

DISPOSAL OF LAND AND ADJACENT BUILDING

- When you dispose a land and an adjacent building together you are **not allowed to have a terminal loss on the building**.
- You **MUST** use the terminal loss on the building to lower the proceeds of disposition on the land

Example:

Say you sold a building and an adjacent land together; assume that building is the only asset remaining in its CCA class.

	Land	Building
Proceeds of disposition	\$ 10,000	\$ 5,000
Adjusted Cost Base (ACB)	\$ 4,000	\$ 8,000
UCC Balance		\$ 6,000

Before this rule kicks in:

Capital Gain on Land = $\$10,000 - 4,000 = \$6,000$

Terminal Loss on Building = $\$6,000 - 5,000 = \$1,000$

This rule will force the taxpayer to use the terminal loss on the building to reduce the proceeds on the land:

Capital Gain on the Land = $(\$10,000 - 1,000) - 4,000 = \$5,000$

Terminal Loss on the Building = \$NIL

What is the implication of this rule

Before this rule people were able to abuse the system by arbitrarily allocating lesser proceeds to the building to trigger terminal losses. Terminal losses provide a tax advantage because it can be deducted against any source of income.

CRA came in and revoked this advantage by saying that any terminal loss on the building can only reduce the proceeds on the land (whenever a land and adjacent building were sold together).