies to taxation years that begin after 22 February 1994, and where paragraph *d* of section 841 of the said Act applies to a taxation year that includes 22 February 1994, it shall be read as follows:

"(*d*) any loss that he sustains on any Canadian security that he owns and disposes of in the year and before 23 February 1994, equal to the excess, at the time of disposition, of the amortized cost of the security over the proceeds of disposition;".

(3) Subsection 1, where it strikes out paragraph *e* of section 841 of the said Act, applies to taxation years that end after 22 February 1994.

233. (1) Section 843.1 of the said Act is repealed.

(2) Subsection 1 applies in respect of dispositions that occur after 30 October 1994, except the disposition of a debt obligation before 1 July 1995 where

(1) the disposition is part of a series of transactions or events that began before 31 October 1994;

(2) as part of the series of transactions or events, the taxpayer who acquired the debt obligation disposed of property before 31 October 1994;

(3) it is reasonable to consider that one of the main reasons for the acquisition of the debt obligation by the taxpayer was to obtain a deduction because, as a consequence of the disposition referred to in paragraph 2, as the case may be,

(*a*) an amount was included in computing the taxpayer's income for any taxation year, or

(*b*) an amount was subtracted from a balance of undeducted outlays, expenses or other amounts of the taxpayer and the subtracted amount exceeded the portion of the balance that could reasonably be considered to be in respect of the property.

234. (1) Section 844 of the said Act is amended by striking out paragraphs *b* and *c*.

(2) Subsection 1, where it strikes out paragraph *b* of section 844 of the said Act, applies to taxation years that begin after 22 February 1994, and where paragraph *b* of section 844 of the said Act applies to a taxation year that includes 22 February 1994, it shall be read as follows:

"(*b*) any profit or gain made in the year in respect of any Canadian security owned by the insurer that were disposed of by the insurer in the year and before 23 February 1994, equal to the amount by which the proceeds of disposition of the security for the insurer exceed the amortized cost of the security to the insurer at the time of the disposition;".

(3) Subsection 1, where it strikes out paragraph *c* of section 844 of the said Act, applies to taxation years that end after 22 February 1994.

235. (1) The said Act is amended by inserting, after section 851.22, the following:

"TITLE V.1

"FINANCIAL INSTITUTIONS

"CHAPTER I

"INTERPRETATION

"**851.22.1** In this Title,

"financial institution" at a particular time means, subject to the third paragraph,

(*a*) a corporation that is, at that time,

i. a corporation referred to in any of paragraphs *a* to *e* of the definition of "restricted financial institution" in section 1,

ii. an investment dealer, or

iii. a corporation controlled by one or more persons or partnerships each of which is a financial institution at that time, other than a corporation the control of which was acquired by reason of the default of a debtor where it is reasonable to consider that control is being retained solely for the purpose of minimizing any losses in respect of the debtor's default; and

(*b*) a trust or partnership more than 50% of the fair market value of all interests in which are held at that time by one or more financial institutions;

"investment dealer" at a particular time means a corporation that is, at that time, a registered securities dealer;

"mark-to-market property" of a taxpayer for a taxation year means any of the following properties held by the taxpayer in the year that is neither a share of a corporation in which the taxpayer has a significant interest at any time in the year nor a prescribed property:

(*a*) a share;

(*b*) where the taxpayer is not an investment dealer, subject to the second paragraph, a specified debt obligation that

i. was carried at fair market value in the taxpayer's financial statements for the year, where the taxpayer held the obligation at the end of the year, and for each preceding taxation year that ended after the taxpayer acquired the obligation, or

ii. was acquired and disposed of in the year, where it is reasonable to expect that the obligation would have been carried in the taxpayer's financial statements for the year at fair market value if the taxpayer had not disposed of the obligation; and

(*c*) where the taxpayer is an investment dealer, a specified debt obligation;

"specified debt obligation" of a taxpayer means the interest held by the taxpayer in a loan, bond, debenture, note, obligation secured by mortgage, agreement of sale or any other similar indebtedness, or a debt obligation, where the taxpayer purchased the interest, other than an interest in an income bond, an income debenture, a small business bond, a small business development bond or a prescribed property.

A specified debt obligation referred to in paragraph *b* of the definition of "mark-to-market property" in the first paragraph does not include a specified debt obligation of the taxpayer that was, or would have been, carried at fair market value solely because its fair market value was less than its cost to the taxpayer, or because of a default of the debtor.

"Financial institution", as defined in the first paragraph, at a particular time does not include

(*a*) a corporation that is, at that time, an investment corporation, a mortgage investment corporation, a mutual fund corporation, or a deposit insurance corporation within the meaning of section 804;

(*b*) a trust that is a mutual fund trust at that time; or

(*c*) a prescribed person or partnership.

"**851.22.2** For the purposes of section 851.22.3 and the definition of "mark-to-market property" in section 851.22.1, a taxpayer has a significant interest in a corporation at any time if the taxpayer is related otherwise than because of a right referred to in paragraph *b* of section 20 to the corporation at that time or the taxpayer holds, at that time, shares of the corporation that give the taxpayer 10% or more of the votes that could be cast under all

circumstances at an annual meeting of shareholders of the corporation, and shares of the corporation having a fair market value of 10% or more of the fair market value of all the issued shares of the corporation.

For the purpose of determining under the first paragraph whether a taxpayer has a significant interest in a corporation at any time,

(*a*) the taxpayer is deemed to hold each share that is held at that time by a person or partnership to whom the taxpayer is related otherwise than because of a right referred to in paragraph *b* of section 20; and

(*b*) a share of the corporation acquired by the taxpayer by reason of the default of a debtor shall be disregarded where it is reasonable to consider that the share is being retained by the taxpayer for the purpose of minimizing any losses in respect of the debtor's default, and a share of the corporation that is prescribed in respect of the taxpayer shall be disregarded.

For the purposes of this section, a person or partnership is deemed to be related to a person or partnership where they would be related if, for the purposes of sections 17 to 21,

(*a*) every partnership and trust were a corporation;

(*b*) subject to subparagraph *c*, all decisions relating to the conduct of a trust were made by majority vote of the beneficiaries of the trust, with each beneficiary having, at a particular time, a number of votes equal to the number determined by the proportion of 100 that the fair market value of the beneficiary's beneficial interest in the trust at that time is of the aggregate of all amounts each of which is the fair market value at that time of a beneficial interest in the trust; and

(*c*) where the aggregate that is referred to in subparagraph *b* in respect of a trust is equal to zero, the trust were not controlled by any person, partnership or group each member of which is a person or partnership.

"**851.22.3** For the purposes of the definition of "mark-to-market property" in section 851.22.1, where on 31 October 1994, a taxpayer whose taxation year 1994 ends after 30 October 1994 held a share of a corporation in which the taxpayer did not have a significant interest at any time in the year, and at any time after the end of the

year and before 1 May 1995, the taxpayer has a significant interest in the corporation, the taxpayer is deemed to have a significant interest in the corporation in the year and, as the case may be, in any subsequent taxation year ending before the time at which the taxpayer first had a significant interest in the corporation after the end of the year and before 1 May 1995.

"CHAPTER II

"SPECIFIED DEBT OBLIGATIONS

"DIVISION I

"INCOME FROM SPECIFIED DEBT OBLIGATIONS

"**851.22.4** Subject to section 851.22.5, where a taxpayer that is, in a taxation year, a financial institution holds a specified debt obligation at any time in the year,

(*a*) there shall be included in computing the taxpayer's income for the year the amount prescribed in respect of the obligation;

(*b*) there shall be deducted in computing the taxpayer's income for the year the amount prescribed in respect of the obligation; and

(*c*) except as provided by this chapter, paragraphs *d* and *i* of section 87 and sections 140 and 141, no amount shall be included or deducted in respect of payments under the obligation, other than fees and similar amounts, in computing the taxpayer's income for the year.

"**851.22.5** This division does not apply for a taxation year in respect of a specified debt obligation of a taxpayer that is a mark-to-market property for the year, an indexed debt obligation, other than a prescribed obligation, or a debt obligation disposed of before 23 February 1994.

"DIVISION II

"DISPOSITION OF SPECIFIED DEBT OBLIGATIONS

"**851.22.6** This division applies where a taxpayer that is a financial institution disposes of a specified debt obligation that is not a mark-to-market property for the taxation year in which the disposition occurs.

Where a taxpayer disposes of part of a specified debt obligation, this division applies as if the part disposed of and the part retained were separate specified debt obligations.

"**851.22.7** In this division,

"tax basis" of a specified debt obligation at a particular time to a taxpayer means the amount by which the aggregate of the following amounts exceeds the amount referred to in section 851.22.8:

(*a*) the cost of the obligation to the taxpayer;

(*b*) an amount included under section 92 or 123 or paragraph *a* of section 851.22.4 in respect of the obligation in computing the taxpayer's income for a taxation year beginning before the particular time;

(*c*) subject to section 838, where the taxpayer acquired the obligation in a taxation year ending before 23 February 1994, the part of the amount included in computing the taxpayer's income for a taxation year ending before 23 February 1994, by which the principal amount of the obligation at the time it was acquired exceeds the cost to the taxpayer of the obligation;

(*d*) subject to section 838, where the taxpayer is a life insurer, an amount in respect of the obligation that was deemed by paragraph *a* of section 830, as it read, before its repeal, in its application to the taxation year 1977, to be a gain for a taxation year ending before 1 January 1978;

(*e*) where the obligation is an indexed debt obligation, an amount determined under paragraph *a* of section 125.0.1 in respect of the obligation and included in computing the taxpayer's income for a taxation year beginning before the particular time;

(*f*) an amount in respect of the obligation that was included in computing the taxpayer's income for a taxation year ending at or before the particular time in respect of changes in the value of the obligation attributable to the fluctuation in the value of a foreign currency relative to Canadian currency, other than an amount included under paragraph *a* of section 851.22.4;

(*g*) an amount in respect of the obligation that was included under paragraph *i* of section 87 in computing the taxpayer's income for a taxation year beginning before the particular time; and

(*h*) where the obligation was a capital property of the taxpayer on 22 February 1994, an amount required by paragraph *b* or *c*.1 of section 255 to be added in computing the adjusted cost base of the obligation to the taxpayer on that day;

"transition amount" of a taxpayer in respect of the disposition of a specified debt obligation has the meaning assigned by the regulations.

"**851.22.8** The amount required to be deducted in computing the tax basis of a specified debt obligation at a particular time to a taxpayer is the aggregate of all amounts each of which is

(*a*) an amount deducted under paragraph *b* of section 851.22.4 in respect of the obligation in computing the taxpayer's income for a taxation year beginning before the particular time;

(*b*) the amount of a payment, other than proceeds of disposition of the obligation, received by the taxpayer under the obligation at or before the particular time in respect of an amount included by any of paragraphs *a* to *f* of the definition of "tax basis" in section 851.22.7 in determining the tax basis of the obligation to the taxpayer at the particular time;

(*c*) subject to section 838, where the taxpayer acquired the obligation in a taxation year ending before 23 February 1994, the part of the amount that was deducted in computing the taxpayer's income for a taxation year ending before 23 February 1994 by which the cost to the taxpayer of the obligation exceeds the principal amount of the obligation at the time it was acquired;

(*d*) subject to section 838, where the taxpayer is a life insurer, an amount in respect of the obligation that was deemed by paragraph *b* of section 830, as it read, before its repeal, in its application to the taxation year 1977, to be a loss for a taxation year ending before 1 January 1978;

(*e*) an amount that was deducted under section 167 in respect of the obligation in computing the taxpayer's income for a taxation year beginning before the particular time;

(*f*) where the obligation is an indexed debt obligation, an amount determined under paragraph *b* of section 125.0.1 in respect of the obligation and deducted in computing the taxpayer's income for a taxation year beginning before the particular time;

(*g*) an amount in respect of the obligation that was deducted in computing the taxpayer's income for a taxation year ending at or before the particular time in respect of changes in the value of the obligation attributable to the fluctuation in the value of a foreign currency relative to Canadian currency, other than an amount deducted under paragraph *b* of section 851.22.4;

(*h*) an amount in respect of the obligation that was deducted under section 141 in computing the taxpayer's income for a taxation year ending at or before the particular time; or

(*i*) where the obligation was a capital property of the taxpayer on 22 February 1994, an amount required by paragraph *b* or *f*.3 of section 257 to be deducted in computing the adjusted cost base of the obligation to the taxpayer on that day.

"**851.22.9** For the purposes of this division,

(*a*) where the amount determined under paragraph *c* in respect of the disposition of a specified debt obligation by a taxpayer is positive, that amount is the taxpayer's gain from the disposition of the obligation;

(*b*) where the amount determined under paragraph *c* in respect of the disposition of a specified debt obligation by a taxpayer is negative, that amount expressed as a positive number is the taxpayer's loss from the disposition of the obligation; and

(*c*) the amount referred to in paragraphs *a* and *b* in respect of the disposition of a specified debt obligation by a taxpayer is the positive or negative amount determined by the formula

$$A - (B + C).$$

For the purposes of the formula in subparagraph *c* of the first paragraph,

(*a*) A is the taxpayer's proceeds of disposition of the specified debt obligation;

(*b*) B is the tax basis of the obligation to the taxpayer immediately before the time of disposition; and

(*c*) C is, where section 851.22.11 applies to the disposition, the taxpayer's transition amount in respect of the disposition, and, in any other case, nil.

"**851.22.10** Where a taxpayer has disposed of a specified debt obligation after 22 February 1994,

(*a*) except as provided by this division, no amount shall be included or deducted in respect of the disposition in computing the taxpayer's income; and

(*b*) except where the obligation is an indexed debt obligation, other than a prescribed obligation, the first paragraph of section 167 shall not apply in respect of the disposition.

"**851.22.11** Subject to section 851.22.13, where a taxpayer has, in a taxation year and after 31 December 1994, disposed of a specified debt obligation,

(*a*) where the current amount in respect of the disposition of the obligation is positive, it shall be included in computing the taxpayer's income for the year;

(*b*) where the current amount in respect of the disposition of the obligation is negative, such current amount expressed as a positive number shall be deducted in computing the taxpayer's income for the year;

(*c*) where the taxpayer has a gain from the disposition of the obligation, there shall be included in computing the taxpayer's income for each taxation year that ends on or after the day of disposition the amount allocated, in accordance with prescribed rules, to the year in respect of the residual portion of the gain; and

(*d*) where the taxpayer has a loss from the disposition of the obligation, there shall be deducted in computing the taxpayer's income for each taxation year that ends on or after the day of disposition the amount allocated, in accordance with prescribed rules, to the year in respect of the residual portion of the loss.

"**851.22.12** For the purposes of section 851.22.11,

(*a*) the current amount in respect of the disposition of a specified debt obligation by a taxpayer is the positive or negative amount determined by the formula

$$A + B;$$ and

(*b*) where a taxpayer has a gain or loss from the disposition of a specified debt obligation, the residual portion of the gain or loss is

the part of the gain or loss, as the case may be, that is not included in determining the amount B in the formula in subparagraph *a* in respect of the disposition.

For the purposes of the formula in subparagraph *a* of the first paragraph,

(*a*) A is the taxpayer's transition amount in respect of the disposition; and

(*b*) B is

i. where the taxpayer has a gain from the disposition of the obligation, the part of the gain that is reasonably attributable to a material increase in the probability, or perceived probability, that the debtor will make all payments as required by the obligation, and

ii. where the taxpayer has a loss from the disposition of the obligation, the negative amount that the taxpayer claims not exceeding in magnitude the part of the loss that is reasonably attributable to a default by the debtor or a material decrease in the probability, or perceived probability, that the debtor will make all payments as required by the obligation.

"**851.22.13** Subject to the second paragraph, where a taxpayer has, in a taxation year and after 22 February 1994, disposed of a specified debt obligation,

(*a*) section 851.22.11 does not apply to the disposition;

(*b*) where the taxpayer has a gain from the disposition of the obligation, the gain shall be included in computing the taxpayer's income for the year; and

(*c*) where the taxpayer has a loss from the disposition of the obligation, the loss shall be deducted in computing the taxpayer's income for the year.

The first paragraph applies only where

(*a*) the obligation is an indexed debt obligation, other than a prescribed obligation, or a debt obligation prescribed in respect of the taxpayer; or

(*b*) the disposition occurred before 1 January 1995, after 31 December 1994 in connection with the transfer of all or part of a

business of the taxpayer to a person or partnership, or because of paragraph *c* of section 851.22.23.

"CHAPTER III

"MARK-TO-MARKET PROPERTIES

"851.22.14 Where, in a taxation year that begins after 31 October 1994, a taxpayer that is a financial institution in the year disposes of a property that is a mark-to-market property for the year, there shall be included in computing the taxpayer's income for the year the profit, if any, from the disposition and there shall be deducted in computing the taxpayer's income for the year the loss, if any, from the disposition.

"851.22.15 Where a taxpayer that is a financial institution in a taxation year holds, at the end of the year, a mark-to-market property for the year, the taxpayer is deemed

(*a*) to have disposed of the property immediately before the end of the year for proceeds equal to its fair market value at the time of disposition; and

(*b*) to have reacquired the property at the end of the year at a cost equal to the proceeds referred to in paragraph *a*.

"851.22.16 Where a taxpayer is a financial institution in a taxation year that begins after 31 October 1994, the following rules apply in respect of a specified debt obligation that is a mark-to-market property of the taxpayer for the year:

(*a*) paragraph *c* of section 87 and sections 92, 157.6 and 167 do not apply to the obligation in computing the taxpayer's income for the year; and

(*b*) there shall be included in computing the taxpayer's income for the year an amount received by the taxpayer in the year as, on account of, in lieu of payment of, or in satisfaction of, interest on the obligation, to the extent that the amount was not included in computing the taxpayer's income for a preceding taxation year.

For the purposes of subparagraph *b* of the first paragraph, where the taxpayer is deemed by section 851.22.15 or paragraph *b* of section 851.22.23 to have disposed of the obligation in a preceding taxation year, no part of an amount included in computing the taxpayer's income for the preceding taxation year because of the disposition shall be in respect of interest on the obligation.

"**851.22.17** There may be deducted in computing the income of a taxpayer for the taxpayer's taxation year that includes 31 October 1994 such amount as the taxpayer claims not exceeding a prescribed amount in respect of properties, other than capital properties, disposed of by the taxpayer because of section 851.22.15.

"**851.22.18** Where a taxpayer deducts an amount under section 851.22.17, there shall be included in computing the taxpayer's income for each taxation year that begins before 1 January 1999 and ends after 30 October 1994 the prescribed portion for the year of the amount so deducted.

"**851.22.19** Such amount as a taxpayer elects, not exceeding a prescribed amount in respect of capital properties disposed of by the taxpayer because of section 851.22.15, is deemed to be an allowable capital loss of the taxpayer for its taxation year that includes 31 October 1994 from the disposition of property.

"**851.22.20** Where a taxpayer elects an amount under section 851.22.19, the taxpayer is deemed, for each taxation year that begins before 1 January 1999 and ends after 30 October 1994, to have a taxable capital gain for the year from the disposition of property equal to the prescribed portion for the year of the amount so elected.

"**851.22.21** Where in a particular taxation year that ends after 30 October 1994, a taxpayer disposed of a specified debt obligation that is a mark-to-market property of the taxpayer for the following taxation year, and either the disposition occurred because of section 851.22.15 and the particular year includes 31 October 1994, or the disposition occurred because of paragraph *b* of section 851.22.23,

(*a*) section 157.6 does not apply to the disposition; and

(*b*) where the conditions set out in subparagraphs i and ii are met, there shall be included in computing the taxpayer's income for the particular year the amount by which the aggregate of all amounts each of which is an amount referred to in subparagraph i exceeds the aggregate of all amounts included under paragraph *i* of section 87 in respect of the obligation in computing the taxpayer's income for the particular year or a preceding taxation year:

i. an amount has been deducted under section 141 in respect of the obligation in computing the taxpayer's income for the particular year or a preceding taxation year, and

ii. section 92.22 does not apply to the disposition.

"**851.22.22** The rules set out in the second paragraph apply where a taxpayer is deemed by section 851.22.15 to have disposed of a property in a taxation year, referred to as a "particular year" in the second paragraph, that includes 31 October 1994 and the following conditions are met:

(*a*) the taxpayer acquired the property before 31 October 1994 at a cost less than the fair market value of the property at the time of acquisition;

(*b*) the property was transferred, directly or indirectly, to the taxpayer by a person that would never have been a financial institution before the transfer if the definition of "financial institution" in section 851.22.1 had always applied; and

(*c*) the cost of the property is less than the fair market value because section 518 applied in respect of the disposition of the property by the person referred to in subparagraph *b*.

The rules to which the first paragraph refers are as follows:

(*a*) where the taxpayer would, but for this subparagraph, have a taxable capital gain for the particular year from the disposition of the property, the part of the taxable capital gain that can reasonably be considered to have arisen while the property was held by a person described in subparagraph *b* of the first paragraph is deemed to be a taxable capital gain of the taxpayer from the disposition of the property for the taxation year in which the taxpayer disposes of the property otherwise than because of section 851.22.15, and not to be a taxable capital gain for the particular year; and

(*b*) where the taxpayer has a profit, other than a capital gain, from the disposition of the property, the part of the profit that can reasonably be considered to have arisen while the property was held by a person described in subparagraph *b* of the first paragraph shall be included in computing the taxpayer's income for the taxation year in which the taxpayer disposes of the property otherwise than because of section 851.22.15, and shall not be included in computing the taxpayer's income for the particular year.

"CHAPTER IV

"ADDITIONAL RULES

"**851.22.23** Where, at a particular time after 22 February 1994, a taxpayer becomes or ceases to be a financial institution,

(*a*) where a taxation year of the taxpayer would not, but for this subparagraph, end immediately before the particular time,

i. the taxation year of the taxpayer that would otherwise have included the particular time is deemed to have ended immediately before that time and a new taxation year of the taxpayer is deemed to have begun at the particular time, and

ii. for the purpose of determining the taxpayer's fiscal period after the particular time, the taxpayer is deemed not to have established a fiscal period before that time;

(*b*) where the taxpayer becomes a financial institution, the taxpayer is deemed to have disposed, immediately before the end of its taxation year that ends immediately before the particular time, for proceeds equal to its fair market value at the time of disposition, of each property held by the taxpayer that is

i. a specified debt obligation, other than a mark-to-market property for the year, or

ii. where the year ends after 30 October 1994, a mark-to-market property for the year;

(*c*) where the taxpayer ceases to be a financial institution, the taxpayer is deemed to have disposed, immediately before the end of its taxation year that ends immediately before the particular time, of each property held by the taxpayer that is a specified debt obligation, other than a mark-to-market property of the taxpayer for the year, for proceeds equal to its fair market value at the time of disposition; and

(*d*) the taxpayer is deemed to have reacquired, at the end of the taxation year referred to in paragraph *b* or *c*, each property deemed by that paragraph to have been disposed of by the taxpayer, at a cost equal to the proceeds of disposition of the property.

"**851.22.24** For the purposes of this Act, the determination of the time when a taxpayer acquired a share shall be made without

regard to a disposition or acquisition that occurred because of section 851.22.15 or 851.22.23.

"**851.22.25** Where a taxpayer is a financial institution in a taxation year, inventory of the taxpayer in the year does not include property that is

(*a*) a specified debt obligation, other than a mark-to-market property for the year; or

(*b*) where the year begins after 31 October 1994, a mark-to-market property for the year.

"**851.22.26** Where a taxpayer that was a financial institution in a taxation year of the taxpayer that includes 23 February 1994 held, on that day, a specified debt obligation, other than a mark-to-market property for the year, that was inventory of the taxpayer at the end of its preceding taxation year,

(*a*) the taxpayer is deemed to have disposed of the property at the beginning of the year for proceeds equal to

i. where subparagraph ii does not apply, the amount at which the property was valued at the end of the preceding taxation year for the purpose of computing the taxpayer's income for that year, and

ii. where the taxpayer is a bank and the property is prescribed property for the year, the cost of the property to the taxpayer, determined without reference to paragraph *b*;

(*b*) for the purpose of determining the taxpayer's profit or loss from the disposition, the cost of the property to the taxpayer is deemed to be the amount referred to in subparagraph i of paragraph *a*; and

(*c*) the taxpayer is deemed to have reacquired the property, immediately after the beginning of the year, at a cost equal to the proceeds of disposition of the property.

"**851.22.27** Where, on 23 February 1994, a financial institution that is a corporation held a specified debt obligation, other than a mark-to-market property for the taxation year that includes that day, that was at an earlier time held by another corporation, the financial corporation is deemed, in respect of the obligation, to be a continuation of the other corporation, if it has not been so otherwise

provided and, between the earlier time and 23 February 1994, the only transactions affecting the ownership of the obligation were rollover transactions.

For the purposes of the first paragraph, "rollover transaction" means a transaction to which sections 545 to 550.2 or 556 to 564.1 and 565 apply, or to which section 832.3 or 832.9 applies, other than a transaction to which subparagraph *a* of the second paragraph of section 832.3 requires the provisions of sections 521 to 526 and 528 to be applied.

"**851.22.28** Section 175.7 does not apply to the disposition of a property by a taxpayer after 30 October 1994 where

(*a*) the taxpayer is a financial institution when the disposition occurs and the property is a specified debt obligation or a mark-to-market property for the taxation year in which the disposition occurs; or

(*b*) the disposition occurs because of paragraph *b* of section 851.22.23."

(2) Subsection 1, except where it enacts sections 851.22.14 to 851.22.23 and 851.22.28 of the said Act, applies to taxation years that end after 22 February 1994. However,

(1) where section 851.22.1 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the reference, in subparagraph *a* of the third paragraph, to "société d'investissement à capital variable" were a reference to "corporation de fonds mutuels" and as if the reference, in subparagraph *b* of the third paragraph, to "fiducie de fonds commun de placements" were a reference to "fiducie de fonds mutuels"; and

(2) where section 851.22.2 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the references in subparagraph *b* of the third paragraph to "droit à titre bénéficiaire" were references to "*beneficial interest*".

(3) Subsection 1, where it enacts sections 851.22.14 to 851.22.22 of the said Act, applies to taxation years that end after 30 October 1994.

(4) Subsection 1, where it enacts section 851.22.23 of the said Act, has effect from 23 February 1994.

(5) Subsection 1, where it enacts section 851.22.28 of the said Act, applies in respect of dispositions occurring after 30 October 1994, except the disposition of a debt obligation before 1 July 1995 where

(1) the disposition is part of a series of transactions or events that began before 31 October 1994;

(2) the taxpayer who acquired the debt obligation disposed of property before 31 October 1994 as part of the series of transactions or events;

(3) it is reasonable to consider that one of the main reasons for the acquisition of the debt obligation by the taxpayer was to obtain a deduction because, as a consequence of the disposition referred to in paragraph 2,

(*a*) an amount was included in computing the taxpayer's income for any taxation year, or

(*b*) an amount was subtracted from a balance of undeducted outlays, expenses or other amounts of the taxpayer and the subtracted amount exceeded the portion of the balance that could reasonably be considered to be in respect of the property.

236. (1) Section 860 of the said Act is replaced by the following section:

"**860.** Each capital gain or capital loss from the disposition of any property by a trust governed by a profit sharing plan is deemed, to the extent that it is allocated by the trust to one of its beneficiaries, to be such a capital gain or capital loss of the beneficiary from the disposition of that property for the taxation year of the beneficiary in which the allocation was made and, for the purposes of Title VI.5 of Book IV, the property is deemed to have been disposed of by the beneficiary on the day on which it was disposed of by the trust."

(2) Subsection 1 applies from the taxation year 1994.

237. (1) Section 935.1 of the said Act, amended by section 203 of chapter 49 of the statutes of 1995, is again amended in the first paragraph

(1) by replacing paragraph *b* of the definition of "completion date" by the following paragraph:

"(*b*) where the amount was received after 1 March 1993 and before 2 March 1994, 1 October 1994, and";

(2) by adding, after paragraph *b* of the definition of "completion date", the following paragraph:

"(*c*) in any other case, 1 October of the calendar year following the calendar year in which the amount was received;";

(3) by replacing paragraph *a* of the definition of "eligible amount" by the following paragraph:

"(*a*) the amount is received after 25 February 1992 pursuant to the written request of the individual on the prescribed form on which the individual sets out the location of a qualifying home that the individual has begun, or intends not later than one year after its acquisition by the individual to begin, using as a principal place of residence,";

(4) by inserting, after paragraph *d* of the definition of "eligible amount", the following paragraph:

"(*d*.1) if the particular time is after 1 March 1994,

i. the individual did not have an owner-occupied home in the period that began on the first day of the fourth calendar year preceding the calendar year that includes the particular time and ended on the 31st day before the particular time, and

ii. the individual's spouse did not have an owner-occupied home in the period referred to in subparagraph i that is inhabited by the individual during the spouse's marriage to the individual, or that is a share of the capital stock of a cooperative housing corporation that relates to a housing unit that is inhabited by the individual during the spouse's marriage to the individual,";

(5) by replacing paragraph *g* of the definition of "eligible amount" by the following paragraph:

"(*g*) if the particular time is after 1 March 1993 and before 2 March 1994, neither the individual, nor another individual who was, at any time after 25 February 1992 and before the particular time, a spouse of the individual, received an eligible amount before 2 March 1993,";

(6) by adding, after paragraph *g* of the definition of "eligible amount", the following paragraphs:

"(*h*) if the particular time is after 1 March 1994 and before 1 January 1995, the individual did not receive an eligible amount before 2 March 1994, and

"(*i*) if the particular time is after 31 December 1994, the individual did not receive an eligible amount before the calendar year that includes the particular time;".

(2) Paragraphs 1 to 4 and 6 of subsection 1 apply from the taxation year 1994.

(3) Paragraph 5 of subsection 1 applies from the taxation year 1992.

238. (1) Section 935.2 of the said Act, amended by section 204 of chapter 49 of the statutes of 1995, is again amended in the first paragraph

(1) by inserting, after subparagraph *a*, the following subparagraph:

"(*a*.1) an individual shall be deemed to have an owner-occupied home at any time where, at that time, the individual owns, whether jointly with another person or otherwise, a housing unit or a share of the capital stock of a cooperative housing corporation and the housing unit is inhabited by the individual as the individual's principal place of residence at that time, or the share was acquired for the purpose of acquiring a right to possess a housing unit owned by the corporation and that unit is inhabited by the individual as the individual's principal place of residence at that time;";

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

"(*d*) where an individual or a spouse of the individual receives an eligible amount before 2 March 1993, at a particular time after 1 March 1993 and before 1 April 1993, or at such later time in 1993 as is acceptable to the Minister, the individual receives another amount that would, if the definition of "eligible amount" in the first paragraph of section 935.1 were read without reference to paragraph *g* thereof, be an eligible amount, and the written request described in paragraph *a* of the said definition pursuant to which the other amount was received was made before 2 March 1993 or at such later time as

is acceptable to the Minister, except for the purposes of this paragraph and paragraphs *a* to *f* of the definition of "eligible amount";

(3) by replacing the portion of subparagraph *e* before subparagraph i by the following subparagraph:

"(*e*) where at a particular time after 1 March 1994 and before 1 April 1994, or at such later time in 1994 as is acceptable to the Minister, an individual receives an amount that would, if paragraph *g* of the definition of "eligible amount" in the first paragraph of section 935.1 were read without reference to the words "and before 2 March 1994", and that definition were read without reference to paragraphs *d*.1 and *h* thereof, be an eligible amount, the written request described in paragraph *a* of that definition pursuant to which the amount was received was made before 2 March 1994 or, where the individual received an eligible amount before 2 March 1994, at such later time as is acceptable to the Minister, and the individual did not make a valid election with the Minister of National Revenue under subparagraph iii of paragraph *e* of subsection 2 of section 146.01 of the Income Tax Act (Revised Statutes of Canada, 1985, chapter 1, 5th Supplement), except for the purposes of this paragraph and paragraphs *a* to *f* of that definition,";

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

"(*f*) where an individual receives an eligible amount in a particular calendar year, at a particular time in January of the following calendar year, or at such later time in that following year as is acceptable to the Minister, the individual receives another amount that would, if the definition of "eligible amount" in the first paragraph of section 935.1 were read without reference to paragraph *i* thereof, be an eligible amount, and the written request described in paragraph *a* of that definition pursuant to which the other amount was received was made before the end of the particular calendar year, except for the purposes of this paragraph and paragraphs *a* to *h* of that definition, the other amount is deemed to have been received by the individual at the end of the particular calendar year and not at the particular time."

(2) Paragraph 1 of subsection 1 applies from the taxation year 1994.

(3) Paragraphs 2 and 3 of subsection 1 apply from the taxation year 1992.

(4) Paragraph 4 of subsection 1 applies from the taxation year 1995.

239. (1) Section 935.3 of the said Act is replaced by the following section:

"**935.3** An individual may designate a single amount for a taxation year on a prescribed form attached to the fiscal return the individual is required to file under section 1000 for the year or, if that return is not required to be filed for the year, filed with the Minister on or before the day on or before which the individual is required to file his fiscal return under section 1000 for the year, if tax were payable by him under this Part for the year, where the amount does not exceed the lesser of

(*a*) the aggregate of all amounts, other than excluded premiums and amounts paid by the individual in the first 60 days of the year that can reasonably be considered to have been either deducted in computing the individual's income for the preceding taxation year or designated under this section for the preceding taxation year, paid by the individual in the year or within 60 days after the end of the year under a retirement savings plan that is at the end of the year or the following taxation year a registered retirement savings plan under which the individual is the annuitant, and

(*b*) the amount by which

i. the aggregate of all eligible amounts received by the individual before the end of the year exceeds

ii. the aggregate of

(1) all amounts designated by the individual under this section for preceding taxation years, and

(2) all amounts each of which is an amount included in computing the income of the individual under section 935.4 or 935.5 for a preceding taxation year."

(2) Subsection 1 applies from the taxation year 1995.

240. (1) Section 935.4 of the said Act, amended by section 205 of chapter 49 of the statutes of 1995, is again amended, in the second paragraph,

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

"i. an amount equal to zero where

(1) the individual died or ceased to be resident in Canada in the particular year, or

(2) the completion date in respect of an eligible amount received by the individual was in the particular year; and";

(2) by replacing subparagraph *d* by the following subparagraph:

"(*d*) D is the lesser of 14 and the number of taxation years of the individual ending in the period beginning on the following dates and ending at the beginning of the particular year:

i. where the completion date in respect of an eligible amount received by the individual was before 1 January 1995, 1 January 1995, and

ii. in any other case, 1 January of the first calendar year beginning after the completion date in respect of an eligible amount received by the individual; and

(3) by replacing subparagraphs i and ii of subparagraph *e* by the following subparagraphs:

"i. where the particular year is the taxation year 1995, the aggregate of all amounts each of which is designated under section 935.3 by the individual for the particular year or a preceding taxation year,

"ii. where the particular year begins after 31 December 1995 and the completion date in respect of an eligible amount received by the individual was in the preceding taxation year, the aggregate of all amounts each of which is designated under section 935.3 by the individual for the particular year or a preceding taxation year, and";

(4) by adding, after subparagraph ii of subparagraph *e*, the following subparagraph:

"iii. in any other case, the aggregate of all amounts designated under section 935.3 by the individual for the particular year."

(2) Subsection 1 applies from the taxation year 1994.

241. (1) Section 935.5 of the said Act is amended by replacing subparagraph i of paragraph *b* by the following subparagraph:

"i. all amounts designated under section 935.3 by the individual in respect of amounts paid not later than 60 days after the particular time and before the individual files a fiscal return for the year, and".

(2) Subsection 1 applies from the taxation year 1995.

242. (1) Section 935.7 of the said Act, amended by section 206 of chapter 49 of the statutes of 1995, is again amended

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

"**935.7** Where an individual's spouse was resident in Canada immediately before the death of the individual in a taxation year, the spouse and the individual's legal representative jointly so elect in writing in the individual's fiscal return under this Part for the year, and either the spouse or the individual did not receive any eligible amount before the death, or the spouse and the individual both received eligible amounts before the death and all the completion dates in respect of those amounts were the same or occurred before 1 January 1995, the following rules apply:";

(2) by striking out the word "and" at the end of paragraph *a* and by replacing paragraph *b* by the following paragraph:

"(*b*) the spouse is deemed to have received an eligible amount at the time of the death equal to the amount that would, but for this section, be determined under section 935.6 in respect of the individual;";

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

"(*c*) for the purpose only of determining whether an amount received after the death is an eligible amount in respect of the spouse, the spouse is deemed to have received all eligible amounts in respect of the individual at the times that those amounts were received by the individual; and

"(*d*) the completion date in respect of the eligible amount deemed by paragraph *c* to have been received by the spouse is deemed to be

i. where the spouse received an eligible amount before the death, the completion date in respect of that amount,

ii. where subparagraph i does not apply and the individual received an eligible amount before the death, the completion date in respect of that amount, and

iii. in any other case, 1 October of the year."

(2) Subsection 1 applies from the taxation year 1994.

243. (1) Chapter III of Title IV.1 of Book VII of Part I of the said Act is repealed.

(2) Subsection 1 applies from the taxation year 1994.

244. Section 958 of the said Act, amended by section 212 of chapter 49 of the statutes of 1995, is again amended by replacing, in paragraph *b*, "a mortgage, a hypothec" by the words "an obligation secured by mortgage".

245. Section 961.1.5 of the said Act, amended by section 213 of chapter 49 of the statutes of 1995, is again amended by replacing, in the French text of paragraph *a*, the words "*beneficial owner*" by the words "propriétaire à titre bénéficiaire".

246. (1) Section 965.1 of the said Act, amended by section 97 of chapter 1 of the statutes of 1995 and by section 99 of chapter 63 of the statutes of 1995, is again amended

(1) by replacing, in paragraph *f*, the words "a corporation mentioned in paragraphs *b* to *e* of section 250.3," by the words "a bank, a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on therein the business of offering its services as trustee, a savings and credit union";

(2) by replacing, in the English text of paragraph *j*. 4, the words "a non-guaranteed debenture or preferred share" by the words "a debenture or non-guaranteed preferred share".

(2) Paragraph 1 of subsection 1 has effect from 23 February 1994.

(3) Paragraph 2 of subsection 1 has effect from 3 May 1991.

247. Section 965.6.21 of the said Act is amended, in the French text, by replacing the word "placements" by the word "placement".

248. (1) The said Act is amended by inserting, after section 979.18, the following:

"TITLE IX

"ELIGIBLE FUNERAL ARRANGEMENTS

"**979.19** In this Title,

"custodian" of an arrangement means

(*a*) where a trust is governed by the arrangement, a trustee of the trust, and

(*b*) in any other case, a qualifying person who receives a contribution under the arrangement as a deposit for the provision by the person of funeral services;

"eligible funeral arrangement" at a particular time means an arrangement established and maintained by a qualifying person solely for the purpose of funding funeral services with respect to one or more individuals and of which there is one or more custodians each of whom was resident in Canada at the time the arrangement was established, where

(*a*) each contribution made before the particular time under the arrangement was made for the purpose of funding funeral services to be provided by the qualifying person with respect to an individual, and

(*b*) for each such individual, the aggregate of all relevant contributions made before the particular time in respect of the individual under the arrangement does not exceed $15,000;

"funeral services" with respect to an individual means property and services that relate directly to funeral, burial, cremation or cemetery arrangements in Canada in consequence of the death of the individual or to any combination of such arrangements;

"qualifying person" means a person licensed or otherwise authorized under the laws of a province to provide funeral services for individuals;

"relevant contribution" in respect of an individual under a particular arrangement means

(*a*) a contribution under the particular arrangement, other than a contribution made by way of a transfer from an eligible funeral arrangement, for the purpose of funding funeral services with respect to the individual, or

(*b*) such portion of a contribution to another arrangement that was an eligible funeral arrangement, other than any such contribution made by way of a transfer from any eligible funeral arrangement, as can reasonably be considered to have subsequently been used to make a contribution under the particular arrangement by way of a transfer from an eligible funeral arrangement for the purpose of funding funeral services with respect to the individual.

"**979.20** Notwithstanding any other provision of this Part,

(*a*) no amount that has accrued, is added or is credited to an eligible funeral arrangement shall be included in computing the income of any person solely because of such accrual, adding or crediting;

(*b*) subject to the second paragraph and section 979.21, no amount shall be

i. included in computing a person's income solely because of the provision by another person of funeral services under an eligible funeral arrangement, or

ii. included in computing a person's income because of the disposition of an interest under an eligible funeral arrangement or an interest in a trust governed by an eligible funeral arrangement.

Subparagraph ii of subparagraph *b* of the first paragraph shall not affect the consequences under this Part of the disposition of any right under an eligible funeral arrangement to payment for the provision of funeral services.

"**979.21** Where at any particular time in a taxation year a particular amount is distributed, otherwise than as payment for the provision of funeral services with respect to an individual, to a taxpayer from an arrangement that was, at the time it was established, an eligible funeral arrangement and the particular amount is paid from the balance in respect of the individual under the arrangement, there shall be added in computing the taxpayer's income for the year from property the lesser of the particular amount and the amount determined by the formula

$$A + B - C.$$

For the purposes of the formula in the first paragraph,

(*a*) A is the balance in respect of the individual under the arrangement immediately before the particular time;

(*b*) B is the aggregate of all payments made from the arrangement before the particular time for the provision of funeral services with respect to the individual; and

(*c*) C is the aggregate of all relevant contributions made before the particular time in respect of the individual under the particular arrangement."

(2) Subsection 1 applies from the taxation year 1993.

249. (1) Section 998 of the said Act, amended by section 236 of chapter 49 of the statutes of 1995 and by section 112 of chapter 63 of the statutes of 1995, is again amended

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

"(*j*.1) a trust governed by an eligible funeral arrangement;";

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

"(*o*) a mining reclamation trust."

(2) Paragraph 1 of subsection 1 applies from the taxation year 1993.

(3) Paragraph 2 of subsection 1 applies from the taxation year 1994.

250. (1) The said Act is amended by inserting, after section 1029.8.36.51 enacted by section 193 of chapter 63 of the statutes of 1995, the following:

"DIVISION II.6.4

"CREDIT IN RESPECT OF MINING RECLAMATION TRUSTS

"**1029.8.36.52** In this division, "Part III.12 tax credit" of a taxpayer for a particular taxation year means the aggregate of

(*a*) all amounts each of which is an amount determined by the formula

$$A \times \frac{B}{C}; \text{ and}$$

(*b*) in respect of each partnership of which the taxpayer is a member, all amounts each of which is the amount that can reasonably be considered to be the taxpayer's share of the amount that would, if the partnership were a person and its fiscal period were its taxation year, be the Part III.12 tax credit of the partnership for its taxation year that ends in the particular year.

For the purposes of the formula in the first paragraph,

(*a*) A is the tax payable under Part III.12 by a mining reclamation trust for a taxation year of the trust, in this paragraph referred to as the "trust's year", that ends in the particular year;

(*b*) B is the amount by which the aggregate of all amounts in respect of the trust that are included, otherwise than because of the taxpayer being a member of a partnership, because of section 692.1 in computing the taxpayer's income for the particular year exceeds the aggregate of all amounts in respect of the trust that are deducted because of that section 692.1 in computing such income; and

(*c*) C is the trust's income for the trust's year, computed in the manner prescribed in the second paragraph of section 1129.52.

"**1029.8.36.53** A taxpayer, other than a taxpayer exempt from tax payable under this Part, is deemed to have paid to the Minister for a taxation year on the day referred to in section 1026.0.1 where the taxpayer is an individual, or in subparagraph *b* of the first paragraph of section 1027 where the taxpayer is a corporation, in respect of that year, or that would be referred to in that section 1026.0.1 or in that subparagraph *b*, as the case may be, if the taxpayer had a remainder of taxes payable for that taxation year, on account of the taxpayer's tax payable under this Part for that year, an amount equal to the amount by which the taxpayer's Part III.12 tax credit for the year exceeds the amount deducted under section 776.1.6 in computing the taxpayer's tax payable under this Part for the year."

(2) Subsection 1 applies to taxation years that end after 22 February 1994.

251. (1) The said Act is amended by inserting, after section 1034.1, the following sections:

"**1034.2** Where property is transferred at any time by a corporation to a taxpayer with whom the corporation does not deal at arm's length at that time and the corporation is not entitled

because of section 346.3 to deduct an amount under section 346.2 in computing its income for a taxation year because of the transfer or because of the transfer and one or more other transactions, the taxpayer is solidarily liable with the corporation to pay an amount of the corporation's tax under this Part for the year equal to the amount by which the fair market value of the property at that time exceeds the fair market value at that time of the consideration given for the property.

However, nothing in this section limits the liability of the corporation under any other provision of this Act.

"**1034.3** Where property is transferred at any time from a taxpayer, in this section referred to as the "transferor", to another taxpayer, in this section referred to as the "transferee", with whom the transferor does not deal at arm's length, the transferor is liable because of this section or section 1034.2, to pay an amount of the tax of another person, in this section referred to as the "debtor", under this Part, and it can reasonably be considered that one of the reasons of the transfer is to prevent the enforcement of this section or section 1034.2, the transferee is solidarily liable with the transferor and the debtor to pay an amount of the debtor's tax under this Part equal to the lesser of the amount of such tax that the transferor was liable to pay at that time and the amount by which the fair market value of the property at that time exceeds the fair market value at that time of the consideration given for the property.

However, nothing in this section limits the liability of the debtor or the transferor under any provision of this Act."

(2) Subsection 1 applies in respect of transfers that occur after 20 December 1994.

252. (1) Section 1035 of the said Act, amended by section 261 of chapter 63 of the statutes of 1995, is replaced by the following section:

"**1035.** The Minister may at any time assess a transferee in respect of any amount payable by virtue of section 1034, an individual in respect of any amount payable by virtue of subsections 1 and 2 of section 1034.1 or a person in respect of any amount payable by that person by virtue of subsection 2.1 of the latter section or section 1034.2 or 1034.3, and this Book applies, with the necessary modifications, to that assessment as though it had been made under Title II."

(2) Subsection 1 applies in respect of transfers that occur after 20 December 1994.

253. (1) Section 1036 of the said Act, amended by section 199 of chapter 1 of the statutes of 1995, is again amended

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

"**1036.** Where a transferor and a transferee, an annuitant and an individual or a taxpayer and another person are, by virtue of any of sections 1034 and 1034.1 to 1034.3, solidarily liable in respect of all or part of a liability of the transferor, annuitant or taxpayer, as the case may be, the following rules apply:";

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

"(*b*) a payment on account of his liability by the transferor, the annuitant or the taxpayer, discharges the liability of the transferee, the individual or the other person, as the case may be, only to the extent that the payment operates to reduce the transferor's, annuitant's or taxpayer's liability to an amount less than the amount in respect of which the transferee, the individual or the other person is solidarily liable by virtue of any of sections 1034 and 1034.1 to 1034.3."

(2) Subsection 1 applies in respect of transfers that occur after 20 December 1994.

254. Section 1036.1 of the said Act, amended by section 170 of chapter 1 of the statutes of 1995 and by section 261 of chapter 63 of the statutes of 1995, is again amended by replacing the second paragraph by the following paragraph:

"The Minister may assess the subsidiary corporation referred to in the first paragraph at any time in respect of an amount payable under that paragraph, and this Book applies, with the necessary modifications, to the assessment as if it were determined under Title II."

255. The said Act is amended by inserting, after section 1056.4, the following section:

"**1056.4.1** For the purposes of section 1056.4, a designation in any form prescribed for the purposes of subparagraph *j* of the first paragraph of section 485.3 or any of sections 485.6 to 485.11 and 485.40 is deemed to be a prescribed election."

256. Section 1069 of the said Act, amended by section 9 of chapter 36 of the statutes of 1995 and by section 236 of chapter 49 of the statutes of 1995, is again amended

(1) by replacing, in subparagraph *a*.1 of the first paragraph, "or 985.4.3" by ", as it read before being repealed, or to section 985.4.3";

(2) by replacing, in the French text of the third paragraph, the word "oeuvres" by the word "oeuvre".

257. Section 1079.3 of the said Act is amended by replacing, in the French text, "à laquelle sont joints une somme de 200 $ et un engagement" by "accompagnée d'une somme de 200 $ et d'un engagement".

258. (1) Section 1079.11 of the said Act is amended by replacing the word "section" by the word "Title".

(2) Subsection 1 has effect from 13 September 1988.

259. (1) Section 1091 of the said Act, amended by section 183 of chapter 1 of the statutes of 1995, is again amended by replacing the portion before paragraph *a* by the following:

"**1091.** The taxable income earned in Canada by an individual contemplated in section 26 is equal to the amount by which the aggregate of income contemplated in section 1090, calculated without reference, in subparagraph *a* of the first paragraph of the said section 1090, to ", calculated without reference to section 36.1,", and the amount that, had he been resident in Québec throughout the year, would be included under section 313.8 in computing his income for the year, exceeds the aggregate of".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

260. Section 1096.1 of the said Act is amended by replacing, in the French text, the words "une ou plusieurs places fixes" and "une place fixe" by the words "un ou plusieurs lieux fixes" and "un lieu fixe", respectively.

261. Section 1097 of the said Act is amended by replacing the portion before subparagraph *a* of the first paragraph by the following:

"**1097.** An individual not resident in Canada who proposes to dispose of a taxable Québec property other than a depreciable property, a property contemplated in any of paragraphs *c* to *i* of section 1094, a share of the capital stock of a public corporation, or an interest therein, a unit of a mutual fund trust, or a bond, debenture, bill, note, obligation secured by mortgage or similar obligation may, before the disposition, send to the Minister a notice setting out:".

262. (1) Section 1106 of the said Act is replaced by the following section:

"**1106.** Where at any particular time a dividend becomes payable by a corporation that is an investment corporation throughout the taxation year during which the dividend becomes payable, the corporation may elect in prescribed manner, in respect of the full amount of the dividend, that the following rules apply:

(*a*) the dividend is deemed to be a capital gains dividend payable out of the corporation's capital gains dividend account, within the meaning of the regulations, to the extent that it does not exceed the corporation's capital gains dividend account at that time;

(*b*) notwithstanding any other provision of this Act, any amount received in a taxation year by a taxpayer as the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but is deemed to be a capital gain of the taxpayer for the year from a disposition, in the year and after 22 February 1994, by the taxpayer of capital property."

(2) Subsection 1 applies in respect of dividends paid after 22 February 1994. However, where paragraph *a* of section 1106 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the references therein to "dividendes sur les gains en capital" and "dividende sur les gains en capital" were references to "dividendes à même les gains en capital" and "dividende à même les gains en capital", respectively.

263. (1) Section 1108 of the said Act, amended by section 234 of chapter 49 of the statutes of 1995, is replaced by the following section:

"**1108.** In this Book,

"mortgage investment corporation" has the meaning assigned by the regulations;

"taxed capital gains" has the meaning assigned by section 1104.0.1."

(2) Subsection 1 has effect from 23 February 1994.

264. (1) Section 1113 of the said Act is replaced by the following section:

"**1113.** Where a dividend is paid at any particular time during the period referred to in section 1110, the mortgage investment corporation may elect in prescribed manner, in respect of the full amount of the dividend, that the following rules apply:

(*a*) the dividend is deemed to be a capital gains dividend to the extent that it does not exceed the amount by which

i. 4/3 of the taxed capital gains of the corporation for the year exceeds

ii. the aggregate of all dividends, and parts of dividends, paid by the corporation during the period and before the particular time that are deemed under this paragraph to be capital gains dividends;

(*b*) notwithstanding any other provision of this Act, any amount received in a taxation year by a taxpayer as the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but is deemed to be a capital gain of the taxpayer for the year from a disposition, in the year and after 22 February 1994, by the taxpayer of capital property."

(2) Subsection 1 applies in respect of dividends paid after 22 February 1994. However, where paragraph *a* of section 1113 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read as if the reference, in the portion before subparagraph i, to "dividende sur les gains en capital" were a reference to "dividende à même les gains en capital" and as if the reference, in subparagraph ii, to "dividendes sur les gains en capital" were a reference to "dividendes à même les gains en capital".

265. The heading of Book III of Part III of the said Act is replaced, in the French text, by the following heading:

"SOCIÉTÉS D'INVESTISSEMENT À CAPITAL VARIABLE".

266. (1) Section 1116 of the said Act is replaced by the following section:

"**1116.** Where at any particular time a dividend becomes payable by a corporation that is a mutual fund corporation throughout the taxation year during which the dividend becomes payable, the corporation may elect in prescribed manner, in respect of the full amount of the dividend, that the following rules apply:

(*a*) the dividend is deemed to be a capital gains dividend payable out of the corporation's capital gains dividend account, within the meaning of the regulations, to the extent that it does not exceed the corporation's capital gains dividend account at that time;

(*b*) notwithstanding any other provision of this Act, any amount received in a taxation year by a taxpayer as the dividend shall not be included in computing the taxpayer's income for the year as income from a share of the capital stock of the corporation, but is deemed to be a capital gain of the taxpayer for the year from a disposition, in the year and after 22 February 1994, by the taxpayer of capital property."

(2) Subsection 1 applies in respect of dividends paid after 22 February 1994. However, where section 1116 of the said Act, enacted by subsection 1, applies before (*insert here the date of assent to this Act*), the French text thereof shall be read

(*a*) as if the reference, in paragraph *a*, to "société d'investissement à capital variable" were a reference to "corporation de fonds mutuels";

(*b*) as if the references, in paragraph *a*, to "dividendes sur les gains en capital" and "dividende sur les gains en capital" were references to "dividendes à même les gains en capital" and "dividende à même les gains en capital", respectively.

267. (1) Section 1117 of the said Act is amended

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

"**1117.** Sous réserve de l'article 1117.1, une corporation est une société d'investissement à capital variable à un moment quelconque dans une année d'imposition si, à ce moment, elle est une corporation prescrite ou, à la fois:";

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

"(*b*) its only undertaking is

i. the investing of its funds in property, other than real property,

ii. the acquiring, holding, maintaining, improving, leasing or managing of any real property that is capital property of the corporation, or

iii. any combination of the activities described in subparagraphs i and ii;".

(2) Paragraph 2 of subsection 1 applies from the taxation year 1994.

268. Section 1122 of the said Act is amended

(1) by replacing, in the portion of paragraph *a* before subparagraph i, the words "and other long-term liabilities" by ", debentures and other long-term liabilities";

(2) by replacing, in subparagraph iii of paragraph *a*, the words "and other long-term liabilities" by ", debentures and other long-term liabilities";

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

"i. the ownership of or trading in bonds, shares, debentures, titles of indebtedness, acknowledgments of debt, notes, obligations secured by mortgage or other similar property, or an interest therein;".

269. Section 1129.17 of the said Act, amended by section 199 of chapter 1 of the statutes of 1995, is again amended by replacing, in the French text, the word "émis" by the word "délivré".

270. (1) The said Act is amended by inserting, after section 1129.50 enacted by section 235 of chapter 49 of the statutes of 1995, the following:

"PART III.12

"TAX ON MINING RECLAMATION TRUSTS

"**1129.51** In this Part,

"mining reclamation trust" has the meaning assigned by section 21.39;

"minister" means the Minister of Revenue;

"taxation year" has the meaning assigned by Part I.

"**1129.52** Every trust that is a mining reclamation trust resident in Québec at the end of a taxation year shall pay a tax for the year equal to 16.25% of its income under Part I for the year.

For the purposes of the first paragraph, the income under Part I of a mining reclamation trust shall be computed without reference to sections 652, 653 to 657.4, 659 to 668.3, 669.1 to 671.4, 678 to 682, 684 to 689, 690.0.1 and 691 to 692.

"**1129.53** Every trust that is a mining reclamation trust resident in Québec at the end of a taxation year shall, within 90 days after the end of the year,

(*a*) file with the Minister, without notice or demand therefor, a return under this Part for the year in prescribed form;

(*b*) estimate, in the return, the amount of its tax payable under this Part for the year; and

(*c*) pay to the Minister the amount of its tax payable under this Part for the year.

"**1129.54** Except where inconsistent with this Part, sections 11.4, 1000 to 1024 and 1031 to 1079.16 apply, with the necessary modifications, to this Part."

(2) Subsection 1 applies from the taxation year 1994.

271. (1) Section 1130 of the said Act, amended by section 192 of chapter 1 of the statutes of 1995 and by section 237 of chapter 63 of the statutes of 1995, is again amended by replacing the definition of "corporation trading in securities" by the following definition:

" "corporation trading in securities" means a corporation that is a registered securities dealer within the meaning assigned by section 1;".

(2) Subsection 1 applies to taxation years that begin after 9 May 1995.

272. Section 1171 of the said Act is amended by replacing the words "une place d'affaires" wherever they appear in the French text by the words "un lieu d'affaires".

273. (1) The said Act, amended by chapter 40 of the statutes of 1994 and by chapters 1, 18, 36, 49 and 63 of the statutes of 1995, is again amended

(1) by replacing, in the French text, the words "à la date de l'aliénation" by the words "au moment de l'aliénation" in the following provisions:

— the second paragraph of section 167;
— paragraphs *b* and *c* of section 522;
— paragraph *c* of section 532;

(2) by replacing the words "pursuant to a decree", "pursuant to the decree", "pursuant to an order", and "pursuant thereto" by the words "under a decree", "under the decree", "under an order" and "thereunder", respectively, wherever they appear in the following provisions:

— section 312.1;
— the portion of section 313.0.5 before paragraph *b*;
— section 336.0.1;
— the portion of section 336.4 before paragraph *b*;
— paragraph *i* of section 345;
— the first paragraph of section 1029.8.53;

(3) by replacing, in the English text, the words "an qualified" by the words "a qualified" wherever they appear in the following provisions:

— the first paragraph of section 119.9;
— section 771.7;
— section 1029.2.1;
— section 1053.2;

(4) by striking out the words ", within the meaning of section 777," in the following provisions:

— subparagraph *a* of the third paragraph of section 232.1;
— the second paragraph of section 752.0.13.5;

(5) by replacing the words "section 985.4.1 or 985.4.3" by the words "section 985.4.1, as it read before being repealed, or section 985.4.3", in the following provisions:

— subparagraph *a* of the first paragraph of section 985.1.1;
— subparagraph *d* of the first paragraph of section 985.1.2;

(6) by replacing, in the French text, the words "*beneficial interest*" or "*beneficial interests*" by the words "droit à titre bénéficiaire" and "droits à titre bénéficiaire", respectively, wherever they appear in the following provisions:

— section 7.11;
— section 7.11.1;
— paragraph *b* of section 21.18;
— subparagraph 2 of subparagraph i of paragraph *f* of section 21.20.2;
— subparagraph iii of paragraph *f* of section 21.20.2;
— subparagraph i of subparagraph *b* of the second paragraph of section 274.0.1;
— subparagraph *c* of the second paragraph of section 274.0.1;
— the definition of "bénéficiaire" in the third paragraph of section 316.1;
— paragraph *a* of section 359.9.1;
— section 430;
— section 462.8;
— paragraph *a* of section 462.12.1;
— section 462.21;
— paragraph *b* of section 593;
— paragraphs *a* and *c* of section 596;
— the second paragraph of section 646;
— section 649.1;
— the portion of section 656.6 before paragraph *a*;
— the portion of paragraph *c* of section 656.7 before subparagraph i;
— subparagraphs 1 and 2 of subparagraph i of paragraph *c* of section 656.7;
— subparagraph 3 of subparagraph ii of paragraph *c* of section 656.7;

(7) by replacing, in the French text, the words "compte de dividende à même les gains en capital" by the words "compte de dividendes sur les gains en capital" in the following provisions:

— section 550;
— section 567;
— paragraph *a* of section 568;

(8) by replacing, in the French text, the words "compte de dividende en capital" by the words "compte de dividendes en capital" wherever they appear in the following provisions:

— paragraph *a* of section 502;
— the portion of section 502.0.2 before paragraph *b*;
— section 502.0.3;
— the portion of section 502.0.4 before paragraph *c*;
— section 550;
— section 567;
— paragraph *a* of section 568;

(9) by replacing, in the French text, the words "corporation de fonds mutuels" by the words "société d'investissement à capital variable" wherever they appear in the following provisions:

— the portion of section 726.17 before paragraph *a*;
— the second paragraph of section 740.1;
— the portion of section 1117.1 before paragraph *a*;
— section 1118;
— section 1118.1;
— section 1119;

(10) by replacing, in the French text, the word "détenteur", "DÉTENTEUR" and "détenteurs" by the words "titulaire", "TITULAIRE" and "titulaires", respectively, wherever they appear in the following provisions:

— paragraph *c* of section 163.1;
— the first paragraph of section 832;
— subparagraphs *a* and *b* of the second paragraph of section 832;
— paragraphs *a* and *b* of section 832.0.1;
— subparagraph i of paragraph *d* of section 840;
— paragraph *c* of section 851.10;
— the heading of Division III of Chapter IV of Title V of Book VI of Part I;
— section 851.11;
— section 851.12;
— section 851.13;
— section 851.14;
— section 851.15;
— section 851.16;
— paragraph *c* of section 851.18;
— section 851.19;
— subsection 1 of section 851.20;
— paragraphs *a* and *d* of section 851.21;
— section 851.22;
— paragraph *b*.2 of section 966;
— the portion of paragraph *b*.4 of section 966 before subparagraph 2 of subparagraph i;

— paragraph *c* of section 966;
— the portion of paragraph *b* of section 967 before subparagraph i;
— the portion of section 977 before paragraph *b*;
— the first paragraph of section 1170;

(11) by replacing, in the French text, the words "dividende à même les gains en capital" by the words "dividende sur les gains en capital" in the following provisions:

— subparagraphs *a* to *c* of the first paragraph of section 744;
— paragraph *h* of section 1104;
— section 1112;

(12) by replacing, in the French text, the words "dividendes à même les gains en capital" by the words "dividendes sur les gains en capital" in the following provisions:

— section 1109;
— section 1110;

(13) by replacing, in the French text, the word "émise" by the word "délivrée" in the following provisions:

— section 712.0.1;
— subparagraph *f* of the second paragraph of section 737.15;
— the portion of section 737.16.1 before paragraph *a*;
— section 752.0.10.7;
— paragraph *b* of the definition of "corporation admissible" in the first paragraph of section 1029.8.34;
— subparagraph ii of paragraph *b* of the definition of "dépense de main-d'oeuvre" in the first paragraph of section 1029.8.34;

(14) by replacing, in the French text, the words "fiducie de fonds mutuels" or "FIDUCIE DE FONDS MUTUELS" by the words "fiducie de fonds commun de placements" and "FIDUCIE DE FONDS COMMUN DE PLACEMENTS", respectively, wherever they appear in the following provisions:

— subsection 1 of section 668;
— section 768;
— the portion of section 770 before paragraph *a*;
— the portion of section 776.42 before paragraph *a*;
— paragraph *d* of section 965.10;
— paragraph *a*.0.1 of subsection 2 of section 1010;
— subparagraph *b* of the second paragraph of section 1051;
— paragraphs *g* and *h* of section 1094;

— the heading of Book IV of Part III;
— section 1120;
— the portion of section 1120.1 before paragraph *a*;
— section 1121;
— the portion of section 1121.1 before paragraph *a*;
— the portion of section 1121.2 before paragraph *a*;
— section 1121.3;
— section 1121.6;

(15) by replacing, in the French text, the words "joint à" by the words "transmet avec" in the following provisions:

— the first paragraph of section 93.9;
— the portion of the first paragraph of section 358.0.1 before subparagraph *a*;

(16) by replacing, in the French text, the words "métal brut" by the words "métal primaire" in the following provisions:

— subparagraph ii of subparagraph *b* of the first paragraph of section 89;
— subparagraph ii of paragraph *b* of subsection 1 of section 144;
— subparagraph *a* of the first paragraph of section 360;
— subparagraph i of subparagraph *b* of the second paragraph of section 414;
— subparagraph *c* of the second paragraph of section 418.15;

(17) by replacing, in the French text, the words "ou des obligations" by ", des obligations ou des débentures" in the following provisions:

— subparagraph *b* of the second paragraph of section 294;
— subsection 1 of section 295;

(18) by replacing, in the French text, the word "répudiation" by the word "renonciation" in the following provisions:

— paragraph *b* of section 7.1;
— section 7.4;

(19) by replacing, in the French text, the words "sa principale place d'affaires" by the words "son principal lieu d'affaires" in the following provisions:

— paragraph *a* of section 175.4;
— paragraph *a* of section 965.11.5;

— paragraph *a* of section 965.11.7.1;
— paragraph *a* of section 965.13;
— paragraph *a* of section 965.16;
— paragraph *a* of section 965.16.0.1;
— paragraph *a* of section 965.17.2;
— paragraph *a* of section 965.17.3;

(20) by replacing, in the French text, the words "une place fixe" by the words "un lieu fixe" in the following provisions:

— the first paragraph of section 12;
— paragraph *b* of section 487.0.3;
— section 487.0.4;
— subparagraph ii of subparagraph *j* of the second paragraph of section 890.1;
— the portion of section 890.5 before paragraph *a*.

(2) Paragraph 3 of subsection 1, except where it amends the English text of the first paragraph of section 119.9 of the said Act, applies to taxation years that end after 30 June 1994.

(3) Paragraph 4 of subsection 1 applies to taxation years that end after 21 February 1994.

ACT RESPECTING THE APPLICATION OF THE TAXATION ACT

274. (1) Section 15 of the Act respecting the application of the Taxation Act (R.S.Q., chapter I-4) is amended

(1) by inserting, in paragraph *a* and after the words "Taxation Act", the words "(chapter I-3)";

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

"i. for the purposes of the Taxation Act, other than, where paragraph *d*.1 of section 99 of that Act applies in determining the capital cost to that person of the property, for the purposes of sections 64, 78.4, 93 to 104, 130 and 130.1 of that Act, that other person is deemed to have acquired the property at a capital cost equal to the proceeds deemed to have been received for the property by the person from whom the property was acquired, and";

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

"(*c*) where the taxpayer is deemed to have reacquired the property under section 726.9.2 of the Taxation Act,

i. for the purposes of the Taxation Act, other than, where paragraph *d*.1 of section 99 of that Act applies in determining the capital cost to the taxpayer of the property, for the purposes of sections 64, 78.4, 93 to 104, 130 and 130.1 of that Act, the taxpayer is deemed to have reacquired the property at a capital cost equal to the taxpayer's proceeds of disposition of the property determined under paragraph *a* in respect of the disposition that immediately preceded the reacquisition, and

ii. for the purposes of this section, the taxpayer's capital cost of the property after the reacquisition is deemed to be equal to the taxpayer's capital cost of the property before the reacquisition, and the taxpayer is deemed to have owned the property without interruption from 31 December 1971 until such time after 22 February 1994 as the taxpayer disposes of it."

(2) Paragraph 2 of subsection 1 applies in respect of acquisitions of property made after 22 May 1985.

(3) Paragraph 3 of subsection 1 applies from the taxation year 1994.

275. Section 52 of the said Act is amended by replacing the portion before paragraph *b* by the following:

"**52.** In this chapter,

(*a*) "obligation" includes a debenture, bill, note, obligation secured by mortgage, agreement of sale or any other similar obligation;".

276. (1) Section 59 of the said Act is amended by replacing the first paragraph by the following paragraph:

"**59.** For the purposes of sections 263 and 485 to 485.18 of the Taxation Act (chapter I-3), the principal amount of any debt or other obligation that was outstanding on 1 January 1972 is deemed to be equal to the lesser of the principal amount, otherwise determined for the purposes of the said Act, and the fair market value, on valuation day, of the obligation."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

277. (1) Section 68 of the said Act is amended by replacing subparagraph *c* of the first paragraph by the following subparagraph:

"(*c*) the amount by which the aggregate of the proceeds of disposition of the capital property, determined without reference to sections 93.1 to 93.3 of the Taxation Act (chapter I-3), all amounts required by section 257 of the said Act to be deducted in computing the adjusted cost base to the taxpayer immediately before the disposition, and all amounts described in paragraph *e* of section 70 that are relevant in computing the adjusted cost base to the taxpayer immediately before the disposition, exceeds the aggregate of all amounts required by section 255 of the said Act, if that section were read without reference to paragraphs *c*.1, *c*.1.1, *f*.1 and *h*.0.0.1 thereof, to be included in computing the adjusted cost base to the taxpayer immediately before the disposition and all amounts described in paragraph *b* of section 70 that are relevant in computing the adjusted cost base to the taxpayer immediately before the disposition."

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

278. (1) Section 70 of the said Act is amended by replacing paragraph *d* by the following paragraph:

"(*d*) a capital loss or an amount that would, but for sections 239, 264.0.1, 264.0.2, 534 and 535 of the said Act, be a loss from the disposition to a corporation after 1971 of capital property by the person described in paragraph *a*;".

(2) Subsection 1 applies to taxation years that end after 21 February 1994.

279. Section 86 of the said Act is amended by replacing the portion before paragraph *a* by the following:

"**86.** Where, after 6 May 1974, there has been an amalgamation within the meaning of section 544 of the Taxation Act (chapter I-3) and a taxpayer who, on 31 December 1971 and thereafter without interruption until immediately before the amalgamation, owned a property, in this section referred to as the "old property", that was a share of the capital stock of a predecessor corporation, an option to acquire such a share, or a bond, debenture, obligation secured by mortgage, note or other similar obligation of such corporation, has received as sole consideration for the disposition of such property on the amalgamation, property of the new corporation, in this section referred to as the "new property" which is, respectively, as the case

may be, a share of the capital stock of the new corporation, an option to acquire such a share, or a bond, debenture, obligation secured by mortgage, note or other similar obligation of the new corporation, the following rules apply, notwithstanding any other provision of this Act or of the Taxation Act, for the purpose of determining the cost to the taxpayer and the adjusted cost base to the taxpayer of the new property:".

280. The said Act is amended by inserting, after section 88.1, the following:

"DIVISION V

"PROPERTY DEEMED DISPOSED OF ON 22 FEBRUARY 1994

"**88.2** Where section 726.9.2 of the Taxation Act (chapter I-3) applies to a particular property, for the purposes of determining the cost and the adjusted cost base to a taxpayer of any property at any time after 22 February 1994, the particular property is deemed not to have been owned by any taxpayer on 31 December 1971."

281. Section 95 of the said Act is amended by replacing the words "or hypothecs" by the words ", obligations secured by mortgage or agreements of sale".

ACT RESPECTING THE APPLICATION OF THE TAXATION ACT

282. (1) Section 88 of the Act respecting the application of the Taxation Act (1972, chapter 24), amended by section 42 of chapter 18 of the statutes of 1973, is again amended by replacing, in the French text, the words "hydrocarbures apparentés" by the words "hydrocarbures connexes" wherever they appear.

(2) Subsection 1 applies to taxation years that end after 30 November 1991.

ACT TO AGAIN AMEND THE TAXATION ACT AND OTHER FISCAL LEGISLATION

283. (1) Section 5 of the Act to again amend the Taxation Act and other fiscal legislation (1991, chapter 25), amended by section 374 of chapter 16 of the statutes of 1993 and by section 248 of chapter 49 of the statutes of 1995, is again amended by striking out subsection 3.

(2) Subsection 1 has effect from 20 June 1991.

ACT TO AMEND THE TAXATION ACT AND OTHER FISCAL LEGISLATION

284. (1) Section 374 of the Act to amend the Taxation Act and other fiscal legislation (1993, chapter 16) is repealed.

(2) Subsection 1 has effect from 15 June 1993.

ACT TO AMEND THE TAXATION ACT AND OTHER FISCAL PROVISIONS

285. (1) Section 248 of the Act to amend the Taxation Act and other fiscal provisions (1995, chapter 49) is repealed.

(2) Subsection 1 has effect from 7 December 1995.

ACT TO AMEND THE TAXATION ACT, THE ACT RESPECTING THE QUÉBEC SALES TAX AND OTHER LEGISLATIVE PROVISIONS

286. (1) Section 177 of the Act to amend the Taxation Act, the Act respecting the Québec sales tax and other legislative provisions (1995, chapter 63) is amended by replacing subsection 2 by the following subsection:

"(2) Subsection 1 applies to taxation years beginning after 31 December 1995. Furthermore, where Division II.6.1 of Chapter III.1 of Title III of Book IX of Part I of the Taxation Act, repealed by subsection 1, applies to a taxation year that ends after 9 May 1995, it applies to that year only in respect of

(*a*) a qualified investment made on or before 9 May 1995 for which the Société de développement industriel du Québec issues a validation certificate where,

i. the application for the validation certificate in respect of the qualified investment meets all the requirements of the Act to promote the capitalization of small and medium-sized businesses (R.S.Q., chapter A-33.01) and the regulations made thereunder and is filed with the Société de développement industriel du Québec on or before 30 September 1995, and

ii. the amount of the qualified investment certified does not exceed the amount specified in that respect in the application referred to in subparagraph i;

(*b*) a qualified investment made on or before 31 December 1995 where the application for the validation certificate was filed on or before 9 May 1995."

(2) Subsection 1 has effect from 15 December 1995.

287. (1) Sections 219 and 230 to 232 of the said Act are amended, in subsection 2, by replacing "9 May 1995" by "31 December 1995".

(2) Subsection 1 has effect from 15 December 1995.

288. This Act comes into force on (*insert here the date of assent to this Act*).