

What Is Happening with the Capital Gains Inclusion Rate?

Authors: Leo E.K. Palay Celyna Yu

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On January 31, 2025, the Honourable Dominic LeBlanc, Minister of Finance and Intergovernmental Affairs, announced that the federal government was deferring – **from June 25, 2024, to January 1, 2026** – the proposed increase to the capital gains inclusion rate. We previously discussed the proposed increase in our article “**What You Need to Know About the Capital Gains Inclusion Rate Increase | TDS Law**”.



What's changing?

- Effective June 25, 2024, the Lifetime Capital Gains Exemption has been proposed to increase from around \$1 million to \$1.25 million on the sale of small-business shares and farming and fishing property.
- Effective the 2025 tax year, a new Canadian Entrepreneurs' Incentive has been proposed that would encourage entrepreneurship by reducing the inclusion rate to 33.33% on a lifetime maximum of \$2 million in eligible capital gains.
- Effective January 1, 2026, the capital gains inclusion rate is proposed to increase from 50% to 66.67% for dispositions that occur on or after January 1, 2025 (instead of June 25, 2024). However, individuals will have an annual threshold of \$250,000, meaning they will maintain the 50% inclusion rate for capital gains up to that amount.

There is no proposed change to the principal residence exemption. Any amount Canadians make when they sell their home will remain tax-free.

When do these changes take effect?

The proposed changes have not yet become law – the government still needs to introduce legislation effecting the increase in the capital gains inclusion rate and introduce the Canadian Entrepreneurs' Incentive. With the current dynamics at play in Ottawa, there is uncertainty whether the capital gains inclusion rate will ever become law. However, what is clear is that the deferral of the increase to the capital gains inclusion rate will provide certainty to Canadians as tax season approaches.

What does this mean for me?

If effective January 1, 2026, that would leave 18 months where the capital gains inclusion rate has not yet increased to 66.67%, but the lifetime capital gains exemption has already increased to \$1.25 million. This provides the opportunity for key tax planning in 2025.

If you have any questions regarding tax planning in the continuously changing Canadian tax landscape, please reach out to one of TDS' tax lawyers.

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