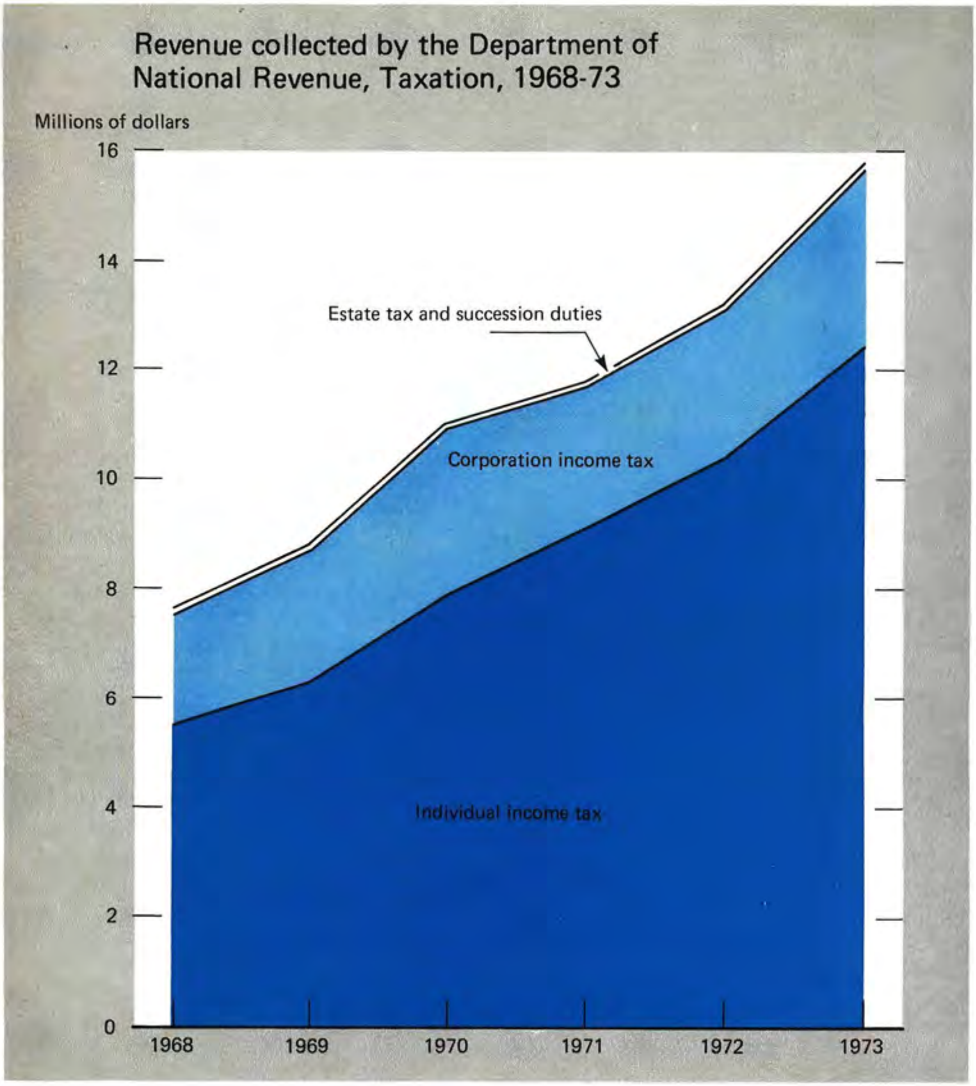

$1,000, and the sale of a taxpayer's home, do not create a capital gain or loss. A sale or disposition of property is deemed to have taken place when the taxpayer dies or makes a gift of property unless the property is left or given to his spouse. On the first disposition, after the beginning of the system, of capital property owned before the beginning of the system, a capital gain is computed by reference to the higher of cost or valuation-day value and a capital loss by reference to the lower of cost or valuation-day value. Thereafter the capital gain or capital loss on the disposition of a capital property is determined by reference to the property's adjusted cost base. The adjusted cost base is, subject to a number of adjustments, the cost to the taxpayer of the property. When property is acquired after valuation day, actual cost plus or minus adjustments after that date will give the adjusted cost basis. Valuation day for purposes of shares that are publicly traded on Canadian stock exchanges was December 22, 1971 and the valuation day for all other property, such as bonds, rental property, cottages or shares in a private company was December 31, 1971. Special rules apply for individuals who become, or cease to be, residents of Canada. Gains arising out of the conduct of a business continue to be fully taxable.

Having computed his income, the individual then calculates his taxable income by deducting certain exemptions and deductions. Before 1974 the levels of exemptions and