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Federal Budget Highlights 2024

Capital Gains Inclusion Rate

One-half of a capital gain is 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.

For capital gains realized on or after June 25, 2024, the budget proposes to increase the capital gains inclusion rate from 1/2 to 2/3 for corporations and trusts, and from 1/2 to 2/3 on the portion of capital gains realized in the year that exceed $250,000 for individuals.

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.
- Capital gains in respect of which the Lifetime Capital Gains Exemption, the proposed Employee Ownership Trust Exemption or the proposed Canadian Entrepreneurs' Incentive is claimed.

For tax years that begin before and end on or after June 25, 2024, two different inclusion rates would apply. As a result, transitional rules would be required to separately identify capital gains and losses realized before the effective date (Period 1) and those realized on or after the effective date (Period 2).

The annual $250,000 threshold for individuals would be fully available in 2024 (i.e., it would not be prorated) and would apply only in respect of net capital gains realized in Period 2 (post June 25, 2024).

Other consequential amendments would also be made to reflect the new inclusion rate. Additional design details will be released in the coming months.

Impact on stock option deduction

Where an individual claims the employee stock option deduction, the budget provides a 1/3 deduction of the taxable benefit to reflect the new capital gains inclusion rate but would be entitled to a deduction of 1/2 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.

Personal tax changes

Lifetime Capital Gains Exemption

The budget increases the Lifetime Capital Gains Exemption (LCGE) to $1.25 million (from $1,016,836), with indexation of the LCGE resuming in 2026. This tax measure applies to dispositions that occur on or after June 25, 2024.

Canadian Entrepreneurs' Incentive

The budget introduces the Canadian Entrepreneurs' Incentive that allows an individual taxpayer to use a 1/3 capital gains inclusion rate for the disposition of qualifying shares, subject to a lifetime limit of up to $2 million in capital gains per individual that will be phased in by increments of $200,000 per year. The budget notes that this tax measure applies in addition to any available capital gains exemption.

A share of a corporation is a qualifying share if certain conditions are met, including among others:

- The share must be a share of a "small business corporation" at the time of sale
- The share must be a share of a Canadian-Controlled Private Corporation and more than 50% of the fair market value of the corporation's assets must generally be used principally in an active business carried on primarily in Canada by the corporation throughout the 24-month period immediately before the disposition of the share
- The taxpayer must be a founding investor at the time the corporation was initially capitalized and must hold the share for a minimum of five years prior to disposition
- The taxpayer must be actively engaged on a regular, continuous and substantial basis in the activities of the business, throughout the five-year period immediately before the disposition of the share
- The share does not represent a direct or indirect interest in certain corporations, including a professional corporation.

This measure applies to dispositions that occur on or after January 1, 2025.

Alternative Minimum Tax

The budget makes further changes to the draft Alternative Minimum Tax (AMT) legislative proposals published for consultation on August 4, 2023. More specifically, the budget allows individual taxpayers to claim 80% of the Charitable Donations Tax Credit when calculating AMT (instead of 50% which was previously proposed). The budget also includes several additional amendments to fully allow certain deductions and exempt Employee Ownership Trusts from AMT, among other changes. In addition, the budget proposes several technical amendments. These amendments apply to taxation years that begin on or after January 1, 2024.

The budget further proposes to exempt certain Indigenous settlement and community trusts from AMT. The budget invites comments on this change from stakeholders by June 28, 2024.

Home Buyer's Plan

Budget 2024 proposes to increase the withdrawal limit from $35,000 to $60,000. This increase would also apply to withdrawals made for the benefit of a disabled individual. This measure would apply to the 2024 and subsequent calendar years in respect of withdrawals made after Budget Day.

Business tax changes

Interest deductibility limits — Purpose-built rental housing

The budget introduces an elective exemption from the excess interest and financing expenses limitation (EIFEL) rules for certain interest and financing expenses incurred before January 1, 2036, in respect of arm's length financing used to build or acquire eligible purpose-built rental housing in Canada. **Eligible purpose-built rental housing is a residential complex**:

- With at least four private apartment units (i.e., a unit with a private kitchen, bathroom, and living areas), or 10 private rooms or suites, and
- In which at least 90% of residential units are held for long-term rental.

Consistent with the broader EIFEL rules, this exemption would apply to taxation years that begin on or after October 1, 2023.

Accelerated CCA — Purpose-built rental housing.

The budget introduced an accelerated CCA of 10% for new eligible purpose-built rental projects that begin construction on or after April 16, 2024, and before January 1, 2031, and are available for use before January 1, 2036. Eligible property is defined in the same manner as that for the purpose-built rental housing exemption from the EIFEL rules (see above), including projects that convert existing non-residential real estate into a residential complex or add to an existing structure that meets the definition. The accelerated CCA would not apply to renovations of existing residential complexes.

Investments eligible for this measure would continue to benefit from the Accelerated Investment Incentive, to which the half-year rule does not apply for eligible property put in use before 2028. After 2027, the half-year rule would apply.

Accelerated CCA — Productivity-enhancing assets

The budget provides immediate expensing for new additions of property acquired on or after April 16, 2024 and that becomes available for use before January 1, 2027 included in Class 44 (patents or the rights to use patented information for a limited or unlimited period), Class 46 (data network infrastructure equipment and related systems software), and Class 50 (general-purpose electronic data-processing equipment and systems software).

Property that becomes available for use after 2026 and before 2028 would continue to benefit from the Accelerated Investment Incentive. Property that has been used, or acquired for use, for any purpose before it is acquired by the taxpayer would be eligible for the accelerated CCA only if:

- Neither the taxpayer nor a non-arm's-length person previously owned the property; and
- The property has not been transferred to the taxpayer on a tax-deferred basis.

The accelerated CCA would be prorated for short taxation years and would not be available in the following taxation year.

Canada Carbon Rebate for Small Businesses

The budget introduces a new Canada Carbon Rebate for Small Businesses in the form of an automatic refundable tax credit for eligible businesses. The tax credit would be available to a Canadian-controlled private corporation that:

- For the 2019-20 to 2023-24 fuel charge years, files a tax return for its 2023 taxation year by July 15, 2024, and for future fuel charge years, files a tax return for a taxation year ending in the calendar year in which the fuel charge year begins, and
- Has no more than 499 employees throughout Canada in the calendar year in which the fuel charge year begins.

The tax credit amount for an eligible corporation for an applicable fuel charge year would be:

- Determined for each applicable province in which the eligible corporation had employees in the calendar year in which the fuel charge year begins, and
- Equal to the number of persons employed by the eligible corporation in the province in that calendar year multiplied by a payment rate specified by the Minister of Finance for the province for the corresponding fuel charge year.

The CRA will automatically determine and pay the tax credit amount to eligible corporations.

Clean Electricity investment tax credit

The budget provides additional details on the Clean Electricity investment tax credit, which allows eligible entities to claim 15% of the capital cost of eligible property. The budget includes new information on which entities and property are eligible for the credit, the associated labour requirements and potential repayment obligations, among other details. In general, the Clean Electricity investment tax credit would apply to eligible property that is acquired and becomes available for use on or after April 16, 2024 and before 2035, provided it has not been used for any purpose before its acquisition, and was not part of a project that began construction before March 28, 2023.

The eligibility requirements for the Clean Electricity investment tax credit are long and complex and discuss many special situations. Very generally, the credit is available to taxable Canadian corporations, provincial and territorial Crown corporations, and corporations owned by municipalities or Indigenous communities and pension investment corporations. Eligible property owned by a partnership may also be eligible for the credit.

The equipment eligible for the Clean Electricity investment tax credit includes:

- Equipment used to generate electricity from solar, wind, or water energy
- Concentrated solar energy equipment
- Equipment used to generate electricity, or both electricity and heat, from nuclear fission
- Equipment used for the purpose of generating electricity, or both electricity and heat, solely from geothermal energy
- Equipment that is part of a system used to generate electricity, or both electricity and heat, from specified waste materials
- Stationary electricity storage equipment
- Equipment that is part of an eligible natural gas energy system
- Equipment and structures used for the transmission of electricity between provinces and territories.

In order to qualify for this tax credit at the 15% rate, taxpayers must meet the proposed labour requirements that apply to other related clean economy credits. Further, a taxpayer can only claim one credit for a particular expenditure that is also eligible for other clean economy credits (except for the Atlantic investment tax credit in certain situations).