

CHARTERED PROFESSIONAL ACCOUNTANTS

While the date for the 2017 Federal Budget has not yet been announced, there is significant speculation and commentary from media and business leaders that a change to the taxation of capital gains may be announced in the upcoming Federal Budget.

Current Tax Treatment of Capital Gains

A taxpayer who realizes a capital gain under the current tax rules includes only 50% of the gain in their taxable income (referred to as the “inclusion rate”). This results in a significantly lower tax rate applicable to capital gains compared to other types of income such as salary, interest, rents or dividends.

Potential Change to Capital Gains Taxation

To increase the effective tax rate on capital gains without increasing the tax rate on all income sources it is anticipated that the Government would increase the capital gains “inclusion rate” from 50% up to 66.6% or 75% such that a larger amount of the capital gain realized is included in taxable income.

The following example outlines the current tax treatment and the potential tax impact a change to the capital gains inclusion rate to 75% would have on an individual in Ontario who pays taxes at the top marginal rate realizing \$100,000 of capital gains:

	<u>Pre-Budget - 2017</u>	<u>Potential Post Budget - 2017</u>	<u>Difference</u>
Capital Gain Realized	\$100,000	\$100,000	-
Inclusion Rate	50%	75%	25% Increase
Taxable Income	\$50,000	\$75,000	\$25,000
Top Marginal Tax Rate	53.53%	53.53%	-
Income Taxes Payable	\$26,765	\$40,148	\$13,383

Planning Opportunity

If this change to capital gains taxation is included in the upcoming Federal Budget it is likely the change would be made effective Budget Day (i.e. effective immediately for capital gains realized on or after Budget Day).

Therefore, there is an opportunity to realize capital gains now before Budget Day as part of your 2017 taxable income/compensation plan so that you are not negatively impacted by these potential changes.

If you would like to discuss what the impact would be to you based on your individual circumstances, please contact your Ward & Uptigrove adviser as soon as possible to determine if realizing gains before Budget Day would be beneficial for you.



Special Note to Ward & Uptigrove Wealth Management Clients

Individuals and corporations that are clients of Independent Accountants' Investment Counsel Inc. (IAIC), a portfolio management firm that is a related entity of Ward & Uptigrove, already benefit from the capital gains tax planning work performed by their integrated wealth management team. In the final months of each year, our team of professionals review each client's overall year-to-date capital gains position to determine what strategies could be implemented to reduce taxes on investment gains for the current year. Where possible and appropriate, IAIC's portfolio managers will complete transactions in clients' accounts in order to lower, or even eliminate, any capital gains tax for the current year.

Any changes to capital gain inclusion rates announced in the upcoming budget will be factored into this year's capital gains planning work.

We welcome any Ward & Uptigrove Wealth Management clients that would like to learn more about how their personal situation could be impacted by this potential change to contact [Mich Landry](#), [Rick Town](#) or [Luke MacLennan](#).

Ward & Uptigrove
Chartered Professional Accountants
PO Box 127
145 Main Street E
Listowel, ON N4W 3H2
519-291-3040
admin@w-u.on.ca