



March 2025

CANCELLATION OF CANADIAN CAPITAL GAINS INCLUSION RATE INCREASE

INTRODUCTION

The Canadian federal government previously proposed a significant increase in the capital gains inclusion rate. Initially set to take effect on 25 June 2024, and subsequently deferred to 1 January 2026, the proposed tax increase is now brought to a halt.

BACKGROUND

In the 2024 Federal Budget, the government proposed an increase in the capital gains inclusion rate from 50% to 66.67%. This change was intended to apply to individuals, corporations, and trusts. For individuals, the higher inclusion rate would apply to capital gains exceeding an annual threshold of C\$250,000. The proposed measures prompted considerable concern and criticism from various stakeholders, who expressed apprehension regarding the potential impact on investment and economic growth.

For further details regarding the 2024 Federal Budget and the deferral of the increase in the capital gains inclusion rate, please refer to our previous briefing notes. Please note that this note supersedes our earlier notes.

CANCELLATION ANNOUNCEMENT

On 21 March 2025 (Friday), the Prime Minister Mark Carney's office announced the cancellation of the proposed increase in the capital gains inclusion rate, bringing an end to a tax measure that had been widely criticized by industry. The statement emphasized that "Cancelling the hike in capital gains tax will catalyze investment across our communities and incentivize builders, innovators, and entrepreneurs to grow their businesses in Canada".

The federal government also confirmed in the statement that they will keep the increase in the lifetime capital gains exemption limit to C\$1.25 million on sale of small business shares and farming and fishing property.

IMPLICATIONS OF THE CANCELLATION

Prior to the then-finance minister Dominic LeBlanc's announcement in January regarding the deferral of the measure, the Canada Revenue Agency ("**CRA**") had planned to follow a long-standing precedent and administer the change even before it was law. The CRA now stated that any businesses or individuals who overpaid capital gains taxes will be reassessed to address the issue.

The decision to defer and ultimately cancel the proposed tax increase is believed to be final, and would provide a measure of certainty for taxpayers and industry professionals. Industry professionals can now offer firm and reliable advice to their clients based on the current tax rules, helping them navigate their financial obligations without the looming threat of changes in legislation.

Navigating the complexities of capital gains tax in Canada can be challenging due to the intricate legal and regulatory frameworks involved. Taxpayers are encouraged to explore various estate planning opportunities in respect of structures involving Canadian real estate and Canadian natural resources. Careful estate planning is particularly relevant for private wealth structures which are owned by non-residents of Canada and which were set up to primarily hold Canadian real estate. Non-resident shareholders of such private wealth structures may face exposure to Canadian capital gains taxes when transferring shares of the holding company, even if it is incorporated outside of Canada.

For further information or assistance with your estate or tax planning, please do not hesitate to contact us.

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