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THE TAX EFFECTS OF FINANCIAL
ASSISTANCE RECEIVED
AS A RESULT OF A DISASTER

2020

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**WE KNOW YOU ARE
EXPERIENCING DIFFICULT
CIRCUMSTANCES.
THIS DOCUMENT CONTAINS
INFORMATION ABOUT
FINANCIAL ASSISTANCE TO
WHICH YOU MAY BE ENTITLED
AND THE TAX EFFECTS THEREOF.**



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1 INTRODUCTION

This document is for any person who receives financial assistance as a result of a disaster. It explains the tax treatment applicable in a number of circumstances and the tax effects thereof.

It also presents the principal forms of financial assistance provided (irrespective of the type of disaster), specific details related thereto and a table summarizing the tax effects of the financial assistance.

Contact us for more information or specific details regarding your situation. Our contact information is at the end of this document.

Abbreviations used in this document

ACB	Adjusted cost base
CCA	Capital cost allowance
CNIL	Cumulative net investment loss
CRA	Canada Revenue Agency
FMV	Fair market value
UCC	Undepreciated capital cost



2 GENERAL INFORMATION

2.1 Definitions

Adjusted cost base

Generally, the acquisition cost of the property plus the expenses incurred to acquire the property (such as legal fees, the costs of surveying or valuing the property, brokerage fees, delivery and installation costs, and, where applicable, goods and services tax and Québec sales tax) as well as the cost of any addition (capital expenditures related to any improvement or addition made to the property). For depreciable property, the result thus obtained constitutes its capital cost. For other property, the result constitutes its cost and, in certain cases, must be adjusted.

Depreciable property

Property acquired by a taxpayer in respect of which the taxpayer can claim CCA. Depreciable property includes all property acquired for the purpose of carrying on a business or earning income from property, other than land, which is not depreciable property.

For the purpose of calculating CCA, depreciable property is divided into different classes prescribed by the *Regulation respecting the Taxation Act*. Each class of property has its own CCA rate, calculation and maximum depreciable amount.

Fair market value

The highest price obtainable in the open market, if the buyer and seller are in agreement, well informed and dealing at arm's length with each other.

Personal-use property

Property owned in whole or in part by a taxpayer and used primarily for personal purposes by the taxpayer or by one or more persons who form part of a group to which the taxpayer and persons related to the taxpayer belong.

Personal-use property includes personal effects, movables, automobiles, houses, boats and antiques. Such property is not depreciable property, since it is not acquired for the purpose of earning business income or income from property. The taxpayer is deemed to be related, as the case may be, to:

- any person connected to the taxpayer by blood relationship, marriage, de facto union or adoption;
- any corporation controlled by the taxpayer or by a member of a group related to the taxpayer.

Property used in part to earn income and in part as a residence

A rental building, owned by a taxpayer, where the taxpayer's residence is located, or a building, owned by a taxpayer, where the taxpayer's residence is located and where the taxpayer carries on a business.

Undepreciated capital cost

For any **particular property**, the capital cost of the property minus the total CCA claimed over previous years.

For **property in a particular class**, the total capital cost of all the property in the class minus the aggregate of:

- the proceeds of disposition of property in the class minus the expenses relating to the disposition thereof, or the capital cost of the property, whichever is less; and
- the total CCA claimed over previous years in respect of the property in that class.



2.2 Designation of a principal residence

You can designate as your principal residence for a particular 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, a cottage, a mobile home, a trailer, a floating home, or an apartment in a duplex, in a rental building or in an immovable under co-ownership (a condominium);
- a leasehold interest; or
- a share of the capital stock of a housing cooperative, which provides the right to inhabit a housing unit owned by the cooperative.

A principal residence includes the land on which it is built and the contiguous land reasonably necessary for the use of the residence. However, if the total area of the land exceeds one-half hectare, the excess land is not considered to be part of the principal residence, unless you can show that you would not be able to use your residence without that excess land.

Furthermore, you can designate property as your principal residence for a given year only if:

- you owned the property whether jointly with another person or otherwise;
- you designate the property, to the exclusion of any other property, as your principal residence for the year;
- in the case of any year after 1981, no other property is designated as the principal residence for the year by:
 - you,
 - your spouse, unless he or she lived separate and apart from you **throughout** the year pursuant to a judicial separation or a written separation agreement,
 - your child, unless he or she had a spouse or was aged 18 or older during the year, or
 - your father, mother, brother or sister (unless the brother or sister had a spouse or was aged 18 or older during the year), if you yourself had no spouse and were not aged 18 or older during the year; **and**
- the year in which the residence was disposed of ends after October 2, 2016, you **designated** the property as your principal residence with the CRA for the year in question.

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 information concerning the tax treatment applicable to the disposition of a principal residence.



2.3 Criteria used to determine whether a residence retains its status as a principal residence

Generally, property retains its status as a principal residence if:

- no structural changes are made to the property;
- the part of the property used to earn income is not unduly large in relation to the part used as a residence; **and**
- CCA is not claimed with respect to the property.

In the following examples, the property retains its status as a principal residence, even though a room that forms an integral part of the residence is used to earn income:

- A room is rented to a boarder.
- A room is used for childcare.
- A room is used as an office or workspace.

2.4 Residence located on farmland

If your residence is located on farmland that you own and, as a result of a disaster, you are deemed to have disposed of the property (the residence and the land), you can, pursuant to section 273 of the *Taxation Act*, choose one of two methods for determining the capital gain from the disposition. For more information, contact us.



3 GENERAL RULES

3.1 Property damage resulting in a total loss

If the damage to property results in a total loss, disposition of the property is considered to have occurred. The tax treatment applicable to this type of situation is the same as for an actual disposition. The financial assistance received with respect to the property that is a total loss represents the proceeds of disposition of the property.

As a rule, a disposition of property results in either a capital gain, if the proceeds of disposition are greater than the property's ACB, or a capital loss, if the proceeds of disposition are less than the property's ACB. 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. For more information, refer to Part 8, Capital gains or losses, on page 20.

Note that a capital loss can be deducted only from a capital gain. However, disposition of depreciable property at a loss does not constitute a capital loss but rather a terminal loss, which is 100% deductible in calculating business income or income from property if the property disposed of is the last in its class. Furthermore, a capital loss sustained upon the disposition of personal-use property is deductible only if the property is classed as precious property.

3.2 Property damage not resulting in a total loss

Where the damage to property does not result in a total loss, you must determine whether the financial assistance received was used within a reasonable time after the damage was caused, to repair the partially damaged property.

Financial assistance used within a reasonable time to repair property

Financial assistance used within a reasonable time to repair property used to earn income must be included in your income. However, the expenses incurred to repair the property can be deducted from your income.

Financial assistance granted with respect to personal property should not be included in your income and the expenses incurred to repair personal property are not deductible.

Financial assistance not used within a reasonable time to repair property

If the financial assistance was not used within a reasonable time, disposition of the property is considered to have occurred.

The tax treatment applicable to this type of disposition is the same as for an actual disposition. The financial assistance received with respect to the property represents the proceeds of disposition of the property.

4 FINANCIAL ASSISTANCE WITH RESPECT TO PROPERTY

4.1 Principal residence and secondary residence

Damage resulting in a total loss

The financial assistance received with respect to a residence that is a total loss represents the proceeds of disposition of the residence.

From a fiscal perspective, disposition of your residence is considered to have occurred and a capital gain or loss may result. If you realize a capital gain and you designate the property as your principal residence, all or part of the gain is tax-exempt. If that designation applies for all the years you owned the property, all of the capital gain is tax-exempt.

If you do not designate the property as your principal residence, the rules respecting the disposition of personal-use property apply. (See section 4.2, Personal-use property, below.)

In addition, if there is a capital gain and you acquired replacement property, you may make an election under section 279 of the *Taxation Act*. For more information, see Part 10, Rules respecting replacement property, on page 29.

Finally, if there is a capital loss, it cannot be deducted from your income.

Damage not resulting in a total loss

If the damage to your principal residence does not amount to a total loss and the **financial assistance you received with respect to such damage is used within a reasonable time to repair the damage**, disposition of the immovable is not considered to have occurred. The financial assistance received is not taxable and the expenses incurred to repair the damage are not deductible.

You can increase the ACB of the property by an amount equal to the amount by which the expenses incurred exceed the amount of the financial assistance received, provided the expenses are for an improvement or an addition to the property.

If the damage is not repaired within a reasonable time, you are deemed to have disposed of your property.

4.2 Personal-use property

Damage resulting in a total loss

The financial assistance received with respect to personal-use property that is a total loss represents the proceeds of disposition of the property. From a fiscal perspective, disposition of the property is considered to have occurred and a capital gain or loss may result.

You are required to report the capital gain realized upon the disposition of personal-use property **only if the proceeds of disposition are greater than \$1,000**. In that case, the ACB is deemed to be equal to \$1,000 or the actual ACB, whichever is **greater**.

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



In addition, if there is a capital gain and you acquired replacement property, you can make an election under section 279 of the *Taxation Act*. For more information, see Part 10, Rules respecting replacement property, on page 29.

Finally, if a disposition of personal-use property results in a capital loss, the loss is deductible only if the property is classed as precious property. (See the following note.)

NOTE

Personal-use property that is classed as precious property includes prints, etchings, drawings, paintings, sculptures and similar works of art as well as jewelry, stamps, coins, and rare folios, manuscripts and books. A loss from such property can only be used to reduce a gain realized on other precious property. If, for the year, your losses on precious property exceed your gains on such property, the excess can be used to reduce your capital gains on precious property for the next seven years and the three previous years, provided the previous years' losses from such property are used first. If you wish to reduce your capital gains of previous years, complete form TP-1012.A-V, *Carry-Back of a Loss*, and file it separately from your income tax return.

Damage not resulting in a total loss

If the damage to your personal-use property does not amount to a total loss and **the financial assistance you received with respect to such damage is used within a reasonable time to repair the damage**, disposition of the property is not considered to have occurred. The financial assistance received is not taxable and the expenses incurred to repair the damage are not deductible.

You can increase the ACB of the property by an amount equal to the amount by which the expenses incurred exceed the amount of the financial assistance received, provided the expenses are for an improvement or an addition to the property.

If the damage is not repaired within a reasonable time, you are deemed to have disposed of your property.

4.3 Property used in part to earn income and in part as a residence

See the definition of the term "property used in part to earn income and in part as a residence" on page 6.

Damage resulting in a total loss

The financial assistance received with respect to property that is a total loss represents the proceeds of disposition of the property. From a fiscal perspective, disposition of the property is considered to have occurred and a capital gain or loss may result. In addition, the financial assistance must be apportioned between the part used as a residence and the part used to earn income. (See section 4.6, Apportionment of financial assistance among a number of properties or between parts of a single property, on page 13.)

Refer to Part 9, Apportionment of the proceeds of disposition between a building and the land, on page 28 if the **lesser** of the capital cost of the part of the property used to earn income and the UCC of that part of the property is greater than the financial assistance with respect to that part of the property.

All of the capital gain relating to the part used as your residence is tax-exempt if the residence is designated as your principal residence for all the years you owned it. Otherwise, the residence is considered to be personal-use property and you must enter the capital gain on line 16 of Schedule G of your income tax return.

The capital gain relating to the part used to earn income is calculated using Schedule G of the income tax return. (See section 8.2, Calculating a capital gain or loss, on page 20.)

In addition, if there is a capital gain and you acquired replacement property, you can make an election under section 279 of the *Taxation Act*. (See Part 10, Rules respecting replacement property, on page 29.)



If there is a loss for the part used as a residence, that capital loss cannot be deducted. However, if there is a loss for the part used to earn income and no property remains in the class (a terminal loss), the loss can be deducted from business income or rental income, as applicable.

If there is a recapture of CCA, you must include it in your business income or rental income, as applicable. If there is a recapture of CCA and you acquired replacement property, see Part 10, Rules respecting replacement property, on page 29.

For more information, see Part 7, Additional information regarding a building used for both personal and income-producing purposes, on page 17.

Damage not resulting in a total loss

If the damage to property used for both personal and income-producing purposes does not amount to a total loss and **the financial assistance you received with respect to such damage is used within a reasonable time to repair the damage**, disposition of the property is not considered to have occurred.

For the part used as a residence, the financial assistance received is not taxable and the expenses incurred to repair the damage are not deductible. You can increase the ACB of the property by an amount equal to the amount by which the expenses incurred exceed the amount of the financial assistance received, provided the expenses are for an improvement or an addition to the property.

For the part used to earn income:

- the portion of the financial assistance received during the year to repair the damage must be included in business income or rental income, as applicable; and
- the expenses incurred to repair the damage are deductible from business income or rental income, as applicable, according to the usual rules.

For more information, see Part 7, Additional information regarding a building used for both personal and income-producing purposes, on page 17.

If the damage is not repaired within a reasonable time, you are deemed to have disposed of your property.

4.4 Rental property, property used solely to earn business income, and machinery and equipment used in a business

Damage resulting in a total loss

The financial assistance received with respect to property that is a total loss represents the proceeds of disposition of the property. From a fiscal perspective, disposition of the property is considered to have occurred and a capital gain, capital loss, recapture of CCA or terminal loss may result. You must report the capital gain or loss, and any recapture of CCA or terminal loss, in the taxation year corresponding to the calendar year in which the deemed disposition occurred.

Special rules provided for in sections 93.1 to 93.3 of the *Taxation Act* determine the apportionment, between the building and the land, of the proceeds of disposition of a depreciable building (see Part 9, Apportionment of the proceeds of disposition between a building and the land, on page 28) if 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, and the **lesser** of the depreciable building's capital cost and its UCC is greater than the proceeds of disposition of the building (the financial assistance).

In addition, if there is a capital gain and you acquired replacement property, you can make an election under section 279 of the *Taxation Act*. (See Part 10, Rules respecting replacement property, on page 29.)



If there is a recapture of CCA, you must include it in your business income or rental income, as applicable. If there is a recapture of CCA and you acquired replacement property, see Part 10, Rules respecting replacement property, on page 29.

Finally, if there is a terminal loss and no property remains in the class, you can deduct the loss from your business income or rental income, as applicable.

Damage not resulting in a total loss

If the damage to property does not amount to a total loss and **the financial assistance you received with respect to such damage is used within a reasonable time to repair the damage**, disposition of the property is not considered to have occurred. The portion of the financial assistance used during the year to repair the damage must be included in business income or rental income, as applicable. The expenses incurred to repair the damage can be deducted from your business income or rental income, as applicable, according to the usual rules.

If the damage is not repaired within a reasonable time, you are deemed to have disposed of your property.

4.5 Goods in stock

The financial assistance received with respect to goods in stock must be added to business income. That addition should be offset by a reduction in the value of the stock.

4.6 Apportionment of financial assistance among a number of properties or between parts of a single property

If you receive financial assistance with respect to a group of properties and are unable to determine the amount of assistance related to a particular property, you must apportion the financial assistance among all the properties using a reasonable method, in order to establish the portion of such assistance related to each property.

If you receive financial assistance with respect to a single property that you use for both personal and income-producing purposes, and no amount is paid solely for the part you use for personal purposes or solely for the part you use for income-producing purposes, you must apportion the amount of such assistance between both parts by multiplying it by the percentage of use of the property for personal purposes and the percentage of use of the property for income-producing purposes.

Example 1

You own land and a building (house, cottage or building used to earn business income or rental income) that, as a result of a flood, are a **total loss**. The value of your land and building is established at \$100,000, \$20,000 of which (20% of \$100,000) relates to the land and \$80,000 of which (80% of \$100,000) relates to the building. You receive \$75,000 in financial assistance. The portion of the financial assistance that represents the proceeds of disposition of the land is \$15,000 ($\$75,000 \times 20\%$) and the portion of the financial assistance that represents the proceeds of disposition of the building is \$60,000 ($\$75,000 \times 80\%$).



Example 2

You live in a housing unit in your rental building. As a result of a disaster, your building and the land on which it is located are a **total loss**. You receive the following amounts:

Financial assistance with respect to your housing unit	\$50,000
Financial assistance with respect to the rental part of the building	\$250,000
Financial assistance with respect to the land	\$100,000
	\$400,000
Part of the land related to your residence	15%
Part of the land related to the rental part of the building	85%
Portion of the financial assistance that represents the proceeds of disposition of:	
• the part of the building used as your residence	\$50,000
• the part of the land related to your residence: $\$100,000 \times 15\%$	\$15,000
• the rental part of the building	▶ \$250,000
• the part of the land related to the rental part of the building: $\$100,000 \times 85\%$	▶ \$85,000
	\$400,000

Example 3

Your residence and your business are located in the same building. Due to an ice storm, the building is a total loss and you had to cede your land as consideration for the following amounts:

Financial assistance received with respect to the building and the land as a whole	\$175,000
ACB of the building	\$150,000
ACB of the land	\$50,000
Part of the building used as your residence	40%
Part of the building used to carry on your business	60%
Part of the land related to your residence	50%
Part of the land related to your business	50%
Portion of the financial assistance that represents the proceeds of disposition of:	
• the part of the building used as your residence: $\$175,000 \times (\$150,000 \div \$200,000) \times 40\%$	▶ \$52,500
• the part of the land related to your residence: $\$175,000 \times (\$50,000 \div \$200,000) \times 50\%$	▶ \$21,875
• the part of the building used to carry on your business: $\$175,000 \times (\$150,000 \div \$200,000) \times 60\%$	▶ \$78,750
• the part of the land related to your business: $\$175,000 \times (\$50,000 \div \$200,000) \times 50\%$	▶ \$21,875
	\$175,000



Example 4

Your rental building (where you live) and the land on which it is located sustain damage not amounting to a total loss and you receive financial assistance in respect of the damage.

Financial assistance received with respect to the rental building and the land as a whole	\$50,000
Damage to the building	\$45,000
Damage to the land	\$10,000
Part of the building used as your residence	10%
Part of the building used for rental	90%
Part of the land related to your residence	20%
Part of the land related to the rental part of the building	80%
Portion of the financial assistance related to:	
• the part of the building used as your residence: $\$50,000 \times (\$45,000 \div \$55,000) \times 10\%$	\$4,091
• the part of the land related to your residence: $\$50,000 \times (\$10,000 \div \$55,000) \times 20\%$	\$1,818
• the rental part of the building: $\$50,000 \times (\$45,000 \div \$55,000) \times 90\%$	\$36,818
• the part of the land related to the rental part of the building: $\$50,000 \times (\$10,000 \div \$55,000) \times 80\%$	\$7,273
	\$50,000



5 FINANCIAL ASSISTANCE WITH RESPECT TO PERSONAL EXPENSES

The phrase “financial assistance with respect to personal expenses” refers to assistance that covers such expenses, including financial assistance paid to people who had to leave their principal residences or financial assistance paid with respect to the temporary accommodation expenses of individuals who had to leave their principal residences.

The financial assistance you receive with respect to personal expenses is not taxable. In addition, the expenses you incurred for personal purposes (for example, temporary accommodation expenses and meal expenses) are not deductible from your income since they constitute personal and living expenses.

6 FINANCIAL ASSISTANCE WITH RESPECT TO EXPENSES FOR WHICH A DEDUCTION OR A TAX CREDIT CAN BE CLAIMED

You may receive financial assistance reducing the amount of expenses (such as childcare expenses or medical expenses) that you incurred and in respect of which you can claim a deduction or a tax credit. If such expenses exceed the financial assistance and you meet certain conditions, you can claim a deduction or a tax credit in respect of the excess amount of such expenses.

If you receive financial assistance that covers a group of expenses and are unable to determine the exact amount of assistance related to a particular type of expense, you must apportion the financial assistance among all the different types of expenses covered, using a reasonable method.



7 ADDITIONAL INFORMATION REGARDING A BUILDING USED FOR BOTH PERSONAL AND INCOME-PRODUCING PURPOSES

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

7.1 Damage resulting in a total loss

If the damage to your building results in a total loss, disposition of the building is considered to have occurred. The same is true with respect to the land on which the building is located if the land was completely destroyed or had to be ceded as consideration for financial assistance intended to compensate for the total loss of the building. Since part of the building is used as your residence:

- the rules governing the disposition of a residence apply with respect to the part of the building used as your residence;
- the rules governing the disposition of land related to a residence apply with respect to the part of the land related to the residence;
- the rules governing the disposition of depreciable property apply with respect to the part of the building used to earn business income or rental income; and
- the rules governing the disposition of land related to depreciable property apply with respect to the part of the land used to earn business income or rental income.

Before applying the aforementioned rules, you must establish the proceeds of disposition and the ACB of each part referred to above.

NOTE

The aforementioned rules represent the disposition of two properties (the land and the building), not four, since each part of those properties does not in itself constitute a property.

Proceeds of disposition

The amount of financial assistance received further to the destruction or total loss of property is considered to be the proceeds of disposition of the property. Thus, the financial assistance received with respect to the part of the immovable property that you use as your residence constitutes the proceeds of disposition of the residence, whereas such assistance received with respect to the part of the immovable property that you use to earn business income or rental income constitutes the proceeds of disposition of that part of the immovable property.

If the financial assistance you receive covers all the property and no amount is specifically paid with respect to either the part used for personal purposes or the part used for income-producing purposes, you must apportion the amount of assistance between the parts by multiplying it by the percentage of use represented by each part in relation to the whole property. 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 related to the part used as your residence will be \$20,000 ($\$100,000 \times 20\%$) and the assistance related to the part used to earn income will be \$80,000 ($\$100,000 \times 80\%$).



If you receive financial assistance with respect to both the land and the building and are unable to determine the amount of assistance related to each of them, you must apportion the financial assistance between the land and the building using a reasonable method, in order to establish the proceeds of disposition of each of them. Then you must apportion the respective proceeds of disposition between the part of the land or building used for personal purposes and the part used for income-producing purposes by multiplying the proceeds of disposition by the percentage of use that each part represents in relation to the whole property. (See example 3 on page 14.)

Adjusted cost base

If you have not already done so, you must apportion the ACB of the building and the ACB of the land between the part of each of them used as your residence and the part used to earn income. Multiply the ACB of the property by the percentage of use of the property for personal purposes and the percentage of use of the property for income-producing purposes.

For example, suppose the ACB of your land is \$50,000, and 40% of the land is used to earn income while 60% is used as your residence. The ACB of the part of the land used to earn income would be \$20,000 ($\$50,000 \times 40\%$) and the ACB of the part used as your residence would be \$30,000 ($\$50,000 \times 60\%$).

NOTE

The land on which the principal residence is located and the contiguous land reasonably necessary for the use of the residence constitute a part of the principal residence. If those two areas of land add up to no more than one-half hectare, proof that the surface area is necessary for the use of the residence is not required, **unless part of the land was used to earn business income or rental income.**

If you deduct expenses related to the land (such as property taxes) from your business income or rental income, the apportionment of those expenses must indicate the extent to which you considered the land to have been used to earn income.

Fiscal rules

Once you have apportioned the proceeds of disposition (the financial assistance) and the ACB of the building and of the land between the part used for personal purposes and the part used for income-producing purposes, the following fiscal rules apply.

The part of the building used as your residence and the part of the land related thereto

Since disposition of your residence is considered to have occurred, there is a capital gain or loss. If you realize a capital gain, all or part of the gain will be tax-exempt if you designate as your principal residence the part of the building you use as your residence.

If you do not make that designation, the rules with respect to the disposition of personal-use property apply.

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

The rules with respect to the disposition of depreciable property apply to the part of the building used to earn income. (See the section entitled "Depreciable property" on page 21.) The disposition deemed to have been made of the part of the land used to earn income results in a capital gain or loss calculated **by subtracting the ACB of the property from the financial assistance** received with respect to the property. See Part 9, Apportionment of the proceeds of disposition between a building and the land, on page 28 if the **lesser** of the capital cost of the building and its UCC is greater than the financial assistance with respect to the building.



7.2 Damage not resulting in a total loss

If the damage to your building does not amount to a total loss and **the financial assistance you received with respect to such damage is used within a reasonable time to repair the damage**, disposition of the building is not considered to have occurred.

If you receive financial assistance with respect to property that you use for both personal and income-producing purposes, and no amount is paid solely with respect to either the part you use for personal purposes or the part you use for income-producing purposes, you must apportion the amount of such assistance between the parts using a reasonable method. In addition, financial assistance received for a group of properties must be apportioned among the properties using a reasonable method. (See example 4 on page 15.)

Where an expense incurred to repair the damage relates to both the part of the building used for income-producing purposes and the part used for personal purposes (for example, the repair of the exterior siding of the building), you must apportion the expense between the parts by multiplying it by the percentage of use represented by each part in relation to the whole building.

Example	
Part of the building used for income-producing purposes	80%
Part of the building used for personal purposes	20%
Expenses incurred with respect to the building	\$20,000
The expense related to the part of the building used for income-producing purposes is \$16,000 ($\$20,000 \times 80\%$) and the expense related to the part used for personal purposes is \$4,000 ($\$20,000 \times 20\%$).	

Fiscal rules

The part of the building used to earn business income

With respect to the part of the building used to earn business income, you must include the amount of assistance received in your business income for the fiscal period in which you received it. The expenses incurred in a fiscal period to repair the damage are deductible from your business income for that period.

The part of the building used to earn rental income

With respect to the part of the building used to earn rental income, you must include the amount of financial assistance received in your rental income for the fiscal period in which you received it. The expenses incurred to repair the damage are deductible from your rental income for the fiscal period in which they were incurred.

The part of the building used as your residence

The amount of financial assistance received in a year with respect to the part of the building used as your residence and the part of the land related to the residence is not taxable. Furthermore, the expenses incurred to repair the damage are not deductible.

You can increase the ACB of the property by an amount equal to the amount by which the expenses incurred exceed the amount of the financial assistance received, provided the expenses are for an improvement or an addition to the property.

The part of the land used to earn business income or rental income

The amount of financial assistance received in the fiscal period with respect to the part of the land used to earn business income or rental income must be included in your business income or rental income. The usual fiscal rules apply with respect to the expenses related to the repair of that part of the land.



8 CAPITAL GAINS OR LOSSES

8.1 Year in which a capital gain must be reported

The taxation year in which you must report a capital gain or loss resulting from a disposition of property is the **calendar year** in which the disposition was made. (See the section entitled “Time of disposition” below.) That rule also applies to a disposition of property used for the purpose of carrying on a business whose fiscal period does not end on the last day of the calendar year. However, if you were a member of a partnership that disposed of property, you must report the gain or loss in the year that includes the end of the fiscal period in which the property was disposed of.

Time of disposition

Where a disaster results in the total destruction of property, disposition of the property is deemed to be made on the earliest of:

- the day on which the individual agreed to the finalized amount of financial assistance;
- the day on which the amount of financial assistance is finally determined by the courts, in the case of a lawsuit; and
- the day that falls exactly two years after the disaster, in a case in which no lawsuit was filed within the two years following the disaster.

8.2 Calculating a capital gain or loss

Capital gains or losses are calculated on Schedule G of the income tax return. Enter:

- on line 14 of the schedule, the amount of capital gains or losses with respect to land and the amount of capital gains on depreciable property (other than qualified farm or fishing property);
- on line 16 of the schedule, the amount of capital gains on personal-use property (other than precious property), including a residence;
- on line 18 of the schedule, the amount of capital gains on precious property; and
- on line 54 of the schedule, the amount of capital gains on capital property that is qualified farm or fishing property.

Non-depreciable property

Non-depreciable property includes:

- personal-use property; and
- land.

A disposition of non-depreciable property results in a capital gain or loss.



Determination of the capital gain or loss

	Capital gain		Capital loss		Schedule G
Proceeds of disposition		xxx		xxx	Line A
Subtract:					
• the ACB	– xxx		– xxx		Line B
• the expenses relating to the disposition	– xxx	– xxx	– xxx	– xxx	Line C
Capital gain (or loss) with respect to the property		xxx		(xxx)	Subtract lines B and C from line A.
Subtract: the reserve (See page 24.)		– xxx			Line 32 or line 63, as applicable
Capital gain (or loss) for the year		xxx		(xxx)	Line 44, line 50 or line 84, as applicable
Multiply by 50%.	50%		50%		
Taxable capital gain for the year		xxx			Line 98
Allowable capital loss for the year				(xxx)	Line 98
Generally, if your allowable capital losses for the year exceed your taxable capital gains, the excess amount constitutes a net capital loss that can reduce your taxable capital gains for the three previous years or for subsequent years. If you would like to reduce your taxable capital gains for previous years, complete form TP-1012.A-V, <i>Carry-Back of a Loss</i> , and file it separately from your income tax return.					

Depreciable property

The ACB of depreciable property (see the definition on page 6) is always equal to its capital cost. When depreciable property is disposed of, if the proceeds of disposition exceed the capital cost, the excess amount constitutes a capital gain.

After a disposition of depreciable property, the UCC of the class to which the property belongs must be reduced by the capital cost of the property or by the proceeds of disposition of the property minus the expenses relating to the disposition, whichever is **less**.

If, further to a disposition of depreciable property, the UCC of the class to which the property belongs is a **negative amount** at the end of the year, that amount constitutes a recapture of CCA. You must include the total amount of the recapture in your business income or rental income for the year.

If the property was the last in its class and the UCC for that class is a **positive amount** at the end of the year further to the disposition of the property, you can deduct that amount from your business income or rental income as a terminal loss.

NOTE

A disposition of depreciable property cannot generate a capital loss.



Example 1

The proceeds of disposition of depreciable property are greater than its ACB and greater than the UCC of all the property in the class to which it belongs.

Capital gain

Proceeds of disposition of the property (minus the expenses relating to the disposition)		\$50,000
ACB of the property	–	\$40,000
	=	\$10,000
	Capital gain	\$10,000

Recapture of CCA

UCC of the property in the class before the disposition		\$25,000
Capital cost of the property	–	\$40,000
UCC of the property in the class after the disposition	=	– \$15,000
	Recapture of CCA	\$15,000

The capital gain on depreciable property is calculated in the same way as the capital gain on non-depreciable property. (See the table on the previous page.) Therefore, if a portion of the proceeds of disposition of property is payable after the end of a taxation year, you can deduct a reserve from the capital gain reported on the property for the year. (See section 8.3, Reserves, on page 24.)

Example 2

The proceeds of disposition of depreciable property are less than its ACB but greater than the UCC of all the property in the class to which it belongs.

Capital gain

Proceeds of disposition of the property (minus the expenses relating to the disposition)		\$80,000
ACB of the property	–	\$100,000
	=	– \$20,000
	Capital gain	\$0

Recapture of CCA

UCC of the property in the class before the disposition		\$60,000
Proceeds of disposition of the property (minus the expenses relating to the disposition)	–	\$80,000
UCC of the property in the class after the disposition	=	– \$20,000
	Recapture of CCA	\$20,000



Example 3

The proceeds of disposition of depreciable property are less than its ACB and less than the UCC of all the property in the class to which the property belongs.

Capital gain

Proceeds of disposition of the property (minus the expenses relating to the disposition)		\$45,000
ACB of the property	–	\$75,000
	=	– \$30,000
	Capital gain	\$0

Recapture of CCA

UCC of the property in the class before the disposition		\$50,000
Proceeds of disposition of the property (minus the expenses relating to the disposition)	–	\$45,000
UCC of the property in the class after the disposition	=	\$5,000
	Terminal loss if there is no other property in the class	\$5,000

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

(a) Non-depreciable property

To calculate the capital gain or loss with respect to non-depreciable property acquired before 1972, you must use the median rule to determine the cost of the property. The median corresponds to the amount that is neither the greatest nor the least of the following amounts:

- the actual cost of the property;
- the FMV of the property on valuation day (in general, December 31, 1971); and
- the proceeds of disposition.

However, you can elect to have the cost of all the property you owned on December 31, 1971, considered as its FMV on valuation day by completing form DT-72-V, *Election Respecting the Fair Market Value of Capital Property on Valuation Day*, and sending it to us.

(b) Depreciable property

The capital gain on depreciable property is equal to the amount by which the deemed proceeds of disposition **exceed** the capital cost of the property.

The deemed proceeds of disposition are equal to the total of:

- the capital cost of the property; and
- the amount by which the actual proceeds of disposition of the property **exceed** its FMV on valuation day (in general, December 31, 1971), provided the capital cost of the property is less than both its FMV on valuation day and the proceeds of disposition of the property.

If the capital cost of the property is **not** less than both its FMV on valuation day and the proceeds of disposition of the property, the usual rules regarding the disposition of depreciable property apply.



8.3 Reserves

If a portion of the proceeds of disposition (the financial assistance) is payable to you after the year in which you disposed of property, you can deduct a reserve in order to defer taxation of a portion of the capital gain until subsequent years. However, **you cannot claim a reserve with respect to the portion of the proceeds of disposition 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 contract of sale provides 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 cannot deduct a reserve with respect to that portion; at the end of the second year, you can deduct a reserve only with respect to the final \$20,000 instalment.

You can enter the amount of a reserve on the appropriate line of Schedule G of your income tax return, as follows:

- line 32 for reserves with respect to property (other than qualified farm or fishing property) disposed of in the year;
- line 38 for reserves with respect to property (other than qualified farm or fishing property) disposed of in a previous year;
- line 63 for reserves with respect to qualified farm or fishing property disposed of in the year;
- line 77 for reserves with respect to qualified farm or fishing property disposed of in a previous year.

A reserve deducted for a particular year **must be reported** as a capital gain for the following year (line 36 or line 74 of Schedule G). Another reserve can be deducted if a portion of the proceeds of disposition is payable at the end of that year (line 38 or line 77 of Schedule G). Since a reserve can generally be deducted over a period of up to four years, taxation of the capital gain can be spread over five years.

You cannot deduct a reserve for a particular taxation year if, at the end of that year or at any time during the following year, you were not resident in Canada or were exempt from income tax.

Calculating a reserve

Generally, the amount you can deduct as a reserve for a particular taxation year must not be greater than the **least** of the following three amounts:

- Capital gain $\times \frac{\text{Portion of the proceeds of disposition that is payable after the end of the year}}{\text{Proceeds of disposition}}$
- Capital gain $\times \frac{4 - Y}{5}$

(The variable **Y** is the number of taxation years prior to the year for which you are calculating a reserve. It is equal to 0 if the calculation is done for the year in which the disposition occurred, to 1 for the following year and so on.)

- Amount claimed as a reserve in calculating federal income tax.

Since the provincial reserve amount usually depends on the federal reserve amount deducted, you must send us a copy of **any document you sent the CRA** regarding the federal reserve amount deducted—including federal form T2017, *Summary of Reserves on Dispositions of Capital Property*, and your federal income tax return—no later than:

- 30 days after filing your claim for a reserve with the CRA; or
- the deadline for filing your income tax return for the taxation year for which the reserve must be claimed with the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of \$25 per day, to a maximum of \$2,500.



8.4 Acquisition cost different from the actual acquisition cost

The acquisition cost of property that is used solely for the purpose of calculating a capital gain or loss may differ from the actual acquisition cost of the property. This is the case, for example, if the property you acquired was a gift or an inheritance. If this situation applies to you, contact us to find out the acquisition cost of the property.

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 that case, you are deemed to have disposed of the property on February 22, 1994, for an amount equal to the proceeds of disposition you entered on this form (designated 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 proceeds of disposition entered on the form **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 disposed of or is deemed to have been disposed of), the property is neither deemed to have been disposed of on February 22, 1994, nor deemed to have been reacquired immediately afterward, and the ACB of the property must not be modified. The reduction of the capital gain deemed to have been realized on the non-qualifying immovable property is determined at the time of the subsequent disposition 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 calculating the capital gain realized upon that disposition.

If, on form TP-726.18-V, you entered proceeds of disposition that are greater than the FMV 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 calculated on form TP-274.S-V when the residence is subsequently disposed of, and it is taken into account in calculating the capital gain realized or deemed to have been realized.

For more information, contact us.

8.5 Deduction for capital gains

If you report a capital gain realized on property, you may be entitled to a deduction if the property is qualified property. The amount of such a deduction must be entered on line 292 of your income tax return. The deduction for capital gains realized on qualified property has a lifetime cumulative gains limit of:

- \$750,000 for property disposed of after March 18, 2007, and before January 1, 2014;
- \$800,000 for property disposed of in the 2014 taxation year or for a reserve with respect to qualified farm or fishing property disposed of after December 31, 2013, and before December 3, 2014; and
- \$1,000,000 for qualified farm or fishing property disposed of after December 31, 2014, or for a reserve with respect to such property disposed of after December 2, 2014.

Since the capital gains inclusion rate is 1/2, the lifetime cumulative deduction limit for taxable capital gains is respectively:

- \$375,000;
- \$400,000; and
- \$500,000.



NOTES

- In 2014, the term “qualified farm or fishing property” replaced the terms “qualified farm property” and “qualified fishing property.” Therefore, the deduction for capital gains on qualified property applies with respect to any disposition made after 2013 of property **used principally** in the course of carrying on a farming business, a fishing business or both.
- If you report a **reserve** as a capital gain for the year (the reserve for the previous year included in the year minus, as applicable, the reserve deducted for the year) and the reserve relates to qualified property disposed of in a previous year, the deduction you can claim must not exceed the unused portion of the lifetime cumulative limit in effect on the date of the disposition of the property.

For example, if, for the year, you include a reserve with respect to qualified property disposed of after March 18, 2007, and before January 1, 2014, but you previously claimed a cumulative deduction of \$380,000, you cannot claim a deduction for that reserve because the lifetime cumulative deduction limit in effect on the date of the disposition of the property was \$375,000, that is, an amount less than the \$380,000 deduction previously claimed. If the property had been disposed of after December 31, 2013, and before January 1, 2015, you could have claimed a deduction of \$20,000 (the unused portion) because the lifetime cumulative deduction limit in effect on the date of the disposition of the property was \$400,000.

- If, for the year, you report (on line 74 of Schedule G of your income tax return) a reserve with respect to property disposed of after **March 18, 2007**, you must also enter the date of the disposition of the property on line 75 of Schedule G. You need the date to determine the lifetime cumulative limit of the deduction you can claim in respect of the reserve.

Farm or fishing property (for dispositions made after 2013) is considered to be qualified property. Therefore, the deduction for capital gains on this qualified property must relate to capital gains reported in Part C of Schedule G of your income tax return.

Qualified farm or fishing property

Generally, qualified farm or fishing property is property which, at the time of its disposition, belonged to you, your spouse or a family farming or fishing partnership of which you or your spouse was a member. It may also be immovable property (land or a building) or a fishing vessel that was used principally in a farming or fishing business carried on in Canada:

- by you, your spouse, your child, your grandchild, your great-grandchild, your father or your mother (referred to as “designated persons”); or
- by a family farm or fishing corporation or a family farm or fishing partnership in which any of the designated persons held a share or an interest, as applicable.

NOTE

- The property must have been held and used principally for carrying on the fishing or farming business for at least 24 months immediately preceding its disposition and:
 - if the property belonged to a designated person, the person must have been actively engaged in the business on a regular and continuous basis, and the person’s gross income from the business must have exceeded the person’s income from all other sources for a period of at least two years during which the person held the property;
 - if the property was used by a family farm or fishing corporation or a family farm or fishing partnership, the designated person must have been actively engaged in the business on a regular and continuous basis.
- A real servitude encumbering qualified farm or fishing property is considered to be qualified farm or fishing property. It may be possible to claim a deduction for the capital gain realized on the establishment of such a servitude.



Eligibility requirements and calculation of the deduction

You can claim a deduction for capital gains on qualified property if:

- you were resident or deemed resident in Canada throughout the year for which you are required to report a taxable capital gain on qualified property (you are deemed to have been resident in Canada throughout the year if you were resident there at any time in the year and throughout the previous year or the following year);
- you report the capital gain on qualified property in the income tax return for the year in which the gain is realized; **and**
- you file that income tax return within one year after the filing deadline for the return.

To calculate the deduction, complete form TP-726.7-V, *Capital Gains Deduction on Qualified Property*.

The deduction **may be reduced by a CNIL** established at the end of the calendar year. The CNIL corresponds to the amount by which your investment expenses after 1987 **exceed** your investment income after 1987. Even if you do not claim a deduction for a particular year, you should complete form TP-726.6-V, *Cumulative Net Investment Loss*, in case you claim the deduction in a subsequent year.

Furthermore, the deduction you can claim may depend on the deduction claimed in your federal income tax return. If the maximum capital gains deduction to which you are entitled is not claimed in your return filed with the CRA and the amount claimed in that return is **less** than the maximum amount to which you are entitled for Québec income tax purposes, you must claim the same amount in your provincial income tax return as is claimed in your federal income tax return. In that case, you must enclose with form TP-726.7-V a **copy of every document sent to the CRA** pertaining to the deduction for capital gains on qualified property, in particular, form T657, *Calculation of Capital Gains Deduction*, and your federal income tax return. Everything must be sent to us on or before the later of the following days:

- the 30th day after claiming a capital gains deduction from the CRA; and
- the deadline for filing your income tax return for the taxation year for which the claim respecting the deduction must be sent to the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of \$25 per day, to a maximum of \$2,500.



9 APPORTIONMENT OF THE PROCEEDS OF DISPOSITION BETWEEN A BUILDING AND THE LAND

Special rules under sections 93.1 to 93.3 of the *Taxation Act* provide for the apportionment of the proceeds of disposition of an immovable between a building and the land if 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, and the **lesser** of the capital cost of the immovable and its UCC is greater than the proceeds of disposition of the building (the financial assistance received).

Those sections of the *Taxation Act* provide for two different calculations, based on whether or not the disposition of the building and the disposition of the land occur in the same year. See the section entitled "Time of disposition" on page 20 to determine when a disposition of property is considered to have occurred.

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

9.1 Where the building and the land are disposed of in the same year

If the building and the land are disposed of in the same year, the deemed proceeds of disposition of the building are equal to the **lesser** of the following two amounts:

- (1) the amount by which the total of the FMV of the building at the time of the disposition **and** the FMV of the land immediately before the disposition **exceeds** the **lesser** of:
 - the FMV of the land immediately before the disposition; and
 - the cost of the land **minus** the capital gains from the dispositions of the land that were made over the three previous years by you or by persons not dealing at arm's length with you; and
- (2) the **greater** of:
 - the FMV of the building at the time of the disposition; and
 - the **lesser** of:
 - the building's UCC; and
 - the capital cost of the building immediately before the disposition.

The deemed proceeds of disposition of the land are equal to the amount by which the financial assistance received with respect to the building and the land **exceeds** the deemed proceeds of disposition of the building.

9.2 Where the building and the land are disposed of in different years

If the building and the land are disposed of in different years, the deemed proceeds of disposition of the building are equal to the financial assistance received with respect to the building plus **one half** of the amount by which the **greater** of the following amounts **exceeds** the amount of financial assistance received:

- the FMV of the building immediately before the disposition; and
- the building's UCC at the same time.

The deemed proceeds of disposition of the land are equal to the amount by which the financial assistance received with respect to the building and the land **exceeds** the deemed proceeds of disposition of the building.



10 RULES RESPECTING REPLACEMENT PROPERTY

Property is considered to be replacement property only if:

- it is reasonable to conclude that you acquired the property to replace destroyed property; and
- the property acquired is used as the destroyed property was used by you or by a person related to you.

Deferred taxation of the capital gain realized on the destroyed property

If you acquired replacement property, you may elect, under federal legislation, to defer taxation of the capital gain realized on the destroyed property. If the ACB of the replacement property is equal to or greater than the proceeds of disposition of the destroyed property (the financial assistance received), the deferral applies to the entire capital gain; otherwise, it applies to only a portion of the gain. The deferred portion of the capital gain will be taken into account in the year in which the replacement property is disposed of since you will have to deduct the capital gain either from the cost of the replacement property or, if the replacement property is depreciable property, from the capital cost of that property.

Example 1

You own property that is capital property which, as a result of a flood, is a **total loss**. You acquired replacement property (another capital property) with an ACB of \$80,000. You receive \$75,000 in financial assistance. Since the ACB of the replacement property is greater than the financial assistance received, the entire capital gain calculated on the destroyed property can be deferred and will be deducted from the cost of the replacement property in the year it is disposed of.

Example 2

You own property that is capital property used exclusively to earn business income. As a result of a flood, the property is a **total loss**. You acquired replacement property (another capital property) with an ACB of \$65,000. You receive \$80,000 in financial assistance. The ACB of the destroyed property is \$40,000. Since the ACB of the replacement property is less than the financial assistance received, only part of the capital gain calculated on the destroyed property can be deferred.

Capital gain

Proceeds of disposition of the destroyed property (financial assistance)		\$80,000
ACB of the destroyed property	–	\$40,000
	=	\$40,000
	Capital gain	\$40,000

On the total capital gain of \$40,000, only \$15,000 (the financial assistance received) minus the ACB of the replacement property (\$80,000 - \$65,000) is taxable for the year. An amount of \$25,000 (\$40,000 - \$15,000) can be deferred and will be deducted from the cost of the replacement property in the year it is disposed of.



The election under section 279 of the *Taxation Act* also allows you to defer taxation of the recapture of CCA.

If, under federal legislation, you make an election to defer taxation of the capital gain, the election applies automatically under Québec legislation. However, if you do not make the election under federal legislation, no election in that regard can be made for Québec income tax purposes.

If you make an election with the CRA to defer taxation of the capital gain, you must inform us of that fact in writing and provide us with proof thereof on or before the later of the following days:

- the 30th day after you make the election; and
- the deadline for filing your income tax return for the year for which the election must be made with the CRA.

If you fail to send us a copy of the documents you sent the CRA by the deadline, you are liable to a **penalty** of \$25 per day, to a maximum of \$2,500.

Expiration of the period in which replacement property can be acquired

Where a disposition of property is considered to have occurred, the period in which replacement property can be acquired expires at the end of the second taxation year following the year in which the disposition is deemed to have been made. (See the section entitled “Time of disposition” on page 20.)

If you previously reported a capital gain on the destroyed property, we will amend the income tax return in which you reported the gain, to take your election into account.

For more information, contact us.



11 TAX EFFECTS TABLE

The table in this part summarizes the tax effects of the financial assistance received with respect to the properties referred to in this document.

Property covered by the financial assistance	Total loss or destruction, in which case you are deemed to have disposed of your property	Property that is damaged but not completely destroyed	
		Damage repaired within a reasonable time	Damage not repaired within a reasonable time, in which case you are deemed to have disposed of your property
Principal residence and secondary residence (See page 10.)	<ul style="list-style-type: none"> The financial assistance received represents the proceeds of disposition of the residence. In calculating the capital gain or loss: <ul style="list-style-type: none"> if the property is designated as the principal residence, all or part of the capital gain is tax-exempt; if the property is not designated as the principal residence, the rules respecting personal-use property apply with respect to the gain. If there is a capital gain and you acquired replacement property, you may make an election under section 279 of the <i>Taxation Act</i>. (See page 30.) If there is a capital loss, you cannot deduct it. 	<ul style="list-style-type: none"> The financial assistance received is not taxable. The expenses incurred to repair the damage are not deductible. You can increase the ACB of the property by an amount equal to the amount by which the expenses incurred exceed the amount of the financial assistance received, provided the expenses are for an improvement or an addition to the property. 	<ul style="list-style-type: none"> The financial assistance received represents the proceeds of disposition of the residence. Contact us.
Personal-use property (other than a residence), such as household furnishings, an automobile used solely for personal purposes and precious property (See page 10.)	<ul style="list-style-type: none"> The financial assistance received represents the proceeds of disposition of the property. The method used to calculate the capital gain or loss is explained on page 20. If there is a capital gain and you acquired replacement property, you may make an election under section 279 of the <i>Taxation Act</i>. (See page 30.) If there is a capital loss, you cannot deduct it unless it relates to precious property. 	<ul style="list-style-type: none"> The financial assistance received is not taxable. The expenses incurred to repair the damage are not deductible. You can increase the ACB of the property by an amount equal to the amount by which the expenses incurred exceed the amount of the financial assistance received, provided the expenses are for an improvement or an addition to the property. 	<ul style="list-style-type: none"> The financial assistance received represents the proceeds of disposition of the property. Contact us.



Property covered by the financial assistance	Total loss or destruction, in which case you are deemed to have disposed of your property	Property that is damaged but not completely destroyed	
		Damage repaired within a reasonable time	Damage not repaired within a reasonable time, in which case you are deemed to have disposed of your property
<p>Property used in part to earn income and in part as a residence, such as:</p> <ul style="list-style-type: none"> • a rental building, owned by you, where your residence is located; • a building, owned by you, where your residence is located and where you carry on a business. (See page 11.) 	<ul style="list-style-type: none"> • The financial assistance received represents the proceeds of disposition of the property. • The financial assistance must be apportioned between the part used as a residence and the part used to earn income. (See page 11.) • Special rules apply (see page 28) if the lesser of the capital cost of the part of the property used to earn income and its UCC is greater than the financial assistance with respect to that part of the property. • In calculating the capital gain or loss relating to the part used as a residence: <ul style="list-style-type: none"> – if the property is designated as the principal residence, all or part of the capital gain is tax-exempt; – if the property is not designated as the principal residence, the rules respecting personal-use property apply with respect to the gain. • The calculation of the capital gain or loss relating to the part used to earn income is explained on page 20. • If there is a capital gain and you acquired replacement property, you may make an election under section 279 of the <i>Taxation Act</i>. (See page 30.) • If there is a loss: <ul style="list-style-type: none"> – for the part used as a residence, the capital loss cannot be deducted; – for the part used to earn income, the loss can be deducted from business income or rental income, as applicable, if no property remains in the class (a terminal loss). • If there is a recapture of CCA, you must include it in your business income or rental income, as applicable. <p>For more information, see page 17.</p>	<ul style="list-style-type: none"> • For the part used as a residence: <ul style="list-style-type: none"> – the financial assistance received is not taxable; – the expenses incurred to repair the damage are not deductible. <p>You can increase the ACB of the property by an amount equal to the amount by which the expenses incurred exceed the amount of the financial assistance received, provided the expenses are for an improvement or an addition to the property.</p> <ul style="list-style-type: none"> • For the part used to earn income: <ul style="list-style-type: none"> – the portion of the financial assistance used in the year to repair the damage must be included in business income or rental income, as applicable; – the expenses incurred to repair the damage are deductible from business income or rental income, as applicable, according to the usual rules. <p>For more information, see Part 7.</p>	<ul style="list-style-type: none"> • The financial assistance received represents the proceeds of disposition. • Contact us.



Property covered by the financial assistance	Total loss or destruction, in which case you are deemed to have disposed of your property	Property that is damaged but not completely destroyed	
		Damage repaired within a reasonable time	Damage not repaired within a reasonable time, in which case you are deemed to have disposed of your property
<p>A rental building</p> <p>A building used solely to earn business income</p> <p>Machinery and equipment used in a business</p>	<ul style="list-style-type: none"> The financial assistance received represents the proceeds of disposition. Special rules apply (see page 28) if the lesser of the capital cost of the building and its UCC is greater than the financial assistance with respect to the building. The calculation of the capital gain or loss is explained on page 20. If there is a capital gain and you acquired replacement property, you may make an election under section 279 of the <i>Taxation Act</i>. (See page 30.) If there is a recapture of CCA, you must include it in your business income or rental income, as applicable. If there is a loss, it can be deducted from business income or rental income, as applicable, if no property remains in the class (a terminal loss). 	<ul style="list-style-type: none"> The portion of the financial assistance used in the year to repair the damage must be included in business income or rental income, as applicable. The expenses incurred to repair the damage are deductible from business income or rental income, as applicable, according to the usual rules. 	<ul style="list-style-type: none"> The financial assistance received represents the proceeds of disposition of the property. Contact us.
Goods in stock	The financial assistance received must be added to business income. That addition should be offset by a reduction in the value of the 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 for which a deduction or a tax credit can be claimed	<ul style="list-style-type: none"> The financial assistance received reduces the amount of expenses. If expenses exceed the financial assistance received, the excess amount can be entered in your income tax return. 	<ul style="list-style-type: none"> The financial assistance received reduces the amount of expenses. If expenses exceed the financial assistance received, the excess amount can be entered in your income tax return. 	<ul style="list-style-type: none"> The financial assistance received reduces the amount of expenses. If expenses exceed the financial assistance received, the excess amount can be entered in your income tax return.



TO CONTACT US

Online

revenuquebec.ca



By telephone

Individuals and individuals in business

Monday to Friday: 8:30 a.m. to 4:30 p.m.

Québec City

418 659-6299

Montréal

514 864-6299

Elsewhere

1 800 267-6299 (toll-free)

Businesses, employers and agents for consumption taxes

Monday, Tuesday, Thursday and Friday: 8:30 a.m. to 4:30 p.m.

Wednesday: 10:00 a.m. to 4:30 p.m.

Québec City

418 659-4692

Montréal

514 873-4692

Elsewhere

1 800 567-4692 (toll-free)

Complaints – Bureau de la protection des droits de la clientèle

Monday to Friday: 8:30 a.m. to noon and 1:00 p.m. to 4:30 p.m.

Québec City

418 652-6159

Elsewhere

1 800 827-6159 (toll-free)

Individuals with a hearing impairment

Montréal

514 873-4455

Elsewhere

1 800 361-3795 (toll-free)

By mail

Individuals and individuals in business

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Cette publication est également disponible en français et s'intitule *Les incidences fiscales de l'aide financière reçue à la suite d'un sinistre* (IN-125).