THIRD SESSION

THIRTY-SECOND LEGISLATURE

NATIONAL ASSEMBLY OF QUÉBEC

Bill 42

An Act to amend the Taxation Act

First reading .....
Second reading .....
Third reading .....

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Minister of Revenue

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EXPLANATORY NOTES

This bill gives effect to the statement of policy presented on 12 December 1980 by the Minister of Finance, and to his press communiqués of 22 August 1980 and 18 February 1981. It contains most of the amendments made to the federal Income Tax Act by Bill C-54, sanctioned on 26 February 1981, namely, regarding travel allowances or the reimbursement of travel expenses received by certain part-time employees, small business development bonds, a deduction of not over $55 000 for certain taxpayers holding employment outside Québec, provisions regarding term preferred shares and income bonds, a deduction allowed to employers in respect of the amounts paid to certain employee benefit plans, the rules applicable in respect of certain amalgamations and in respect of credit unions, the deduction of expenses incurred on the acquisition of Canadian oil and gas property, the computation of basic provisional accounts, the requirement for corporations, partnerships and certain trusts to declare their interest income on the basis of fiscal period accounting, and the computation of the adjusted cost base of certain property.

This bill also contains certain amendments made to the federal Income Tax Act by the Banks and Banking Law Revision Act, 1980, sanctioned on 26 November 1980, particulary in respect of registered retirement savings plans, registered home ownership savings plans and registered retirement income funds, and by the Petroleum and Gas Revenue Tax Act, sanctioned on 8 July 1981, to provide that tax on income from petroleum and gas is not deductible in computing income.

Finally, this bill contains measures to broaden the scope of deductible expenses in respect of the special capital tax on oil refining corporations, to define certain rules and, generally, to facilitate the administration of the Taxation Act.

Bill 42

An Act to amend the Taxation Act

HER MAJESTY, with the advice and consent of the National Assembly of Québec, enacts as follows:

1. (1) Section 1 of the Taxation Act (R.S.Q., chapter I-3), amended by section 20 of chapter 81 of the statutes of 1979, section 1 of chapter 13 of the statutes of 1980 and by section 44 of chapter (*insert here the chapter number of Bill 18*) of the statutes of 1981, is again amended

(1) by inserting, after the definition of the expression "business", the following definition:

" "Canada" includes

(*a*) the sea bed and subsoil of the submarine areas adjacent to the coasts of Canada in respect of which the Government of Canada or of a province grants a right, licence or privilege to explore for, drill for or take any minerals, petroleum, natural gas or any related hydrocarbons; and

(*b*) the seas and airspace above the submarine areas referred to in paragraph *a* in respect of any activities carried on in connection with the exploration for or exploitation of any resource referred to in that paragraph;";

(2) by inserting, after the definition of the expression "Minister", the following definition:

" "mortgage investment corporation" has the meaning assigned by section 1108;";

(3) by inserting, after the definition of the expression "Canada", the following definition:

" "Canadian-controlled private corporation" means a private corporation that is a Canadian corporation other than a corporation controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada, by one or more public cor-

porations, other than a prescribed corporation, or by any combination of such persons and corporations;";

(4) by replacing paragraph *c* of the definition of the expression "dividend" by the following paragraph:

"(*c*) after 31 March 1977, by a public corporation, other than an investment corporation, either

i. to a person not resident in Canada, other than a person who, either alone or together with other persons related to him, owns more than 10 per cent of the shares of the class of the capital stock of the corporation on which the stock dividend was paid, or

ii. to a person resident in Canada, other than a non-resident owned investment corporation, where, either alone or together with other persons related to it, he owns more than 10 per cent of the shares of the class of the capital stock of the corporation on which the stock dividend was paid or where such dividend is paid on shares of a class that is not the same as the class to which the stock dividend was paid belongs or other than a corporation, other than a non-resident-owned investment corporation, to which a dividend paid on the share of the class of the capital stock of the corporation on which the stock dividend was paid would, if paid at the time the stock dividend was paid, not be deductible for the purpose of computing its taxable income;";

(5) by striking out the word "and" at the end of paragraph *b* of the definition of the expression "child", by inserting the word "and" at the end of paragraph *c* of that definition, and by adding, at the end of paragraph *c*, the following paragraph:

"(*d*) a child of the taxpayer's spouse;";

(6) by inserting, after the definition of the expression "employee", the following definition:

" "employee trust" has the meaning assigned by sections 47.7 to 47.9;";

(7) by inserting, after the definition of the expression "Canadian corporation", the following definition:

" "Canadian oil and gas property expense" has the meaning assigned by sections 418.2 to 418.4;";

(8) by inserting, after the definition of the expression "sister", the following definition:

" "specified financial institution" has the meaning assigned by section 740.1;"; and

(9) by inserting, after the definition of the expression "employee", the following expression:

" "employee benefit plan" has the meaning assigned by section 47.6;".

(2) Paragraph 1 of subsection 1 applies to the taxation year 1972 and subsequent taxation years.

(3) Paragraph 2 of subsection 1 applies to taxation years commencing after 1971.

(4) Paragraph 3 of subsection 1 applies to the taxation year 1979 and subsequent taxation years.

(5) Paragraph 4 of subsection 1 applies in respect of a stock dividend paid after 16 November 1978 to a non-resident owned investment corporation, after 11 December 1979 by an investment corporation, or after 21 April 1979 to a life insurance company.

(6) Paragraph 5 of subsection 1 applies to the taxation year 1979 and subsequent taxation years.

(7) Paragraphs 6 and 9 of subsection 1 have effect as from 1 January 1980.

(8) Paragraph 7 of subsection 1 has effect as from 12 December 1979.

(9) Paragraph 8 of subsection 1 has effect as from 17 November 1978.

2. (1) The said Act is amended by inserting, after section 1.1, the following section:

"**1.2** For the purposes of this Part, excepting subsection 1 of section 618, where a person has acquired a property in substitution for a particular property and subsequently, by one or more transactions, has acquired another property in substitution for that property or for a property already acquired in substitution, every property so acquired is deemed to be a property that has been substituted for the particular property."

(2) This section has effect as from 12 December 1979.

3. (1) Section 20 of the said Act is amended by replacing what precedes paragraph *a* by the following:

"**20.** For the purposes of section 19 and sections 21.1 to 21.4.1,".

(2) This section, to the extent that it refers to section 19, to the second paragraph of section 21.1 and to section 21.4 of the Taxation Act, applies to the taxation year 1972 and subsequent taxation years; to the extent that it refers to the first paragraph of section 21.1 and to sections 21.2 and 21.3 of the said Act, it applies in

respect of taxation years ending after 31 March 1977 and, to the extent that it refers to the third paragraph of section 21.1 and to section 21.4.1, it has effect as from 12 December 1979.

4. (1) Section 21.1 of the said Act, replaced by section 2 of chapter 13 of the statutes of 1980, is amended by adding the following paragraph:

"Section 21.4.1 applies in respect of the control of a corporation for the purposes of sections 384 and 736."

(2) This section has effect as from 12 December 1979.

5. (1) Sections 21.2 and 21.3 of the said Act are replaced by the following sections:

"**21.2** Where there has been an amalgamation, within the meaning of section 544, of several corporations after 31 March 1977, and a person or a group of persons controlling the new corporation immediately after the amalgamation did not control a particular predecessor corporation immediately before the amalgamation, that person or group of persons is deemed to have acquired control of the particular predecessor corporation immediately before the amalgamation.

"**21.3** Where shares of a particular corporation are acquired by a person after 31 March 1977, that person is deemed not to have acquired control of that corporation by virtue of that share acquisition if that person was, immediately before that acquisition, related, otherwise than by virtue of a right referred to in paragraph *b* of section 20, to the corporation, if he acquires the shares by way of a distribution of the property from the estate of a person with whom he was related or if he is testamentary executor, trustee or administrator of an estate who acquires the shares by virtue of the death of another person or is a new corporation resulting from an amalgamation, within the meaning of section 544, in respect of which each of the predecessor corporations was related, otherwise than by virtue of a right referred to in paragraph *b* of section 20, to the particular corporation immediately before the amalgamation."

(2) This section, to the extent that it replaces section 21.2 of the Taxation Act, has effect as from 26 February 1981 and, to the extent that it replaces section 21.3 of the said Act, applies in respect of the acquisition, after 11 December 1979, of a right referred to in paragraph *b* of section 20 of the said Act.

6. (1) The said Act is amended by inserting, after section 21.4, enacted by section 3 of chapter 13 of the statutes of 1980, the following section:

"**21.4.1** Where at any time a taxpayer acquires a right referred to in paragraph *b* of section 20 and it can reasonably be concluded that one of the main purposes of the acquisition is to avoid any limitation on the deductibility of any net capital loss, non-capital loss or amount referred to in section 384, the taxpayer is deemed to acquire at that time the shares to which the right is attached."

(2) This section applies in respect of the acquisition, after 11 December 1979, of a right referred to in paragraph *b* of section 20 of the Taxation Act.

7. (1) Section 21.5 of the said Act, enacted by section 3 of chapter 13 of the statutes of 1980, is amended

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

"(*a*) under the terms or conditions of the share, an agreement relating to the share or a modification of such terms, conditions or agreement,";

(2) by replacing subparagraphs ii and iii of paragraph *a* by the following subparagraphs:

"ii. the particular corporation or any other person is or may be required to redeem, acquire or cancel, in whole or in part, the share or reduce its paid-up capital within ten years of the date of issue, otherwise than pursuant to a requirement of the particular corporation to redeem, acquire or cancel annually not more than 5 per cent of the issued and fully paid shares of that class and, where the requirement was agreed to after 21 April 1980, it provides that such redemption, acquisition or cancellation of the shares be in proportion to the number of shares of the class or, where such shares are of a series of a class, of that series, registered in the name of each shareholder;

"iii. the particular corporation or any other person provides or may be required to provide any form of guarantee, indemnity or similar covenant with respect to the share, including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the holder of the share or any person related to him; or" ; and

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

"(*b*) the owner of the share acquired it after 23 Octobre 1979 and either alone or together with one or more of the corporations, partnerships or trusts referred to in subparagraphs *i* to iv, controls directly or indirectly the particular corporation or has an absolute or contingent right to control it directly or indirectly or to acquire direct or indirect control thereof, if such owner is

i. a corporation described in paragraphs *b* to *f* of section 250.3 or an insurance corporation;

ii. a corporation that is controlled directly or indirectly by one or more corporations referred to in subparagraph i;

iii. a corporation associated, within the meaning of section 230.2, with a corporation referred to in subparagraph i or ii that acquired the share after 11 December 1979; or

iv. a partnership or trust of which a member or, as the case may be, a beneficiary is a corporation referred to in subparagraph i or ii or a person related to such a corporation."

(2) This section has effect as from 17 November 1978; however, where subparagraphs ii and iii of paragraph a of section 21.5 of the Taxation Act, replaced by paragraph 2 of subsection 1 of this section, apply to a share issued before 24 October 1979, they must read as follows:

"ii. the particular corporation or any other person with whom that corporation does not deal at arm's length is or may be required to redeem, acquire or cancel, in whole or in part, the share or reduce its paid-up capital within ten years of the date of issue, otherwise than pursuant to a requirement of the particular corporation to redeem, acquire or cancel annually not more than 5 per cent of the issued and fully paid shares of that class;

"iii. the particular corporation or any other person is required or may be required to provide any form of guarantee or similar covenant with respect to the share, including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the owner of the share or any person related to him; or".

8. (1) Section 21.6 of the said Act, enacted by section 3 of chapter 13 of the statutes of 1980, is amended by replacing paragraphs *a* to *d* by the following paragraphs:

"(*a*) a share issued after 16 November 1978 and before 1980 pursuant to an agreement in writing to do so made before 17 November 1978;

"(*b*) a share issued as a stock dividend before 22 April 1980 on a share of the capital stock of a public corporation that was not a term preferred share, or after 21 April 1980 on a share that was, at the time such dividend was paid, a share prescribed for the purposes of paragraph *e*;

"(*c*) a share of a particular corporation resident in Canada, for a term that may not exceed ten years, the proceeds from the issue of which, in the case of a share issued after 23 October 1979, may reasonably be regarded as having been used by the particular corporation or a corporation with which it was not dealing at arm's

length in the financing of its business carried on immediately before the share was issued, and that was issued

i. as part of a proposal to or an arrangement with its creditors, approved by a competent court under the Bankruptcy Act (Statutes of Canada);

ii. while all or substantially all of the assets of the particular corporation were under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy; or

iii. in whole or in part, directly or indirectly, in exchange or substitution for a debt obligation of the particular corporation or a corporation resident in Canada with which it does not deal at arm's length held by a person with whom the particular corporation or the other corporation was dealing at arm's length at a time when, by reason of financial difficulty, the particular corporation or the other corporation was in default or could reasonably be expected to default on that debt;

"(*d*) a share issued before 22 April 1980 by a corporation described in any of paragraphs *b* to *f* of section 250.3 or by corporation associated, within the meaning of section 230.2, with any such corporation and listed on a prescribed stock exchange in Canada; or".

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

9. (1) Section 21.8 of the said Act, enacted by section 3 of chapter 13 of the statutes of 1980, is replaced by the following section:

"**21.8** Where, at a particular time after 16 November 1978, in respect of a share issued before 17 November 1978, the redemption date was extended or the terms or conditions relating to its redemption, acquisition, cancellation or conversion or to the reduction of its paid-up capital by the issuer of the share were changed, the share is, for the purposes of determining at any time after the particular time whether it is a term preferred share, deemed to have been issued at the particular time otherwise than pursuant to an agreement in writing referred to in paragraph *a* of section 21.6."

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

10. (1) Section 21.9 of the said Act, enacted by section 3 of chapter 13 of the statutes of 1980, is amended by replacing paragraphs *b* and *c* by the following paragraphs:

"(*b*) where, under the terms or conditions of a share issued before 17 November 1978 and not listed on 16 November 1978 on a

prescribed stock exchange in Canada, of a share issued pursuant to an agreement in writing referred to in paragraph *a* of section 21.6, of any agreement between the issuer and the owner of such a share, or any agreement relating to such a share made after 23 October 1979, the owner of the share could at a particular time after 16 November 1978 require, either alone or together with one or more taxpayers, the redemption, acquisition, cancellation, conversion or reduction of the paid-up capital of the share otherwise than by reason of a failure or default under the terms or conditions of the share or of any agreement relating to the issue of the share made at the time of such issue; or

"(*c*) where, at a particular time after 23 October 1979, a specified financial institution or a partnership or trust of which a specified financial institution or a person related thereto is a member or a beneficiary acquired, otherwise than pursuant to an agreement in writing made before 24 October 1979, from a person other than a corporation described in paragraph *a* or *b* of section 740.1, a share issued before 17 November 1978 or a share issued pursuant to an agreement in writing referred to in paragraph *a* of section 21.6, other than a share issued to a corporation described in paragraph *a* or *b* of section 740.1."

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

11. (1) Section 21.10 of the said Act, enacted by section 3 of chapter 13 of the statutes of 1980, is replaced by the following sections:

"**21.10** Where a specified financial institution receives from a corporation not resident in Canada an amount as a dividend on a term preferred share, the amount is, for the purposes of paragraphs *c* and *l* of section 87 and sections 746 to 749 and 772, deemed to be received as interest and not as a dividend on a share of the capital stock of the corporation.

"**21.10.1** The rule provided in section 21.10 applies also where a particular corporation receives a dividend on a share of the capital stock of a corporation not resident in Canada if, at the time the dividend is paid, a specified financial institution or a person related to a specified financial institution or a partnership or trust of which any such institution or person related thereto is a member or a beneficiary, is obligated pursuant to any agreement made after 23 October 1979, either absolutely or contingently and either at or after the time the dividend is paid, to effect any undertaking with respect to the share on which the dividend is paid including any guarantee, covenant or agreement to purchase or repurchase the share, given to ensure that any loss that the partic-

ular corporation or any partnership or trust of which the particular corporation is a member or a beneficiary may sustain by virtue of the ownership, holding or disposition of the share is limited in any respect, or that the particular corporation or any partnership or trust of which it is a member or beneficiary will derive earnings by virtue of the ownership, holding or disposition of the share.

"**21.10.2** Section 21.10 is not applicable to a dividend described therein if the share on which the dividend is paid was not acquired in the ordinary course of the business carried on by the specified financial institution."

(2) This section has effect as from 17 November 1978; however, for the purposes of the application of section 21.10 of the Taxation Act, replaced by subsection 1 of this section, and of sections 21.10.1 and 21.10.2 of the said Act, enacted by the said subsection 1, to an amount received as a dividend on a share acquired before 22 April 1980, every reference in such sections to a "specified financial institution" shall be read as a reference to a "corporation described in paragraph *a* or *b* of section 740.1".

12. (1) Section 21.12 of the said Act, enacted by section 3 of chapter 13 of the statutes of 1980, is replaced by the following section:

"**21.12** In this Part, "income bond" or "income debenture" of a particular corporation means a bond or debenture in respect of which interest or dividends are payable only to the extent that the particular corporation has made a profit before taking into account the payment of the interest or dividend, and which is a bond or debenture

(*a*) that was issued before 17 November 1978;

(*b*) that was issued after 16 November 1978 and before 1980 pursuant to an agreement in writing to do so made before 17 November 1978; or

(*c*) for a term that in no circumstances may exceed five years, the proceeds from the issue of which, in the case of a bond or debenture issued after 23 October 1979, may reasonably be regarded as having been used by the particular corporation or a corporation with which it was not dealing at arm's length in the financing of its business carried on immediately before it was issued, and, in the case of a bond or debenture issued by a particular corporation that is resident in Canada, that was issued

i. as part of a proposal to or an arrangement with the creditors of the particular corporation, approved by a competent court under the Bankruptcy Act (Statutes of Canada);

ii. at a time when all or substantially all of the assets of the particular corporation were under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy; or

iii. in whole or in part, directly or indirectly, in exchange or substitution for a debt obligation of the particular corporation or another corporation resident in Canada with which it does not deal at arm's length held by a person with whom the particular corporation was dealing at arm's length at a time when, by reason of financial difficulty, the particular corporation or the other corporation was in default or could reasonably be expected to default on that debt."

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

13. (1) Section 21.14 of the said Act, enacted by section 3 of chapter 13 of the statutes of 1980, is replaced by the following section:

"**21.14** Where, at a particular time after 16 November 1978, the maturity date of a bond or debenture was extended or the terms or conditions relating to the repayment of the principal amount thereof were changed, the bond or debenture is, for the purposes of determining at any time after the particular time whether it is an income bond or income debenture, as the case may be, deemed to have been issued at the particular time otherwise than pursuant to an agreement in writing referred to in paragraph *b* of section 21.12."

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

14. (1) Section 21.15 of the said Act, enacted by section 3 of chapter 13 of the statutes of 1980, is amended by replacing paragraphs *b* and *c* by the following paragraphs:

"(*b*) where, under the terms or conditions of a bond or debenture acquired in the ordinary course of the business carried on by a specified financial institution or a partnership or trust other than a testamentary trust or under the terms or conditions of any agreement relating to any such bond or debenture, other than an agreement made before 24 October 1979 to which the issuer or any person related thereto was not a party, the owner could at a particular time after 16 November 1978 require, either alone or together with one or more taxpayers, the repayment, acquisition, cancellation or conversion of the bond or debenture otherwise than by reason of a failure or default under the terms or conditions of the bond or debenture or of any agreement relating to, and entered into at the time of, the issuance of the bond or debenture; or

"(*c*) where, at a particular time after 23 October 1979, a specified financial institution or a partnership or trust of which a

specified financial institution or a person related thereto is a member or, as the case may be, a beneficiary acquired, otherwise than pursuant to an agreement in writing made before 24 October 1979, from a person other than a corporation described in any of paragraphs *a* and *b* of section 740.1, a bond or debenture issued before 17 November 1978 or issued pursuant to an agreement in writing referred to in paragraph *b* of section 21.12, other than a bond or debenture issued to a corporation described in paragraph *a* or *b* of section 740.1."

(2) This section has effect as from 17 November 1978; however, where paragraph *b* of section 21.15 of the Taxation Act, replaced by subsection 1 of this section, applies, during the period commencing on 17 November 1978 and ending on 23 October 1979, to a bond or debenture issued before 17 November 1978 or where the said paragraph *b* applies to a bond or debenture issued after 16 November 1978 and before 24 October 1979, it must be read as follows:

"(*b*) where, under the terms or conditions of a bond or debenture acquired in the ordinary course of the business carried on by a corporation described in paragraph *a* or *b* of section 740.1 or a partnership or trust other than a testamentary trust, the owner of the bond or debenture could, at a particular time after 16 November 1978, require the payment in principal of the bond or debenture, otherwise than by reason of a failure or default under the terms or conditions of the bond or debenture; or".

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

"(*b*) the amount that would be his income earned in Canada contemplated in section 1090 for any period of the year other than that mentioned in paragraph *a*, if he had not resided in Canada at any time of the year, computed as if such period constituted a whole taxation year, less the deductions allowed by Book IV that may reasonably be considered attributable to that period. For the purposes of such computation, an individual who ceased to be resident in Canada during the year under the circumstances mentioned in section 1093 is deemed to have ceased to be resident there during a previous year under the same circumstances."

(2) This section has effect as from 1 September 1979.

16. (1) Section 38 of the said Act is amended by adding the following paragraph:

"Nor is he required to include therein the value of benefits under an employee benefit plan or employee trust."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

17. (1) The said Act is amended by inserting, after section 47, the following division and sections:

"DIVISION V.1

"EMPLOYEE BENEFIT PLANS AND EMPLOYEE TRUSTS

"**47.1** An individual shall include in computing his income for a taxation year an amount that is allocated to him for that year by a trustee under an employee trust and an amount received by him in the year out of or under an employee benefit plan or from the disposition of any interest in any such plan.

"**47.2** Notwithstanding section 47.1, an individual is not required to include in computing his income an amount received in respect of an employee benefit plan, to the extent that such amount represents a return of amounts contributed to the plan by him or a deceased employee of whom he is an heir or legal representative, a death benefit or an amount that would, but for the deduction provided for in sections 3 and 4, be a death benefit, or a pension benefit attributable to services rendered by a person in a period during which he was not resident in Canada.

"**47.3** For the purposes of section 47.2, an amount included in computing the income of an individual in respect of an employee benefit plan for a taxation year preceding the year in which it is paid, is deemed to be an amount contributed to the plan by the individual.

"**47.4** For the purposes of section 47.2, where an amount is received in a taxation year by an individual from an employee benefit plan that was in a preceding year an employee trust, that amount is deemed to be the return of the amounts contributed to the plan by the individual, up to the amount by which the lesser of the amounts determined under paragraph *a* or *b* of section 47.5 exceeds the aggregate of all amounts previously received out of the plan by the individual or a deceased person of whom he is an heir or legal representative at a time when the plan was an employee benefit plan, to the extent that the latter amounts were deemed under this section to be a return of amounts contributed to the plan.

"**47.5** The amounts referred to in section 47.4 are the following:

(*a*) the amount by which the aggregate of all amounts allocated to the individual or a deceased person of whom he is an heir

or legal representative, by a trustee of the plan at a time when the plan was an employee trust, exceeds the aggregate of all amounts previously paid out of the plan to or for the benefit of the individual or the deceased person at that time; and

(*b*) the portion of the amount by which the cost amount to the plan of its property immediately before it ceased to be an employee trust, that the amount determined under paragraph *a* in respect of the individual is of the aggregate of amounts determined under that paragraph is respect of all individuals who were beneficiaries under the plan at that time, exceeds the liabilities of the plan at that time.

"**47.6** For the purposes of this division, "employee benefit plan" means an arrangement under which contributions are made by an employer or a person with whom he does not deal at arm's length to another person, referred to in sections 135.1 and 209.1 to 209.4 as the "custodian", and under which one or more amounts, other than an amount that, if this chapter were read without reference to the second paragraph of section 38 and to section 47.1, would not be required to be included in computing the income of the recipient, are to be paid to or for the benefit of employees or former employees of the employer or persons who do not deal at arm's length with any such employee or former employee.

However, such a plan does not include a plan referred to in the first paragraph of section 38 or in section 43 or 47, a trust referred to in paragraph *m* of section 998, an employee trust, an arrangement the sole purpose of which is to provide education or training for employees of the employer to improve their work or work-related skills and abilities or a prescribed fund or plan.

"**47.7** For the purposes of this division, "employee trust" means an arrangement established after 1979, the trustee of which arrangement has elected to qualify it as an employee trust in the fiscal return filed within 90 days from the end of its first taxation year and under which

(*a*) payments are made by one or more employers to a trustee in trust solely to provide for the payment of benefits to employees or former employees of the employer or a person with whom the employer does not deal at arm's length;

(*b*) the right to a benefit referred to in paragraph *a* vests only at the time of payment thereof;

(*c*) the amount of a benefit referred to in paragraph *a* does not depend on the individual's position, performance or compensation as an employee; and

(*d*) the trustee has, since the commencement of the arrangement, each year allocated to individuals who are beneficiaries

under the trust, an amount equal to the amount contemplated in section 47.8.

"**47.8** The amount referred to in paragraph *d* of section 47.7 is obtained by subtracting the aggregate of the capital losses of the trust for the year from the disposition of property and of the losses, other than allowable capital losses from the disposition of property, of the trust for the year from any source other than a business, from the aggregate of amounts received under the arrangement by the trustee in the year from an employer or from a person with whom the employer does not deal at arm's length, capital gains of the trust for the year from the disposition of property and amounts that would, but for paragraph *a* of section 657 and section 657.1, be the income of the trust for the year, other than a taxable capital gain from the disposition of property, from any source other than a business.

"**47.9** Notwithstanding section 47.7, an employee trust does not include a profit sharing plan, a deferred profit sharing plan or a plan revoked under sections 876 to 879."

(2) This section applies to the taxation year 1980 and subsequent taxation years, except to the extent that it enacts sections 47.6 to 47.9 of the Taxation Act, in which case it has effect as from 1 January 1980.

18. (1) Section 64 by of the said Act is replaced by the following section:

"**64.** An individual entitled to a deduction under section 62 or 63 may also deduct any interest he paid in the year on a loan made to purchase an automobile used only in the performance of his duties or an aircraft that is required for use in the performance of his duties.

He may also deduct such part of the capital cost of an automobile used by him in the performance of his duties or of an aircraft contemplated in the first paragraph as regulations allow."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

19. (1) The said Act is amended by inserting, after section 64.1, the following section:

"**64.2** Notwithstanding any other provision of this Act, an individual who uses an aircraft that is owned or rented by him for travelling in the performance of his duties shall not deduct the aggregate of the amounts that would otherwise be deductible pursuant to section 62, 63 or 64, in respect of that aircraft, except to

the extent that such aggregate is reasonable in the circumstances having regard to the cost and availability of other modes of transportation."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

20. (1) The said Act is amended by inserting, after section 79, the following sections:

"**79.1** Where an individual who is resident in Canada in a taxation year performed all or substantially all the duties of his employement in one or more countries other than Canada throughout a period of more that 6 consecutive months that commenced in the year or a previous year, he may deduct, in computing his income for the year from that employment, the amount provided for in section 79.2, if he is employed throughout that period by a specified employer and if such duties are in connection with a contract under which the specified employer carries on business in such country or countries with respect to the exploration for, or exploitation of, petroleum, natural gas, minerals or other similar resources, or in respect of an agricultural, contruction, installation or engineering activity or any prescribed activity, or for the purpose of obtaining such a contract for the specified employer.

"**79.2** The amount referred to in section 79.1 is equal to the lesser of the following amounts:

(*a*) 50% of the portion of the income of the individual for the year, computed without reference to section 79.1, from that employment that is reasonably attributable to those duties performed, if section 23 is applicable, during the period of the year referred to in subparagraph *a* of the second paragraph of the latter section that is within the particular period, or, if section 23 is not applicable, within the particular period; or

(*b*) that portion of $55 000 that the number of days in that portion of the particular period that is in the year is of 365.

"**79.3** For the purposes of section 79.1, "specified employer" means

(*a*) a person resident in Canada;

(*b*) a partnership in respect of which the aggregate fair market value of the interests in the partnership, each of which is owned by a member resident in Canada or a corporation controlled by persons resident in Canada, exceeds 10% of the aggregate fair market value of all of its members' interests in the partnership; and

(*c*) a corporation that is a foreign affiliate of a person resident in Canada."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

21. (1) The said Act is amended by inserting, after section 85, the following sections:

"**85.1** For the purposes of section 83, the fair market value of the property described in the inventory of a taxpayer means the replacement cost of the property.

"**85.2** Section 85.1 does not apply to property that is obsolete, damaged or defective or that is held for sale or lease or for the purpose of being processed, fabricated, manufactured, incorporated into, attached to, or otherwise converted into property for sale or lease.

"**85.3** Without restricting the generality of this chapter, property, other than capital property, of a taxpayer that is advertising or packaging material, parts or supplies must be included in his inventory and anything used primarily for the purpose of advertising or packaging property that is included in the inventory of a taxpayer is deemed not to be property held for sale or lease or for any of the purposes referred to in section 85.2."

(2) This section applies in respect of property acquired after 11 December 1979.

22. (1) Section 87 of the said Act, amended by section 6 of chapter 13 of the statutes of 1980, is again amended

(1) by replacing paragraph *j* by the following paragraphs:

"(*j*) any amount received by him in the year out of or under an employee trust or a profit sharing plan established for the benefit of employees of the taxpayer or of a person with whom the taxpayer does not deal at arm's length;

"(*j*.1) the amount by which the aggregate of amounts received by him in the year out of or under an employee benefit plan to which he has contributed as an employer exceeds the amount by which the aggregate of all amounts contributed by him to the plan, or included in computing his income for any preceding taxation year by virtue of this paragraph exceeds the aggregate of all amounts deducted by him in respect of his contributions to the plan in computing his income for the year or any preceding taxation year, or received by him out of or under the plan in any preceding taxation year;"; and

(2) by replacing the period at the end of paragraph *q* by a semicolon and by adding, after such paragraph, the following paragraphs:

"(*r*) the aggregate of all amounts each of which is the maximum amount that an insurer may claim in the year in respect of a reserve for a reinsurance commission for a policy as allowed by regulations made under the second paragraph of section 152 in respect of a risk the reinsurance of which is assumed by the taxpayer;

"(*s*) the amount of any grant received by him in the year under a prescribed program relating to home insulation or energy conversion in respect of a property used by him principally for the purpose of gaining or producing income from a business or property;

"(*t*) the amount, by which the aggregate of amounts determined at the end of the year in respect of him under section 225 exceeds the aggregate of amounts determined at that time in respect of him under sections 222 to 224;

"(*u*) the prescribed amount deducted in computing the taxpayer's tax payable for the year under a prescribed law, to the extent that such amount is not included in an amount determined under subparagraph vii of paragraph *e* of section 93 and sections 101 and 225."

(2) Paragraph 1 of subsection 1 applies in respect of an amount received after 1979.

(3) Paragraph 3 of subsection 1, to the extent that it enacts paragraph *r* of section 87 of the Taxation Act, applies to the taxation year 1980 and subsequent taxation years; to the extent that it enacts paragraph *s* of the said section 87, it applies to the taxation year 1981 and subsequent taxation years; to the extent that it enacts paragraph *t* of the said section 87, it applies to taxation years ending after 12 January 1981 and, to the extent that it enacts paragraph *u* of the said section 87, it applies to taxation years ending after 11 December 1979.

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

"**87.1** For the purposes of subparagraph ii of paragraph *e* of section 87, in computing an insurance corporation's income from carrying on an insurance business for its taxation year 1978, the amount by which the aggregate of all amounts each of which is an amount deducted by the corporation in computing its income for a taxation year ending before 1978 that was in respect of an event giving rise, or likely to give rise, to a claim under an insurance pol-

icy, other than a life insurance policy, exceeds the aggregate of all amounts paid by the corporation before its taxation year 1978 in respect of such deducted amounts, is deemed to be an amount that was deducted by the corporation under section 152 in computing its income from that business for its taxation year 1977."

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

24. (1) Section 92 of the said Act is replaced by the following sections:

"**92.** Notwithstanding paragraph *c* of section 87, in computing its income for a taxation year, a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary, shall include any interest that accrued to it, or became receivable or was received by it, in the year to the extent that such interest was not included in computing its income for a previous taxation year.

"**92.1** For the purposes of section 92, where a corporation, partnership or trust therein referred to acquires at any time after 19 December 1980 an interest in an annuity contract, an amount determined in prescribed manner is deemed to accrue to it as interest in each taxation year during which it holds the interest in the contract.

"**92.2** Section 92 does not apply to a corporation, partnership or trust, other than a corporation described in any of paragraphs *b* to *e* of section 250.3 or any other corporation, other than a mutual fund corporation or a mortgage investment corporation, whose principal business is the making of loans or that borrows money from the public in the course of carrying on a business the principal purpose of which is the making of loans, with respect to interest on an obligation acquired by it before 29 October 1980, unless the obligation was issued by a person with whom the corporation or trust or any member of the partnership was not dealing at arm's length.

"**92.3** For the purposes of section 92.2, where at a particular time after 28 October 1980, the maturity date of an obligation acquired before 29 October 1980 is extended, the terms or conditions relating to the repayment of the principal amount are changed, or the holder could require the repayment, acquisition, cancellation or conversion of the obligation, otherwise than by reason of a failure or default under the terms or conditions thereof, the obligation is deemed to be a new obligation acquired by the holder thereof at that particular time."

(2) This section applies to taxation years commencing after 28 October 1980.

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

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

"(*c*) "depreciable property" of a taxpayer as of any time in a taxation year means property acquired by the taxpayer in respect of which he has been allowed, or, if he owned the property at the end of the year, would be entitled to, a deduction under paragraph *a* of section 130 in computing his income for that taxation year or a previous taxation year;";

(2) by striking out the word "and" at the end of subparagraph i of paragraph *e*, by replacing the phrase "exceeds the aggregate of" at the end of subparagraph ii of the said paragraph *e* by the word "and" and by inserting, after the said subparagraph ii, the following subparagraph:

"ii.1 the amount of any assistance that has been repaid by the taxpayer, pursuant to an obligation to do so, in respect of a depreciable property of that class subsequent to the disposition of the property that would have been included in computing the capital cost of that property under section 101 had the repayment been made before the disposition, exceeds the aggregate of"; and

(3) by striking out the word "and" at the end of subparagraph v of paragraph *e*, by adding the word "and" at the end of subparagraph vi of the said paragraph *e*, and by adding, after subparagraph vi, the following subparagraph:

"vii. the amount of any assistance the taxpayer received or was entitled to receive before that time in respect of or for the acquisition of a depreciable property of that class subsequent to the disposition of such property, that would have been included, under section 101, in the amount of the assistance the taxpayer received or was entitled to receive in respect of that property had that amount been received before the disposition of the property;".

(2) Paragraph 1 of subsection 1 applies in respect of the acquisition of property after 11 December 1979 and paragraphs 2 and 3 of the said subsection 1 apply to taxation years ending after 11 December 1979.

26. (1) Section 94 of the said Act is replaced by the following section:

"**94.** Where, at the end of a taxation year, the aggregate of all amounts determined under subparagraphs iii to vii of paragraph *e* of section 93 in respect of depreciable property of a prescribed class of a taxpayer exceeds the aggregate of all amounts determined under subparagraphs i to ii.1 of the said paragraph in respect of depreciable property of that class, the excess shall be included in computing the taxpayer's income for the year."

(2) This section applies to taxation years ending after 11 December 1979.

27. (1) The said Act is amended by inserting, after section 97.1, the following sections:

"**97.2** Where, at any time, a taxpayer acquires a capital property that is depreciable property or real property in respect of which, before that time, the taxpayer or any person with whom he was not dealing at arm's length was entitled to a deduction in computing his income in respect of any amount paid or payable for the use of, or the right to use, the property and the cost or the capital cost, determined without reference to this section, at that time of the property to the taxpayer is less than the fair market value thereof at that time determined without reference to any option with respect to that property, for the purposes of this section, sections 130, 130.1, 142 and 149 and any regulations made under paragraph *a* of section 130 or under section 130.1, the following rules apply:

(*a*) the taxpayer is deemed to acquire the property at that time at a cost equal to the lesser of the fair market value of the property at that time determined without reference to any option with respect to that property, and the aggregate of the cost or the capital cost, determined without reference to this section, of the property to the taxpayer and all amounts each of which is an outlay or expense made or incurred by the taxpayer or by a person with whom he was not dealing at arm's length at any time for the use of, or the right to use, the property, other than amounts paid or payable to a person with whom the taxpayer was not dealing at arm's length;

(*b*) the taxpayer shall add, to the total depreciation allowed to him before that time in respect of the prescribed class to which the property belongs, the amount by which the cost of the property determined under paragraph *a* exceeds the cost or the capital cost thereof, determined without reference to this section; and

(*c*) where the property would, but for this paragraph, not be depreciable property of the taxpayer, it is deemed to be depreciable property of a separate prescribed class of the taxpayer.

"**97.3** Where, in a taxation year, a taxpayer disposes of a capital property that is an option with respect to depreciable property or real property in respect of which the taxpayer or any person with whom he is not dealing at arm's length is entitled to a deduction in computing his income in respect of any amount paid for the use of, or the right to use, the property, for the purposes of this section, the amount, if any, by which the proceeds of disposition to the taxpayer of the option exceed his cost in respect thereof

is deemed to be an excess referred to in section 94 in respect of the taxpayer for the year."

"**97.4** For the purposes of paragraph *a* of section 97.2 and section 97.3, where a particular corporation has been incorporated or otherwise formed after the time any other corporation, with which the particular corporation would not have been dealing at arm's length had the particular corporation been in existence before such time, was formed, the particular corporation is deemed to have been in existence from the time of the formation of the other corporation and to have been not dealing at arm's length with the other corporation."

(2) This section, to the extent that it enacts sections 97.2 and 97.4 of the Taxation Act, applies in respect of the acquisition of property after 11 December 1979 and, to the extent that it enacts section 97.3 of the said Act, it applies in respect of the disposition of property after 12 January 1981.

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

"**101.** For the purposes of this Part, where a taxpayer has received or is entitled to receive assistance from a government, municipality or other public authority in respect of, or for the acquisition of depreciable property, whether as a subsidy, grant, forgiveable loan, deduction from tax, investment allowance or in any other form, the capital cost of the property to the taxpayer is deemed to be, unless otherwise prescribed, the amount by which the aggregate of the capital cost of the property otherwise determined and the amount of the assistance, in respect of that property, repaid by the taxpayer, pursuant to an obligation to repay, before the disposition of the property exceeds the amount of such assistance the taxpayer has received or is entitled to receive in respect of that property before the disposition thereof."

(2) This section applies to a taxation year ending after 11 December 1979.

29. (1) The said Act is amended by inserting, after section 101.2, the following section:

"**101.3** For the purposes of section 101, where a prescribed amount is required to be added in computing a prescribed tax deduction to which a member of a partnership or beneficiary of a trust is entitled at the end of his taxation year, such amount is deemed to have been received by the partnership or trust, as the case may be, at the end of its fiscal period ending in that taxation year, as assistance from a government for the acquisition of depreciable property."

(2) This section applies to the taxation year 1975 and subsequent taxation years.

30. (1) Section 110.1 of the said Act is amended by replacing subsection 1 by the following subsection:

"**110.1** (1) Where in a taxation year, an amount has become payable to a taxpayer in respect of a disposition of an intangible capital property, in this section referred to as his "former property", and the taxpayer so elects, under this section, in his fiscal return filed in accordance with section 1000, for the taxation year in which he acquires, as a replacement property for his former property, a replacement property, that part of such amount which would otherwise be included in the aggregate determined under subparagraph ii of paragraph *b* of section 107 in respect of a business, if that subparagraph were read without reference to the words "one-half of", as has been used by the taxpayer before the end of the first taxation year following the year during which he disposes of the former property to acquire the replacement property, shall, to the extent of one-half thereof, be included in that aggregate, for the purposes of computing the intangible capital amount of the taxpayer in respect of the business, only from the later of the time the replacement property was acquired by the taxpayer and the time the former property was disposed of by the taxpayer."

(2) This section applies in respect of the disposition of property after 11 December 1979.

31. (1) Section 111 of the said Act is amended by replacing paragraph *b* by the following paragraph:

"(*b*) funds or property of the corporation appropriated in any manner whatever to him or for his benefit, or".

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

32. (1) Section 112 of the said Act is replaced by the following section:

"**112.** Section 111 does not apply if the amount or value mentioned therein is deemed to be a dividend under sections 504 to 510 and 517 or if it arises out of the reduction of capital of a corporation, the acquisition, the cancellation or the redemption by it of shares of its capital stock or the winding-up, discontinuance or reorganization of its business, a transaction to which sections 556 to 568 apply, the payment of a dividend or a stock dividend, the conferring on all holders of common shares of the capital stock of

the corporation of a right to buy additional common shares from that corporation or an action described in paragraph *d* or *e* of subsection 2 of section 504."

(2) This section applies in respect of an action performed after 1978.

33. (1) Section 114 of the said Act is amended by replacing the second paragraph by the following paragraph:

"Section 113 also does not apply if such arrangements are made and if that loan is granted to a person who is an employee of the lender to enable or assist him to acquire an automobile to be used by him in the performance of his duties, or, where the lender is a corporation, to purchase for his own benefit fully paid shares of the corporation sold to him by the latter, or fully paid shares of the capital stock of a corporation related to the lender sold to him by that related corporation or to a person who is an employee of the lender or the spouse of such an employee if the loan is granted to that person to enable or assist the employee or his spouse to acquire a dwelling for his habitation."

(2) This section applies to the taxation year 1979 and subsequent taxation years.

34. (1) The said Act is amended by inserting, after section 119.1, the following division and sections:

"DIVISION IV.1

"DEVELOPMENT BONDS

"**119.2** For the purposes of this division,

(*a*) "specified property" of a corporation means property acquired by the corporation that is capital property that is land, excluding any building or other structure affixed to land, other than land acquired by the issuer from a person with whom it was not dealing at arm's length, or depreciable property that has not been used for any purpose whatever before it was acquired by the issuer, but does not include any automobile, or transportation equipment used principally for the purpose of transporting persons other than passengers who pay for the transportation services;

(*b*) "property used for specified purposes" means property used primarily in the carrying on of an eligible business, within the meaning of paragraph *e* of section 451, in Canada but does not include property used in a business carried on by a corporation as a member of a partnership or property that is used by a corporation primarily for the purpose of being leased to any person, other than

an eligible corporation, that does not use the property primarily for the purpose of leasing it to any other person, and that would be associated within the meaning of section 230.2 with the corporation if this Act were read without reference to paragraph *b* of section 20;

(*c*) "joint election" in respect of any obligation means an election made in prescribed form jointly by the issuer corporation of the obligation and the person who is the holder thereof at the election time and filed with the Minister by the holder in which the issuer corporation and the holder elect that the provisions of this division apply in respect of that obligation and in which the issuer corporation declares that it is an eligible corporation, and the property, if any, acquired with the proceeds of or financed or refinanced by the obligation is property used for specified purposes;

(*d*) "eligible corporation" has the meaning assigned by the regulations;

(*e*) "qualifying debt obligation" of a corporation at any particular time means an obligation that is a bond, debenture, bill, note, hypothec, mortgage or similar obligation, the principal amount of which is not less than $10 000 or more than $500 000, issued after 11 December 1979 and before 1982 for a term of not less than one year, except in the event of a failure or default under the terms or conditions of the obligation, nor more than five years, if the obligation is issued by the corporation in any of the circumstances described in subparagraphs i to iii of paragraph *c* of section 119.5 or if all of the proceeds from the issuance of the obligation are used by the corporation

i. to acquire after 11 December 1979 and before 1982 property that is specified property of the corporation;

ii. to finance prescribed expenditures made by the corporation after 11 December 1979 and before 1982 in respect of scientific research;

iii. to repay at any time before 1982, in whole or in part, one or more obligations of the corporation to the extent of an amount not exceeding the cost to the corporation of property referred to in subparagraph i or the amount of the expenditures referred to in subparagraph ii that was acquired or that were incurred by the corporation after 11 December 1979 and before the time of such repayment, or

iv. for any combination of purposes described in subparagraphs i to iii;

(*f*) "development bond" at any time means an obligation that is at that time a qualifying debt obligation issued by a Canadian-

controlled private corporation in respect of which a joint election was made at a particular time that is within 90 days after the later of its issue date and 26 February 1981.

"**119.3** Where a corporation pays an amount to a taxpayer as interest on a development bond it has issued, that amount is deemed to have been received by the taxpayer as a taxable dividend.

"**119.4** Notwithstanding any other provision of this Part, where a corporation has issued a development bond, no deduction may be made in computing its income for a taxation year in respect of an amount paid or payable as interest on that bond and any amount paid by the corporation as interest on the bond is deemed to have been paid as a taxable dividend.

"**119.5** Notwithstanding any other provision of this Part, except for the purposes of subparagraph i of paragraphs *c* and *d* of subsection 1 of section 771, the taxable income of a corporation that has issued a development bond is deemed, for a taxation year, to be an amount equal to the aggregate of its taxable income otherwise determined for the year and the amount payable in respect of that period as interest on the obligation, in respect of a period of the year during which

(*a*) the corporation was not an eligible corporation;

(*b*) the property acquired with the proceeds of the bond or the property referred to in subparagraph iii of paragraph *e* of section 119.2 was not property used for specified purposes by the corporation or was not owned by the corporation, or

(*c*) all or substantially all of the proceeds from the issue of a bond that is a debt were not used by the corporation in the financing of its business carried on immediately before the time of its issuance, if the bond is issued

i. as part of a proposal to, or an arrangement with, its creditors that has been approved by a court under the Bankruptcy Act (Statutes of Canada);

ii. at a time when all or substantially all of the assets of the corporation are under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

iii. at a time when, by reason of financial difficulty, the corporation is in default, or could reasonably be expected to default, on a debt held by a person with whom the corporation was dealing at arm's length and it is issued, in whole or in part, directly or indirectly in exchange or substitution for that debt.

"**119.6** For the purposes of section 119.5, where a corporation that has issued a development bond has disposed of specified property, and, in the thirty-day period after the date of disposition, the principal amount of the obligation is reduced by an amount not less than the amount by which the proceeds of disposition to the corporation of the property exceed the expense incurred by it in disposing of the property, the property is deemed to be owned by the corporation and to be property used for specified purposes.

"**119.7** Notwithstanding any other provision of this Act, an amount paid or payable by a taxpayer pursuant to a legal obligation to pay interest on borrowed money used for the purpose of acquiring a development bond is deemed to be an amount paid or payable, as the case may be, on borrowed money used for the purpose of earning income from a business or property.

"**119.8** Where a corporation, knowingly or under circumstances amounting to gross negligence, makes a false declaration in a joint election in respect of a bond it has issued, the reference in section 119.5 to "the amount payable" shall be read as a reference to "3 times the amount payable".

"**119.9** Where at any particular time a corporation makes a joint election in respect of a bond it has issued and at or before that time the corporation or a corporation associated with it within the meaning of section 230.2, had at or before the particular time made a joint election in respect of any other obligation, the corporation, for the purposes of this division, is deemed not to be an eligible corporation.

"**119.10** For the purposes of this division, an eligible corporation that acquires property from another person who did not deal at arm's length with the corporation immediately after the acquisition is deemed to acquire the property from the person from whom that other person acquired the property, and to do so at the time the other person acquired the property."

(2) This section has effect from 12 December 1979, except to the extent that section 119.5 of the Taxation Act enacted thereby refers to subparagraph i of paragraphs *c* and *d* of subsection 1 of section 771 of the said Act, in which case it applies to a taxation year ending after 30 June 1981. However, a joint election within the meaning of paragraph *c* of section 119.2 of the Taxation Act enacted by this section is deemed to have been made within the time referred to in paragraph *f* of the said section 119.2, if it is made within 90 days following (*insert here the date of sanction of Bill 42*).

35. (1) Section 130.1 of the said Act is amended by replacing the first paragraph by the following paragraph:

"**130.1** Notwithstanding sections 128, 129 and 133, no taxpayer may deduct any amount in computing his income for a taxation year under paragraph *a* of section 130 in respect of his depreciable property of a prescribed class where, at the end of the year, the aggregate of the amounts determined under subparagraphs i to ii.1 of paragraph *e* of section 93 exceeds the aggregate of the amounts determined under subparagraphs iii to vii of the said paragraph *e* in respect of his depreciable property of that class and, at that time, the taxpayer no longer owns any property of that class."

(2) This section applies to taxation years ending after 11 December 1979.

36. (1) Section 135 of the said Act is amended by replacing the period at the end of paragraph *b* by a semicolon and by adding the following paragraph:

"(*c*) an amount paid or payable as a contribution to an employee benefit plan."

(2) This section applies in respect of an amount paid or payable after 1979.

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

"**135.1** Paragraph *c* of section 135 does not apply in respect of a contribution to an employee benefit plan to the extent that the contribution is made in respect of services performed by an employee who is not resident in Canada and is regularly employed in a country other than Canada, and cannot reasonably be regarded as having been made in respect of services performed or to be performed during a period when the employee is resident in Canada.

Nor does it apply in that respect when the custodian of the plan is not resident in Canada, to the extent that the contribution is made in respect of an employee who is not resident in Canada at the time the contribution is made, or was resident in Canada for a period, in this paragraph referred to as an "excluded period", of not more than 36 of the 72 months preceding that time and was a beneficiary under the plan before becoming resident in Canada, and cannot reasonably be regarded as having been made in respect of services performed or to be performed during a period, other than an excluded period, when the employee is resident in Canada."

(2) This section applies in respect of a contribution made after 1979.

38. (1) The said Act is amended by inserting, after section 137, the following section:

"**137.1** The deduction allowed to an employer by section 137 in respect of services rendered by his employees in the year shall be decreased by the amount, or the portion thereof, that he is allowed to deduct under section 139."

(2) This section applies in respect of an amount paid after 1980 that is not deductible in computing the income of an employer for a taxation year ending before 1981.

39. (1) Section 138 of the said Act is repealed.

(2) This section applies to a taxation year ending after 1980 in respect of an amount paid after 1980.

40. (1) Section 139 of the said Act is amended by replacing what precedes paragraph *b* by the following:

"**139.** An employer may also deduct the aggregate of all amounts each of which is the amount of a payment made by him in the year under a registered pension fund or plan in respect of current or past services of his employees or former employees if each of such payments

(*a*) is made pursuant to a recommendation by a qualified actuary made in the year or in one of the three immediately preceding years on the basis of assumptions that remain valid in the year of payment in whose opinion the resources of the plan are required to be augmented by an amount not less than the aggregate of those payments to ensure that the obligation of the employer to the fund or plan and all the obligations of the fund or plan to the employees and former employees may be discharged in full, including the obligations from the increase in the pension benefits payable out of or under the plan or fund; and".

(2) This section applies in respect of an amount paid after 1980 that is not deductible in computing income for a taxation year ending before 1981.

41. (1) The said Act is amended by inserting, after section 144, the following section:

"**144.1** A taxpayer shall not deduct an amount paid or payable in the year to Her Majesty in right of Canada under a requirement pursuant to a prescribed Act."

(2) This section applies to the taxation year 1981 and subsequent taxation years.

42. (1) Section 146.1 of the said Act is replaced by the following section:

"**146.1** A taxpayer, in computing his income for a taxation year, may deduct such amount as he may claim not exceeding the aggregate of any income or profits tax paid by him for the year to the government of a country other than Canada or to a political subdivision of such a country, to the extent that such taxes

(*a*) have not been paid in respect of the taxpayer's income for the year from a business, attributable to an establishment situated in a country other than Canada;

(*b*) are not deductible, under section 146, in computing the income of the taxpayer for the year;

(*c*) cannot reasonably be regarded as having been paid by a corporation in respect of income from a share of the capital stock of a foreign affiliate of the corporation;

(*d*) are not taxes that would not have been payable had the taxpayer not been a citizen of that country and that cannot reasonably be regarded as attributable to income from a source situated in a country other than Canada; and

(*e*) are not deducted by virtue of section 126 of the Income Tax Act (Statutes of Canada) in computing the taxpayer's income for the year under the said Act.

(2) This Act applies to the taxation year 1981 and subsequent taxation years.

(3) In addition, where section 146.1 of the Taxation Act applies to the taxation year 1980, it must be read as follows:

"**146.1** A taxpayer, in computing his income for a taxation year, may deduct such amount as he may claim not exceeding the aggregate of any income or profits tax paid by him for the year to the government of a country other than Canada or to a political subdivision of such a country, to the extent that such taxes have not been paid in respect of the taxpayer's income for the year from a business, attributable to an establishment situated in such country, were not deductible, under section 146, in computing the income of the taxpayer for the year and cannot be reasonably regarded as having been paid by a corporation in respect of income from a share of the capital stock of a foreign affiliate of the corporation and are not taxes that would not have been payable had the taxpayer not been a citizen of that country and that cannot reasonably be regarded as attributable to income from a source situated in a country other than Canada."

43. (1) Section 157 of the said Act, amended by section 9 of chapter 13 of the statutes of 1980, is again amended

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

"(*a*) any amount payable by the taxpayer as a fee to a bank to which the Bank Act (Statutes of Canada) or the Québec Savings Banks Act (Statutes of Canada) applies for the certification of a non-interest-bearing post-dated bill drawn by the taxpayer on the bank and payable not more than 366 days from the date of certification;"; and

(2) by replacing paragraph *l* by the following paragraphs:

"(*l*) any amount required by paragraphs *q* and *r* of section 87 to be included in computing the taxpayer's income for the preceding taxation year;

"(*m*) the amount of any assistance or benefit received by the taxpayer in the year as a deduction from or reimbursement of an expense that is a tax or royalty to the extent that

i. the tax or royalty would, if the amount had not been received by him, have been deductible by the taxpayer in computing his income for a taxation year; and

ii. the deduction or reimbursement was included by the taxpayer in the amount determined under paragraph *e* of section 399, paragraph *h* of section 412 or paragraph *e* of section 418.6."

(2) Paragraph 1 of subsection 1 applies to an amount that becomes payable after 11 December 1979.

(3) Paragraph 2 of subsection 1, to the extent that it replaces paragraph *l* of section 157 of the Taxation Act, applies to the taxation year 1980 and subsequent taxation years and, to the extent that it enacts paragraph *m* of the said section, it applies to the taxation year 1981 and subsequent taxation years.

44. (1) The said Act is amended by inserting, after section 157, the following sections:

"**157.1** The deduction allowed under paragraph *j* of section 157 to a taxpayer for a fiscal period referred to therein shall be reduced by an amount equal to 3% of that proportion of the lesser of the cost amount to the taxpayer of his qualifying inventory that was disposed of during the fiscal period by him in a specified transaction to a person with whom he was not dealing at arm's length, and the cost amount to him of his qualified inventory at the beginning of the fiscal period, that the number of days in the fiscal period and after the date of disposition is of 365.

"**157.2** For the purposes of this section and section 157.1, the expression

(*a*) "qualifying inventory" means tangible property described in paragraph *j* of section 157, other than an immoveable or an interest therein or property of a taxpayer that becomes property of a new corporation by virtue of an amalgamation or merger;

(*b*) "specified transaction" means a distribution by a corporation of qualifying inventory on or in the course of its winding-up, a disposition by a taxpayer of all or a substantial part of his qualifying inventory, or a disposition at a particular time of qualifying inventory by a taxpayer one of the principal purposes of which is to permit a person with whom he does not deal at arm's length to obtain a deduction in respect thereof under paragraph *j* of section 157 for that person's first fiscal period commencing after the particular time, but does not include any such distribution or disposition by a taxpayer to another person during a fiscal period of that other person that ends at least 11 months after the commencement of the fiscal period of the taxpayer during which the distribution or disposition occurs.

"**157.3** Where a taxpayer has in a particular taxation year received an amount under an annuity contract in respect of which an amount has by virtue of section 92 been included in computing his income for a taxation year, he may deduct in computing his income for the particular year such amount as is allowed by regulation."

(2) This section, to the extent that it enacts sections 157.1 and 157.2 of the Taxation Act, applies in respect of a disposition of property that occurred after 11 December 1979 and, to the extent that it enacts section 157.3 of the said Act, it applies to a taxation year commencing after 28 October 1980.

45. (1) Section 175 of the said Act is replaced by the following sections:

"**175.** Where a corporation could, but for this section, elect under sections 180 to 182 to capitalize interest or loan or issue costs or to consider them as Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses within the meaning assigned to such expressions by sections 360 to 418.14, incurred by the corporation in the year and where section 169 would apply failing such election in computing the income of the corporation for the year, the proportion of such interest and costs contemplated in section 170, shall not be the subject of such election.

"**175.1** (1) Notwithstanding any other provision of this Act, a taxpayer shall not, in computing his income for a taxation year from a business or property other than income from a business computed in accordance with the method authorized by subsection 1 of section 194, make any deduction in respect of an outlay or expense to the extent that it can reasonably be regarded as having been made or incurred as consideration for services to be rendered after the end of the year or for insurance in respect of a period after the end of the year other than an amount paid in respect of reinsurance by an insurer, or as interest, tax or taxes other than taxes imposed on insurance premiums, rent or royalty in respect of such a period.

(2) Any amount or part of an amount which, but for subsection 1, would have been deductible in computing a taxpayer's income for a taxation year is deductible in computing his income for the subsequent taxation year to which such amount or part of an amount can reasonably be considered to relate."

(2) This section, to the extent that it replaces section 175 of the Taxation Act, applies to taxation years ending after 6 May 1974 and, to the extent that it enacts section 175.1 of the said Act, it applies in respect of an outlay made or an expense incurred after 11 December 1979.

46. (1) Sections 180 and 181 of the said Act are replaced by the following sections:

"**180.** A taxpayer who borrows money to acquire depreciable property or must pay an amount for such acquisition may elect under this section in his fiscal return under this Part for the year, to add to the capital cost of such property, such amount or such part of an amount as he specifies, which amount or part of amount would otherwise be deductible for the year or for one or more of the preceding 3 taxation years under sections 160, 163 and 176 in computing his income.

"**181.** Where the taxpayer has used the borrowed money for the purpose of exploration, development, or the acquisition of a property, and the expenses incurred by him for such purpose are Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses, as the case may be, within the meaning of sections 362 to 418.14, the taxpayer may elect, under this section in his fiscal return under this Part for the year, to consider to be Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses,

as the case may be, incurred by him in the year, such amount or such part of an amount as he specifies, which amount or part of amount would otherwise be deductible for the year or for one or more of the preceding 3 taxation years under sections 160, 163 and 176 in computing his income."

(2) This section applies to taxation years ending after 11 December 1979.

47. (1) Section 191 of the said Act is replaced by the following section:

"**191.** In computing its income for a taxation year, a bank to which the Bank Act or the Québec Savings Banks Act (Statutes of Canada) applies shall not make any deduction under section 140, 141, 210 or 211; however, notwithstanding sections 128 and 129, it may deduct in that computation an amount not in excess of the excess amount contemplated in the second paragraph and that, in the opinion of the Minister, is also not in excess of the reasonable requirements of the bank, having regard to all the circumstances.

The excess amount contemplated in the first paragraph is the amount by which the aggregate of all amounts set aside or reserved for the year or a preceding taxation year as or on account of the general appropriations of the bank either by way of a write-down of the value of assets or appropriation to any contingency reserve or contingent account for the purpose of meeting losses on loans, bad or doubtful debts, depreciation in the value of assets other than depreciable property of the bank, or other contingencies, exceeds the aggregate of all amounts deducted under this section in computing the income of the bank for a preceding taxation year.

However, the bank must include, in computing its income for a taxation year, that part which, in the opinion of the Minister, exceeds the reasonable requirements of the bank, having regard to all the circumstances, of the aggregate of all amounts which, at the end of the year, are set aside or reserved by way of a write-down of the value of assets or appropriation to any contingency reserve or other account for meeting losses on loans, bad or doubtful debts, depreciation in the value of assets other than bank premises, or other contingencies."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

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

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

"**194.** (1) A taxpayer may elect to compute his income from a farming business or fishing business for a taxation year in accordance with the cash method, by which the income from the business is deemed equal to:"; and

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

"(3) Where a farming business or fishing business is carried on by several persons, the election mentioned in subsection 1 shall not apply for any of these persons unless each of them makes the same election."

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

49. (1) The said Act is amended by inserting, after section 209, the following division and sections:

"DIVISION VI.1

"EMPLOYEE BENEFIT PLANS

"**209.1** A taxpayer who makes contributions to an employee benefit plan in respect of his employees or former employees may deduct, in computing his income for a taxation year, the amount allocated to him for the year under section 209.3 by the custodian of the plan that does not, however, exceed the amount by which the aggregate of all contributions made by him to the plan for the year or a preceding year exceeds the aggregate of all amounts deducted by him, in respect of the plan, in computing his income for a preceding year and all amounts received by him in the year or a preceding year as a return of his contributions to the plan.

"**209.2** A taxpayer contemplated in section 209.1 may also deduct, where at the end of the year all of the obligations of the plan to his employees and former employees have been satisfied and no property of the plan will thereafter be paid or otherwise be available for the benefit of the taxpayer, the amount equal to the amount by which the aggregate of the contributions paid by him to the plan for the year or a preceding year exceeds the aggregate of all amounts deducted by him in respect of the plan in computing his income for a preceding year or, under section 209.1, for the year, and all amounts received by him in the year or a preceding year as a return of his contributions to the plan.

"**209.3** The custodian of an employee benefit plan shall allocate each year to persons who have made contributions to the plan in respect of their employees or former employees the amount by which the aggregate of all payments made in the year out of or

under the plan to or for the benefit of their employees or former employees other than the portion of such payments that, by virtue of section 47.2, a taxpayer is not required to include in computing his income and which constitutes a return of amounts paid by that taxpayer or by a deceased employee of whom that taxpayer is an heir or legal representative, exceeds the income of the plan for the year.

"**209.4** For the purposes of section 209.3, the income of an employee benefit plan for a year is the aggregate of all amounts each of which is the amount by which a payment under the plan by the custodian thereof in the year exceeds, in the case of an annuity, that part of the payment determined in prescribed manner to have been a return of capital and, in any other case, that part of the payment that could, but for sections 47.1 and 47.2, reasonably be regarded as being a payment of a capital nature.

Notwithstanding the first paragraph, in the case of a plan that is a trust, the income of the plan for a year is the amount that would be its income for the year but for sections 652 to 682."

(2) This section applies in respect of a benefit paid after 1979 under an employee benefit plan.

50. (1) Sections 224 and 225 of the said Act are replaced by the following sections:

"**224.** A taxpayer may also deduct all amounts included by virtue of paragraph *t* of section 87 in computing his income for any previous taxation year and, to the extent prescribed, an amount not exceeding the expenditures made in the year or in any previous taxation year ending after 1973 as repayment of amounts paid to him in respect of expenditures on scientific research incurred for the purpose of advancing or sustaining the technological capability of a Canadian industry.

"**225.** The aggregate of the amounts that may be deducted by a taxpayer under sections 222 to 224 shall be reduced by the aggregate of the amount prescribed, the amounts paid to him in the year or in a previous taxation year ending after 1973 on the terms and conditions contemplated in the regulations made under section 224, and the amounts deducted under sections 222 to 224 and paragraph *a* of section 135 in computing his income for a previous taxation year."

(2) This section applies to taxation years ending after 12 January 1981.

51. (1) The said Act is amended by inserting, after section 230.10, the following section:

"**230.11** For the purposes of this division, where a qualified expenditure made by a taxpayer in a taxation year would, but for subsection 1 of section 175.1, be deductible in computing the taxpayer's income for the year, that expenditure is deemed not to be a qualified expenditure made by the taxpayer in the year, and to be a qualified expenditure made by the taxpayer in the subsequent year to which the expenditure can reasonably be considered to relate."

(2) This section applies in respect of an outlay or expenditure made or incurred after 11 December 1979.

52. (1) Section 232.1 of the said Act is replaced by the following section:

"**232.1** A taxpayer's business investment loss arises from the disposition after 1977 of any property that is a share of the capital stock of a Canadian-controlled private corporation or a debt owing to the taxpayer by a Canadian-controlled private corporation other than a debt disposed of by a corporation which is owed to the latter by another corporation with which it does not deal at arm's length.

However, the disposition of property gives rise to a business investment loss only if section 299 applies to the disposition or if the disposition of property is made by a taxpayer in favour of a person with whom he deals at arm's length."

(2) This section applies in respect of a disposition of property made after 16 November 1978.

53. (1) Section 236.1 of the said Act, amended by section 17 of chapter 13 of the statutes of 1980, is replaced by the following section:

"**236.1** A business investment loss, in the case of a share referred to in the first paragraph of section 232.1, is computed by subtracting from the loss determined in accordance with this Title the increase after 1977 by virtue of the application of paragraph *b* of section 535 in computing the adjusted cost base to the taxpayer of the share or of any other share, in this paragraph referred to as a "replaced share", for which the share or a replaced share was substituted or exchanged.

In the case of a share referred to in the first paragraph of section 232.1 that was issued before 1972, other than a share that was acquired after 1971 from a person with whom the taxpayer was dealing at arm's length or a share, in this paragraph and in the third paragraph referred to as a "substituted share" that was substituted or exchanged for such a share or for a substituted share,

the aggregate of all amounts that the taxpayer, his spouse or a trust of which the taxpayer or his spouse was a beneficiary received after 1971 and before or upon the disposition of the share as a taxable dividend on the share or on any other share in respect of which the share disposed of is a substituted share or which are receivable as such by one of such persons at the time of the disposition of the share must also be deducted from the loss determined in accordance with this Title.

Furthermore, where the taxpayer is a trust to which paragraph *a* of section 653 applies and the share is a share referred to in the second paragraph, the aggregate of all amounts received after 1971 by the settlor, within the meaning of subsection 2 of section 658, or the settlor's spouse, as a taxable dividend on that share or on any other share in respect of which the share disposed of is a substituted share or which are receivable as such by one of such persons at the time of the disposition of the share must also be deducted from the loss determined in accordance with this Title."

(2) This section applies in respect of the disposition of property after 11 December 1979.

54. (1) Section 250.2 of the said Act is replaced by the following section:

"**250.2** For the purposes of this division, "Canadian security" means a security, other than a prescribed security, that is a share of the capital stock of a corporation resident in Canada, a unit of a mutual fund trust, a bond, debenture, bill, note, hypothec, mortgage or other similar obligation issued by a person resident in Canada."

(2) This section applies to the taxation year 1979 and subsequent taxation years.

55. (1) Section 251 of the said Act is replaced by the following section:

"**251.** The proceeds of disposition of property include, for the purposes of this Title, the same elements as the proceeds of disposition of property referred to in paragraph *f* of section 93 and any amount deemed not to be a dividend under paragraph *b* of section 568; it does not include an amount deemed to be a dividend under section 505 or 506 and not deemed not to be a dividend under paragraph *a* of section 308.1 or under paragraph *b* of section 568, nor a prescribed amount."

(2) This section has effect from 12 December 1979.

56. (1) Section 255 of the said Act, amended by section 19 of chapter 13 of the statutes of 1980, is again amended

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

"(*e*) where the property is a share of the capital stock of a corporation and the taxpayer, after 1971, makes a contribution of capital to the corporation otherwise than by way of a loan, by way of a disposition of shares of a foreign affiliate of a taxpayer to which section 540 applies or, subject to section 256, by way of a disposition of property in respect of which the taxpayer and the corporation have made the election contemplated in section 518 or 529, the proportion of such contribution as cannot reasonably be regarded as a gift made to or for the benefit of any person other than the corporation who was related to the taxpayer, that";

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

"i. an amount in respect of each fiscal period of the partnership ending after 1971 and before the particular time, equal to the taxpayer's share, other than a share under an agreement referred to in section 608, of the income of the partnership from any source for that fiscal period computed as if this Part were construed without reference to the words "one-half of" in section 105 as it applied to a fiscal period of the partnership ending before 1 April 1977, and sections 107, 231 and 265 and as if paragraph *l*, sections 89 to 91, 144, 144.1, 145, 308 to 308.6 and 425, paragraph *j* of section 157, paragraph *b* of each of sections 200 and 201, subsection 2 of section 497 and the provisions of the Act respecting the application of the Taxation Act (R.S.Q., chapter I-4), in respect of income from the operation of new mines, did not exist;";

(3) by striking out the word "and" at the end of subparagraph vii of paragraph *i*, and by replacing subparagraph viii of the said paragraph *i* by the following subparagraphs:

"viii. an amount deemed, before the particular time, by section 600.1, to be an amount referred to in paragraph *b* of section 399, in subparagraph i of paragraph *b* of section 412, in paragraph *c* of the said section 412, in subparagraph i of paragraph *b* of section 418.6 or in paragraph *c* of the said section 418.6 in respect of the taxpayer; and

"(ix) the taxpayer's share of the amount of any assistance or benefit that the partnership has received or has become entitled to receive after 1971 and before the particular time from a government, municipality or other public authority, whether as a grant, subsidy, forgiveable loan, deduction from royalty or tax, investment allowance or any other form of assistance or benefit, in respect of or related to a Canadian resource property or an exploration or development expense incurred in Canada;"; and

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

"ANNUITY CONTRACT

"(*m*) where the property is an interest in an annuity contract, other than a life annuity contract as defined by regulation made under section 121, each amount in respect thereof that was included by virtue of section 92 in computing the income of the taxpayer for any taxation year commencing before that time."

(2) Paragraph 1 of subsection 1 applies in respect of a contribution of capital made after 11 December 1979.

(3) Paragraph 2 of subsection 1, except where subparagraph i of paragraph *i* of section 255 of the Taxation Act which it replaces refers to section 144.1 of the said Act, and paragraph 3 of subsection 1, to the extent that it enacts subparagraph ix of the said paragraph *i*, apply in respect of the determination of the adjusted cost base of an interest in a partnership after 28 October 1980 and of an interest in a partnership disposed of by a person after 1976 and before 29 October 1980 where, in the latter case, the person made an election in the prescribed manner within 90 days following (*insert here the date of the sanction of Bill 42*).

(4) Paragraph 2 of subsection 1, to the extent that subparagraph i of paragraph *i* of section 255 of the Taxation Act that it replaces refers to section 144.1 of the said Act, applies in respect of the determination of the adjusted cost base of an interest in a partnership after 31 December 1980.

(5) Paragraph 3 of subsection 1, to the extent that it replaces subparagraph viii of paragraph *i* of section 255 of the Taxation Act, applies to taxation years ending after 11 December 1979.

(6) Paragraph 4 of subsection 1 applies in respect of the determination of the adjusted cost base of an interest in an annuity contract after 28 October 1980.

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

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

"(*e*) where the property was received as consideration for a payment referred to in section 383 which the taxpayer made to a joint exploration corporation within the meaning of section 382, as a shareholder corporation, in respect of Canadian exploration and development expenses within the meaning of section 364, of Canadian exploration expenses within the meaning of sections 395 and 396, of Canadian development expenses within the meaning of sections 408 and 409 or Canadian oil and gas property expenses within

the meaning of sections 418.2 and 418.3, incurred by the joint exploration corporation, such part of the payment which may reasonably be considered to relate to an agreed portion contemplated by section 381, 406, 417 or 418.13, as the case may be;";

(2) by replacing paragraphs *h* and *i* by the following paragraphs:

"(*h*) where the property is a share of the capital stock of a joint exploration corporation within the meaning of section 382 and resident in Canada to which the taxpayer has, after 1971, made a contribution of capital that was not a loan and that was included in computing the adjusted cost base of that property by virtue of paragraph *e* of section 255, such portion of that contribution as may reasonably be considered to be part of an agreed portion referred to in section 381, 406, 417 or 418.13, as the case may be;

"(*i*) where the property is a share, or an interest therein or a right thereto, of the capital stock of a corporation acquired before 1 August 1976, an amount equal to the expenses incurred by the taxpayer as consideration to acquire the property, to the extent that such expenses are for him Canadian exploration and development expenses under paragraph *e* of section 364, Canadian exploration expenses under paragraph *e* of section 395, Canadian development expenses under paragraph *e* of section 408 or Canadian oil and gas property expenses under paragraph *c* of section 418.2;";

(3) by replacing subparagraphs i and ii of paragraph *l* by the following subparagraphs:

"i. an amount in respect of each fiscal period of the partnership ending after 1971 and before the particular time, equal to the taxpayer's share, other than a share under an agreement referred to in section 608, of any loss of the partnership from any source for that fiscal period, computed as if this Part were construed without reference to the words "one-half of" in section 105, as it applied to each fiscal period of the partnership ending before 1 April 1977, and in sections 107 and 231, and as if sections 89 to 91, 144, 144.1, 145, 205 to 207, 235, 236.2 to 241, 264, 271, 273, 288, 293, 308 to 308.6 and 425 and paragraph *j* of section 157 did not exist;

"ii. an amount with respect to each fiscal period of the partnership ending after 1971 and before the particular time, except a fiscal period subsequent to that in which the taxpayer ceased to be a member of the partnership, equal to the share of the taxpayer in the aggregate of Canadian exploration and development expenses within the meaning of section 364, Canadian exploration expenses within the meaning of sections 395 and 396, Canadian development expenses within the meaning of sections 408 and 409 and Canadian oil and gas property expenses within the meaning of sections 418.2 and 418.3 incurred by the partnership in the fiscal period which,

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

(4) by replacing the period at the end of paragraph *q* by a semicolon and by adding, after the said paragraph *q*, the following:

"ANNUITY CONTRACT

"(*r*) where the property is an interest in an annuity contract, other than a life annuity contract as defined by regulation made under section 121, each amount in respect thereof that was deducted by virtue of section 157.3 in computing the income of the taxpayer for any taxation year commencing before that time."

(2) Paragraphs 1 and 2 of subsection 1 apply to taxation years ending after 11 December 1979.

(3) Paragraph 3 of subsection 1, to the extent that it replaces subparagraph i of paragraph *l* of section 257 of the Taxation Act, applies, except where the said subparagraph i refers to section 144.1 of the said Act, in respect of the determination of the adjusted cost base of an interest in a partnership after 28 October 1980 and of an interest in a partnership disposed of by a person after 1976 and before 29 October 1980 if, in this latter case, that person made the election in the prescribed form within 90 days following (*insert here the date of the sanction of Bill 42*); to the extent that the said subparagraph i refers to the said section 144.1, it applies in respect of such a determination after 31 December 1980 and, to the extent that it replaces subparagraph ii of the said paragraph *l*, it applies to taxation years ending after 11 December 1979.

(4) Paragraph 4 of subsection 1 applies in respect of the determination of the adjusted cost base of an interest in an annuity contract after 28 October 1980.

58. (1) Section 279 of the said Act is amended by replacing paragraphs *a* and *b* by the following paragraphs:

"(*a*) the gain for a particular taxation year from the disposition of his former property is deemed to be equal to the amount by which either of the following amounts, as the case may be, exceeds the amount that the taxpayer may claim, not exceeding a reasonable amount as a reserve in respect of such proceeds of disposition of the former property that are not due to him until after the end of the particular year as may reasonably be regarded as a portion of the amount determined under subparagraph i in respect of the property:

i. where the particular year is the year in which the proceeds of disposition of the former property become due to the taxpayer, the lesser of the amounts determined under subparagraph i or ii of paragraph *b*; or

ii. where the particular year is subsequent to the year in which the proceeds of disposition of the former property become due to the taxpayer, the amount deducted by him, under this paragraph, from either of the amounts determined under subparagraph i or this subparagraph, as the case may be, in computing his gain for the year preceding the particular year from the disposition of the former property; and

"(*b*) the cost to him or, in the case of depreciable property, the capital cost to him of his replacement property at any time after the time he disposed of his former property, is deemed to be the capital cost to him of his replacement property otherwise determined, minus the amount by which

i. the amount by which the proceeds of disposition of the former property exceed the aggregate of the adjusted cost base to the taxpayer immediately before the disposition and any outlays made or expenses incurred for the purpose of making the disposition exceed

ii. the amount by which the proceeds of disposition of the former property exceed the aggregate of the cost, or in the case of depreciable property, of the capital cost to the taxpayer determined without reference to this paragraph, of his replacement property and any outlays made or expense incurred by him for the purpose of making the disposition."

(2) This section applies in respect of dispositions of property occurring after 11 December 1979.

59. (1) The said Act is amended by inserting, after section 280.2, the following sections:

"**280.3** For the purposes of sections 96, 278 and 279, where a taxpayer has disposed of property that was a former business property and was in part a building and in part the land, or an interest therein, subjacent to or necessary for the use of the building, the amount by which the proceeds of disposition of one such part determined without regard to this section exceed the cost to him or, in the case of depreciable property, the capital cost to him of a replacement property for that part is, to the extent that the taxpayer so elects in his fiscal return under this Part for the year in which he acquired the replacement property, deemed not to be proceeds of disposition of that part and to be proceeds of disposition of the other part.

"**280.4** Section 235 applies, *mutatis mutandis*, to any amount that a taxpayer may deduct by virtue of paragraph *a* of section 279, from either of the amounts determined under subparagraph i or ii, as the case may be, of the said paragraph in computing a gain for a taxation year."

(2) This section, to the extent that it enacts section 280.3 of the Taxation Act, applies in respect of dispositions of property occurring after 31 March 1977, except that, with respect to any acquisition of a replacement property by a taxpayer occurring in a taxation year ending before 26 February 1981, the expression "the year in which he acquired the replacement property" in the said section 280.3 shall be read as "the year comprising 26 February 1981". However, an election required to be made in a fiscal return for a year that includes 26 February 1981 is deemed to have been made in such a declaration if the election is made in a written declaration filed with the Minister by the taxpayer within 90 days following (*insert here the date of the sanction of Bill 42*).

(3) This section, to the extent that it enacts section 280.4 of the Taxation Act, applies in respect of dispositions of property occurring after 11 December 1979.

60. (1) Section 295 of the said Act is amended by replacing subsection 2 by the following subsection:

"(2) Subsection 1 does not apply to an option to acquire shares of the capital stock of a corporation as consideration for the incurring, pursuant to an agreement described in paragraph *e* of section 364 or to which paragraph *e* of section 395 or 408 or paragraph *c* of section 418.2, as the case may be, refers, of expenses described in such paragraphs."

(2) This section applies from 12 December 1979.

61. (1) The said Act is amended by inserting, after section 301, the following section:

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

(*a*) the taxpayer is deemed to have disposed of the capital property for proceeds of disposition equal to the lesser of the

aggregate of its adjusted cost base to him immediately before the exchange and the excess portion, and the fair market value of the capital property immediately before the exchange;

(*b*) the taxpayer's capital loss from the disposition of the convertible property is deemed to be nil; and

(*c*) the cost to the taxpayer of the shares acquired in exchange for the capital property is deemed to be the lesser of the adjusted cost base to the taxpayer of the capital property immediately before the exchange, and the aggregate of the fair market value immediately after the exchange of the shares acquired in exchange for the capital property and the amount that, but for paragraph *b*, would have been the taxpayer's capital loss on the disposition of the capital property."

(2) This section applies in respect of the exchange of capital property after 11 December 1979.

62. (1) Section 302 of the said Act is replaced by the following section:

"**302.** For the purposes of this Title, where a taxpayer has acquired property after 1971, other than an annuity contract not referred to in sections 304 to 306, and an amount in respect of the value thereof has been included in computing his income otherwise than under sections 48 to 58, the amount so included shall be added in computing the cost to him of that property."

(2) This section applies to taxation years commencing after 28 October 1980.

63. (1) The said Act is amended by inserting, after section 306, the following section:

"**306.1** Notwithstanding any other provision of this Act, where a corporation has disposed of property to its subsidiary wholly-owned corporation in a prescribed transaction, the cost to it of any share of a particular class of the capital stock of the subsidiary corporation received by it as consideration for the property is deemed to be equal to the lesser of the cost of the share to the corporation otherwise determined immediately after the disposition and the amount, if any, by which the paid-up capital of that class increased by virtue of the issuance of that share."

(2) This section applies in respect of dispositions of property occurring after 11 December 1979.

64. (1) The said Act is amended by inserting, after section 308, the following sections:

"**308.1** Notwithstanding any other provision of this Act, where a corporation resident in Canada has after 21 April 1980 received a taxable dividend referred to in section 308.2 in respect of which it is entitled to a deduction under section 738 or 845, the amount of such dividend, except the prescribed part thereof, is deemed

(*a*) not to be a dividend received by the corporation;

(*b*) where a corporation has disposed of the share, referred to in paragraph *a* of section 308.2, to be proceeds of disposition of the share except to the extent that it is otherwise included in computing such proceeds; and

(*c*) where a corporation has not disposed of the share referred to in paragraph *a* of section 308.2, to be a gain of the corporation for the year in which the dividend was received from the disposition of a capital property.

"**308.2** Section 308.1 is not applicable in the case of a taxable dividend received by the corporation

(*a*) as part of a transaction or event or a series of transactions or events that commenced after 21 April 1980, one of the purposes of which or, in the case of a dividend under section 506, one of the results of which was to effect a significant reduction in the portion of the capital gain that, but for the dividend, would have been realized on a disposition at fair market value of any share of capital stock immediately before the dividend and that could reasonably be considered to be attributable to anything other than income earned or realized by any corporation after 1971 and before the dividend was received; and

(*b*) as part of a transaction or event or a series of transactions or events the result of which is the disposition of any property to a person with whom the corporation was dealing at arm's length or a significant increase in the interest in any corporation of any person with whom the corporation was dealing at arm's length.

"**308.3** Section 308.1 does not apply to any dividend received by a corporation, if the dividend was received in the course of a series of transactions or events the principal purpose of which was to effect a reorganization in order to distribute property of a corporation to one or more transferee corporations and if in respect of each type of property distributed by the corporation, the fair market value thereof received by each particular transferee was equal to or approximated the proportion of the fair market value of all property of that type owned by the corporation immediately before the series of transactions or events that the aggregate of the fair market value at that time of all shares of the capital stock of the corporation owned by the particular transferee or by a per-

son or persons that immediately after the series of transactions or events owned all of the issued shares of the capital stock of that particular transferee, is of the fair market value at that time of all the issued shares of the capital stock of the corporation.

"**308.4** For the purposes of section 308.3, a series of transactions or events is deemed to include any related transactions or events completed in contemplation of the series.

"**308.5** For the purposes of section 308.1 and of paragraph *a* of section 308.2, where it may reasonably be considered that the principal purpose of one or more transactions or events was to cause two or more persons to not deal with each other at arm's length so as to make the said section and paragraph inapplicable, those persons are deemed to deal with each other at arm's length.

"**308.6** For the purposes of this division,

(*a*) the portion of any capital gain attributable to any income that is expected to be earned or realized by a corporation after the time of receipt of the dividend referred to in section 308.1 and in paragraph *a* of section 308.2 is deemed to be a portion of the capital gain attributable to anything other than income;

(*b*) the income earned or realized by a corporation for a period throughout which it was resident in Canada and not a private corporation is deemed to be the aggregate of

i. its income for the period otherwise determined on the assumption that no amounts were deductible by the corporation by virtue of paragraph *j* of section 157 or sections 230.1 to 230.11;

ii. one-half of the amount by which the aggregate of the capital gains of the corporation for the period exceeds the aggregate of its capital losses for the period, and

iii. the aggregate of all amounts each of which is an amount in respect of a business carried on by the corporation at any time in the period, equal to the amount by which the aggregate of the amounts referred to in subparagraph ii of paragraph *b* of section 107 in respect of the business that became payable to the corporation in the period exceeds the aggregate of the cumulative eligible capital amount of the corporation in respect of the business at the commencement of the period, and one-half of the aggregate of the eligible capital expenditures in respect of the business that were made or incurred by the corporation in the period;

(*c*) the income earned or realized by a corporation for a period throughout which it was a private corporation is deemed to be its income for the period otherwise determined on the assumption

that no amounts were deductible by the corporation by virtue of paragraph *j* of section 157 or sections 230.1 to 230.11;

(*d*) the income earned or realized by a corporation for a period ending at a time when it was a foreign affiliate of another corporation is deemed to be the aggregate of the amount, if any, that would have been deductible by that other corporation at that time by virtue of paragraph *a* of section 746 and the amount, if any, that would have been deductible by that other corporation at that time by virtue of paragraph *b* of the said section if that other corporation

i. owned all of the shares of the capital stock of the foreign affiliate immediately before that time;

ii. had disposed at that time of all of the shares referred to in subparagraph i for proceeds of disposition equal to their fair market value at that time, and

iii. had made an election under section 589 in respect of the full amount of the proceeds of disposition referred to in subparagraph ii;

(*e*) persons are deemed to be dealing with each other at arm's length and not to be related to each other if one is the brother or sister of the other; and

(*f*) where a corporation has received a dividend any portion of which is a taxable dividend,

i. the corporation may designate in its fiscal return under this Part for the taxation year during which the dividend was received any portion of the taxable dividend to be a separate taxable dividend, and

ii. the amount by which the portion of the dividend that is a taxable dividend exceeds the portion designated under subparagraph i is deemed to be a separate taxable dividend."

(2) This section has effect as from 22 April 1980.

65. (1) Section 311 of the said Act, amended by section 21 of chapter 13 of the statutes of 1980, is again amended by replacing paragraph *a* by the following paragraph:

"(*a*) a retiring allowance, other than an amount received out of or under an employee benefit plan;".

(2) This section applies in respect of an amount received after 1979.

66. (1) Section 312 of the said Act, amended by section 22 of chapter 13 of the statutes of 1980, is again amended

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

"(*b*) any amount received by the taxpayer in the year, pursuant to an order of a competent tribunal, as an allowance payable on a periodic basis for the maintenance of the taxpayer, children of the taxpayer, or both the taxpayer and children of the taxpayer, if, at the time the payment was received and throughout the remainder of the year, the taxpayer was living apart from the person required to make the payment and was either the spouse of that person or an individual described in paragraph *d* of the second paragraph of section 454;"; and

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

"(*f*) an amount received by the taxpayer in the year as legal costs awarded to him by a court on an appeal in relation to an assessment of any tax, interest or penalties referred to in paragraph *e* of subsection 1 of section 336 or as reimbursement of costs incurred in relation to an assessment or a decision referred to in subparagraph iii of the said paragraph *e* or to a decision referred to in subparagraph iv of the said paragraph *e* if, with respect to that assessment or decision, an amount has been deducted or may be deductible under the said paragraph *e* in computing the taxpayer's income;".

(2) Paragraph 1 of subsection 1 applies in respect of any payment made either after 11 December 1979 pursuant to an order rendered after that date, or, in all other cases where the person making the payment and the taxpayer agree thereto in writing in a taxation year, in that year and in subsequent taxation years.

(3) Paragraph 2 of subsection 1 applies in respect of an amount relating to costs incurred after 11 December 1979.

67. (1) Sections 313 and 313.1 of the said Act are replaced by the following sections:

"**313.** Where, after 6 May 1974, a decree, order, judgment or written agreement described in paragraph *a* or *b* of section 312, or any variation thereof, has been made providing for the periodic payment of an amount to the taxpayer by a person who is his spouse, former spouse or an individual referred to in paragraph *d* of the second paragraph of section 454, or for the benefit of the taxpayer or children in the custody of the taxpayer, the amount or any part thereof, when paid, is deemed, for the purposes of paragraphs *a* or *b* of section 312, to have been paid to and received by the taxpayer if, at the time the amount was paid and throughout the remainder of the year in which the amount was paid, the taxpayer was living apart from the person.

"**313.1** The taxpayer must also include the amount of any grant received in the year under a prescribed program relating to home insulation or energy conversion by the spouse of the taxpayer with whom he resided at the time the grant was received, if the spouse's income for the year, determined without reference to this section, is less than the taxpayer's income for the year to the extent that paragraph *s* of section 87 does not require the inclusion of such amount in computing the taxpayer's income or that of his spouse for the year or a subsequent year, except where the taxpayer resides with his spouse and his income for the year is less than his spouse's income so determined for the year."

(2) This section, to the extent that it replaces section 313 of the Taxation Act, applies in respect of any payment made after 11 December 1979 pursuant to an order rendered after that date or, in any other case where the person making the payment and the taxpayer agree thereto in writing in a taxation year, in that year and in subsequent taxation years and, to the extent that it replaces section 313.1 of the said Act, it applies to the taxation year 1981 and subsequent taxation years.

68. (1) Section 317 of the said Act is replaced by the following section:

"**317.** A taxpayer must include any amount received by him as pension benefit, including any pension, supplement or spouse's allowance under the Old Age Security Act (Statutes of Canada), any similar payment under a provincial law and any benefit under the Act respecting the Québec Pension Plan (R.S.Q., chapter R-9) or any equivalent plan within the meaning of that Act, but not including that part of the amount received by the taxpayer out of or under an employee benefit plan and which must, pursuant to section 47.1, be included in computing the taxpayer's income, and any social aid payment made on a means or a needs test basis by a registered charity or under a prescribed program provided for by an Act of Québec, of Canada, or of another province."

(2) This section applies in respect of any amount received after 1979.

69. (1) Section 329 of the said Act, replaced by section 23 of chapter 13 of the statutes of 1980, is again replaced by the following sections:

"**329.** A development corporation within the meaning of section 363 or a corporation that was such a corporation at the time of acquisition of a property referred to in paragraph *c* of section 328, of a Canadian resource property that is a property referred to in paragraph *a*, *c* or *d* of section 370 or of a property referred to in

paragraph *f* of section 370 in respect of a property referred to in paragraph *a*, *c* or *d* of this latter section and any other prescribed person must include, in the amount referred to in subparagraph i of paragraph *b* of section 418.6, the proceeds of disposition therefrom to the extent that the proceeds become receivable.

"**329.1** A taxpayer must include, in the amount referred to in subparagraph i of paragraph *b* of section 412, the proceeds of disposition of a Canadian resource property that is a property referred to in paragraphs *b*, *d*.1 or *e* of section 370 or of a property referred to in paragraph *f* of section 370 in respect of a property referred to in paragraph *b*, *d*.1 or *e* of this latter section, to the extent that the proceeds become receivable."

(2) This section applies in respect of dispositions of property occurring after 11 December 1979.

70. (1) The said Act is amended by inserting, after section 332, the following sections:

"**332.1** A taxpayer shall include in computing his income for a taxation year, the aggregate of

(*a*) 33⅓% of all amounts, each of which is an amount that became receivable by the taxpayer after 11 December 1979 in the year and in respect of which the consideration given by the taxpayer was a property, other than a share, depreciable property of a prescribed class or a property that would have been a Canadian resource property if it had been acquired by the taxpayer at the time the consideration was given, or services the cost of which to the taxpayer may reasonably be regarded as having been an expenditure that was added in computing the taxpayer's earned depletion base or in computing the earned depletion base of a predecessor corporation where the taxpayer is a successor corporation or a second successor corporation to the predecessor corporation, as the case may be;

(*b*) 33⅓% of all amounts, each of which is an amount determined under section 332.2 in respect of a disposition of depreciable property of a prescribed class, other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length, of the taxpayer after 11 December 1979 and in the year, the capital cost of which was added in computing the earned depletion base of the taxpayer or of a person with whom he was not dealing at arm's length or in computing the earned depletion base of a predecessor corporation where the taxpayer is a successor corporation or a second successor corporation to the predecessor corporation, as the case may be;

(*c*) 33⅓% of all amounts, each of which is an amount determined under section 332.2 in respect of a disposition of depreciable property of a prescribed class that is bituminous sands equipment, other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length, of the taxpayer after 11 December 1979 and in the year, the capital cost of which was added in computing the supplementary depletion base of the taxpayer or of a person with whom he was not dealing at arm's length or in computing the supplementary depletion base of a predecessor corporation where the taxpayer is a successor corporation or a second successor corporation to the predecessor corporation, as the case may be;

(*d*) 50% of all amounts, each of which is an amount determined under section 332.2 in respect of a disposition of depreciable property of a prescribed class that is enhanced recovery equipment, other than a disposition of such property that had been used by the taxpayer to any person with whom the taxpayer was not dealing at arm's length, of the taxpayer after 11 December 1979 and in the year, the capital cost of which was added in computing the supplementary depletion base of the taxpayer or of a person with whom he was not dealing at arm's length or in computing the supplementary depletion base of a predecessor corporation where the taxpayer is a successor corporation or a second successor corporation to the predecessor corporation, as the case may be; and

(*e*) 66⅔% of all amounts, each of which is an amount that became receivable by the taxpayer after 11 December 1979 and in the year and in respect of which the consideration given by the taxpayer was a property, other than a share or a property that would have been a Canadian resource property if it had been acquired by the taxpayer at the time the consideration was given, or services the cost of which may reasonably be regarded as having been an expenditure in connection with an oil or gas well in respect of which an amount was included in computing the taxpayer's exploration base or in computing the exploration base of a predecessor corporation where the taxpayer is a successor corporation or a second successor corporation to the predecessor corporation, as the case may be.

"**332.2** For the purposes of paragraph *b*, *c* or *d* of section 332.1, the amount in respect of a disposition of a property referred to therein is equal to the lesser of the capital cost of the property to the taxpayer, the person with whom he was not dealing at arm's length or the predecessor corporation, as the case may be, computed without reference to section 180 or 182, and the proceeds of disposition of the property.

"**332.3** For the purposes of sections 332.1 and 332.2 and of this section,

(*a*) "successor corporation" means a corporation that has, after 7 November 1969, acquired, by purchase or otherwise including an acquisition as a result of an amalgamation described in section 544, from another corporation, in sections 332.1 and 332.2 referred to as the "predecessor corporation", all or substantially all of the property of the predecessor corporation used by it in carrying on in Canada any of the businesses described in paragraphs *a* to *g* of section 363 as were carried on by it, and that, with respect to acquisitions of property after 16 November 1978, except in the case of an amalgamation or a winding-up, has jointly elected with the predecessor corporation under section 404.1 or 415.3; and

(*b*) "second successor corporation" means a corporation that has, after 7 November 1969, acquired, by purchase or otherwise, including an acquisition as a result of an amalgamation described in section 544, from another corporation that was a successor corporation, all or substantially all of the property of the first successor corporation used by it in carrying on in Canada any of the businesses described in paragraphs *a* to *g* of section 363 as were carried on by it, and that, with respect to acquisitions of property after 16 November 1978, except in the case of an amalgamation or a winding-up, has jointly elected with the successor corporation under section 404.1 or 415.3."

(2) This section applies to taxation years ending after 11 December 1979.

71. (1) Section 333 of the said Act is amended by adding the following paragraph:

"Similarly, the expressions "exploration base", "supplementary depletion", "earned depletion", "bituminous sands equipment" and "enhanced recovery equipment" have, for the purposes of this chapter, the meanings assigned to them by regulation."

(2) This section applies to taxation years ending after 11 December 1979.

72. (1) Section 333.1 of the said Act, amended by section 26 of chapter 13 of the statutes of 1980, is again amended by replacing paragraph *a* by the following paragraph:

"(*a*) the aggregate of all such proceeds so becoming receivable in the year, to the extent that they have been included in the amount referred to in subparagraph i of paragraph *b* of either section 412 or section 418.6 in respect of the taxpayer;".

(2) This section applies to taxation years ending after 11 December 1979.

73. (1) Section 333.2 of the said Act is amended by replacing subsection 1 by the following subsection:

"**333.2** (1) A taxpayer must include, in computing his income for the year in respect of which he elected under section 333.1, the amount by which the amount deducted under the said section exceeds the aggregate of Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses incurred by him in his ten taxation years immediately following the year as were designated by the taxpayer in his fiscal return filed for the year in which the expenses were incurred."

(2) This section applies in respect of taxation years ending after 11 December 1979.

74. (1) Section 333.3 of the said Act is replaced by the following section:

"**333.3** Any Canadian exploration expense, Canadian development expense or Canadian oil and gas property expense incurred by a taxpayer in a taxation year and designated by him in his fiscal return filed in accordance with section 333.2 is deemed not to be such an expense, except for the purposes of sections 386, 387, 391, 392 and 392.1 and the computing of his earned depletion base within the meaning of the regulations made under section 360."

(2) This section applies to taxation years ending after 11 December 1979.

75. (1) Section 336 of the said Act, amended by section 27 of chapter 13 of the statutes of 1980, is again amended:

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

"(*b*) an amount paid by an individual in the year, pursuant to an order of a competent tribunal, as an allowance payable on a periodic basis for the maintenance of the recipient thereof, a child of the recipient or both at the same time, if at the time the payment is made and throughout the remainder of the year, the individual lives apart from the recipient to whom he is required to make such payment and who is his spouse or an individual described in subparagraph *d* of the second paragraph of section 454;";

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

"(*e*) an amount paid in the year by the taxpayer as fees or expenses incurred for preparing, presenting or proceeding with an objection or appeal relating to

i. an assessment of tax, interest or penalties under this Act, a similar act of Canada or of another province or the Health Insurance Act (R.S.Q., chapter A-29);

ii. an assessment of any income tax deductible by him under section 772 or any interest or penalty with respect thereto;

iii. an assessment or a decision under the Act respecting the Québec Pension Plan (R.S.Q., chapter R-9) or an equivalent plan within the meaning of the said Act; or

iv. a decision of the Canada Employment and Immigration Commission, a board of referees or an umpire under the Unemployment Insurance Act 1971 (Statutes of Canada);"; and

(3) by replacing subsections 2 and 3 by the following subsections:

"(2) Where, after 6 May 1974, a decree, order, judgment or written agreement contemplated in paragraph *a* or *b* of subsection 1, or any variation thereof, has been made providing for the periodic payment of an amount by the taxpayer to or for the benefit of a person who is his spouse, former spouse or an individual contemplated in subparagraph *d* of the second paragraph of section 454, or for the benefit of a child in the custody of such a person, such payment or any part thereof, when paid, is deemed, for the purposes of paragraphs *a* and *b* of subsection 1, to have been made to and received by him if the taxpayer was living apart from that person at the time the payment was made and throughout the remainder of the year in which the payment was made.

"(3) Paragraph *f* of subsection 1 does not apply in the case of a pension benefit, a payment out of or under an employee benefit plan, a registered retirement savings plan, a registered retirement income fund or an income-averaging annuity contract or in the case of an annuity paid or purchased in accordance with a deferred profit sharing plan or a plan revoked under section 876."

(2) Paragraph 1 of subsection 1 and paragraph 3 of that subsection, to the extent that the latter paragraph replaces subsection 2 of section 336 of the Taxation Act, applies in respect of a payment made either after 11 December 1979 pursuant to an order made after that date or, in any other case, where the recipient and the taxpayer agree thereto in writing in a taxation year, in that year and subsequent taxation years.

(3) Paragraph 2 of subsection 1 applies in respect of expenses incurred after 11 December 1979.

(4) Paragraph 3 of subsection 1, to the extent that it replaces subsection 3 of section 336 of the Taxation Act, applies in respect of payments made after 1979.

76. (1) Section 339 of the said Act is amended

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

"(*d*) such part of the aggregate of all amounts each of which is an amount included in computing his income for the year, under paragraph *a* of section 311 or section 317 or 885, or a prescribed refund of deductions as deferred pay, as is designated by the taxpayer in his fiscal return for the year under this Part and that does not exceed the aggregate of all the amounts, to the extent that it was not deducted in computing his income for a previous year, paid by him in the year or within 60 days after the end of the year

i. as a contribution to or under a registered retirement plan, other than the portion thereof deductible under paragraph *c* of section 70 in computing his income for the year, or

ii. as a premium under a registered retirement savings plan under which he is the annuitant, within the meaning of paragraph *b* of section 905.1, other than the portion of such premium that has been designated for the purposes of paragraph *f*;"; and

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

"(*f*) such part of the aggregate of amounts paid by him in the year or within 60 days after the end of the year as a premium to a registered retirement savings plan under which he is the annuitant within the meaning of paragraph *b* of section 905.1, as is designated by the taxpayer in his fiscal return under this Part for the year, as does not exceed the amount included in computing his income for the year under section 929, to the extent that it represents a refund of premiums, within the meaning of subsection 2 of section 908, under a registered retirement savings plan received by the taxpayer out of or under the plan on or after the death of the person who was, immediately before his death, both the annuitant thereunder and the taxpayer's spouse, and was not deducted in computing the taxpayer's income for a previous year."

(2) This section applies to the taxation year 1979 and subsequent taxation years.

77. (1) Section 344 of the said Act, amended by section 28 of chapter 13 of the statutes of 1980, is again amended by replacing subparagraph iii of paragraph *a* by the following subparagraph:

"iii. the excess of the amount included in computing his income for the year under sections 330 and 331 over the aggregate of the amounts deducted in that computation under sections 333.1, 357, 358 and 362 to 418.14 and section 86 of the Act respecting the application of the Taxation Act (1972, chapter 24);".

(2) This section applies to taxation years ending after 11 December 1979.

78. (1) Section 345 of the said Act, amended by section 29 of chapter 13 of the statutes of 1980, is again amended by replacing the period at the end of paragraph *i* by a semicolon and by adding the following paragraphs:

"(*j*) an amount included in computing the individual's income for the year under paragraph *c* of section 46 of the Act respecting the application of the Taxation Act (R.S.Q., chapter I-4), but only where the individual has not claimed a deduction in that computation under paragraph *a* of the said section 46; and

"(*k*) where the individual ceased to be a member of a partnership in the year or the preceding year and where, in computing his income therefrom for that preceding year, he made the election provided for in paragraph *c* of section 215, the amount included in computing his income for the year under paragraph *a* of section 28, to the extent that, having regard to all the circumstances, including the proportion in which the members of the partnership have agreed to share the profits of the partnership, such amount may reasonably be considered to be his share of the work in progress of the partnership at the time he ceased to be a member thereof if, during the remainder of the year in which he ceased to be a member thereof and in the following year, he did not become employed in the business carried on by the partnership, carry on a business that is a profession or become a member of another partnership carrying on a business that is a profession."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

79. (1) Section 358 of the said Act is replaced by the following section:

"**358.** Subject to subsection 2 of section 357, where a taxpayer has, pursuant to paragraph *e* of section 330, included an amount in computing his income for a taxation year, in this paragraph referred to as the "initial year", and, in respect of the disposition of a property to which section 329.1 or paragraph *b* of section 331 applies, he has included, pursuant to subparagraph i of paragraph *b* of section 412, an amount in computing the expenses referred to in the last named section at a particular time in the initial year and such latter amount or a portion thereof is not due before the end of a taxation year, he may deduct in computing his income for that taxation year, in respect of the portion of the latter amount that is not due before the end of that taxation year, a reserve equal to,

(*a*) where that taxation year is the initial year, the lesser of the amount included in computing his income for the year under paragraph *e* of section 330, and the portion of the amount in

respect of a disposition of the property that is not due before the end of the year; or

(*b*) in any other case, the lesser of the amount deducted under this subparagraph or subparagraph *a* in respect of the property in computing his income for the preceding taxation year and the portion of the amount in respect of the property that is not due before the end of his taxation year.

Subject to subsection 2 of section 357, where a taxpayer has, by virtue of paragraph *e* of section 330, included an amount in computing his income for a taxation year, in this paragraph referred to as the "initial year", and, in respect of the disposition of a property to which section 329 applies, he has included pursuant to subparagraph i of paragraph *b* of section 418.6 an amount in computing his expenses referred to in the last named section at a particular time in the initial year and such latter amount or a portion thereof is not due before the end of a taxation year, he may deduct in computing his income for that taxation year, in respect of the portion of the latter amount that is not due before the end of such taxation year, a reserve equal to

(*a*) where that taxation year is the initial year, the least of the amount by which the amount included in computing his income for the year by virtue of paragraph *e* of section 330 exceeds the amount deducted under paragraph *a* of the first paragraph in computing his income for the year, the amount determined under section 418.12 in respect of the taxpayer for the year, and the portion of the amount in respect of a disposition of the property that is not due before the end of the year; or

(*b*) in any other case, the lesser of the amount deducted under this paragraph in respect of the property in computing his income for the preceding taxation year and the portion of the amount in respect of the property that is not due before the end of the taxation year.

Section 153 does not apply in respect of an amount deductible under this section."

(2) This section applies to the taxation year 1977 and subsequent taxation years, except to the extent that it enacts the second paragraph of section 358 of the Taxation Act, in which case it applies to taxation years ending after 11 December 1979.

80. (1) Section 359 of the said Act is replaced by the following section:

"**359.** In this chapter,

(*a*) "outlay" or "expense" made or incurred before a particular time does not include any amount paid or payable for services

to be rendered after that time or any amount paid or payable as rent for a period after that time;

(*b*) "mining business" means an activity described in paragraph *a* of section 363 with respect to minerals and in paragraphs *b* to *e* and *g* of the said section, and a transaction concerning a property described in paragraphs *a* to *f* of section 370 that may reasonably be related to minerals;

(*c*) "oil business" means an activity described in paragraph *a*, except with respect to minerals, and paragraph *f* of section 363, and a transaction concerning a property described in paragraphs *a* to *f* of section 370, that may reasonably be related to petroleum or natural gas, and that is not contemplated in paragraph *b*;

(*d*) "oil or gas well" means any well drilled for the purpose of producing petroleum or natural gas or of determining the existence, location, extent or quality of a petroleum or natural gas deposit."

(2) This section, to the extent that it enacts paragraphs *b* to *d* of section 359 of the Taxation Act, has effect as from 1 January 1981 and, to the extent that it enacts paragraph *a* of the said section, it applies in respect of amounts paid or payable after 28 October 1980.

81. (1) Section 369 of the said Act is amended by replacing that part of paragraph *b* which precedes subparagraph i by the following:

"(*b*) the amount by which the aggregate of the following amounts, before any deduction under section 360, 361, 368, 400 or 401 exceeds the aggregate of the amounts deducted in computing his income for the year under section 357 in respect of property contemplated in paragraph *c* of section 328 or under section 358:".

(2) This section applies to taxation years ending after 11 December 1979.

82. (1) Section 370 of the said Act, amended by section 30 of chapter 13 of the statutes of 1980, is again amended

(1) by replacing paragraphs *a* and *b* by the following paragraphs:

"(*a*) any right, licence or privilege to explore for, drill for or take petroleum, natural gas or other related hydrocarbons in Canada;

"(*b*) any right, licence or privilege to prospect, explore, drill or mine for minerals in a mineral resource in Canada or to store underground petroleum, natural gas or related hydrocarbons in Canada;"; and

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

"(*d*) any rental or royalty computed by reference to the amount or value of production from an oil or gas well in Canada;

"(*d*.1) any rental or royalty computed by reference to the amount or value of production from a mineral resource in Canada;

"(*e*) any real property in Canada the principal value of which depends upon its mineral resource content, but not including any depreciable property used or to be used in connection with the extraction or removal of minerals therefrom; or".

(2) This section applies to taxation years ending after 11 December 1979.

83. (1) Section 375 of the said Act is replaced by the following section:

"**375.** Sections 329 to 332, 357, 358, 368, 369, 371, 374 and 395 to 418.12 do not apply to a taxpayer who is not a development corporation if the business of such taxpayer includes trading or dealing in rights, licences or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons."

(2) This section applies to taxation years ending after 11 December 1979.

84. (1) Section 383 of the said Act is amended

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

"**383.** (1) The election contemplated in section 381 may be made only if the corporation in whose favour it is made has been a share-holder of the joint exploration corporation during the whole period, and has paid to the corporation an amount in respect of the Canadian exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses incurred by it in Canada."; and

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

"(3) The agreed portion for such corporation shall not exceed that amount paid by the shareholder corporation during the period less the aggregate of the amounts which the joint exploration corporation has already renounced under section 381, 406, 417 or 418.13 in favour of the shareholder corporation.

"(4) For the purposes of subsection 3, the amount paid by the shareholder corporation does not include that portion of the amount paid by a shareholder corporation that was not a Canadian corporation and used by the joint exploration corporation to

acquire a Canadian resource property after 11 December 1979 from a shareholder corporation that was not a Canadian corporation."

(2) This section applies to taxation years ending after 11 December 1979.

85. (1) Section 384 of the said Act is amended by replacing paragraph *b* by the following paragraph:

"(*b*) the amount by which the cumulative Canadian exploration expenses, cumulative Canadian development expenses or cumulative Canadian oil and gas property expenses, as the case may be, at the time it ceased to carry on active business exceeds the aggregate of all amounts otherwise deducted under Division III, IV or IV.1, as the case may be, in computing its income for the taxation years ending after the time it ceased to carry on active business and before control was so acquired, is deemed to have been deducted under the said divisions, respectively, in computing its income for the taxation years ending before control was so acquired."

(2) This section applies to taxation years ending after 11 December 1979.

86. (1) The said Act is amended by inserting, after section 392, the following section:

"**392.1** A taxpayer shall, in computing his cumulative Canadian oil and gas property expense, deduct under paragraph *c* of section 418.6 the amount which, at a particular time, becomes receivable by him from a person with whom he has entered into an agreement to unitize an oil or gas field in Canada in respect of Canadian oil and gas property expense incurred by the taxpayer in respect of that field or any part thereof.

Furthermore, the person who must pay such amount shall, in computing his Canadian oil and gas property expense, include it at that time under paragraph *a* of section 418.2."

(2) This section applies to taxation years ending after 11 December 1979.

87. (1) Section 395 of the said Act, amended by section 35 of chapter 13 of the statutes of 1980, is again amended

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

"**395.** For the purposes of this chapter, Canadian exploration expense of a taxpayer means any outlay or expense, made or

incurred after 6 May 1974 in the case of an oil business, or after 31 March 1975 in the case of a mining business, to such extent as that outlay or expense is

(*a*) any expense, including an expense for a geological, geophysical or geochemical survey, other than an expense incurred in drilling or completing an oil or gas well or in building a temporary access road to, or preparing a site in respect of, any such well, and incurred by him for the purpose of determining the existence, location, extent or quality of a petroleum or natural gas deposit, other than a mineral resource, in Canada;

(*b*) any expense, incurred before 1982, in drilling or completing an oil or gas well in Canada, or in building a temporary access road to, or preparing a site in respect of, any such well, incurred by him in the year or in any previous year, and included by him in computing his Canadian development expense for a previous taxation year, if the drilling of the well is completed within six months after the end of the year and:"; and

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

"(*b*.1) any expense incurred after 1981, in drilling or completing an oil or gas well in Canada, or in building a temporary access road to, or preparing a site in respect of, any such well, incurred by him in the year or in any previous year, and included by him in computing his Canadian development expenses for a previous taxation year, if the drilling of the well is completed within six months after the end of the year and the well is abandoned within six months after the end of the year and within twelve months after the drilling of the well is completed;

"(*b*.2) any expense incurred after 1981 in drilling or completing an oil or gas well in Canada, or in building a temporary access road to, or preparing a site in respect of, any such well,

i. in a prescribed exploration area, except where the well is drilled for the purpose of production in commercial quantities of petroleum or natural gas from a petroleum or natural gas deposit that was known to be capable of being produced in commercial quantities at the time the drilling of the well commenced or for the purpose of delineating or determining the extent or quality of a petroleum or natural gas deposit and the drilling of the well commenced after any production in commercial quantities of any petroleum or natural gas from the deposit, or

ii. in any area other than a prescribed exploration area, except where the well is drilled for the purpose of production of petroleum or natural gas from a petroleum or natural gas deposit capable of being produced in commercial quantities that was known to exist at the time the drilling of the well commenced, or

for the purpose of delineating or determining the extent or quality of such a deposit;".

(2) This section applies in respect of outlays or expenses made or incurred after 1980.

88. (1) Section 396 of the said Act is replaced by the following section:

"**396.** Canadian exploration expenses do not include, however, a consideration given by the taxpayer for a share, or for an interest therein or right thereto, except as provided in paragraph *e* of section 395, or any expense described in the said paragraph incurred by another taxpayer to the extent that the expense is, for that other taxpayer, a Canadian exploration expense by virtue of the said paragraph, a Canadian development expense by virtue of paragraph *e* of section 408 or a Canadian oil and gas property expense by virtue of paragraph *c* of section 418.2."

(2) This section applies to taxation years ending after 11 December 1979.

89. (1) Section 398 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) the expenses referred to in section 395 and incurred by the taxpayer before that time;".

(2) This section has effect as from 26 February 1981.

90. (1) Section 399 of the said Act is amended by striking out the word "and", at the end of paragraph *c*, by replacing the period at the end of paragraph *d* by the following: "; and", and by adding the following paragraph:

"(*e*) all amounts of assistance or benefit that he has received or is entitled to receive from a government, municipality or other public body, in respect of any Canadian exploration expense incurred after 31 December 1980 or that can reasonably be related to Canadian exploration activities after that date, whether such amount is by way of a grant, bonus, forgivable loan, deduction from royalty or tax, investment allowance or any other form of assistance or benefit."

(2) This section applies to the taxation year 1981 and subsequent taxation years.

91. (1) Section 400 of the said Act is replaced by the following section:

"**400.** A development corporation or any other taxpayer carrying on a mining business must deduct, in computing its income

for a taxation year, its cumulative Canadian exploration expenses at the end of the year not exceeding the amount its income for the year would be, computed without taking into account sections 332.1 and 332.2, if no deduction, other than a prescribed deduction, were allowed under this section and sections 360 and 361, minus the deductions allowed for the year under sections 738 to 749.

A taxpayer contemplated in the first paragraph may also deduct, in computing its income for any taxation year, an amount not exceeding the least of

(*a*) the aggregate of the amounts it is required to include in computing its income by virtue of sections 332.1 and 332.2;

(*b*) the amount by which its cumulative Canadian exploration expenses at the end of the year exceed the amount that his income for the year would be as described in the first paragraph; or

(*c*) the amount that its income for the year would be as described in the first paragraph if the said paragraph did not include the expression "computed without taking into account sections 332.1 and 332.2"."

(2) This section applies to taxation years ending after 11 December 1979.

92. (1) Section 401 of the said Act, amended by section 36 of chapter 13 of the statutes of 1980, is again amended by replacing subparagraph i of paragraph *a* by the following subparagraph:

"i. the amount by which his Canadian exploration expenses incurred after 25 May 1976 exceed the aggregate of all amounts deducted under this paragraph for a previous taxation year, and".

(2) This section has effect as from 26 February 1981.

93. (1) Section 406 of the said Act is replaced by the following section:

"**406.** A joint exploration corporation, within the meaning of section 382, may, in any particular taxation year or within six months from the end of that year, elect in prescribed form to renounce in favour of a shareholder corporation an agreed portion of the aggregate of its Canadian exploration expenses incurred before the end of that year, to the extent that such aggregate exceeds the amount deductible in respect thereof under section 400 in computing the income of the joint exploration corporation for a taxation year previous to the particular taxation year; subsections 1, 3 and 4 of section 383 apply *mutatis mutandis* to that election."

(2) This section applies to taxation years ending after 11 December 1979.

94. (1) Section 408 of the said Act, amended by section 40 of chapter 13 of the statutes of 1980, is again amended

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

"**408.** For the purposes of this chapter, Canadian development expenses of a taxpayer means any outlay or expense made or incurred after 6 May 1974 in the case of an oil business, or after 31 March 1975 in the case of a mining business, to the extent that such outlay or expense constitutes:"; and

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

"(*c*) notwithstanding section 144, the cost to the taxpayer of a Canadian resource property contemplated in paragraph *b*, *d*.1 or *e* of section 370 or in paragraph *f* of section 370 in respect of property contemplated in paragraph *b*, *d*.1 or *e* of the latter section, excluding any payment made to a person contemplated in section 90 for the preservation of a taxpayer's rights in respect of a Canadian resource property or a property that would have been a Canadian resource property if it had been acquired by the taxpayer after 1971, and excluding a payment to which section 144 applies and that may reasonably be regarded as being in relation to the production in Canada of petroleum, natural gas and other related hydrocarbons, or metal or minerals to any stage that is not beyond the prime metal stage or its equivalent, from an oil or gas well or mineral resource situated in Canada from which the taxpayer then had the right to take or remove such substance;".

(2) Paragraph 1 of subsection 1 has effect as from 26 February 1981.

(3) Paragraph 2 of subsection 1 applies in respect of the acquisition of property after 11 December 1979.

95. (1) Section 409 of the said Act is replaced by the following section:

"**409.** Canadian development expenses do not include, however, any consideration given by the taxpayer for a share or any interest therein or right thereto, except as provided in paragraph *e* of section 408, nor any expense referred to in the said paragraph incurred by another taxpayer to the extent that the expense was, for that other taxpayer, a Canadian development expense under the said paragraph, a Canadian exploration expense under paragraph *e* of section 395 or a Canadian oil and gas property expense under paragraph *c* of section 418.2."

(2) This section applies to taxation years ending after 11 December 1979.

96. (1) Section 411 of the said Act, amended by section 41 of chapter 13 of the statutes of 1980, is again amended by replacing paragraph *a* by the following paragraph:

"(*a*) the expenses referred to in section 408 incurred by the taxpayer before that time;".

(2) This section has effect as from 26 February 1981.

97. (1) Section 412 of the said Act, amended by section 42 of chapter 13 of the statutes of 1980, is again amended

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

"i. any amount, in respect of that disposition, that becomes receivable by him before that time but after 6 May 1974 in the case of an oil business, or after 31 March 1975 in the case of a mining business, that is required to be included in the amount referred to in this subparagraph by virtue of section 329.1 or of paragraph *b* of section 331, exceeds,";

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

"(*d*) all amounts included by him under paragraph *a* of section 408 for a previous taxation year that have become Canadian exploration expenses by virtue of paragraphs *b* or *b*.1 of section 395;"; and

(3) by striking out the word "and", at the end of paragraph *e*, and by adding, after paragraph *f*, the following paragraphs:

"(*g*) all amounts determined under section 418.12 in respect of taxation years of the taxpayer ending at or before that time; and

"(*h*) all amounts of assistance or benefit that he has received or is entitled to receive from a government, municipality or other public body in respect of any Canadian development expense incurred after 31 December 1980 or that can reasonably be related to Canadian development activities after that date, whether such amount is by way of a grant, bonus, forgivable loan, deduction from royalty or tax, investment allowance or any other form of assistance or benefit."

(2) Paragraph 1 of subsection 1 applies in respect of the disposition of property after 11 December 1979.

(3) Paragraph 2 of subsection 1 has effect as from 26 February 1981.

(4) Paragraph 3 of subsection 1, to the extent that it enacts paragraph *g* of section 412 of the Taxation Act, applies to taxation years ending after 11 December 1979 and, to the extent that it enacts paragraph *h* of the said section 412, applies to the taxation year 1981 and subsequent taxation years.

93. (1) Section 413 of the said Act is amended

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

"ii. the amount by which the amount determined under subparagraph ii of subparagraph *a* of section 418.7 exceeds the amount determined under subparagraph i of the said subparagraph; and";

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

"(*b*) the lesser of

i. the amount by which the amount determined under subparagraph i of subparagraph *a* exceeds the amount determined under subparagraph ii of the said subparagraph; or

ii. the amount by which the aggregate of all amounts included in computing its income for the year by reason of the disposition, in the year, of a property included in its inventory under section 419, and acquired by the corporation under circumstances referred to in paragraph *e* of section 395 or 408, or any amount included, in computing its income, under paragraph *e* of section 87 to the extent that such amount relates to that property, exceeds the aggregate of any amount deducted as an allowance in computing its income for the year under section 153 to the extent that such allowance relates to such property; and

"(*c*) 30% of the amount by which the amount determined under subparagraph i of subparagraph *b* exceeds that determined under subparagraph ii of the said subparagraph."; and

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

"Any other taxpayer may deduct in computing his income for any taxation year in respect of an oil business an amount not exceeding the aggregate of amounts that would be determined in his respect under subparagraphs *a* to *c* of the first paragraph, if account were not taken of the word "other" in subparagraph i of the said subparagraph *a*."

(2) This section applies to taxation years ending after 11 December 1979.

99. (1) Section 414 of the said Act, amended by section 43 of chapter 13 of the statutes of 1980, is again amended by replacing paragraph *a* of the second paragraph by the following paragraph:

"(*a*) the aggregate of amounts that would be determined in his respect under subparagraphs *a* to *c* of the first paragraph of

section 413, if account were not taken of the word "other" in subparagraph i of the said subparagraph *a*; and".

(2) This section applies to taxation years ending after 11 December 1979.

100. (1) Section 417 of the said Act is replaced by the following section:

"**417.** A joint exploration corporation, within the meaning of section 382, may, in any particular year or within six months from the end of that year, elect in prescribed form to renounce in favour of a shareholder corporation an agreed portion of the aggregate of its Canadian development expenses incurred before the end of that year to the extent that such aggregate exceeds the total of amounts deducted in respect thereof under sections 413 and 414 in computing the income of the joint exploration corporation for any taxation year previous to that particular year; subsections 1, 3 and 4 of section 383 apply *mutatis mutandis* to that election."

(2) This section applies to taxation years ending after 11 December 1979.

101. (1) The said Act is amended by inserting, after section 418, the following:

"**418.1** Where, pursuant to the terms of an arrangement in writing entered into before 12 December 1979 a taxpayer acquired a property described in paragraph *a* of section 418.2, for the purposes of this Act, the cost of acquisition of the property shall be deemed to be a Canadian development expense incurred at the time he acquired the property.

"DIVISION IV.1

"CANADIAN OIL AND GAS PROPERTY EXPENSE

"**418.2** For the purposes of sections 362 to 418.14, Canadian oil and gas property expense of a taxpayer means any outlay or expense made or incurred after 11 December 1979, to the extent that the outlay or expense is

(*a*) notwithstanding section 144, the cost to the taxpayer of a Canadian resource property described in paragraph *a*, *c* or *d* of section 370 or in paragraph *f* of section 370 in respect of property contemplated in paragraph *a*, *c* or *d* of the latter section, or an amount paid or payable to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on 31 March 1977 to the extent that it can reasonably be regarded as a cost of

acquiring the lease, but not including any payment made to any of the persons referred to in section 90 for the preservation of a taxpayer's rights in respect of a Canadian resource property or a property that would have been a Canadian resource property if it had been acquired by the taxpayer after 1971, and not including a payment, other than a net royalty payment referred to in this paragraph, to which section 144 applies, and which can reasonably be related to the production in Canada of petroleum, natural gas and other related hydrocarbons, or metal or minerals to any stage that is not beyond the prime metal stage or its equivalent, from an oil or gas well or mineral resource situated in Canada from which the taxpayer then had the right to take or remove such substance;

(*b*) his share of any expense described in paragraph *a* incurred in a fiscal period thereof by a partnership of which he was a member at the end of that fiscal period; or

(*c*) any expense described in paragraph *a* incurred by the taxpayer pursuant to an agreement with a corporation under which the taxpayer incurred the expense solely as consideration for a share of the capital stock of the corporation issued to him or any interest in such a share or right thereto.

"**418.3** Canadian oil and gas property expense does not include, however, any consideration given by the taxpayer for any share or any interest therein or right thereto, except as provided by paragraph *c* of section 418.2, or any expense contemplated in the said paragraph incurred by any other taxpayer to the extent that the expense is for the latter a Canadian oil and gas property expense under the said paragraph, a Canadian exploration expense under paragraph *e* of section 395 or a Canadian development expense under paragraph *e* of section 408.

"**418.4** Where a taxpayer has received or is entitled to receive any amount of assistance or benefit from a government, municipality or other public body in respect of his Canadian oil and gas property expense, whether as a grant, bonus, forgivable loan, deduction from royalty or tax, investment allowance or any other form of assistance or benefit, the expenses contemplated in paragraphs *a* to *c* of section 418.2 shall not be deducted from the amount of assistance or benefit.

"**418.5** For the purposes of this chapter, cumulative Canadian oil and gas property expense of a taxpayer at any time in a taxation year means the amount by which the aggregate

(*a*) of the expenses contemplated in section 418.2 incurred by the taxpayer before that time,

(*b*) of all amounts determined under section 418.12 in respect of the taxpayer for any taxation year ending before that time, and

(*c*) of all amounts contemplated in paragraph *b* or *c* of section 418.6 that, in accordance with the proof produced by the taxpayer, have become a bad debt before that time,

exceeds the aggregate described in section 418.6.

"**418.6** The amounts to be deducted in computing cumulative Canadian oil and gas property expense of a taxpayer at any time contemplated in section 418.5 are the aggregate

(*a*) of any amount deducted in computing his income for any taxation year ending before that time in respect of such expense;

(*b*) of any amount which, before that time, in respect of the disposition of property by the taxpayer, is equal to

i. the amount by which the amount, in respect of the disposition of property, that becomes receivable by him and that is required to be included in the amount contemplated in this subparagraph under section 329, exceeds

ii. where the property disposed of has been acquired by the taxpayer in accordance with section 418.8, the amount by which the amount of the expenses contemplated in paragraph *a* of the said section, determined immediately before the particular time at which the proceeds of the disposition of the property become receivable by the taxpayer, exceeds the aggregate of amounts that became receivable by him before that particular time and described in paragraph *b* of the said section;

iii. where the property disposed of has been acquired by the taxpayer in accordance with section 418.9, the aggregate of the amount by which the amount of the expenses contemplated in paragraph *a* of the said section, determined immediately before the particular time at which the proceeds of the disposition of property become receivable by the taxpayer, exceeds the aggregate of the amounts that became receivable by the first successor corporation before that particular time and described in subparagraph i of paragraph *b* of the said section, and of the amounts that became receivable by the taxpayer before that particular time and described in subparagraph ii of the said paragraph *b*, and of the amount by which the amount contemplated in subparagraph ii in respect of the acquisition by the taxpayer, in accordance with section 418.8, exceeds the property of the first successor corporation; or

iv. in any other case, nil;

(*c*) of any amount that, before that time, becomes receivable by him and must be included in the amount contemplated in this paragraph by virtue of section 392.1;

(*d*) of any amount received by the taxpayer before that time in respect of a debt contemplated in paragraph *c* of section 418.5; and

(*e*) of any amount that constitutes an amount of assistance or benefit that he has received or is entitled to receive from a government, municipality or other public body in respect of any Canadian oil and gas property expense incurred after 31 December 1980 or that can reasonably be related to any such expense incurred after that date, whether such amount is by way of a grant, bonus, forgiveable loan, deduction from royalty or tax, investment allowance or any other form of assistance or benefit.

"**418.7** A taxpayer may deduct, in computing his income for a taxation year, an amount not exceeding the aggregate of

(*a*) the lesser

i. of his cumulative Canadian oil and gas property expense at the end of the year; or

ii. the amount by which the aggregate of any amount included in computing his income for the year by reason of the disposition, in the year, of a property included in his inventory under section 419, and acquired by him under circumstances referred to in paragraph *c* of section 418.2, or any amount included, in computing his income, under paragraph *e* of section 87 to the extent that such amount relates to that property, exceeds the aggregate of any amount deducted as an allowance in computing his income for the year under section 153 to the extent that such allowance relates to such property; and

(*b*) of 10% of the amount by which any amount determined under subparagraph i of paragraph *a* exceeds the amount determined under subparagraph ii of the said paragraph.

"**418.8** A corporation which acquires, in any manner whatever, including an acquisition as a result of an amalgamation described in section 544, all or substantially all of the property of another corporation used by it in carrying on in Canada such of the businesses described in any of paragraphs *a* to *g* of section 363, may deduct in computing its income for a taxation year any amount not exceeding the lesser of the amount computed under section 418.10 and 10% of the amount by which

(*a*) the cumulative Canadian oil and gas property expense of the corporation from which the property is so acquired, determined immediately after the acquisition and only to the extent that it has not been deducted in computing the income of either corporation for a previous taxation year or in computing the income of the corporation from which the property is so acquired for the taxation year of the acquisition, exceeds

(*b*) the aggregate of the amounts that became receivable by it in the year or in any previous taxation year and included in the amount contemplated in subparagraph i of paragraph *b* of section 418.6 that may reasonably be regarded as attributable to the disposition by the corporation of any property owned by the other corporation immediately before the acquisition thereof by the corporation.

"**418.9** A corporation which acquires, in any manner whatever, including an acquisition as a result of an amalgamation described in section 544, all or substantially all of the property of another corporation, hereinafter called "first successor corporation", which used that property in a business described in any of paragraphs *a* to *g* of section 363 carried on by it in Canada and which had itself acquired that property from another corporation in accordance with section 418.8, may deduct, in computing its income for a taxation year, an amount not exceeding the lesser of the amount that would be determined under section 418.10 if any reference to this section were omitted, and 10% of the amount by which

(*a*) the cumulative Canadian oil and gas property expense of the corporation from which the property was acquired in accordance with section 418.8, determined immediately after the acquisition of the property by the first successor corporation, to the extent that it has not been deducted in computing the income of either corporation for a previous taxation year or in computing the income of the first successor corporation for the taxation year in which the latter's property was so acquired, exceeds

(*b*) the agregate

i. of the amounts that became receivable by the first successor corporation in the year or in any previous taxation year and included in the amount contemplated in subparagraph i of paragraph *b* of section 418.6 when computing the cumulative Canadian oil and gas property expense of the latter, in respect of the disposition by it of property owned by the corporation from which the property has been acquired in accordance with section 418.8 immediately before the acquisition contemplated in the said section 418.8; and

ii. the amounts that became receivable by the first successor corporation in the year or in any previous taxation year and included in the amount contemplated in subparagraph i of paragraph *b* of section 418.6, and that may reasonably be regarded as attributable to the disposition by it of any property owned by the corporation from which the property has been acquired in accordance with section 418.8 immediately before the acquisition thereof by the first successor corporation.

"**418.10** The amount referred to in section 418.8 is that part of the income of the corporation for the year, before any deduction under sections 360 to 418.14 or the Act respecting the application of the Taxation Act (1972, chapter 24) in respect of this section, other than the deduction allowed under section 418.9, minus the deductions allowed for the year by sections 738 to 749, that may reasonably be attributed to:

(*a*) the production from wells or mines situated in Canada in respect of which the corporation from which the property was acquired in accordance with the said section 418.8 had, immediately before the acquisition, an interest or a right of removal; and

(*b*) the amount by which the aggregate of each amount that must be included under paragraph *b* of section 330 in computing its income for the year and that it must include therein under section 545 or under section 564 when referring to such section 545, in respect of an allowance deducted under section 357 or 358 in computing the income of the corporation from which the property has been acquired in accordance with section 418.8, exceeds the aggregate of each amount deducted by it under section 357 or 358, in computing its income for the year in respect of the disposition of property by the corporation from which the property has been acquired in accordance with section 418.8.

"**418.11** Section 404.1 applies *mutatis mutandis* to deductions provided in sections 418.8 and 418.9, and section 405 applies *mutatis mutandis* to the deduction relating to the cumulative Canadian oil and gas property expense.

"**418.12** For the purposes of paragraph *b* of section 418.5, of paragraph *a* of the second paragraph of section 358, and of paragraph *g* of section 412, the amount determined under this section for a taxation year in respect of a taxpayer is equal to the amount by which, at the end of the year, the aggregate contemplated in section 418.6 exceeds the aggregate contemplated in section 418.5.

"**418.13** A joint exploration corporation, within the meaning of section 382, may, in any particular taxation year or within six months from the end of that year, elect in prescribed form to renounce in favour of a shareholder corporation an agreed portion of the aggregate of the Canadian oil and gas property expenses incurred before the end of that year, to the extent that the aggregate of such expenses exceeds any amount deducted in respect thereof under section 418.7 in computing the income of the joint exploration corporation for any taxation year preceding the particular taxation year; paragraphs 1, 3 and 4 of section 383 apply *mutatis mutandis* to such election.

"**418.14** Where an election is made under section 418.13, the portion of the expenses referred to therein is deemed, for the purposes of sections 418.2 to 418.6, to be Canadian oil and gas prop-

erty expenses incurred by the shareholder corporation in its taxation year during which the particular taxation year referred to in the said section 418.13 ends and the joint exploration corporation shall, in computing its cumulative Canadian oil and gas property expenses, deduct that portion under paragraph *a* of section 418.6."

(2) This section applies to taxation years ending after 11 December 1979; however, where sections 418.2 to 418.14 of the Taxation Act enacted by it apply to a taxation year that includes 11 December 1979, subparagraph ii of paragraph *a* of section 418.7 must be read as follows:

"ii. the amount by which the aggregate of any amount included in computing his income for the year by reason of the disposition of a particular property included in his inventory under section 419 and acquired by him under circumstances referred to in paragraph *c* of section 418.2, any amount included, in computing his income under paragraph *e* of section 87 to the extent that such amount relates to such particular property, and any amount included in computing his income under paragraph *e* of section 330, exceeds the aggregate of any amount deducted as an allowance in computing his income for the year under section 153 to the extent that such allowance relates to property included in his inventory under section 419 and acquired by him under circumstances contemplated in paragraph *c* of section 418.2 and any amount deducted in computing his income under subsection 1 of section 357 in respect of property described in paragraph *c* of section 328 or under section 358 to the extent that such allowance relates to property disposed of in the year."

102. (1) Section 419 of the said Act is replaced by the following section:

"**419.** Any share of the capital stock of a corporation or any interest in such share or any right thereto acquired by a taxpayer under circumstances referred to in paragraph *e* of section 395 or 408, or in paragraph *c* of section 418.2 is deemed not to be a capital property of the taxpayer but to be inventory of the taxpayer acquired at a cost to him of nil."

(2) This section applies to taxation years ending after 11 December 1979.

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

"**433.** For the purposes of sections 329, 329.1 and 331 and paragraph *a* of section 330, the individual who has died is deemed to have disposed, immediately before his death, of each property

owned by him to the disposition of which the said sections and paragraph apply, and to have received proceeds therefor equal to its fair market value at the same time."

(2) This section applies to taxation years ending after 11 December 1979.

104. (1) Section 435 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) in the case of a property to which section 433 applies, the individual is deemed to have disposed of that property immediately before his death for proceeds not in excess of the fair market value thereof at that time and specified by his legal representatives in his fiscal return under subparagraph *c* of subsection 2 of section 1000, and the spouse or the trust is deemed to have acquired at the same time the property at a cost equal to the amount included in computing the income of the individual or, as the case may be, in the amount referred to in subparagraph i of paragraph *b* of section 412 or 418.6 by virtue of sections 329, 329.1 and 331 and paragraph *a* of section 330;".

(2) This section applies to taxation years ending after 11 December 1979.

105. (1) Section 451 of the said Act, amended by section 46 of chapter 13 of the statutes of 1980, is again amended by replacing subparagraph i of paragraph *c* by the following subparagraph:

"i. used in a qualified business carried on in Canada by the corporation or by a corporation controlled by it;".

(2) This section has effect as from 26 May 1978.

106. (1) Section 454 of the said Act is amended by adding, at the end, the following paragraph:

"This section does not apply to such a transfer when the taxpayer makes such election in his fiscal return under section 1000 for the taxation year in which the property is transferred."

(2) This section applies in respect of a property transferred after 1979.

107. (1) Section 456 of the said Act, amended by section 47 of chapter 13 of the statutes of 1980, is again amended by replacing the second paragraph by the following paragraph:

"This section does not apply in respect of a transfer of property by a taxpayer as a payment of a premium under a registered retirement savings plan under which the taxpayer's spouse is an annuitant, within the meaning of section 905.1, immediately after

the transfer, or as a payment in a taxation year of an amount that the taxpayer may deduct in computing his income for the year and that is required to be included in computing the income of his spouse."

(2) This section applies to the taxation year 1979 and subsequent taxation years, except to the extent that it applies in respect of an amount that is a remuneration, in which case it applies to a remuneration that is paid or to be paid after 25 March 1980 for services rendered after that date.

108. (1) Section 457.1 of the said Act is amended by adding the following paragraphs:

"This section does not apply when, in the case where the cessation of communal life results from a written separation agreement, the spouses resume their communal life within twelve months from the date on which the agreement was signed.

Nor does this section apply in respect of its reference to section 457 when the transferor files, with his fiscal return under section 1000 for the taxation year in which the communal life ceased, an election completed jointly with his spouse to that effect."

(2) This section, to the extent that it enacts the second paragraph of section 457.1 of the Taxation Act, has effect as from 12 December 1979 and, to the extent that it enacts the third paragraph of the said section 457.1, is applicable to the taxation year 1980 and subsequent taxation years.

109. (1) Section 468 of the said Act is repealed.

(2) This section has effect as from 12 December 1979.

110. (1) Section 487.2 of the said Act is replaced by the following section:

"**487.2** The individual mentioned in section 487.1 is

(*a*) an employee or an individual related to an employee, who has received a loan by virtue of his office or employment or by virtue of the office or employment of a person to whom he is related;

(*b*) an individual who becomes an employee or who is related to a person who becomes an employee, and, within ninety days preceding the day he or the person to whom he is related becomes such an employee, has received a loan by virtue of his office or employment or the office or employment of the person to whom he is related; or

(*c*) a shareholder of a corporation or an individual related to that shareholder, who has received a loan from that corporation, from a corporation related to that corporation or from a partnership of which either of the corporations is a member."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

111. (1) Section 489 of the said Act is amended by replacing paragraph *d* by the following paragraph:

"(*d*) interest received by a corporation resident in Canada, accrued, received or receivable, on a bond, bill, note, mortgage, hypothec or similar obligation which it receives as consideration for the disposition by it, before 18 June 1971, of a business carried on by it in a country other than Canada or all the shares of its subsidiary that carried on a business in such a country, and such of the debts and other obligations of such subsidiary as were, immediately before such disposition, owing to the corporation;".

(2) This section applies to taxation years commencing after 28 October 1980.

112. (1) The said Act is amended by inserting, after section 493, the following section:

"**493.1** An individual who, during a period throughout which he had a particular employment or was carrying on a business, had part-time employment by an employer with whom he was dealing at arm's length, is not required to include in computing his income an amount received from such employer as an allowance for, or reimbursement of, travelling expenses other than those incurred in the performance of the duties of his part-time employment, to the extent that the amount does not exceed a reasonable amount, if the individual must perform the duties of such employment at a location not less than eighty kilometres from both the individual's ordinary place of residence and his principal place of employment or business."

(2) This section applies in respect of an amount received after 1979.

113. (1) Section 494 of the said Act is amended by striking out the third paragraph.

(2) This section has effect as from 12 December 1979.

114. (1) Section 500 of the said Act is amemded by replacing the second paragraph by the following paragraph:

"The corporation is entitled to elect, on or before the day on or before which its fiscal return for its taxation year in which such dividend becomes payable is required to be filed, the order in which the said dividend is deemed to become payable, failing which the Minister shall do so."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

115. (1) The said Act is amended by inserting, after section 503, the following section:

"**503.1** Where a dividend becomes payable by a corporation at a particular time after 31 March 1977 and before 1979, the corporation may elect that all or part of the dividend be deemed, for the purposes of this Act, not to be a dividend but to be a loan made at the particular time by the corporation to the persons who received all or any portion of the dividend if it makes such election in prescribed manner.

Sections 111 to 119.1 and 487.1 to 487.3 do not apply to a loan contemplated in the first paragraph."

(2) This section has effect as from 26 February 1981.

116. (1) Section 504 of the said Act is amended by striking out the word "or" at the end of paragraph *b* of subsection 2, by replacing the period at the end of paragraph *c* of subsection 2 by a semicolon, and by adding, after paragraph *c*, the following paragraphs:

"(*d*) a transaction by which an insurance corporation converts contributed surplus related to its insurance business into paid-up capital in respect of the shares of its capital stock; or

"(*e*) a transaction by which a bank contemplated in section 191 converts contributed surplus resulting from the issuance of shares of its capital stock into paid-up capital in respect of shares of its capital stock."

(2) This section, to the extent that it enacts paragraph *d* of subsection 2 of section 504 of the Taxation Act, applies in respect of a transaction occurring after 1978 and, to the extent that it enacts paragraph *e* of subsection 2 of the said section, applies in respect of a transaction occurring after 30 November 1980.

117. (1) Section 508 of the said Act, amended by section 50 of chapter 13 of the statutes of 1980, is again amended by replacing that part which precedes paragraph *a* by the following:

"**508.** Where, at a particular time after 16 November 1978, the paid-up capital of a term preferred share owned by a specified financial institution or a partnership or trust of which such institution or person related thereto is a member or a beneficiary and acquired in the ordinary course of the business carried on by the shareholder, is reduced otherwise than as described in sections 505 to 506.1, or where, under this chapter, a dividend is deemed to have been paid at a particular time on a given class of shares, for a determined value, the owner of the term preferred share at that time or each person holding shares of that class at that time or immediately after that time in the case contemplated in section 504, is deemed to receive as a dividend, in the case of such a reduction of the paid-up capital of the term preferred share, or in the case contemplated in section 506.1, an amount equal to the amount he in fact receives in respect of the reduction of the paid-up capital or, in other cases, an amount equal to the proportion of the value of the dividend so deemed to have been paid that:".

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

118. (1) Section 518 of the said Act is replaced by the following section:

"**518.** A taxpayer who, after 6 May 1974, disposes of property owned by him which is capital property, property included in an inventory, property referred to in section 328 or intangible capital property, to a taxable Canadian corporation for consideration which includes a share of the capital stock of the corporation, may elect jointly with the latter, in prescribed form and on or before the earliest day on which one of the two must file his fiscal return under section 1000 for the taxation year in which the disposition occurs, that the rules provided in this chapter apply.

However, such election shall not be made in respect of real property included in an inventory, capital property of a person not resident in Canada which is real property, an interest in real property or an option in respect thereof or in respect of property referred to in section 328, if, in such latter case, the corporation to which it is disposed carried on a business before such disposition."

(2) This section applies in respect of a disposition of property occurring after 11 December 1979; however, in the case of the disposition of property before 29 August 1980, it must be read without reference to the expression "an interest in real property".

119. (1) Section 524 of the said Act is amended by replacing that part which precedes paragraph *a* by the following:

"**524.** Section 523 applies where the property disposed of is:".

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

120. (1) Section 529 of the said Act is amended by adding the following paragraph:

"However, this section does not apply with respect to the capital property of a partnership which is real property, an interest in real property or an option in respect thereof, where, at the time such property is disposed of to a taxable Canadian corporation, the partnership is not a Canadian partnership."

(2) This section applies with respect to a disposition occurring after 5 December 1979; however, where the disposition of property occurs before 12 December 1979, it must be read without reference to the expressions "an interest in real property" and "taxable" and, where the disposition of property occurs after 11 December 1979 but before 29 August 1980, it must be read without reference to the expression "an interest in real property".

121. (1) The said section is amended by inserting, after section 543, the following section:

"**543.1** Notwithstanding paragraph *b* of sections 542 and 543, where the fair market value of the shares disposed of by the taxpayer exceeds, immediately before the disposition, the aggregate of the cost deemed to him under paragraph *a* of section 542 of any property contemplated therein, and of the fair market value, immediately after the disposition, of every share contemplated in paragraph *b* of section 542, and it is reasonable to regard all or any portion of such excess as a benefit that the taxpayer desires to have conferred on a person related to the taxpayer, the following rules apply:

(*a*) the taxpayer is deemed to dispose of the shares for proceeds equal to the least of their fair market value immediately before the disposition and of the aggregate of the cost deemed to him under paragraph *a* of section 542 of any property contemplated therein, and of the amount of the benfefit conferred;

(*b*) the taxpayer's capital loss resulting from the disposition of shares is deemed to be nil; and

(*c*) the cost to the taxpayer of a share of any class of the capital stock of the corporation receivable by him in consideration for the shares disposed of is deemed to be that proportion of the amount by which the adjusted cost base to the taxpayer, immediately before the disposition, of each share disposed of exceeds the aggregate determined in paragraph *a*, that the fair market value, immediately after the disposition, of such share of such class is of the fair market value, at the same time, of the aggregate of the shares receivable by him as consideration for the disposition."

(2) This section applies with respect to any reorganization of capital occurring after 11 December 1979.

122. (1) Section 544 of the said Act, amended by section 52 of chapter 13 of the statutes of 1980, is again amended by adding, after subsection 3, the following subsections:

"(4) Where there has been an amalgamation of a particular corporation and one or more of its subsidiary wholly-controlled corporations and the new corporation makes such election in its fiscal return filed under section 1000 for its first taxation year ending after 28 October 1980, the expenses contemplated in sections 362 to 418.14 of the particular corporation are deemed to be such expenses of the new corporation and, for the purposes of sections 376, 378, 380, 402, 403, 415, 415.1, 418.8 and 418.9, the latter is deemed, in regard of such expenses, not to be a corporation acquiring as a result of the amalgamation all or substantially all the property of the particular corporation.

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

(*a*) the particular corporation;

(*b*) a corporation that is a subsidiary wholly-controlled corporation of the particular corporation; or

(*c*) several corporations each of which is a corporation contemplated in subparagraph *a* or *b*."

(2) This section applies with respect to amalgamations occurring after 14 December 1975.

123. (1) The said Act is amended by inserting, after section 553, the following section:

"**553.1** Notwithstanding sections 552 and 553, where, immediately before the amalgamation, the fair market value of the shares of the capital stock of a predecessor corporation that belonged to a taxpayer exceeds the fair market value, immediately after the amalgamation, of the shares he has received as consideration, and it is reasonable to regard all or any portion of such excess as a benefit that the taxpayer desires to have conferred on a person related to the taxpayer, the following rules apply:

(*a*) the taxpayer shall be deemed to dispose of the shares of the capital stock of the predecessor corporation for proceeds equal to the lesser of their fair market value immediately before the

amalgamation and the aggregate of their adjusted cost base to him at the same time, and the amount of the benefit conferred;

(*b*) the taxpayer's capital loss resulting from the disposition of the shares shall be deemed to be nil; and

(*c*) the cost to the taxpayer of any share of any class of the capital stock of the new corporation acquired by him on the amalgamation is deemed to be that proportion of the lesser of the adjusted cost base to him, immediately before the amalgamation, of the shares disposed of and the aggregate of the fair market value, immediately after the amalgamation, of all the shares acquired by him on the amalgamation, and the amount that, but for paragraph *b*, would be the taxpayer's capital loss from the disposition of the shares, that the fair market value, immediately after the amalgamation, of such share of that class is of the fair market value, at the same time, of the aggregate of the shares so acquired by him."

(2) This section applies with respect to amalgamations occurring after 11 December 1979.

124. (1) Section 556 of the said Act, replaced by section 55 of chapter 13 of the statutes of 1980, is again replaced by the following section:

"**556.** Notwithstanding any other provision of this Part, the rules set forth in this chapter apply to the winding-up after 6 May 1974 of a taxable Canadian corporation not less than 90% of the issued shares of each class of the capital stock of which were, immediately before the winding-up, owned by another taxable Canadian corporation, and the balance of the shares of which were owned by persons with whom the other corporation was dealing at arm's length.

In this chapter, the wound-up corporation is called the "subsidiary" while the other corporation owning the shares is called the "parent corporation"."

(2) This section applies with respect to a winding-up that commenced after 11 December 1979; however, where section 556 of the Taxation Act applies with respect to a winding-up that commenced after that time but before 13 January 1981, it must be read without reference to the words "and the balance of the shares of which were owned by persons with whom the other corporation was dealing at arm's length" at the end of the first paragraph.

125. (1) Section 558 of the said Act is amended by replacing that part which precedes subparagraph ii of paragraph *a* by the following:

"**558.** The parent corporation is deemed to dispose, on the winding-up, of the shares of the capital stock of the subsidiary owned by it immediately before that time for proceeds equal to the greater of

(*a*) the lesser of

i. the paid-up capital in respect of the shares immediately before the winding-up; and".

(2) This section applies with respect to a winding-up that commenced after 11 December 1979.

126. (1) The said Act is amended by inserting, after section 569, the following chapter and sections:

"CHAPTER IX.1

"CORPORATIONS LEAVING CANADA

"**569.1** This chapter applies where, at a particular time after 28 August 1980, a corporation that was incorporated in Canada, other than a corporation that was not at any time resident in Canada, is granted by a jurisdiction outside Canada articles of continuance or similar corporate constitutional documents, or commences to be resident in such a jurisdiction and, as a consequence thereof, becomes exempt from the tax provided for in this Part under section 488 with respect to any income from a source outside Canada and earned after that particular time.

"**569.2** The corporation is deemed to have ended, immediately before the particular time contemplated in section 569.1, its then current taxation year, to have commenced at the particular time a new taxation year and, from that time, it is deemed not to be no longer a Canadian corporation.

"**569.3** Immediately before the particular time contemplated in section 569.1, the corporation is deemed to have disposed of each property owned by it at that time, and to have received proceeds therefrom equal to its fair market value at that time, and, immediately after that particular time, to have again acquired such property at a cost equal to the proceeds.

Sections 242 to 247 do not apply to the corporation for the taxation year in which it is deemed to have disposed of its property."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

127. (1) Section 600 of the said Act, amended by section 54 of chapter 11 of the statutes of 1980, is again amended by replacing paragraphs *d* and *e* by the following paragraphs:

"(*d*) in computing each income or loss of the partnership for a taxation year, no account may be taken of sections 329 and 329.1, of paragraph *b* of section 331, of sections 386, 387 and 390 or of the first paragraph of sections 391 to 392.1, and no deduction is permitted under sections 360 to 418.12 or the Act respecting the application of the Taxation Act (1972, chapter 24) relating to exploration and development expenses, Canadian exploration expenses, Canadian development expenses or Canadian oil and gas property expenses;

"(*e*) each gain of the partnership from the disposition of land used in a farming business of the partnership is computed without reference to paragraph *l* of section 255; and."

(2) This section, to the extent that it replaces paragraph *d* of section 600 of the Taxation Act, applies to taxation years ending after 11 December 1979 and, to the extent that it replaces paragraph *e* of section 600, it applies as from 1 September 1979.

128. (1) Section 600.1 of the said Act is replaced by the following sections:

"**600.1** Subject to section 600.2, the share of a member of a partnership of an amount that would be an amount referred to in paragraph *b* or *e* of section 399, in subparagraph i of paragraph *b* or paragraph *c* or *h* of section 412 or subparagraph i of paragraph *b* or paragraph *c* or *e* of section 418.6, in respect of the partnership for a taxation year of the partnership, but for paragraph *d* of section 600, is deemed to be an amount referred to in paragraph *b* or *e* of section 399, in subparagraph i of paragraph *b* or paragraph *c* or *h* of section 412 or subparagraph i of paragraph *b* or paragraph *c* or *e* of section 418.6, as the case may be, in respect of the member for the taxation year of the member in which the taxation year of the partnership ends.

"**600.2** However, where a person not resident in Canada is a member of a partnership that is deemed under section 1096.2 to have disposed of a property described in section 329.1 where section 600.1 refers to section 412, or to a property described in paragraph *d* of section 328 or in section 329 where the said section 600.1

refers to section 418.6, the deemed amount in respect of him under the said section 600.1 respecting the said section 412 or 418.6, as the case may be, is then so deemed for his taxation year that is deemed under section 1096.2 to have ended."

(2) This section,

(*a*) to the extent that it adds, in section 600.1 of the Taxation Act, a reference to paragraph *e* of section 399 and to paragraph *h* of section 412 of the said Act, applies to the taxation year 1981 and subsequent taxation years;

(*b*) to the extent that it amends, in section 600.1 of the Taxation Act, the reference to paragraph *b* of section 412 of the said Act, applies to the taxation year 1977 and subsequent taxation years;

(*c*) to the extent that it adds, in section 600.1 of the Taxation Act, a reference to section 418.6 of the said Act, applies to taxation years ending after 11 December 1979; and,

(*d*) to the extent that it enacts section 600.2 of the Taxation Act, applies to taxation years ending after 11 December 1979, except that, for the application of the said section 600.2 in respect of a taxation year ending before 1981, the reference to paragraph *h* of section 412 of the said Act in section 600.1 of the said Act must not be taken into account.

129. (1) Section 603 of the said Act is amended by replacing that part preceding paragraph *a* by the following:

"**603.** Where a taxpayer who was a member of a partnership during a fiscal period thereof ending after 1971 has, for the purposes of computing his income from the partnership for the fiscal period, made an election provided for by the regulations made under section 104, by paragraph *c* of section 215 or by sections 96, 110.1, 156, 180 to 182, 184, 199, 250.1, 279, 280.3 and 614, the following rules apply:".

(2) This section applies in respect of an election made after 31 March 1977.

130. (1) Section 607 of the said Act is amended by inserting, after subsection 1, the following subsection:

"(1.1) Where an agreement described in section 606 is entered into between members of a partnership not dealing with each other at arm's length, the share of each member in the income, loss or amount that is the object of that agreement is the amount that is reasonable, having regard to the work performed for the partnership by its members, the capital invested therein by them or any other relevant factor."

(2) This section applies in respect of fiscal periods ending after 11 December 1979.

131. (1) Section 616 of the said Act is replaced by the following section:

"**616.** Section 615 does not apply unless

(*a*) the share of the taxpayer, as a member of the partnership, in the income of the partnership from any source for the taxation year of the partnership during which it acquired the property, exceeds one-half of such income; or

(*b*) the taxpayer as a member of the partnership would receive, if the partnership were dissolved immediately after the acquisition of the property by it, irrespective of his share in the income of the partnership, more than one-half of the aggregate of the amounts which would then be paid to all the members of the partnership."

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

132. (1) Section 631 of the said Act is replaced by by the following section:

"**631.** The partnership contemplated in section 626 is deemed to have disposed of each of the properties referred to therein for proceeds equal to the cost amount of the property, to such partnership, immediately before the particular time."

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

133. (1) Section 647 of the said Act is amended by replacing the third paragraph by the following paragraph:

"For the purposes of sections 653 to 656.1, 659 to 662, 665 and 683 to 692 and of paragraph *b* of section 657, a trust does not include a unit trust, an employee trust, a segregated fund trust referred to in section 851.2, a trust referred to in section 851.25 or a trust governed by a registered retirement plan, a profit sharing plan, a registered supplementary unemployment benefit plan, a registered retirement savings plan, a deferred profit sharing plan, a registered education savings plan, a registered home ownership savings plan, an employee benefit plan or a registered retirement income fund."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

134. (1) Section 650 of the said Act is replaced by the following section:

"**650.** For the purposes of section 443, the second paragraph of section 454, paragraph *a* of section 653 and paragraph *a* of section 683, the income of a trust is computed without reference to the provisions of this Part minus, except in the case of paragraph *a* of section 683, any dividend which is otherwise included therein and which is referred to in section 501, 502, 1106 or 1116."

(2) This section applies to the taxation year 1979 and subsequent taxation years.

135. (1) The said Act is amended by inserting, after section 657, the following section:

"**657.1** Notwithstanding paragraph *a* of section 657, where the said section applies to an employee trust, the amount that the trust may deduct under the said paragraph *a* is equal to the amount by which the amount that would, but for this section, be its income for the year exceeds the amount, for the year, by which the aggregate of its income from a business exceeds the aggregate of its losses therefrom."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

136. (1) Section 663 of the said Act is replaced by the following section:

"**663.** The income of a trust, other than a trust governed by an employee benefit plan, for a taxation year, before any deduction under section 130.1, paragraphs *a* and *b* of section 657 or the regulations made under paragraph *a* of section 130, must also be included in computing the income of a beneficiary for the year to the extent that it has become payable to him in the year, whether or not it is paid to him, and must not be included for the year in which payment is made."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

137. (1) Section 671 of the said Act is amended

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

"**671.** For the purposes of sections 146.1 and 772, the following rules apply:"; and

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

"(*b*) the beneficiary contemplated in paragraph *a* is deemed to have paid for that taxation year to the government of the country or subdivision contemplated therein and from which the income attributed to him is derived, that proportion of the amount by which the tax paid by the trust for the year to that government exceeds the amount deductible in respect of that tax in computing the income of the trust for the year under section 146 that the portion of the income contemplated in paragraph *a* that is attributable to him for the year under section 659 or 663 is of the total income of the trust for the year from sources in such foreign country or subdivision, before any deduction under paragraph *a* or *b* of section 657; and".

(2) This section applies to the taxation year 1981 and subsequent taxation years.

138. (1) The said Act is amended by inserting, after section 690, the following sections:

"**690.1** Notwithstanding sections 686, 689 and 692 and paragraphs *b* and *c* of section 688, where the trust referred to in the said section 688 is governed by an employee benefit plan, the following rules apply:

(*a*) the taxpayer is deemed to acquire the property referred to in the said section 688 at a cost equal to the greater of its fair market value at the time referred to in that section and the adjusted cost base of his capital interest in the trust or part thereof, as the case may be, immediately before that time; and

(*b*) the taxpayer is deemed to dispose of his capital interest in the trust or part thereof, as the case may be, for proceeds of disposition equal to the adjusted cost base to him of the capital interest or part thereof, as the case may be, immediately before that time.

"**690.2** Notwithstanding sections 686, 689 and 692 and paragraphs *a* to *c* of section 688, where the trust referred to in section 688 is an employee trust, the following rules apply:

(*a*) the trust is deemed to have disposed of the property referred to in the said section 688 for proceeds of disposition equal to its fair market value at the time referred to in that section;

(*b*) the taxpayer is deemed to have acquired the property at a cost equal to the proceeds determined in paragraph *a* in respect thereof; and

(*c*) the taxpayer is deemed to have disposed of his capital interest in the trust or part thereof, as the case may be, for pro-

ceeds of disposition equal to the adjusted cost base to him of the capital interest or part thereof, as the case may be, immediately before the particular time."

(2) This section applies to the taxation year 1980 and subsequent taxation years.

139. (1) Section 709 of the said Act is amended by striking out the word "or" at the end of paragraph *e*, by replacing the period at the end of paragraph *f* by the following: "; or", and by adding, after the said paragraph *f*, the following paragraph:

"(*g*) an amount out of or under an employee trust or an employee benefit plan."

(2) This section applies in respect of amounts paid after 1979.

140. (1) Sections 711 and 712 of the said Act are replaced by the following sections:

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

"**712.** A deduction is granted only if proof of the gift is made by a receipt that contains the prescribed information and is filed with the Minister."

(2) This section applies in respect of a gift made after 1979; however, where section 711 of the Taxation Act applies to a taxation year ending before 29 October 1980, it must be read without reference to the words "computed before any deduction under section 800".

141. (1) Section 729 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) the part of his income, for the year, which exceeds the aggregate of the amounts deductible under this Book or section 845 other than those provided under this section or sections 695 to 701; and".

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

142. (1) Sections 740.1 to 740.3 of the said Act, enacted by section 66 of chapter 13 of the statutes of 1980, are replaced by the following sections:

"**740.1** Sections 738 and 740 do not apply in respect of a dividend received by a particular corporation on a share acquired in the ordinary course of carrying on its business and that, at the time the dividend is paid, is a term preferred share if the corporation is a specified financial institution.

A specified financial institution is

(*a*) a corporation described in paragraphs *b* to *f* of section 250.3 or an insurance corporation;

(*b*) a corporation that is controlled by one or more corporations described in paragraph *a*; or

(*c*) a corporation associated, within the meaning of section 230.2, with a corporation described in paragraph *a* or *b*.

"**740.2** Subject to section 740.3, sections 738 and 740 do not apply in respect of a dividend received by a particular corporation on a share, acquired after 23 October 1979, of the capital stock of another corporation if at or after the time the dividend is paid, a specified financial institution or a person related thereto, with the exception in both cases of the other corporation, or a partnership or trust of which any such financial institution or a person related thereto, as the case may be, is a member or beneficiary, is obligated in any way whatever, including any covenant or agreement to purchase or repurchase the share, to guarantee to the particular corporation, or a partnership or trust of which the particular corporation is a member or a beneficiary, an income derived by virtue of the ownership, possession or disposition of the share, or a limit to the loss that may result therefrom.

"**740.3** Section 740.2 does not apply in respect of a dividend received on a share

(*a*) described in paragraph *c* or *d* of section 21.6;

(*b*) listed on a prescribed stock exchange in Canada that was issued after 21 April 1980 by a corporation described in paragraph *a* of the second paragraph of section 740.1 or by a corporation that would be associated, within the meaning of section 230.2, with such a corporation if paragraph *b* of section 20 were not taken into account, where all the guarantees described in section 740.2 are given by the corporation that issued the share, by one or more persons that would be associated with it, within the meaning of section 230.2, if paragraph *b* of section 20 were not taken into account, or by both the latter corporation and such persons; or

(*c*) that was a share owned, at the time the dividend was paid, by a specified financial institution that acquired the share in the ordinary course of its business."

(2) Section 740.1 of the Taxation Act as replaced by subsection 1, applies in respect of dividends received after 16 November 1978; however, where such a dividend is received by an insurance corporation other than a life insurance corporation, it applies only if that dividend is received on a share acquired after 23 October 1979 and, where such a dividend is received by a corporation described in paragraph *c* of the second paragraph of the said section 740.1, it applies only if that dividend is received on a share acquired after 11 December 1979.

(3) Sections 740.2 and 740.3 of the Taxation Act, as replaced by subsection 1, have effect as from 24 October 1979.

143. (1) Section 797 of the said Act is amended

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

"**797.** (1) A savings and credit union, hereinafter called a "credit union", is a corporation, association or federation constituted, organized or registered as a savings and credit union or as a cooperative credit society that conforms to the requirements of subsection 2, 3 or 4.";

(2) by replacing paragraphs *b* to *d* of subsection 2 by the following paragraphs:

"(*b*) debt obligations or securities of the Gouvernement du Québec, of the Government of Canada, of another province or of a Canadian municipality, a municipal or public body performing a function of government in Canada or an officer of such a government or body, or debt obligations or securities guaranteed by such a government or by an officer of such a government;

"(*c*) debt obligations of a corporation, commission or association not less than 90% of the shares or capital of which is owned by the Gouvernement du Québec, the Government of Canada or another province or by a Canadian municipality, deposits with such a corporation, commission or association or debt obligations or deposits guaranteed by such a corporation, commission or association;

"(*d*) debt obligations of a bank referred to in section 191, of another credit union or corporation licensed or otherwise authorized under the laws of Canada or of a province to offer in Canada its services as trustee, deposits with such a bank, credit union or corporation or debt obligations or deposits guaranteed by such a bank, credit union or corporation;";

(3) by striking out the word "or" at the end of paragraph *e* of subsection 2, by replacing the period at the end of paragraph *f* of the said subsection 2 by the following: "; or", and by inserting, after the said paragraph *f*, the following paragraph:

"(*g*) any other prescribed revenue source.";

(4) by replacing that part preceding paragraph *b* of subsection 3 by the following:

"(3) All or substantially all the members of a credit union having full voting rights must be corporations, associations or federations

(*a*) incorporated as credit unions or cooperative credit societies which derive all or substantially all of their revenues from sources described in subsection 2 or whose members are all or substantially all credit unions, cooperatives or a combination thereof;" ; and

(5) by adding, after subsection 3, the following subsection:

"(4) A corporation, association or federation would be a credit union by virtue of subsection 3 if all the members, other than individuals, having full voting rights in each credit union which is a member of that corporation, association or federation were members having full voting rights in the corporation, association or federation."

(2) This section has effect as from 29 October 1980.

144. (1) Section 798 of the said Act is replaced by the following section:

"**798.** A member of a credit union, for the purposes of this title, is a person who is recorded as a member on the records of the credit union and is entitled to participate in and use the services of the credit union."

(2) This section has effect as from 29 October 1980.

145. (1) Section 800 of the said Act is replaced by the following section:

"**800.** A credit union may, in computing its income for a taxation year, deduct the aggregate of the payments which it makes to its members in the year or within twelve months thereafter, as bonus interest payments or pursuant to allocations in proportion to borrowings by such members.

Such deduction is permitted, however, only if such payments were not deductible from the income of the credit union for the preceding taxation year.

Furthermore, such a deduction is permitted only if such payments are credited for the year by the credit union to the member, at the same rate as that at which such payments are similarly credited for the year to all other members of the credit union. Those payments are computed at a rate depending, in the case of bonus interest payments, on the amount of interest payable to the member in the year, on the amount of money the member has on deposit with the credit union, and, in other cases, on the amount of interest payable by the member on the borrowed money or the amount of money that he borrowed from the credit union."

(2) This section applies to taxation years ending after 28 October 1980.

146. (1) The said Act is amended by inserting, after section 803, the following sections:

"**803.1** A credit union may, within 120 days after the end of its taxation year, elect in the prescribed manner to allocate in respect of the year to a member that is a credit union such portion as may be regarded as its portion of the aggregate of the amounts received by the credit union in the year as taxable dividends from a taxable Canadian corporation, and the amount by which the aggregate of the union's taxable capital gains from dispositions of property in the year exceeds the aggregate of its allowable capital losses from dispositions of property in the year.

"**803.2** Notwithstanding any other provision of this Act, where the election referred to in section 803.1 has been made by a credit union for a taxation year, the following rules apply:

(*a*) the credit union must deduct from the amount that would, but for this section, be deductible in computing its taxable income for the year under sections 738 to 745, the amount of the dividends it has elected to allocate in respect of the year;

(*b*) the credit union must include in computing its income for the year the amount of the excess referred to in section 803.1 that it has elected to allocate in respect of the year; and

(*c*) each member to which the credit union allocated an amount under section 803.1 may deduct that amount in computing its taxable income for its taxation year during which the amount was so allocated."

(2) This section applies to taxation years ending after 28 October 1980.

147. (1) Section 835 of the said Act is amended by replacing paragraph *h* by the following paragraph:

"(*h*) "policy loan" means an amount advanced at a particular time by an insurer to a policyholder in accordance with the terms and conditions of a life insurance policy in Canada, the amount of which is equal to the lesser of the amount advanced and the amount by which the cash surrender value of the policy immediately before the particular time exceeds the balance outstanding, at the same time, of an amount so advanced;".

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

148. (1) Section 845 of the said Act, amended by section 70 of chapter 13 of the statutes of 1980, is again amended by replacing the second paragraph by the following paragraph:

"It may, however, deduct in computing its taxable income the aggregate of taxable dividends, other than dividends on term preferred shares acquired by it in the ordinary course of carrying on its business, included in computing its income for the year and received by it in the year from a taxable Canadian corporation."

(2) This section applies in respect of dividends received after 16 November 1978.

149. (1) Section 846 of the said Act is replaced by the following section:

"**846.** The taxable income of a life insurer resident in Canada, for a taxation year, is obtained by adding to its taxable income for the year, computed according to the other provisions of this Part, twice the aggregate of the amounts paid by it after the end of its taxation year 1968 and before the end of the taxation year, as dividends, stock dividends or amounts that, but for paragraph *d* of subsection 2 of section 504, would be dividends, after deducting from such amounts the aggregate of the amounts provided for in sections 847 to 850."

(2) This section applies to the taxation year 1979 and subsequent taxation years.

150. (1) Section 881 of the said Act is amended by replacing paragraph *b* of the second paragraph by the following paragraph:

"(*b*) $5 500, minus the amount, computed according to the prescribed rules, that he is required to pay to or under a registered retirement plan in respect of services rendered by that employee in the year and that, if paid in the year, would be deductible under

section 137 or 139 if, in the latter case, the employer had sought the approval required by that section; or".

(2) This section applies to taxation years ending after 1980, in respect of amounts paid after 1980.

151. (1) Section 907 of the said Act is amended by striking out the word "or" at the end of paragraph *b*, by replacing the period at the end of paragraph *c* by the following: "; or", and by adding, after the said paragraph *c*, the following paragraph:

"(*d*) an arrangement under which an individual or his spouse pays as a premium an amount deposited with a branch or office, in Canada, of a person, referred to as a "depositary" in this title, who is, or is eligible to become, a member of the Canadian Payments Association within the meaning of the Canadian Payments Association Act (Statutes of Canada) or that is a savings and credit union that is a member or shareholder of a central cooperative credit society within the meaning of the said Act, if such depositary must invest or otherwise use such premium to pay to the individual a retirement income commencing at the date provided in the contract."

(2) This section has effect as from 1 December 1980.

152. (1) The said Act is amended by inserting, after section 910, the following section:

"**910.1** Where the plan is an arrangement referred to in paragraph *d* of section 907, it must also stipulate that the depositary has no right of offset as regards the property held under the plan in connection with any debt or obligation owing to the depositary.

In addition, the plan must stipulate that the property held under the plan cannot be pledged, assigned or in any way alienated as security for a loan or for any purpose other than that of providing a retirement income for the annuitant commencing at the date provided in the contract."

(2) This section has effect as from 1 December 1980.

153. (1) Section 917 of the said Act is amended by adding the following paragraph:

"However, where, at a particular time, an amount is credited or added to a deposit with a depositary referred to in paragraph *d* of section 907 as interest or other income in respect of the deposit, and where the deposit, at that time, is a registered retirement savings plan, the annuitant under which is alive during the year in which the amount is credited or added, the amount is deemed not

to be received by the annuitant by reason only of such crediting or adding."

(2) This section has effect as from 1 December 1980.

154. (1) Section 922 of the said Act is amended by replacing that part preceding paragraph *a* of the first paragraph by the following:

"**922.** An individual who is an annuitant in a taxation year or becomes an annuitant within 60 days thereafter may deduct in computing his income for the year the amount of a premium that he pays into a registered retirement savings plan in the year or within 60 days thereafter to the extent that he neither did so for a previous taxation year nor designated the amount of that premium under paragraph *d* or *f* of section 339, up to,".

(2) This section applies to the taxation year 1979 and subsequent taxation years.

155. (1) Section 934 of the said Act is amended

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

"(*a*) money that is legal tender in Canada, other than money the fair market value of which exceeds its stated value as legal tender, and deposits of such money with a savings and credit union governed by the Savings and Credit Unions Act (R.S.Q., chapter C-4) or with a bank referred to in section 191, and deposits within the meaning of the Canadian Deposit Insurance Corporation Act (Statutes of Canada);";

(2) by striking out paragraph *d*; and

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

"(*f*) an investment contract described in paragraph *c* of section 907 and issued by a corporation approved for the purposes of the said paragraph;".

(2) Paragraph 1 of subsection 1 applies to money acquired and deposits held after 11 December 1979, paragraph 2 of the said subsection applies to the taxation year 1981 and subsequent taxation years and paragraph 3 of the said subsection has effect as from 30 June 1978.

156. Section 937 of the said Act is replaced by the following section:

"**937.** The following are eligible for registration contemplated in section 936:

(*a*) an arrangement under which an individual not less than 18 years of age who is not a trust pays as a premium an amount in

trust to a corporation licensed or otherwise authorized by the laws of Canada or a province to offer trustee services in Canada, which undertakes to invest or to use otherwise such amount for the purpose of providing to such individual as the beneficiary under the arrangement an amount to be used for the purchase by him of his owner-occupied home; or

(*b*) an arrangement under which an individual described in paragraph *a* pays as a premium an amount deposited with a branch or office, in Canada, of a person referred to as a "depositary" in this title, who is, or is eligible to become, a member of the Canadian Payments Association within the meaning of the Canadian Payments Association Act (Statutes of Canada) or that is a savings and credit union that is a member or shareholder of a central cooperative credit society within the meaning of the said Act, if such depositary undertakes to invest or otherwise use such amount to provide that individual as the beneficiary under the arrangement an amount to be used for the purchase by him of his owner-occupied home."

(2) This section has effect as from 1 December 1980.

157. (1) Section 938 of the said Act is amended by striking out the word "and" at the end of paragraph *c* and by replacing paragraph *d* by the following paragraphs:

"(*d*) the trustee or the depositary, as the case may be, shall, on the death of the beneficiary, transfer or distribute all the property held under the plan; and

"(*e*) the depositary of a plan has no right to offset as regards the property held by him under the plan in connection with any debt or obligation owing to the depositary by the beneficiary or that may become so."

(2) This section has effect as from 1 December 1980.

158. (1) Section 939 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) the beneficiary and, as the case may be, the trust established under the plan or the depositary of the plan are resident in Canada;".

(2) This section has effect as from 1 December 1980.

159. (1) Section 940 of the said Act is amended by replacing paragraph *c* by the following paragraph:

"(*c*) if the beneficiary and, as the case may be, the trust established under the new plan or the depositary of the new plan are resident in Canada at the time of the payment or transfer."

(2) This section has effect as from 1 December 1980.

160. (1) The said Act is amended by inserting, after section 941, the following section:

"**941.1** Where, at a particular time, an amount is credited or added to a deposit with a depositary described in paragraph *b* of section 937 as interest or other income in respect of the deposit and where, at that time, the deposit is a registered retirement savings plan the beneficiary under which is alive, that amount is deemed not to be received by the annuitant by reason only of such crediting or adding."

(2) This section has effect as from 1 December 1980.

161. (1) Section 944 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) the beneficiary has paid for a taxation year a premium in excess of the amount deductible for the year under section 952 and the excess, together with any interest, profits or gains attributable thereto, has not been refunded to the beneficiary out of the plan within 120 days after the end of the year;".

(2) This section has effect as from 1 December 1980.

162. (1) Sections 945 and 946 of the said Act are replaced by the following sections:

"**945.** The Minister shall give notice by registered or certified mail to the trust or the depositary, as the case may be, and to the beneficiary, of the revocation contemplated in the first paragraph of section 944 which shall take effect as of the day fixed by the Minister; such day shall not, however, in the case contemplated in paragraph *a* of the said paragraph, be prior to the day following the 120 days contemplated therein.

"**946.** Where, in accordance with sections 944 and 945, the registration of a plan is revoked at any time, the beneficiary is deemed to have received at that time out of or under a registered home ownership savings plan, as a beneficiary, an amount equal to the fair market value of the property of the plan at the same time and, notwithstanding section 955, no amount may be deducted in computing his income in respect of any amount used to purchase an owner-occupied home."

(2) This section has effect as from 1 December 1980.

163. (1) Section 955 of the said Act is amended by replacing that part preceding paragraph *a* by the following:

"**955.** An individual shall include in computing his income for a taxation year the aggregate of all amounts he receives in the year

out of or under a registered home ownership savings plan, as a beneficiary, except to the extent that such amount".

(2) This section has effect as from 1 December 1980.

164. (1) Sections 959 and 960 of the said Act are replaced by the following sections:

"**959.** Subject to section 960, a beneficiary under a registered home ownership savings plan is deemed to have received as a beneficiary out of or under that plan immediately before his death an amount equal to the fair market value of the property of the plan at the time of his death.

"**960.** The spouse of a beneficiary under a registered home ownership savings plan who, at the death of the beneficiary and by reason of such death, becomes entitled to receive a single payment out of or under such plan is deemed, for the purposes of section 955, to receive such payment as a beneficiary if it is received within 15 months after the death; in such case, the deceased beneficiary is deemed not to have received any amount in respect of such payment immediately before his death."

(2) This section has effect as from 1 December 1980.

165. (1) Section 961.1 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) the beneficiary is deemed to have received as a beneficiary in the particular taxation year, out of or under such a plan, an amount equal to the fair market value of all the property of the plan as at the end of the preceding year;".

(2) This section has effect as from 1 December 1980.

166. (1) The said Act is amended by inserting, after section 961.5, the following section:

"**961.5.1** In the case of an arrangement between an individual and a depositary described in paragraph *d* of section 907, the fund must also provide that the depositary has no right of offset as regards the property held by it under the fund in connection with any debt or obligation owing to the depositary.

In addition, the fund must provide that the property held under the fund cannot be pledged, assigned or in any way alienated as security for a loan or for any purpose other than that of making to the individual the payments contemplated in section 961.3."

(2) This section has effect as from 1 December 1980.

167. (1) The said Act is amended by inserting, after section 961.8, the following section:

"**961.8.1** Where, at a particular time, an amount is credited or added to a deposit with a depositary described in paragraph *d* of section 907 as interest or other income in respect of the deposit and where, at that time, the deposit is a registered retirement income fund the beneficiary under which is alive during the year in which the amount is credited or added, the amount is deemed not to be received by the beneficiary by reason only of such crediting or adding."

(2) This section has effect as from 1 December 1980.

168. (1) Section 961.17.1 of the said Act, enacted by section 93 of chapter 13 of the statutes of 1980, is amended by replacing the third paragraph by the following paragraph:

"An amount referred to in the second paragraph that is paid to a child or grandchild of the beneficiary is deemed to be received by the child or grandchild, as the case may be, as a benefit, within the meaning of paragraph *a* of section 905.1, that is a refund of premiums, within the meaning of subsection 2 of section 908, out of or under a registered retirement savings plan and not to be received out of or under a registered retirement income fund."

(2) This section applies in respect of amounts received after 11 December 1979.

169. (1) Section 961.22 is replaced by the following section:

"**961.22** The elements which qualify as investments for a registered retirement income fund are those described in paragraphs *a* to *h* of section 934 and any other prescribed investment."

(2) This section applies to the taxation year 1981 and subsequent taxation years; however, where the period from 1 July 1980 to the end of the taxation year 1980 overlaps 1 July 1980, the reference to paragraphs "*a* et *j*" of section 934 in the French version of section 961.22 of the Taxation Act as it read during that period must be read as a reference to paragraphs "*a* à *j*" of the said section 934.

170. (1) Section 976 of the said Act, amended by section 99 of chapter 13 of the statutes of 1980, is again amended

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

"**976.** In this title, the adjusted cost base to a policyholder of his interest in a life insurance policy, at a particular time, means

the amount by which the aggregate of all proceeds of disposition of his interests in the policy which he became entitled to receive before that time, the amount to be paid on 31 March 1978 in respect of a policy loan in respect of the policy, the amounts received before that particular time in respect of such policy and deductible in computing his income for a taxation year under paragraph *f* of subsection 1 of section 336, and the amounts in respect of his interest in the policy, which he deducted in computing his income for a taxation year commencing before that particular time under section 157.3, is exceeded by the aggregate of"; and

(2) by striking out the word "and" at the end of paragraph *d*, by replacing the period at the end of paragraph *e* by the following: "; and", and by adding, after the said paragraph *e*, the following paragraph:

"(*f*) the amounts in respect of his interest in the policy that he included in computing his income for any taxation year commencing before the particular time by virtue of the first paragraph of section 92."

(2) This section applies to taxation years commencing after 28 October 1980.

171. (1) Section 985.18 of the said Act is replaced by the following section:

"**985.18** In computing its income for a taxation year, a charitable foundation may, for the purposes of subparagraph ii of paragraph *b* of section 985.7 and of paragraph *b* of section 985.9, deduct an amount not exceeding its income for the year before the application of this section; it shall include, in such computation and for the same purposes, any amount deducted in computing its income for the preceding taxation year under this section."

(2) This section applies to taxation years commencing after 28 October 1980.

172. (1) Section 985.19 of the said Act is repealed.

(2) This section applies to taxation years commencing after 28 October 1980.

173. (1) Section 992 of the said Act is replaced by the following section:

"**992.** A corporation may, in order to comply with section 991 for a taxation year, deduct in computing its income for the year an amount not exceeding its income for the year before applying this section; it shall include in such computation and for the same pur-

poses, any amount deducted in computing its income for the preceding taxation year under this section."

(2) This section applies to a taxation year commencing after 28 October 1980.

174. (1) Section 993 of the said Act is repealed.

(2) This section applies to taxation years commencing after 28 October 1980.

175. (1) Section 998 of the said Act, amended by section 101 of chapter 13 of the statutes of 1980, is again amended by replacing the period at the end of paragraph *l* by the following: "; or", and by adding, after the said paragraph *l*, the following paragraph:

"(*m*) a trust established pursuant to a collective agreement between an employer or an employers' association and employees or an association of employees for the sole purpose of providing for the payment of holiday or vacation pay, if the aggregate of the property of the trust, after payment of its reasonable expenses, is not paid after 11 December 1979 or is not available after 1980 except to a person referred to in paragraph *a*, to a person as a consequence of his employment, or to an heir or legal representative of the latter person."

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

176. Section 1012 of the said Act is replaced by the following section:

"**1012.** Where a taxpayer has filed the fiscal return required by section 1000 for a taxation year and, within one year from the day on or before which he was required to file such return, he amends the return by sending to the Minister, in the prescribed form, an application claiming a deduction in computing his taxable income under sections 727 to 737 in respect of a loss for the next taxation year, the Minister shall reassess the taxpayer's tax for the year."

(2) This section has effect as from 12 December 1979.

177. (1) The said Act is amended by inserting, after section 1015, the following section:

"**1015.1** For the purposes of section 1015, where a trustee who is winding up, distributing, controlling or administering, in any manner whatever, the property, business, estate or income of another person, authorizes or otherwise causes a payment

referred to in the said section 1015 to be made on behalf of that other person, the trustee is deemed to be a person making the payment and the trustee and that other person are jointly and severally liable for the payment of the amount required under the said section to be deducted or withheld and to be remitted on account of the tax to be paid by the beneficiary.

For the purposes of the first paragraph, a trustee includes a liquidator, receiver, receiver-manager, trustee in bankruptcy, assignee, executor, administrator, sequestrator or any other person performing a similar function."

(2) This section has effect as from 26 February 1981.

178. (1) Section 1027 of the said Act is amended by replacing subparagraphs i and ii of paragraph *a* by the following subparagraphs:

"i. on or before the last day of each month of the current taxation year an amount equal to 1/12 of its tax for the year estimated in accordance with section 1004 or of its first basic provisional account, established in the prescribed manner, for the year; or

"ii. on or before the last day of each of the first two months of the current taxation year, an amount equal to 1/12 of its second basic provisional account, established in the prescribed manner, for the year and, on or before the last day of each of the following ten months, an amount equal to 1/10 of the excess of its first basic provisional account contemplated in subparagraph i over the amount computed in respect of the first two months of the year; and".

(2) This section applies to taxation years commencing after 28 October 1980.

179. (1) Section 1029.2 of the said Act, enacted by section 12 of chapter 12 of the statutes of 1981, is amended by replacing subparagraph ii of paragraph *a* by the following subparagraph:

"ii. the amount by which its tax payable for the particular year under Part IV exceeds the amount by which the aggregate of the amounts deemed to have been paid to the Minister by the corporation under paragraph *b* on the last day of the particular year in respect of each non-capital loss sustained by the corporation during any of the five preceding taxation years, and which has been the object of an election referred to in section 1029.1; and".

(2) This section applies to taxation years ending after 10 March 1981.

180. (1) Section 1038 of the said Act is amended by replacing subparagraphs *a* and *b* of the third paragraph by the following subparagraphs:

"(*a*) his tax payable for the year or his first basic provisional account, within the meaning of the said section 1027, for the year; or

"(*b*) his second basic provisional account, within the meaning of the said section 1027, for the year and his first basic provisional account, within the meaning of the latter section, for the year."

(2) This section applies to taxation years commencing after 28 October 1980.

181. (1) Section 1045 of the said Act is replaced by the following section:

"**1045.** Every person who fails to make a fiscal return in the prescribed form and within the prescribed time, in accordance with section 1000, 1001, 1003 or 1004, is liable to a penalty equal to the aggregate of 5% of the tax unpaid at the time when the return must be filed and 1% of that unpaid tax for each complete month, not exceeding 12 months, in the period between the time when the return must be filed and the time when it is actually filed."

(2) This section applies in respect of returns the final date for filing which is after 1981 and returns the final date for filing which is before 1982 and that are filed after 1981.

182. (1) Section 1050 of the said Act is replaced by the following section:

"**1050.** For the purposes of an appeal brought under this Part respecting a penalty, the burden of establishing the facts contemplated in sections 1048 to 1049.1 is on the Minister."

(2) This section has effect as from 1 July 1980.

183. (1) Section 1089 of the said Act is amended by striking out the word "and" at the end of paragraph *h*, by replacing the period at the end of paragraph *i* by the following: "; and", and by adding, after paragraph *i*, the following paragraph:

"(*j*) where, in the year, he carried on a business in Canada described in paragraphs *a* to *g* of section 363, the amounts in respect of any property referred to in paragraph *a*, *c* or *d* of section 328 that is a Québec resource property within the meaning of paragraph *d* or that would be such a resource property if it had been acquired after 1971, that the individual would be required to include in computing his income for the year under Part I if he

were resident in Québec, to the extent that such amounts are not already included in computing his income under paragraph *b* or *d*."

(2) This section applies to taxation years ending after 11 December 1979.

184. (1) Section 1090 of the said Act is amended by striking out the word "and" at the end of paragraph *h*, by replacing the period at the end of paragraph *i* by the following: "; and", and by adding, after paragraph *i*, the following paragraph:

"(*j*) where, in the year, he has carried on a business in Canada described in paragraphs *a* to *g* of section 363, the amounts in respect of any property referred to in paragraph *a*, *c* or *d* of section 328 that he would be required to include in computing his income for the year under Part I if he were resident in Canada at any time in the year to the extent that such amounts are not already included in computing his income under paragraph *b* or *d*."

(2) This section applies to taxation years ending after 11 December 1979.

185. (1) The said Act is amended by inserting, after section 1096, the following sections:

"**1096.1** Where, in a taxation year, a person not resident in Canada ceases at any particular time after 11 December 1979 to carry on a business described in paragraphs *a* to *g* of section 363 that was carried on by him immediately before such cessation in one or more fixed places of business in Canada and where he does not commence after that time and during the same year to carry on such a business at a fixed place of business in Canada or where he disposes of property referred to in paragraph *a*, *c* or *d* of section 328 at any time in the year during which he was not carrying on such business at a fixed place of business in Canada, his taxation year is deemed to end at the particular time and a new taxation year is deemed to commence immediately thereafter.

"**1096.2** For the purposes of computing the income earned in Québec or the income earned in Canada by a person contemplated in section 1096.1 for the taxation year that is deemed, under section 1096.1, to end at the particular time contemplated therein or to commence immediately thereafter, such person or any partnership, other than a prescribed partnership of which he is a member immediately after the particular time, is deemed, in the first case, to have disposed immediately before that time of each property described in paragraph *a*, *c* or *d* of section 328 that was owned by the person or partnership immediately after that time and to have received proceeds of disposition, therefor immediately before that

time, equal to its fair market value at that time and, in the second case, to have reacquired, immediately after the particular time, each of such properties at a cost equal to the proceeds of disposition that the person or partnership is deemed to have received therefor."

(2) This section applies to the taxation year 1979 and subsequent taxation years.

186. (1) Section 1097 of the said Act is amended by replacing that part preceding paragraph *a* by the following:

"**1097.** A person not resident in Canada who proposes to dispose of a taxable Québec property other than depreciable property, a property contemplated in paragraph *i* of section 1094, a share of the capital stock of a public corporation, or an interest therein, a unit of a mutual fund trust, a bond, debenture, bill, note, mortgage, hypothec or other similar obligation or other than prescribed property may, before such disposition, send to the Minister a notice containing".

(2) This section has effect as from 26 February 1981.

187. (1) Section 1102 of the said Act is amended by replacing, in the first paragraph,

(1) that part preceding subparagraph *a* by the following:

"**1102.** Where a person who is not resident in Canada disposes or proposes to dispose of a Québec resource property within the meaning of paragraph *d* of section 1089 or any property that would be such a property if it had been acquired after 1971, or a property which is or would be, if he disposed of it, a taxable Québec property that is depreciable property or that is referred to in section 1097, to any person with whom he is not dealing at arm's length, for no consideration or for consideration less than its market value at the time of the disposition or proposed disposition, or to any person by way of gift *inter vivos*, the following rules apply:"; and

(2) subparagraph *d* by the following subparagraph:

"(*d*) the references in sections 1101 and 1102.2 to the purchase price of the property must be read as references to its fair market value at the time it was acquired."

(2) This section has effect as from 26 February 1981.

188. (1) This Act is amended by inserting, after section 1102, the following sections:

"**1102.1** Where a person who is not resident in Canada proposes to dispose to a taxpayer, in a taxation year, a Québec resource property within the meaning of paragraph *d* of section 1089 or any property that would be such a property if it had been acquired after 1971, or depreciable property that would be, if he disposed of it, a taxable Québec property and where to such effect, he pays to the Minister, on account of his tax payable for the year, an amount that the Minister considers reasonable taking into account the proposed disposition of such property or furnishes security acceptable to the Minister in respect of such disposition, the Minister shall forthwith issue to that person and to the taxpayer a certificate in prescribed form indicating the amount of the proposed proceeds of disposition of the property.

"**1102.2** Where in a taxation year a taxpayer acquires from a person not resident in Canada property referred to in section 1102.1, the following rules apply:

(*a*) the taxpayer shall pay, as tax on behalf of such person, an amount equal to 30% of the amount by which his purchase price of the property exceeds the amount indicated in the certificate referred to in section 1102.1;

(*b*) the taxpayer is entitled to deduct or withhold from any amount paid or credited by him to such person or to otherwise recover from such person the amount paid by him under subparagraph *a*; and

(*c*) the taxpayer shall, within 30 days after the end of the month in which he acquired the property, remit to the Minister the amount for which he is liable under subparagraph *a*.

This section does not apply to a taxpayer who, after reasonable inquiry, had no reason to believe that the person from whom he acquired the property was not resident in Canada."

(2) This section has effect as from 26 February 1981.

189. (1) Section 1104 of the said Act, amended by section 107 of chapter 13 of the statutes of 1980, is again amended by replacing paragraph *h* by the following paragraph:

"(*h*) an amount of not less than 85% of the aggregate determined under section 1105, less any dividends or interest received by it in the form of shares, bonds or other securities that had not been sold before the end of the year, was distributed to its shareholders before the end of the year and otherwise than by way of a capital gains dividend."

(2) This section applies in respect of dividends becoming payable after 11 December 1979.

190. (1) Section 1105 of the said Act is amended by replacing paragraph *a* by the following paragraph:

"(*a*) 66⅔% of the amount by which its taxable income for the year exceeds its taxed capital gains for the year within the meaning of paragraph *b* of section 1108; and".

(2) This section applies to taxation years ending after 11 December 1979.

191. (1) Section 1106 of the said Act is amended by replacing subsection 2 by the following subsection:

"(2) The election contemplated in subsection 1 is valid only if made in prescribed manner and form for the total amount of the dividend."

(2) This section applies in respect of dividends becoming payable after 1974.

192. (1) Section 1116 of the said Act is amended by replacing subsection 2 by the following subsection:

"(2) The election contemplated in subsection 1 is valid only if made in prescribed manner and form for the total amount of the dividend."

(2) This section applies in respect of dividends becoming payable after 1974.

193. (1) Section 1160 of the said Act, replaced by section 114 of chapter 13 of the statutes of 1980, is again replaced by the following section:

"**1160.** (1) Every corporation which, at any time in a taxation year, refines petroleum in Québec or allows its installations to be used for that purpose must pay, for that year, in addition to the tax provided for in Part IV, an additional tax of 2% of the amount of its paid-up capital established in accordance with sections 1131 and 1136 to 1138 and reduced in the proportion that the cost to it, at the end of the year, of the aggregate of each beneficiation unit for residual heavy oils, within the meaning of the regulations, called in this title a "unit", situated in Québec and which it owns at the end of the year is of the amount of its assets referred to in subsections 3 and 4 of section 1138.

(2) For the purposes of subsection 1, where a corporation, at the end of a year, has an interest in a partnership the end of whose fiscal period coincides with the end of the taxation year of the corporation, or, as the case may be, immediately precedes the end of that taxation year and where, at the end of that fiscal period of the

partnership, the latter owns a unit situated in Québec, the corporation shall include, in the cost used to reduce the paid-up capital referred to in that subsection, the proportion of the cost of such unit to the partnership, at the end of that fiscal period of the partnership that the share of the corporation in the profits or losses of the partnership is of the shares of all persons in those profits or losses.

(3) Subsection 1 does not apply to a corporation whose business for the year consists principally in refining petroleum in Québec by means of operating a unit; nor does it apply to a corporation that allows its installations to be used to refine petroleum in Québec if all or substantially all of its installations consist of a unit situated in Québec."

(2) This section applies to taxation years ending after 1980.

194. (1) Sections 1161 and 1162 of the said Act, replaced by section 115 of chapter 13 of the statutes of 1980, are again replaced by the following sections:

"**1161.** Where a corporation referred to in section 1160 owns an establishment situated outside Québec in a taxation year, the tax payable for the year by such corporation under that section is equal to the portion of the tax payable by it for the year otherwise determined under that section, that its business carried on in Québec is of the aggregate of business carried on in Québec and elsewhere, as determined by the regulations.

"**1162.** A corporation may deduct from the tax payable otherwise determined under section 1160, after applying section 1161, for a taxation year, the following amounts:

(*a*) Canadian exploration expenses, within the meaning of sections 395 to 397, incurred by it in Québec in the year in connection with an oil resource or natural gas resource situated in Québec, other than those deemed to have been incurred by it in Québec in the year under section 407 that had been incurred in Québec by a joint exploration corporation, within the meaning of section 382, either in one of its taxation years ending before 1980, or before the beginning of the third taxation year of the corporation immediately preceding the year, or which have been deducted under this section in computing the tax payable by the joint exploration corporation for any taxation year; for the purposes of computing the deduction allowable by this subsection to such a joint exploration corporation, it must subtract from its expenses contemplated therein such as it has renounced by virtue of an election contemplated in section 406;

(*b*) prescribed expenses incurred by it in Québec in the year, after 1980, connected with the search for and development of an underground reservoir, within the meaning of the Mining Act (R.S.Q., chapter M-13), situated in Québec and intended for storing natural gas to the extent that they are not included in the expenses referred to in paragraph *a*;

(*c*) 50% of the expenses incurred by it in Québec in the year, after 1980, for the construction of a unit situated in Québec of which it is the first owner and for the purchase of the land necessary to use such unit;

(*d*) 50% of the amount that it pays in the year, after 1980, for the purchase, as first successor corporation, of non-redeemable and non-convertible shares issued after 1980 by a corporation described in section 1162.1, other than any amount that it pays as loan costs, brokerage fees or other similar expenses in connection with such shares;

(*e*) its share of the expenses described in paragraph *a* or *b* incurred by a partnership of which it was a member at the end of the fiscal period of such partnership referred to in subsection 2 of section 1160 in respect of the year and incurred by such partnership, after 1980, in that fiscal period;

(*f*) its share of 50% of the expenses incurred, after 1980, by a partnership contemplated in paragraph *e*, in the fiscal period contemplated in that paragraph, for the construction of a unit situated in Québec of which the partnership is the first owner and for the purchase of the land necessary to use such unit;

(*g*) its share of 50% of an amount that a partnership referred to in paragraph *e* pays, after 1980, in the fiscal period contemplated in that paragraph, for the purchase, as first successor corporation of shares mentioned in paragraph *d*, excluding any amount that such partnership pays as loan costs, brokerage fees or other similar expenses in connection with such shares;

(*h*) any amount deductible either under this section as it read for the purposes of its application to a taxation year ending in 1980 or under paragraphs *a* to *g*, as the case may be, for any of the three preceding taxation years ending either after 1979, in the case of expenses contemplated in this section as it read for the purposes of its application to a taxation year ending in 1980 or expenses contemplated in paragraph *a* or in paragraph *e* to the extent that the latter refers to paragraph *a*, as the case may be, or after 1980, in other cases, to the extent that such amount was not deducted under this section for any corporation for one of those preceding taxation years and does not concern expenses deemed to have been incurred by the corporation under section 407, which had been incurred by a joint exploration corporation, within the meaning of

section 382, in one of the latter's taxation years ending before 1980 or before the commencement of the third taxation year of the corporation immediately preceding the year, or which were deducted under this section in computing the tax payable by the joint exploration corporation for any taxation year; for the purposes of computing the deduction allowable under this paragraph to such a joint exploration corporation, the latter must subtract from the amount that would otherwise be determined in respect thereof under this paragraph, such portion of such amount as may be reasonably related to expenses it has renounced by virtue of an election referred to in section 406.

"**1162.1** A corporation contemplated in paragraph *d* of section 1162 is any corporation that, in the prospectus or circular respecting the issue of shares mentioned in that paragraph, stipulates that substantially all of the proceeds of such issue will be used for the construction of a unit situated in Québec of which the corporation will be the first owner, which will comprise all or substantially all of the installations of the corporation and which the corporation proposes to lease or operate as its principal business, and for the purchase of the land necessary to use such unit.

"**1162.2** In no case may the aggregate of the amounts deducted under section 1162 for a taxation year exceed the tax mentioned therein; nor may the aggregate of the amounts deducted under paragraph *c*, *d*, *f* or *g* of the said section 1162 for a taxation year or under paragraph *h* of that section for a taxation year, to the extent that the said paragraph *h* refers to an amount referred to either in section 1162 as it read for the purposes of its application to a taxation year ending in 1980, or in the said paragraph *c*, *d*, *f* or *g*, as the case may be, for any previous taxation year, exceed 50% of such tax.

"**1162.3** For the purposes of section 1162, a new corporation resulting from an amalgamation within the meaning of section 544 may, in respect of a deduction provided for by section 1162 for a taxation year ending after the amalgamation, include, as an amount described in any of paragraphs *a* to *h* of section 1162 that is applicable to it, any amount that would be described in that paragraph in respect of a predecessor corporation for a taxation year of the latter that would have coincided with the year or that would have ended therein if such predecessor corporation had continued to exist after the amalgamation and if the taxation year deemed to have ended immediately before the amalgamation had not ended at that time, to the extent that such amount has not been deducted by the new corporation for a previous taxation year nor by a predecessor corporation for its taxation year deemed to have ended immediately before the amalgamation.

This section does not apply where the predecessor corporation was exempt, under subsection 3 of section 1160, from the tax provided for in subsection 1 of the said section 1160 for its taxation year deemed to have ended immediately before the amalgamation or for a previous taxation year or would have been so exempt if it had operated a unit during such a year.

"**1162.4** Section 1162.3 applies, *mutatis mutandis*, in respect of a deduction that may be claimed, under section 1162, by a parent whose subsidiary has been the object of a winding-up to which section 556 applied.

However, the parent corporation may not make any deduction under section 1162 for a taxation year in respect of an amount that the subsidiary chooses to deduct, under the said section 1162, for a taxation year."

(2) This section applies to a taxation year ending after 1979 except to the extent that it enacts sections 1162.1 to 1162.4 of the Taxation Act, in which case it applies to a taxation year ending after 1980; however, where sections 1161 and 1162 of the Taxation Act that it enacts apply to a taxation year ending before 1981, those sections must read as follows:

"**1161.** Where a corporation contemplated in section 1160 owns an establishment situated outside Québec in a taxation year, the tax payable for the year by such corporation under that section is equal to the portion of the tax payable for the year by such corporation otherwise determined under that section that the gross revenue that may be reasonably attributed to the establishment situated in Québec is of all of its gross revenue for the year.

"**1162.** A corporation may deduct from the tax payable otherwise determined under section 1160, after applying section 1161, for a taxation year, the Canadian exploration expenses, within the meaning of sections 395 to 397, incurred by it in Québec in the year in connection with an oil resource or natural gas resource situated in Québec."

195. (1) Sections 87 and 88 of the Act respecting the application of the Taxation Act (R.S.Q., chapter I-4) are replaced by the following sections:

"**87.** The rules provided in section 86 also apply when, pursuant to an exchange or a reorganization to which sections 301, 480, 536 to 539 or 541 to 543.1 of the Taxation Act apply, a taxpayer acquires a property referred to in the said sections in consideration of a property he owned on 31 December 1971 and thereafter without interruption until the time immediately preceding the

exchange or reorganization and if, in the case of a reorganization to which sections 541 to 543.1 apply, the cost, to the taxpayer, of the property so acquired is determined otherwise than under section 543.1.

"**88.** Section 86 does not apply if the taxpayer itself is a predecessor corporation and applies, in respect of shares, only when the taxpayer receives, in consideration of shares of a class of the capital stock of a predecessor corporation that it owns, only shares of one class of the capital stock of the new corporation whose cost to the taxpayer is determined otherwise than under paragraph *c* of section 553.1 of the Taxation Act."

(2) This section applies in respect of operations carried out after 11 December 1979.

196. (1) The Act to amend the Taxation Act and certain legislation (1980, chapter 13) is amended by replacing subsection 2 of section 3 by the following subsection:

"(2) This section, to the extent that it enacts section 21.4 of the Taxation Act, applies to the taxation year 1972 and subsequent taxation years and, to the extent that it enacts sections 21.5 to 21.16 of the said Act, has effect as from 17 November 1978."

(2) This section has effect as from 18 June 1980.

197. This Act comes into force on the day of its sanction.