How the federal government's recent capital gains announcement will impact cottagers

BY ARISA VALYEAR, Cottage Life Magazine
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Yesterday, Finance Minister Chrystia Freeland tabled the 2024 federal budget. One particular proposal garnered significant attention from property owners—specifically cottagers—across the country: an increase to the capital gains inclusion rate.

Capital gains on a property happen when someone sells (or gifts) the property for more than they purchased it. Under current regulations, Canadians are taxed on 50 per cent of that capital gain. If you sold your cottage for $900K, for example, but purchased it for $100K, you'd be on the hook for paying taxes on $400K—half of your $800K capital gain.

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Effective June 25, 2024, the new proposed inclusion rate is two-thirds (about 66.7 per cent) of all capital gains above $250,000. Gains below the $250K mark will continue to be taxed at the 50 per cent rate. So, if you sell your cottage for $900K and turn a profit of $800K, you're taxed on 50 per cent of the first $250K (amounting to $125K), and two-thirds, or about 66.7 per cent, on the remaining $550K (amounting to $366,666). Your total taxable amount? $491,666, an increase of nearly 23 per cent.

What's a cottager to do? "If you were on the fence about passing your cottage along to your kids, do it now, before the June 25th cutoff," says Peter Lillico, a lawyer and cottage succession expert in Peterborough. "You'll never pay less capital gains than you will right now."

If you're not in a position to sell or pass down your cottage before the cutoff, you could consider making your cottage your principal residence when you *are* ready. According to a statement from the Department of Finance Canada, principal residences will continue to be exempt from capital gains taxation. To declare your cottage as your principal residence, you or your family must have used or occupied the space during the tax year for which you are filing. Of course, if you have another residence, you'll have to decide which property—the cottage or your home—offers you the greatest tax break at the time of sale.

"If you're going to sell your cottage, and you've determined there's a larger capital gain on the cottage compared to your actual home, you can elect the principal residence exemption on your cottage," says Mike Tranter, a financial planner and partner at Bridgewell Financial based in Toronto.

In terms of who the proposed capital gains rate increase will impact most, the government has touted that only a small number of Canadians will feel the added financial pressure. "Only 0.13 per cent of Canadians with an average income of $1.42

million are expected to pay more personal income tax on their capital gains in any given year," reads a statement. The reality is more bleak, says Lillico.

"It's wrong of the government to pretend this isn't going to be affecting anyone other than the very wealthiest of Canadians," he says. "Cottagers are going to be subject to a significantly higher rate of tax after June 25, 2024. They don't realize upon that capital gain—it stays in the cottage until they die or pass it on to their kids."

The bottom line? "Cottagers are going to be paying more capital gains taxes to keep the cottage in the family," says Lillico.