Federal budget and capital gain: Time for tax planning

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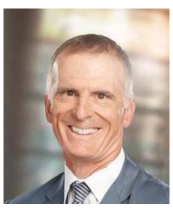

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There is currently speculation in the media that Liberal Finance Minister Bill Morneau's next federal budget will increase the capital gain inclusion rate from 50% to 75%.The combined marginal tax rate on capital gains is currently 26.7% for a resident of Québec. This rate would reach nearly 40% if the budget was to increase the capital gain inclusion rate to 75%. A $1,000,000 capital gain would thus generate approximately $133,000 in additional taxes.

Proposed tax planning

Assuming that the rumour materializes, it is possible to counter the adverse effects of such change by implementing a simple tax planning measure before the budget is tabled. The planning involves transferring assets that have appreciated in value to a corporation. Subject to certain conditions, the transfer allows for the gain to be made prior to the new rules coming into force, thus allowing the taxpayer to benefit from the current 50% inclusion rate. Such a course of action could be of interest to someone who is considering selling assets in the short or medium term.

Impact if anticipated measure is not adopted

Should the budget not include the anticipated change, it would be possible to reduce and even cancel the capital gain by filing rollover tax forms after the budget is released. No gain would be realized and consequently no tax would be payable.

Our highly qualified tax team is available to assist you in that regard.