Capital Gains Examples

Budget 2024 proposed several key changes to the way capital gains are taxed in Canada:

- Any capital gains up to $250,000 are subject to the normal 50% inclusion rate, however, gains above $250,000 are subject to a new 66.67% inclusion rate for individuals.
- All capital gains generated through a corporation are subject to a 66.67% inclusion rate
- An increase in the lifetime capital gains exemption for eligible property from $1,016,836 to $1,250,000

In partnership with farm tax accountants, Grain Growers of Canada calculated several case studies to illustrate how the proposed changes to the capital gain inclusion rate will affect Canadian family-run grain farms. Acknowledging that succession planning is complex and there is no "average" farm, these examples are designed to be illustrative.

Farm Case Studies

	Alberta	Saskatchewan	Manitoba	Ontario	Quebec
Number of acres[1]	2,500	4000	3000	800	1100
1996 cost per acre[2]	$ 554	$ 342	$ 483	$ 1,620	$ 847
2023 cost per acre[3]	$ 6,900	$ 3,443	$ 5,933	$ 19,275	$ 9,880
Capital gains	$ 15,865,000	$ 12,404,000	$ 16,350,000	$ 14,124,000	$9,936,300
Gains Incurred after Lifetime Capital Gains Exemption[ii]					
Before June 25, 2024	$ 14,848,164	$ 11,387,164	$ 15,333,164	$ 13,107,164	$8,919,464
After June 25, 2024	$ 14,615,000	$ 11,154,000	$ 15,100,000	$ 12,874,000	$8,686,300
Combined Flow-Through Rate[4]					
Before June 25, 2024	25.77%	26.54%	28.67%	28.97%	29.35%
After June 25, 2024	34.35%	35.38%	38.22%	38.62%	39.14%
Taxes on Capital Gains					
Before June 25, 2024	$ 3,826,372	$ 3,022,153	$ 4,396,018	$ 3,797,145	$2,617,863
After June 25, 2024	$ 5,020,253	$ 3,946,285	$ 5,771,220	$ 4,971,939	$3,399,818
Increase in tax	$ 1,193,881	$ 924,132	$ 1,375,202	$ 1,174,793	$ 781,955
Percent increase	31%	31%	31%	31%	30%

[i]1996 and 2023 were selected as the purchase and selling years, respectively, as they represent the extend of the data available from Farm Credit Canada. All case study farms are assumed to be structured as corporations.
[ii]These farm profiles assume that the seller has their full lifetime capital gains exemption available for use. For many farmers, they may have already used up a portion of it in previous tax years.

[1] Using representative grain farm acreages for each province
[2] Farm Credit Canada (Mar 2024). *Historic FCC Farmland Values Report 1985-2023*.
[3] Farm Credit Canada (Mar 2024). *Historic FCC Farmland Values Report 1985-2023*.
[4] Ontario Federation of Agriculture (May 2021). *OFA Webinar – 2024 Proposed Changes to the Taxation of Capital Gains*

Joint-Ownership Case Study

Since many family-run grain farms are structured as corporations, family members can become shareholders in the corporation. During the sale of a farm, shareholders can each use their lifetime capital gains exemption upon the sale of their shares. The case study below demonstrates this example. While the combination of two lifetime capital gain exemptions help to reduce the taxes owing by each individual, ultimately the proposed changes will still result in a substantial increase in taxes.

Alberta		
Farm Profile		
Number of acres		2,500
Number of shareholders		2
1996 cost per acre	$	554
2023 cost per acre	$	6,900
Capital gains	$	15,865,000
Gains Incurred after Lifetime Capital Gains Exemption		
Before June 25, 2024	$	13,831,328
After June 25, 2024	$	13,365,000
Combined Flow-Through Rate		
Before June 25, 2024		25.77%
After June 25, 2024		34.35%
Taxes on Capital Gains		
Before June 25, 2024	$	3,564,333
After June 25, 2024	$	4,590,878
Increase in tax	$	1,026,544
Percent increase		29%