Government of Canada announces deferral in implementing increase to capital gains inclusion rate to Jan. 1, 2026

January 31, 2025

In response to increasing criticism in connection with capital gains tax increases announced in Federal Budget 2024 (effective Jun. 25, 2024), but never enacted into law, the Federal Government announced today that it is deferring the date on which the capital gains inclusion rate would increase to Jan. 1, 2026 (the Deferral Announcement). As a result of the Deferral Announcement, the date on which the capital gains inclusion rate would increase from one-half to two-thirds on capital gains realized annually above $250,000 by individuals and on all capital gains realized by corporations and most trusts has been deferred to Jan. 1, 2026. Importantly, the proposed implementation date for the increase in the Lifetime Capital Gains Exemption and the introduction of the Canadian Entrepreneurs' Incentive would not change. The government intends to introduce legislation effecting the increase in the capital gains inclusion rate to two-thirds, the increase in the Lifetime Capital Gains Exemption (to $1,250,000) and the introduction of the Canadian Entrepreneurs' Incentive in due course.

This comes just a few weeks after Justin Trudeau's announcement that he will be resigning as the Prime Minister of Canada and, on his advice, the Governor General will be proroguing Parliament – see our article on the capital gains reporting impact of the prorogation. With a prorogued government, the Deferral Announcement provides new clarity to taxpayers looking to file tax returns for 2024 that include realized capital gains, particularly because the Canada Revenue Agency intended on administering the higher inclusion rate of two-thirds. While many taxpayers will be happy with the Deferral Announcement, it also means additional compliance work for many industry professionals, such as investment fund managers, who may have already prepared 2024 documentation on the basis of the two-thirds inclusion rate.

Of note, the CRA has just released their schedule 1 for T3 returns, which includes the two periods for reporting capital gains for FY2024. A link to the form can be found here. Following the Deferral Announcement, the CRA has indicated it will issue forms that have been reverted to the currently enacted rate in the coming weeks. Importantly, the CRA has also indicated it has reverted to administering the currently enacted capital gains inclusion rate of one-half. See the CRA's announcement here. We have yet to hear whether Revenu Québec will be making any similar announcements.

By

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