Our federal gov't institutes a Change to the Capital Gains Tax rules

Let me state my bias up front. I am not a big fan of our current federal gov't. In my view they are anything but business friendly. Amongst the many things they have got wrong, they spend way too much money creating huge deficits as they go which in the proc ess has doubled our national debt to $1.8 trillion over the last 4 years. What more their reckless spending helps to create more inflation. In addition , they tax us way too much which slows growth and drives investment capital out of Canada.

Regardless you all need to be aware of their latest tax change introduced by the federal gov't. *Effective June 25/24* they have changed the rules regarding the inclusion rate for capital gains taxes on the sale of assets by an individual, a business or a trust.

I will quote directly from a directive from the Department of Finance immediately below and then explain it below that.

One half of a capital gain is currently included in computing a taxpayer's income. This is referred to as the capital gains inclusion rate. The current one-half inclusion rate also applies to capital losses.

Budget 2024 announced an increase in the capital gains inclusion rate from one half to two thirds for corporations and trusts, and from one half to two thirds 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. Individuals (except for most types of trusts) would have access to a reduction when calculating their total income that would effectively decrease the inclusion rate applied to their capital gains under the $250,000 threshold from the basic inclusion rate of two thirds to one half.

Prior to June 25/24, if the "assets" (as opposed to the "shares") of a business or owned by an individual were sold only 50% of the *calculated capital gain* was considered taxable. Effective June 25/24 that inclusion rate was increased to 66.6%. *My accountant has told me that this change means an average effective tax increase of 9% overall.*

Just to be clear, the *calculated capital gain* is arrived at deducting the capital cost of the asset to the owner (an individual or a business) from the selling price of the asset.

In fairness to the gov't, they have inserted 2 "goodies" into this tax increase which can make it more palatable. First if an individual (not a business or a trust) sells an asset such a cottage or a publicly traded stock or bond, the first $250,000 of the capital gain is included at the old inclusion rate of 50%. Secondly if it is the shares of a business or a trust that is being sold and *if* *that business qualifies for the one-time capital gain exemption for the shares of a Canadian Controlled Private Corporation*, the gov't has raised the tax-free amount of the shares being sold to $1,250,000 effective immediately.

My opinion is right now the last thing Canada needs for its economy is another tax increase. This country has now got some of the highest federal personal tax rates of any gov'ts anyway. The top combined federal & provincial tax rate for Ontarians is now 53.5%. On top of that we all are paying the ever-increasing carbon tax. And now this increase to the capital gain inclusion rate.

Yet we here in Canada right now have one of the slowest growth rates in terms of GDP(Gross Domestic Product) per capita of any of the 32 countries in the OECD. When you see the term GDP per capita, think your standard of living. Ours is actually declining while the US is increasing. What's more everything I read indicates that increasing this inclusion rate for capital gains will likely scare away incremental investor money for new businesses and technology. I won't even bother to address the gov't's justification for this tax increase (tax fairness) which is ridiculous or that they say that only .13% of Canadians will be affected which again is a fraction of what the reality is.

How does all of this affect us in the security industry. Well, if you are selling alarm accounts out of your alarm company after June 25/24, the chances are you had to do an "asset "deal (because buyers of alarm accounts almost always like to do only asset deals) which means you will be paying more tax on the resulting deal. In my mind this change makes it that much more important when selling that you try wherever you can to do a share deal. (Interestingly enough almost all the deals I have done for fire, guard or integration companies have been share deals. These deals tend to be larger deals.)

I also read that many owners are delaying the sale of their cottages, publicly traded shares or even alarm accounts in hopes that a new federal gov't that could be elected in Oct 2025 will reverse this change in taxation. In the meantime, if the market for alarm account works correctly, maybe the buyers of alarm accounts will increase their price for doing alarm account deals to offset this tax increase.

For sure you should definitely talk to your accountant before you pull the trigger to sell and perhaps think carefully how your vote in 15 month' s time.

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