

Comprehensive Table of Contents

<i>Preface</i>	iii
<i>Editorial Board</i>	v
<i>Board members</i>	vii
Table of Cases	TC-1
Chapter 1: Some Fundamental Concepts	
1.1 Introduction	1-3
1.2 Income from a Business, Property or Adventure in the Nature of Trade. 1-3	
1.2.1 Property v. Business	1-4
(a) Individuals	1-4
(b) Corporations	1-6
1.2.2 Business v. Adventure in the Nature of Trade	1-7
1.3 Business or Trading Gains v. Capital Gains	1-9
1.3.1 Main Factors in Determination	1-10
(a) The Taxpayer's Intention	1-12
(b) Feasibility of Intention	1-13
(c) Geographic Location and Zoned Use	1-13
(d) Extent to Which Intention Carried Out	1-13
(e) Evidence of Change of Intention	1-14
(f) Nature of Business of Taxpayer or Associates	1-14
(g) Use of Borrowed Money and Terms	1-14
(h) Length of Time Held	1-15
(i) Other Participants	1-15
(j) Reasons for Sale	1-15
(k) Evidence of Extensive Dealings in Real Estate	1-16
1.3.2 Some Specific Types of Situations	1-16
(a) Repeated Sale and Reinvestment (Trading Up)	1-16
(b) Excess Land	1-16
(c) Sale After Acquisition Pursuant to Option	1-17
(d) Sale Pursuant to Option Contained in Lease	1-18
(e) Sale of Shares or Partnership Interest	1-18
(f) Vacant Land	1-19
(g) Inherited Land	1-20
(h) Sale Shortly after Rollover to Related Corporation with Tax Losses	1-20

TAXATION OF REAL ESTATE IN CANADA

(i)	Sale by Creditor after Seizure.....	1-21
1.3.3	Capital Property Converted to Inventory	1-21
(a)	Application.....	1-22
(i)	Subdivision and Servicing Undeveloped Land	1-22
(ii)	Condominium Conversion	1-23
(iii)	Depreciable Property	1-23
1.3.4	Inventory Converted to Capital Property	1-24
1.3.5	Eligible and Ineligible Dividends.....	1-24
1.4	Deductibility of Expenses/Losses.....	1-25
1.4.1	Deductibility of Losses	1-25
1.4.2	Deductibility of Expenses/Losses.....	1-26
(a)	Where Personal Element Exists	1-27
(b)	Treatment of Expenses	1-28
(c)	Tax Motivation	1-29
(d)	Effect of Capital Gains	1-29
1.4.3	Interest Expense.....	1-29
1.4.4	Proposed Amendments on Losses.....	1-29

Chapter 2: Acquisition of Real Estate

2.1	Considerations Relating to Acquisitions	2-3
2.2	Specific Methods of Acquisition.....	2-3
2.2.1	Purchase	2-3
(a)	Timing	2-3
(b)	Cost of Acquisition	2-4
(c)	Land/Building and Other Allocation	2-4
2.2.2	Leasing	2-5
(a)	Lease/Option Arrangements	2-5
(b)	Improvements to Leased Property.....	2-6
2.2.3	Gifts, Bequests or Inheritance.....	2-7
2.2.4	Foreclosure.....	2-8
2.2.5	Changes in Use	2-9
2.2.6	Acquisition of Indirect Interests.....	2-9
2.3	Classification of Acquisitions	2-11
2.3.1	Land.....	2-12
2.3.2	Paving, etc	2-12
2.3.3	Fences and Pools	2-12
2.3.4	Buildings	2-12
(a)	Building Classes	2-13
(i)	Class 1.....	2-13
(ii)	Eligible Non-Residential Building.....	2-13
(iii)	Class 3.....	2-14
(iv)	Class 6.....	2-15
(b)	Separate Class Rules	2-15

COMPREHENSIVE TABLE OF CONTENTS

	(i) Rental Properties \$50,000 or More	2-15
	(ii) Rental Properties v. Other Properties.....	2-16
	(iii) Separate Businesses.....	2-16
2.3.5	Leasehold Interests (Class 13).....	2-16
	(a) Restrictions on Inclusion in Class 13	2-17
	(b) Merger with Fee Simple	2-18
2.3.6	Equipment, Furniture.....	2-19
2.3.7	Easements	2-20
2.4	Non-Arm's Length Acquisitions	2-21
2.4.1	Depreciable Property	2-21
	(a) Class Retention.....	2-22
	(b) Half-Year Rule	2-22
	(c) Step-Up Limitation.....	2-22

Chapter 3: Development of Real Estate

3.1	General Considerations	3-3
3.1.1	Capital	3-3
3.1.2	Inventory	3-4
	(a) Businesses Other than an Adventure in the Nature of Trade	3-4
	(b) An Adventure in the Nature of Trade.....	3-5
3.1.3	Conformity with GAAP.....	3-6
3.1.4	When Paid or Incurred or Beneficial Interest Acquired	3-7
3.1.5	Allocation and Reasonableness of Cost Components	3-8
3.1.6	Requirement to Capitalize Soft Costs	3-8
	(a) Background.....	3-8
	(b) Application.....	3-8
3.2	Pre-Development Expenses	3-13
3.2.1	Site Investigation/Feasibility Study	3-14
3.2.2	Representation Costs	3-16
3.2.3	Carrying Costs Prior to Development.....	3-17
3.2.4	Demolition and Land Clearing Costs	3-18
3.2.5	Costs of Abandoned Projects	3-18
3.3	Development Expenses	3-19
3.3.1	Expenses Incurred in the Course of Borrowing Money	3-19
3.3.2	Property Taxes During Development	3-20
3.3.3	Interest Costs During Development.....	3-20
	(a) Direct Ownership.....	3-20
	(b) Indirect Ownership.....	3-21
3.3.4	Ground Rent.....	3-24
3.3.5	Direct and Indirect Development Costs	3-24
3.3.6	Landscaping	3-25
3.3.7	Utilities Service Connections.....	3-27

TAXATION OF REAL ESTATE IN CANADA

3.3.8	Capital Cost Allowance during Development.....	3-28
3.3.9	Levies and Other Payments to Municipalities.....	3-28
3.3.10	Alteration to Suit Tenant	3-29
3.4	Post-Development Expenses.....	3-29
3.4.1	Permanent Financing	3-29
3.4.2	Initial Lease-Up	3-30
(a)	General Marketing Costs	3-30
(b)	Leasing Commissions.....	3-30
(c)	Tenant Inducements	3-31

Chapter 4: Owning, Operating and Renting Real Estate

4.1	Overview	4-3
4.2	Recognition of Revenue from Renting Real Estate	4-3
4.2.1	Cash v. Accrual	4-3
4.2.2	Prepaid Rent.....	4-4
4.2.3	Income other than Rent	4-4
(a)	Bonuses or Premiums.....	4-4
(b)	Allowances and Reimbursements.....	4-5
(c)	Lease Cancellation Payments	4-5
(d)	Taxable Benefit from Tenant Improvements	4-5
4.3	Expenses of Owning and Operating Real Estate.....	4-6
4.3.1	General Considerations.....	4-6
(a)	Incurred to Earn Income	4-6
(b)	Capital	4-6
(c)	Personal or Living Expenses	4-7
(d)	Prepaid Expenses	4-7
(e)	Conformity with GAAP.....	4-7
(f)	Expenses Relating to Development	4-8
(g)	Expenses Incurred Prior to Obtaining Ownership	4-8
(h)	Alternative Minimum Tax.....	4-8
4.3.2	Interest and Other Financing Costs	4-11
(a)	Expenses of Obtaining Financing — Existing Rules.....	4-11
(a.1)	Expenses of Obtaining Financing	4-15
(b)	Interest.....	4-16
(i)	General	4-16
(ii)	Compound Interest.....	4-17
(iii)	Interest on Vacant Land.....	4-18
(A)	General	4-18
(B)	Indirect Financing	4-20
(C)	Base Level Deduction	4-22
(D)	Phasing-in Rules	4-23
(iv)	Loss of Source.....	4-24
(A)	General	4-24

COMPREHENSIVE TABLE OF CONTENTS

	(B) Borrowed Money Used to Earn Income from Capital Property.....	4-24
	(C) Borrowed Money Used to Earn Income from a Business.....	4-27
	(D) Other Rules	4-28
	(v) Refinancing	4-29
	(c) Bonuses or Discounts	4-29
	(d) Early Repayment and Rate Reduction Payments	4-29
4.3.3	Ground Rent.....	4-30
4.3.4	Capital Cost Allowance	4-30
	(a) General	4-30
	(i) Rates	4-30
	(A) Declining Balance Classes	4-30
	(B) Leasehold Interests (Class 13)	4-31
	(ii) Inventory	4-31
	(iii) Available for Use Rules.....	4-31
	(b) Rental and Leasing Property Restrictions.....	4-32
	(i) General.....	4-32
	(ii) Rental Property Defined	4-33
	(iii) Exemptions	4-34
	(iv) Business Assets Deemed to be Rental Property.....	4-35
	(v) Leasing Property Defined	4-36
	(vi) Operation of Restrictions	4-37
	(vii) Planning Ownership/Financing Structures	4-40
4.3.5	Leasing Costs	4-41
	(a) General	4-41
	(b) Alterations to Suit Tenant.....	4-41
	(c) Inducement Payments to Tenants.....	4-41
	(d) Lease Pick-ups.....	4-44
	(e) Rent-free Periods	4-44
4.3.6	Repairs and Maintenance	4-45
4.3.7	Lease Cancellation Payments	4-47
4.3.8	Disability Modifications.....	4-49
4.4	Considerations for Tenants.....	4-49
4.4.1	Inducements Received	4-49
4.4.2	Rent	4-51
4.4.3	Capital Cost Allowance — Leasehold Interests	4-52
4.4.4	Lease Cancellation Payments	4-53
	(a) Received by Tenant.....	4-53
	(b) Paid by Tenant	4-53
4.4.5	Subleasing Costs.....	4-54

Chapter 5: Sales and Other Dispositions of Real Estate

5.1	General Concepts.....	5-5
5.1.1	Time of Recognition	5-5
5.1.2	Amount of Gain or Loss.....	5-6
	(a) General	5-6
	(i) Capital Gain	5-6
	(ii) Capital Loss	5-6
	(iii) Recaptured Capital Cost Allowance	5-6
	(iv) Terminal Loss.....	5-6
	(v) Trading or Inventory Gain or Loss	5-7
	(vi) Pre-1972 Property	5-7
	(vii) Non-arm's Length Transfers.....	5-7
	(b) Land/Building Allocation.....	5-8
5.2	Sales and Other Dispositions.....	5-10
5.2.1	Sales.....	5-10
	(a) Timing of Recognition	5-10
	(i) General	5-10
	(ii) Deposits.....	5-11
	(b) Amount of Proceeds Recognized	5-11
5.2.2	Sale-leaseback and Lease-option Arrangements	5-12
	(a) Subsequent to June 13, 2001.....	5-13
5.2.3	Foreclosure.....	5-14
5.2.4	Change in Use.....	5-15
5.2.5	Lease Cancellation Payments	5-15
5.2.6	Forfeited Deposits.....	5-16
5.2.7	Option Transactions	5-16
5.2.8	Partitioning Undivided Interests.....	5-17
	(a) Capital Property.....	5-17
	(b) Inventory	5-19
5.3	Tax Deferrals, Rollovers and Planning Ideas.....	5-20
5.3.1	Reserves	5-20
	(a) General	5-20
	(b) Limitations on Reserve Claims.....	5-23
	(i) Inventory Gains	5-23
	(ii) Capital Gains.....	5-24
5.3.2	Replacement Property Rollovers.....	5-27
	(a) General	5-27
	(b) Involuntary Dispositions	5-29
	(c) Voluntary Dispositions	5-31
	(d) Compliance Requirements.....	5-32
5.3.3	Other Types of Rollovers.....	5-33
	(a) To Corporations.....	5-33
	(b) To Partnerships.....	5-33

COMPREHENSIVE TABLE OF CONTENTS

	(c) Farm Property.....	5-36
5.3.4	Alternatives to Dispositions.....	5-37
	(a) Refinancing.....	5-37
	(b) Ground Leases.....	5-37
5.4	Dispositions — Special Situations	5-38
5.4.1	Expropriations	5-38
	(a) Timing.....	5-38
	(i) Capital Property.....	5-38
	(ii) Inventory	5-40
	(b) Amount of Proceeds Recognized	5-41
5.4.2	Damage or Destruction.....	5-42
	(a) Capital Property.....	5-42
	(b) Inventory	5-42
5.4.3	Property of Deceased Taxpayers.....	5-42
	(a) Capital Property.....	5-42
	(b) Inventory	5-43
5.4.4	Gifts	5-43
5.4.5	Transfers From Trust to Beneficiaries	5-43
5.4.6	Granting of Easements and Other Partial Dispositions	5-44
	(a) Capital Property.....	5-44
	(i) Relative Fair Market Value at Time of Disposition.....	5-45
	(ii) Fair Market Value at Time of Acquisition	5-46
	(b) Inventory	5-47
5.5	Special Rules Concerning Recaptured Capital Cost Allowance	5-47
5.5.1	Property Rolled Over or Acquired Non-arm's Length.....	5-48
5.5.2	Property Previously Leased.....	5-49
5.5.3	Lease-leaseback Transactions	5-51
5.6	Special Limitations Concerning Losses	5-53
5.6.1	Terminal Loss Restrictions on Buildings	5-53
	(a) Buildings/Subsection 13(21.1).....	5-54
	(b) Depreciable Property/Subsection 85(5.1)	5-56
	(c) Depreciable Property/Subsection 13(21.2).....	5-57
5.6.2	Capital Property/Subsections 40(3.3) and (3.4).....	5-59
5.6.3	Inventory Adjustments.....	5-60
5.6.4	Acquisition of Control of Corporations	5-63
5.7	Real Estate and the Capital Gains Exemption	5-64

Chapter 6: Personal Use Real Estate

6.1	Overview	6-2
6.2	Principal Residence Exemption	6-3
6.2.1	Background.....	6-3

TAXATION OF REAL ESTATE IN CANADA

6.2.2	General Rule	6-3
6.2.3	Principal Residence Definition.....	6-7
	(a) Nature of Property	6-7
	(b) Subjacent and Contiguous Land	6-8
	(c) Ownership of Property	6-12
	(d) Ordinarily Inhabited	6-13
	(e) Designation	6-13
	(f) Limitation on Designation.....	6-14
6.2.4	Special Rule Applicable to Farmers	6-18
6.2.5	Interspousal Transfers.....	6-19
6.2.6	Transfers from Trust to Beneficiary	6-19
6.2.7	Principal Residence Owned by a Trust.....	6-20
6.2.8	Transitional Rule re Pre-1982 Properties	6-21
6.2.9	Land Owned Prior to Construction	6-23
6.2.10	Proceeds from Granting Options.....	6-24
6.2.11	Changes in Use	6-24
	(a) Conversion to Income-Earning Use.....	6-24
	(b) Employment Transfers.....	6-27
	(c) Conversion to Residence.....	6-27
6.3	Corporation/Shareholder Issues.....	6-28
6.3.1	Shareholder's Residence Owned by Corporation	6-28
6.3.2	Shareholder's Residence Financed by Corporation	6-32
6.4	Deduction of Expenses Related to Personal Residences	6-34

Chapter 7: Investment in Canadian Real Estate by Non-Residents

7.1	Investment in Canadian Real Estate by Non-Residents	7-3
7.1.1	Taxation of Income.....	7-3
	(a) Business Rental Income.....	7-4
	(i) General.....	7-4
	(ii) Branch Tax	7-5
	(iii) Loss Carryovers.....	7-6
	(iv) Partnerships.....	7-6
	(v) Withholding Tax Requirements	7-6
	(b) Non-Business Rental Income.....	7-8
	(i) Gross Rents.....	7-8
	(ii) Net Rental Income Election	7-8
	(iii) Recapture of CCA	7-13
	(iv) Considerations for Partnerships.....	7-14
	(v) Comparison of the Two Methods	7-14
	(vi) Withholding Tax Requirements	7-14
	(vii) Filing Requirements	7-16
	(c) Treaty Considerations.....	7-17
	(d) Use of Canadian Entities by Non-Residents.....	7-17

COMPREHENSIVE TABLE OF CONTENTS

	(i) Canadian Corporations	7-18
	(ii) Canadian Trusts	7-20
(e)	Use of Foreign Entities by Non-Residents	7-21
	(i) Non-Resident Corporations	7-22
	(ii) Non-Resident Trusts	7-23
	(iii) Non-Resident Individuals	7-25
7.1.2	Taxation of Gains from the Disposition of Canadian Real Estate	7-25
(a)	Capital Gains	7-25
	(i) General	7-25
	(ii) Indirect Foreign Entity Holdings	7-26
	(iii) Deemed Disposition on Death	7-27
	(iv) Trusts, Deemed Dispositions	7-28
(b)	Business or Trading Gains	7-28
(c)	Reserves	7-29
(d)	Withholding Tax and Clearance Requirements	7-29
(e)	Filing Requirements	7-32
(f)	Treaty Considerations	7-33
	(i) Capital Gains	7-33
	(ii) Business or Trading Gains	7-34
(g)	Use of Canadian Entities by Non-Residents	7-35
	(i) Canadian Corporations	7-35
	(ii) Canadian Trusts	7-36
(h)	Use of Non-Resident Entities by Non-Residents	7-36
	(i) Non-Resident Corporations	7-37
	(ii) Non-Resident Trusts	7-37
	(iii) Non-Resident Individuals	7-38
7.1.3	Other Taxation of Non-Resident Real Estate Owners	7-39
(a)	Federal	7-39
	(i) Underused Housing Tax	7-39
(b)	British Columbia	7-42
	(i) Foreign Buyers' Land Transfer Tax	7-42
	(ii) Speculation and Vacancy Tax	7-42
	(iii) City of Vancouver Empty Homes Tax	7-43
(c)	Nova Scotia	7-43
	(i) Non-Resident Provincial Deed Transfer Tax	7-43
(d)	Ontario	7-45
	(i) Non-Resident Speculation Tax	7-45
7.2	Non-Resident Real Estate Lenders	7-46
7.2.1	Carrying on Business in Canada	7-46
7.2.2	Not Carrying on Business in Canada	7-46
(a)	Canadian Borrower	7-46
	(i) Interest Payments and Exemptions	7-46

TAXATION OF REAL ESTATE IN CANADA

	(A) Canadian Corporate Term Debt with Non-Residents	7-47
	(B) Debt Secured by Real Estate Outside Canada.....	7-48
	(C) Government Guaranteed Debt	7-48
	(D) Weak Currency Debt.....	7-48
	(ii) Participation Payments.....	7-49
	(iii) Guarantee Fees and Standby Charges.....	7-51
	(b) Non-Resident Borrowers.....	7-51
7.3	Change of Residency.....	7-51
7.3.1	Immigration.....	7-52
7.3.2	Emigration	7-52
7.3.3	Short-Term Residents	7-53

Chapter 8: Forms and Methods of Real Estate Ownership

8.1	Basic Considerations	8-3
8.1.1	Direct Ownership	8-3
	(a) Sole Ownership	8-3
	(b) Co-ownership	8-4
8.1.2	Indirect Ownership.....	8-4
	(a) Partnerships.....	8-4
	(i) Partnership Under the Act.....	8-4
	(ii) Treatment of Income or Losses	8-7
	(iii) Limited Partnerships.....	8-8
	(b) Corporations.....	8-10
	(i) General	8-10
	(ii) Canadian-Controlled Private Corporations	8-10
	(A) Small Business Deduction.....	8-10
	(I) Rental Income	8-10
	(II) Profit on Sale of Real Estate	8-11
	(B) Dividend Refund.....	8-12
	(iii) Advantages and Disadvantages of Using Corporations.....	8-12
	Advantages.....	8-15
	Disadvantages.....	8-15
	(iv) Trustee Corporation.....	8-16
8.2	Special Considerations.....	8-16
8.2.1	Ownership of Business Real Estate.....	8-16
	Advantages of Operating Corporation Ownership.....	8-17
	Disadvantages of Operating Corporation Ownership.....	8-17
8.2.2	Joint Ventures.....	8-18
	(a) Traditional Forms of Joint Ventures.....	8-18
	(b) Other Forms of Joint Ventures	8-19

COMPREHENSIVE TABLE OF CONTENTS

(i) Participating Debt	8-19
(A) Important Attributes	8-19
(B) Tax Implications	8-20
(ii) Convertible Debt.....	8-20
(A) Important Attributes	8-21
(B) Tax Implications	8-21
(iii) Options	8-21
(A) Important Attributes	8-22
(B) Tax Implications	8-22
(iv) Head Lease	8-22
(A) Important Attributes	8-22
(B) Tax Implications	8-23
(v) Ground Lease	8-23
(A) Important Attributes	8-23
(B) Tax Implications	8-23
(vi) Management Fee.....	8-24
(A) Important Attributes	8-24
(B) Tax Implications	8-24

Chapter 9: Reorganization of Real Estate Holdings

9.1 Overview	9-3
9.2 Objectives of Reorganizations	9-3
9.2.1 Simplification	9-3
9.2.2 Estate Freeze	9-4
9.2.3 Division or Separation of Co-owners' Interests	9-4
9.2.4 Insulation from Potential Liabilities	9-4
9.2.5 Step-Up	9-5
9.2.6 Utilization of Tax Losses or Shelters	9-5
9.2.7 Conversion of Rental Property to Business Real Estate.....	9-6
9.2.8 Conversion of Specified Investment Business to Active Business.....	9-6
9.2.9 Conversion of Active Business to Specified Investment Business.....	9-7
9.2.10 Combining Holdings of Different Persons	9-8
9.2.11 Achieve Principal Business Corporation Status	9-8
9.2.12 To Benefit from Small Business Deduction	9-8
9.2.13 Separating into Different Packages.....	9-9
9.2.14 To Defer Tax on Dividend Distributions	9-9
9.3 Most Common Types of Reorganizations	9-10
9.3.1 Type A — Partition of Undivided Interest.....	9-10
9.3.2 Type B — Simple Transfer by Shareholder to Corporation	9-11
9.3.3 Type C — Spin-off.....	9-15
9.3.4 Type D — Butterfly Reorganization	9-18

TAXATION OF REAL ESTATE IN CANADA

9.3.5	Type E — Statutory Amalgamation	9-22
9.3.6	Type F — Vertical Amalgamation	9-24
9.3.7	Type G — Wind-up of Subsidiary	9-26
9.3.8	Type H — Internal Freeze	9-29
	(a) Simple Transfer to Corporation for Frozen Shares	9-30
	(b) Freeze of Existing Corporation	9-32
9.3.9	Type I — Transfer by Partner to Partnership	9-33
9.3.10	Type J — Dissolution of Partnership	9-35
9.4	Special Rules Relating to Depreciable Property	9-37
	Appendix	9-51

Chapter 10: Estate Planning and Real Estate

10.1	Introduction	10-3
10.2	Estate Freezing	10-3
	10.2.1 General	10-3
	10.2.2 Traditional Methods	10-3
	(a) Interest Represented by All Shares	10-4
	(b) Direct Interest in Real Estate	10-5
	10.2.3 Possible Alternatives to the Utilization of Corporations	10-7
	(a) Partnership Rollover	10-8
	(b) Granting an Option	10-9
10.3	Double Taxation Issues	10-10
	10.3.1 General	10-10
	10.3.2 Mechanisms for Reducing or Eliminating Double Taxation	10-10
	(a) Capital Loss Application Under Subsection 164(6)	10-11
	(b) Step-up Under Paragraphs 88(1)(c) or 98(3)(b) and subsection 87(11)	10-15
	(i) Paragraph 88(1)(c)	10-15
	(ii) Subsection 87(11)	10-17
	(iii) Paragraph 98(3)(b)	10-17
	(c) Utilization of Capital Loss by Beneficiary or Estate	10-19
	(d) Stop-Loss Rules Share Redemption on Death	10-20
	10.3.3 Comparison of Methods	10-22
10.4	Exemptions from Capital Gains	10-24
10.5	Real Estate Inventory	10-24

Chapter 11: Syndication of Real Estate

11.1	Introduction	11-3
11.2	Structure of Syndications	11-3
	11.2.1 Limited Partnerships	11-3
	(a) Limited Liability	11-4

COMPREHENSIVE TABLE OF CONTENTS

(b)	Ability to Flow-Through Tax Losses	11-4
(c)	Pre-Acquisition Losses	11-4
(d)	Deduction of Issue Costs	11-5
(e)	Possibly Greater Capital Cost Allowance.....	11-5
11.2.2	Co-Tenancy.....	11-6
11.2.3	Individually Titled Condominiums.....	11-6
11.2.4	REITs.....	11-7
11.3	Common Tax Issues.....	11-8
11.3.1	Expenses of Syndication.....	11-8
11.3.2	Cash Flow Guarantees.....	11-9
11.3.3	Interest Rate Buydowns.....	11-9
11.3.4	Continuing Interest of Vendor or Promoter.....	11-10
11.3.5	Allocation and Reasonableness of Cost Components	11-11
11.3.6	Tax Shelter Registration	11-11
11.4	The Tax Shelter Investment Rules	11-13
11.4.1	Overview	11-13
11.4.2	Reduction of Expenditures and Costs of Tax Shelter Investments	11-14
11.4.3	Tax Shelter Investment.....	11-14
11.4.4	Limited Recourse Amount	11-18
11.4.5	At-Risk Adjustment.....	11-20
11.4.6	Access to Information.....	11-21
11.4.7	Assessments	11-22

Chapter 12: The General Anti-Avoidance Rule and Real Estate

12.1	Introduction.....	12-2
12.2	The CRA's Policy and Process for Application of the GAAR	12-4
12.2.1	Explanatory Notes.....	12-4
12.2.2	Information Circular 88-2	12-4
12.2.3	Advance Tax Rulings.....	12-5
12.3	Mandatory Referrals and the GAAR Committee	12-5
12.4	The Statutory Provision	12-6
12.4.1	Overview	12-6
12.5	What is Subject to the GAAR?	12-7
12.6	What is Not Subject to the GAAR?.....	12-7
12.7	Consequences of Application of the GAAR.....	12-8
12.7.1	Tax Consequences to Whom.....	12-8
12.7.2	Penalties.....	12-8
12.7.3	The GAAR is a Provision of Last Resort	12-9
12.8	The Courts' Approach	12-9

TAXATION OF REAL ESTATE IN CANADA

12.8.1	Tax Benefit	12-9
(a)	General	12-9
(b)	Other Amount	12-10
(c)	Other Taxes.....	12-11
(d)	Tax Treaties	12-11
(e)	Accelerated Refund	12-11
(f)	The Comparative Standard.....	12-11
12.8.2	<i>Bona Fide</i> Purpose/Avoidance Transaction	12-13
(a)	General	12-13
(b)	Series.....	12-13
(c)	Finding a <i>Bona Fide</i> Purpose Ends the Analysis.....	12-15
12.8.3	Misuse or Abuse.....	12-15
12.8.4	Reasonable Tax Consequences	12-17
12.8.5	Procedural Notice.....	12-18
12.8.6	Post-Canada Trustco GAAR Cases	12-18
(a)	Cases in which GAAR was applied	12-18
(b)	Cases in which GAAR was not applied.....	12-22
	Appendix	12-51

Chapter 13: GST and Real Estate

13.1	Background.....	13-4
13.2	General Application	13-4
13.2.1	GST	13-4
13.2.2	HST	13-5
13.3	Application to Real Estate	13-6
13.3.1	Sales of Real Estate	13-6
(a)	General Taxability.....	13-6
(b)	Exempt Sales.....	13-6
(i)	Used Housing.....	13-6
(A)	Residential Complex	13-6
(I)	Residential	13-7
(II)	Not Short-Term Rental	13-7
(B)	Builder.....	13-8
(C)	Exemptions	13-9
(I)	A Sale by a Person Who is Not the Builder of the Complex	13-10
(II)	A Sale by a Builder of the Builder's Personal-Use Residence	13-10
(III)	A Sale by a Builder of Self-Supplied Rental Property.....	13-10
(IV)	A Sale by a Builder of an Addition to a Residential Complex.....	13-11

COMPREHENSIVE TABLE OF CONTENTS

	(V) Sale of Residential Building Where Land Leased.....	13-11
	(VI) Sale of Parking Space in Connection with Exempt Sale.....	13-11
	(D) Certification by Vendor	13-12
	(ii) Residential Trailer Parks	13-12
	(iii) Personal-Use Real Estate	13-12
	(iv) Adventure in the Nature of Trade.....	13-14
	(v) Farmland Sold for Personal Use of Related Persons	13-14
	(A) Sales of Farmland by an Individual to a Related Individual for Personal Use.....	13-14
	(B) Deemed sale of farmland	13-15
	(C) Sales of Farmland by a Corporation, Partnership or Trust to a Related Individual for Personal Use	13-15
	(c) Related Personal Property	13-15
13.3.2	Self-Supply of Real Estate	13-16
	(a) Construction or Substantial Renovation	13-16
	(b) Other Renovations of Residential Real Estate	13-18
13.3.3	Other Dispositions of Real Estate	13-18
	(a) Transfers of Indirect Interests	13-18
	(b) Foreclosure/Repossession.....	13-18
	(c) Expropriation.....	13-19
	(d) Options	13-19
	(e) Gifts	13-19
	(f) Property Owned at the Time of Death.....	13-20
	(g) Supplies by Public Service Bodies.....	13-20
13.3.4	Development of Real Estate	13-21
	(a) General	13-21
	(b) Construction Contracts	13-21
13.3.5	Renovation of Real Estate.....	13-21
	(a) General	13-21
	(b) Substantial Renovation of Residential Complex	13-22
	(c) Non-Substantial Renovation of Residential Complex	13-22
13.3.6	Rental of Real Estate.....	13-22
	(a) General Taxability.....	13-22
	(b) Exempt Residential Rentals.....	13-22
	(i) General	13-22
	(ii) Related Services	13-23
	(c) Commercial and Other Taxable Rentals	13-24
	(i) General	13-24
	(ii) Tenant Inducements	13-24
	(iii) Chargebacks to Tenants.....	13-25
	(iv) Lease Cancellation Payments	13-25

TAXATION OF REAL ESTATE IN CANADA

13.3.7	Other Related Services	13-25
	(a) Condominium Maintenance, etc.....	13-25
	(b) Legal Services	13-26
	(c) Real Estate Brokerage	13-26
	(d) Property Management.....	13-26
	(e) Mortgage Brokerage.....	13-26
	(f) Interest and Other Charges by Lender.....	13-26
	(g) Utilities	13-26
	(h) Zoning and Assessment Information	13-26
13.3.8	Timing of GST Liability	13-26
	(a) Sales of Real Estate	13-26
	(b) Deposits.....	13-27
	(c) Rents	13-27
13.3.9	Filing, Collection and Remittance.....	13-27
	(a) General	13-27
	(b) Sales Where Tax Remitted by Purchaser	13-28
	(c) Partnerships.....	13-28
	(d) Co-Tenancies, Joint Ventures, etc	13-29
	(e) Trustee Corporations	13-29
13.3.10	Input Tax Credits.....	13-29
	(a) General	13-29
	(b) Mixed-Use	13-30
	(i) General.....	13-30
	(ii) Personal-Use Real Estate	13-31
	(iii) Capital Personal Property.....	13-31
	(c) Partnerships.....	13-31
	(d) Foreclosure/Repossession.....	13-32
	(e) Offsetting Taxes Payable	13-32
	(f) Construction Performance Bonds.....	13-32
13.3.11	Rebates.....	13-32
	(a) New Housing	13-33
	(i) GST Rebate.....	13-33
	(ii) Provincial Rebate.....	13-33
	(b) New Residential Rental Housing	13-34
	(i) GST Rebate.....	13-34
	(ii) Provincial Rebate.....	13-34
	(c) Partners' Expenses	13-35
	(d) Sale by Non-Registrant.....	13-35
13.3.12	Related Party Transactions	13-35
	(a) General	13-35
	(b) Closely Related Group	13-35
13.3.13	Reorganizations	13-36
	(a) Amalgamation	13-36
	(b) Wind-Up of Subsidiary.....	13-36
13.3.14	Changes in Use	13-36

TABLE OF CONTENTS

(a) General	13-36
(b) Conversion to Residential Complex	13-36
(c) Taxable Supply by Way of Sale	13-36
(d) Increase in Commercial Use.....	13-36
(e) Decrease in Commercial Use	13-36
13.3.15 Non-Residents	13-38

Chapter 14: Land Transfer Tax and Other Taxes

14.1 Overview	14-2
14.2 Ontario	14-3
14.2.1 Introduction.....	14-3
14.2.2 Principal Definitions.....	14-3
14.2.3 Rate of Taxation	14-8
14.2.4 Non-Resident Speculation Tax	14-9
14.2.5 Transfer to and Among Trustees and Beneficial Owners.....	14-14
14.2.6 Unregistered Transfers of Beneficial Interests	14-16
14.2.7 Partnerships.....	14-17
14.2.8 Mutual Fund Units.....	14-18
14.2.9 Agreements of Purchase and Sale.....	14-19
14.2.10 The Affiliate Exemption	14-20
14.2.11 Expropriation.....	14-22
14.2.12 Leases.....	14-23
14.2.13 Life Leases.....	14-23
14.2.14 Amalgamation	14-24
14.2.15 Pipeline Exemptions.....	14-24
14.2.16 Interspousal Transfers.....	14-24
14.2.17 Natural Love and Affection.....	14-25
14.2.18 Taxable Non-Arm's Length Transactions.....	14-25
14.2.19 Gifts	14-25
14.2.20 Partitioning.....	14-25
14.2.21 Correcting Deed.....	14-25
14.2.22 Hospitals.....	14-26
14.2.23 Toronto Island	14-26
14.2.24 Nominal Land Exchanges	14-26
14.2.25 Municipal Act, Waste and Sewage Works and Electricity Act Transactions	14-26
14.2.26 Family Farm and Family Business Corporations	14-26
14.2.27 Butterfly Transaction.....	14-28
14.2.28 Employee/Employer Dispositions.....	14-29
14.2.29 Contribution of Capital.....	14-30
14.2.30 Changes in Legal Tenure	14-30
14.2.31 Mortgages	14-30
14.2.32 Transfers on Death.....	14-30
14.2.33 Mineral Lands	14-31

TAXATION OF REAL ESTATE IN CANADA

14.2.34	Crown and Crown Agencies	14-32
14.2.35	Purchaser's Lien	14-32
14.2.36	Harmonized Sales Tax.....	14-32
14.2.37	Procedural Matters	14-32
14.2.38	City of Toronto Land Transfer Tax.....	14-35
14.3	British Columbia.....	14-36
14.3.1	General Land Transfer Tax	14-36
14.3.2	Foreign Buyers' Land Transfer Tax	14-41
14.3.3	Speculation and Vacancy Tax	14-43
14.3.4	City of Vancouver Empty Homes Tax	14-49
14.4	Other Provinces and Territories	14-51
14.4.1	Alberta.....	14-51
14.4.2	Manitoba.....	14-51
14.4.3	New Brunswick	14-53
14.4.4	Newfoundland and Labrador	14-55
14.4.5	Nova Scotia.....	14-55
14.4.6	Prince Edward Island	14-57
14.4.7	Québec	14-59
14.4.8	Saskatchewan	14-61
14.4.9	Northwest Territories.....	14-62
14.4.10	Nunavut.....	14-62
14.4.11	Yukon	14-62

Appendix

Interpretation Bulletins

IT-79R3	Capital Cost Allowance — Buildings or Other Structures (now Archived).....	IT-3
IT-152R3	Special Reserves — Sale of Land (now Archived).....	IT-33
IT-153R3	Land Developers — Subdivision and Development Costs and Carrying Charges on Land (now Archived).....	IT-37
IT-170R	Sale of Property — When Included in Income Computation (now Archived).....	IT-45
IT-195R4	Rental Property — Capital Cost Allowance Restrictions (now Archived).....	IT-49
IT-218R	Profit, Capital Gains and Losses from the Sale of Real Estate (now Archived).....	IT-55
IT-259R4	Exchanges of Property (now Archived).....	IT-63
IT-261R	Prepayments of Rents (now Archived)	IT-83
IT-271R	Expropriations — Time and Proceeds of Disposition (Cancelled).....	IT-85
IT-274R	Rental Properties Capital Cost of \$50,000 or More (now Archived).....	IT-93
IT-296	Landscaping of Grounds (Cancelled)	IT-95

TABLE OF CONTENTS

IT-304R2	Capital Cost Allowance — Condominiums (now Archived).....	IT-97
IT-324	Capital Cost Allowance — Emphyteutic Lease (Cancelled).....	IT-101
IT-350R	Investigation of Site (now Archived).....	IT-103
IT-359R2	Premiums and Other Amounts with Respect to Leases (now Archived).....	IT-107
IT-371	Rental Property — Meaning of “Principal Business” (now Archived).....	IT-117
IT-393R2	Election Re Tax on Rents and Timber Royalties — Non- residents (now Archived).....	IT-119
IT-403R	Options on Real Estate (now Archived)	IT-125
IT-434R	Rental of Real Property by Individual (now Archived)	IT-127
IT-443	Leasing Property — Capital Cost Allowance Restrictions (now Archived).....	IT-32.1
IT-464R	Capital Cost Allowance — Leasehold Interests (now Archived).....	IT-133
IT-491	Former Business Property (now Archived)	IT-141
IT-505	Mortgage Foreclosures and Conditional Sales Repossessions (Cancelled)	IT-145

Folio Views

S1-F3-C2	Principal Residence	FV-3
S3-F4-C1	General Discussion of Capital Cost Allowance	FV-40.1
S3-F6-C1	Interest Deductibility	FV-41

CRA Views

The following are topical letters from the Income Tax Rulings Directorate of the Canada Revenue Agency. References to chapters where the topics of these CRA Views are more generally dealt with are provided after each subject grouping below.

CRA Views by Topic	Page
<i>Capital Cost Allowance</i> (Chapter 2)	
9309665 — Transformers and standby emergency generators.....	V-5
<i>Capital Gain or Income Receipt</i> (Chapter 5)	
2005-0139411E5 — Out of court settlement — tax treatment	V-7
<i>Capital Gains Exemptions for Servitudes in Quebec</i> (Chapter 5)	
Conference 2006-0196071C6 — Servitude au Québec.....	V-11
<i>Capital Outlay vs. Operating Expense</i> (Chapter 4)	
9309747 — Asbestos removal costs.....	V-13
<i>Change in Use from Personal Use to Rental Property</i> (Chapter 6)	
2005-0113981E5 — Subsection 116(3) notification.....	V-19

TAXATION OF REAL ESTATE IN CANADA

Construction and Development Activities (Chapter 3)

2006-0202971I7 — Regulation 238	V-22
2003-0043571E5 — Development charges	V-24
2002-0141627 — Costs — land development.....	V-26
9130795 — Soft cost deductions under subsection 20(29)	V-28
2013-0485721E5 — Election to capitalize cost of borrowed money.....	V-30

Dispositions of Property (Chapter 5)

2006-0208691E5 — Transfer of property prior to share sale	V-30.3
2005-0152011E5 — Transfer of title to joint ownership with child.....	V-32
2005-0151071E5 — Transfer of land from grandparent to grandson	V-35
2004-0082201E5 — Capital gains — deemed disposition	V-38
2004-0078771E5 — Tenants in common to joint tenants	V-41
2004-0066291E5 — Beneficial ownership of property	V-43
2004-0069751R3 — Buy, bump and sell transactions.....	V-45
9214715 — Gain on income or capital account	V-54

Expropriation (Chapter 5)

9224911 — 24(1) — proceeds — interest	V-56
---	------

Farm Property (Chapters 5 and 6)

2006-0216421E5 — Transfer of life interest — farm property	V-57
2006-0191891E5 — Treatment of options in qualified farm property	V-60
2006-0183341E5 — Qualified farm property	V-62
2006-0181771E5 — Qualified farm property	V-64
2006-0179431E5 — Qualified farm property	V-67
2005-0165321E5 — Transfer of family farm property	V-70
2005-0155861E5 — Qualified farm property — part of deceased's estate	V-73
2005-0144881E5 — Qualified farm property 110.6(1).....	V-75
2005-0138381E5 — Life interest and qualified farm property	V-78
2005-0132391E5 — Transfer of family farm property	V-80
2005-0115811E5 — Transfer of farm property	V-83
2004-0103051I7 — Qualified farm property subsection 110.6(1)(a) and capital gains deduction subsection 110.6(2)	V-86
2004-0091341E5 — Qualified farm property — attribution after divorce.....	V-89
2004-0075041E5 — Qualified farm property — land owned by a partnership.....	V-92
2004-0065501E5 — Qualified farm property — attribution (property last acquired)	V-94
2004-0063481E5 — Qualified farm property — meaning of principally	V-96
2004-0056741E5 — Qualified farm property	V-98

TABLE OF CONTENTS

2003-0054531R3 — Qualified farm property	V-100
2003-0024401E5 — Inter vivos transfer of farm property	V-106
9315985 — Qualified farm property	V-108
9213525 — Capital gains exemption and general anti-avoidance rule	V-110
<i>Interest and Financing Costs (Chapter 4)</i>	
9823880 — Canadian Tax Foundation — tax cases — Sherway Centre.....	V-111
9829850 — Participating payments — interest	V-113
Question 30 of Round table 9M18520 — Round table 1998 APFF	V-115
<i>Joint Ventures (Chapter 8)</i>	
2011-0403081C6 — Joint venture administrative policy	V-116
2011-0429581E5 — Revised joint venture administrative policy.....	V-116.2
2011-0431271E5 — Calculation of stub period income from joint ventures.....	V-116.5
2011-0431461E5 — Administrative policy for participants of joint ventures.....	V-116.7
2012-0448091E5 — Joint venture policy re no separate fiscal period.....	V-116.11
<i>Leasehold Property (Chapter 4)</i>	
2004-0105461R3 — Rent prepayment.....	V-116.13
2004-0095441E5 — Subsection 216(1) election on rent receivable	V-127
2004-0055901R3 — Leasehold interest — real property in Canada	V-129
9321265 — Capital cost allowance restrictions	V-132
9128265 — Leasehold interest	V-133
9109345 — Rent free periods	V-134
May 1991-373 — Lease cancellation payments	V-135
<i>Non-resident Issues (Chapter 7)</i>	
2005-0140221R3 — Disposition of taxable Canadian property.....	V-136
2005-0135761R3 — Class of German arrangement and treaty benefits...	V-141
2004-0106101R3 — Class of German arrangement and treaty benefits...	V-152
2004-0083201E5 — Distribution by a non-resident trust.....	V-161
2004-0075721E5 — Two-tiered partnerships and section 216	V-164
2004-0063831E5 — Grant of conservation easement by non-resident	V-167
2004-0061181E5 — Rental partnership income earned by a non-resident.....	V-172
9225705 — Rental income received from two-tiered partnership	V-174
9217185 — Non-resident income earned in Canada	V-175
9203916 — Part XIII tax refund interest	V-177
November 1991-259 — Implications of different definitions of “business” in the Excise Tax Act and the Income Tax Act.....	V-178
July 1991-150 — Taxation of prepaid rent paid to non-residents	V-179
September 1990-131 — Application of subsection 164(6) in two situations involving non-residents.....	V-180

TAXATION OF REAL ESTATE IN CANADA

<i>Partition of Property during Reorganizations (Chapter 9)</i>	
9127785 — Partition of property — condominium.....	V-181
9134825 — Partition of property.....	V-183
<i>Personal Use Property (Chapter 6)</i>	
2004-0069771I7 — Personal-use property — land vs building.....	V-185
2002-0148955 — Personal use property — estate.....	V-189
<i>Principal Residence Exemption (Chapter 6)</i>	
2012-0447471E5 — Principal residence designation.....	V-191
2012-0448391I7 — Validity of late-filed election and designation.....	V-194
2012-0453961C6 — Copropriété indivise (50-50) d'un triplex.....	V-199
2010-0360441E5 — Vacation property — partial changes in use.....	V-202
2011-0395001I7 — Co-propiété indivise d'un duplex.....	V-206
2011-0396221I7 — 45(2) election — deemed no change in use.....	V-210
2010-0380991M4 — Tax implications of the sale of a duplex.....	V-212.2
2010-0354361E5 — Principal residence.....	V-212.4
2009-0321481E5 — Principal residence exemption—bed and breakfast.....	V-212.8
2009-0311301E5 — Principal residence—two condo units.....	V-212.11
2008-0265741I7 — Principal residence—election subsection 45(2).....	V-212.14
<i>Real Estate Investment Trusts (REITs) (Chapter 11)</i>	
2006-0177231R3 — Convert from a closed-end to open-end unit trust.....	V-213
2005-0160571R3 — Transfer of asset to a real estate investment trust by a tax-exempt entity.....	V-221
2005-0124151R3 — Trust variation — redemption rights.....	V-229
2004-0097111R3 — Real estate investment trust providing a guarantee on co-owned property.....	V-240
<i>Real Estate Syndications (Chapter 11)</i>	
9515395 — Limited recourse financing.....	V-245
9201855 — Promoter tax shelter “in the course of a business”.....	V-247
<i>Real Property as Inventory (Chapter 3)</i>	
June 1991-191 — Classification of property as an operating expense (inventory).....	V-249
<i>Replacement Property (Chapters 4, 5 and 9)</i>	
2006-0213921E5 — Replacement property located outside Canada.....	V-250
2006-0173181E5 — Replacement property.....	V-252
2005-0156171E5 — Leasehold interest as replacement property.....	V-255
2004-0069661I7 — Replacement property rules.....	V-259
2003-0052271E5 — Whether property is a replacement property.....	V-262
2003-0050501E5 — Replacement property rules.....	V-265
<i>Shareholder Loans for Purchase of Real Property (Chapter 6)</i>	

TABLE OF CONTENTS

9232265 — Transfer of an employee housing loan between employers	V-268
9234987 — Dwellings and a shareholder’s loan	V-269
<i>Single Purpose Corporations</i> (Chapter 6)	
2011-0426971E5 — Deemed disposition of single purpose corporation shares	V-271
2011-0393401E5 — Transfer of shares of a single-purpose corporation	V-273
 Forms	
GST 20 Election for GST/HST Reporting Period	F-3
GST 60 GST/HST Return for Purchase of Real Property or Carbon Emission Allowances	F-7
NR6 Undertaking to File an Income Tax Return by a Non-Resident Receiving Rent from Real or Immovable Property or Receiving a Timber Royalty for tax year	F-10.1
T776 Statement of Real Estate Rentals	F-10.3
T1031 Subsection 13(29) Election in Respect of Certain Depreciable Properties, Acquired for Use in a Long Term Project	F-11
T2062 Request by a Non-resident of Canada for a Certificate of Compliance Related to the Disposition of Taxable Canadian Property	F-13
T2062A Request by a Non-resident of Canada for a Certificate of Compliance Related to the Disposition of Canadian Resource or Timber Resource Property, Canadian Real Property (Other than Capital Property), or Depreciable Taxable Canadian Property	F-17
T2062A Schedule 1 Disposition of Canadian Resource Property by Non-residents	F-21
T2091 Designation of a Property as a Principal Residence by an Individual (Other than a Personal Trust)	F-23
T2091WS Principal Residence Worksheet	F-27
T2145 Election in Respect of the Leasing of Property	F-30
T2146 Election in Respect of Assigned Leases or Subleased Property	F-31
 Guides	
T4036 Rental Income	G-3
Index	I-1