Wealth Management
Dominion Securities

2024 Federal Budget – Capital Gains Inclusion Rate

Dear clients,

As many of you are aware, on April 16, 2024, the 2024 Federal Budget was presented in the House of Commons. One of the proposed measures announced in the Budget is an **increase to the capital gains inclusion rate for individuals, corporations and trusts.**

With tax efficiency playing an important part in building wealth, you may be wondering how this proposed change may impact you. We're pleased to provide this article, Planning for the proposed increase to the capital gains inclusion rate, which outlines what's known about the proposed changes at this time, as well as potential planning considerations.

It is entirely possible that this specific change to the capital gains inclusion rate will not impact you or your investment strategy with us at RBC Dominion Securities. However, we are aware that many investors may be concerned about what they have heard, and we wanted to provide some helpful information to consider:

Here is a quick summary of some important items that may be relevant to you, should this change become official on **June 25th, 2024:**

INDIVIDUAL NON-REGISTERED INVESTORS

1) If your only source of capital gains comes from your personal non-registered investment portfolio, nothing will change until you realize **more than $250,000 in capital gains in a single year.** Only at that level would the inclusion rate rise to 66.67% from 50% on additional gains.

   Part of our portfolio management service includes year-end tax-loss selling to minimize capital gains. **For clients with large embedded capital gains, keeping those realized amounts under $250,000 annually is quite easy to do with proper planning.**

   IMPORTANT NOTE: The **"Capital gains inclusion rate" does NOT mean the tax rate you pay on gains.** It simply means the percentage of your realized capital gain that is considered income. Once that amount is known, then it would be added to all your other income sources for tax calculation.

   Here's an example: a capital gain of $50,000 at the current 50% "inclusion rate" would be considered $25,000 of income for tax purposes. If this person was in the highest marginal tax bracket in Ontario of 53.53%, they could expect to pay $13,382.50 in tax on that capital gain (or 26.76%).

   If we update that to reflect a 66.67% inclusion rate, that same tax would now be $17,843.33 (or a 35.69% tax rate) Again, this applies only to personal capital gains over and above $250,000. This 35.69% tax on capital gains is still a lower overall tax rate than interest income (53.53%) or eligible dividends (38.33%) for investors in the highest tax bracket.

INVESTMENTS HELD IN A CORPORATION OR TRUST

2) If you have investments in a **corporation** or **trust**, then this proposed change is more of an immediate concern.

   There is **no $250,000 buffer on the capital gains inclusion rate change for a corporation or trust**. Therefore, after June 25th the inclusion rate for ALL capital gains within a corporation or trust would be 66.67%. This would also mean going forward, that the Capital Dividend Account (CDA) within a corporation would only be credited 33.33% rather than the current 50%. The CDA allows for tax-free distributions from the corporation to the owner, so this would effectively lower those available distributions in future years.

If you are an owner of a corporation, please contact your accountant to discuss any tax implications for you. We'd be happy to connect with you or your accountant to strategize.

REAL ESTATE INVESTORS – SECONDARY PROPERTIES

3) If you are the owner of a **secondary property,** then this change to capital gains tax could affect you. Since many people own secondary properties for their potential appreciation in value, that eventual liquidation of the property could result in a larger capital gain.

   As only principal residences are covered by a capital gains exemption, any **additional properties are subject to capital gains tax when sold.** If that gain is over $250,000, there would be additional tax consequences resulting from this proposed change in the budget. If your existing plan was to hold on to your secondary property for a long time, then this may not change anything from a planning perspective (except the higher tax bill when you eventually sell). If you were considering a sale in the short-term, then this may be something to look into further.

   Please consult with your accountant for any tax advice on secondary properties.

You may refer to this 2024 Federal Budget article for a summary of other key measures announced.

If you have any questions about the Budget and how it may affect you, or for any other wealth management needs, please contact us directly.

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