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Tax Alert
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Speculative Tax Change – Increase to the Capital Gains Inclusion Rate

The capital gains inclusion rate has remained at 50% since dropping from 75% in the year 2000. This means that currently only 50%, or half of the amount, of the capital gains are subject to income taxes and the other half is tax-free. In recent years there has been speculation that the Federal government would increase the capital gains inclusion rate from the current 50% up to 75%. This increase in the capital gains inclusion rate could occur as early as the upcoming Federal Budget, which is expected to be released in the coming month or two.

As an example to illustrate the impact of a change to the capital gains inclusion rate from 50% to 75%, assume that Mrs. A holds shares of Apple Inc. with an accrued gain of $10,000. If she were to dispose of these shares, she would pay personal tax of approximately $2,676 (assuming she's resident in Ontario and she's taxed at the top marginal rate). However, if the capital gains inclusion rate were to increase to 75%, Mrs. A would have to pay approximately $4,015 (i.e. 50% more income tax than before) of income tax.

With the recent Federal election, this speculation has increased significantly. Some reasons are

- Statement by the re-elected Liberal Party that it will "provide even greater support to the middle class and the most vulnerable Canadians by pursuing tax fairness, continuing to invest in people, and growing the economy". The phrase "tax fairness" is likely code for tax increases.
- The NDP's election platform included an increase to the capital gains inclusion rate to 75%, with the Parliamentary Budge Officer estimating that this proposal would increase tax revenues by over $8 billion annually.
- The Liberal Party's loss of majority government status. As such given the NDP's capital gains inclusion rate proposal, which seems in line with possible tax increases by the Liberal Party, the Liberal Party may be more inclined in working with the NDP on this proposal to get NDP support in passing their own proposals.
- Federal Government annual deficit is substantial due in part to the Canada Child Benefit that the Liberal Party introduced. Also, the current proposed change to the basic personal amount is forecasted to cost the government approximately $6 billion per year once fully implemented.

Please note that the increase to the capital gains inclusion rate is only a speculative change. As such, the purpose of this article is not to recommend that you rashly sell your investments with accrued gains, but rather to inform you of the possible tax change. In certain situations, it may be beneficial to trigger a capital gain before the Federal Budget as a precautionary measure.

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