THE EMPOWERED INVESTOR

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2024 Federal Budget: Implications of the Proposed Capital Gains Inclusion Rate Increases

Keith Matthews: Welcome to the Empowered Investor. My name is Keith Matthews and today we're joined by a very special guest, Gerry Theus. Gerry is an expert in accounting and an expert in tax. He currently has his own tax practice and in Quebec, we would call it a fiscalist, which is a person who specializes in tax law, in particular for business owners.

Today's conversation is broader, it’s for everybody with regards to the proposed changes for capital gain and capital gain inclusion, that means individuals, as well as business owners, as well as incorporated professionals. Gerry has a unique background in that he has an undergrad degree from John Molson School of Business at Concordia.

He's got his CPA studies at McGill. He's got a Master's of Tax Law degree from University of Montreal, HEC, and he's currently a lecturer at UCAM, in addition to being a consultant. UQAM being University of Quebec, Montréal. In today's show, we're going to discuss and update our listeners on the proposed budget changes for capital gain tax, any possible ways to think about this, implications for individuals, and a few recommendations.

That said, it's incredibly important to remind everybody that this is not to be construed as actual tax advice. And it's important that individuals get independent advice, either from their own tax professional or from their investment advisor, a combination of both. But please make sure you seek advice before you take any action.

With that, let's get to the introduction and welcome Gerry. Welcome to our episode, Gerry.

Gerry Theus: Thank you, Keith.

Keith: So, listen, today's show is all about the proposed budget capital gain tax increases. Before we jump into that, Gerry, why don't you give us a little bit of a background in terms of who you are as a tax professional and why you chose tax?

Gerry: First, I'm a CPA by training. Then I specialized into tax law. Why I chose tax is basically because I was always curious about business first and foremost. And then when you progress as a professional consultant, I was very curious about specifically tax, how it works. Why we think of it this way.

And then slowly I got to know more and more about it, got more interested in the different programs and incentives and led me to specializing in it in the end.

Keith: Well, let me tell you, I know from the number of phone calls we get just in general throughout the year on tax, tax professionals are in demand.

So, thank you again for coming and joining us here and sharing your insights. So. Let's switch gears a little bit, get into the budget. First, I want to ask you a question about the difference between proposed tax increases and when this actually becomes law. And are there chances that part of these suggestions or proposals might be changed in the next few months?

So how does it go from proposed to law? Very interesting questions.

Gerry: There's two questions. A, how does it go from proposed to law? Just like any law. It will go to the House of Commons, it will be approved by the MPs, voted on, and then the Senate is going to approve the law. That being said, it's always applicable when it's announced.

That's the main difference between the tax law and every other law in Canada. It's basically when it's announced, it's applicable until new positions are communicated to us by the Ministry of Finance.

Keith: As of last week, these new laws that were proposed are applicable.

Gerry: They are, some of them though have proposed or suggested a deferred entry date.

We're going to get into it, but capital gain, for instance, the new modifications are applicable as of June 25th.

Keith: Let’s start moving into the capital gain discussion and that's pretty much what we're going to talk about in today's show, let's start with the basics. What is a capital gain?

Gerry: There's a lot of misunderstanding. I think there's been a lot of talk about capital gain, but there's a lot of misunderstanding about what is a capital gain at its base, at its core. Whenever you buy long term assets, generally, we are thinking about assets that are producing revenues. Let's think about rental property here.

Let's think about a share that generally issues dividends. The increase in its value, It will essentially be the capital gain. So, the capital gain will be calculated in the following way. I purchased a share X for 10 20 years ago. It's not worth 100. The capital gain will be the difference between 100 minus 10, 90 will be a capital gain.

Keith: In a sec, we'll talk about what types of investment structures, programs are impacted by capital gains and what are excluded. So how are capital gains then taxed? So that's how you go from calculating the capital gain to now how do you tax the capital gain.

Gerry: The best way to explain it is by comparing it to a regular income.

We're going to think about a salary income. For instance, somebody earns a salary of 100. If they're at the highest taxable rate, usually there's 53 of tax on that 100 of income because the rate is 53%. A capital gain is different. What's going to be included in its income is not the raw 100. It's going to be 100 multiplied by an inclusion rate.

For the past 24 years, it's been 50%. So, an individual would generate a gain of 100. It is included in its income at 50% and that 50 is now taxed at a rate of 53%.

Keith: So, it's the inclusion rate that's the critical component for this discussion right now.

Gerry: Yes, the inclusion rate is what has been changed in this budget.

And they went from what to what? It is still 50% until June 25th. From June 25th on, it's going to be two thirds, 66.67 %.

Keith: And this is being discussed now. I think we're talking about maybe four or five years now where people have, ever since the pandemic with higher government spending, there's been an issue of at some point the capital gains inclusion rate might go up.

And so that's essentially what's just happened. So, what historically, let's go back in time here a little bit, just for our listeners to understand historically, what have inclusion rates been?

Gerry: Before 1974, I believe capital gain wasn't even taxed. So, somebody would trigger it and there would be no tax.

The inclusion rate would effectively be zero. From 74 to 1988, it was 50%. And then that's when changes have started to happen. 1988-89, we're talking about an inclusion rate of 66.67%. And then from 1990, all the way up to 1999, it was 75 % then went back down in 2000. So, there was multiple rates in 2000 to go back down to 50% the rates that we have known ever since 2001.

Keith: I guess, historically speaking, there was always this discussion going back long, many decades ago that once you've been taxed the first time at your source income, monies after that. weren't to be taxed. Any gain on any monies after your first level of taxes weren't to be taxed. So capital gains have really been around since the 70s, and they've gone up and down, and now we're edging back up again to 66%.

Now we're going to be able to have a discussion around what does that mean for individuals? Many of our listeners will have assets that will be exempt, and they may not know it. So, we're going to try to clarify that for them. They might have capital gains that are coming from portfolios, capital gains that are coming from cottages, from Rental properties.

And there's a bunch of other triggering moments that we'll discuss. Let's go into this whole area about capital gains for individuals. And then at the end of the show, we'll talk about capital gains for corporations. So, Gerry, let's start with individuals. What types of assets are excluded from capital gains?

Gerry: Generally, the types of assets that are excluded, anything that is earned through a registered RSPs, RESPs, TFSAs, they're not subject to capital gain tax. A principal residence, the residence where somebody lives usually is not subject to tax. There are other exceptions, such as when an entrepreneur sells the shares of their active business, it could be, or part of it could be taxes exempted.

Keith: Okay. And you mentioned principal residence a second ago, right? Yes. What about a RIF on a person's death? A RIF gets taxed. Are they being taxed as income on the final tax return or are they being taxed as a capital gain?

Gerry: Straight income. The balance of the RIF, if it's not transferred to your spouse or partner, it's taxed as a straight income.

Keith: So capital gains really work outside these registered plans, outside principal residence. So, the types of assets that generate capital gains, we've got a list of four here. I'd like Add to this list if you think there's something we're missing. So capital gains are generated from appreciation of securities in a non-registered investment portfolio, non-registered.

It could come from appreciation of investment properties, could come from appreciation of a cottage or vacation home, could come from appreciation of a business of any sort. What are the other types of assets possibly that were capital gain could be triggered? Are we missing anything here?

Gerry: A little bit for business owner.

Yes, the sale of the business itself, so the shares of the business could generate capital gain, but the assets used in the business could generate capital gain as well. We're talking about immaterial assets usually.

Keith: So, these are the assets that will be subject to capital gains if there's an appreciation.

Are there many specific life events that will force a trigger? We're talking about events that force a trigger and then we'll talk a little bit about some tax planning opportunities here. So, let's go into the forcing events. Do you want to give us some ideas of some events that force triggering?

Gerry: Yeah, so we're talking here, like you said, forcing a trigger, meaning there was no action from the entrepreneur, no external action.

It's basically life events that will trigger the capital gain itself. When an individual dies, they're deemed to have disposed of all their assets. Same thing for an individual that moves to another country and becomes a non-resident for tax purpose. Gifting a cottage to family members, gifting usually private shares will trigger capital gain.

Transferring assets in a corporation will also lead to capital gain. And one that is not as common, but if assets are owned by a trust, the 21st anniversary of a trust might lead to capital gain.

Keith: Okay. Fair enough. That's great. That's a great list. You mentioned entrepreneurs, but for non-entrepreneurs, for standard individuals, retirees, professionals, individuals that have built assets, these events are still meaningful because if somebody passes away, their RIF is deemed as income.

Their principal residence is exempt. But any capital gains embedded in portfolios or in cottages or in investment properties is triggered and a capital gain is calculated or lost. But if there's a gain, that's an event that could force higher taxes to be paid.

Gerry: Definitely. And tax planning at death will become key in the next few years because estimating the amount of gain at death It has always been an issue for tax planners and for tax planning overall, but now there's going to be a question and we're going to talk about it later on.

Should I trigger gain earlier in order not to be taxed at the highest rates?

Keith: Let's move to that right now. What are the types of planning opportunities that individuals in that situation will need to look at?

Gerry: First, the one thing that we didn't say so far per individuals, the first 250,000 of capital gain will still be taxed like it used to be.

That is the inclusion rate will still be 50%. All in all, it's easier for us to talk about an effective rate, so effective tax on the capital gain around 26-25 % with a new inclusion rate. We're talking about 35%. So, the first 250,000 worth of gain are still taxed around 25-26%. What can we do with that 250,000 is we could spread the gain over a longer period instead of having it triggered by one simple event, you would be the expert in that how to trigger the game before, let's say within an investment portfolio, you could sell the shares year after year in order to trigger that 250,000 over a longer period of time.

Keith: What you brought up, which is a very valid point, which is that there is a 250,000 band for individuals, not corporations, for individuals, which will be taxed at the old 50%. If there's a gain over 250,000, that additional portion is taxed as inclusion at 66%.

Gerry: Correct. It's included at 66%.

Keith: So then really the issue here is if somebody is passing away or they're close to their final years and they have very large capital gains, like a million or two or three or more in either portfolios or buildings, that's the planning that you're talking about that's needed.

The easiest thing to sell to manage our securities in a portfolio. So, you might wish to be a bit more active and start selling troshes of securities to trigger the gains. in subsequent years so that you can spread it out over three, four, five years.

Gerry: Definitely. For an investor that will diminish their average income tax on capital gain.

Keith: Okay. So that's somebody who's maybe perhaps older. We need to consider that spreading out the gains. If a person is moving non-resident, if they know they're moving non-resident. So, non-resident, if I'm not mistaken, triggers gains. It's deemed disposition of assets when a person becomes a non-resident.

Gerry: For most assets, some assets are exempted by it, but yes, you're correct. Which assets, Gerry, are exempt? Usually, we're talking about anything related to real estate located in Canada or a business where most of the value is, is basically coming from real estate that's situated in Canada. Then the gain would be triggered when that real estate is sold.

Keith: Okay, so for the assets that do get triggered as a capital gain as you're preparing to go nonresident, if you know you're going non-resident a couple of years in advance, you might wish to spread out the sale of the securities over a few years prior to going non-resident. That could be a very valid document, yeah.

What about individuals who are not facing one of those two events right now? I know in the industry, there's a lot of discussion around breakeven years. It's just come through in the last three or four days. I can speak to the breakeven years that a lot of people in the investment industry are calculating, but what's the general concept?

If I ask you the question, I've got a large capital gain in my portfolio. Gerry, should I trigger all the gains right now so that I can get myself into the 50% inclusion and not have to be somewhere paying 66% inclusion in the future?

Gerry: It's the question. It's one of the elements we're the most with is Right now, if I trigger the gain before June 24th, will it benefit me?

The element that you must take into consideration is if you trigger a transaction before June 24th, you generate the gain. There will be less money to reinvest because you will essentially send a check to the government for the taxes in relation to the game that you just triggered. That leaves an investor with less money to reinvest in their portfolio.

That could be an issue. We're talking about an individual. They could be reduced by up to 26%, depending on the proportion of gain that we're talking on the asset. It's significant. So, the question becomes, will you need that money in the short term? If so, yes, you might want to trigger the game. Obviously speak to your tax advisor regarding that.

If you don't need the money in the short term, then you might leave it in your investment vehicle. Make sure you trigger the game as late as possible. And I think Keith, you did a lot of calculation regarding that.

Keith: If you don't need the money, there's a lot of calculators that are suggesting that about nine years is the break even.

And what that means is that you can do various assumptions in terms of deferred growth, but if you have a stock portfolio, let's say that generates 7% return, 2% is in dividends or foreign interest and 5% is a gain that you can in fact defer. So, if you use 5% you typically will end up with a break-even of about nine years.

So, what that means is if you don't need the money and if you have nine years to wait, do not rush to sell securities. Do not look to trigger the gains because you're actually going to trigger gains, have less money in the portfolio and you'll lose out and you'll wake up maybe in 15 years from now and say I shouldn't have triggered the gains.

However, if you need the money and you need more on the personal side, you need more than the 250,000 exemption that can get you, then you might want to think about doing some sales prior to. Again, all the way through the show, we've got constant disclaimer, check with your tax advisor and your financial advisor, and coordinate these things together.

Gerry: Definitely. And as you mentioned, the other factor to take into consideration is in the near future, do I expect my capital gain to be above 250,000? Because if it's not the case, then there's no rush in triggering the gain.

Keith: But I look at this and try to see what the big issues are here; the big issues are age and deferral matters.

The younger you are, the more inclined you are to not do anything. The older you are, the more inclined you are to at least explore, does it make sense? The more you can defer, in other words, not touch anything, the more you say, leave it alone, the more you need the money and you're over the 250,000, then the more you might say, I need to do something before June 25th.

And we'll switch gears and go into holding companies in a second, but age and deferral matters. That's great on the portfolios. What about cottages and investment properties? If somebody has a couple of these properties, is there anything that they can do if they're forced to sell, and they've got larger gains?

Is there any tax planning that can be done, or do they just have to pay the higher tax and move on?

Gerry: At first glance, nothing much we could do. There could be transaction within a family. You could decide to sell your share to your spouse before that date. There's a whole bunch of tax implications behind that.

Obviously, before doing it, you must keep those in mind or consult to assess whether it's applicable in your situation. That's one of the possibilities. Transfer to your kids, again, the same thing. But as we said, for the first generation, generally speaking, there is no way to permanently exempt a cottage from that increase.

Or investment properties. Yeah. Investment properties or cottage. It's really hard. The only solution would be to trigger a sale, transfer the property of the assets before, but they're not simple transactions.

Keith: A certain number of Canadians have cottages, whether they have cottages that have appreciated or not.

Some definitely do. In particular, some areas in Ontario, in the Muskoka area where cottages have appreciated so incredibly much. In Quebec, there's certain lakes and certain regions where prices are off the charts, and the same for across the country. One in, the latest statistic I heard was like, one in five Canadians now owns a revenue property.

So, 20% of homeowners own a second property. The capital gain on that property just got more expensive. Anything for them to do.

Gerry: If they're planning on selling in the short term, there could be a transfer in favor of corporation, depending on the parameters, because then we're talking about tax planning, it becomes a lot more complicated.

There needs to be a commercial or business reason for it to do. But yes, there are some plannings transferring it into a corporation could be an option before the 24th. That being said, the notaries here in Quebec, the lawyers everywhere else in Canada will be extremely busy before the 24th. If you did not already plan to secure your notary, it might be an issue.

Keith: Okay, so limited planning opportunities, check with your advisor. Check with your tax planning advisor. I get the sense though when I listen to you that there's a little bit more opportunities for individuals to do some planning around diversified investment portfolios. Easier to do that than planning around Properties.

I guess one of the advantages in a portfolio is you can sell a small piece of a portfolio. You can't sell a gutter of a home or the veranda of a home and try to start spreading out your capital gains. I'm using the gutter as a completely bizarre

Gerry: example, but It's harder in the sense that for a property per se, you could sell part of the property, a percentage of the property to a different individual.

But usually, you would have to deal with somebody else managing the property. That's a lot harder than just selling a percentage of your share or a block of shares. So, you’re right. Managing an investment portfolio regarding the new rules is a lot easier than when it comes to investment property, real estate.

Keith: Thank you for that, Gerry. Let's switch and go towards corporations. Now the 250,000 exemption, does that apply to corporations in this proposal?

Gerry: Unfortunately, no, it does not apply to corporation, which from a tax perspective, we often talk about the integration principle, which is if you earn your money through directly in your pocket or through a corporation, it should be taxed at the same rate.

The exemption that is only applicable for the individual creates a greater discrepancy when it comes to the integration principle.

Keith: Two types of questions come to mind here. I'm going to use holding companies as an example. You're going to have two types of individuals that might be listeners on this front.

One might be a business owner who has an operating company and has a holdco and does intercompany dividends and then builds an investment portfolio with either securities or maybe commercial property. Another could be an incorporated professional, doctor, dentist, lawyer, etc. Either one has, for either group, let's say they have a large corporate holding company account with investment securities, and they have a large capital gain.

Do they have to do something before the June 25th? Should they be triggering capital gains? Because when the gains are triggered, they don't get any kind of 250,000 lower tax rate. They jump immediately to the higher. What advice would you give

Gerry: those types of individuals? In terms of should you trigger the gain before the 24th or on the 24th, the same questions apply.

What's your investment horizon in the company? If the investment horizon is long, then the answer is, as we said before, probably not. If the investment horizon is short and you know you'll need the money either for personal needs or to reinvest the money in the business in the short term, then yes, an individual would benefit from triggering the gain and use it in a relatively short to medium term in the business or personally.

Keith: It's the same kind of concept around break evens and I guess in this particular case, liquidity needs. If individuals need to pull money out of a portfolio, if you're a retiring doctor and you have a medical corporation and you need to start pulling money out of a portfolio, you need to pull money out of a portfolio because that's how you pay your monthly bills.

Any money, and this is the part that really must be still determined by tax professionals, You've got a certain amount of years of funding that you could go into the portfolio and possibly sell now to prepare for your spending and the money that's in there long term, let's call it that 10-year break even possibly doesn't need to be triggered.

Gerry: Is that a fair way to think about it? It's a very fair way to think about it. And I'm going to stress that it's even more true in a company than for personal needs, because for personal needs, you have the break of 250,000. Generally speaking, individuals don't need a lot more than that to finance their yearly living costs.

If a 100% of the investment portfolio is owned through a corporation, and that's the only source of income, the discrepancy is even higher. So, it's a lot more important to think about it if you own your ass through a corporation.

Keith: I think it's a lot more important for a doctor, lawyer, dentist, anybody who has these professional corporations who's about to retire or currently retired who needs cash flow funding for the next many years.

There's a calculation that needs to be done to figure out how much they should sell right now before June 25th. And then for those younger where deferral opportunities are longer than 10 years, there's less of an initiative. They should probably not be doing anything.

Gerry: Good rule of thumb. If a young professional or a young investor probably shouldn't be doing anything.

Keith: Fair enough. Those are good. This is very valid because these answer, I think, some big questions for individuals who have holding companies. Here's a question, Gerry. Is it still worthwhile for entrepreneurs that own commercial property to hold commercial property through a holding company?

Gerry: Generally speaking, no.

Depending on where the funds are coming. So, if the funds are in personally from the individual and then reinvested in real estate from a strictly tax perspective, not a legal perspective, there's no real benefit from holding that real estate in a company because there's no tax break for 250,000 because the tax rate is not progressive in the company.

Investment income is taxed in Quebec at 50.17% right away instead of benefiting from progressive income from the progressive tax rate.

Keith: So why would an entrepreneur ever hold commercial, I guess in the old days prior to this inclusion increase, they would, but why would one in the future ever hold commercial property in a holdco?

Gerry: I have to say, even in the past, it was challenged as a concept in terms of owning your real estate in a corporation. The main reason why an individual Would earn a building or a real estate investment inside of a corporate group would be because they're generating active business income in a company.

Basically, the tax rate of a company is lower than the tax rate applicable to an individual. We're talking about 12.2% or 26.5%, really low tax rate in comparison to the 50%. when the individual earns more than 160, 000 a year. So that lower tax rate allows the investor to leverage lower tax rates and invest and have more down to invest in real estate.

Keith: Clearly, this is an area that entrepreneurs, business owners must absolutely seek tax advice.

Gerry: Definitely. Entrepreneurs that own or that generate their income through a corporation, they must seek tax advice. They must have some sort of as to how to use their income, where to invest before they make the investment.

Keith: Up to now, we've spoken about tax increases or proposed tax increases. There was one increase that was beneficial for entrepreneurs, and it was proposed in this budget. It's the increase in the lifetime capital gain exemption. Can you take a moment and explain to the listeners what that means?

Gerry: In the budget, they announced it very broadly and as if it was something completely new, almost the increase, but every year the capital gain exemption.

First of all, what is a capital gain exemption? An entrepreneur has an active business. They decide to sell their business to somebody else, a third party. Usually, the first million before the new announcement, it was A million and 16,000 was exempted from tax, give or take a lot more nuances, but that was it.

The government said starting June 25th, it's now 1.25 million instead of a million and 16,000. The big nuance that I think was not conveyed properly in most of the documents was that million and 16,000. was increased annually based on the inflation rate. So, it was going to increase at some point. And they just basically give a little bump in terms of the rate of increase of the capital gain exemption.

Keith: I think there's a bit of a bump though, right? They got that bump, they jumped it to 1.25 million and I think it's next year, they start adjusting by inflation. So, the entrepreneur did get. an increased capital gain of some sort that he or she uses on their own, or if there's an opportunity for them to split into multiple beneficiaries, that lifetime can be applied to multiple beneficiaries as well.

Is that correct, Gerry?

Gerry: Generally speaking, yes. If it's owned through a corporation, or if the shares are owned by multiple family members, There is a way to split it. It's not simple. Again, there's a lot of parameters in it that need to be taken into consideration, but yes, generally speaking, you could do it at just a little adjustment 2024.

So, in 2024 25 million, 2025, 1.25. And then past that, it's going to be adjusted for inflation again.

Keith: And what about the Canadian entrepreneur incentive? I think there's a lot of questions flying around by individuals saying, well, does my company qualify? Am I a founder? Do I qualify? Can you give us a couple of brief comments on that?

Gerry: First of all, in the documents of the budget, we saw it's 2 million right away. It's only going to be applicable in 2025. And the first year, the exemption, the new exemption is going to be 200,000 and it's going to increase by 200,000 for a period of 10 year. And ultimately, uh, 2035, it's going to be 2 million. Number one.

Number two, this Canadian incentive that's there, that's the name we'll make it so that the inclusion rate, we were talking about inclusion rate early on, and that's what they changed the mechanics. The inclusion rate will be cut by half. It's not going to be 33%. For any amount that is subject to that new incentive, who can benefit from it?

As you stated, you must be a founder. There's going to be generally the same tests that exist when it already came to the capital gain exemption, but we're adding on top of it, that an individual has to be a founder, they have to have worked actively in the business for the past five years prior to the business.

And then certain business excluded. A lot of businesses are actually professional businesses. So, we're talking about lawyers, doctors, accountants, notary, Companies that basically operate in those areas are excluded. A company that basically derivates most of its value from the knowledge of its employee is excluded.

That's honestly a very vague concept. It's new in the tax act. But we can think about a marketing agency. Most of its value comes from the knowledge of their employees.

Keith: That one's interesting. I hadn't heard that one before, because you could say, well, if you're a computer company and you're a software and you're doing engineering and you're thinking, is that excluded?

Gerry: Generally, no, because the assets that you're going to be created is an actual computer program. I'm going to nuance it though. If you do just computer service. A company creating, in FinTech for instance, creating a program, creating something, then yes, it should be applicable to that type of company. But if you're just servicing your clients, helping your clients to develop their own program, that's where it becomes a little nuanced.

And in my opinion, we're going to see how it's going to be implemented. It shouldn't qualify.

Keith: So essentially what this is, is a program to encourage risk taking, to reward risk taking, to say to entrepreneurs who are starting businesses, dear entrepreneur, if you fit into this type of an industry, we would like you to make something, manufacture something, create something as opposed to a service.

We're going to give you, in addition to your 1.25 million capital gain lifetime exemption, you will qualify potentially for A ratcheting up program that starts in 2025, 200,000 a year for a decade, which would give you access to lower tax rates on those games.

Gerry: Be mindful though, there's a slew of industries that are not applicable.

The ones that I name are not exhaustive. Restaurants, for instance, are excluded. Hotels are excluded. There's a lot of them. So, before you count on that incentive, make sure your industry is covered. Most of them, like you said, manufacturing industries creating new knowledge probably should benefit from it, but it is who's the arts.

Keith: So, let's wrap up here, Gerry. We're not getting into political discussion here, but one of the comments is that these new capital gains will affect a really tiny number of individuals in Canada. I think numbers that I saw is like 0.15 of the population, 0.1, 5% of 1% is the population.

And then, of course, you're seeing in social media and a lot of the media a little bit of a pushback saying it's going to affect more than that. Without getting into sort of politics, do you have any general observations that you'd like to finish the show with on this particular idea?

Gerry: The 1.5% from what I recall is the number that was indicated in the budget document.

Keith: It wasn't 1.5%, it was 0.15 of 1%.

Gerry: That takes into consideration the yearly tax returns. So, their argument was, if I look at all the tax returns that were filed in a year, only 0.15 % of Canadians would be affected. The big nuance is, at some point, we all die. Death is a capital gain triggering event, as we said.

And nowadays, it's not rare that we see investors with more than 250,000 in capital gain when they die. Yes, on a yearly basis, I cannot challenge their number. They have more access to it than me. But is it true that it's going to be low of a %age for the whole population? My assumption is that that's not true because everybody that has a large investment portfolio that has a large investment, a large portfolio of real estate investment, a secondary house, as you suggest, will be impacted by the new measures, which creates a lot of injustice in a way, in the sense that Conceptually speaking, capital gain, we decided to defer the taxation of capital gain when the assets are sold or upon death.

But the general concepts when it was introduced was it should be a tax based on that increase in value should be taxed every year. We're going to defer it at a certain moment. But then the bad thing about what's happening right now is that if somebody accrued a lot of gain before June 25th of this year, their entire capital gain is going to be taxed at their higher inclusion rate, even though a significant portion of it was generated before that amount, before that time point.

So creates a little bit of a questioning in the tax community.

Keith: I guess from an optics perspective, it seems to be heavy savers, individuals who sacrifice, save, put things aside, didn't spend, didn't consume, save, deferred, deferred, deferred. If they're not careful and don't start doing some planning opportunities, might get trapped in a higher tax environment, which it's sometimes hard to justify taxing those that make sacrifices more than those that don't make sacrifices.

But there's lots of different ways that either the present government or the future government must manage this whole tax affair situation. So let me wrap up here by first saying, Gerry, thank you so much for joining us. I got to tell you, if there's a shortage of individuals in the marketplace, it's tax professionals, and we hear it all the time.

Individuals calling. Can you do my tax return? And we only have a certain amount of capacity to do private individual tax returns. But by and large, individuals are craving. Tax expertise and tax guidance. Thank you so much for participating. Thank you so much for sharing your views and Gerry, we look forward to having you on the show again.

Gerry: Thank you for the invitation, Keith. Have a great day, everybody. And hopefully this was an informative session on the recent proposed changes in the Canadian budget. Thank you so much and have a great day.

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