Ministère du Revenu du Québec
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The Tax Effects of Amounts Received under a Disaster Relief Program

Québec

The information contained in this brochure does not constitute a legal interpretation of the Taxation Act or any other legislation. For further information, contact the office of the Ministère du Revenu du Québec in your area.

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Introduction

The purpose of this brochure is to inform individuals of the tax treatment accorded to amounts of financial assistance received from various sources further to a natural disaster. The types of assistance are explained without reference to a specific type of natural disaster. The last chapter contains a table summarizing the tax treatment accorded to financial assistance for different kinds of property.

If you require additional information, please contact the office of the Ministère in your area.

General information

A. Definitions

Adjusted cost base (ACB)

The *adjusted cost base* of a property is generally equal to the acquisition cost, plus the expenses (legal fees, surveying and assessment costs, brokerage fees, etc.) incurred to acquire the property and the cost of additions or improvements to the property (capital expenditures). For depreciable property, the result thus obtained constitutes the capital cost of the property. For other property, the result constitutes the cost of the property and must in certain cases be adjusted.

Depreciable property

Depreciable property is property in respect of which a taxpayer may claim *capital cost allowance*. Such property therefore includes all property acquired for the purpose of carrying on a business or earning property income, with the exception of land, which is non-depreciable regardless of whether it is acquired for personal purposes or to earn income.

For the purpose of calculating capital cost allowance, depreciable property is divided into different classes prescribed in the Regulation respecting the Taxation Act. Each class of property has its own capital cost allowance rate, calculation method and maximum depreciable amount.

Fair market value (FMV)

The *fair market value* of a property is the highest value obtainable in the open market, when the buyer and seller are acting of their own free will, are well-informed and are acting independently of each other.

Personal-use property

Personal-use property is property such as furniture, a house, a boat, an automobile, antiques or personal effects that are owned in whole or in part by a taxpayer and that serve primarily for his or her personal use or enjoyment, or for the personal use or enjoyment of one or more persons who form part of a group to which the taxpayer and the persons related to the taxpayer belong. Personal-use property is not considered depreciable property, as it is not acquired in order to earn business or property income.

Undepreciated capital cost (UCC)

The *undepreciated capital cost* of **a given property** is generally equal to

- its capital cost,

minus

- the total capital cost allowance claimed for previous years.

The *undepreciated capital cost* of the **property in a given class** is generally equal to

- the total capital cost of all properties in the class,

minus

- the aggregate of
  - the total selling price of all properties in the class (not exceeding their capital cost), and
  - the total capital cost allowance claimed for previous years.

B. Designation of a principal residence

You may designate as your principal residence for a given year property that is ordinarily inhabited by you, your spouse, your former spouse or your child during the year, if the property is

- a house, an apartment in a duplex, condominium or apartment building, a cottage, a mobile home, a trailer or a floating home;
- a leasehold interest in a housing unit; or
- a share of the capital stock of a housing co-operative, where the share was acquired for the purpose of obtaining the right to inhabit a housing unit owned by the co-operative.

A principal residence is deemed to comprise the land on which it stands and the surrounding land that is necessary for the owner's use and enjoyment. However, any portion of the total lot exceeding one-half hectare is not considered part of the principal residence, unless the owner can show that the surplus is necessary for the use and enjoyment of the residence.

Property may be designated as your principal residence only if **all** of the following conditions are met:

- You owned the property, alone or jointly with another person.
- You designate the property, to the exclusion of any other, as your principal residence for the year.
- No other property is designated as the principal residence for the year (in the case of years after 1981) by
  – you;
  – your spouse, unless he or she lived apart from you **throughout** the year, pursuant to a judicial separation or a written separation agreement;
  – your child, unless he or she was, during the year, either married or aged 18 or over;
  – your father or mother, or a sister or brother (unless the sister or brother was married or aged 18 or over during the year), if you yourself were neither married nor aged 18 or over during the year.

To designate property as your principal residence, complete form TP-274-V, *Designation of Property as a Principal Residence*, and enclose it with your income tax return. The form contains additional information concerning the tax treatment applicable to the sale of a principal residence.

C. Criteria used to determine whether a residence remains a principal residence

If your residence is used in part to earn income, the Ministère generally considers the property as a whole to be your principal residence if **all** of the following conditions are met:

- No structural changes are made to the property.
- The portion of the property used to earn income is not unduly large in relation to the portion used as your residence.
- Capital cost allowance is not claimed with respect to the property.

In the following examples, the property can still be considered a principal residence, even if a room that forms an integral part of the residence is used to earn income:

- A room that does not constitute a self-contained dwelling is rented to a boarder.
- A room is used for child-care purposes.
- A room is used as an office or workspace.

D. Residence located on farmland

If your residence is located on farmland that you own and if, further to a natural disaster, you are considered to have sold the land and the residence, you may, pursuant to section 273 of the Taxation Act, choose one of two methods for determining the capital gain realized on the sale. For further information, contact the office of the Ministère du Revenu in your area.

General rules

A. Damage resulting in a total loss

In the case of damage resulting in a total loss, an involuntary sale of the property is considered to have occurred. The tax treatment applicable to an involuntary sale is the same as for an actual sale. Since, for taxation purposes, you are considered to have sold the property, the compensation or financial assistance you receive with respect to the property is considered to be the selling price.

As a rule, the sale of a property results in a capital gain if the selling price is higher than the adjusted cost base of the property, and in a capital loss if the selling price is lower than the adjusted cost base of the property. The taxable portion of a capital gain or the allowable portion of a capital loss is equal to a percentage of the gain or loss (see Chapter 7).

A capital loss may be deducted only from a capital gain. However, a loss sustained on the sale of depreciable property does not constitute a capital loss; rather, it is a terminal loss, which is 100% deductible from business or property income, provided the property sold is the last one remaining in the class. A capital loss sustained on the sale of personal-use property is deductible only if the property is classed as precious property.

B. Damage not resulting in a total loss

In the case of damage not resulting in a total loss, the tax treatment differs depending on whether the financial assistance is used within a reasonable length of time to repair the property.

1. Financial assistance used within a reasonable length of time to repair the property

Assistance that covers property used to earn income must be included in your income, but the expenses incurred to repair the property are deductible.

Assistance that covers personal-use property does not have to be included in income; consequently, the expenses incurred to repair the property are not deductible.

2. Financial assistance not used within a reasonable length of time to repair the property

An involuntary sale of the property is considered to have occurred, and the tax treatment is the same as that applicable to an actual sale. Since, for taxation purposes, you are considered to have sold your property, the compensation or financial assistance received with respect to the property is considered to be the selling price.

Financial assistance with respect to property

A. Principal residence or secondary residence

1. Damage resulting in a total loss

In the case of damage resulting in a total loss, an involuntary sale is considered to have occurred, and the tax treatment is the same as for an actual sale. Consequently, the assistance is considered to be the selling price of the residence, and a capital gain or loss may result. In the case of a capital gain, all or part of the gain is exempted from income tax if you designate the property as your principal residence. If the designation covers all the years you owned the property, the capital gain is 100% tax-exempt.

If you do not designate the property as your principal residence, you must apply the rules for personal-use property (see section B opposite).

If there is a capital gain and you acquired replacement property, you may wish to make an election under section 279 of the Taxation Act. For further information, see Chapter 9.

A capital loss sustained on a residence is not deductible.

2. Damage not resulting in a total loss

If the damage to your principal residence does not result in a total loss, no involuntary sale of the residence is considered to have taken place **provided you use the financial assistance, within a reasonable length of time, to repair the damage**. In such circumstances the assistance is not taxable and the expenses incurred to repair the damage are not deductible.

Where the damage is not repaired within a reasonable time, an involuntary sale is considered to have occurred, and the tax treatment is the same as for an actual sale.

B. Personal-use property (household furnishings, automobile used exclusively for personal purposes, precious property, etc.)

See the definition of *personal-use property* in Chapter 1.

1. Damage resulting in a total loss

In the case of damage resulting in a total loss, an involuntary sale is considered to have occurred, and the tax treatment is the same as for an actual sale. Consequently, the assistance is considered to be the selling price of the property, and a capital gain or loss may result.

You are required to report capital gains realized on the sale of personal-use property **only if the selling price exceeds $1,000**. In this case, the adjusted cost base (ACB) is deemed equal to $1,000 or the actual amount of the ACB, whichever is higher.

You must report the capital gain on line 16 or 18 of Schedule G of your income tax return.

If there is a capital gain and you acquired replacement property, you may wish to make an election under section 279 of the Taxation Act. For further information, see Chapter 9.

A capital loss sustained on the sale of personal-use property is deductible **only** if the property is classed as precious property (see the note below).

Note: Precious property is personal-use property such as prints, etchings, drawings, paintings, sculptures and similar works of art, as well as jewellery, stamps and coins, and rare folios, books and manuscripts. Losses on the sale of precious property may be used only to reduce gains realized on the sale of other precious property. If your losses for the year on precious property exceed your gains on such property, you may use the excess amount to reduce your capital gains on precious property for the three previous years and the seven subsequent years. If you wish to reduce your capital gains for previous years, complete form TP-1012.A-V, *Carry-Back of a Loss*, and file it separately from your income tax return.

2. Damage not resulting in a total loss

In the case of damage not resulting in a total loss, no involuntary sale of the personal-use property is considered to have taken place **provided you use the financial assistance, within a reasonable length of time, to repair the damage**. In such circumstances the assistance is not taxable and the expenses incurred to repair the damage are not deductible.

Where the damage is not repaired within a reasonable time, an involuntary sale is considered to have occurred, and the tax treatment is the same as for an actual sale.

C. Building used in part to earn income and in part as your residence (rental building that you own and reside in; building that you own and in which your residence and your business are located)

1. Damage resulting in a total loss

In the case of damage resulting in a total loss, an involuntary sale is considered to have occurred, and the tax treatment is the same as for an actual sale. Consequently, the financial assistance is considered to be the selling price of the property, and a capital gain or loss may result. The assistance must be apportioned between the part of the property used to earn income and the part used as a residence (see page 11, section F).

Consult Chapter 8 if the assistance relating to the income-earning portion of the property is less than the lower of the following amounts: the capital cost of that portion of the property **or** its undepreciated capital cost.

The capital gain relating to the portion of the property used as a residence is tax-exempt if you designate the residence as your principal residence for all the years you owned the property. If you do not make this designation, the residence is considered personal-use property and the capital gain resulting from the sale must be reported on line 16 or 18 of Schedule G of your income tax return.

The capital gain relating to the portion of the property used to earn income must be calculated on Schedule G of the income tax return (see Chapter 7, section B).

If there is a capital gain and you acquired replacement property, you may wish to make an election under section 279 of the Taxation Act. For further information, see Chapter 9.

A capital loss sustained on the portion of the property used as a residence is not deductible. However, a loss sustained on the portion used to earn income is deductible from your business or rental income, as applicable, provided there is no other property remaining in the class (terminal loss). Where there is a recapture of capital cost allowance, it must also be included in your business or rental income.

For further information, see Chapter 6.

2. Damage not resulting in a total loss

In the case of damage not resulting in a total loss, no involuntary sale of the building is considered to have taken place **provided you use the financial assistance, within a reasonable length of time, to repair the damage**. In such circumstances the assistance covering the portion of the property used as your residence is not taxable, and the expenses incurred to repair the damage are not deductible.

However, with regard to the portion of the property used to earn income,

- the amount of financial assistance used in the course of the year to repair the damage must be included in your business or rental income, as applicable;
- the expenses incurred to repair the damage are deductible from your business or rental income, in accordance with the usual rules.

For further information, see Chapter 6.

Where the damage is not repaired within a reasonable time, an involuntary sale is considered to have occurred, and the tax treatment is the same as for an actual sale.

D. Rental building; building used exclusively to earn business income; machinery and equipment used in a business

1. Damage resulting in a total loss

In the case of damage resulting in a total loss, an involuntary sale is considered to have occurred, and the tax treatment is the same as for an actual sale. Consequently, the financial assistance is considered to be the selling price of the property, and a capital gain, capital loss, or terminal loss may result.

Where the selling price of a depreciable building (that is, the financial assistance) is less than the lower of

- the capital cost of the building, or
- the undepreciated capital cost of the building,

and the land belongs to the owner of the building or to a person not dealing at arm's length with the owner, the selling price is apportioned between the land and building in accordance with the special rules set forth in sections 93.1 to 93.3 of the Taxation Act (see Chapter 8).

If there is a capital gain and you acquired replacement property, you may wish to make an election under section 279 of the Taxation Act. For further information, see Chapter 9.

If there is a recapture of capital cost allowance, it must be included in your business or rental income, as applicable.

A terminal loss is deductible from your business or rental income, as applicable, provided there is no other property remaining in the class.

2. Damage not resulting in a total loss

In the case of damage not resulting in a total loss, no involuntary sale of the property is considered to have taken place **provided you use the financial assistance, within a reasonable length of time, to repair the damage**. In such circumstances the amount of assistance used in the course of the year to repair the damage must be included in your business or rental income, as applicable. The expenses incurred to repair the damage are deductible from your business or rental income, in accordance with the usual rules.

Where the damage is not repaired within a reasonable time, an involuntary sale is considered to have occurred, and the tax treatment is the same as for an actual sale.

E. Merchandise in stock

The financial assistance covering merchandise in stock must be added to business income; however, this addition should be offset by a reduction in the value of the merchandise in stock.

F. Apportionment of financial assistance among a number of properties or between the portions of a single property

If you receive financial assistance with respect to a group of properties and it is not possible to determine the amount related to each property, you must use a reasonable method to apportion the financial assistance among the properties in question.

If you receive financial assistance with respect to a property that you use both for personal purposes and for the purpose of earning income, and no amount is paid specifically for each portion of the property, you must apportion the financial assistance. You do this by multiplying the total amount of financial assistance by the percentage of the property used for personal purposes and by the percentage used to earn income.

Example 1

Your land and building (i.e., house, cottage or building used to earn business or rental income) sustain flood damage to such an extent that they are a **total loss**. The value of your land and building is $100,000, of which $20,000 (20% of $100,000) is attributable to the land and $80,000 (80% of $100,000) to the building. You receive financial assistance amounting to $75,000. The portion of the financial assistance that represents the selling price of the land is $15,000 ($75,000 x 20%) and the portion that represents the selling price of the building is $60,000 ($75,000 x 80%).

Example 2

You live in a housing unit located in your rental building. Following a natural disaster, your building and the land it stands on are damaged to such an extent that they are a **total loss**. You receive the following amounts:

Financial assistance with respect to the unit in which you live	$50,000
Financial assistance with respect to the rental portion of the building	$250,000
Financial assistance with respect to the land	$100,000
	$400,000

Portion of the land necessary for the use of your unit	15%
Portion of the land pertaining to the rental portion of the building	85%

Portion of the financial assistance that represents the selling price of

• the portion of the building used as your residence (your unit)	$50,000
• the portion of the land pertaining to your residence $100,000 x 15% =	$15,000
• the rental portion of the building	$250,000
• the portion of the land pertaining to the rental portion of the building $100,000 x 85% =	$85,000
	$400,000

Example 3

Your residence and your business are located in the same building. Following an ice storm, the building is damaged to such an extent that it is a **total loss**, and you are obliged to cede your land in exchange for the following amounts:

Financial assistance received with respect to the building and the land	**$175,000**
Adjusted cost base of the building	$150,000
Adjusted cost base of the land	$50,000

Portion of the building constituting your residence	40%
Portion of the building used to operate your business	60%
Portion of the land pertaining to your residence	50%
Portion of the land pertaining to the business	50%

Portion of the financial assistance that represents the selling price of

- the portion of the building used as your residence
  $\$175{,}000 \times \frac{\$150{,}000}{\$200{,}000} \times 40\% =$ $52,500
- the portion of the land pertaining to your residence
  $\$175{,}000 \times \frac{\$50{,}000}{\$200{,}000} \times 50\% =$ $21,875
- the portion of the building used to operate the business
  $\$175{,}000 \times \frac{\$150{,}000}{\$200{,}000} \times 60\% =$ $78,750
- the portion of the land used for the business
  $\$175{,}000 \times \frac{\$50{,}000}{\$200{,}000} \times 50\% =$ $21,875

$175,000

Example 4

Your rental building (in which you live) and the land it stands on sustain damage **that does not result in a total loss** and with respect to which you receive financial assistance.

Financial assistance received with respect to the rental building and the land	**$50,000**
Damage to the building	$45,000
Damage to the land	$10,000

Portion of the rental building constituting the unit in which you live	10%
Portion of the building used to earn rental income	90%
Portion of the land necessary for the use of your unit	20%
Portion of the land pertaining to the rental portion of the building	80%

Portion of the financial assistance related to

- the portion of the building used as your residence (your unit)
  $\$50{,}000 \times \frac{\$45{,}000}{\$55{,}000} \times 10\% =$ $4,091
- the portion of the land pertaining to your residence
  $\$50{,}000 \times \frac{\$10{,}000}{\$55{,}000} \times 20\% =$ $1,818
- the rental portion of the building
  $\$50{,}000 \times \frac{\$45{,}000}{\$55{,}000} \times 90\% =$ $36,818
- the portion of the land pertaining to the rental portion of the building
  $\$50{,}000 \times \frac{\$10{,}000}{\$55{,}000} \times 80\% =$ $7,273

$50,000

Chapter 4

Financial assistance with respect to personal expenses

Financial assistance respecting personal expenses means, for example, financial assistance granted to individuals who must evacuate their principal residence, or financial assistance covering the short-term accommodation expenses of individuals who must evacuate their principal residence.

Such financial assistance is not taxable, since it covers personal expenses; by the same token, however, expenses such as short-term accommodation and meals are not deductible from income, since they constitute personal living expenses.

Chapter 5

Financial assistance with respect to expenses giving entitlement to a deduction or a tax credit

If you receive financial assistance that covers expenses giving entitlement to a deduction or a tax credit (such as child-care expenses and medical expenses), the amount of the assistance reduces the amount of the expenses you may claim. If the amount of assistance is less than the amount of expenses you incur, the difference may be claimed in your income tax return, provided you meet the conditions entitling you to claim the deduction or tax credit in question.

If you receive financial assistance that covers a number of expenses, and it is not possible to determine the amount that is related to each expense, you must use a reasonable method to apportion the assistance among the various expenses covered.

Additional information concerning buildings used in part for personal purposes and in part to earn income

The tax treatment described below applies if you own a building and you use one part of the building to earn business or rental income and the other part as your residence (for example, you live in a housing unit located in your rental building).

A. Damage resulting in a total loss

Where your building is damaged to such an extent that it is a total loss, an **involuntary sale** of the building is deemed to have occurred, and the tax treatment is the same as for an actual sale. The same is true of the land on which the building stands if the land is completely destroyed or if you have to cede the land in exchange for financial assistance that is intended to compensate you for the total loss of the building. Since part of the building is used as your residence,

- the rules concerning the sale of a residence apply to the portion of the building used as your residence;
- the rules concerning the sale of land pertaining to a residence apply to the portion of the land necessary for your use of the residence;
- the rules concerning the sale of depreciable property apply to the portion of the building used to earn business or rental income; and
- the rules concerning the sale of land pertaining to depreciable property apply to the portion of the land used to earn business or rental income.

Before applying the tax rules outlined above, you must determine the selling price and the adjusted cost base of each portion of the property concerned.

Note: A portion of a property does not in itself constitute a property. Consequently, the transactions referred to in the four points above represent the sale of two properties (the land and the building), not four.

1. Selling price

The amount of financial assistance received further to the total loss of a property is considered to be the selling price of the property. For example, financial assistance received with regard to the portion of the building you use as a residence constitutes the selling price of the residence, while financial assistance received with regard to the portion of the building used to earn business or rental income constitutes the selling price of that portion of the building.

If the financial assistance you receive covers the entire property, and no amount is paid specifically for the part used for personal purposes or for the part used to earn income, you must apportion the financial assistance according to the percentage of the entire property used for each purpose. Do this by multiplying the total amount of the assistance by the percentage concerned. For example, if you receive $100,000 in financial assistance for a building of which 20% of the space is used as your residence and 80% is used to earn income, the financial assistance attributable to the part used as your residence will be $20,000 ($100,000 x 20%) and the financial assistance attributable to the part used to earn income will be $80,000 ($100,000 x 80%).

If you receive financial assistance for both the building and the land on which the building stands, and it is not possible to determine the amount of financial assistance specifically related to each property, you must use a reasonable method to apportion the financial assistance between the land and the building in order to calculate the selling price of each. Both amounts–the selling price of the land and that of the building–must then be apportioned according to the percentage of the property used for personal purposes and the percentage used to earn income. This is done by multiplying the selling price of each property by the appropriate percentages (see example 3 on page 12).

2. Adjusted cost base (ACB)

You must also apportion the adjusted cost base (ACB) of the building and the land according to the use of each property.

To do so, simply multiply the ACB of the property concerned by the percentage of the property used for personal purposes and by the percentage used to earn income. For example, suppose the ACB of your land is $50,000, and 40% of the land is used to earn income, while 60% is necessary for your use of your residence. The ACB of the portion of land used to earn income will thus be $20,000 ($50,000 x 40%), and the ACB of the portion of land used for your residence will be $30,000 ($50,000 x 60%).

Note: A principal residence is deemed to include the land on which it stands and the surrounding land that is reasonably necessary for the use and enjoyment of the residence. If the land area does not exceed one-half hectare, you do not have to show that the land is necessary for your use and enjoyment of the residence, **unless a portion of the land was used to earn business or rental income**.

If you deducted expenses relating to the land (such as property taxes) in calculating your business or rental income, the amount deducted should be in keeping with the percentage of land you consider to have been used to earn income.

3. Tax rules

Once you have apportioned the selling price (that is, the financial assistance) and the adjusted cost base of the building and the land between the part of each property used for personal purposes and the part used to earn income, you must follow the tax rules described below.

Portion of the building and land used for personal purposes

For tax purposes you are considered to have sold your residence; there will thus be a capital gain or loss. If you realize a capital gain, all or part of the gain will be tax-exempt if you designate the residence as your principal residence. If you do not make this designation, the usual rules concerning the sale of personal-use property apply.

Portion of the building and land used to earn business or rental income

The rules respecting the sale of depreciable property apply to the portion of the building used to earn income (see Chapter 7, section B.2). The sale of the portion of the land used to earn income results in a capital gain or loss that is equal to the **financial assistance** received with respect to that portion of the land, **minus its adjusted cost base**. See Chapter 8 if the financial assistance received with respect to the building is less than the lower of the following amounts: the capital cost of the building, or its undepreciated capital cost.

B. Damage not resulting in a total loss

Where the damage caused to your building does not result in a total loss, an involuntary sale of your building is not considered to have occurred **if the financial assistance you receive in this respect is used, within a reasonable length of time, to repair the damage**.

If you receive financial assistance with respect to property that you use both for personal purposes and to earn income, and no amount is paid specifically for each portion of the property, you must use a reasonable method to apportion the financial assistance. If you receive financial assistance with respect to more than one property, you must also use a reasonable method to apportion the financial assistance among the properties in question (see example 4 on page 12).

Where an expense incurred to repair damage (such as the expense of repairing the siding on a building) is related to both the part of the building used to earn income and the part used as your residence, you must apportion the expense between the two parts. To do so, simply determine the percentage of the building used for each purpose, and then multiply each of the percentages by the total expense.

Example

Portion of the building used to earn income	80%
Portion of the building used as a residence	20%
Expenses incurred with respect to the building	$20,000

In this case, the expense attributable to the portion of the building used to earn income is $16,000 ($20,000 x 80%) and the expense attributable to the portion used as your residence is $4,000 ($20,000 x 20%).

Tax rules

Portion of the building used to earn business income

With respect to this portion of the building, you must include in your business income the amount of financial assistance that is **used during the fiscal period ending in the year in which** the damage to your property is repaired. For example, if the amount of financial assistance received with respect to the building is $60,000, of which $40,000 is spent in the fiscal period ending in year X and $20,000 in the fiscal period ending in the next year, you must include $40,000 in your business income for year X, and $20,000 in your business income for the next year. The expenses incurred during a fiscal period to repair the damage, in order to restore the property to its normal value (that is, the value of the property when it was in good condition), are deductible from your business income for the fiscal period in which they are incurred.

Portion of the building used to earn rental income

With respect to this portion of the building, you must include in your rental income the amount of financial assistance that is **used during the year** in which the damage is repaired. For example, if the amount of financial assistance received is $50,000, of which $40,000 is spent in year X and $10,000 in the next year, you must include $40,000 in your rental income for year X, and $10,000 in your rental income for the next year. The expenses incurred to repair the damage, in order to restore the building to its normal value (the value of the building when it was in good condition), are deductible from your rental income for the year in which they are incurred.

Portion of the building used as your residence

The financial assistance received in the year with respect to the portion of the building used as your residence and the portion of the land pertaining to that portion of the building is not taxable, since it covers personal expenses. By the same token, the expenses incurred to repair the damage are not deductible, as they are considered personal expenses.

Portion of the land used to earn business or rental income

The financial assistance received in the year with respect to this portion of the land must be included in your business or rental income. The usual tax rules apply to expenses incurred to repair this portion of the land.

Capital gains or losses

A. Year in which you must report your capital gain

You must report a capital gain on a sale of property in your income tax return for the **calendar year** in which the sale occurs (see "Time of sale" below), even if the property is used in a business whose fiscal period does not end on December 31 of that year. However, if you are a member of a partnership that sold property, you must report the capital gain in the year that includes the end of the partnership's fiscal period in which the property was sold.

Time of sale

If a property is totally destroyed further to a natural disaster, the property is deemed to have been sold on the earliest of the following dates:

- the date on which the individual agrees to an amount as final compensation for the property;
- the date on which the amount of compensation is finally determined by a court or tribunal, where legal proceedings are taken;
- the date that is two years following the date of the natural disaster giving rise to the compensation, where legal proceedings are not taken within that time.

B. Calculating the capital gain or loss

Capital gains and losses are calculated on Schedule G of the personal income tax return. Please note the following points:

- Capital gains or losses on land and capital gains on depreciable property (other than qualified farm property) are entered on line 14 of Schedule G.
- Capital gains on personal-use property (other than precious property) are entered on line 16 of Schedule G. Personal-use property includes a residence.
- Capital gains on precious property (jewellery, coins, stamps, etc.) are entered on line 18 of Schedule G.
- Capital gains on qualified farm property are entered on line 52 of Schedule G.

1. Non-depreciable property

Non-depreciable property includes, among other things,

- personal-use property;
- land, whether it is acquired for personal purposes or to earn income.

The sale of non-depreciable property gives rise to a capital gain or capital loss.

DETERMINATION OF THE CAPITAL GAIN OR LOSS

	CAPITAL GAIN		CAPITAL LOSS		SCHEDULE G
Selling price		xxx		xxx	column B
Subtract: • Adjusted cost base	(xxx)		(xxx)		column C
• Expenses related to sale	(xxx)	(xxx)	(xxx)	(xxx)	column D
Capital gain (loss) on the property		xxx		(xxx)	column E
Subtract: Reserve (section C, page 19)		(xxx)			line 32 or 66, as applicable
Capital gain (loss) for the year		xxx		(xxx)	line 44, 50 or 84, as applicable
Multiply by: Taxable portion of the gain (or allowable portion of the loss)	50%		50%		
Taxable capital gain for the year		xxx			line 98
Allowable capital loss for the year				(xxx)	line 98

If your allowable capital losses for the year exceed your taxable capital gains, the excess amount constitutes a net capital loss. A net capital loss can be used to reduce your taxable capital gains for the three previous years and for subsequent years. If you wish to reduce your taxable capital gains for previous years, complete form TP-1012.A-V, *Carry-Back of a Loss*, and file it **separately** from your income tax return.

2. Depreciable property

The sale of a depreciable property may result in

- a capital gain, if the selling price (minus the expenses related to the sale) is higher than the adjusted cost base (ACB);
- a terminal loss (not a capital loss, as in the case of a loss on non-depreciable property), which may be deducted from your business or rental income if the property sold is the last property remaining in its class and the undepreciated capital cost (UCC) of the properties in the class is a positive amount at the end of the taxation year;
- a recapture of capital cost allowance (which you must include in your business or rental income) if, at the end of the taxation year, the UCC of the properties in the class is a negative amount.

(a) The selling price of the property is higher than its ACB and higher than the total UCC of the properties in its class.

	Tax effect	Example	
Selling price of the property (minus expenses related to the sale)			$50,000
	Capital gain	$10,000	
ACB of the property			$40,000
	CCA recapture	$15,000	
UCC of the properties in the class prior to the sale			$25,000

The capital gain is calculated in the same way as for a non-depreciable property (see the table on the previous page). Consequently, if a portion of the selling price is not payable until after the end of the year, you may deduct a reserve from the capital gain (see section C on page 19).

(b) The selling price of the property is lower than its ACB but higher than the total UCC of the properties in its class.

	Tax effect	Example	
ACB of the property			$100,000
	None	$20,000	
Selling price of the property (minus expenses related to the sale)			$80,000
	CCA recapture	$20,000	
UCC of the properties in the class prior to the sale			$60,000

(c) The selling price of the property is lower than its ACB and lower than the total UCC of the properties in its class.

	Tax effect	Example	
ACB of the property			$75,000
	None	$25,000	
UCC of the properties in the class prior to the sale			$50,000
	Terminal loss if no property remains in this class	$5,000	
Selling price of the property (minus expenses related to the sale)			$45,000

3. Property acquired before January 1, 1972, and held continuously since December 31, 1971

(a) Non-depreciable property

To calculate the capital gain or loss on a non-depreciable property acquired before 1972, you must apply the "median rule" to determine the deemed cost of the property. The "median" amount is neither the highest nor the lowest of the following amounts:

- the actual cost of the property;
- the fair market value of the property on valuation day (December 31, 1971, in most cases);
- the selling price.

However, you may elect to have the cost of all the properties you owned on December 31, 1971, deemed to be their fair market value on valuation day. To make the election, complete form DT-72-V, *Election respecting the Fair Market Value of Capital Property on Valuation Day*.

(b) Depreciable property

In the case of depreciable property, your capital gain equals the amount by which the selling price **exceeds** the fair market value of the property on valuation day (generally December 31, 1971), **provided** the capital cost of the property is less than both its fair market value on valuation day and its selling price. If this condition is not met, the usual rules respecting the sale of depreciable property apply.

C. Reserves

If a portion of the selling price (that is, the financial assistance) becomes payable after the year in which you sold the property, you may deduct a reserve in order to defer taxation of part of the capital gain until subsequent years. However, **you may not claim a reserve with respect to the portion of the selling price that you are entitled to receive in the year, even if that portion is not paid to you in the year**.

For example, suppose a sales contract stipulates that you are to receive payment in three annual instalments of $20,000, but you have not received the second $20,000 instalment by the end of the second year. You may not claim a reserve with regard to that portion; at the end of the second year, you may claim a reserve only with respect to the final $20,000 instalment.

You may enter the amount of a reserve on the appropriate lines of Schedule G of the income tax return, as follows:

- line 32 of Schedule G for reserves respecting property (other than qualified farm property) sold during the year;
- line 38 of Schedule G for reserves respecting property (other than qualified farm property) sold during a previous year;
- line 62 or 64 of Schedule G for reserves respecting qualified farm property and qualified small business corporation shares sold during the year;
- line 76 or 78 of Schedule G for reserves respecting qualified farm property and qualified small business corporation shares sold during a previous year.

A reserve deducted for a given year must be reported as a capital gain for the following year (line 36, 70 or 72 of Schedule G). Another reserve may be claimed if a portion of the selling price is still not payable at the end of that year (line 38, 76 or 78 of Schedule G). Since you may claim a reserve for a maximum of four years, the taxation of the capital gain may be spread over five years.

You may not deduct a reserve for a taxation year if, at the end of that year and at some time in the following year, you were not resident in Canada or you were exempted from paying income tax.

Calculation of the reserve

The amount you deduct as a reserve for a given taxation year must not exceed the lowest of the following three amounts:

- Capital gain x $\dfrac{\text{Portion of the selling price payable after the end of the year}}{\text{Selling price}}$
- Capital gain x $\dfrac{4 - Y}{5}$

  where **Y** is the number of taxation years **prior to** the year for which you are calculating a reserve. **Y** is equal to 0 if the calculation is being done for the year in which the sale took place, to 1 if the calculation is for the following year, and so on.
- Amount claimed as a reserve in the calculation of federal income tax.

D. Acquisition cost different from the actual acquisition cost

The acquisition cost of property for the purpose of calculating the capital gain or capital loss resulting from the sale of the property may differ from its actual acquisition cost. This is the case, for example, when the property is inherited. If this situation applies to you, contact the office of the Ministère du Revenu in your area to determine the acquisition cost.

The acquisition cost of property may also differ from its actual acquisition cost if you made an election with respect to the property on form TP-726.18-V, *Election to Report a Capital Gain Deemed to Have Been Realized*. In this case, you are deemed to have sold the property on February 22, 1994, for an amount equal to the selling price you designated on this form (deemed proceeds of disposition), and to have reacquired the property immediately afterward (on February 23, 1994) for the same amount. There are, however, exceptions to this rule. For example, if the property is non-qualifying immovable property (such as a cottage or rental property) other than a principal residence, its acquisition cost on February 23, 1994, is equal to the designated selling price minus the reduction for non-qualifying immovable property calculated when the election was made.

However, if you or your spouse made an election on form TP-726.18-V with respect to non-qualifying immovable property that was designated as your principal residence at the time of the election (or that will be so designated once the property is sold or is deemed to have been sold), the property is not deemed to have been sold on February 22, 1994, and reacquired immediately afterward, and the adjusted cost base of the property must not be modified. The reduction with regard to non-qualifying property is determined at the time of the subsequent sale of the property. Form TP-274.S-V, *Reduction of the Capital Gain Deemed to Have Been Realized on a Principal Residence*, is used to calculate the reduction, which is taken into account in the calculation of the capital gain.

If, on form TP-726.18-V, you designated a selling price higher than the fair market value of the property on February 22, 1994, the acquisition cost previously determined may be reduced. In the case of a principal residence, the reduction is determined (on form TP-274.S-V) when the residence is subsequently sold, and is taken into account in the calculation of the capital gain or deemed capital gain.

For further information, contact the office of the Ministère du Revenu in your area.

E. Capital gains exemption

If you report a capital gain, you may be entitled to a capital gains exemption of up to $500,000. This exemption may be claimed only if you choose to file an income tax return under the general tax system. Report the amount of your exemption on line 292 of your return.

The capital gains exemption of $500,000 applies to

- qualified farm property and qualified small business corporation shares (line 52 or 54 of Schedule G of the income tax return);
- intangible capital property classed as qualified farm property (line 86 of Schedule G).

Qualified farm property may be

- property (land, building, machinery) that is used in the course of carrying on a farming business in Canada, by an individual or the individual's spouse, child, father or mother;
- a share of the capital stock of a family farm corporation of an individual or the individual's spouse;
- an interest in a family farm partnership of an individual or the individual's spouse.

You are entitled to the capital gains exemption if you meet **all** of the following conditions:

- You are resident (or deemed resident) in Canada throughout the year for which you must report a taxable capital gain (you are deemed to be resident in Canada throughout the year if you live in the country at some point during the year, and throughout the preceding or following year).
- You report the capital gain in your income tax return for the year in which the gain is realized.
- You file this income tax return no later than one year after the filing deadline.

To calculate the capital gains exemption, complete form TP-726.7-V, *Taxable Capital Gains Exemption*.

The capital gains exemption may be reduced by your **cumulative net investment loss (CNIL)**, calculated as at December 31 of the year concerned. Your CNIL is the amount by which the expenses you incurred after 1987 to earn investment income exceed the investment income you earned after 1987. Even if you are not claiming a capital gains exemption in a given year, you may be claiming one in a subsequent year. It is therefore a good idea to determine your CNIL every year. To determine your CNIL at the end of a given year, complete form TP-726.6-V, *Cumulative Net Investment Loss*.

Apportionment of the selling price between a building and land

The financial assistance received with respect to a building is considered to be its selling price. Where the selling price of a depreciable building is less than the lower of

- its capital cost, or
- its undepreciated capital cost,

and the land belongs to the owner of the building or to a person not dealing at arm's length with the owner of the building, the selling price is apportioned between the land and the building in accordance with the special rules set forth in sections 93.1 through 93.3 of the Taxation Act.

These sections of the Taxation Act provide for different calculations, according to whether the sale of the building and the land takes place in the same year or in two different years. See "Time of sale" on page 17 to determine when the property is deemed (in the case of an involuntary sale) to have been sold.

Please note that these rules do not apply if the land has always belonged to a person dealing at arm's length with the owner of the building.

A. Building and land sold in the same year

If the building and the land are sold in the same year, the deemed selling price of the building is equal to the amount obtained in point 1 or 2 below, whichever is lower:

1. The amount by which the fair market value of the building and the land at the time of sale **exceeds** the lower of the following amounts:
   - the fair market value of the land at the time of sale; or
   - the cost of the land **minus** the capital gains realized on the sales of the land made during the previous three years between you and persons not dealing at arm's length with you.

2. The higher of the following amounts:
   - the fair market value of the building at the time of sale; or
   - the lower of
     - the undepreciated capital cost of the building, or
     - the capital cost of the building at the time of sale.

The deemed selling price of the land is equal to the amount by which the financial assistance received with respect to the building and the land **exceeds** the deemed selling price of the building.

B. Building and land sold in different years

If the building and the land are not sold in the same year, the deemed selling price of the building is equal to the financial assistance received with respect to the building, plus **one-half** of the amount by which the higher of

- the fair market value of the building at the time of sale, or
- the undepreciated capital cost of the building

exceeds

- the actual selling price of the building.

The deemed selling price of the land is equal to the amount by which the financial assistance received with respect to the building and the land **exceeds** the deemed selling price of the building.

Rules respecting replacement property

Property is considered replacement property only if

- it is reasonable to conclude that you acquired the property to replace property that was destroyed, and
- you or a person related to you uses the property for the same purpose as you or that person used the property that was destroyed.

If you acquire replacement property, you may elect to defer taxation of the capital gain realized on the destroyed property until the year in which the replacement property is sold. If the adjusted cost base of the replacement property is equal to or greater than the selling price of the property that was destroyed (the selling price being the amount of financial assistance you received), the tax deferral applies to the full amount of the capital gain; otherwise, it applies to only a portion of the gain. The deferred portion of the capital gain, which is taken into account in the year in which the replacement property is sold, is used to reduce the cost of the replacement property (or its capital cost, in the case of replacement property that is depreciable property).

This election also allows you, where applicable, to defer taxation of the recapture of capital cost allowance.

Period for acquiring replacement property

The period for acquiring replacement property expires, in the case of an involuntary sale, at the end of the second taxation year following the year in which the sale is deemed to have been made (see "Time of sale" on page 17).

To defer taxation of the capital gain realized on the destroyed property, you must enclose, with your income tax return for the year in which the replacement property was acquired, a letter indicating that you are making an election under section 279 of the Taxation Act. If you have already reported a capital gain on the property that was destroyed, the Ministère will amend the income tax return on which the gain was reported, in order to take your election into account.

For further information, contact the office of the Ministère du Revenu in your area.

Table showing the tax effects of amounts received

The table below summarizes the tax treatment of financial assistance received with respect to

- a principal residence;
- a secondary residence (such as a cottage);
- a building used in part to earn income and in part as a residence;
- a rental building;
- a building used to earn business income;
- household furnishings;
- equipment used in the operation of a business;
- machinery used in the operation of a business;
- property listed in an inventory (merchandise in stock).

PROPERTY COVERED BY FINANCIAL ASSISTANCE	TOTAL LOSS (you are considered to have sold your property)	PROPERTY THAT IS DAMAGED BUT NOT COMPLETELY DESTROYED	
		Damage repaired within a reasonable time	Damage not repaired within a reasonable time (you are considered to have sold the property)
Principal residence or secondary residence (see Chapter 1, section C)	• The financial assistance represents the selling price of the residence. • If the property is designated as the principal residence, all or part of the capital gain is exempt from income tax; without this designation, the rules for personal-use property must be applied to the gain. • If there is a capital gain, you may make an election under section 279 of the Taxation Act if you have acquired replacement property (see Chapter 9). • You may not deduct a capital loss.	• The financial assistance received is not taxable. • The expenses incurred to repair the damage are not deductible.	• The financial assistance represents the selling price. • Contact the Ministère du Revenu.
Personal-use property (other than a residence), such as household furnishings, an automobile used exclusively for personal purposes, precious property, etc.	• The financial assistance represents the selling price of the property. • Chapter 7 explains how to calculate the capital gain or loss. • If there is a capital gain, you may make an election under section 279 of the Taxation Act if you have acquired replacement property (see Chapter 9). • You may not deduct a capital loss, except in the case of precious property.	• The financial assistance received is not taxable. • The expenses incurred to repair the damage are not deductible.	• The financial assistance represents the selling price. • Contact the Ministère du Revenu.

<table>
<tr><th rowspan="2">PROPERTY COVERED BY FINANCIAL ASSISTANCE</th><th rowspan="2">TOTAL LOSS
(you are considered to have sold your property)</th><th colspan="2">PROPERTY THAT IS DAMAGED BUT NOT COMPLETELY DESTROYED</th></tr>
<tr><th>Damage repaired within a reasonable time</th><th>Damage not repaired within a reasonable time (you are considered to have sold the property)</th></tr>
<tr><td>Building used in part to earn income and in part as a residence. Examples:
• a rental building that you own and live in
• a residence located in a building that you own and in which your business is located</td><td>• The financial assistance represents the selling price of the property.
• The financial assistance must be apportioned between the portion of the property used as a residence and the portion used to earn income (see Chapter 3, section F).
Special rules apply if the financial assistance related to the portion used to earn income is less than the lower of the following amounts: its capital cost or its undepreciated capital cost. See Chapter 8.
• If the portion of the property used as a residence is designated as the principal residence, all or part of the capital gain is exempt from income tax; without this designation, the rules for personal-use property must be applied to the gain. To calculate the capital gain or the loss on the portion of the building used to earn income, see Chapter 7, section B.
• If there is a capital gain, you may make an election under section 279 of the Taxation Act if you have acquired replacement property (see Chapter 9).
• If there is a loss, the following rules apply:
– A capital loss respecting the portion of the property used as a residence cannot be deducted.
– A loss respecting the portion of the property used to earn income can be deducted in the calculation of business or rental income, as applicable, if no property remains in the class (terminal loss).
• If there is a recapture of capital cost allowance, you must include the amount concerned in your business or rental income, as applicable.
For further information, see Chapter 6.</td><td>• Portion used as a residence:
– The assistance received is not taxable.
– The expenses incurred to repair the damage are not deductible.
• Portion used to earn income:
– The portion of the financial assistance used during the year to repair the damage must be included in business or rental income, as applicable.
– The expenses incurred to repair the damage are deductible in the calculation of business or rental income (as applicable), according to the usual rules.
For further information, see Chapter 6.</td><td>• The financial assistance represents the selling price.
• Contact the Ministère du Revenu.</td></tr>
</table>

PROPERTY COVERED BY FINANCIAL ASSISTANCE	TOTAL LOSS (you are considered to have sold your property)	PROPERTY THAT IS DAMAGED BUT NOT COMPLETELY DESTROYED	
		Damage repaired within a reasonable time	Damage not repaired within a reasonable time (you are considered to have sold the property)
Rental building Building used exclusively to earn business income Machinery and equipment used in the operation of a business	• The financial assistance represents the selling price. • See Chapter 8 if the financial assistance respecting the building is less than the lower of the following amounts: the capital cost of the building, or its undepreciated capital cost. • Chapter 7, section B, explains how to calculate the capital gain or the loss. • If there is a capital gain, you may make an election under section 279 of the Taxation Act if you have acquired replacement property (see Chapter 9). • If there is a recapture of capital cost allowance, you must include the amount concerned in your business or rental income, as applicable. • If there is a loss, it may be deducted in the calculation of business or rental income (as applicable), if no property remains in the class (terminal loss).	• The portion of the financial assistance used during the year to repair the damage must be included in business or rental income, as applicable. • The expenses incurred to repair the damage are deductible in the calculation of business or rental income (as applicable), according to the usual rules.	• The financial assistance represents the selling price. • Contact the Ministère du Revenu.
Merchandise in stock	The financial assistance must be added to the business income; the addition should be offset by a reduction in the value of the merchandise in stock.		
Personal expenses	The financial assistance received is not taxable.	The financial assistance received is not taxable.	The financial assistance received is not taxable.
Expenses giving entitlement to a deduction or tax credit	• The financial assistance reduces the amount of the expenses. • The expenses, less the financial assistance, may be claimed in your tax return.	• The financial assistance reduces the amount of the expenses. • The expenses, less the financial assistance, may be claimed in your tax return.	• The financial assistance reduces the amount of the expenses. • The expenses, less the financial assistance, may be claimed in your tax return.

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  Laval (Québec) H7N 1B3
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  Veuillez noter que les services à cette adresse sont accessibles uniquement par écrit ou par téléphone.

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(819) 379-5360 ou **1 800 267-6299**

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Information service for persons with a hearing impairment: Montréal: **873-4455**; elsewhere in Canada: **1 800 361-3795**

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Revenu Québec

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