Conservative income — June 2024 Edition

Capital Gains Inclusion Rate ~ Laurel Hickey & Garth Bluekens

What's Capital Gains Inclusion Rate Got To Do With It?

In April the Federal Government released their 2024 budget. A main focus of the budget was housing, presenting new measures to help the issue of housing affordability through new home construction. There were many other programs announced by the government in the budget, but one area that has caused a lot of people to question the impact on their own balance sheets, was the increase in the capital gains inclusion rate for individuals and corporations.[1] Historically the capital gains inclusion rate has ranged from 50% to 66.67% to as high as 75% in the 1990s. The most recent change in 2001 from 75% to 50% has been the rate that most investors have got used to.[2] What the capital gains inclusion rate means, is for example you bought a stock for $1,000 and then sold it for $2,000. Of that $1,000 gain $500 (or 50%) would be included in your taxable income. In the 2024 budget, they announced a change from 50% to 66.67% or from one-half to two-thirds. This does not apply to all investors or all capital gains. For individual investors, the 66.67% only applies to capital gains greater than $250,000. This would mean that your cumulative realized gains for the year would have to be larger than $250,000. For the average investor, this amount might be larger than the value of all their investments combined. The new capital gains inclusion is different for businesses, this $250,000 minimum does not apply, and all capital gains will be subject to a 66.67% inclusion rate after June 25th.

Some examples of individual investors that could be affected by the change, is those who do have a large gain on their investment portfolio or if they have a second property that is not exempt under the principal residence exemption. It is important to know that the capital gains inclusion only comes into affect if either of these items are sold. If you sit on a second property and never sell it in your lifetime, the realized gain will only occur when settling your estate.[3]

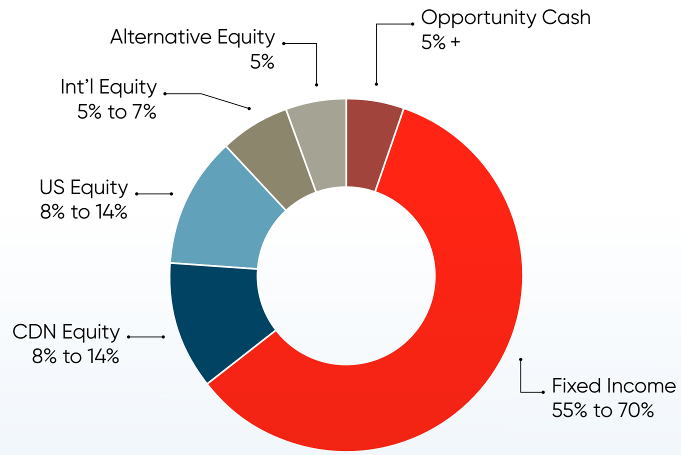
Some individual investors that do have capital gains greater than $250,000 are wondering if they should be triggering these gains before the changes to the inclusion rate go into effect on June 25th. It is important to consider the break-even that you would need for a return on your investment to be indifferent to realizing the gain at a 50% versus a 66.67% inclusion rate. For example, if an individual in the 38% tax bracket has a capital gain of $300,000, their after-tax proceeds would be $243,000 at a 50% inclusion rate. At a 66.67% inclusion rate their after-tax proceeds would be $239,833. It is important to note that the 66.67% is only above $250,000, so only $50,000 of the $300,000 gain is taxed at the new inclusion rate. The return that one would need to receive to make up for not triggering the gain before June 25th is only around 1.40%. When triggering the gain, unless there is a use for the funds, they will likely be reinvested leading to additional capital gains in the future.

We can easily pull unrealized gain information for your accounts. We can review scenarios if your individual account is above the $250,000 threshold for capital gains or if you have a corporate account and want to review all capital gains. We can help to make an informed decision on if triggering a taxable gain is worth it when looking at your portfolio from a long-term perspective.

1 Federal 2024 Budget - Bigger, costlier government trains focus on housing crisis (nbc.ca)
2 Inclusion rates for previous years - Canada.ca
3 Canada's 2024 Federal Budget Highlights | National Bank (nbc.ca)

Conservative Income Investment Goal Allocation

Your Investment Policy CONSERVATIVE INCOME: On the whole, you want fixed income investments. You want to preserve your capital or create a source of periodic income to finance ongoing expenses. You are not against the idea of investing a small part of your portfolio in equities, mainly to counteract the effects of inflation. If you feel that your risk tolerance has shifted please let us know!



Source: This information is for illustration purposes and subject to change. Your portfolio may not hold all of these positions. We enhance the composition of your portfolio with additional equity solutions that are not illustrated. The weightings change with market fluctuations and model rebalancing.

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