



Income Tax Act (R.S.C. (Revised Statutes of Canada), 1985, c. 1 (5th Supp.))

Act current to 2026-07-21 and on 2026-06-18.

Valuation of inventory

10 (1) For the purpose of computing a taxpayer's income for a taxation year from a business that is not an adventure or concern in the nature of trade, property described in an inventory shall be valued at the end of the year at the cost at which the taxpayer acquired the property or its fair market value at the end of the year, whichever is lower, or in a prescribed manner.

Adventures in the nature of trade

(1.01) For the purpose of computing a taxpayer's income from a business that is an adventure or concern in the nature of trade, property described in an inventory shall be valued at the cost at which the taxpayer acquired the property.

Certain expenses included in cost

(1.1) For the purposes of subsections 10(1), 10(1.01) and 10(10), where land is described in an inventory of a business of a taxpayer, the cost at which the taxpayer acquired the land shall include each amount that is

(a) described in paragraph 18(2)(a) or (b) in respect of the land and for which no deduction is permitted to the taxpayer, or to another person or partnership that is

(i) a person or partnership with whom the taxpayer does not deal at arm's length,

(ii) if the taxpayer is a corporation, a person or partnership that is a specified shareholder of the taxpayer, or

(iii) if the taxpayer is a partnership, a person or partnership whose share of any income or loss of the taxpayer is 10% or more; and

(b) not included in or added to the cost to that other person or partnership of any property otherwise than because of paragraph 53(1)(d.3) or subparagraph 53(1)(e)(xi).

Continuation of valuation

(2) Notwithstanding subsection 10(1), for the purpose of computing income for a taxation year from a business, the inventory at the commencement of the year shall be valued at the same amount as the amount at which it was valued at the end of the preceding taxation year for the purpose of computing income for that preceding year.

Methods of valuation to be the same

(2.1) Where property described in an inventory of a taxpayer's business that is not an adventure or concern in the nature of trade is valued at the end of a taxation year in accordance with a method permitted under this section, that method shall, subject to subsection 10(6), be used in the valuation of property described in the inventory at the end of the following taxation year for the purpose of computing the taxpayer's income from the business unless the taxpayer, with the concurrence of the Minister and on any terms and conditions that are specified by the Minister, adopts another method permitted under this section.

Incorrect valuation

(3) Where the inventory of a business at the commencement of a taxation year has, according to the method adopted by the taxpayer for computing income from the business for that year, not been

valued as required by subsection 10(1), the inventory at the commencement of that year shall, if the Minister so directs, be deemed to have been valued as required by that subsection.

Fair market value

(4) For the purpose of subsection 10(1), the fair market value of property (other than property that is obsolete, damaged or defective or that is held for sale or lease or for the purpose of being processed, fabricated, manufactured, incorporated into, attached to, or otherwise converted into property for sale or lease) that is

(a) work in progress at the end of a taxation year of a business that is a profession means the amount that can reasonably be expected to become receivable in respect thereof after the end of the year; and

(b) advertising or packaging material, parts, supplies or other property (other than work in progress of a business that is a profession) that is included in inventory means the replacement cost of the property.

Inventory

(5) Without restricting the generality of this section,

(a) property (other than capital property) of a taxpayer that is advertising or packaging material, parts or supplies or work in progress of a business that is a profession is, for greater certainty, inventory of the taxpayer;

(b) anything used primarily for the purpose of advertising or packaging property that is included in the inventory of a taxpayer shall be deemed not to be property held for sale or lease or for any of the purposes referred to in subsection 10(4); and

(c) property of a taxpayer, the cost of which to the taxpayer was deductible by virtue of paragraph 20(1)(mm), is, for greater certainty, inventory of the taxpayer having a cost to the taxpayer, except for the purposes of that paragraph, of nil.

Artistic endeavour

(6) Notwithstanding subsection 10(1), for the purpose of computing the income of an individual other than a trust for a taxation year from a business that is the individual's artistic endeavour, the value of the inventory of the business for that year shall, if the individual so elects in the individual's return of income under this Part for the year, be deemed to be nil.

Value in later years

(7) Where an individual has made an election pursuant to subsection 10(6) for a taxation year, the value of the inventory of a business that is the individual's artistic endeavour shall, for each subsequent taxation year, be deemed to be nil unless the individual, with the concurrence of the Minister and on such terms and conditions as are specified by the Minister, revokes the election.

Definition of *business that is an individual's artistic endeavour*

(8) For the purpose of this section, ***business that is an individual's artistic endeavour*** means the business of creating paintings, prints, etchings, drawings, sculptures or similar works of art, where such works of art are created by the individual, but does not include a business of reproducing works of art.

Transition

(9) Where, at the end of a taxpayer's last taxation year at the end of which property described in an inventory of a business that is an adventure or concern in the nature of trade was valued under

subsection 10(1), the property was valued at an amount that is less than the cost at which the taxpayer acquired the property, after that time the cost to the taxpayer at which the property was acquired is, subject to subsection 10(10), deemed to be that amount.

Loss restriction event

(10) Notwithstanding subsection (1.01), property described in an inventory of a taxpayer's business that is an adventure or concern in the nature of trade at the end of the taxpayer's taxation year that ends immediately before the time at which the taxpayer is subject to a loss restriction event is to be valued at the cost at which the taxpayer acquired the property, or its fair market value at the end of the year, whichever is lower, and after that time the cost at which the taxpayer acquired the property is, subject to a subsequent application of this subsection, deemed to be that lower amount.

Loss restriction event

(11) For the purposes of subsections 88(1.1) and 111(5), a taxpayer's business that is at any time an adventure or concern in the nature of trade is deemed to be a business carried on at that time by the taxpayer.

Removing property from inventory

(12) If at any time a non-resident taxpayer ceases to use, in connection with a business or part of a business carried on by the taxpayer in Canada immediately before that time, a property that was immediately before that time described in the inventory of the business or the part of the business, as the case may be, (other than a property that was disposed of by the taxpayer at that time), the taxpayer is deemed

(a) to have disposed of the property immediately before that time for proceeds of disposition equal to its fair market value at that time; and

(b) to have received those proceeds immediately before that time in the course of carrying on the business or the part of the business, as the case may be.

Adding property to inventory

(13) If at any time a property becomes included in the inventory of a business or part of a business that a non-resident taxpayer carries on in Canada after that time (other than a property that was, otherwise than because of this subsection, acquired by the taxpayer at that time), the taxpayer is deemed to have acquired the property at that time at a cost equal to its fair market value at that time.

(14) [Repealed, 2017, c. 33, s. 2]

(14.1) [Repealed, 2017, c. 33, s. 2]

Derivatives

(15) For the purposes of this section, property of a taxpayer that is a swap agreement, a forward purchase or sale agreement, a forward rate agreement, a futures agreement, an option agreement, or any similar agreement is deemed not to be inventory of the taxpayer.

[NOTE: Application provisions are not included in the consolidated text; see relevant amending Acts and regulations.] ; R.S., 1985, c. 1 (5th Supp.), s. 10; 1994, c. 7, Sch. II, s. 6; 1998, c. 19, s. 70; 2001, c. 17, s. 4; 2013, c. 40, s. 2; 2016, c. 12, s. 2; 2017, c. 33, s. 2.

Date modified:

2026-09-11