STRENGTH IN NUMBERS™

KEMP HARVEY GROUP

CHARTERED PROFESSIONAL ACCOUNTANTS

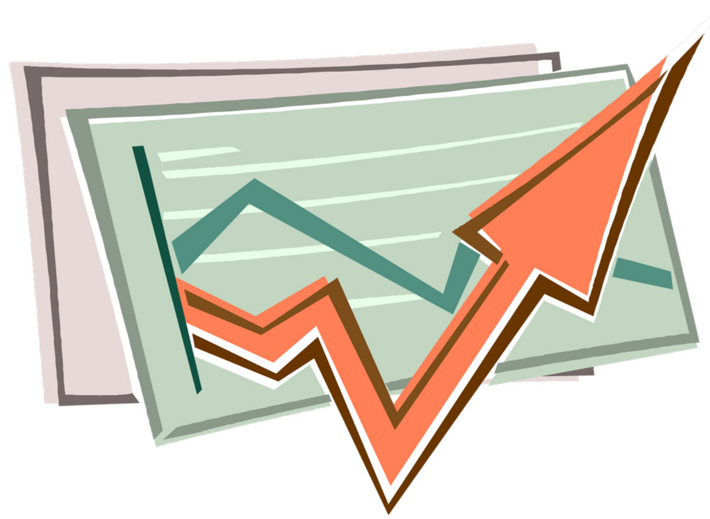
2024-2 NEWSLETTER

inside

STRENGTH IN NUMBERS

CHANGES TO CAPITAL GAIN TAXATION

The federal government has introduced changes to the taxation of capital gains in Canada.



These changes are effective for transactions that occur after June 24, 2024.

For most individual Canadians, there will be no change to the income tax that they will pay on capital gains. However, for those individuals with significant capital gains, as well as corporations and most trusts, there will likely be increases in the amount of tax that will be paid.

The key change in the legislation is an increase in the inclusion rate, which is the portion of a capital gain that is taxed.

Prior to June 25, 2024, one half of the gain on the sales of assets was included in the income of a taxpayer. There was no special tax rate that applied on that included amount. Instead, this amount was added to all other income to determine taxable income.

For example, if an individual had employment income of $50,000 and gains of $600,000, their total taxable income would be $350,000, which is their employment income plus $300,000(one half of $600,000).

For transactions occurring after June 24th, the inclusion rate on gains over $250,000 is increasing from one half to two thirds.

Using the prior example, that individual will now have taxable income of $408,333, which is their employment income plus $358,333(one half of $250,000 plus two thirds of $350,000).

The calculation of the taxable gain is not based on each individual transaction in a year, but is the total accumulated gains from all transactions that have occurred in the year.

Corporations and most trusts will not be eligible for the reduced inclusion rate on their first $250,000 of annual gains. They will have to include two thirds of all of their gains in taxable income.

The only trusts that will be eligible for the reduced inclusion rate on the first $250,000 of gains are graduated rate estates and qualified disability trusts.

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NEW PROVINCIAL PENALTIES ON HOME FLIPPING

The BC home flipping tax is being introduced on January 1, 2025.

For properties sold on or after that date, a tax of 20% of the gain on the sale of the property will be charged, if the property has been owned for less than one year. This tax rate will gradually be reduced if the taxpayer holds the property for over 365 days, and will be fully eliminated if they hold the property for 730 days.

The date of ownership will be the day the taxpayer pays for the property, which is generally considered to be the closing date on the purchase. Similarly, the sale date will be the date that the taxpayer is entitled to receive the funds from the sale.

If the taxpayer enters into a pre-sale contract for the purchase of a property, the date of purchase will be the date in which the taxpayer paid for the contract.

This tax will not apply on the sale of land that is used for non-residential purposes.

There will be exemptions available for certain life events, including separation or divorce, death, disability or illness, relocation for work, involuntary job loss, change in household membership, amongst others.

If the property is a primary residence, the amount of the gain will be reduced by $20,000. The taxpayer must have owned the property for over 365 days in order to qualify for this reduction.

If a taxpayer owes tax on the sale of their property, they will have to file a BC home flipping tax return within 90 days of the sale of the property.

The BC home flipping tax is in addition to any income tax that could be payable on the disposition. Gains on eligible properties that are sold within one year of ownership will be fully taxable for income tax purposes, and will not receive any preferential tax treatment as a capital gain.

NO DEDUCTIONS FOR NON-COMPLIANT RENTALS

As of January 1, 2024, the taxation of non-compliant short term rentals will be changed for income tax purposes.

Effective that date, if a taxpayer is running a non-compliant short term rental, they will not be allowed to claim deductions against the income that is earned from the rental property.

A rental property will be deemed to be non-compliant if it is a residential property, it is rented for a period of less than 90 consecutive days, and it is not compliant with local and provincial rules regarding short term rentals.

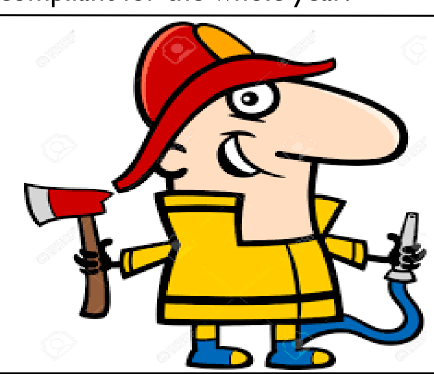
If the property is considered to be compliant for part of the year, it can still claim expenses related to that period of time.

The federal government has acknowledged that it may take time for property owners to make their property compliant with the new rules, and are allowing transitional grace in the first year.

If a property owner is able to make their property compliant by the end of 2024, they will be considered to be compliant for the whole year.

DID YOU KNOW…

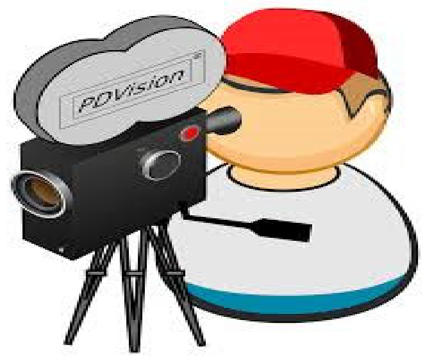
Two tax credits were increased as part of the federal budget this spring. Taxpayers eligible for the Volunteer Firefighter Credit and the Volunteer Search and Rescue Credit previously received a non-refundable $3,000 credit towards their federal taxes. Each of these tax credits has been increased to $6,000 for 2024. This increase brings the total potential tax reduction to $900 per year for each credit. It is estimated that 71% of all of Canadian firefighters are volunteers.



DOCUMENTATION VERIFICATION SERVICE INTRODUCED

A new service has been introduced by the CRA, allowing for faster access to CRA online services for Canadian taxpayers.

Previously, the only option available to taxpayers to access CRA online services was to apply for a CRA security code, which would be mailed to them 10 days after their online request.



The new documentation verification service will allow taxpayers to register and access CRA online services immediately upon successful registration.

The registrant will need to have a mobile device which will allow them to take pictures of both themselves and their government issued photo identification.

Acceptable forms of government issued photo identification include Canadian passports, Canadian driver's licences, and provincial or territorial photo identification cards.

The taxpayer must be at least 16 years of age to use the service.

CHANGES TO CAPITAL GAIN TAXATION (CONTINUED FROM PAGE 1)

For 2024, the $250,000 threshold will only be applied to gains that occur after June 24th. There is no threshold for gains on dispositions prior to this date.

The $250,000 limit will be net of any losses incurred in a year, or carried forward or back to that year.

There will be no transfers of exemption limits between taxpayers, nor will the CRA allow there to be an averaging of capital gains over years.

There will be no election available allowing taxpayers to elect to claim gains up to the $250,000 threshold without an actual disposition taking place.

These new rules have not changed the taxability of principal residence dispositions.

If a property is considered to be a principal residence, a taxpayer does not have to pay income tax on the gain on the disposition of the property.

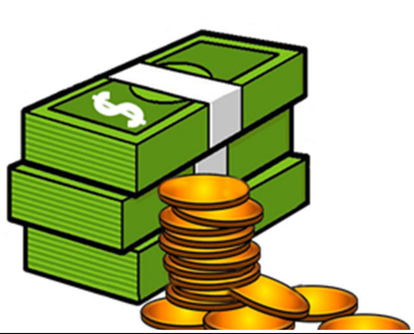
It is important to keep in mind that the taxpayer has to own the property for at least one year in order for the property to qualify as their principal residence.

In conjunction with the change in the capital gains inclusion rate, the federal government has also increased the Lifetime Capital Gains Exemption (LCGE) limit on the sale of eligible farm or fishing properties, as well as qualified small business corporation shares.

The amount that could be claimed in regards to the LCGE had originally been set at $1,016,836 for 2024, prior to the increase.

Effective for eligible sales that occur after June 25, 2024, the LCGE limit has been increased to $1,250,000. This limit will be in place until the end of 2025. Indexation of this limit will begin again in 2026.

It is likely that there will still be additional changes to the new capital gain rules. It is expected that the final legislation with changes will be introduced this fall.



DID YOU KNOW...

The change in the inclusion rate on capital gains has also increased the withholding tax rate for non-residents who sell taxable Canadian property. Previously, a non-resident who disposed of taxable Canadian property had 25% of the gain withheld from the proceeds of the sale of their property. This rate will increase to 35% for dispositions occurring on or after January 1, 2025. The increased withholding rate will apply even if a section 116 certificate of compliance is received.

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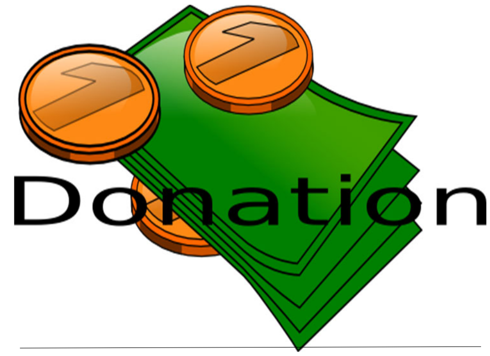
CHARITIES BENEFIT FROM TAX CHANGE



In 2023, the CRA introduced several changes to the calculation of Alternative Minimum Tax (AMT) for individual taxpayers. The effective date for these changes was January 1, 2024.

One of the changes that was introduced was to only allow 50% of charitable donations to be deducted in the calculation of minimum tax. As well, 30% of any gains that had accrued on shares that were donated to charities was also included in the calculation.

The effect of these changes was that many taxpayers who had previously donated large amounts to charities were going to have to pay a potentially larger tax bill for doing so again. Many charities voiced their displeasure with the changes, concerned that a valuable source of funds would be lost.

In response, the CRA is now allowing 80% of charitable donations to be deducted in the calculation of minimum tax.

REDUCED HEALTH TAX FOR SMALL BUSINESSES

Effective January 1, 2024, the employer health tax exemption threshold has been increased from $500,000 to $1 million.

This means that any employers whose total eligible wages are less than $1,000,000 in 2024 will not have to remit any employer health tax for 2024.

There have been additional changes that have been implemented for those employers whose total wages are between $1 million and $1.5 million.

Previously, tax was only remitted on 2.925% of eligible wages in that bracket. That tax rate has increased to 5.85%.

The total tax payable for those employers who have over $1.5 million of eligible wages will remain the same as it has in prior years.

FIRST TIME HOME OWNERS GET ADDITIONAL CREDIT

The federal government has made changes to the Home Buyers Plan (HBP). The HPB allows first time home buyers to withdraw money from their RRSP to fund the purchase of a home.

Previously, there was a $25,000 limit on withdrawals. That limit has increased to $60,000 for withdrawals made after April 16, 2024.

The date when withdrawals must be repaid to an RRSP has also been pushed back.

For withdrawals made between January 1, 2022 and December 31, 2025, the taxpayer will be granted a three year extension before they have to begin repaying their RRSP. As a result, amounts will not need to be repaid for five years after their withdrawal.