Investment planning and tax planning go hand-in-hand -but always in that order. So with a **Federal Budget** about to be announced that could well see that inclusion rate on Capital Gains (the amount of the gain that is subject to tax) increase from 50% to 75%, now would be a good time to revisit your portfolio. Read <here>.

"As a potential lottery winner, I totally support tax cuts for the wealthy."

Capital gains tax is paid on non-registered investments (not RRSPs or TFSAs) and only on half the actual gain. Even assuming the highest marginal tax rate, investors get to keep seventy-five cents of every dollar of capital gains. Pretty good, but this would fall to about sixty seven cents if the inclusion rate changes. Any changes are clearly targeting the top 1% of high-income earners, who pay more than 55% of all capital gains tax. Of the 28.5 million income tax returns filed in a given year, only 10% reported any taxable capital gains. So nine of ten Canadians won't be affected by this, and can breathe a sigh of relief.

But for those who are affect, the question is what can be done? Well, for one thing, a decision could be made to trigger the tax now, by selling the asset that has incurred the gain. This will lock in the rate at half, not any higher amount that the cash-strapped Federal government may be contemplating. Easy right? But not so fast, as the Budget could well capture any capital gains in 2021 regardless of when the investment was sold, if the Federal Liberals elect to make the tax retroactive to January 1st of this year. What's more is that one shouldn't necessarily dispose of a high quality asset out of fear that taxes may go up this year (or at some point in the future). There's a saying in the Wealth Management industry: *don't let the tax tail wag the investment dog*. Alternative strategies include selling the asset to a Holding Company which triggers the gain now (at the lower rate), but allows the owner to lock in the Adjusted Cost Base (ACB) of the securities. If there is no increase in tax rates, this re-set ACB can used tax effectively using a Section 85 (of the Income Tax Act) joint election with the individual tax filer. This is complicated and should be done with consultation with your Accountant before any decision are made.

None of us are surprised that taxes are going up following the record amounts of government borrowing and spending during Covid-19, the only question is how much are they going up and who will be most affected. I encourage you to Know Your Money, and knowing how changes in tax will impact you is part of this. If you have any further questions in this regard, please give me a call. I'm always happy to hear from you.

Be safe, be well!

Martin
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