

Taxation of Corporate Reorganizations

DETAILED TABLE OF CONTENTS

The date in brackets (month/year) in the top left corner of each page indicates the release date, not the release number.

Volume 1

Table of Cases, Legislation, etc	271
Definitions	489
Index	491
Analysis	503
Documents	903
Transfer of Property to a Corporation	1399
Index	1403
Analysis	1501
Checklist	1929

Volume 2

Documents	2101
Capital Transactions.....	2399
Index	2403
Analysis	2501
Documents	3473

Volume 3

Amalgamation	3479
Index	3481
Analysis	3501
Checklist	3915
Documents	4137
Winding-Up	4299
Index	4301

Table of Contents

09/2018

Analysis	4501
Checklist	4775

Volume 4

Documents	5001
“Butterfly” Transactions	5299
Index	5301
Analysis	5499
Checklist	5695
Documents	5875
Transformation of a Branch	6299
Index	6301
Analysis	6501
Documents	6801

CORPORATE ORGANIZATION AND REORGANIZATION

TABLE OF CONTENTS

	Page
Table of Cases, Legislation, etc.	9
Definitions	11
Transfer of Property to a Corporation	15
Capital Transactions	27
Amalgamation.....	41
Winding-Up	59
"Butterfly" Transactions	71
Transformation of a Branch.....	77

(next page is 9)

TABLE OF CASES, LEGISLATION, ETC.

	Page
Case Index.....	251
Index of Supplementary Materials.....	271
Information Circulars.....	290
Advance Rulings	293
References To Statutory Provisions (By Topic)	
Definitions	309
Transfer of Property to a Corporation	311
Capital Transactions.....	325
Amalgamation	331
Winding-Up	341
“Butterfly” Transactions	351
Transformation of a Branch	355
Abbreviations	401

DEFINITIONS

In addition to the commentary detailed below, this chapter also includes a Research Index (at page 491) and a Documents section (at page 901). The latter contains relevant material issued by the Canada Revenue Agency.

I — CORPORATION	[P10-000]
INTRODUCTION	[P10-005]
Definition	•[P10-010]
Administrative Position	•[P10-055]
Validity of Acts and Use of a Single Purpose Entity	•[P10-060]
Respect for Legal Form	•[P10-065]
Corporation Not Liable to Pay Tax in Canada.....	•[P10-070]
“Corporation Incorporated in Canada”	•[P10-085]
“Incorporated Company” and Amalgamation	••[P10-100]
“Incorporated Company” and Continuance in Another Jurisdiction — Situation Before 1993.....	••[P10-130]
Continuance in Another Jurisdiction — After 1992	••[P10-135]
Effect of Corporate Continuance Under the Canada—United States Income Tax Convention, 1980	••[P10-137]
Application of the Canada-United States Income Tax Convention, 1980, Where a U.S. Corporation Continues Into Canada But Retains U.S. Status	••[P10-138]
Canada-U.S. Tax Convention and Continuance of a Non-Resident Corporation.....	••[P10-139]
Date of Incorporation.....	••[P10-140]
Person	•[P10-160]
Taxpayer	•[P10-175]
Whether a Particular Foreign Entity Is Considered a “Corporation” for Purposes of Canadian Law	•[P10-177]
Classification of Partnerships Created Under the Delaware Revised Uniform Partnership Act.....	•[P10-180]
Classification of a Barbados Society With Restricted Liability	•[P10-185]
Canada Revenue Agency Updates on Foreign Entity Classification.....	•[P10-187]
Classification of Foreign Entities as Trusts	•[P10-188]
Canada-U.S. Tax Convention: Implications on Hybrid Entities.....	•[P10-190]
II — RESIDENT CORPORATION	[P10-225]
CONCEPT OF RESIDENCE	[P103-235]
TAX CONVENTIONS	[P10-265]
Liable to Tax	•[P10-267]
TD Securities	••[P10-268]
Tie-Breaker Rule	•[P10-270]
CASE LAW	[P10-280]
De Beers Consolidated Mines Case	•[P10-290]
Unit Construction Case.....	•[P10-310]
B.C. Electric Case	•[P10-325]
Other Illustrative Cases on Corporate Residence.....	•[P10-330]
Wood v. Holden.....	•[P10-335]
Laerstate BV.....	•[P10-337]
TD Securities (USA) LLC v. R.....	•[P10-337]
Influence of Majority Shareholders	•[P10-340]
Canada Revenue Agency Position on Central Management and Control...	•[P10-345]
Summary	•[P10-350]
STATUTORY PRESUMPTIONS.....	[P10-370]

Table of Contents

04/2022

Corporations Incorporated After April 26, 1965	•[P10-385]
Corporations Contemplated By Paragraph 250(4)(b)	•[P10-400]
Corporations Incorporated Before April 27, 1965	•[P10-415]
CARRYING ON BUSINESS IN CANADA	[P10-435]
Case Law on “Carried on Business in Canada”	•[P10-440]
Case Law on Section 253	•[P10-450]
DEEMED NON-RESIDENCE	[P10-460]
Presumption at Subsection 250(6)	•[P10-470]
TRUST RESIDENCE	[P10-475]
Fundy Settlement v. The Queen (Garron Family Trust v. The Queen)	•[P10-480]
Non-Resident Trust Rules	•[P10-485]
Provincial Residence of a Trust	•[P10-490]
III — STATUS OF CORPORATIONS	[P10-500]
PUBLIC CORPORATION	[P10-550]
Shares Listed on an Exchange	•[P10-560]
Election or Designation as a Public Corporation	•[P10-605]
Conditions to Qualify as Public	•[P10-650]
Election or Designation to Cease to Be Public	•[P10-725]
Conditions to No Longer Qualify as Public	••[P10-755]
Retroactive Application	•[P10-785]
Amalgamation	•[P10-800]
Other Public Corporations	•[P10-815]
PRIVATE CORPORATION	[P10-875]
Prescribed Venture Capital Corporations and Prescribed Federal Crown Corporations	•[P10-900]
Corporations Deemed Not to Be Private Corporations	•[P10-960]
Crown Corporations	••[P10-965]
Credit Unions	••[P10-990]
Cooperative Corporations	••[P11-005]
Insurance Corporations	••[P11-020]
Condominium Corporations	•[P11-050]
Date of Acquisition of Private Corporation Status	•[P11-065]
Private Corporation at the Commencement of its 1972 Taxation Year	••[P11-080]
Corporation Incorporated After 1971	••[P11-095]
Private Corporation Status Before 1972	•[P11-110]
Bigmar Enterprises Case	••[P11-125]
Fred Padfield Case	••[P11-140]
OTHER CORPORATIONS	[P11-200]
CANADIAN CORPORATION	[P11-260]
Departure From Canada	•[P11-300]
CANADIAN-CONTROLLED PRIVATE CORPORATION	[P11-330]
Canadian Control Not Required	•[P11-355]
Scope of the Notion of Control	•[P11-370]
De Jure and De Facto Control	•[P11-400]
Duha Printers (Western) Ltd. v. The Queen	••[P11-405]
Silicon Graphics Ltd. v. The Queen	••[P11-406]
Administrative Position Following Silicon Graphics	••[P11-406A]
Bioartificial Gel Technologies (Bagtech) Inc. v. R.	••[P11-406B]
Control Via Partnerships	•[P11-407]
Multiview Inc. v. The Queen	••[P11-409]
De Facto Control	••[P11-409A]
Subsection 256(5.11) and De Facto Control	••[P11-409B]
Canada Revenue Agency Position on Relevant Factors	••[P11-409C]

Table of Contents

Scope of Paragraph 251(5)(b).....	•[P11-410]
Sedona Networks Corporation v. The Queen — Tax Court of Canada Decision	••[P11-411]
Sedona Networks Corporation v. The Queen — Federal Court of Appeal Decision	••[P11-411A]
Canada Revenue Agency Position on Sedona	••[P11-411B]
Application of Paragraphs 251(5)(b) and 256(1.4)(a)	••[P11-412]
Administrative Positions on Matter of Control.....	•[P11-415]
Reorganization and Acquisition of Control.....	•[P11-417]
Simultaneous Control by Members of a Corporate Chain	•[P11-420]
SPECIFIED INVESTMENT BUSINESS	[P11-425]
TAXABLE CANADIAN CORPORATION.....	[P11-430]
SMALL BUSINESS CORPORATION	[P11-460]
Administrative Position	•[P11-480]
Judicial Interpretation.....	•[P11-485]
ELIGIBLE DIVIDENDS	[P11-490]
Enhanced Gross-Up and Credit	•[P11-491]
Eligible Dividends	•[P11-492]
Part III.1 Tax	•[P11-493]
Election Not to Be a Canadian-Controlled Private Corporation	•[P11-494]
Unlimited Liability Companies (“ULCs”).....	•[P11-495]
 IV — SHARE	 [P11-500]
JUDICIAL INTERPRETATION	[P11-525]
STATUTORY INTERPRETATION	[P11-555]
SHARES IN A FOREIGN BUSINESS.....	[P11-570]
UNAUTHORIZED SHARE CAPITAL.....	[P11-580]
 V — SHAREHOLDER	 [P11-625]
JUDICIAL INTERPRETATION	[P11-650]
ADMINISTRATIVE POSITION.....	[P11-655]
DISSENTING SHAREHOLDER	[P11-675]
 VI — THE GENERAL ANTI-AVOIDANCE RULE	 [P11-700]
OVERVIEW.....	[P11-705]
Canada Trustco Mortgage Co. v. Canada	•[P11-710]
Analysis at Trial	••[P11-715]
Decision at the Federal Court of Appeal.....	••[P11-720]
Supreme Court of Canada Decision in Canada Trustco	••[P11-725]
Barclays Mercantile Business Finance Limited v. Mawson (Inspector of Taxes)	••[P11-732]
Mathew v. Canada and OSFC Holdings Ltd. v. The Queen	•[P11-735]
The Trial Court Decision in OSFC	•[P11-740]
The Decision of the Federal Court of Appeal in OSFC	••[P11-745]
Meaning of Avoidance Transaction.....	•••[P11-750]
Identifying an Avoidance Transaction in a Series	•••[P11-755]
Interpretation of Paragraph 245(3)(b)	•••[P11-760]
Meaning of “Series of Transactions”	•••[P11-765]
Application of Subsection 248(10).....	•••[P11-770]
Concurring Decision on a Series of Transactions	•••[P11-775]
Administrative Position on a Series of Transactions.....	••••[P11-780]
Application of Subsection 245(3) to Third Parties	••••[P11-785]
Primary Purpose of the Transactions.....	••••[P11-790]

Contingency of Tax Benefit.....	•••[P11-795]
Misuse or Abuse of a Provision of the Act or of the Act as a Whole	•••[P11-800]
Misuse of a Provision or Provisions of the Act.....	•••[P11-805]
Abuse of the Act Read as a Whole	•••[P11-810]
The Federal Court of Appeal Decision in Mathew	••[P11-815]
Decision in Mathew at the Supreme Court of Canada.....	••[P11-820]
Lipson v. R.....	••[P11-823]
Decision in Lipson at the Supreme Court of Canada	••[P11-824]
Cophome Holdings Ltd. v. The Queen	•[P11-825]
Tax Court of Canada	••[P11-826]
Federal Court of Appeal	••[P11-827]
Decision in Cophome at the Supreme Court of Canada.....	••[P11-828]
The Realization of a Tax Benefit.....	•[P11-828A]
GAAR Decisions Involving Corporate Reorganizations and Transactions	•[P11-829]
Canadian Pacific Ltd. v. The Queen.....	••[P11-830]
Issues on Appeal	•••[P11-835]
Application of the GAAR	•••[P11-840]
The Existence of a Tax Benefit	•••[P11-845]
The Primary Purpose of the Transaction.....	•••[P11-850]
The Notion of Misuse or Abuse.....	•••[P11-855]
Jabin Investments Ltd. v. R.....	••[P11-901]
Issues on Appeal	•••[P11-902]
Notion of Misuse or Abuse.....	•••[P11-905]
Overs v. R.....	••[P11-940]
Desmarais v. The Queen.....	••[P11-945]
Evans v. R.....	••[P11-950]
MIL (Investments) S.A. v. R.....	••[P11-955]
Tax Court of Canada	•••[P11-956]
Federal Court of Appeal	••[P11-957]
McMullen v. The Queen.....	••[P11-960]
Agency Position on Meaning of “Reorganization” in Subsection 84(2).....	•••[P11-962]
John MacKay et al. v. Her Majesty The Queen	••[P11-965]
Landrus v. The Queen	••[P11-975]
Tax Court of Canada	•••[P11-976]
Federal Court of Appeal	•••[P11-977]
Collins & Aikman Products Co. et al. v. The Queen.....	••[P11-985]
Tax Court of Canada	•••[P11-990]
Federal Court of Appeal	•••[P11-995]

VII — THE REMEDIES OF RECTIFICATION, RESCISSION, AND JUDICIAL CORRECTION

[P12-000]

RECTIFICATION	[P12-100]
Rectification, Mistake, and Rescission: Stone’s Jewellery Ltd. v. Arora.....	•[P12-101]
Sussex Square Apartments v. The Queen.....	•[P12-102]
McPeake v. Canada (Attorney General).....	•[P12-103]
Kanji v. Canada (Attorney General)	•[P12-104]
Crown Attempts to Limit the Common Law Doctrine of Rectification	•[P12-104A]
Fairmont Hotels Inc. v. Canada (Attorney General)	•[P12-104B]
Rectification Under the Quebec Civil Code.....	•[P12-105]
Riopel v. Canada Revenue Agency and Services environnementaux AES inc.	•[P12-110]
Riopel v. Canada Revenue Agency (Superior Court of Quebec)	•[P12-110A]
Riopel v. Canada Revenue Agency (Court of Appeal of Quebec).....	•[P12-110B]

Table of Contents

Services environnementaux AES inc. (Superior Court of Quebec and Court of Appeal of Quebec).....	•[P12-110C]
Supreme Court of Canada on Rectification in Quebec and Subsequent Decisions.....	•[P12-110D]
Canada Revenue Agency Notice of Rectification Orders.....	•[P12-110E]

VIII — REFERENCES [P12-900]

LEGISLATION	[P12-910]
CASE LAW	[P12-920]
BIBLIOGRAPHY	[P12-930]
INTERPRETATION BULLETINS, INFORMATION CIRCULARS, INCOME TAX FOLIOS AND ADVANCE RULINGS	[P12-940]

(next page is **15**)

TRANSFER OF PROPERTY TO A CORPORATION

In addition to the commentary detailed below, this chapter also includes a Research Index (at page 1403), a Checklist (at page 1929) and a Documents section (at page 2101). The latter contains relevant material issued by the Canada Revenue Agency.

I – GENERAL	[P20-000]
NEUTRALITY OF THE TAX SYSTEM	[P20-015]
GENERAL DESCRIPTION	[P20-025]
II – CONDITIONS OF APPLICATION	[P20-050]
THE TRANSFEROR	[P20-055]
“The Taxpayer”	•[P20-060]
Non-Resident	••[P20-065]
Paragraph 85(1)(i) and Canadian Residents	••[P20-070]
Resident Becoming Non-Resident	•••[P20-075]
THE TRANSFEREE	[P20-085]
“Taxable Canadian Corporation”	•[P20-090]
“Canadian Corporation”	••[P20-095]
DISPOSITION	[P20-100]
CONSIDERATION FOR THE PROPERTY THAT IS TRANSFERRED	[P20-110]
Debt Securities Issued in Favour of Non-Residents	•[P20-115]
Outstanding Debts to Specified Non-Residents	••[P20-115A]
The Transfer of a Debt Does Not Necessarily Constitute Non-Share Consideration	••[P20-115B]
Tax Liability	•[P20-116]
Accounting Standards	•[P20-117]
“Share”	•[P20-120]
Common or Preferred Shares	••[P20-125]
Shares Received or Receivable	••[P20-130]
Absolute Right to the Shares	••[P20-145]
Dale et al v. The Queen	••[P20-150]
The Decision of the Federal Court of Appeal	••[P20-155]
The Effect of the Dale Decision	••[P20-157]
Juliar et al. v. The Queen	••[P20-158]
McPeake v. Canada	••[P20-158A]
Sussex Square Apartments v. The Queen	••[P20-159]
Canada Revenue Agency Notice of Rectification Orders	••[P20-159A]
Consideration Comprised of Only One Share	•[P20-160]
Fractional Share	•[P20-165]
Exchange of Shares	•[P20-175]
Cost Basis of Property Acquired for Treasury Shares	•[P20-180]
Filing a Late Section 85 Election Under Subsection 85(7.1)	••[P20-185]
Section 84.1	••[P20-200]
Purpose	•••[P20-205]
Conditions of Application	•••[P20-210]
Reduction of Paid-Up Capital	•••[P20-215]
Interaction Between 84.1 and 85(2.1)	•••[P20-217]
Deemed Dividend	•••[P20-220]
Reduction of the Proceeds of Disposition	••••[P20-225]
Planning	•••[P20-230]
Paid-up Capital Transactions and the General Anti-Avoidance Rule	•••[P20-235]
Conversion of Dividends Into Capital Gains	•••[P20-240]

Table of Contents

02/2015

Section 212.1	••[P20-260]
Purpose.....	•••[P20-265]
Conditions of Application	•••[P20-270]
Effect.....	•••[P20-275]
Withholding and Remittance of the Tax Payable	•••[P20-280]
THE TRANSFERRED PROPERTY	[P20-300]
Capital Property	•[P20-320]
Residents.....	••[P20-325]
Non-Residents.....	••[P20-330]
“Interest in Real Property”	•••[P20-335]
Shares of the Transferee	••[P20-355]
Shares of the Transferor.....	••[P20-356]
Dividend Entitlement.....	••[P20-360]
Accounts Receivable.....	••[P20-365]
Right to Income	••[P20-370]
Right to Royalty Income	•••[P20-372]
Transfer of Foreign Currency	••[P20-375]
Financial Derivatives	••[P20-377]
Flow-Through of Classification as Capital Property or Inventory	••[P20-380]
Share consideration.....	••[P20-398]
Sale of Business Assets	•••[P20-400]
Depreciable Capital Property	•[P20-405]
Eligible Capital Property	•[P20-410]
Right to Use a Patent	••[P20-412]
“Know-How”	••[P20-415]
Right to Income	••[P20-420]
Inventory	•[P20-430]
Exclusion of Real Property	••[P20-435]
Property Held as an Adventure in the Nature of Trade	•••[P20-440]
Dalron Construction Ltd. v. R.	•••[P20-445]
Partnership Interest	••[P20-475]
Transfer of Land Inventory to a Partnership	••[P20-476]
Agricultural or Fishing Property	••[P20-480]
Fiscal Periods Commencing Before 1989	•••[P20-481]
Geological, Geographical and Seismic Data.....	••[P20-490]
Copyright.....	••[P20-492]
Canadian Resource Property and Foreign Resource Property	•[P20-525]
Natural Resource Royalties.....	••[P20-530]
Real Property of a Non-Resident Insurer.....	•[P20-541]
Real Property of a Non-Resident Used in a Business Carried on in Canada	•[P20-542]
Security or Debt Obligation.....	•[P20-545]
Specified Debt Obligations of a Financial Institution.....	•[P20-547]
Other Property.....	•[P20-550]
Holdbacks	••[P20-555]
Contracts for a Fixed Global Price.....	•••[P20-562]
Prepaid Expenses	••[P20-565]
Income Interest in Trust.....	••[P20-570]
Usufruct and Bare Ownership of Shares.....	••[P20-575]
Life Annuity Contracts.....	••[P20-580]
Stock Options and Shares Acquired Under a Stock Option	••[P20-590]
Subsection 7(1.5) and Non-Share Consideration	••[P20-591]
Non-Arm’s Length Transfer of Stock Options.....	••[P20-593]
Research and Development Credits	••[P20-595]
Leases Subject to an Election Under Section 16.1.....	••[P20-600]
CANADA REVENUE AGENCY AUDIT CHECKLIST	[P20-055]

III – THE PARAMETERS OF THE AGREED AMOUNT	[P20-625]
SUBSECTION 69(11)	[P20-630]
LIMITS OF A GENERAL NATURE: 85(1)(b) AND (c)	[P20-640]
The Maximum Limit: 85(1)(c)	•[P20-645]
Fair Market Value	••[P20-670]
The Minimum Limit: 85(1)(b)	•[P20-715]
Reduction of the Capital Account of a Partner	••[P20-720]
Dividend or Benefit Conferred on a Shareholder	••[P20-740]
Continuity With Respect to Contributed Surplus	••[P20-742]
Administrative Position: Meaning of Contributed Surplus –	
Paragraph 84(1)(c.3)	••[P20-744]
Repayment of Contributed Surplus	••[P20-746]
Sale of Holding Corporation Shares	••[P20-750]
Apportionment of the Consideration Other Than Shares	••[P20-790]
Administrative Position	•••[P20-800]
Mortgaged Property	•••[P20-810]
Assumption of Debt	•••[P20-812]
Assumption of Debt as Co-obligor	•••[P20-813]
Fair Market Value of Debt Assumption	•••[P20-815]
SPECIFIC LIMITS 85(1)(c.1), (c.2),(d) AND (e)	[P20-825]
Effect of Paragraphs 85(1)(b) and (c)	•[P20-840]
Transfer for a Nominal Sum	••[P20-860]
Property Acquired Before 1972	•••[P20-870]
Paragraph 85(1)(c.1) Inventory, Capital Property (Other Than	
Depreciable Property of a Prescribed Class) or Certain Securities	•[P20-880]
Cost Amount – Inventory	••[P20-920]
Assumption of Contractor’s Holdbacks	•••[P20-923]
Daishowa-Marubeni International Ltd. v. The Queen	••[P20-924]
Inventory of an Individual Engaged in an Artistic Endeavour	•••[P20-925]
Professional Business Referred to in Subsection 34(1)	•••[P20-940]
Deduction Under ITAR 23(3)	•••[P20-960]
Cost Amount – Capital Property	••[P20-970]
Determining Cost Amount and the Election Regarding Property	
Held on February 22, 1994	•••[P20-975]
Depreciable Property Not in a Prescribed Class	•••[P20-980]
Capital Property Owned Before 1972	•••[P20-990]
ITAR 26(5)	•••[P20-992]
Non-Arm’s Length Transactions	••••[P20-994]
Actual Cost	••••[P20-996]
Property to Which ITAR 26(5) Does Not Apply	•••[P21-000]
Value of Property Which Is Owned on Valuation Day	•••[P21-010]
The Flood and Greenaway Case	••••[P21-020]
Identical Properties	•••[P21-030]
Expenses of Sale	••[P21-120]
Expenses of Sale and Cost Base Adjustments	•••[P21-220]
Foreign Currency	••[P21-235]
Inventory of a Farming Business	••[P21-240]
Cash Method	•••[P21-245]
Agreed Amount	•••[P21-250]
Technical Notes	•••[P21-253]
Receipts of Proceeds of Disposition	•••[P21-255]
Cost of the Property to the Corporation	•••[P21-260]
Administrative Position	••[P21-265]
Eligible Capital Property	•[P21-290]
Extension of Administrative Position Applicable to Paragraph 85(1)(e)	•[P21-295]

Table of Contents

02/2015

Eligible Capital Property and the Capital Dividend Account	•[P21-300]
Terminal Deduction	••[P21-320]
Goodwill Acquired Before 1972	••[P21-330]
Expenses of Disposition	••[P21-340]
Non-Arm's Length Disposition	••[P21-350]
Subsequent Sale By the Corporation	••[P21-360]
Subsection 85(1) and Subsection 110.6(19)	••[P21-375]
Depreciable Property	•[P21-445]
"The Cost to the Taxpayer of the Property"	••[P21-455]
Capital Cost Allowance – Year of the Disposition	••[P21-460]
Terminal Loss	••[P21-470]
Lower Limit: UCC of the Class	••[P21-475]
Transfer for a Nominal Amount	••[P21-480]
Depreciable Property Acquired Before 1972	••[P21-490]
Non-Arm's Length Disposition	•••[P21-510]
Administrative Position	•••[P21-530]
Observations	••••[P21-570]
Loss of the Tax-Free Zone	••••[P21-590]
Pre-1972 Capital Surplus on Hand	••[P21-600]
Classes of Transferred Property	••[P21-605]
Changing Classes Prior to Transferring Property	••[P21-607]
Transferee's Capital Cost and Application of Subsection 85(5)	••[P21-610]
Allocation of the Undepreciated Capital Cost	••[P21-630]
Acquisition By the Transferee	••[P21-650]
Non-Arm's Length Disposition of Depreciable Property	•••[P21-665]
Reduction of Depreciation in the Year of Acquisition	••[P21-670]
Excluded Acquisition	•••[P21-672]
Class 29 Property Acquired in a Taxation Year Ending on or	
After November 13, 1981	••[P21-680]
"Designated Property"	•••[P21-690]
"Specified Transaction"	•••[P21-700]
Calculation of Capital Cost Allowance	•••[P21-730]
Technical Problem	••••[P21-740]
The Meaning of the Formula	••••[P21-750]
Transfer Under Subsection 85(5)	•••[P21-760]
Class 29 Property Acquired in a Taxation Year Ending on or Before	
November 12, 1981	••[P21-810]
Leasing Property	••[P21-875]
Extended Exemption	•••[P21-900]
Rental Properties of Not Less Than \$50,000	••[P21-915]
Property Owned Before May 26, 1976	••[P21-945]
Works of Art and Antiques Acquired After November 12, 1981	••[P22-010]
Scientific Research and Experimental Development	••[P22-020]
Canadian and Foreign Resource Properties	•[P22-040]
Other Property	•[P22-110]
Accounts Receivable – Cash Method	••[P22-160]
ORDER OF DISPOSITION 85(1)(e.1)	[P22-190]
Date for Filing the Order of Disposition	•[P22-210]
Information Appearing on Form T2057	••[P22-230]
Separate Dispositions	••[P22-240]
Lower Limit in the Absence of Separate Dispositions	••[P22-250]
Lower Limit in the Presence of a Separate Disposition for Each Property	••[P22-260]
Order of Disposition in the Presence of Consideration Other Than Shares	••[P22-270]
DISPOSITION INVOLVING THE CONFERRAL OF	
A BENEFIT 85(1)(e.2)	[P22-300]
Purpose of Paragraph 85(1)(e.2)	•[P22-330]
Conditions of Application	••[P22-340]

Table of Contents

Application of Paragraph 85(1)(e.2) in the Context of a Partnership Transaction	••[P22-350]
Valuation Problems in the Application of Paragraph 85(1)(e.2)	•[P22-395]
Valuing Property Transferred.....	••[P22-435]
Estate Freezing.....	••[P22-455]
Redemption at the Option of the Holder.....	•••[P22-465]
Implications of CICA Handbook Section 3860 and Retractable Preferred Shares Issued on an Estate Freeze.....	•••[P22-470]
Shares Which Carry Voting Rights.....	•••[P22-515]
Rate of Dividend.....	•••[P22-525]
Transferability	•••[P22-535]
Subsequent Decline in Value of Preferred Shares.....	••••[P22-540]
Price Adjustment Clause	••[P22-545]
Adjustment of the Agreed Amount	•••[P22-585]
Conferral of a Benefit and Price Adjustment Clause	•••[P22-590]
Interaction Between a Price Adjustment Clause and Subsection 85(8)	•••[P22-592]
Adjustment of the Consideration	•••[P22-595]
Adjustment After a Redemption	•••[P22-615]
Canada Revenue Agency Interpretation on Reassessment Beyond Normal Reassessment Period.....	•••[P22-620]
Benefit Conferred on a Related Person.....	•[P22-625]
Concept of Benefit	••[P22-630]
The Taxpayer’s Intention	••[P22-632]
Related Person	••[P22-633]
Wholly-Owned Corporation	•••[P22-640]
Dispositions Occurring Prior to July 1988.....	•[P22-644]
Meaning of the Word “Gift” – Dispositions Prior to July 1988	••[P22-645]
Meaning of “Gift”	•[P22-755]
Administrative Policy: Relating to the Meaning of the Word “Gift”	••[P22-850]
Comments.....	•••[P22-865]
Administrative Policy: The Concept of Gift in the Presence of the Same Shareholders	••[P22-915]
Administrative Policy: Concept of Gift and Nature of Shareholder	••[P22-920]
Computation of the Amount of the Benefit Conferred.....	•[P22-995]
Methods of Computation.....	••[P22-997]
First Method	•••[P23-000]
Second Method.....	•••[P23-005]
Third Method.....	•••[P23-010]
Establishing the Actual Amount of the Benefit	••[P23-025]
First Method: Benefit Valued At \$40	•••[P23-027]
Second Method: Benefit Valued At \$33.33.....	•••[P23-029]
Third Method: Benefit Valued At \$30.....	•••[P23-031]
Determining the Amount of the Benefit Where the Consideration Is Comprised of Preferred Shares.....	••[P23-035]
Effect of Deferred Tax on the Determination of the Benefit Conferred	•••[P23-045]
Effect of Deferred Tax on the Computation of the Benefit Conferred	••[P23-055]
“Butterfly” Transactions	••[P23-065]
Problem of Double Taxation	•[P23-100]
Double Taxation of the Beneficiaries of the Transfer	••[P23-120]
Legislative Correction	•••[P23-130]
Advantages.....	••••[P23-150]
COST OF THE CONSIDERATION RECEIVED	
BY THE TRANSFEROR	[P23-250]
Double Taxation	•[P23-290]
Mechanisms of Integration.....	••[P23-320]
Double Taxation and Estate Planning	••[P23-330]
First Method: Transfer to a Holding Company.....	•••[P23-340]

Table of Contents

02/2015

Second Method: Transfer to a Third Party	•••[P23-360]
Third Method: Proceeds from Life Insurance	•••[P23-370]
Cost of Consideration Other Than Shares 85(1)(f)	•[P23-395]
Consideration Comprised of Two or More Properties	••[P23-415]
Appropriation of Property to a Shareholder	••[P23-425]
Cost of Preferred Shares	•[P23-470]
Series of a Class	••[P23-530]
Cost of Common Shares	•[P23-555]
Isolation of Adjusted Cost Base	•[P23-560]
Contribution of Capital 53(1)(c)	•[P23-620]
Identical Properties	•[P23-700]
Shares Owned Before 1972	••[P23-730]
Shares Received as Consideration and Ceasing to Be a Canadian Resident	••[P23-765]
Exchange of Properties	••[P23-770]
Taxable Canadian Property 85(1)(i)	•[P23-820]
Paragraph 85(1)(i) and Canadian Residents	••[P23-825]
Right to Receive Shares	••[P23-850]
Options and Taxable Canadian Property	••[P23-855]
Formalities of Section 116	•[P23-880]
Agreed Amount Serves as Certificate Limit	••[P23-885]
“Excluded Property”	••[P23-890]
Prescribed Securities	•[P23-900]
PAID-UP CAPITAL OF SHARES RECEIVED AS CONSIDERATION	[P23-920]
Determining the Paid-Up Capital	•[P23-940]
Corporate Considerations	••[P23-945]
Problems in Terminology	•••[P23-950]
Tax Considerations	••[P23-955]
Reduction of Tax Paid-Up Capital	•[P23-970]
Conditions of Application	••[P23-974]
Transformation of Business Income into a Capital Gain	••[P23-980]
Withdrawal of Tax-Free Surplus	••[P23-984]
Computation of the Reduction of Paid-Up Capital	•[P23-992]
Permanent Reduction	••[P23-996]
Addition to the Paid-Up Capital of the Class	•[P23-998]
Timing Difficulty Under Former Version of Subsection 85(2.1)	•[P23-999]
Sale of Holding Corporation Shares	•[P24-000]
OTHER MATTERS	[P24-025]
Subsequent Sale of Eligible Capital Property	•[P24-030]
Instalments of the Transferee Corporation	•[P24-080]
Instalments on a Transfer Pursuant to Section 85	•[P24-085]
Conditions for the Application of Regulation 5301(8)	••[P24-095]
Transfer Under Subsection 85(2)	•••[P24-105]
Interest on Instalments	•[P24-115]
Interest on Deficient Instalment Following a Transfer	••[P24-125]
Combined Instalments of Transferor and Transferee	•[P24-145]
Change of Fiscal Period	•[P24-150]
Interest Deductibility	•[P24-170]
J.M. Tennant v. The Queen	••[P24-175]
Interest Deduction Denied on a Redemption of Shares	••[P24-177]
C.R.B. Logging Co. Limited v. The Queen	••[P24-185]
Administrative Position	••[P24-190]
Pre-1972 Capital Surplus on Hand	•[P24-200]
Transfer Between Canadian Corporations	••[P24-220]
Capital Dividend Account	•[P24-230]
Transfer of Property Pursuant to Subsection 73(5) Prior to 1988	•[P24-245]
Attribution Rules	•[P24-275]
Transfer or Loan	••[P24-277]

Table of Contents

Designated Person.....	••[P24-278]
Deemed Interest	••[P24-279]
Specified Shareholder	••[P24-281]
Computation of Deemed Interest.....	••[P24-282]
Outstanding Amount.....	•••[P24-283]
Amount That Has Not Been Repaid	•••[P24-284]
Excluded Consideration.....	•••[P24-285]
Double Taxation	•••[P24-286]
Paragraph 74.5(6).....	•••[P24-287]
Guarantees	•••[P24-289]
Specified Person	••••[P24-290]
Artificial Transactions	••••[P24-293]
Substituted Property.....	••••[P24-294]
Transfer of Property to a Corporation	••[P24-296]
Sale of Debts.....	•[P24-300]
Election Under Section 22	••[P24-310]
Applicability of Section 22	••[P24-315]
Transfer Under Section 85	••[P24-320]
Former Business Property.....	•[P24-410]
Leasehold Interest.....	•[P24-415]
Cumulative Capital Gains Exemption: Anti-Avoidance Rule	•[P24-420]
Regulation 6205	••[P24-425]
Repealed Anti-Avoidance Provisions	••[P24-430]
Fraudulent Conveyances.....	•[P24-435]
ACCOUNTING ASPECTS.....	[P24-800]
Recommended Method	•[P24-820]
CICA Handbook Section 3860	•[P24-840]
IV – SUBSECTIONS 85(2) AND (3): PARTNERSHIPS	[P25-025]
TRANSFER BY A PARTNERSHIP	[P25-040]
Conditions of Application.....	•[P25-050]
Property Eligible for Transfer	••[P25-060]
Partnership Property.....	••[P25-090]
Election Made By All the Partners.....	••[P25-100]
Former Partner Who Has Retained a Residual Interest	••[P25-105]
Subsections 85(2) and 98(2)	••[P25-115]
Transfer to More Than One Corporation	••[P25-120]
WINDING-UP THE PARTNERSHIP.....	[P25-140]
Conditions of Application of Subsection 85(3)	•[P25-185]
Transfer Pursuant to Subsection 85(2).....	••[P25-210]
Winding-Up the Partnership.....	••[P25-235]
No Property Before the Winding-Up	••[P25-335]
A Note Is Not Money	•••[P25-336]
Only One Transferee	•••[P25-365]
Precedence of the Rules of Subsection 85(3)	••[P25-375]
Cost of the Consideration Received in Exchange for a Partnership Interest.....	•[P25-405]
Cost of the Consideration Other Than Shares	••[P25-435]
Cost of Consideration.....	••[P25-465]
Cost of Common Shares.....	••[P25-535]
Deemed Proceeds of Disposition of the Partnership Interest.....	•[P25-630]
Deemed Proceeds of Disposition for the Partnership	•[P25-680]
Subsections 85(2) and (3) and Flow-Through Shares	•[P25-700]
Alternatives to Subsections 85(2) and (3).....	•[P25-710]
ADDITIONAL TAX	[P25-725]

**V – STOP-LOSS RULES WITHIN A CORPORATE GROUP –
NON-DEPRECIABLE CAPITAL PROPERTY:**

SUBSECTION 40(3.4) [P26-000]

LOSS DENIED.....[P26-020]

APPLICATION OF SUBSECTION 40(3.4).....[P26-025]

 “Affiliated Persons”•[P26-030]

 Conditions of Application•[P26-035]

 Deeming Provisions.....••[P26-040]

 Stop-Loss Rules in Subsection 40(3.4).....•[P26-045]

 Loss on Shares.....•[P26-050]

APPLICATION OF FORMER SUBSECTION 85(4).....[P26-075]

 Depreciable Property Excluded.....•[P26-095]

 Purchase and Redemption of Shares By a Corporation.....•[P26-105]

 Control Immediately After the Disposition•[P26-125]

 Control in Fact.....••[P26-130]

EFFECTS OF FORMER SUBSECTION 85(4)[P26-170]

Loss Deemed to Be Nil.....[P26-180]

 Precedence of the Rules of Former Subsection 85(4).....••[P26-190]

 Addition to Adjusted Cost Base.....•[P26-220]

 Calculation of the Adjustment••[P26-240]

 Application of Former Subparagraph 85(4)(b)(ii)
 to Eligible Capital Property.....•••[P26-250]

 Eligible Capital Amount••[P26-300]

 Disposition of Several Eligible Capital Properties.....••[P26-330]

 Several Classes of Shares.....••[P26-340]

 Separate Application.....••[P26-350]

 Losses That Are Denied for Other Reasons.....••[P26-360]

 1971 Transitional Rules.....••[P26-410]

VI – DISPOSITION OF DEPRECIABLE PROPERTY:

SUBSECTION 85(5) [P26-525]

CONDITIONS OF APPLICATION OF SUBSECTION 85(5).....[P26-540]

 Cost of Property for all Other Purposes•[P26-570]

 Cost for the Purposes of Computing Capital Gains.....•[P26-580]

**VII – STOP-LOSS WITHIN A CORPORATE GROUP –
DEPRECIABLE PROPERTY: SUBSECTION 13(21.2)**

[P26-700]

LOSS DENIED.....[P26-701]

APPLICATION OF SUBSECTION 13(21.2).....[P26-702]

 “Affiliated Persons”•[P26-705]

 Condition of Application•[P26-708]

 Stop-Loss Rules in Subsection 13(21.2).....•[P26-710]

APPLICATION OF FORMER SUBSECTION 85(5.1).....[P26-715]

 Bill C-28.....•[P26-720]

 Transactions Between Specified Persons•[P26-735]

 “Immediately After”••[P26-740]

EFFECTS OF FORMER SUBSECTION 85(5.1).....[P26-745]

 Capital Cost of the Property Transferred.....•[P26-755]

 Cost of the Property Received.....•[P26-765]

 Order of Disposition.....•[P26-775]

 Former Paragraph 85(5.1)(e) and Legal Form.....••[P26-778]

Precedence of Former Subsection 85(5.1).....	••[P26-785]
Planning Note.....	••[P26-790]
VIII — FORMALITIES: SUBSECTION 85(6) TO (9)	[P26-900]
ASPECTS OF THE ELECTION	[P26-910]
Conditions	•[P26-920]
Elections Made by Executors.....	•[P26-925]
Property Omitted from the Election	•[P26-930]
Exclusion of a Property.....	•[P26-950]
Discrepancies Between Form and Agreement	•[P26-960]
Irrevocable Election.....	•[P26-970]
Amendment By Minister	•[P26-990]
Authorized Amendment	••[P27-000]
Automatic Adjustments to Elected Amounts.....	••[P27-010]
JOINT ELECTION	[P27-020]
Co-Owners	•[P27-030]
Common Election	••[P27-035]
Partnership and Corporation.....	•[P27-040]
FORMS T2057 AND T2058	[P27-060]
“Prescribed”	•[P27-070]
“Elected in Prescribed Form”	••[P27-080]
Remarks in Information Circulars	••[P27-090]
Incomplete Form	••[P27-110]
Administrative Position	•••[P27-120]
Revision of Forms	••[P27-130]
DELAYS.....	[P27-160]
Date for Filing a Tax Return	•[P27-200]
Non-Filing Year	••[P27-202]
Fisher Case	•••[P27-205]
Date for Filing a Tax Return — Partnership.....	•[P27-210]
Taxation Year in Which the Transaction Occurred.....	•[P27-220]
Election Pursuant to Subsection 25(1) and 99(2)	•[P27-225]
First Fiscal Period of a Corporation	•[P27-235]
FILING THE FORM	[P27-240]
Election Pursuant to Subsection 85(1).....	•[P27-243]
Election Pursuant to Subsection 85(2).....	•[P27-245]
LATE ELECTIONS.....	[P27-275]
Election Within Three Years	•[P27-285]
Retroactive Effect	••[P27-315]
New Assessment	•••[P27-325]
Conditional Election.....	•••[P27-345]
Election Subject to Minister’s Consent.....	•[P27-350]
Late Election By Wound-Up Corporation	•[P27-355]
PENALTIES FOR LATE ELECTIONS.....	[P27-365]
Computation of the Penalty	•[P27-375]
Role of the Minister	•[P27-385]
Interest.....	••[P27-395]
IX — REFERENCES	[P27-500]
LEGISLATION	[P27-505]
CASE LAW	[P27-510]
BIBLIOGRAPHY	[P27-515]
INTERPRETATION BULLETINS, INFORMATION CIRCULARS AND ADVANCE RULINGS	[P27-520]

X — SECTION 85 CHECKLIST	[P27-600]
BASIC INFORMATION	[P27-605]
Parties • [P27-610]	
Information Required	• [P27-620]
Description of Shares Received	• [P27-625]
Particulars of Eligible Property Disposed of and Consideration Received	• [P27-630]
Delay • [P27-655]	
Change of Name	• [P27-660]
History of Previous Transfers	• [P27-665]
CORPORATE LAW	[P27-670]
Legal Documents	• [P27-675]
Corporate Procedures	• [P27-680]
Stated Capital Account	• [P27-685]
INCOME TAX	[P27-690]
Applicability of Section 85	• [P27-695]
Application of Section 85.1	•• [P27-700]
Application of Section 86	•• [P27-705]
Precedence of Subsection 85(3)	•• [P27-710]
Anti-Avoidance Provision	•• [P27-715]
Capital Gains Exemption	•• [P27-720]
Attribution Rules	•• [P27-725]
Benefit of Realizing Gains	•• [P27-730]
Determine the Nature of the Gains	•• [P27-735]
International Conventions	•• [P27-740]
Parties • [P27-750]	
Transferor	• [P27-755]
Non-Resident Transferor	•• [P27-760]
Transferee	•• [P27-765]
Non-Arm's Length	•• [P27-770]
Eligible Property	• [P27-775]
Definition	•• [P27-780]
Ownership	•• [P27-785]
Nature of the Property (Transferee)	•• [P27-790]
Capital Property	•• [P27-795]
Depreciable Capital Property	• [P27-800]
Eligible Capital Property	•• [P27-805]
Inventory	•• [P27-810]
Canadian and Foreign Resource Properties	•• [P27-815]
Taxable Canadian Property	•• [P27-820]
Real Property of a Non-Resident Insurer	•• [P27-825]
Property Used in a Business Carried on in Canada	•• [P27-827]
Security or Debt Obligation	•• [P27-830]
Identical Properties	•• [P27-835]
Leasing Property	•• [P27-840]
Rental Property in a Separate Class	•• [P27-845]
Various Types of Property	•• [P27-850]
Shares Acquired Pursuant to Stock Option	•• [P27-855]
Agreed Amount	• [P27-860]
General Parameters	•• [P27-865]
Capital Property	•• [P27-870]
Capital Property Acquired Before 1972	•• [P27-875]
Inventory of a Farming Business	•• [P27-877]
Eligible Capital Property	•• [P27-880]
Eligible Capital Property Acquired Before 1972	•• [P27-885]
Depreciable Property	•• [P27-890]
Depreciable Property Acquired Before 1972	•• [P27-895]

Depreciable Property Other Than That in a Prescribed Class.....	••[P27-900]
Canadian and Foreign Resource Properties.....	••[P27-905]
Passenger Vehicle.....	••[P27-910]
Inventory.....	••[P27-940]
Securities Constituting Other Property.....	••[P27-945]
Valuation.....	••[P27-950]
Valuation: Capital Property Owned Before 1972.....	••[P27-955]
Valuation: Eligible Capital Property Acquired Before 1972.....	••[P27-960]
Expenses of the Sale.....	••[P27-965]
Consideration.....	•[P27-970]
General.....	••[P27-975]
Cost of Consideration Other Than Shares.....	••[P27-980]
Cost of Preferred Shares.....	••[P27-985]
Cost of Common Shares.....	••[P28-000]
Cost of Identical Properties.....	••[P28-005]
Taxable Canadian Property.....	••[P28-010]
Paid-Up Capital of Shares Received as Consideration.....	••[P28-015]
Disposition Involving a Benefit.....	•[P28-020]
Price Adjustment Clause.....	•[P28-030]
Order of Disposition.....	•[P28-035]
Various Matters.....	•[P28-040]
Change of Fiscal Period.....	••[P28-045]
Former Business Property.....	••[P28-050]
Leasehold.....	••[P28-055]
Reserves.....	••[P28-060]
Capital Surplus on Hand.....	••[P28-065]
Installments.....	••[P28-070]
Losses •[P28-075]	
Application of Former Subsection 85(4).....	••[P28-080]
Former Paragraph 40(2)(e).....	••[P28-090]
Former Subsection 85(5.1).....	••[P28-100]
Estate Freeze.....	•[P28-105]
Characteristics of Preferred Shares.....	••[P28-110]
Attribution Rules.....	•[P28-115]
PARTNERSHIPS.....	[P28-130]
Transfer By a Partnership.....	•[P28-135]
Winding-up the Partnership.....	•[P28-140]
General.....	••[P28-145]
Winding-Up.....	••[P28-150]
Property Owned By the Partnership.....	••[P28-155]
Cost of Consideration.....	••[P28-160]
Proceeds From the Disposition.....	••[P28-165]
FORMALITIES.....	[P28-230]
General.....	•[P28-235]
Forms •[P28-240]	
Parties to the Election.....	•[P28-245]
Property That Is Not Eligible for Transfer.....	•[P28-250]
Prescribed Time for Filing.....	•[P28-255]
New Election.....	•[P28-260]
Amended Election.....	•[P28-265]
Late Election.....	•[P28-270]
MATTERS RELATING TO EMPLOYMENT.....	[P28-285]
Pensions and Other Plans.....	•[P28-290]
Social Programs.....	•[P28-295]
VARIOUS MATTERS.....	[P28-310]
Contract.....	•[P28-330]
Documents.....	•[P28-335]

Table of Contents

12/2016

Advance Ruling.....	•[P28-340]
Government Programs.....	•[P28-350]
Investment in Canada.....	•[P28-360]
Financing.....	•[P28-365]
Bulk Sales.....	•[P28-370]
Accounting Aspects.....	•[P28-375]

CAPITAL TRANSACTIONS

In addition to the commentary detailed below, this chapter also includes a Research Index (at page 2403) and a Documents section (at page 3469). The latter contains relevant material issued by the Canada Revenue Agency.

I — EXCHANGE	[P30-000]
INTRODUCTION	[P30-015]
EXCHANGE OF DEBT FOR SHARES	[P30-050]
Availability of Shares	•[P30-065]
Consideration for Shares	•[P30-080]
Stated Capital Account	•[P30-140]
Exceptions	••[P30-155]
EXCHANGE OF SHARES FOR SHARES	[P30-190]
Consideration for Shares	•[P30-205]
Stated Capital Account	•[P30-225]
Status of Shares	•[P30-250]
Conditions and Terms of Exchange	••[P30-295]
Interconvertible Shares	••[P30-325]
CORPORATE PROCEDURES	[P30-390]
AMENDING THE ARTICLES	[P30-635]
Shareholders' Resolution	•[P30-650]
Separate Vote	•[P30-665]
Coming Into Force	•[P30-695]
Arrangement	•[P30-710]
Insolvent Corporation	•[P30-725]
Powers of Court	•[P30-730]
Sending the Amendment to the Director and its Entry Into Force	•[P30-740]
TAKE-OVER BID	[P30-775]
Right to Acquire the Shares	••[P31-165]
Notice	••[P31-180]
Failure to Receive Notice	••[P31-185]
Deemed Trust	•[P31-195]
Duties of the Dissenting Offerees	••[P31-210]
Duties of the Offeree Corporation	••[P31-225]
Rights of Dissenting Offerees	••[P31-240]
Decision of the Court	••[P31-255]
II — SMALL BUSINESS ROLLOVER (SECTION 44.1)	[P31-310]
INTRODUCTION	[P31-315]
Conditions of Application	•[P31-320]
QUALITATIVE CONDITIONS	[P31-330]
Notion of “Qualifying Disposition”	•[P31-335]
Notion of “Eligible Small Business Corporation Share”	••[P31-340]
First Condition: “Eligible Small Business Corporation”	•••[P31-345]
Assets Used in an Active Business	••••[P31-350]
Exclusions From Definition of “Eligible Small Business Corporation”	••••[P31-355]
Second Condition: Total Carrying Value of the Assets	•••[P31-360]
“Common Share” of an “Active Business Corporation”	•••[P31-365]
“Common Share”	•••[P31-370]
“Active Business Corporation”	•••[P31-375]
185-Day Holding Period	•••[P31-380]
Carrying on Business in Canada	•••[P31-385]

Table of Contents

04/2020

Continuity Rules	•••[P31-390]
Shares Received on Death or Breakdown of a Relationship.....	••••[P31-395]
Shares Received on a Corporate Reorganization	••••[P31-400]
Deemed Disposition When Going Public.....	••••[P31-405]
Identical Property Rules	•••[P31-410]
Permitted Deferral	•••[P31-415]
Replacement Shares.....	•••[P31-420]
QUANTITATIVE CONDITIONS THAT APPLIED FOR DISPOSITIONS	
PRIOR TO FEBRUARY 19, 2003	[P31-430]
Permitted Deferral	•[P31-435]
Qualifying Portion of the Proceeds of Disposition	••[P31-440]
“Qualifying Portion of a Capital Gain”	•••[P31-445]
Application of “Qualifying Portion of the Proceeds of	
Disposition”	•••[P31-450]
“Qualifying Cost”	•••[P31-455]
Application of “Permitted Deferral”.....	••[P31-460]
Replacement Shares.....	••[P31-465]
OTHER PROVISIONS.....	[P31-475]
Taxable Canadian Property.....	•[P31-480]
“Eligible Pooling Arrangement”	•[P31-485]
Anti-Avoidance Rule	•[P31-490]
Examples of Anti-Avoidance Rule	••[P31-495]
III — CONVERTIBLE PROPERTY (SECTION 51)	[P31-510]
GENERAL	[P31-515]
CONDITIONS OF APPLICATION.....	[P31-535]
ACQUISITION OF SHARES OF A CORPORATION.....	[P31-545]
Fractional Shares.....	•[P31-550]
Application Where Corporation Not Authorized to Issue Shares	•[P31-555]
EXCHANGE OF CAPITAL PROPERTY.....	[P31-560]
Type of Instrument	•[P31-565]
Undivided Interest in a Share	••[P31-570]
“Debenture” and “Obligation”	••[P31-575]
RIGHT OF CONVERSION	[P31-580]
Poison Pill Plans.....	•[P31-585]
Qualified Investment for a Registered Retirement Savings Plan	
(“RRSP”) and Other Deferred Savings Plans	•[P31-600]
Addition of a Right of Conversion	•[P31-610]
Person Initiating the Exchange.....	•[P31-615]
Share Exchange Prior to December 22, 1992	•[P31-620]
Whether Conversion Right Must Be Absolute	•[P31-625]
Automatic Conversion	•[P31-630]
ABSENCE OF OTHER CONSIDERATION.....	[P31-635]
Other Consideration	•[P31-638]
Poison Pill Plans.....	•[P31-640]
Rights Plan and Subsection 87(4)	•[P31-645]
Alternative Method	[P31-650]
EXCLUDED TRANSACTIONS	[P31-660]
NON-APPLICATION TO SWITCH FUNDS	[P31-670]
CONSEQUENCES OF SECTION 51	[P31-675]
DEFERRAL OF TAXATION	[P31-700]
Section 116 Compliance	•[P31-705]

Table of Contents

Qualified Investment for a Registered Retirement Savings Plan (“RRSP”) and Other Deferred Savings Plans	•[P31-707]
Non-Disposition Rule Not Applicable for Purposes of Subsection 20(21), 44.1(6), 44.1(7) and paragraph 94(2)(m)	•[P31-710]
Potential Problem in Applying Subsection 20(21)	••[P31-715]
Paragraph 51(1)(d.1) Cost Base Adjustment	•[P31-720]
CONVERTIBLE PROPERTY OWNED BEFORE 1972: ITAR 26(24)	[P31-730]
Effect of ITAR 26(24).....	•[P31-745]
ITAR 26(28).....	•[P31-750]
Election Regarding Application of ITAR 26(28)	•[P31-751]
Difficulty with ITAR 26(28) Transitional Rule	••[P31-755]
Election Under ITAR 26(7).....	•[P31-760]
Election Already Made	•[P31-775]
Pre-1972 Capital Surplus on Hand.....	•[P31-790]
 BENEFIT CONFERRED (51(2))	 [P31-845]
The Taxpayer’s Intention.....	•[P31-850]
Wholly-Owned Subsidiary Exception.....	•[P31-855]
Deemed Proceeds of Disposition	•[P31-880]
Cost of Shares.....	•[P31-925]
PAID-UP CAPITAL ADJUSTMENT	[P31-950]
Transitional Rule for Subsection 51(3).....	•[P31-955]
 OTHER MATTERS	 [P31-975]
IDENTICAL PROPERTIES.....	[P31-985]
REPLACED OR SUBSTITUTED SHARES.....	[P32-010]
STOCK OPTION	[P32-140]
Nature of Property.....	•[P32-150]
No Disposition for Purposes of Stock Option Benefit Rules	•[P32-165]
Multiple Share Exchanges.....	••[P32-166]
ACCRUED INTEREST FOREGONE	[P32-180]
LOSS ON THE TRANSFER OF A SHARE	[P32-205]
Subsection 112(3).....	•[P32-230]
Subsection 112(7).....	•[P32-245]
Loss Deemed to Be Nil Pursuant to Paragraph 51(2)(e).....	••[P32-260]
ALLOWABLE BUSINESS INVESTMENT LOSS AND GAAR.....	[P32-275]
SHAREHOLDER BENEFIT.....	[P32-290]
CANCELLATION OF A DEBT	[P32-300]
CAPITAL DIVIDEND AND SUBSECTION 83(2.1).....	[P32-310]
CORPORATE REORGANIZATIONS AND SUBSECTION 56(2).....	[P32-315]
EXCHANGE BY A NON-RESIDENT.....	[P32-325]
Paragraph 115(1)(b).....	•[P32-335]
Taxable Canadian Property.....	•[P32-340]
Interest in or Option in Taxable Canadian Property	•[P32-350]
Options and Taxable Canadian Property.....	•[P32-355]
Formalities of Section 116	•[P32-365]
“Excluded Property”	••[P32-380]
Section 214.....	•[P32-410]
TERMINATION OF RESIDENCE	[P32-430]
Deemed Disposition of Property	•[P32-440]
Possibility of Deferral.....	••[P32-455]
Property Received in Exchange.....	••[P32-458]
Department of Finance Comfort Letter	••[P32-460]

ISSUER'S FOREIGN EXCHANGE GAIN ON DEBT CONVERSION.....	[P32-475]
III.1 — REFERENCES	[P32-550]
LEGISLATION	[P32-560]
CASE LAW	[P32-570]
BIBLIOGRAPHY	[P32-580]
INTERPRETATION BULLETINS, INFORMATION CIRCULARS, ADVANCE RULINGS, AND INCOME TAX TECHNICAL NEWS	[P32-590]
CHECKLIST FOR SECTION 51	[P32-600]
BASIC INFORMATION	[P32-601]
Parties •[P32-602]	
Capital Stock	•[P32-603]
Paid-Up Capital	•[P32-604]
Convertible Property	•[P32-605]
Exchange of Securities	•[P32-607]
Exchange of Shares	•[P32-610]
INCOME TAX	[P32-611]
Convertible Property	•[P32-613]
Consideration	•[P32-614]
RIGHT OF CONVERSION	[P32-616]
Cost •[P32-617]	
Attribution Rules.....	•[P32-618]
Property Acquired Before 1972	•[P32-619]
Indirect Benefit	•[P32-620]
Identical Properties	•[P32-621]
Replaced Shares	•[P32-622]
Stock Option Benefits	•[P32-623]
Losses •[P32-624]	
Cancellation of Debt	•[P32-625]
Exchange By a Non-Resident	•[P32-626]
Termination of Residence	•[P32-627]
IV — BOND CONVERSION (SECTION 51.1)	[P32-650]
GENERAL	[P32-660]
Exchanges After October 1994	•[P32-665]
CONDITIONS OF APPLICATION	[P32-685]
OBLIGATIONS OF THE SAME DEBTOR	[P32-700]
Same Debtor in the Context of an Amalgamation or a Winding-Up.....	•[P32-730]
RIGHT TO MAKE THE EXCHANGE.....	[P32-780]
AMOUNT PAYABLE ON MATURITY	[P32-815]
Foreign Exchange	•[P32-830]
Imperial Oil Ltd. v. Canada; Inco Ltd. v. Canada	••[P32-835]
Tembec v. R	••[P32-840]
Benefit Conferred	•[P32-845]
CONSEQUENCES OF SECTION 51.1	[P32-890]
ROLLOVER OF COST BASE	[P32-915]
CONVERTIBLE BOND OWNED BEFORE 1972: ITAR 26(25).....	[P32-930]

VARIOUS MATTERS	[P33-040]
CANCELLATION OF DEBTS	[P33-050]
EXCHANGE BY A NON-RESIDENT	[P33-075]
Section 214	•[P33-100]
Effect of the Deeming Provision	••[P33-115]
TERMINATION OF RESIDENCE	[P33-125]
Disposition of Property	•[P33-140]
Administrative Position	•[P33-155]
FORMER SECTION 77	[P33-200]
Consequences of Section 77	•[P33-205]
Convertible Bond Owned Before 1972: ITAR 26(25)	••[P33-210]
ITAR 26(28)	••[P33-211]
Difficulty with ITAR 26(28) Transitional Rule	••[P33-212]
Election Pursuant to ITAR 26(7)	••[P33-213]
Combination of Presumptions	•••[P33-214]
Pre-1972 Capital Surplus on Hand	•[P33-215]
IV.1 — REFERENCES	[P33-225]
CASE LAW	[P33-230]
LEGISLATION	[P33-235]
BIBLIOGRAPHY	[P33-240]
INTERPRETATION BULLETINS AND INCOME TAX TECHNICAL NEWS	[P33-245]
CHECKLIST — SECTION 51.1	[P33-250]
BASIC INFORMATION	[P33-252]
Parties •[P33-254]	
Convertible Obligation	•[P33-256]
INCOME TAX	[P33-258]
Bond, Debenture or Other Note	•[P33-260]
Debtor	•[P33-262]
Right to Make the Exchange	•[P33-266]
Amount Payable on Maturity	•[P33-268]
Benefit Conferred	•[P33-270]
Deemed Amount	•[P33-272]
Property Acquired Before 1972	•[P33-274]
Cancellation of Debt	•[P33-276]
Exchange By a Non-Resident	•[P33-278]
Termination of Residence	•[P33-280]
FORMER SECTION 77	[P33-282]
Conversion of Bonds	•[P33-283]
Capital Property or Inventory	•[P33-284]
Consequences	•[P33-285]
Convertible Bond Owned Prior to 1972	•[P33-286]
V — NON-ARM'S LENGTH SALE OF SHARES (SECTION 84.1)	[P33-300]
APPLICATION	[33-311]
GENERAL DESCRIPTION	[P33-325]
CONDITIONS OF APPLICATION	[P33-360]
First Condition: Disposition of Shares	•[P33-370]
Second Condition: Subject Corporation	•[P33-440]
Third Condition: Capital Property	•[P33-475]

Table of Contents

06/2022

Fourth Condition: Transfer to Non-Arm's Length Corporation	•[P33-510]
Non-Arm's Length Deeming Provisions	••[P33-555]
Paragraph 84.1 (2)(b)	•••[P33-570]
Subsection 84.1(2.2)	•••[P33-600]
Paragraph 84.1(2)(d)	•••[P33-650]
Paragraph 84.1(2)(e)	•••[P33-652]
Nephews and Uncles	•••[P33-655]
Question of Fact	••••[P33-660]
De Facto Arm's Length Dealings Will Not Be Recognized	•••[P33-670]
Case Study	•••[P33-675]
McMullen v. R.	•••[P33-678]
Emory v. R.	•••[P33-679]
Comfort Letter: Subsection 55(3)Fifth Condition: Connected Corporation. •	[P33-680]
Meaning of Ownership	••[P33-685]
Control	••[P33-710]
Meaning of Having Full Voting Rights Under All Circumstances	••[P33-712]
Meaning of "Immediately After"	••[P33-715]

EFFECT OF SECTION 84.1

[P33-900]

REDUCTION OF THE PAID-UP CAPITAL	[P33-910]
Explanation of the Formula	•[P33-920]
Planning	•[P33-935]
Immediate Reduction	•[P33-940]
Permanent Reduction	•[P33-945]
Reduction Associated With the Class	•[P33-948]
Addition to Paid-Up Capital	•[P33-950]
Effect of Subsection 84.1(3)	••[P33-960]
Shareholders Affected By Reduction in Paid-Up Capital	••[P33-965]
"Modified" Adjusted Cost Base	•[P33-980]
1971 Transitional Rules	••[P33-987]
Non-Arm's Length Acquisition	••[P33-988]
Shares Acquired By Trust Pursuant to Deceased Taxpayer's Will	•••[P33-988A]
Shares Acquired Pursuant to Buy-Sell Agreement	•••[P33-988B]
Exemption Claimed By Trust Beneficiaries	•••[P33-988C]
Subsection 84.1(2.1)	••[P33-989]
Non-Arm's Length Deeming Provision	••[P33-992]
Establishing the Adjusted Cost Base	•[P33-995]
DEEMED DIVIDEND	[P34-010]
Explanation of the Formula	•[P34-020]
Characteristics of the Deemed Dividend	•[P34-025]
Planning	••[P34-030]
Consequences of the Deemed Dividend	•[P34-035]
Admissibility of Deemed Dividend for a Dividend Refund, Capital Dividend and Eligible Dividend Designation	•[P34-037]
Reduction of the Proceeds of Disposition	•[P34-040]
Designation of Shares	•[P34-050]
The General Anti-Avoidance Rule (the "GAAR") and Section 84.1	•[P34-060]
Descarries v. The Queen (Informal Procedure)	•[P34-061]
Pomerleau c. La Reine	•[P34-061]
1245989 Alberta Ltd. v. The Queen; Perry Wild v The Queen	•[P34-061]

V.1 — REFERENCES

[P34-410]

LEGISLATION	[P34-415]
CASE LAW	[P34-420]
BIBLIOGRAPHY	[P34-425]

Table of Contents

INTERPRETATION BULLETINS AND ADVANCE RULINGS	[P34-430]
VI — SHARE-FOR-SHARE EXCHANGE (SECTION 85.1)	[P34-435]
GENERAL	[P34-445]
ELIGIBILITY OF PARTNERSHIP	[P34-450]
CONDITIONS OF APPLICATION OF SUBSECTION 85.1(1)	[P34-470]
EXCHANGE OF SHARES OF A TAXABLE CANADIAN CORPORATION	[P34-485]
EXCHANGE OF SHARES THAT ARE CAPITAL PROPERTY	[P34-495]
PURCHASER WHICH IS A CANADIAN CORPORATION	[P34-505]
CONSIDERATION CONSISTS OF SHARES OF PURCHASER.....	[P34-515]
EXCLUSIONS	[P34-655]
Exclusion if Non-Arm’s Length.....	•[P34-680]
Agreement Prior to the Exchange	••[P34-690]
Exchanges Occurring Before December 22, 1992	•••[P34-695]
Exclusion if Control of Purchaser Is Acquired.....	•[P34-705]
Meaning of “Immediately After”.....	••[P34-710]
Interaction Between 85.1 and 84(2) — Tremblay et al. v. R.....	••[P34-750]
Exclusion if Election Pursuant to Subsections 85(1) and (2).....	•[P34-760]
Agency Position on Tremblay.....	••[P34-775]
Election Under Section 85 By Other Taxpayers	••[P34-790]
Exclusion if Other Consideration Received	•[P34-830]
Exclusion if the Vendor Is a Foreign Affiliate	•[P34-832]
Exclusion for Exchanges of Shares in a Switch Fund	•[P34-833]
Shares of One Class Only	••[P34-835]
Consideration Other Than Shares.....	•[P34-840]
Right to Receive Shares	••[P34-842]
Put Agreements	••[P34-845]
Earn-out Clauses	••[P34-850]
Other Consideration	••[P34-853]
Poison Pill Plans.....	••[P34-855]
Structuring an Exchange for Mixed Consideration	••[P34-860]
GAAR and the Allocation of Consideration Other Than Shares.....	••[P34-861]
Fraction of a Share	••[P34-890]
Proceeds of Disposition.....	••[P34-905]
Share Exchange Involving Foreign Affiliates	•[P34-925]
EFFECT OF SUBSECTION 85.1(1)	[P34-975]
NON-ELECTIVE APPLICATION.....	[P34-985]
CONSEQUENCES FOR THE VENDOR	[P35-010]
Vendor’s Tax Treatment.....	•[P35-070]
Costs of the Exchange	•[P35-085]
ITAR 26(26): Presumption of Continuity	•[P35-115]
Problem of Interpretation	••[P35-130]
Presumption of Continuity.....	••[P35-145]
Exchange Covered By 85.1(1)	••[P35-160]
ITAR 26(7): Election	•[P35-205]
ITAR 26(28).....	•[P35-220]
Election Regarding Application of ITAR 26(28)	••[P35-221]
Difficulty with ITAR 26(28) Transitional Rule	••[P35-230]
Prior Share Transactions	••[P35-250]

Table of Contents

06/2022

ITAR 26(8): Shares Divided Into Two Groups	•[P35-265]
Taxable Canadian Property	•[P35-280]
Formalities of Section 116	••[P35-295]
“Excluded Property”	•[P35-325]
CONSEQUENCES FOR THE PURCHASER.....	[P35-350]
Determination of Cost	•[P35-365]
Exchanges Prior to February 18, 1987	••[P35-367]
Exchanges After February 17, 1987.....	••[P35-370]
DISPOSITION OF SHARES OF FOREIGN AFFILIATE	[P35-375]
Subsection 85.1(3) Not Applicable	•[P35-377]
FOREIGN SHARE-FOR-SHARE EXCHANGES	[P35-380]
Conditions of Application.....	•[P35-382]
Administrative Positions.....	••[P35-385]
Share Exchange Following an Amalgamation.....	••[P35-386]
Where Subsection 85.1(5) Does Not Apply	•[P35-390]
Subsection 85.1(6).....	••[P35-392]
Opting Out by the Vendor	••[P35-394]
Paragraph 85.1(6)(c) — Consideration Other Than Shares	••[P35-396]
Right to Receive Shares	••[P35-397]
EFFECT OF SUBSECTION 85.1(5).....	[P35-400]
Vendor’s Tax Treatment.....	•[P35-405]
Taxable Canadian Property.....	•[P35-410]
EXCHANGE OF SIFT UNITS FOR SHARES OF A CORPORATION.....	[P35-420]
VARIOUS MATTERS	[P35-480]
PAID-UP CAPITAL OF THE SHARES RECEIVED.....	[P35-485]
Computation of the Reduction in Paid-Up Capital.....	•[P35-500]
Addition to the Paid-Up Capital of the Class.....	•[P35-510]
Application of Subsection 85(2.1) Versus Subsection 85.1(2.1).....	•[P35-515]
STOCK OPTIONS	[P35-530]
Exchange of Shares	•[P35-540]
Multiple Share Exchanges.....	••[P35-541]
Exchange of Stock Options	•[P35-545]
Exchange of Stock Options Prior to 1988.....	•[P35-550]
Buccini v. The Queen.....	•[P35-555]
Disposition of Identical Properties Acquired Under a Section 7 Securities Option	•[P35-560]
REPLACED OR SUBSTITUTED SHARES.....	[P35-580]
LOSS ON A TRANSFER OF SHARES	[P35-670]
TERMINATION OF RESIDENCE	[P35-735]
Deemed Disposition of Property	•[P35-737]
Possibility of Deferral	••[P35-740]
Property Received in Exchange.....	••[P35-742]
Department of Finance Comfort Letter	••[P35-745]
VI.1 — REFERENCES	[P35-750]
LEGISLATION	[P35-755]
CASE LAW	[P35-760]
BIBLIOGRAPHY	[P35-765]
INTERPRETATION BULLETINS, INFORMATION CIRCULARS, INCOME TAX TECHNICAL NEWS, AND INCOME TAX FOLIOS	[P35-770]
CHECKLIST — SECTION 85.1	[P35-775]

Table of Contents

BASIC INFORMATION	[P35-776]
Parties	•[P35-777]
Capital Stock	•[P35-778]
Distribution of Shares	•[P35-779]
Paid-Up Capital	•[P35-780]
INCOME TAX	[P35-798]
Section 85	•[P35-799]
Property Exchanged	•[P35-800]
Purchaser	•[P35-801]
Acquired Corporation	•[P35-802]
Consideration	•[P35-803]
Where Subsection 85.1(1) Does Not Apply	•[P35-804]
Property Acquired Before 1972	•[P35-805]
Taxable Canadian Property	•[P35-806]
Proceeds of Disposition	•[P35-807]
Cost	•[P35-808]
Paid-Up Capital	•[P35-809]
Stock Options	•[P35-810]
Replaced Shares	•[P35-811]
Loss on a Disposition of Shares	•[P35-813]
Termination of Residence	•[P35-814]
FORMALITIES	[P35-815]
Offer to Purchase	•[P35-816]
Various Formalities	•[P35-817]
VII — EXCHANGE OF SHARES BY A SHAREHOLDER IN THE COURSE OF REORGANIZATION OF CAPITAL (SECTION 86)	[P35-825]
GENERAL	[P35-835]
CONDITIONS FOR THE APPLICATION OF SECTION 86	[P35-875]
DISPOSITION OF SHARES HELD AS CAPITAL PROPERTY	[P35-925]
Reclassification of Shares	•[P35-940]
Stock Splitting and Consolidation	•[P35-955]
Consolidation of Shares and Consideration for Share Fractions	•[P35-957]
Disposition of a Security	•[P35-970]
Non-Disposition of a Security	•[P35-985]
SHARES WHICH ARE THE OBJECT OF THE DISPOSITION	[P36-010]
Series of a Class	•[P36-025]
REORGANIZATION OF CAPITAL	[P36-065]
Automatic Right of Conversion	•[P36-090]
CONSIDERATION COMPRISING SHARES	[P36-120]
Conversion of Shares	•[P36-125]
EXCLUDED TRANSACTIONS	[P36-145]
NON-APPLICATION TO SWITCH FUNDS	[P36-148]
COMPARISON OF SUBSECTION 85(1) AND SECTION 86	[P36-150]
CONSEQUENCES OF SECTION 86	[P36-190]
DETERMINATION OF COST	[P36-200]
Cost of the Consideration Other Than Shares	•[P36-215]
Cost of the New Shares	•[P36-230]
Several Classes or Series	••[P36-245]
Cost Equal to Nil	••[P36-260]

Table of Contents

06/2022

Aggregate Cost.....	•[P36-275]
PROCEEDS OF DISPOSITION.....	[P36-300]
Capital Loss.....	•[P36-330]
Transitional Rules: ITAR 26(27).....	•[P36-345]
ITAR 26(5).....	•[P36-360]
Election Regarding Application of ITAR 26(28).....	••[P36-361]
Difficulty With ITAR 26(28) Transitional Rule.....	••[P36-380]
Prior Share Exchange Transactions.....	••[P36-390]
Other Conditions of Application.....	••[P36-400]
Series of a Class.....	•••[P36-420]
Effect of the Transitional Rules.....	••[P36-435]
Inapplicability of Presumption.....	••[P36-450]
ITAR 26(7): Election on Reorganization of Capital.....	••[P36-465]
Shares Acquired Before 1972 and After 1971.....	••[P36-480]
INDIRECT BENEFIT (86(2)).....	[P36-520]
GENERAL.....	[P36-525]
CONDITIONS OF APPLICATION.....	[P36-540]
Fair Market Value of the Shares.....	•[P36-555]
Minimum Entitlement for Estate Freeze Shares.....	•[P36-560]
Nature of the Benefit.....	•[P36-570]
Benefits Derived Via a Trust.....	•[P36-572]
Price Adjustment Clauses.....	•[P36-575]
Wholly-Owned Subsidiary Exception.....	•[P36-580]
Application of Subsection 15(1) and Paragraph 69(1)(b).....	•[P36-585]
EFFECT OF SUBSECTION 86(2).....	[P36-610]
Proceeds of Disposition.....	•[P36-625]
Cost of the New Shares.....	•[P36-640]
Loss Equal to Nil.....	•[P36-655]
OTHER CONSIDERATIONS.....	[P36-700]
DIVIDEND FOR THE SHAREHOLDERS.....	[P36-750]
Establishing the Paid-Up Capital.....	•[P36-780]
Stated Capital in Corporate Law.....	••[P36-795]
Non-Arm's Length.....	••[P36-810]
Conversion or Amendment.....	••[P36-825]
Paid-Up Capital Adjustment.....	•[P36-845]
Paid-Up Capital Adjustment — Subsection 86(2.1).....	•[P36-845A]
Transitional Rule for Subsection 86(2.1).....	•••[P36-846]
Paid-Up Capital Shift and GAAR.....	••[P36-848]
Cumulative Unpaid, Undeclared Dividends.....	•[P36-850]
STOCK OPTIONS.....	[P36-865]
Exchanges Prior to 1988.....	•[P36-866]
Exchanges for 1988 and Subsequent Taxation Years.....	•[P36-867]
Canadian-Controlled Private Corporations.....	•[P36-885]
Multiple Share Exchanges.....	••[P36-886]
Employee Stock Options for Shares Listed on a Designated Stock Exchange.....	••[P36-890]
Administrative Position Prior to 1985.....	••[P36-895]
REPLACED OR SUBSTITUTED SHARES.....	[P36-900]
ATTRIBUTION RULES.....	[P36-910]
CAPITAL GAINS EXEMPTION AND PRESCRIBED SHARE STATUS.....	[P36-950]
SOLE SHAREHOLDER.....	[P36-955]
DEDUCTIBILITY OF COSTS.....	[P36-975]

Table of Contents

LOSS ON THE TRANSFER OF SHARES	[P37-020]
Share That Is Capital Property	•[P37-045]
Period of Possession	•[P37-060]
SHARES OWNED BY A NON-RESIDENT	[P37-085]
Tax Liability of the Non-Resident	•[P37-100]
Formalities of Section 116	•[P37-105]
Foreign Exchange Gain or Loss	•[P37-115]
Share of a Public Corporation	•[P37-130]
TERMINATION OF RESIDENCE	[P37-155]
Deemed Disposition of Property	•[P37-170]
Possibility of Deferral	•[P37-175]
Property Received in Exchange	•[P37-185]
Department of Finance Comfort Letter	•[P37-187]
CPA CANADA HANDBOOK SECTION 3861	[P37-190]
VII.1 — REFERENCES	[P37-230]
LEGISLATION	[P37-235]
CASE LAW	[P37-237]
BIBLIOGRAPHY	[P37-240]
INTERPRETATION BULLETINS AND ADVANCE RULINGS, INFORMATION CIRCULARS, AND INCOME TAX FOLIOS	[P37-245]
CHECKLIST — SECTION 86	[P37-250]
BASIC INFORMATION	[P37-252]
Parties	•[P37-254]
Capital Stock	•[P37-256]
Distribution of Shares	•[P37-258]
Paid-Up Capital	•[P37-260]
CORPORATE LAW	[P37-262]
INCOME TAX	[P37-268]
Old Shares	•[P37-270]
Disposition of Shares	•[P37-272]
Reorganization of Capital	•[P37-274]
Excluded Transactions	•[P37-276]
Consideration	•[P37-278]
Cost of the Non-Share Consideration	•[P37-280]
Cost of the New Shares	•[P37-282]
Proceeds of Disposition	•[P37-284]
Property Acquired Before 1972	•[P37-286]
Indirect Benefit	•[P37-288]
Subsection 69(4)	•[P37-290]
Dividend for Shareholders	•[P37-292]
Stock Options	•[P37-294]
Replaced Shares	•[P37-296]
Attribution Rules	•[P37-298]
Loss on the Disposition of Shares	•[P37-302]
Shares Owned By a Non-Resident	•[P37-304]
Termination of Residence	•[P37-306]
VIII — FOREIGN SPIN-OFFS (SECTION 86.1)	[P37-310]
GENERAL	[P37-315]
CONDITIONS OF APPLICATION	[P37-325]
General	•[P37-330]

Table of Contents

06/2022

Eligible Distribution (Subsection 86.1(2)).....	••[P37-335]
Share Fractions	••[P37-336]
Poison Pill Plans.....	••[P37-337]
Non-Prescribed Distributions (Paragraph 86.1(2)(c))	•••[P37-340]
Prescribed Distributions (Paragraph 86.1(2)(d)).....	•••[P37-345]
Information to Be Provided by a Particular Corporation (Paragraph 86.1(2)(e))	••[P37-350]
Meaning of “Information Satisfactory to the Minister”	••[P37-352]
Election by Taxpayer (Paragraph 86.1(2)(f)).....	••[P37-355]
Establishing Whether Conditions Fulfilled	•••[P37-357]
Possession of Tax Receipts Reporting a Foreign Dividend	•••[P37-360]
Late Elections	•••[P37-365]
Section 86.1 and Taxpayers Subject to Part XI of the Act	•••[P37-370]
Mexican <i>Escision</i> and Section 86.1	•••[P37-372]
Allen v. P.....	•••[P37-373]
EFFECT OF SECTION 86.1 ELECTION	[P37-375]
Eligible Amount Excluded From Income (Subsection 86.1(1))	•[P37-380]
Determination of the Cost Amount of the Shares (Paragraph 86.1(3)(a))	•[P37-385]
Cost Amount Where Whole Shares Are Exchanged for Share Fractions....	•[P37-386]
Calculation of Value of Inventory Where Shares Are Held as Inventory (Subsection 86.1(4))	•[P37-387]
Reassessments by the Agency	•[P37-388]
Tax-free Treatment in the Absence of Section 86.1	•[P37-389]
VIII.1 — REFERENCES	[P37-390]
LEGISLATION	[P37-391]
CASE LAW	[P37-392]
BIBLIOGRAPHY	[P37-393]
INFORMATION CIRCULARS AND TAX TECHNICAL NEWS	[P37-394]
IX — NON-ARM’S LENGTH SALES OF SHARES BY NON-RESIDENTS (SECTION 212.1)	[P37-395]
GENERAL	[P37-396]
GENERAL DESCRIPTION.....	[P37-397]
CONDITIONS OF APPLICATION	[P37-400]
GENERAL	[P37-401]
DISPOSITION OF SHARES BY A NON-RESIDENT	[P37-425]
Dairy Queen Canada	•[P37-430]
CHARACTERISTICS OF THE SUBJECT SHARES	[P37-495]
NON-ARM’S LENGTH DISPOSITION TO A CANADIAN CORPORATION	[P37-550]
Moment at Which the Non-Arm’s Length Relationship Must Exist.....	•[P37-580]
Right Under Paragraph 251(5)(b)	•[P37-595]
Paragraph 212.1(3)(a)	•[P37-610]
Paragraph 212.1(3)(b)	•[P37-640]
Presumption of Ownership.....	•[P37-655]
Beneficiary of a Trust	•[P37-660]
Paragraph 212.1(3)(c).....	•[P37-670]
Paragraph 212.1(3)(d)	•[P37-685]
Paragraph 212.1(3)(e).....	•[P37-690]
Paragraph 212.1(3)(f).....	•[P37-695]
Question of Fact.....	•[P37-700]

Table of Contents

La Survivance v. R. and its Potential Application to 212.1	•[P37-710]
PURCHASER CORPORATION CONNECTED WITH THE SUBJECT	
CORPORATION	[P37-725]
Subsection 186(4).....	•[P37-740]
Control	•[P37-755]
Meaning of Having Full Voting Rights Under All Circumstances	••[P37-760]
Moment at Which the Corporations Must Be Connected	•[P37-785]
CONTROLLED NON-RESIDENT	[P37-810]
Subsection 212.1(5) — Tiered Trusts and Partnerships	•[P37-825]
Subsection 212.1(6) — Trusts and Partnerships Look-Through Rule	•[P37-835]
Subsection 212.1(6) and Graduated Rate Estates.....	•[P37-840]
Subsection 212.1(7) — Avoidance of Subsections 212.1(5) and (6).....	•[P37-845]
 EFFECT OF SECTION 212.1	 [P37-870]
GENERAL	[P37-875]
PARAGRAPH 212.1(1)(a)	[P37-885]
Deemed Dividend	•[P37-900]
Withholding of Tax.....	•[P37-930]
Withholding and Remittance of the Tax Payable	•[P37-935]
Placements Serco Ltée.....	•[P37-945]
Tax Treaties	•[P37-960]
Reduction of the Proceeds of Disposition	•[P37-975]
Shares That Are Not Capital Property.....	•[P37-990]
Inventory	•[P38-005]
Planning	•[P38-035]
Calculation of Paid-Up Capital.....	•[P38-050]
PARAGRAPH 212.1(1)(b)	[P38-075]
Reduction of the Paid-Up Capital	•[P38-090]
Computation of the Reduction	•[P38-105]
Distribution of the Reduction.....	•[P38-120]
Planning	•[P38-135]
Immediate Reduction.....	•[P38-150]
Permanent Reduction	•[P38-165]
Addition to Paid-Up Capital	•[P38-180]
Computation of the Addition	•[P38-195]
Effect of Subsection 212.1(2)	•[P38-210]
Planning	•[P38-225]
GAAR and Section 212.1	•[P38-250]
 IX.1 — REFERENCES	 [P38-270]
LEGISLATION	[P38-275]
CASE LAW	[P38-280]
BIBLIOGRAPHY	[P38-285]
INTERPRETATION BULLETINS AND INFORMATION CIRCULARS	[P38-290]

(next page is 41)

AMALGAMATION

In addition to the commentary detailed below, this chapter also includes a Research Index (at page 3481), a Checklist (at page 3915) and a Documents section (at page 4137). The latter contains relevant material issued by the Canada Revenue Agency.

I	— AMALGAMATION OF CORPORATIONS	
	— CORPORATE LAW	[P40-000]
	INTRODUCTION	[P40-025]
	APPLICABLE PROVISIONS	[P40-490]
	Solvency Test.....	•[P40-495]
	Notice to Creditors	••[P40-500]
	Where the Directors Are Not Liable	••[P40-510]
	AMALGAMATION	[P40-525]
	Amalgamation Agreement	•[P40-540]
	Stated Capital Account	••[P40-555]
	Cancellation of Shares	••[P40-570]
	Special General Meeting.....	•[P40-585]
	Consequences of Default	••[P40-600]
	Voting at the Meeting.....	••[P40-615]
	Adoption of the Amalgamation Agreement.....	••[P40-630]
	Cancellation of Amalgamation Agreement.....	•[P40-645]
	Sending the Articles.....	•[P40-660]
	Certificate of Amalgamation	•[P40-705]
	Effect of Amalgamation	•[P40-720]
	SHORT-FORM AMALGAMATION.....	[P40-735]
	Procedure.....	•[P40-750]
II	— AMALGAMATION OF CORPORATIONS — TAX LAW	[P40-780]
	TAX TREATMENT OF AMALGAMATION	[P40-785]
	Merger of Taxable Canadian Corporations.....	•[P40-810]
	“Canadian Corporation”	••[P40-840]
	Corporation Resulting from a Foreign Merger	•••[P40-845]
	Corporation That Is Continued (Importation)	••[P40-855]
	Articles of Continuance Granted in Canada Prior to 1993.....	••[P40-860]
	Canada-United States Treaty.....	•••[P40-862]
	Corporation That Is Continued (Exportation)	••[P40-865]
	Impact for Cross-Border Mergers	••[P40-867]
	Section 128.2	•••[P40-868]
	Alternative Approaches to Cross-Border Mergers.....	••[P40-869]
	Non-Resident-Owned Investment Corporation	••[P40-870]
	Formation of a Corporate Entity	•[P40-890]
	The Amalgamated Entity at Law.....	•[P40-965]
	The Tax Status of the Amalgamated Entity	•[P41-040]
	Current Corporate Legislation	••[P41-070]
	Foreign Amalgamation	••[P41-100]
	Transfer of Property.....	•[P41-120]
	Shares of the Capital Stock of Predecessor Corporations	••[P41-160]
	Absence of Gain or Loss	•••[P41-175]
	Rights Extinguished Upon the Amalgamation	•••[P41-220]
	Assumption of Liabilities.....	•[P41-255]
	Amounts Payable to Predecessor Corporations	••[P41-280]
	Deemed Settlement of Debts	••[P41-325]
	Continuation of Shareholding.....	•[P41-435]
	“Shareholder”	••[P41-460]

Table of Contents

10/2018

Fractional Shares.....	••[P41-490]
Warrants Are Not Shares	••[P41-495]
Right to Dissent.....	••[P41-520]
Exercise of the Right of Dissent.....	•••[P41-535]
Dissent Notice.....	•••[P41-550]
Administrative Position Regarding Minority Shareholders	•••[P41-565]
Short-Form Amalgamation	••[P41-595]
Qualifying Shares.....	•••[P41-615]
“Subsidiary Wholly-Owned”.....	•••[P41-645]
Disposition on Short-Form Amalgamation	•••[P41-650]
Other Short-Form Amalgamations.....	•••[P41-655]
Tripartite Amalgamation	••[P41-670]
Dissent	••••[P41-685]
Rollover for Amalgamations Where Section 87 Does Not Apply:	
Envision Credit Union	•[P41-690]
Envision at the Federal Court of Appeal.....	••[P41-695]
Envision at the Supreme Court of Canada.....	••[P41-700]

III — TAX CONSEQUENCES OF AMALGAMATION [P41-725]

AMALGAMATIONS QUALIFYING UNDER SECTION 87.....	[P41-740]
OTHER AMALGAMATIONS	[P41-755]

TAX CONSEQUENCES OF AMALGAMATION FOR THE PREDECESSOR CORPORATIONS AND FOR THE NEW CORPORATION [P41-840]

GENERAL RULES.....	[P41-845]
New Corporation Resulting from the Amalgamation	•[P41-885]
Scott Case.....	••[P41-900]
Palmer-McLennan (United) Ltd.....	••[P41-905]
Fawcett and Grant Case.....	••[P41-910]
Guaranty Properties Case	••[P41-920]
CGU Holdings Canada Ltd. v. R.....	••[P41-923]
Judgment of the Federal Court	•••[P41-925]
Judgment of the Federal Court of Appeal	•••[P41-930]
Comments.....	•••[P41-935]
Pan Ocean Oil Limited.....	••[P41-950]
Federal Court — Trial Division	•••[P41-955]
Federal Court of Appeal	•••[P41-960]
Comments.....	•••[P41-965]
CGU Holdings Canada Ltd. v. R.....	••[P41-967]
CGU Holdings at the Federal Court of Appeal	••[P41-968]
Amalgamated Corporation Not Incorporated on the Amalgamation ..	••[P41-970]
Acquisition of Property	•[P41-990]
Palmer-McLennan Case	••[P41-995]
Allendale Mutual Insurance Case	••[P42-020]
Deemed Acquisition of Property	••[P42-035]
Taxation Year.....	•[P42-110]
Date of the Amalgamation.....	••[P42-135]
Taxation Year on Amalgamation and Change of Control	••[P42-140]
Short Taxation Year.....	•[P42-150]
Shareholder Loan	••[P42-165]
Inclusion of the Loan or Debt	•••[P42-180]
Accelerating the Time for Repayment.....	•••[P42-210]
Exchange of Property (13(4) and 44(1)).....	••[P42-285]
Carry Forward of Charitable Donations (110.1)	••[P42-300]

Table of Contents

Carryover of Losses (111(1)(a), (c), (d) and (e)).....	••[P42-315]
Deduction for Depreciation (20(1)(a)).....	••[P42-330]
Unpaid Amounts (78).....	••[P42-345]
Administrative Policy on the Application of Section 78	
Upon Amalgamation.....	•••[P42-375]
Unpaid Remuneration 78(4).....	••[P42-380]
Capital Gain Reserve.....	••[P42-405]
Fiscal Period (249.1).....	••[P42-420]
Annual Deductions.....	••[P42-435]
Anti-Avoidance Provision.....	••[P42-440]
Taxation Year of Less Than a Day.....	••[P42-445]
INVENTORY.....	[P42-460]
Property Included in Inventory.....	•[P42-490]
Cost of the Properties.....	••[P42-520]
Choice of Method of Inventory Valuation Following	
Amalgamation.....	••[P42-525]
Conversion of Capital Property.....	••[P42-535]
Conversion of Inventory.....	••[P42-550]
Farming or Fishing Inventory.....	•[P42-580]
Allowance for Depreciation, Obsolescence, etc.....	•[P42-625]
Successive Year Ends.....	•[P42-630]
METHOD ADOPTED FOR COMPUTING INCOME.....	[P42-700]
Accounting Methods.....	•[P42-715]
Inclusion and Deduction.....	••[P42-730]
Moment of Application — Cash Method of Accounting.....	••[P42-775]
Moment of Application — Accrual Method of Accounting.....	••[P42-790]
Observations.....	•••[P42-805]
Amounts Received That Are Not Receivables.....	•[P42-820]
Amounts Paid That Are Not Payable.....	•[P42-835]
Accounting for Interest.....	•[P42-850]
Interest on Debt to Acquire Shares of a Predecessor Corporation.....	•[P42-865]
Contractor Holdbacks.....	•[P42-880]
DEPRECIABLE PROPERTY OF A PRESCRIBED CLASS.....	[P42-920]
Purpose of Paragraph 87(2)(d).....	•[P42-935]
Acquisition of Property.....	••[P42-940]
Capital Cost and Undepreciated Capital Cost of Depreciable Property	
of a Prescribed Class.....	•[P42-950]
Capital Cost.....	••[P42-965]
Government Assistance.....	••[P42-980]
Undepreciated Capital Cost.....	••[P42-995]
Addition.....	•••[P43-010]
Establishing the UCC.....	•••[P43-015]
Subtraction.....	•••[P43-025]
Transfer of Classes.....	•••[P43-055]
Property Which Relates to Scientific Research.....	•••[P43-115]
Available for Use Rules.....	•••[P43-117]
Cost for the Purposes of Computing Capital Gain or Loss.....	••[P43-120]
Property of Class 29.....	••[P43-130]
“Designated Property”.....	•••[P43-160]
“Specified Transaction”.....	•••[P43-175]
Taxation Year Beginning After November 12, 1981.....	•••[P43-220]
Technical Problem.....	•••[P43-235]
Meaning of the Formula.....	•••[P43-250]
New Corporation’s Allowance.....	•••[P43-265]
Classes 24, 27 and 34.....	•[P43-280]
Leasehold.....	••[P43-310]
Difficulties in Applying Subsection 13(5.1) to Predecessor	
Corporations.....	•••[P43-325]

Table of Contents

11/2020

Difficulties in Applying Subsection 13(5.1) to New Corporations	•••[P43-340]
Planning	•••[P43-355]
Depreciable Property Owned in 1971	••[P43-400]
ITAR 20(1.2)	••[P43-415]
Reduced Rate of Depreciation in the Year of Acquisition	••[P43-445]
Half-Year Rule	•••[P43-475]
Leasing Property	•••[P43-520]
Subsequent Amalgamations	•••[P43-565]
Rental Property Having a Capital Cost of \$50,000 or More	••[P43-595]
Separate Class	•••[P43-610]
Non-Arm's Length Acquisitions	•••[P43-625]
Class Continuity for Non-Arm's Length Transactions	••[P43-640]
Works of Art and Antiques	•••[P43-715]
Tax Attributes with Continuity Problems	••[P43-760]
Capitalization of Interest	•••[P43-775]
Predecessor's Election	••••[P43-805]
Interest Covered by the Election	••••[P43-820]
Change in Use	•••[P43-835]
Depreciable Property	••••[P43-855]
Election	••••[P43-860]
Nature of the Property — Predecessor Corporations	••••[P43-865]
Nature of the Property — New Corporation	••••[P43-895]
Effect of the Election on the New Corporation	••••[P43-910]
DEPRECIABLE PROPERTY NOT OF A PRESCRIBED CLASS	[P43-925]
Deeming Provisions	•[P43-950]
OTHER CAPITAL PROPERTY	[P43-990]
Capital Property Owned in 1971	•[P44-035]
Election Regarding Canadian Securities	•[P44-050]
Election Made By a Predecessor Corporation	••[P44-065]
Partnership Interest	•[P44-085]
Can There Be a Rollover of the Negative Adjusted Cost Base of a Limited Partnership Interest on an Amalgamation?	••[P44-090]
Amalgamations Prior to January 15, 1987	••[P44-091]
Guaranty Properties and Pan Ocean Oil	••[P44-092]
Subsection 87(11) and Bump in Cost Base for Eligible Property	•[P44-093]
Issues Surrounding the Application of the Capital Property “Bump” on an Amalgamation	•••[P44-094]
Technical Issues Relating to the Operation of Paragraphs 87(11)(b) and 88(1)(c)	•••[P44-094A]
Agency Clarification of the Application of Subsection 87(11)	•••[P44-094B]
SECURITIES AND DEBT OBLIGATIONS	[P44-095]
Insurance or Money Lending Business	•[P44-096]
Securities Held by Financial Institutions	•[P44-100]
Eligible Derivatives	•[P44-102]
CUMULATIVE ELIGIBLE PROPERTY	[P44-105]
Intangible Property	•[P44-120]
Establishing the CEC	••[P44-135]
RESERVES AND BAD DEBTS	[P44-260]
Reserves Carryover	•[P44-470]
Inclusion of the Reserves	••[P44-485]
Inclusion of Bad Debts That Are Recovered	••[P44-500]
Deductions: Continuation	••[P44-515]
Sale of Accounts Receivable	•••[P44-530]
Amalgamation	•••[P44-545]
Reserves for Financial Institutions and Continuity Rules for Partnership Rollovers and Loss Trading	••[P44-550]

Table of Contents

Reserve: Future Goods and Services	••[P44-620]
Reserve: Properties Sold	•••[P44-635]
Reserve in Respect of Properties Sold.....	••[P44-650]
Reserves of Predecessor Corporations.....	•••[P44-660]
Reserves Not Carried Over	••[P44-665]
Quadrennial Survey.....	•••[P44-680]
Bad Debt	•••[P44-695]
Other Reserves.....	••[P44-755]
Capital Gain.....	•••[P44-770]
Subsequent Amalgamation.....	••••[P44-776]
Disposition of Resource Properties	•••[P44-845]
PREPAID EXPENSES	[P44-875]
Expenses and Group Term Life Insurance Premiums	•[P44-890]
Continuity.....	••[P44-905]
Cost of Injected Substance.....	•[P44-925]
Continuity.....	••[P44-930]
EMPLOYEE BENEFIT PLANS AND OTHER ARRANGEMENTS	[P44-935]
Salary Deferral Arrangement.....	•[P44-937]
Retirement Compensation Arrangement.....	•[P44-947]
Employee Benefit Plans	•[P44-960]
Continuation of the Arrangements.....	•[P44-980]
Prior to December 22, 1992.....	••[P44-990]
ACCRUAL RULES.....	[P45-025]
General	•[P45-040]
Accrued Interest	••[P45-055]
Debt Obligations	•••[P45-070]
Prescribed Securities	•••[P45-145]
Continuation	•••[P45-160]
Life Insurance Policies	••[P45-235]
Annuity Contract.....	••[P45-280]
Adjusted Cost Base of Insurance Policies	••[P45-370]
CANCELLATION OF A LEASE.....	[P45-440]
Deduction for Cancellation Payments.....	•[P45-470]
Continuity.....	•[P45-500]
Non-Arm's Length Relationship.....	•[P45-515]
CONTINUITY WITH RESPECT TO THE AVAILABLE FOR USE RULES	[P45-525]
Continuity with Respect to Reserves for Unearned Commissions.....	•[P45-527]
INDUCEMENT PAYMENTS	[P45-530]
Election	•[P45-535]
Amalgamation	•[P45-540]
ACQUISITION OF CONTROL.....	[P45-541]
Acquisition of Depreciable Property.....	•[P45-542]
Prior Detention	••[P45-544]
Subsection 66(11.4): Acquisition of Resource Properties	••[P45-546]
Subsection 66.7(11): Acquisition of Resource Property	••[P45-548]
Amalgamation	••[P45-549]
FINANCING CHARGES AND INTEREST	[P45-550]
Amalgamation	•[P45-551]
ATTRIBUTION RULES	[P45-555]
CORPORATE SURTAX AND PART I TAX DEDUCTIONS.....	[P45-565]
SMALL BUSINESS DEDUCTION AND INSTALMENT DEFERRAL.....	[P45-570]
MINING RECLAMATION TRUSTS.....	[P45-575]
REMUNERATION FOR SERVICES RENDERED	[P45-585]

Table of Contents

11/2020

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT	[P45-600]
Paragraph 87(2)(l)	•[P45-610]
Paragraph 87(2)(l.1)	•[P45-620]
Paragraph 87(2)(l.2): Subsequent Amalgamations	•[P45-630]
Deduction for Insolvency	•[P45-700]
Continuity	•[P45 -710]
PROPERTY LOST, DESTROYED OR TAKEN AND FORMER	
BUSINESS PROPERTY	[P45-870]
Sections 13 and 44	•[P45-885]
Paragraph 87(2)(l.3)	•[P45-900]
Effect of Paragraph 87(2)(l.3)	••[P45-915]
Former Business Property	•••[P45-960]
OUTLAYS MADE PURSUANT TO A WARRANT	[P45-975]
Section 42	•[P45-990]
Paragraph 87(2)(n)	•[P46-005]
EXPIRY OF OPTIONS PREVIOUSLY GRANTED	[P46-020]
Subsection 49(2)	•[P46-035]
Paragraph 87(2)(o)	•[P46-050]
Replacement of an Option	••[P46-065]
Other Options	••[P46-095]
REGISTERED PLANS	[P46-110]
Paragraph 87(2)(q)	•[P46-115]
TAX DEFERRED COOPERATIVE SHARES	[P46-120]
Paragraph 87(2)(s)	•[P46-125]
PRE-1972 CAPITAL SURPLUS ON HAND	[P46-130]
Paragraph 87(2)(t)	•[P46-145]
SHARES OF A FOREIGN AFFILIATE	[P46-160]
Paragraph 87(2)(u)	•[P46-175]
Section 92	••[P46-190]
Subsection 93(2)	•[P46-205]
ITAR 26(8.5)	•[P46-220]
CHARITABLE DONATIONS	[P46-235]
Paragraph 87(2)(v)	•[P46-265]
LOSSES AND TAXABLE DIVIDENDS	[P46-280]
General	•[P46-295]
Shares That Are Capital Property	••[P46-310]
Shares That Are Not Capital Property	••[P46-325]
Paragraph 87(2)(x)	••[P46-340]
Stop-Loss Rules Applicable to Individuals	••[P46-345]
Grandfathered Shares	••[P46-370]
SMALL BUSINESS DEDUCTION	[P46-380]
Associated Corporations	•[P46-460]
Two Fiscal Periods in the Same Year	•[P46-475]
PREFERRED-EARNINGS AMOUNT	[P46-565]
Repeal	•[P46-570]
FOREIGN TAX CARRYOVER	[P46-760]
Unused Foreign Tax Credit	•[P46-770]
Carryover of the Credit	•[P46-790]
Subsection 126(2.3)	•[P46-805]
Paragraph 87(2)(z)	•[P46-810]
CAPITAL DIVIDEND ACCOUNT	[P46-840]
Capital Dividend	•[P46-855]
Ralph Faraggi v. R	••[P46-860]
Paragraph 87(2)(z.1)	•[P46-885]
Capital Losses	•[P46-915]

Table of Contents

Part III and III.1 Tax	•[P46-935]
ERDTH AND NERDTH ACCOUNTS (FORMERLY	
REFUNDABLE DIVIDEND TAX ON HAND)	[P46-945]
Application of Subsection 129(1.2).....	•[P46-950]
Paragraph 87(2)(aa).....	•[P46-975]
Corporations Other Than Private Corporations	•[P46-990]
Mutual Fund Corporation	•[P47-005]
Part IV Tax.....	•[P47-020]
Subject Corporations	••[P47-035]
Refundable Dividend Tax	••[P47-050]
Effect of the Presumption	•••[P47-065]
GRIP AND LRIP ADDITIONS ON AMALGAMATION	[P47-070]
GRIP Addition on Amalgamation	•[P47-072]
LRIP Addition on Amalgamation	•[P47-074]
MUTUAL FUND CORPORATIONS.....	[P47-080]
Capital Gains Dividend Account.....	•[P47-095]
Refundable Capital Gains Tax on Hand	•[P47-110]
INVESTMENT CORPORATIONS.....	[P47-120]
NON-RESIDENT-OWNED INVESTMENT CORPORATION	
(HISTORIC)	[P47-125]
Special Accounts.....	•[P47-155]
Allowable Refundable Tax on Hand	•[P47-170]
Capital Gains Dividend Account.....	•[P47-185]
Cumulative Taxable Income	•[P47-200]
PUBLIC CORPORATION BEFORE THE AMALGAMATION	[P47-215]
Public Corporation.....	•[P47-230]
Absence of Carryover of Certain Accounts	•[P47-245]
Section 48.1 Election Unavailable.....	•[P47-250]
Residence.....	•[P47-260]
Canadian Corporation, Private Corporation, etc	••[P47-275]
Life Insurance Corporation.....	•[P47-290]
INTEREST ON OBLIGATIONS RECEIVED	
BY A PREDECESSOR CORPORATION	[P47-305]
Paragraph 81 (1)(m)	•[P47-320]
Paragraph 87(2)(jj)	•[P47-335]
CAPITAL LOSS ON THE DISPOSITION OF SHARES	
OF CONTROLLED CORPORATIONS	[P47-350]
Paragraph 40(2)(h)	•[P47-365]
Paragraph 53(1)(f.1)	••[P47-380]
Application of Paragraph 40(2)(h)	••[P47-395]
Subparagraph 87(2)(kk)(i)	•[P47-410]
Subparagraph 87(2)(kk)(ii).....	•[P47-440]
Technical Problem	•[P47-470]
REFUNDABLE PART VII TAX ON HAND.....	[P47-485]
Paragraph 87(2)(nn).....	•[P47-530]
INVESTMENT TAX CREDIT	[P47-545]
Special Credit of 35%	•[P47-550]
Special Refund of 40%	•[P47-555]
Payment of Balance of Tax	•[P47-560]
Former Paragraph 87(2)(oo).....	•[P47-565]
LOSSES OF PREDECESSOR CORPORATIONS	[P48-035]
Limits — Paragraphs 87(2.1)(a) and (b)	•[P48-060]
Limits — Paragraphs 87(2.1)(c), (d) and (e)	•[P48-075]
Paragraph 87(2.1)(d) Limit.....	•[P48-076]
Use of Loss Carry-Over Where Acquisition Is Undertaken in Stages	•[P48-077]

LOSSES OF A NEW CORPORATION.....	[P48-080]
Planning Opportunities	•[P48-082]
Subsidiary Wholly-Owned Corporation.....	•[P48-085]
Presumptions of Non-Acquisition of Control	••[P48-090]
Acquisition of Shares.....	•••[P48-091]
Share Redemptions and Cancellations	•••[P48-092]
Prior to 1993	•••[P48-094]
Presumption of Acquisition of Control.....	••[P48-095]
Triangular Amalgamations and Paragraph 256(7)(b).....	•[P48-100]
Birchcliff Energy Ltd. v. The Queen.....	•[P48-105]
COMPUTATION OF PAID-UP CAPITAL.....	[P48-375]
General	•[P48-385]
Determination of Paid-Up Capital.....	•[P48-400]
Paid-up Capital of a Class of Shares	•[P48-415]
Paid-up Capital of a Share.....	•[P48-430]
Paid-up Capital of All the Shares	•[P48-445]
Exceptions.....	•[P48-460]
Transactions Within the Scope of Subsection 87(3).....	•[P48-475]
Allowable Increase	•[P48-505]
Administrative Position	••[P48-520]
Limits of Paid-Up Capital Shift	••[P48-521]
Reduction of Paid-Up Capital	••[P48-535]
Paragraph 87(3)(a)	••[P48-550]
Computation of the Reduction	•••[P48-565]
Planning	•••[P48-580]
Shareholders Affected By the Reduction	•••[P48-595]
Increase in Paid-Up Capital	••[P48-610]
Constant Application.....	•••[P48-625]
Effect of a Constant Reduction of Paid-Up Capital.....	•••[P48-640]
Addition	•••[P48-655]
Amount of Addition That Is Allowed.....	•••[P48-670]
Streaming Paid-Up Capital	•[P48-675]
Amalgamation	••[P48-676]
Exchange and Substitution of Each Class of Shares.....	••[P48-677]
Shares Having Identical Characteristics.....	••[P48-678]
Election By New Corporation.....	••[P48-679]
Limitations of Subsection 87(3.1).....	••[P48-680]
Reorganization Prior to Amalgamation	••[P48-681]
Continuity with Respect to Contributed Surplus	••[P48-683]
Administrative Position: Meaning of Contributed Surplus —	
Paragraph 84(1)(c.3)	••[P48-684]
Repayment of Contributed Surplus.....	••[P48-684A]
NATURAL RESOURCES	[P48-685]
Subsection 87(1.2).....	•[P48-700]
Presumption	••[P48-730]
Effect of the Presumption	••[P48-745]
Amalgamations Occurring Before 1983	••[P48-760]
Former Subsection 87(1.3)	•[P48-805]
Joint Exploration Corporations.....	••[P48-820]
RESOURCE PROPERTIES	[P48-850]
Administrative Position	•[P48-865]
JOINT EXPLORATION CORPORATION	[P48-870]
MAXIMUM CUMULATIVE RESERVE	[P48-880]
Subsection 137(3).....	•[P48-895]
Maximum Cumulative Reserve	•[P48-910]

Table of Contents

REPAYMENT OF POLICY LOAN.....	[P48-925]
Paragraph 60(s).....	•[P48-940]
Non-Continuity.....	•[P48-955]
INSTALMENTS OF TAX	[P48-970]
General	•[P48-985]
“First Instalment Base”.....	•[P49-015]
“Second Instalment Base”.....	•[P49-030]
Instalments of Tax of the New Corporation.....	•[P49-035]
First Instalment Base of the New Corporation – First Taxation Year.....	•[P49-045]
Second Instalment Base of the New Corporation – First Taxation Year	•[P49-060]
Short Taxation Year.....	•[P49-075]
Second Taxation Year	•[P49-090]
First Instalment Base of the New Corporation – Second Taxation Year	•[P49-105]
Second Instalment Base of the New Corporation – Second Taxation Year	•[P49-110]
Instalments of Tax – Tax on Large Corporations	•[P49-115]
Instalments of Tax – Tax on Capital of Financial Institutions	•[P49-125]
Instalments of Tax for the New Corporation – Tax on Capital of Financial Institutions	•[P49-130]
SMALL BUSINESS DEVELOPMENT BOND.....	[P49-150]
Definition.....	•[P49-165]
Effects.....	•[P49-170]
Amalgamation.....	•[P49-180]
Election	••[P49-225]
Subsection 87(7): Transfer of Debts and Other Obligations.....	•[P49-240]
SMALL BUSINESS BOND	[P49-255]
PREDECESSOR CORPORATIONS WHICH WERE MEMBERS OF THE SAME PARTNERSHIP.....	[P49-270]
General	•[P49-280]
End of Partnership’s Existence	•[P49-295]
Administrative Position	•[P49-310]
CANADA PENSION PLAN.....	[P49-325]
Administrative Position	•[P49-340]
Judicial Consideration	•[P49-355]
OBJECTIONS, APPEALS AND REFUNDS	[P49-445]
Filing the Annual Returns.....	•[P49-460]
Notice of Assessment Issued Before the Amalgamation.....	•[P49-490]
Notice of Assessment Issued After the Amalgamation	•[P49-505]
Notice of Assessment Issued Against a Predecessor Corporation After the Amalgamation	•[P49-510]
Paramount Productions v. The Queen	•[P49-512]
Refunds.....	•[P49-520]
New Corporation as Legal Successor	•[P49-535]
COSTS OF AMALGAMATION	[P49-550]
Eligible Capital Expenditures	•[P49-565]
DEFERRED PROFIT SHARING PLAN.....	[P49-580]
Administrative Position	•[P49-595]
Qualified Investments	•[P49-600]
ELECTIONS.....	[P49-610]
Reporting of Accrued Interest.....	•[P49-625]
Exchanges of Depreciable Property (13(4))	•[P49-640]
Exchanges of Eligible Capital Property (14(6)).....	•[P49-655]
Small Business Development Bond (15.1(3)).....	•[P49-670]
Small Business Bond (15.2(3)).....	•[P49-685]
Representation Expenses (20(9)).....	•[P49-700]

Table of Contents

03/2015

Capitalization of Interest Expense (21)	•[P49-715]
Sale of Accounts Receivable (22)	•[P49-730]
Farming or Fishing Business (28)	•[P49-745]
Canadian Securities (39(4)).....	•[P49-760]
Exchanges of Capital Property (44)	•[P49-775]
Change in Use (45(2)).....	•[P49-790]
Expropriation Assets (80.1(1)).....	•[P49-805]
Capital Dividend (83(2)).....	•[P49-820]
Transfer to a Corporation (85)	•[P49-835]
Foreign Affiliates (93(1))	•[P49-850]
Election By Partners (97(2))	•[P49-865]
Allocation of the Small Business Deduction (125(3)).....	•[P49-880]
Refundable Dividend Tax On Hand (129(1)(b)).....	•[P49-895]
Mortgage Investment Corporation (130.1(4))	•[P49-910]
Mutual Fund Corporation (131(1))	•[P49-925]
Non-Resident-Owned Investment Corporations (133(7.1))	•[P49-940]
Election Under Subsection 184(3)	•[P49-955]
Loan to a Wholly-Owned Subsidiary (218)	•[P49-970]
INVESTMENT TAX CREDIT.....	[P49-985]
Amalgamations Prior to May 24, 1985	•[P49-987]
Amalgamations After May 23, 1985	•[P49-989]
Paragraph 87(2)(<i>qq</i>)	••[P49-991]
Reduction of Investment Tax Credit.....	••[P49-995]
Paragraph (<i>j</i>)	•••[P49-997]
Paragraph (<i>k</i>).....	•••[P50-003]
Presumptions of Control	•••[P50-012]
Acquisition of Shares Prior to 1993	•••[P50-013]
Paragraph 256(7)(<i>b</i>).....	••••[P50-014]
EMPLOYMENT TAX CREDIT	[P50-020]
CAPITAL TAX PLANNING.....	[P50-050]

IV – TAX CONSEQUENCES OF AN AMALGAMATION FOR SHAREHOLDERS OF PREDECESSOR CORPORATIONS

[P50-310]

TAX IMPLICATIONS OF SHARE CONVERSIONS	[P50-315]
Deemed Disposition	•[P50-320]
Proceeds of Disposition	•[P50-335]
Capital Loss.....	•[P50-350]
Insufficient Consideration	•[P50-365]
Paragraph 69(1)(<i>a</i>).....	•[P50-380]
Paragraph 69(1)(<i>b</i>).....	•[P50-395]
SCOPE OF SUBSECTION 87(4).....	[P50-410]
General.....	•[P50-425]
“Amalgamation”.....	•[P50-440]
Capital Property	•[P50-455]
Election Under Subsection 39(4).....	••[P50-470]
Consideration	•[P50-485]
“Share”	••[P50-500]
Fractional Shares.....	•••[P50-515]
Administrative Solution.....	••••[P50-530]
Limitations.....	••••[P50-545]
Administrative Position.....	••••[P50-547]
Poison Pill Plans	••••[P50-550]
EFFECT OF SUBSECTION 87(4)	[P50-560]
Disposition	•[P50-575]

Table of Contents

Cost of Acquisition	•[P50-590]
Shares of More Than One Class	•[P50-605]
Observation.....	•[P50-620]
Planning.....	•[P50-635]
Administrative Solution.....	•[P50-650]
Adjusted Cost Base of Shares Acquired Via Employee Stock Options	••[P50-660]
APPLICATION OF ITAR 26(21).....	[P50-670]
Conditions of Application.....	•[P50-685]
Amalgamation	••[P50-700]
Administrative Position	•••[P50-715]
Ownership of the Shares.....	••[P50-730]
Meaning of “Owned”	•••[P50-745]
ITAR 26(28).....	•••[P50-750]
Election Regarding Application of ITAR 26(28)	•••[P50-751]
Prior to the Enactment of ITAR 26(28).....	•••[P50-755]
Prior Application of ITAR 26(5)	••••[P50-760]
Prior Application with Other ITARs.....	••••[P50-780]
Difficulty with ITAR 26(28) Transitional Rule	••••[P50-800]
Consideration	••[P50-865]
Shares of Only One Class	•••[P50-880]
Administrative Position	•••[P50-895]
Application Class By Class.....	•••[P50-910]
Series of a Class.....	•••[P50-925]
Non-Application of Paragraph 87(4)(e)	••[P50-940]
Effects of ITAR 26(21).....	•[P50-955]
ITAR 26(8)	••[P51-010]
Administrative Position	•••[P51-015]
Pre-1972 Capital Surplus on Hand.....	••[P51-025]
Dividend on Winding-Up.....	••[P51-040]
Computation of the Pre-1972 Capital Surplus on Hand on an Amalgamation.....	••[P51-055]
Absence of an Adjustment	••[P51-070]
Planning	••[P51-085]
Election Under ITAR 26(7)	••[P51-100]
Administrative Position.....	••[P51-115]
Comments	••[P51-130]
Mutual Fund Corporations	••[P51-145]
AMALGAMATION CONFERRING A BENEFIT	[P51-165]
General	•[P51-175]
Conditions of Application.....	•[P51-190]
“Benefit”.....	•[P51-205]
Whether a Shareholder Benefit Arises.....	•[P51-210]
Deemed Proceeds of Disposition.....	•[P51-235]
Application of the ITAR	•[P51-250]
Cost of the Shares	•[P51-265]
Husky Oil Ltd. v. R.....	•[P51-270]
EXCHANGE BY A NON-RESIDENT	[P51-285]
Taxable Canadian Property.....	•[P51-300]
New Shares	•[P51-315]
Formalities Under Section 116	•[P51-330]
Old Shares	•[P51-345]
New Shares	•[P51-360]
Section 115.1	•[P51-365]
TERM PREFERRED SHARES	[P51-380]
“Specified Financial Institution”.....	•[P51-395]
Amalgamation.....	•[P51-410]

Table of Contents

03/2015

SHORT-TERM PREFERRED SHARES	[P51-415]
Liquidation Rights on Amalgamation	•[P51-417]
TAX-DEFERRED PREFERRED SHARES	[P51-430]
Subsection 83(1)	•[P51-435]
Amalgamation	•[P51-440]
Effects of the Presumption	•[P51-445]
PRESCRIBED SHARES	[P51-460]
Cumulative Capital Gains Exemption: Anti-Avoidance Rule	•[P51-465]
Regulation 6205	•[P51-470]
CONTINUATION OF THE OLD SHARES	[P51-495]
Subsection 112(3)	•[P51-510]
Exceptions	•[P51-525]
Member of a Partnership or Trust	•[P51-540]
Subsection 112(7)	•[P51-555]
Computation of the Reduction Under Subsection 112(7).....	•[P51-570]
Loss Denied Under Paragraph 87(4)(d)	•[P51-585]
Solution	•[P51-600]
Continuity Not Assured.....	•[P51-615]
Continuity: Paragraph 87(2)(x)	•[P51-630]
Partial Continuity	•[P51-645]
Combined Period of Possession	•[P51-660]
Taxable Canadian Property Status	•[P51-665]
DISPOSITION OF SHARES OF A PREDECESSOR CORPORATION BY ANOTHER PREDECESSOR CORPORATION.....	[P51-680]
Absence of Gain or Loss	•[P51-695]
Capital Dividend Account	•[P51-710]
Pre-1972 Accrued Value.....	•[P51-725]
Planning	•[P51-740]
Department of Finance Position	•[P51-750]
TERMINATION OF RESIDENCE.....	[P51-850]
Deemed Disposition of Property	•[P51-855]
Possibility of Deferral	•[P51-860]
Property Received in Exchange	•[P51-865]
Department of Finance Comfort Letter	•[P51-870]
Amalgamations and Status as Taxable Canadian Property.....	•[P51-890]
Administrative Position.....	•[P51-895]
SHORT FORM AMALGAMATIONS.....	[P51-900]
APPLICATION OF STOP-LOSS RULES.....	[P51-910]
V – TAX CONSEQUENCES OF THE AMALGAMATION FOR THE HOLDERS OF OPTIONS TO ACQUIRE SHARES OF A PREDECESSOR CORPORATION	[P51-925]
SUBSECTION 87(5).....	[P51-940]
Amalgamation	•[P51-970]
Capital Property	•[P51-985]
Option Not Being Capital Property	•[P52-000]
Consideration	•[P52-015]
Effect of Subsection 87(5)	•[P52-045]
Options and Subsection 116 Requirements.....	•[P52-060]
Options and Taxable Canadian Property.....	•[P52-065]
Non-Application of Subsection 87(5)	•[P52-075]
ITAR 26(22).....	[P52-090]
Conditions	•[P52-115]

Table of Contents

ITAR 26(28)	•[P52-120]
Effect of Transitional Rules	•[P52-130]
Scope of Application	•[P52-145]
EMPLOYEE STOCK OPTIONS	[P52-165]
Section 7	•[P52-180]
Subsection 7(8)	•[P52-182]
Paragraph 110(1)(d)	•[P52-185]
Subsection 7(1.1)	•[P52-195]
Paragraph 110(1)(d.1)	•[P52-205]
Amalgamation	•[P52-210]
Option Not Exercised on an Amalgamation	•[P52-225]
Transfer of the Option	•[P52-240]
Canadian-Controlled Private Corporation	•[P52-255]
Non-Continuity	•[P52-270]
Termination of Stock Option Plan Upon Amalgamation	•[P52-280]
Subsection 7(1.7)	•[P52-285]
VI – TAX CONSEQUENCES OF AN AMALGAMATION FOR HOLDERS OF OBLIGATIONS OF A PREDECESSOR CORPORATION	
[P52-310]	
SUBSECTION 87(6)	[P52-325]
Conditions of Application	•[P52-350]
Capital Property	••[P52-355]
Election Under Subsection 39(4)	•••[P52-360]
Effects	•[P52-380]
ITAR 26(23)	[P52-400]
Conditions	•[P52-415]
ITAR 26(28)	•[P52-420]
Differences	•[P52-430]
Effect of Transitional Rules	•[P52-445]
Problems Under Transitional Rules	•[P52-475]
Observations	•[P52-490]
SUBSECTION 87(7)	[P52-510]
Conditions of Application	•[P52-535]
Exceptions	•[P52-550]
Continuity	•[P52-565]
Application of Section 78 to the New Corporation	••[P52-570]
Dow Chemical Canada Inc.: Tax Court of Canada	•••[P52-571]
Dow Chemical Canada Inc.: Federal Court of Appeal	•••[P52-572]
Application of Subsection 87(7) to Creditors of the Predecessor Corporations	••[P52-575]
Scope	•[P52-580]
“Income Bond” or “Income Debenture”	•[P52-595]
Rights of Creditors	•[P52-625]
VII – RULES THAT APPLY TO CERTAIN MERGERS	
[P52-700]	
SCOPE OF SUBSECTION 87(8)	[P52-710]
SCOPE OF SUBSECTION 87(9)	[P52-715]
Conditions of Application	•[P52-740]
Differences	•[P52-755]
“Parent Corporation”	•[P52-770]
PARAGRAPH 87(9)(a)	[P52-790]
Shares of the Capital Stock of the Parent Corporation	•[P52-805]
Scope of the Presumption	•[P52-820]

Table of Contents

03/2015

PARAGRAPH 87(9)(a.1)	[P52-825]
PARAGRAPH 87(9)(a.2)	[P52-830]
PARAGRAPH 87(9)(a.3)	[P52-833]
PARAGRAPH 87(9)(a.4)	[P52-836]
PARAGRAPH 87(9)(a.5)	[P52-837]
SHARES DEEMED LISTED: SQUEEZE-OUT AMALGAMATIONS	[P52-838]
ADJUSTMENT OF PAID-UP CAPITAL OF SHARES OF THE PARENT CORPORATION	[P52-840]
Reduction of Paid-Up Capital	•[P52-855]
Computation of the Reduction	••[P52-870]
Limited Effects	••[P52-885]
Subsections 87(3) and (9)	••[P52-900]
Constant Reduction	••[P52-915]
Addition to Paid-Up Capital	•[P52-920]
COST OF SHARES TO THE PARENT CORPORATION	[P52-970]
Ownership of Only Some Shares	•[P52-995]
Ownership of All the Shares	•[P53-010]
Clause 87(9)(c)(ii)(A)	••[P53-025]
Net Worth of the New Corporation	••[P53-040]
Beneficially Owned	•••[P53-055]
Election by the Parent Corporation	•••[P53-070]
Limit by Class	•••[P53-085]
Limit for All the Shares	•••[P53-100]
Filing the Election	•••[P53-115]
Inappropriate Results	•••[P53-130]
MERGERS OF FOREIGN CORPORATIONS WITH A CANADIAN PARENT CORPORATION	[P53-150]
FOREIGN MERGERS	[P53-170]
Receipt of Share Fractions	•[P53-171]
Department of Finance Position	•[P53-172]
CONSEQUENCES OF MERGERS OF FOREIGN CORPORATIONS	[P53-175]
VIII – REFERENCES	[P53-180]
LEGISLATION	[P53-185]
CASE LAW	[P53-190]
BIBLIOGRAPHY	[P53-195]
INTERPRETATION BULLETINS, INFORMATION CIRCULARS AND ADVANCE RULINGS	[P53-200]
CHECKLIST – SECTION 87	[P53-275]
GENERAL CONSIDERATIONS	[P53-280]
Parties	•[P53-285]
Jurisdiction	•[P53-290]
Capital Stock	•[P53-295]
Paid-Up Capital	•[P53-300]
Procedure	•[P53-305]
Federal Law	•[P53-350]
Solvency Test	••[P53-355]
Procedure for Ordinary Amalgamation	••[P53-360]
Procedure for Short-Form Amalgamation	••[P53-365]

Table of Contents

INCOME TAX.....	[P53-390]
Points to Consider Prior to the Amalgamation	•[P53-395]
Basic Conditions That Must Be Satisfied	•[P53-400]
Taxable Canadian Corporations	••[P53-405]
Incorporated Entity	••[P53-410]
Transfer of Property	••[P53-415]
Transfer of Obligations	••[P53-420]
Shareholders.....	••[P53-425]
Tax Consequences	•[P53-450]
New Corporation.....	••[P53-455]
Continuation.....	••[P53-460]
Taxation Year	••[P53-465]
Date of the Amalgamation.....	••[P53-470]
Reduced Taxation Year.....	••[P53-475]
Inventory	••[P53-480]
Computation of Income.....	••[P53-485]
Depreciable Property of a Prescribed Class	••[P53-490]
Depreciable Property Acquired Before 1972	••[P53-495]
Capital Property	••[P53-500]
Securities and Debt Obligations.....	••[P53-503]
Cumulative Eligible Capital.....	••[P53-505]
Reserves and Bad Debts.....	••[P53-510]
Prepaid Expenses	••[P53-515]
Employee Benefit Plans and Other Arrangements	••[P53-520]
Accrual Rules.....	••[P53-525]
Cancellation of Lease.....	••[P53-530]
Available for Use Rules	••[P53-532]
Reserves for Unearned Commissions.....	••[P53-533]
Inducement Payments.....	••[P53-535]
Attribution Rules.....	••[P53-540]
Remuneration for Services Rendered.....	••[P53-550]
Scientific Research and Experimental Development.....	••[P53-555]
Property Lost, Destroyed or Taken or Former Business Property.....	••[P53-560]
Outlays Made Pursuant to a Warranty.....	••[P53-565]
Expiry of Options Previously Granted	••[P53-570]
Pre-1972 Capital Surplus on Hand.....	••[P53-575]
Shares of Foreign Affiliates	••[P53-580]
Charitable Gifts	••[P53-585]
Taxable Dividends	••[P53-590]
Foreign Tax Carryover.....	••[P53-595]
Capital Dividend Account.....	••[P53-600]
Refundable Dividend Tax on Hand.....	••[P53-605]
Mutual Fund Corporations	••[P53-610]
Investment Corporations	••[P53-613]
Non-Resident-Owned Investment Corporation	••[P53-615]
Public Corporation Before the Amalgamation	••[P53-620]
Interest on Certain Obligations.....	••[P53-625]
Refundable Part VII Tax on Hand.....	••[P53-630]
Investment Tax Credit.....	••[P53-635]
Calculation of Paid-Up Capital	••[P53-640]
Natural Resources	••[P53-645]
Maximum Cumulative Reserve.....	••[P53-650]
Repayment of Policy Loans.....	••[P53-655]
Installments	••[P53-660]
Small Business Development Bonds.....	••[P53-665]
Small Business Bonds	••[P53-667]
Predecessor Corporations Belonging to the Same Partnership.....	••[P53-670]

Table of Contents

03/2015

Canada Pension Plan	••[P53-675]
Oppositions, Appeals and Refunds	••[P53-685]
Expenses of the Amalgamation.....	••[P53-690]
Deferred Profit Sharing Plan	••[P53-695]
Elections	••[P53-700]
Investment Tax Credit	••[P53-705]
Employment Tax Credit	••[P53-710]
Tax Consequences Relating to Shareholders of Predecessor Corporations.....	•[P53-720]
Dispositions Conferring a Benefit	••[P53-725]
Exchange By a Non-Resident	••[P53-730]
Tax-Deferred Preferred Shares	••[P53-735]
Prescribed Shares	••[P53-737]
Continuation of the Old Shares.....	••[P53-740]
Disposition of Shares of a Predecessor Corporation By Another Predecessor Corporation.....	••[P53-745]
Termination of Residence.....	••[P53-755]
Tax Consequences Relating to Ownership of Options to Acquire Shares of a Predecessor Corporation.....	•[P53-770]
Subsection 87(5).....	••[P53-775]
Capital Surplus on Hand.....	••[P53-780]
Employee Stock Options	••[P53-785]
Tax Consequences Relating to Holders of Bonds of a Predecessor Corporation....	•[P53-800]
Three-Way Amalgamation	•[P53-815]
Various Rules	••[P53-820]
Adjustment of Paid-Up Capital.....	••[P53-825]
Cost of the Shares	••[P53-830]
CONSIDERATIONS RELATED TO EMPLOYMENT	[P53-875]
VARIOUS MATTERS.....	[P53-890]
CONTINUITY OF PREDECESSOR CORPORATIONS	[P53-900]

(next page is 59)

Table of Contents

LIQUIDATION

In addition to the commentary detailed below, this chapter also includes a Research Index (at page 4301), a Checklist (at page 4775) and a Documents section (at page 5001). The latter contains relevant material issued by the Canada Revenue Agency.

GENERAL	[P60-000]
I – LIQUIDATION AND DISSOLUTION IN CORPORATE LAW	[P60-025]
Forced or Voluntary Procedures	•[P60-065]
FORCED DISSOLUTIONS AND LIQUIDATIONS	[P60-075]
Forced Dissolutions	•[P60-110]
Forced Liquidations	•[P60-150]
VOLUNTARY DISSOLUTIONS AND LIQUIDATIONS	[P60-210]
Voluntary Dissolutions	•[P60-470]
Corporation Without Shares	••[P60-485]
Corporation with Shares	••[P60-500]
Corporation with Shares Together with Property and/or Liabilities	••[P60-515]
Voluntary Liquidations	•[P60-535]
Voluntary Winding-Up	••[P60-700]
Procedure for Liquidation	•••[P60-725]
Debts Assumed By Parent Corporation	•••[P60-740]
Non-Payment of Various Creditors	•••[P60-755]
Procedure for Dissolution	•••[P60-770]
Date of Dissolution	•••[P60-785]
Comparison of Sections 210 and 211 C.B.C.A.	•••[P60-790]
Actions Against Corporation	•••[P60-800]
Reimbursement by Shareholders	•••[P60-815]
STATUS OF DISSOLVED CORPORATIONS	[P60-825]
II – WINDING-UP OF A SUBSIDIARY	[P60-925]
CONDITIONS OF APPLICATION	[P60-930]
General	•[P60-935]
“Winding-Up” of a Taxable Canadian Corporation	••[P60-980]
Winding-Up of Corporate Entity	•••[P60-990]
Canada Revenue Agency Definition of “Winding-Up”	•••[P60-995]
Winding-Up Distinguished from Liquidation and Dissolution	•••[P61-025]
Effect of Outstanding Litigation	•••[P61-050]
Winding-Up Under Company Law	•••[P61-080]
Winding-Up of an Insurance Corporation	•••[P61-100]
Meaning of “Immediately Before the Winding-Up”	•••[P61-165]
Dissolution for Failure to File Documents	••••[P61-180]
Meaning of “On the Winding-Up”	•••[P61-240]
Ownership of 90% of Shares of the Subsidiary	••[P61-275]
Class	•••[P61-305]
Ownership of Remaining Shares	••[P61-325]
Application of Subsection 88(1) – Precedence of Subsection 69(11)	••[P61-370]
TAX CONSEQUENCES OF WINDING-UP FOR SUBSIDIARY	[P61-410]
Income Tax Return	•[P61-420]
Taxation Year	••[P61-465]
Deductions and Reserves	••[P61-480]
Inclusion of Reserves By Parent	•••[P61-495]
End of Fiscal Period	••[P61-525]

Table of Contents

03/2015

Professional Business	••[P61-555]
Amalgamation Rules Applicable	••[P61-570]
Disposition of Subsidiary's Property.....	•[P61-590]
General	••[P61-600]
Corporate Law	•••[P61-615]
Tax Deferral on Winding-Up.....	•••[P61-630]
Property Ceases to Exist on Winding-Up.....	•••[P61-635]
Distribution Under Section 93 of the Quebec Companies Act.....	•••[P61-645]
Deemed Proceeds of Disposition	•[P61-660]
Application of Subsection 69(11).....	••[P61-665]
Resource Property	••[P61-675]
Right to Receive Production.....	••[P61-680]
Other Property	••[P61-720]
Depreciable Capital Property.....	•••[P61-730]
Immediately Before the Disposition	••••[P61-750]
Capital Cost Allowance	••••[P61-755]
Revision of Capital Cost Allowance Claims.....	••••[P61-760]
ITAR 20(1).....	••••[P61-765]
Depreciable Property Not of a Prescribed Class	••••[P61-780]
Non-Depreciable Capital Property.....	•••[P61-800]
Property Acquired Before 1972	•••[P61-815]
Inventory.....	•••[P61-850]
Profession.....	••••[P61-865]
Professional Business Carried on in 1971	••••[P61-900]
Former Inventory Deduction	••••[P61-915]
Eligible Capital Property.....	•••[P61-930]
Four-Thirds of Cost Amount	••••[P61-975]
Former Subparagraph 88(1)(a)(ii).....	••••[P61-990]
ITAR 21	••••[P62-000]
Cumulative Eligible Capital of Nil	••••[P62-030]
Adjustment Time of Cumulative Eligible Capital	••••[P62-075]
Consequences of Disposition Immediately Before Distribution.....	••••[P62-120]
Positive Cumulative Eligible Capital.....	••••[P62-195]
Debts Owing to Subsidiary	•••[P62-325]
Proceeds of Disposition.....	••••[P62-340]
Reserve for Doubtful Debts.....	••••[P62-350]
Section 22 Election.....	••••[P62-365]
Section 80.....	••••[P62-370]
Election By Parent Corporation.....	•••••[P62-375]
Deemed Time of Settlement	••••••[P62-376]
Distress Preferred Shares	•••••[P62-380]
Transitional Rules	•••••[P62-385]
Previous Rules on Debt Forgiveness	•••••[P62-386]
Policy Loans.....	•••[P62-390]
Other Property.....	•••[P62-391]
Debts Owing By Subsidiary.....	••[P62-400]
Election By Parent	•••[P62-415]
Application of Subsection 80.01(4)	•••[P62-430]
Debts Covered By Subsection 80.01(4)	•••[P62-440]
Simultaneous Winding-Up of Subsidiaries	•••[P62-460]
Assumption of Debts.....	•••[P62-475]
Previous Rules on Debt Forgiveness	••••[P62-480]
Unpaid Amounts of Subsidiary.....	••[P62-490]
Filing of Agreement	•••[P62-505]
Unpaid Remuneration	•••[P62-510]
Unpaid Amounts on Winding-Up	•••[P62-520]
Parent as Creditor.....	•••[P62-535]

Table of Contents

Creditor Other Than Parent	•••[P62-565]
Joint Application of Sections 78 and 80	•••[P62-580]
Timing Considerations.....	•••[P62-590]
Pre-1972 Capital Surplus on Hand	•[P62-600]
Partnership Interest	•[P62-620]
Late Elections Under Subsection 85(7)	•[P62-625]
Withholding Obligations on Winding-Up Distributions.....	•[P62-630]
TAX CONSEQUENCES OF WINDING-UP FOR	
PARENT CORPORATION	[P62-650]
General	•[P62-660]
Subsidiary's Shares Owned By Parent Deemed to Be Disposed of	•[P62-675]
Proceeds of Disposition	••[P62-690]
Capital Loss.....	••[P62-705]
Capital Gain	••[P62-720]
Planning	••[P62-735]
Loan From Parent.....	••[P62-750]
Shares Envisaged	••[P62-765]
Agency Position on Paragraph 88(1)(b) and the General Anti-Avoidance Rule.....	••[P62-767]
Parent's Interest Expense	••[P62-770]
Pre-1972 Capital Surplus on Hand.....	••[P62-780]
Cancellation of Shares Held By the Subsidiary.....	••[P62-785]
Paragraph 88(1)(b) and Subsection 13(21.2)	••[P62-790]
Subsidiary's Property Deemed Acquired by Parent.....	•[P62-800]
Cost of Distributed Property	••[P62-825]
Reduction of Cost Amount	•••[P62-826]
Property Distributed	•••[P62-840]
Resource Property	••[P62-855]
Cost of Acquisition.....	•••[P62-870]
Exploration and Development Expenses	•••[P62-885]
Right to Receive Production	••[P62-890]
Eligible Capital Property	••[P62-900]
Cost of Acquisition	•••[P62-915]
Paragraph 20(1)(b) Deduction.....	•••[P62-930]
Eligible Capital Expenditures	•••[P62-945]
Administrative Solution.....	•••[P62-960]
ITAR 21.....	•••[P62-975]
Paragraph 88(1)(c.1)	••[P62-980]
Depreciable Property.....	••[P62-990]
Cost of Acquisition	•••[P63-005]
Capital Cost to Parent.....	•••[P63-020]
Example: Application of Paragraph 88(1)(f).....	••••[P63-035]
Computation of Capital Gains	•••[P63-050]
Property Owned Before 1972	•••[P63-245]
Entitlement of Claim Capital Cost Allowance in Respect of Property Acquired from the Subsidiary.....	•••[P63-250]
The Courts Below	••••[P63-255]
The Decision of the Supreme Court of Canada.....	••••[P63-260]
Consequences of Hickman Motors Decision	••••[P63-265]
Continuity	•••[P63-270]
Lower Capital Cost Allowance Rate in Year of Acquisition	•••[P63-275]
General Rule	••••[P63-290]
Exceptions.....	••••[P63-305]
Date of Distribution	••••[P63-320]
Example: Application of Regulation 1100(2.2)(f)(i).....	••••[P63-330]
Period of Ownership	••••[P63-345]
Planning	••••[P63-360]
Example: Planning in Relation to the Half-Year Rule.....	•••••[P63-370]

Table of Contents

03/2015

Example: Increase of Capital Cost Allowance.....	••••[P63-380]
Leasing Property	•••[P63-395]
Principle	••••[P63-410]
Subsequent Rollover.....	••••[P63-440]
Excluded Leasing Property.....	••••[P63-445]
Rental Property	•••[P63-455]
Rental Property With Capital Cost of \$50,000 or More	•••[P63-500]
Regulation 1101(1 <i>ac</i>).....	••••[P63-515]
Regulation 1101(1 <i>ad</i>).....	••••[P63-530]
Prescribed Class	•••[P63-545]
Regulation 1102(14).....	••••[P63-560]
Leasehold Improvements.....	••••[P63-565]
Regulation 1102(14.1).....	••••[P63-575]
Scope of Regulation 1102(14.1).....	••••[P63-590]
Application.....	••••[P63-605]
Works of Art and Antiques.....	••••[P63-620]
Continuity Not Guaranteed.....	••[P63-635]
Capitalization of Interest.....	•••[P63-650]
Section 21	•••[P63-665]
Parent’s Situation	•••[P63-680]
Interest Covered By Election	•••[P63-695]
Change in Use.....	••[P63-710]
General Rules.....	•••[P63-720]
Depreciable Property	•••[P63-725]
Election	•••[P63-730]
Nature of Property – Subsidiary.....	•••[P63-735]
Consequences.....	•••[P63-750]
Nature of Property – Parent	•••[P63-765]
Consequences.....	•••[P63-780]
Various Matters	••[P63-795]
Leasehold	•••[P63-810]
Subsection 13(5.1)	•••[P63-825]
Subsection 13(5.2)	•••[P63-840]
Deemed Cost of Acquisition.....	••••[P63-855]
Deemed Capital Cost Allowance.....	••••[P63-870]
Example: Application of Subsection 13(5.2).....	••••[P63-880]
Application of Subsection 13(5.2) on Winding-Up.....	••••[P63-895]
Existence of a Non-Arm’s Length.....	••••[P63-925]
Subsidiary Is Lessee	••••[P63-940]
Subsection 13(5.3)	•••[P63-955]
Not Applicable on Winding-Up	••••[P63-970]
Presumption of Non-Arm’s Length	••••[P63-985]
Subsection 13(5.4)	•••[P64-000]
Application of Subsection 13(5.4).....	••••[P64-015]
Non-Arm’s Length.....	••••[P64-030]
Depreciable Property Not of Prescribed Class	••••[P64-045]
Capital Property (Other Than an Ineligible Property)	••[P64-065]
Introduction.....	•••[P64-075]
Property Subject to Paragraph 88(1)(<i>d</i>) Bump.....	•••[P64-080]
Nature of Property.....	•••[P64-090]
Ineligible Property	•••[P64-100]
Comfort Letter: Paragraph 88(1)(<i>c</i>)	•••[P64-101]
Meaning of “Acquired Control”.....	•••[P64-103]
Property Other Than Depreciable Property.....	••••[P64-105]
Property Other Than Property Acquired in the Course of a Transaction Referred to in Paragraph 55(3)(<i>b</i>)	••••[P64-110]
Property Other Than Property Acquired By the Subsidiary from Persons Not Dealing at Arm’s Length	••••[P64-115]

Table of Contents

Subsequent Disposition of Property as Part of the Series	••••[P64-120]
Comfort Letter: Specified Property	••••[P64-120A]
Situations Not Covered: Partnership Interest.....	••••[P64-120B]
Situations Not Covered by the Comfort Letter and Technical Amendments	••••[P64-120C]
Situations Not Covered by the Comfort Letter and Proposed Technical Amendments	••••[P64-120D]
Comfort Letters: Paragraph 88(1)(c.4)	••••[P64-120E]
Comfort Letter: Subparagraphs 88(1)(c.4) and (c.3), and Clause 88(1)(c)(vi)	••••[P64-120F]
“Specified Shareholder”	••••[P64-121]
Comfort Letter: Interaction of the Definition of “Specified Shareholder” and the Related Party Status Rules.....	••••[P64-121A]
Comfort Letter: Specified Shareholders and 88(1)(c)(vi) Revisited.....	••••[P64-121B]
“Specified Person”	••••[P65-122]
“Corporation”	••••[P64-123]
Meaning of “In Substitution Therefor” in Clause 88(1)(c)(vi)(B)	••••[P64-124]
Substituted Property and Earn-Out Clauses	••••[P64-125]
Extension of the Agency’s Position to Clauses Other Than Earn-Out Clauses.....	••••[P64-126]
Canada Revenue Agency Position on 88(1)(c)(vi)	••••[P64-127]
Other Property Not Subject to Paragraph 88(1)(d) Bump....	••••[P64-130]
Property Held When Control Was Last Acquired	••••[P64-135]
Example: Exclusion of Property Not Owned By Subsidiary When Control Was Last Acquired.....	••••[P64-140]
Last Acquisition of Control: Nature of Property.....	••••[P64-146]
Last Acquisition of Control: Subsidiary of Subsidiary	••••[P64-150]
Last Acquisition of Control: Date of Control.....	••••[P64-160]
Last Acquisition of Control: Presumption of Control.....	••••[P64-165]
Last Acquisition of Control: Meaning of “Control”	••••[P64-175]
Application of Subsection 88(1.7)	••••[P64-180]
Last Acquisition of Control: Options and Similar Rights....	••••[P64-190]
Example: Non-Arm’s Length Relationship Under Paragraph 251(5)(b) Excluded	••••[P64-200]
Control Acquired Upon Death	••••[P64-215]
Paragraphs 88(1)(d.2) and (d.3) and “Alter Ego Trusts”	••••[P64-220]
Example: Cost Increase Following Taxpayer’s Death	••••[P64-225]
Last Acquisition of Control: “Acquirer”	••••[P64-255]
Example: Application of Paragraph 88(1)(d.2)	••••[P64-265]
Paragraphs 88(1)(d.2) and (d.3) — Interaction	••••[P64-270]
Last Acquisition of Control: Third Party Existence	••••[P64-310]
Example: Third Party Existence in Chain of Owners of Subsidiary’s Shares.....	••••[P64-320]
Last Acquisition of Control: Group Control	••••[P64-335]
Last Acquisition of Control: Deemed Control Under Subsection 88(4)	[P64-365]
Example: Control on Subsection 87(9) Merger.....	••••[P64-435]
Computation of Increase	••••[P64-465]
“Net Value of Assets”	••••[P64-480]
Reserves	••••[P64-495]
Reserves Excluded from Computation	••••[P64-510]
Dividends Deducted in Computing the Paragraph 88(1)(d) Bump.....	••••[P64-540]
Policy Objective Underlying the Deduction of Dividends in Computing the Paragraph 88(1)(d) Bump.....	••••[P64-545]
Non-Arm’s Length Relationship.....	••••[P64-550]

Table of Contents

12/2020

Summary: Formula for Determining the Maximum	
Paragraph 88(1)(d) Bump	•••[P64-605]
Example: Determination of the Maximum Paragraph 88(1)(d) Bump.....	••••[P64-615]
Designation with Respect to Paragraph 88(1)(d) Bump.....	•••[P64-630]
Error in Paragraph 88(1)(d) Bump Election	••••[P64-632]
Late-Filed Designation.....	••••[P64-634]
Planning Consideration.....	••••[P64-635]
Maximum Bump Under Paragraph 88(1)(d).....	•••[P64-645]
Shifting Paragraph 88(1)(d) Bump to Property that Becomes Ineligible Property.....	••••[P64-660]
Maximizing the Amount of the Paragraph 88(1)(d) Bump	•••[P64-665]
GAAR	•••[P64-670]
Cross-Border Wind-Up Bump and Distribution.....	•••[P64-672]
Property Held on June 18, 1971	•••[P64-675]
Election by Subsidiary Regarding Canadian Securities.....	•••[P64-685]
Inventory	••[P64-700]
Cost of Acquisition	•••[P64-710]
Inventory Allowance.....	•••[P64-725]
Inventory Allowance — Parent	•••[P64-740]
Debts Owning to Subsidiary	••[P64-760]
Cost of Acquisition	•••[P64-775]
Settlement of Debts.....	•••[P64-790]
Planning for Settlement of Debts.....	•••[P64-805]
Debts Owed By Subsidiary.....	••[P64-840]
Subsection 87(7)	•••[P64-855]
Exemption From Part XIII Tax on Interest	•••[P64-856]
Income Bond.....	•••[P64-870]
Debts Owed to Parent.....	•••[P64-875]
Other Consequences	•[P64-900]
Provisions Expressly Not Applicable	••[P64-915]
Subsection 84(2)	•••[P64-945]
Subsection 13(21.2)	•••[P64-965]
Former Subsection 14(12)	•••[P64-970]
Amalgamation Rules Applicable to Winding-Up.....	••[P64-975]
Applicable Provisions	•••[P65-045]
Provisions Not Applicable	•••[P65-105]
Other Provisions Not Applicable.....	•••[P65-120]
Access to Part I.3 Surtax Credits After Tax Planning.....	••[P65-150]
Investment Tax Credit	••[P65-190]
Windings-Up Commenced Before May 24, 1985	•••[P65-192]
Investment Tax Credit — Windings-Up Commenced After May 23, 1985.....	•••[P65-194]
Meaning of Winding-Up	•••[P65-195]
Use of Investment Tax Credit in Previous Years.....	•••[P65-195A]
Acquisition of Control	•••[P65-196]
Deemed Control	••••[P65-200]
Prior to 1993	••••[P65-201]
Control of Executor, Etc	••••[P65-202]
Acquisition of Control of the Subsidiary	••••[P65-205]
Subsection 88(1.3) Deemed Existence	••••[P65-209]
Employment Tax Credit	••[P65-210]
Windings-Up Commenced Before May 24, 1985	•••[P65-211]
Windings-Up Commenced After May 23, 1985.....	•••[P65-213]
Refundable Dividend Tax on Hand	•••[P65-230]
Application of Subsection 129(1.2).....	•••[P65-235]
Public Corporation.....	•••[P65-245]
GRIP and LRIP Additions	••[P65-270]
GRIP Additions	•••[P65-275]

Table of Contents

LRIP Additions.....	•••[P65-280]
Gifts.....	••[P65-305]
Deeming of Gift to Be Made By Parent.....	•••[P65-320]
Parent Deemed to Have Prior Existence.....	•••[P65-350]
Foreign Tax Credit.....	••[P65-360]
Carry-Over of the Credit.....	•••[P65-363]
Credit Use Order.....	•••[P65-364]
Unused Credit Carry-Over.....	•••[P65-365]
Deemed Prior Existence of Parent.....	•••[P65-366]
Carry-Over for Windings-Up Prior to 1984.....	•••[P65-368]
Investment Tax Credit — Scientific Research.....	••[P65-369a]
Insurance Corporation.....	••[P65-369b]
Non-Capital Losses, Restricted Farm Losses, Farm Losses, Limited Partnership Losses, and Other Losses of a Subsidiary.....	••[P65-370]
Conditions of Application.....	•••[P65-395]
Effects of Subsection 88(1.1).....	•••[P65-515]
The Subsidiary Must Be Formally Dissolved.....	•••[P65-520]
Categories of Losses.....	••••[P65-540]
Loss Carry-Over Restrictions for the Parent.....	•••[P65-580]
Categories of Losses in the Parent’s Hands.....	•••[P65-620]
Use of Non-Capital Losses on Winding-Up:	
Canada Revenue Agency View.....	•••[P65-625]
Parent’s Loss Year.....	•••[P65-640]
Election By Parent.....	•••[P65-655]
Acquisition of Control.....	•••[P65-695]
Definition of Non-Capital Loss.....	•••[P65-700]
Carry-Over Restrictions Following Acquisition of Control.....	•••[P65-785]
Meaning of Similar Properties.....	•••[P65-787]
Subsequent Windings-Up.....	•••[P65-790]
Parent’s Deemed Prior Existence.....	•••[P65-945]
Example: Effects of Paragraphs 88(1.3)(a) and (b).....	••[P65-970]
Net Capital Losses of the Subsidiary.....	••[P66-020]
Conditions of Application.....	•••[P66-045]
Loss Carry-Over.....	•••[P66-060]
Carry-Over Limited to Subsequent Year of Parent.....	•••[P66-090]
Net Capital Loss Carry-Over Denied Where Change of Control.....	•••[P66-105]
Subsequent Windings-Up.....	•••[P66-110]
Deemed Prior Existence of Parent.....	•••[P66-120]
Accrued But Unrealized Losses of Subsidiary.....	••[P66-130]
Mara Properties Limited.....	•••[P66-140]
The Decision of the Tax Court of Canada.....	••••[P66-145]
The Decision of the Federal Court of Appeal.....	••••[P66-150]
The Supreme Court of Canada’s Decision.....	••••[P66-160]
Commentary.....	••••[P66-170]
Subsidiary’s Qualified Expenditures on Scientific Research and Experimental Development.....	••[P66-200]
Supplementary Research Allowance for Expenses in Taxation Years Ending After October 1983.....	•••[P66-210]
Investment Tax Credit of the Subsidiary.....	•••[P66-225]
Natural Resources.....	••[P66-325]
Inventory of a Farming Business.....	••[P66-335]
Cost Amount of Inventory Used in a Farming Business.....	•••[P66-336]
Cost Amount of Inventory.....	•••[P66-337]
Inclusion in Computing the Income of the Subsidiary.....	•••[P66-338]
Deduction in Computing the Income of the Parent.....	•••[P66-339]
Instalments.....	••[P66-350]
General.....	•••[P66-360]
“First Instalment Base”.....	••[P66-390]
“Second Instalment Base”.....	•••[P66-405]

Table of Contents

12/2020

Winding-Up of a Subsidiary.....	•••[P66-435]
First Instalment Base — Year of the Winding-Up.....	•••[P66-450]
Second Instalment Base — Year of the Winding-Up.....	•••[P66-465]
First Instalment Base — Year Which Follows the Year of the Winding-Up	•••[P66-480]
Second Instalment Base — Year Which Follows the Year of the Winding-Up	•••[P66-495]
Interest	•••[P66-510]
Example: Instalment on the Winding-Up of a Subsidiary Within the Meaning of Subsection 88(1)	••[P66-550]
Planning	•••[P66-565]
Canada Pension Plan.....	•••[P66-585]
Objections and Appeals.....	••[P66-635]
Assessment of a Dissolved Corporation	••[P66-650]
Subsection 159(2): Clearance Certificate.....	•••[P66-680]
Loan Not a Distribution	•••[P66-690]
Voluntary Winding-Up	•••[P66-745]
Scope of Liquidator’s Liability.....	•••[P66-760]
Wesbrook Management.....	••••[P66-765]
Prior Arrangements.....	•••[P66-850]
Providing Security for Payment.....	•••[P66-855]
Liability of Shareholders	••[P66-865]
Corporate Law.....	•••[P66-870]
Income Tax Act	•••[P66-880]
Assessment of the Shareholders.....	•••[P66-890]
Common Law.....	•••[P66-900]
Liability of Directors	••[P67-075]
Subsection 227.1(1)	•••[P67-090]
Subsection 227.1(2)	•••[P67-105]
Exemption from Liability	•••[P67-135]
Limitation Period.....	•••[P67-150]
Preference and Contribution.....	•••[P67-165]
Winding-Up Expenses.....	••[P67-250]
Expenses Incurred to Prevent Dissolution.....	•••[P67-295]
Capital Tax Planning.....	•••[P67-350]

III — WINDINGS-UP NOT COVERED BY SUBSECTION 88(1) [P67-600]

GENERAL	[P67-610]
SUBSECTION 69(5)	[P67-625]
Meaning of the Expression “On the Winding-Up”	•[P67-630]
Deemed Sale.....	•[P67-650]
Capital Loss	•[P67-690]
Capital Loss and Final Deduction	•[P67-735]
Application of ITAR to the Corporation Being Wound Up.....	•[P67-795]
Tax Conventions	•[P67-810]
Applicability of Former Convention to Capital Gains Realized in Canada	••[P67-825]
Applicability of New Convention	••[P67-840]
Sale of Debts	•[P67-855]
Section 116 Certificate	•[P67-870]
Section 116 and Excluded Property.....	•[P67-875]
Acquisition of the Appropriated Property.....	•[P67-885]
Fair Market Value Variations After Commencement of Winding-Up. ••	[P67-900]
Application of ITAR in Hands of Shareholder	•[P67-915]
SUBSECTION 84(2)	[P67-930]
Conditions of Application.....	•[P67-955]
RMM Canadian and Equilease Corporation	••[P67-960]

Table of Contents

Planning to Avoid Subsection 84(2)	•[P67-965]
Post-Mortem Planning	••[P67-966]
Surplus Stripping Post-Geransky	••[P67-967]
Deemed Dividend Under Subsection 84(2).....	•[P67-970]
Receipt of a Dividend	•[P67-985]
Example: Receipt of a Dividend By the Shareholders	••[P67-995]
Dividends Paid Before May 25, 1992 By Public Corporations	•[P68-010]
Dividend Refund	•[P68-055]
Planning Considerations	••[P68-060]
Winding-Up Dividend Divided Into Classes.....	•[P68-080]
Scope of Subsection 88(2)	••[P68-140]
“All or Substantially All of the Property”	••[P68-155]
“A Particular Time in the Course of the Winding-Up”	••[P68-170]
Computation of the Accounts.....	••[P68-185]
Example: Steps of the Winding-Up	•••[P68-225]
Winding-Up Dividend.....	••[P68-270]
Capital Dividend	•••[P68-290]
Determining the Capital Dividend or the Capital Gains	
Dividend	••••[P68-315]
Time for Computing the Accounts.....	••••[P68-330]
Dividend from Pre-1972 Capital Surplus on Hand.....	••••[P68-440]
Amount Deemed Not to Be a Dividend	••••[P68-455]
Taxable Dividend	••••[P68-470]
Computation of Taxable Dividend.....	••••[P68-485]
Distribution Among Shareholders.....	••[P68-500]
Example: Winding-Up Dividend.....	••••[P68-510]
Election By Corporation.....	••••[P68-525]
Determination of Account Balances	••••[P68-585]
PROCEEDS OF DISPOSITION OF SHARES OF	
CORPORATION BEING WOUND UP	•[P68-600]
General	•[P68-610]
Computation of Proceeds of Disposition	•[P68-625]
Public or Private Corporations.....	••[P68-655]
Capital Gain or Capital Loss on Deemed Disposition of Shares	••[P68-685]
Business Investment Loss.....	•••[P68-687]
Loss on the Disposition of Shares of the Wound-Up Corporation	••[P68-690]
Shares Not Capital Property	••[P68-700]
Section 116 Certificate	••[P68-715]
Wind-Up of a Foreign Affiliate.....	••[P68-720]
PRE-1972 CAPITAL SURPLUS ON HAND	•[P68-730]
Formula Under Subsection 88(2.1).....	•[P68-745]
Additions to Pre-1972 Capital Surplus on Hand	••[P68-760]
1971 Capital Surplus on Hand of Corporation on	
December 31, 1978 (88(2.1)(a)).....	•••[P68-775]
Post-1978 Realization of Pre-1972 Value (88(2.1)(b)).....	•••[P68-800]
Pre-1972 Capital Surplus on Hand of a Subsidiary	
(Within Meaning of Subsection 88(1)) Wound Up	
After 1978 (88(2.1)(c)).....	•••[P68-855]
Pre-1972 Capital Surplus on Hand of Predecessor	
Corporation (88(2.1)(d))	•••[P68-900]
Deductions from Pre-1972 Capital Surplus on Hand	••[P68-925]
Loss in Value Before 1972	•••[P68-940]
Proceeds on Certain Dispositions Deemed Nil for Purposes	
of Pre-1972 Capital Surplus on Hand	•[P68-970]
Share of Capital Stock of Subsidiary (Within Meaning of Subsection	
88(1)) for Winding-Up Commencing After 1978 (88(2.2)(a)(i))	••[P69-015]
Share of Controlled Canadian Corporation (88(2.2)(a)(ii)).....	••[P69-030]

Table of Contents

12/2020

Share Disposed of on Amalgamation By Particular Corporation (88(2.2)(a)(iii)).....	••[P69-090]
ITAR 26(21) Exception.....	••[P69-150]
Property Deemed Not Disposed of for Purposes of Pre-1972 Capital Surplus on Hand.....	••[P69-195]
IV — INVOLUNTARY DISSOLUTIONS	[P69-375]
GENERAL.....	[P69-385]
Administrative Position.....	•[P69-400]
Disposition or No Disposition.....	••[P69-415]
Revival After Dissolution.....	••[P69-430]
Non-Retroactivity of Revival.....	•••[P69-445]
Reacquisition of Shares on a Revival.....	••[P69-460]
Business Investment Loss.....	••[P69-475]
V — BANKRUPTCY OF A CORPORATION	[P69-600]
INTRODUCTION.....	[P69-610]
“Bankrupt”.....	•[P69-625]
“Estate of the Bankrupt”.....	•[P69-640]
Exclusion of Amount Deducted or Withheld.....	•[P69-655]
Agent.....	•[P69-670]
Canada Pension Plan and Unemployment Insurance.....	•[P69-685]
Estate of the Bankrupt.....	•[P69-700]
Taxation Year.....	•[P69-715]
COMPUTATION OF INCOME.....	[P69-730]
General Rule.....	•[P69-745]
Bankruptcy Law.....	•[P69-760]
ROLE OF THE TRUSTEE.....	[P69-810]
The Trustee as an Agent.....	•[P69-825]
Carrying on the Same Business.....	•[P69-840]
Income Tax Return.....	•[P69-855]
Amounts Withheld at Source.....	•[P69-870]
Liability of Directors.....	•[P69-885]
Liability of the Trustee.....	•[P69-900]
OTHER PROVISIONS.....	[P69-985]
Associated Corporations.....	•[P69-990]
Dividend Refund.....	•[P69-995]
Provisions That Do Not Apply.....	•[P70-000]
Part IV Tax.....	•[P70-015]
Certificate of Discharge.....	•[P70-030]
Shareholders — Deemed Disposition of Shares.....	•[P70-090]
Shareholders — Absence of Deemed Disposition of Shares.....	•[P70-105]
Losses That Cannot Be Carried Over.....	•[P70-120]
PROVABLE CLAIMS.....	[P70-135]
Bankruptcies Occurring Prior to November 30, 1992.....	•[P70-140]
Order of Priority of Claims.....	••[P70-145]
Directors’ Claims.....	••[P70-150]
Other Claims of the Crown.....	••[P70-160]
Bankruptcies Occurring on or After November 30, 1992.....	•[P70-170]
Ranking as Unsecured Claims.....	••[P70-175]
Claims Not Unique to the Crown.....	••[P70-176]
Registered Claims.....	••[P70-177]
Garnishment of Amounts Payable to a Tax Debtor.....	••[P70-178]
Notices of Assessment.....	••[P70-179]

Table of Contents

VI – REFERENCES	[P70-400]
LEGISLATION.....	[P70-410]
CASE LAW.....	[P70-420]
BIBLIOGRAPHY.....	[P70-430]
INTERPRETATION BULLETINS, INFORMATION CIRCULARS AND ADVANCE RULINGS.....	[P70-440]
 VII – CHECKLIST – SECTION 88	 [P70-500]
BASIC INFORMATION.....	[P70-505]
Corporations.....	•[P70-510]
Ownership of Shares.....	•[P70-515]
Jurisdiction.....	•[P70-520]
Activities of the Subsidiary.....	•[P70-525]
Winding-Up.....	•[P70-530]
Capital Stock.....	•[P70-535]
Paid-Up Capital.....	•[P70-540]
CORPORATE LAW.....	[P70-560]
Involuntary Dissolution.....	•[P70-600]
Forced Liquidation.....	•[P70-605]
Voluntary Liquidation.....	•[P70-610]
Voluntary Dissolution.....	•[P70-615]
INCOME TAX.....	[P70-650]
Points to Consider Before Undertaking the Winding-Up.....	•[P70-655]
Basic Requirements.....	•[P70-660]
Taxable Canadian Corporation.....	••[P70-665]
The Parent.....	•[P70-670]
Other Shares.....	••[P70-675]
Winding-Up.....	••[P70-680]
Tax Consequences for the Subsidiary.....	•[P70-690]
Income Tax Return.....	••[P70-695]
Taxation Year.....	••[P70-700]
Deductions.....	••[P70-705]
Reserves.....	••[P70-710]
Capital Cost Allowance.....	••[P70-715]
Disposition of the Subsidiary’s Property.....	••[P70-720]
Resource Property.....	••[P70-725]
Depreciable Capital Property.....	••[P70-730]
Capital Property.....	••[P70-735]
Inventory.....	••[P70-740]
Eligible Capital Property.....	••[P70-745]
Debts Owing to the Subsidiary.....	••[P70-750]
Debts Owing By the Subsidiary.....	••[P70-755]
Capital Surplus on Hand.....	••[P70-760]
Partnership Interest.....	••[P70-765]
Tax Consequences for the Parent.....	•[P70-775]
Disposition of Shares.....	••[P70-780]
Deemed Acquisition of the Subsidiary’s Property By the Parent.....	••[P70-785]
Resource Property.....	•••[P70-790]
Eligible Capital Property.....	•••[P70-795]
Depreciable Property.....	•••[P70-800]
Capital Property Other Than Depreciable Property.....	•••[P70-810]
Inventory.....	•••[P70-820]
Debts Owing to the Subsidiary.....	•••[P70-825]
Debts of the Subsidiary.....	•••[P70-830]

Table of Contents

03/2015

Paragraph 88(1)(d.1)	••[P70-835]
Paragraph 88(1)(e.2) – Continuity Under Amalgamation Rules	•[P70-840]
Special Rules	•[P70-845]
Investment Tax Credit – Paragraph 88(1)(e.3)	••[P70-847]
Employment Tax Credit – Paragraph 88(1)(e.4)	••[P70-850]
Refundable Dividend Tax – Paragraph 88(1)(e.5)	••[P70-855]
Gifts – Paragraph 88(1)(e.6)	••[P70-860]
Foreign Tax Credit – Paragraph 88(1)(e.7)	••[P70-865]
Scientific Research – Paragraph 88(1)(e.8)	••[P70-870]
Losses	••[P70-875]
Natural Resources	••[P70-890]
Instalments	••[P70-895]
Canada Pension Plan	••[P70-900]
Objections and Appeals	••[P70-905]
Clearance Certificate	••[P70-910]
Undetermined Tax Liability	••[P70-915]
Expenses of Winding-Up	••[P70-925]
Capital Tax Planning	••[P70-930]
Tax Consequences for the Other Shareholders	[P70-940]
Subsection 69(5)	••[P70-945]
Subsection 84(2)	••[P70-950]
Proceeds of Disposition	••[P70-955]
Pre-1972 Capital Surplus on Hand	••[P70-960]
Subsection 88(2.2)	••[P70-965]
Paragraph 88(2.2)(b)	••[P70-970]
Involuntary Dissolution	[P70-985]
Bankruptcy of a Corporation	•[P71-000]
Computation of Income	••[P71-005]
Corporations Are Not Associated	••[P71-010]
Other Provisions	••[P71-015]
Matters Relating to Employment	•[P71-070]
Various Matters	•[P71-085]
Table	•[P71-100]

“BUTTERFLY” TRANSACTIONS

In addition to the commentary detailed below, this chapter also includes a Research Index (at page 5301), a Checklist (at page 5695) and a Documents section (at page 5875). The latter contains relevant material issued by the Canada Revenue Agency.

I — GENERAL	[P100-000]
ANTI-AVOIDANCE PROVISIONS	[P100-005]
Former Section 55	•[P100-020]
“Artificially or Unduly”	••[P100-025]
Deficiencies	•[P100-050]
Robertson Rules	•[P100-080]
 II — SUBSECTION 55(2)	 [P100-160]
GENERAL DESCRIPTION	[P100-165]
AVOIDANCE OF CAPITAL GAINS	[P100-170]
CONDITIONS OF APPLICATION	[P100-200]
Receipt of a Deductible Taxable Dividend	•[P100-210]
“Taxable Dividend”	••[P100-225]
The Dividend Must Be Deductible	••[P100-240]
Series of Transactions or Events	•[P100-255]
Case Law Analysis	••[P100-260]
454538 Ontario Limited et al. v. MNR	•••[P100-265]
C.P.L. Holdings Ltd. v. MNR	•••[P100-270]
Les Industries S.L.M. Inc. v. MNR	•••[P100-275]
Appeal of Les Industries S.L.M. Inc	•••[P100-276]
Meager Creek Holdings	•••[P100-280]
Granite Bay Charters Ltd. v. The Queen	•••[P100-285]
Subsection 248(10)	•••[P100-290]
Subsection 248(10) and OSFC Holdings Ltd. v. The Queen	•••[P100-292]
Meaning of “Series of Transactions”	••••[P100-294]
Application of Subsection 248(10)	••••[P100-296]
Concurring Decision Regarding a Series of Transactions	••••[P100-298]
Administrative Position following OSFC	••••[P100-299]
Subsection 248(10) and Copthorne Holdings Ltd	••••[P100-299A]
Canutilities Holdings Ltd. v. The Queen	••••[P100-300]
Appeal of Canutilities Holdings Ltd. et. al	••••[P100-301]
Canada Trustco Mortgage Co. v. Canada	••••[P100-302]
Summary of the Meaning of “Series of Transactions”	
From the Cases to Date	••[P100-303]
“Transaction or Event”	••[P100-305]
Series of Transactions or Events that Commenced Before April 22, 1980	••[P100-310]
Purposes (or Results) of the Payment or Receipt of the Dividend	•[P100-325]
One of the Purposes (or Results) is a Significant Reduction of the Capital Gain	••[P100-330]
Placer Dome	•••[P100-335]
Tax Court Decision	••••[P100-336]
Decision of the Federal Court of Appeal	••••[P100-337]
The Impact of Placer Dome	••••[P100-338]
C.P.L. Holdings Ltd	•••[P100-340]
“Significant Reduction”	•••[P100-345]
One of the Purposes is a Significant Reduction in the Fair Market Value of Any Share or a Significant Increase in the Cost of Property	••[P100-350]

Table of Contents

10/2021

Income Earned or Realized After 1971: Safe Income.....	•[P100-360]
“Reasonably Be Considered”.....	••[P100-364]
729658 Alberta Ltd.....	•••[P100-364A]
Preferred Shares Entitlement.....	••[P100-365]
Preferred Shares Issued on a Tax-Free Exchange.....	••[P100-365A]
Shares Issued on Partly Taxable Exchange.....	••[P100-365B]
Preferred Shares Issued on a Rollover of Assets.....	••[P100-365C]
Preferred Shares Issued on an Asset Transfer to a Loss Corporation.....	••[P100-365D]
Preferred Shares Issued in Reorganization Intended to Purify Small Business Corporation.....	••[P100-365E]
Holding Period.....	••[P100-366]
Safe Income on Hand and Share Options.....	•••[P100-366A]
Safe Income and Convertible Debentures.....	•••[P100-366B]
Declaration of Safe Income on Various Classes of Shares.....	•••[P100-367]
Safe Income Attributable to Discretionary Dividend Shares.....	•••[P100-367A]
“By Any Corporation”.....	•••[P100-368]
“Any Corporation” Includes a Foreign Non-Affiliate.....	•••[P100-370]
“Anything”.....	•••[P100-375]
Future Income.....	•••[P100-390]
Computation of Safe Income.....	•••[P100-405]
The Computation of “Safe Income” for Incomplete Taxation Years: VIH Logging Ltd. at the Tax Court of Canada.....	••••[P100-405A]
The Computation of “Safe Income” for Incomplete Taxation Years: VIH Logging Ltd. at the Federal Court of Appeal.....	••••[P100-405B]
Safe Income and Capital Gains Exemption.....	•••[P100-406]
Safe Income and Foreign Affiliates.....	•••[P100-407]
Computation of Safe Income on Hand by the Tax Court of Canada.....	•••[P100-407A]
Agency Comments Following the Brelco Decision.....	•••[P100-407B]
Further Agency Comments Regarding Loss Consolidation and Safe Income.....	•••[P100-407C]
Safe Income Determination Time and Foreign Affiliates.....	•••[P100-408]
Safe Income on Hand.....	•••[P100-410]
Losses Incurred After Safe Income Determination Time.....	•••[P100-410A]
Safe Income on Hand Subsequent to a Debt Settlement.....	•••[P100-410B]
Safe Income on Hand and Tax Payments.....	•••[P100-410C]
Safe Income on Hand and Deemed Dividends.....	•••[P100-411]
Safe Income and Subsection 104(13.1) Designation.....	•••[P100-411A]
Corporate-Owned Insurance and Safe Income.....	•••[P100-412]
Artificial Increase in Safe Income.....	•••[P100-415]
Kruco Inc. v. The Queen.....	•••[P100-416]
Federal Court of Appeal Decision in Kruco Inc. v. The Queen (2003 FCA 284).....	•••[P100-416A]
Evolving Position of Agency.....	•••[P100-416B]
Agency Position: Safe Income on Hand and Holding Period.....	•••[P100-416C]
Further Information.....	•••[P100-417]
Total Amount of the Dividend.....	•••[P100-420]
Automatic Allocation Under Paragraph 55(5)(f) versus Designation Under Former Paragraph 55(5)(f).....	•••[P100-435]
Effect of a Designation.....	•••[P100-450]
Failure to Make a Designation.....	•••[P100-455]
Example of a Designation.....	•••[P100-465]
Late Elections.....	•••[P100-480]
Nassau Walnut Investments Inc.....	••••[P100-485]
Gestion Jean-Paul Champagne Inc.....	••••[P100-486]
Administration Gilles Leclair.....	••••[P100-487]
Amended Elections.....	•••[P100-490]

Table of Contents

TAX PLANNING INVOLVING QUEBEC CORPORATIONS.....	[P100-500]
EFFECT OF SUBSECTION 55(2).....	[P100-520]
Establishing the Amount of the Dividend (Not Subject to Part IV Tax) ..	•[P100-525]
Direct and Indirect Ownership for Part IV Tax Liability.....	•[P100-527]
Proper Interaction Between Part IV Tax and Subsection 55(2)	•[P100-530]
Ottawa Air Cargo Centre Ltd.....	••[P100-532]
The Canada Revenue Agency Addresses Part IV Circularity Problem	•[P100-535]
Comfort Letter: Subsection 55(3).....	••[P100-540]
Comfort Letter: Subsection 55(3).....	•[P100-541]
Treatment of the Dividend.....	•[P100-555]
Subsequent Disposition of the Share	••[P100-570]
Potential Double Taxation Under Subsection 55(2)	••[P100-580]
Calculating Part IV Tax	••[P100-585]
Gestion Forêt-Dale Inc. v. The Queen	•••[P100-590]
III — EXCEPTION: PARAGRAPH 55(3)(a)	[P100-600]
GENERAL	[P100-610]
Nature of the Subsection 55(3) Exceptions.....	•[P100-625]
Former Subsection 55(1).....	•[P100-630]
SERIES OF TRANSACTIONS OR EVENTS	[P100-635]
2016 Amendment to Paragraph 55(3)(a) Exception	•[P100-636]
Dealing With Unrelated Persons	•[P100-641]
First Event: Disposition of Property to an Unrelated Person	••[P100-641i]
Second Event: Significant Increase in the Interest of an Unrelated Person.....	••[P100-641ii]
Third Event: Disposition of Shares of the Dividend Payer.....	••[P100-641iii]
Fourth Event: Disposition of Shares of the Dividend Recipient....	••[P100-64 liv]
Fifth Event: Significant Increase in the Total Direct Interests in the Dividend Payer.....	••[P100-64lv]
Subsection 55(3) and the Assumption of Debt on a Section 85 Transfer.....	••[P100-642]
Timing of Relationship	••[P100-645]
Determination of Relationship.....	••[P100-650]
Determination of Proceeds.....	•••[P100-650A]
Wind-Ups and Vertical Amalgamations: Paragraph 55(3.01)(h).....	•••[P100-650B]
Significant Increase in the Total Direct Interest in a Corporation	•[P100-660]
“Significant Increase”	••[P100-665]
Comfort Letter (Increase in Interest From Financing Transaction) and Paragraph 55(3.01)(f)	•••[P100-668]
Total Direct Interest in a Corporation.....	•••[P100-670]
ANTI-AVOIDANCE PROVISIONS	[P100-700]
Subsection 55(4)	•[P100-705]
Brothers and Sisters	•[P100-710]
Application of Paragraph 55(3)(a) in the Context of a Reorganization of a Family Owned Corporation	•[P100-711]
Subparagraph 55(5)(e)(iv) and the Grandfather Rule.....	••[P100-712]
Persons and a Trust	•[P100-715]
Interpretation of Subparagraph 55(5)(e)(ii)	••[P100-717]
Right to Acquire Shares.....	•[P100-720]
Priority of Anti-Avoidance Provisions	••[P100-725]
IV — EXCEPTION: PARAGRAPH 55(3)(b)	[P100-750]
“BUTTERFLY REORGANIZATION”	[P100-760]
DIVIDEND RECEIVED IN THE COURSE OF A REORGANIZATION ..	[P100-775]

Table of Contents

02/2022

“Reorganization”	•[P100-790]
“In the Course of a Reorganization”	•[P100-800]
DISTRIBUTION OF PROPERTY	[P100-875]
“Distribution”, “Distributing Corporation”, “Transferee Corporation” and “Specified Corporation” Defined	•[P100-876]
“Direct or Indirect”	••[P100-880]
Transfer to Subsidiary of Shareholder Corporation	••[P100-885]
Ambiguity in the Expression “Directly or Indirectly”	••[P100-890]
Type of Property Transferred	•[P101-150]
Administrative Position	••[P101-155]
Determination of Property Type	••[P101-165]
Cash or Near Cash	•••[P101-170]
Business Property	•••[P101-175]
Investments	•••[P101-180]
Northern Hot Oil Services	•••[P101-190]
Proportion of Fair Market Value	•[P101-200]
Valuation of the Share	••[P101-205]
Administrative Position	••[P101-210]
Fair Market Value and Net Value	••[P101-220]
“Was Equal to or Approximated”	••[P101-240]
Adjustment of the Interests	••[P101-250]
PUBLIC CORPORATION BUTTERFLY	[P101-252]
POTENTIAL ANOMALOUS RESULTS IN THE APPLICATION OF THE PUBLIC CORPORATION BUTTERFLY RULES	[P101-252A]
ACQUISITION OF CONTROL ON PUBLIC CORPORATION BUTTERFLY	[P101-253]
PROBLEMS ARISING FROM THE DEFINITION OF TAXABLE CANADIAN PROPERTY	[P101-254]
ELIMINATION OF INTEREST IN DISTRIBUTING CORPORATION	[P101-255]
PERMITTED REDEMPTION	[P101-256]
“Permitted Redemption” Defined	•[P101-257]
Shares of a “Specified Class”	••[P101-258]
NON-APPLICATION OF THE PARAGRAPH 55(3)(b) EXCEPTION	[P101-260]
Prohibited Acquisition of Property	•[P101-265]
“In Contemplation of”	••[P101-266]
“Property”	••[P101-267]
Amalgamation of Related Corporations	••[P101-270]
Related Corporations	•••[P101-271]
Amalgamation of Predecessor Corporations	••[P101-275]
Double Butterfly Reorganizations	••[P101-280]
Problems	••[P101-281]
Property Acquired as a Result of Certain Dispositions of Property ..	••[P101-285]
Dispositions to, From and Among Controlled and Predecessor Corporations	•••[P101-290]
Consideration in the Form of Money or Debts	•••[P101-295]
Anti-Avoidance Rule	•••[P101-296]
Comfort Letter on the Application of Paragraph 55(3. 1)(a) Where the Distributing Corporation Is a “Specified Corporation”	••[P101-297]
Former Rules: Dividends Prior to February 22, 1994	••[P101-298]
Continuity of Share Ownership	•[P101-300]
“Permitted Redemption”	••[P101-302]
Disposition of Shares of Distributing or Transferee Corporation	••[P101-305]
“Specified Shareholder” Defined	••[P101-306]
Shareholder Holding Shares of a Specified Class	••[P101-306A]
Rulings on Cross-border Butterflies	••[P101-306B]
Paragraph 55(5)(e) Presumptions	•••[P101-307]

Table of Contents

“Permitted Acquisition” Defined	••[P101-308]
“Permitted Exchange” Defined	••[P101-309]
Acquisition of Control	••[P101-310]
Acquisition of Shares of Distributing Corporation in Contemplation of Distribution	••[P101-315]
Acquisition of Shares on a Permitted Redemption	••[P101-317]
Prohibited Post-Butterfly Dispositions of Property	•[P101-320]
Property Distributed to a Transferee Corporation: Paragraph 55(3.1)(c)	••[P101-321]
Technical Problem	••[P101-323]
Department of Finance Position	••[P101-323A]
Department of Finance Comfort Letter: Subsection 55(3.1)	••[P101-323B]
Administrative Position	••[P101-324]
Analysis of Canada Revenue Agency Views on the Subparagraph 55(3.1)(c) and (d) Exceptions	••[P101-325]
Undistributed Property of Distributing Corporation: Paragraph 55(3.1)(d)	••[P101-326]
DIFFERENT TYPES OF “BUTTERFLY”	[P101-335]
“Double-Wing Butterfly”	•[P101-336a]
Majority Shareholder	•[P101-336b]
“Single-Wing Butterfly”	•[P101-336c]
Prior to February 22, 1994: “Partial Butterfly Reorganization”	•[P101-337]
Prior to February 22, 1994: “Purchase Butterfly”	•[P101-338]
Cross-Border Butterfly Reorganization	•[P101-340]
The Purpose of Former Subsection 55(3.1)	••[P101-341]
Former Subsection 55(3.1)	••[P101-342]
Scope of the Exclusion	••[P101-343]
Difficulties with the Proposal	••[P101-344]
PARTICULAR POINTS	[P101-350]
Immovable Property in Inventory	•[P101-355]
Depreciable Property	•[P101-356]
Reserves	•[P101-357]
Loss Carry Forward	•[P101-358]
Capital Dividend Account	•[P101-359]
Debt Exceeding the Cost Amount of a Property	•[P101-360]
Goods and Services Tax (GST)	•[P101-361]
Subsections 40(3.3) and (3.4)	•[P101-362]
Subsection 13(21.2)	•[P101-363]
10737 Newfoundland Ltd. v. Canada	••[P101-365]
V — VARIOUS MATTERS	[P101-380]
INCREASE UNDER PARAGRAPH 88(1)(d)	[P101-400]
SUBSECTION 84(8)	[P101-415]
TAXABLE PREFERRED SHARES	[P101-416]
SUBSECTION 69(11)	[P101-417]
GENERAL ANTI-AVOIDANCE RULE	[P101-418]
SUBSECTION 110.6(7)	[P101-420]
STOCK OPTION SPLITS	[P101-430]
VI — REFERENCES	[P102-200]
LEGISLATION	[P102-210]
CASE LAW	[P102-215]
BIBLIOGRAPHY	[P102-220]

Table of Contents

02/2022

INTERPRETATION BULLETINS, INFORMATION CIRCULARS AND ADVANCE RULINGS	[P102-230]
VII — CHECKLIST PARAGRAPH 55(3)(b)	[P102-300]
SUBSECTION 55(2)	[P102-305]
PURPOSE	[P1 02-310]
CONDITIONS	[P102-315]
EXCEPTIONS TO PARAGRAPH 55(2).....	[P102-320]
BUTTERFLY REORGANIZATIONS	[P102-325]
PURPOSE	[P102-330]
BASIC CONDITIONS	[P102-335]
QUALIFYING DISTRIBUTION	[P102-340]
REQUIREMENTS WITH RESPECT TO THE PROPERTY TRANSFERRED	[P102-345]
DETERMINING THE FAIR MARKET VALUE	[P102-350]
BUTTERFLY EXEMPTION IN APPLICATION.....	[P102-355]
PROHIBITED ACQUISITIONS OF PROPERTY	[P102-360]
PROHIBITED CHANGES IN SHARE OWNERSHIP AND CONTROL ...	[P102-365]
PROHIBITED DEALINGS IN OTHER PROPERTY	[P102-370]
TYPES OF “BUTTERFLY” REORGANIZATIONS	[P102-375]
“DOUBLE-WING BUTTERFLY”	[P102-380]
“SINGLE-WING BUTTERFLY”.....	[P102-385]
“PARTIAL BUTTERFLY REORGANIZATION”	[P102-390]
“PURCHASE BUTTERFLY”	[P102-395]
VARIOUS MATTERS	[P102-400]

TRANSFORMATION OF A BRANCH

In addition to the commentary detailed below, this chapter also includes a Research Index (at page 6301) and a Documents section (at page 6801). The latter contains relevant material issued by the Canada Revenue Agency.

I — INTRODUCTION	[P120-000]
II — BRANCH TAX	[P120-015]
INTRODUCTION	[P120-025]
Legislative and Administrative Sources	•[P120-035]
TAX LIABILITY	[P120-050]
Corporate Entities	•[P120-065]
Targeted Corporations	•[P120-080]
Corporate Residence.....	••[P120-090]
Tax Avoidance	••[P120-100]
Effect of a Continuance.....	•[P120-115]
Canada-U.S. Tax Convention	••[P120-120]
Carrying On a Business	•[P120-130]
Corporations Having Income From Property	••[P120-140]
Corporations Carrying on Business as a Partnership	••[P120-145]
Liability.....	•[P120-150]
Administrative Procedures	••[P120-160]
Deadline	••[P120-170]
Tax Rate	•[P120-180]
CONVENTIONS ON DOUBLE TAXATION.....	[P120-190]
Conventions Providing No Rule With Respect to Branches	•[P120-195]
The Meaning of “Permanent Establishment”.....	•[P120-200]
Regulation 400	•[P120-205]
Tax Treaties	••[P120-210]
Canada-U.K. Treaty.....	•••[P120-215]
Canada-U.S. Treaty	•••[P120-220]
Canadian Jurisprudence	••[P120-230]
Sunbeam Corp. v. M.N.R.....	•••[P120-235]
Shahmoon v. M.N.R.....	•••[P120-240]
Fowler v. M.N.R.....	•••[P120-245]
Dudney v. Canada	•••[P120-250]
Toronto Blue Jays Baseball Club v. Ontario (Minister of Finance)	•••[P120-255]
Knights of Columbus v. The Queen	•••[P120-260]
American Income Life Insurance Co. v. The Queen	•••[P120-265]
Summary of Canadian Jurisprudence to Date.....	••[P120-270]
Effect of the MLI on Permanent Establishments.....	•[P120-271]
Tax Conventions Providing a Rule With Respect to Branches.....	•[P120-275]
Basic Model	••[P120-280]
Profits From an Establishment	•••[P120-290]
Variations	•••[P120-300]
Rates at Two Levels	•••[P120-310]
Unilateral Right	•••[P120-315]
Clause Providing for the Application of Canadian Laws.....	••[P120-320]
Unilateral Nature.....	•••[P120-325]
Variations	•••[P120-330]
Profits From an Establishment	•••[P120-335]
Rates at Two Levels	•••[P120-340]

Table of Contents

09/2021

Conventions Which Do Not Incorporate a “Notwithstanding” Rule	•••[P120-345]
Treaties Allowing \$500,000 Exemption	••[P120-350]
Introduction	•••[P120-355]
Canada-United States Tax Convention	•••[P120-360]
Definition of “Earnings” in the Canada-United States Tax Convention.....	•••[P120-365]
Gains and/or Losses From the Alienation of Business Property	••••[P120-370]
Technical Problem	••••[P120-375]
Comparative Analysis: Exemption Established By the Tax Convention and Part XIV Tax.....	•••[P120-380]
Exclusion By Convention: Earnings and Gains Not Connected to a Permanent Establishment.....	••••[P120-395]
Statutory Deduction of Losses and Losses Carried Over	••••[P120-400]
Statutory Exclusion of Capital Gains on Property That Is Not a Business Property of a Permanent Establishment	••••[P120-405]
Deduction of Losses on Business Property, Provided By Convention.....	••••[P120-410]
Deduction of Taxes Payable.....	••••[P120-415]
Deduction of the Investment Allowance.....	••••[P120-420]
Fiscally Transparent Entities	••••[P120-425]
\$500,000 Exemption Provided Under Nineteen Tax Conventions	•••[P120-430]
Canada-U.S. Tax Convention	••••[P120-431]
Canada-United Kingdom Tax Convention.....	••••[P120-432]
Canada-Germany Tax Convention.....	••••[P120-433]
Canada-Netherlands Tax Convention	••••[P120-434]
Canada-Japan Tax Convention	••••[P120-435]
Canada-China Tax Convention.....	••••[P120-436]
Canada-Finland Tax Convention.....	••••[P120-437]
Canada-Austria Tax Convention	••••[P120-438]
Canada-Belgium Tax Convention	••••[P120-439]
Canada-Croatia Tax Convention	••••[P120-440]
Canada-Ireland Tax Convention	••••[P120-441]
Canada-Kuwait Tax Convention	••••[P120-442]
Canada-Luxembourg Tax Convention	••••[P120-443]
Canada-Norway Tax Convention	••••[P120-444]
Canada-Portugal Tax Convention.....	••••[P120-445]
Canada-Sweden Tax Convention	••••[P120-446]
Canada-Switzerland Tax Convention.....	••••[P120-447]
Canada-United Arab Emirates Tax Convention.....	••••[P120-448]
Canada-New Zealand Tax Convention	••••[P120-449]
TAX BASE	[P120-510]
Introduction	•[P120-520]
Amount Taxable.....	•[P120-535]
Dividends Received	•[P120-550]
Loss Consolidation Arrangements	•[P120-635]
Taxable Capital Gains and Allowable Capital Losses.....	•[P120-900]
Legislative Intent	••[P120-930]
Treatment of Net Capital Losses.....	••[P120-945]
Example: Carry-Over of Net Capital Losses.....	••[P120-960]
Treaties on Double Taxation	••[P120-975]
Other Conventions	•••[P121-000]

Table of Contents

Deduction of Federal and Provincial Taxes.....	•[P121-015]
Federal and Provincial Tax.....	••[P121-030]
Deduction of Interest and Penalties in Respect of Federal and Provincial Taxes.....	•[P121-050]
Allowance Regarding Investments in Property Located in Canada.....	•[P121-115]
Inclusions in the Allowance for Investment in Property in Canada.....	••[P121-145]
Land.....	•••[P121-165]
Depreciable Property.....	•••[P121-170]
Canadian Exploration and Development Expenses and Cumulative Canadian Exploration Expenses.....	•••[P121-180]
Cumulative Canadian Development Expenses and Cumulative Canadian Oil and Gas Property Expenses.....	•••[P121-185]
Debt Owning on the Disposition of Property.....	•••[P121-190]
Conversion of Proceeds of Disposition.....	•••[P121-193]
Inventory.....	•••[P121-195]
Business Debt.....	•••[P121-200]
Allowable Liquid Assets.....	•••[P121-350]
Monthly Average.....	••••[P121-390]
Planning in Respect of Liquid Assets and Withholding at Source.....	•••[P121-400]
Omitted Assets.....	•••[P121-415]
The Deductions: Amounts Referred to at Regulations 808(2)(j) to 808(2)(p).....	••[P121-435]
Reserves.....	•••[P121-440]
Reserve on the Disposition of Property.....	•••[P121-445]
Debt.....	•••[P121-450]
Debt Denominated in Foreign Currency.....	•••[P121-451]
Other Interest Bearing Debts.....	•••[P121-455]
Conversion of Debts.....	••••[P121-460]
Pairing of Obligations.....	••••[P121-465]
Federal Tax.....	•••[P121-470]
Provincial Tax.....	•••[P121-475]
Effect of Losses on the Computation of the Allowance.....	•••[P121-550]
Example: Carry-Over of Loss and Recapture of Allowance in Respect of Property of the Corporation Situated in Canada.....	•••[P121-555]
Corporations Exempt From Part XIV Tax.....	•[P121-565]
Convention on Double Taxation.....	••[P121-580]
Nature of the Exemption.....	••[P121-600]
Corporation Exempt From the Part I Tax.....	••[P121-615]
Branch Profits Exempt From Part XIII and Part XIV Taxes.....	••[P121-616]
Statutory Exemptions.....	•••[P121-617]
Transportation.....	••••[P121-619]
Communications.....	••••[P121-620]
Means of Claiming Section 219 Exemption Retroactively.....	••••[P121-620A]
Mining Iron Ore.....	••••[P121-621]
Exemptions Under the Conventions.....	•••[P121-622]
Comparative Tax Rates.....	•••[P121-623]
Withholding of Tax on Payments Made By a Non-Resident.....	•••[P121-624]
Real Property and Property of a Non-Resident in Canada.....	•••[P121-625]
Payments Deducted By a Non-Resident.....	••••[P121-626]
Tax on Non-Residents and Tax Conventions.....	•••[P121-627]
Payment of Interest to a Resident of a Third Country.....	•••[P121-628]
Royalties.....	•••[P121-629]
Remark.....	•••[P121-630]
Planning.....	•••[P121-631]
Conclusion.....	•[P121-650]
Non-Corporate Entities.....	••[P121-660]
Income From Property.....	••[P121-670]

Conventions on Double Taxation ••[P121-680]
 Allowance in Respect of Investment in Property Situated in Canada ••[P121-690]
 Statutory Exemption ••[P121-700]
 Transformation ••[P121-710]

III — TRANSFORMATION OF A BRANCH [P121-850]

INTRODUCTION [P121-860]
 TRANSFER OF BRANCH ASSETS TO A CANADIAN CORPORATION [P121-870]
 SUBSIDIARY [P121-875]
 CONSIDERATION [P121-890]
 Amount of the Consideration •[P121-900]
 Consideration in Shares..... •[P121-910]
 Summary of the Rules •[P121-940]
 Inclusion Under Paragraph 219(1)(f) ••[P121-950]
 Inclusion Under Paragraph 219(1)(g)..... ••[P121-960]
 Deduction Under Paragraph 219(1)(j)..... ••[P121-970]
 Deduction Under Paragraph 219(1)(l)..... ••[P121-980]
 Limitations on the Availability of the Paragraph 219(1)(l)
 Deduction •••[P121-990]
 Disposition to a “Qualified Related Corporation” ••[P121-995]
 Example: Transformation of a Branch into a Subsidiary..... •[P122-020]
 Examples of Application •[P122-040]
 Example #1: Issue of Shares With Low Paid-Up Capital •[P122-050]
 Example #2: Payment of Consideration Other Than Shares..... •[P122-060]
 Example #3: Payment of Consideration in Shares Having a High
 Paid-Up Capital •[P122-070]
 Example #4: Payment of Non-Share Consideration Exceeding
 the Cost of the Property Transferred..... •[P122-080]
 Paid-Up Capital Planning..... •[P122-100]
 DISTRIBUTION IN FAVOUR OF NON-RESIDENTS [P122-120]

IV — CONCLUSION [P122-150]

NON-RESIDENT CORPORATION [P122-160]
 OTHER CONSIDERATIONS [P122-180]
 FINAL NOTES [P122-200]

V — REFERENCES [P122-300]

LEGISLATION [P122-305]
 CASE LAW [P122-310]
 BIBLIOGRAPHY [P122-315]
 INTERPRETATION BULLETINS..... [P122-320]