OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Election Proposal Costing

Cancelling the increase in the capital gains inclusion rate

April 19, 2025

Cancelling the increase in the capital gains inclusion rate from one half to two thirds for corporations and trusts, and from one half to two thirds on the portion of capital gains realized in the year that exceed $250,000 for individuals to be implemented on January 1, 2026.

Cost of Proposed Measure ($ millions)

Fiscal Year	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
Personal Income Tax	719	690	1,111	1,398	1,420	5,338
Corporate Income Tax	524	2,280	2,786	3,058	3,060	11,706
Total costs	1,243	2,970	3,897	4,456	4,480	17,045

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

Estimation and Projection Method

The cost of cancelling the increase in the inclusion rate is determined by comparing two scenarios: a baseline scenario where the implementation of the increased inclusion rate is delayed until 2026 (that is, the EPC baseline), and an alternative scenario where the inclusion rate remains at one half over the costing horizon.

Consistent with prior analysis, PBO applied the same methodology to calculate the projected baseline amount of capital gains realization adjusted for losses.[1] The behavioral response regarding the timing of capital gains realization in 2024 and application of net-of-tax elasticity parameters were unchanged from PBO’s prior analysis. The baseline scenario included a small timing adjustment to the tax bases to account for a second-wave behavioral effect of increased realizations before the higher inclusion rate would become effective in 2026. The cost of cancelling the increased inclusion rate includes the lost additional tax revenues in 2025, due to the absence of the timing adjustment, and the foregone additional tax revenues in 2026 and beyond, resulting from maintaining the inclusion rate at one half.

Sources of Uncertainty

There is an inherent uncertainty related to the volatile nature of capital gains. Furthermore, the distinctive context surrounding the announcement of the reform on capital gains taxation makes it difficult to accurately predict the extent of the behavioral response. Further, while the total cost of the measure would not be materially affected, the breakdown between CIT and PIT revenues may vary significantly if the distribution of ordinary taxable dividends by Canadian-controlled private corporations (CCPCs) realizing capital gains deviates from its historical trend.

Data Sources

Elasticities

Corporate Income Tax Base

T2 administrative data obtained through Statistics Canada, PBO's EPC Baseline

Personal Income Tax Base

IR0787 to the Canada Revenue Agency, PBO's EPC Baseline

Trusts Income Tax Base

T3 Trust Statistics from the Canada Revenue Agency

Foreign Ownership of Canadian Corporations

Statistics Canada Table: 33-10-0570-01

Effective Federal Tax Rate

SPSD/M, T2 administrative data

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1. "Increasing the Capital Gains Inclusion Rate" released August 1, 2024.
2. This analysis is based, in part, on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.