Personal Tax Planning

Co-Editors: T.R. Burpee* and P.E. Schusheim**

THE REPLACEMENT PROPERTY RULES: A BIT MORE THAN BEFORE

*Adam Shapiro***

The Income Tax Act provides an opportunity for an owner of certain types of capital property to obtain a deferral of Canadian income tax where, following an involuntary disposition, the owner acquires a replacement property. In addition, where a taxpayer disposes of a "former business property," the replacement property provisions may be utilized to defer income tax on capital gains and recapture. Similar income tax deferral treatment is available in respect of certain dispositions of eligible capital property where a replacement property is acquired. Finally, legislation introduced in 2000 provides a capital gains deferral mechanism where a taxpayer has disposed of an eligible small business investment and acquired a qualifying replacement property. This article examines the various legislative provisions that relate to the deferral of income, recapture, and capital gains in the context of the replacement property rules. Strategies to optimize the replacement property deferral are discussed and demonstrated.

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* Of Ernst & Young LLP, Montreal (retired).

** Of Ernst & Young LLP, Toronto.