



## 2024 federal budget: Selected measures

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The 2024 federal budget (the “Budget”) included a number of tax measures that will affect Canadian taxpayers. Rather than summarizing the contents of the entire 416-page Budget, this report, which was prepared from within the Budget lock-up in Ottawa, will focus on some of the key tax measures that are of most interest to individuals and business owners.

### Increase in the capital gains inclusion rate

Under the current tax rules, if you dispose of capital property for a profit, only 50% of the capital gain is included in taxable income. A capital gain on your principal residence is generally exempt from tax. The Budget proposed to increase the capital gains inclusion rate from 50% to two-thirds (66 2/3%) for corporations and trusts, and from 50% to 66 2/3% on the portion of capital gains realized in the year that exceed \$250,000 for individuals, for capital gains realized on or after June 25, 2024.

The \$250,000 threshold would effectively apply to capital gains realized by an individual net of any capital losses realized in the current year or carried forward from prior years, and net of gains sheltered by the Lifetime Capital Gains Exemption and the new Canadian Entrepreneurs’ Incentive, both of which are discussed below.

Employees who exercise employee stock options and who currently can claim a 50% deduction would now only be entitled to a one-third deduction of the taxable benefit to reflect the new capital gains inclusion rate. They will still, however, be entitled to a deduction of 50% of the taxable employment benefit, up to a combined limit of \$250,000 for both employee stock options and capital gains.

Capital losses carried forward from prior years will continue to be deductible against taxable capital gains in the current year by adjusting their value to reflect the inclusion rate of the capital gains being offset. This effectively means that a capital loss realized at the current 50% allowable rate will be fully available to offset an equivalent capital gain realized after the rate change.

For the 2024 calendar year, two different inclusion rates will apply. As a result, the government announced that transitional rules will be required to separately identify capital gains and losses realized before the June 25, 2024 effective date (Period 1) and those realized on or after that date (Period 2). Individuals will therefore be subject to the higher 66 2/3% inclusion rate on their realized gains arising in Period 2 that exceed the \$250,000 threshold, except to the extent that those net gains are offset by a net loss incurred in Period 1 (or some prior period loss carryforward).

Note that the annual \$250,000 threshold for individuals only applies to net gains realized in Period 2 and will not be prorated for 2024.

All capital gains realized in a corporation on or after June 25, 2024 will be taxable at a 66 2/3% inclusion rate, whereas individuals can benefit from a 50% inclusion rate on the first \$250,000 of annual gains; therefore, investors who own investments with accrued capital gains in their corporations need to consider whether to plan for the increased inclusion rate.

For example, capital gains could be triggered in the corporation prior to June 25, 2024 to take advantage of the 50% inclusion rate. Whether this makes sense will depend on whether the prepayment of capital gains tax is worthwhile, taking into account when the proceeds will ultimately be distributed to the shareholder. In addition, consider whether the corporation should be wound up altogether, with future capital gains investing done personally, with the first \$250,000 of annual capital gains benefitting from the lower 50% inclusion rate.

Other planning to be considered is whether individuals wish to consider triggering \$250,000 of capital gains annually to benefit from the 50% lower inclusion rate, and whether this makes sense in the broader context of portfolio asset allocation. Business owners, and individuals who own vacation properties or income properties, need to also consider this new rule when contemplating the timing of a future disposition. Owners of multiple homes may also want to carefully consider how to allocate the principal residence exemption in the future.

Some trusts, and individuals realizing substantial capital gains on a regular basis, might contemplate triggering gains prior to June 25, 2024, to have the lower inclusion rate apply. Before doing any such crystallization, consideration should be given to funding any resulting taxes, and for individuals and trusts, whether there could be any alternative minimum tax (AMT) implications, particularly considering that capital gains are proposed to be 100% included in income for AMT purposes under previously announced AMT changes.

## **Alternative minimum tax**

The AMT system imposes a minimum level of tax on taxpayers who claim certain tax deductions, exemptions or credits to reduce the tax that they owe to very low levels. Under the AMT system, there is a parallel tax calculation that allows fewer deductions, exemptions, and credits than under the ordinary income tax calculation. An individual pays the AMT or regular tax, whichever is higher. Additional tax paid as a result of the AMT can be carried forward for 7 years to be used to offset regular tax, to the extent that regular tax exceeds AMT in those 7 years.

Last year's federal budget announced that various changes would be made to the calculation of AMT, beginning in 2024. In August 2023, the government released draft legislation for the proposed measures, which included broadening the AMT base by further limiting tax preferences (such as exemptions, deductions, and credits), increasing the AMT exemption and raising the AMT rate. For more information, see the CIBC report [Alternative Minimum Tax: What's changing in 2024?](#)

The exemption amount is the amount of income below which AMT will not apply. It is available to all individuals and is intended to protect lower and middle-income individuals from being subject to the AMT. Under the draft AMT rules, the exemption is increasing from \$40,000 (2023 and prior years) to the start of the fourth federal tax bracket, which is \$173,205 for 2024, and is indexed annually to inflation. In addition, the AMT rate for 2024 and future years will be 20.5%, up from 15%, corresponding to the rate applicable to the second federal income tax bracket.

## **Charitable donations**

The Budget included some further amendments to the August 2023 draft legislation, the most significant of which was that the proposed treatment of charitable donations will be revised. The Budget announced that individuals will be able to claim 80% (instead of the previously proposed 50%) of the charitable donation tax credit when calculating AMT.

Under the regular tax system, donors who make in-kind donations to a registered charity of publicly-listed shares and units or shares of mutual funds or segregated funds not only get a tax receipt equal to the fair market value (FMV) of the securities being donated, but they also avoid paying capital gains tax on any accrued gain. A similar rule applies to the donation of securities obtained through the exercise of employee stock options.

Under the draft legislation released in today's Budget, as previously announced, 30% of capital gains on donations of publicly-listed securities will be included in the AMT base. This 30% inclusion rate also applies to an employee stock option benefit when the underlying publicly-listed securities are donated to charity.

## Home Buyers' Plan

The Home Buyers' Plan (HBP) helps Canadians come up with a downpayment by allowing a tax-free registered retirement savings plan (RRSP) withdrawal to purchase a first home. The Budget announced that first-time homebuyers can withdraw \$60,000 (up from \$35,000) under the HBP, effective immediately. In addition, for withdrawals made under the HBP between January 1, 2022, and December 31, 2025, repayments only need to begin 5 years (up from 2 years) after you buy your home.

### Who qualifies?

To qualify for an HBP withdrawal, you must be considered a first-time home buyer, meaning you did not occupy a home that you owned, or one that your current spouse or partner owned, in the prior 4 calendar years and up to the home purchase.

There are also special provisions to accommodate people with disabilities. If you don't qualify as a first-time home buyer, you may be eligible if you, or a person related to you, has a disability and you are making the withdrawal to buy a home that is more accessible.

You can participate in the HBP, even if you are not a first-time home buyer, provided you were living separate and apart from your spouse or common-law partner for at least 90 days as a result of a breakdown in your marriage or partnership.

### How does it work?

To withdraw funds from your RRSPs under the HBP, you must have entered into a written agreement to buy or build a qualified home. A qualifying home can't be owned more than 30 days before withdrawing funds.

In most cases, you must intend to occupy the qualifying home as your principal place of residence no later than one year after you buy or build it. There are exceptions — for example, when someone ends up buying a different home or construction of a new home is delayed.

You must generally repay the amount you borrowed in equal annual instalments over 15 years. Under a temporary Budget measure, for HBP withdrawals taken from January 1, 2022 through December 31, 2025, the first instalment will now be due the fifth calendar year following the year in which you withdrew the money. For other HBP withdrawals, the first instalment will continue to be due in the second calendar year after the withdrawal.

Repayments are not deductible as an RRSP contribution and they don't affect RRSP contribution room. If you don't make a required repayment for a given year, the amount will be included in your income and can't be repaid to your RRSP later.

## Automatic tax filing

In February 2024, the Canada Revenue Agency (CRA) increased the number of eligible Canadians who were permitted to file their 2023 personal tax returns by phone using [SimpleFile by Phone](#) (formerly File My Return) to 1.5 million people, which is twice as many people more than were eligible last year. The CRA hopes to bump this number up to 2 million by 2025.

The Budget announced that this summer, the CRA will be piloting 2 new automatic filing services, SimpleFile Digital and SimpleFile by Paper, to help more Canadians who don't currently file their taxes receive their benefits. The CRA intends to engage leading experts to identify further opportunities to help more Canadians receive the benefits to which they are entitled.

## Reducing CRA Call Centre wait times

It's no secret that when individuals attempt to reach the CRA by phone, they often experience long wait times, which delay Canadians from getting the help they may need when filing their taxes and receiving various benefits. The Budget proposes to provide \$336 million over 2 years, starting in 2024-25, to the CRA to maintain call centre resources and improve the overall efficiency of its call centres.

## Corporations

### Lifetime capital gains exemption (LCGE)

The lifetime capital gains exemption applies on the sale of qualified small business corporation shares, and farm or fishing property. For 2024, the LCGE exempts \$1,016,836 of capital gains arising from the sale of any of these properties from tax. For the unsheltered portion of capital gains that are above the LCGE, 50% (66 2/3% for capital gains over \$250,000 on or after June 25, 2024) are taxable.

The Budget proposes to increase the LCGE to apply to up to \$1.25 million of eligible capital gains. This change will apply to dispositions that occur on or after June 25, 2024, with indexation of the increased LCGE starting in 2026.

### Canadian Entrepreneurs' Incentive (CEI)

The Budget introduced the Canadian Entrepreneurs' Incentive, which would reduce the tax rate on capital gains on the disposition of qualifying shares. The CEI would reduce the capital gains inclusion rate to one-half of the prevailing inclusion rate, on up to \$2 million of capital gains over an individual's lifetime. The lifetime limit will be phased in by increments of \$200,000 per year, beginning on January 1, 2025, before ultimately reaching a value of \$2 million by January 1, 2034.

For capital gains over \$250,000 that are realized on or after June 25, 2024 and would have an inclusion rate of 66 2/3% (as described above), the CEI will result in an inclusion rate of 33 1/3% (one-third) for qualifying dispositions. This measure would apply in addition to the newly enhanced \$1.25 million LCGE.

To qualify, the shares must meet certain conditions:

- At the time of sale, the shares were shares of a small business corporation.
- Throughout the 24-month period immediately prior to sale, the shares were shares of a Canadian-Controlled Private Corporation of which more than 50% of the fair market value of the assets of the corporation were used principally in an active business carried on primarily in Canada by the CCPC.
- The individual making the claim was a founding investor when the corporation was initially capitalized, and held the shares for a minimum of five years prior to sale.
- At all times since the initial share subscription until the time of sale, the individual directly owned at least 10% of the fair market value of the shares and had 10% minimum voting rights.
- Throughout the five-year period immediately prior to sale, the individual must have been actively engaged on a "regular, continuous, and substantial basis" in the operations of the company.

There are restrictions such that the CEI won't apply to shares of a professional corporation, nor to a corporation whose principal business is in the financial, insurance, real estate, food and accommodation, arts, recreation, or entertainment sectors, nor the consulting or personal care service industries.

### Employee ownership trusts (EOTs)

An employee ownership trust is a form of employee ownership where a trust holds shares of a corporation for the benefit of the corporation's employees. EOTs can be used to facilitate the purchase of a business by its employees, without requiring them to directly pay to acquire shares. For business owners, an EOT provides an additional option for succession planning. The United States and United Kingdom each have measures supporting employee ownership arrangements.

The 2023 federal budget announced amendments to the *Income Tax Act* to permit EOTs in Canada starting this year. To make EOTs more attractive, last fall's economic statement proposed to exempt the first \$10 million in capital gains realized on the sale of a business in 2024, 2025 and 2026, to an EOT, subject to certain conditions.

The Budget clarified that this \$10 million exemption applies to the business, and not to each shareholder. This means that if multiple individuals dispose of shares to an EOT as part of a qualifying business transfer and meet the qualifying conditions, they may each claim the exemption, but the total exemption claimed can't exceed \$10 million in aggregate. The individuals will be required to agree on how to allocate the exemption.

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