2024 Federal Budget

April 17, 2024

On April 16, 2024, in Ottawa, Canada's Deputy Prime Minister and Minister of Finance, Chrystia Freeland, delivered the 2024 Federal Budget (2024 Budget), titled "Fairness For Every Generation." The federal government has focused this year's budget on three overarching pillars: building more affordable homes, making life cost less and growing the economy in a way that's shared by all.

Please note that this is not a comprehensive review of the 2024 Budget. Rather, we have provided a summary of the most significant tax measures announced in the budget and the potential impact on you, your family, and your business.

Please also note that the measures introduced in the 2024 Budget are only proposals at this time and may not be enacted into law as described, or at all. You should consult with your tax and legal advisors for further discussion and analysis on how these proposals may affect your situation and before implementing any tax planning strategies.

The 2024 Budget does not contain any changes to personal or corporate income tax rates. However, it is notable that the 2024 Budget does contain a change to the capital gains inclusion rate for capital gains realized on or after June 25, 2024.

Capital gains inclusion rate

Currently, 50% of a capital gain is included in calculating a taxpayer's income. This is referred to as the capital gains inclusion rate. The 50% inclusion rate also applies to capital losses.

The 2024 Budget proposes to increase the capital gains inclusion rate from 50% to 66.67% for corporations and trusts, and from 50% to 66.67% 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, either directly or indirectly via a partnership or trust, net of any:

- current year capital losses;
- capital losses of other years applied to reduce current-year capital gains; and
- capital gains in respect of which the Lifetime Capital Gains Exemption (LCGE), the proposed Employee Ownership Trust Exemption, or the proposed Canadian Entrepreneurs' Incentive is claimed.

For taxpayers claiming the employee stock option deduction, they would be provided a 33.33% deduction of the taxable benefit to reflect the new capital gains inclusion rate, but would be entitled to a deduction of 50% of the taxable benefit up to a combined limit of $250,000 for both employee stock options and capital gains.

Net capital losses of prior years would 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 means that a capital loss realized prior to the rate change would fully offset an equivalent capital gain realized after the rate change.

For tax years that begin before and end on or after June 25, 2024, transitional rules will apply such that two different inclusion rates would apply based on when the capital gains and losses are realized. For capital gains and losses realized before June 25, 2024, they would be subject to the 50% inclusion rate. For capital gains and losses realized on or after June 25, 2024, the higher inclusion rate would apply on all capital gains for corporations and trusts and those exceeding the $250,000 threshold for individuals.

The annual $250,000 threshold for individuals is proposed to be fully available in 2024 and would not be prorated. It would apply only in respect of net capital gains realized on or after June 25.

Other consequential amendments would also be made to reflect the new inclusion rate. The 2024 Budget notes that additional design details will be released in the coming months.

Lifetime Capital Gains Exemption

Entrepreneurial Canadians are eligible to claim the LCGE on the disposition of Qualified Small Business Corporation shares and Qualified Farm or Fishing Property. Generally, the LCGE provides for tax-free growth on the capital gain eligible for the LCGE. The amount of the LCGE is currently $1,016,836 and is indexed to inflation.

The 2024 Budget proposes to increase the LCGE to apply to up to $1.25 million of eligible capital gains with respect to dispositions that occur on or after June 25, 2024. Indexation of the LCGE would resume in 2026.

Canadian Entrepreneurs' Incentive

The 2024 Budget proposes to introduce the Canadian Entrepreneurs' Incentive. This incentive would reduce the tax rate on capital gains upon the disposition of qualifying shares by an eligible individual. Specifically, this incentive would provide for a capital gains inclusion rate that is one-half of the prevailing inclusion rate on up to $2 million of capital gains per individual over their lifetime. So, under the new proposed capital gains inclusion rate of 66.67%, this measure will result in an inclusion rate of 33.33% for qualifying dispositions. This measure would apply in addition to any available capital gains exemption.

The lifetime limit would 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. This measure would apply to dispositions that occur on or after January 1, 2025.

A share of a corporation would be a qualifying share if certain conditions are met, including but not limited to the following:

- At the time of sale, the share is a share of a small business corporation and is directly owned by the individual shareholder;
- Throughout the 24-month period immediately before the sale, it was a share of a Canadian-Controlled Private Corporation and met certain asset tests;
- The shareholder was a founding investor at the time the corporation was initially capitalized, and held the share for a minimum of five years prior to sale;
- At all times since the initial share subscription until the time that immediately precedes the sale of the shares, the shareholder directly owned shares with a fair market value (FMV) of more than 10% of the FMV of all the issued and outstanding shares of the corporation and shares entitling the shareholder to more than 10% of the votes;
- Throughout the five-year period immediately before the sale of the share, the shareholder must have been actively engaged on a regular, continuous, and substantial basis in the activities of the business; and
- It was acquired for FMV consideration.

This incentive does not apply to the following: a professional corporation; a corporation whose principal asset is the reputation or skill of one or more employees; a corporation that carries on certain types of businesses operating in the financial, insurance, real estate, food and accommodation, arts, recreation, or entertainment industry; or providing consulting or personal care services.

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) is a parallel tax calculation that allows fewer tax credits, deductions, and exemptions than under the ordinary personal income tax rules. Taxpayers pay either regular tax or AMT, whichever is highest.

The 2024 Budget proposes to make changes to the AMT proposals that were originally proposed in the 2023 Budget. These amendments would apply to taxation years that begin on or after January 1, 2024, (i.e., the same day as the broader AMT amendments). Notable examples of these amendments include: the tax treatment of charitable donations is revised to allow individuals to claim 80% (instead of the previously proposed 50%) of the charitable donation tax credit when calculating AMT; and fully exempting Employee Ownership Trusts from the AMT regime.

Employee Ownership Trust Tax Exemption

The 2023 Budget proposed rules to facilitate the creation of employee ownership trusts (EOTs). The 2023 Fall Economic Statement proposed to exempt from taxation the first $10 million of capital gains realized on the sale of a business to an EOT, subject to certain conditions.

The 2024 Budget provides further details on the proposed exemption, qualifying conditions, and disqualifying events that may render the exemption unavailable to the individual.

If multiple individuals dispose of shares to an EOT and meet the various qualifying conditions, they may each claim the exemption, but the total exemption in respect of the qualifying business transfer cannot exceed $10 million. The individuals would be required to agree on how to allocate the exemption.

The 2024 Budget also proposes to expand qualifying business transfers to include the sale of shares to a worker cooperative corporation as defined by the Canada Cooperatives Act.

Capital gains exempted through this measure would be subject to an inclusion rate of 30% for the purposes of the AMT, similar to the treatment of gains eligible for the LCGE.

This measure would apply to qualifying dispositions of shares that occur between January 1, 2024 and December 31, 2026.

Home Buyers' Plan

The 2024 Budget proposes to increase the withdrawal limit of the Home Buyers' Plan from $35,000 to $60,000 from a Registered Retirement Savings Plan for qualifying withdrawals made after April 16, 2024.

The 2024 Budget also proposes to temporarily defer the start of the 15-year repayment period by an additional three years for participants making a first withdrawal between January 1, 2022 and December 31, 2025, such that the 15-year repayment period would start the fifth year following the year in which a first withdrawal was made.

These two proposals are intended to help alleviate the pressure that Canada's housing crisis has put on qualifying prospective homebuyers.

Disability Supports Deduction

The Disability Supports Deduction (DSD) allows individuals who have an impairment to deduct certain expenses prescribed by a physician that enable them to earn business or employment income, or to attend school.

The 2024 Budget proposes to expand the list of expenses recognized under the DSD, subject to specified conditions.

It also proposes that expenses for service animals, as defined under the Medical Expense Tax Credit (METC) rules, be recognized under the DSD. Individuals would be able to choose to claim an expense under either the METC or the DSD.

This measure would apply to the 2024 taxation year and subsequent tax years.

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