



TaxNewsFlash

Canada

Tax Increase to Capital Gains Deferred to 2026

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Taxpayers will not be required to account for the proposed capital gains inclusion rate increase in their upcoming 2024 tax filings. In an announcement on January 31, 2025, Finance said that it will defer the implementation date for the increase to January 1, 2026 (from June 25, 2024). As originally proposed in the 2024 federal budget, the capital gains inclusion rate was set to increase for corporations and trusts to 2/3 (from 1/2), and for individuals to 2/3 (from 1/2) on the portion of capital gains realized in the year that exceeded \$250,000. Finance notes that this \$250,000 threshold will now also be effective January 1, 2026. Conversely, the increase to the Lifetime Capital Gains Exemption to \$1.25 million (from \$1,016,836) on the sale of small business shares and farming and fishing property is proposed to be effective June 25, 2024. The Canadian Entrepreneurs' Incentive is proposed to take effect starting in 2025 and the maximum will increase by \$400,000 each year, reaching \$2 million in 2029.

KPMG observations

Finance's announcement provides helpful guidance for taxpayers who were unsure whether they were required to account for the increase to the capital gains inclusion rate in their tax filings, given the proposed increase was scheduled to take effect retroactively on June 25, 2024, but was not enacted before Parliament was prorogued on January 6, 2025. Previously, the CRA announced that it intended to administer these changes as proposed, even though they did not receive Royal Assent, and released certain forms and guides that reflect the June 25, 2024 inclusion rate increase. However, any references to capital gains inclusions rate changes in CRA's 2024 forms and guides are presumably no longer valid.

Note that it is still unclear whether these proposed measures will be enacted.

We can help

Your KPMG adviser can help you assess the effect of these new developments. For more details, contact your KPMG adviser.

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