THE SMALLBIZ BUILDER

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This Month:

- Capital Gains Reserve
- Immediate expensing of capital purchases

Capital Gains Reserve

You may realize a capital gain on property, like real estate or marketable securities, if your selling price (net of costs like commissions or legal fees) exceeds your cost of the property. For income tax purposes, one-half of this gain is included in your income and subject to tax.

Sometimes the terms of sale provide that some of the proceeds won't be receivable until after the year of sale. To alleviate having to pay tax on the full gain, when only partial proceeds have been received, you may be entitled to claim a "capital gain reserve". This reserve is basically a deduction in your tax return against the full amount of the capital gain added to income. However, even if a reserve is claimed, for each year a portion of the capital gain is added to income. The amount added is a function of the amount of proceeds receivable per year, and a minimum amount that ensures that the entire gain will be included in income over 5 years.

The reserve is optional. It might not be claimed if you have capital losses that could offset the capital gain, or if you expect to be in a higher tax bracket in future years.

Assuming you choose to claim it, the capital gain reserve (ie. **the deduction**) is the **lesser of** two amounts:

- The portion of the capital gain that relates to the proceeds that are due after the year – multiply the capital gain by the percentage of uncollected proceeds.
- A set percentage of the capital gain such that at a minimum, at least 20% of the gain, cumulatively, is included in income each year.

80% in year 1; 60% in year 2; 40% in year 3; 20% in year 4; 0% in year 5

When you claim the reserve for a given year, you add the amount you claimed back into your capital gains for the next year. But you may be able to claim the reserve again for the next year, assuming some proceeds are still not due until after that year.

Note that you cannot claim the reserve if you sell property to a corporation or partnership that is controlled by you immediately after the sale.

Immediate expensing of capital purchases

Last year, the Federal Budget 2021 announced a temporary measure allowing immediate expensing in respect of certain property acquired by a Canadian-Controlled Private Corporation (CCPC):

- it must be **"eligible property"** acquired by a CCPC on or after April 19, 2021 and that becomes available for use before January 1, 2024. See below for a description.
- up to a maximum amount of $1.5 million per taxation year.
- the $1.5 million limit would be shared among associated members of a group of CCPCs.
- for those CCPCs with less than $1.5 million of eligible capital costs, no carry-forward of excess capacity would be allowed.

Eligible Property
Eligible property would be capital property that is subject to the CCA rules. There is an exclusion for property in CCA classes 1 to 6, 14.1, 17, 47, 49 and 51 - which are generally long-lived assets, most commonly buildings and goodwill.

Due to a legislative backlog, the expensing couldn't be claimed in tax returns until now. However, adjustment requests for tax returns that have already been filed must wait until the draft legislation has been finally adopted. As of May 19th, it is still only in draft form.

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