

Implications of Capital Gains Tax Changes on Small Businesses



Key Changes:

- Increase in Lifetime Capital Gains Allowance from \$1M to \$1.25M.
- Creation of new Canadian Entrepreneurs Incentive with lower 33.3% inclusion rate on up to \$2M on the sale of business shares in qualifying sectors (starts at \$200K in 2025, rising by \$200K each year to reach \$2M maximum by 2034).
- Allowance of \$250K at current 50% inclusion rate for business sales and personal capital gains.
- Higher inclusion rate of 66.7% for all capital gains within a corporation or for sales of business shares above other exemptions, reductions.

Taxable capital gains upon sale of shares of a small business

| Amount of Capital Gains (\$) | CEI eligible businesses: | | | Not CEI eligible businesses: | | |
|-------------------------------|--------------------------|----------|------------|------------------------------|----------|----------|
| | 2M | 3M | 5M | 2M | 3M | 5M |
| 2023 | 500K | 1M | 2M | 500K | 1M | 2M |
| 2024 (July) | 458K | 1.13M | 2.46M | 458K | 1.13M | 2.46M |
| 2025 | 392K | 1.06M | 2.39M | 458K | 1.13M | 2.46M |
| 2030 | 250K | 725K | 2.06M | 458K | 1.13M | 2.46M |
| 2034 | 250K | 583K | 1.79M | 458K | 1.13M | 2.46M |
| Increase/ Decrease by 2034 | 50% less | 42% less | 10.5% less | 8% less | 13% more | 23% more |

Note: Unincorporated farm and fishing operations selling property are not eligible for CEI.

Note: This includes \$250K in a personal capital gain to the owner upon sale of a business at 50% inclusion rate.

Note: To qualify for CEI, a business owner must fall into one of the qualifying sectors AND consistently hold 10% or more of the shared/votes, be active in the business for five years prior to the sale and be a founding investor.

Note: Indexing of Lifetime Capital Gains Exemption begins in 2026 but has not been included for simplicity.

Taxable capital gains on property, investments in a corporation

| | 100K | 250K | 500K |
|--------------------------------|----------|----------|----------|
| 2023 | 50K | 125K | 250K |
| 2024 (July) | 67K | 167K | 333K |
| Increase/Decrease by July 2024 | 33% more | 33% more | 33% more |

Note: There is no \$250K allowance at 50% inclusion for sales of investments or properties held within a corporation.