



What is the new Canadian Entrepreneurs Incentive?

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- The Canadian Entrepreneur's Incentive is a new tax measure that the Federal government announced in the 2024 budget that targets Canada's small and medium-sized businesses.
- It provides tax benefits on up to \$2 million of capital gains realized from the sale of shares in qualifying businesses. The tax benefit is that eligible capital gains will only be subject to a 33 1/3% capital gains inclusion rate rather than the new 66 2/3% rate.
- It will only come into effect for sales as of January 1, 2025. It will be a progressive implementation. Most recent draft legislation indicates that in 2025, the incentive will start at \$400 000 and increase by \$400 000 each year until 2029, when the \$2 000 000 limit will be attained.
- It was proposed to help offset the negative impact on Canadian entrepreneurs from the increased capital gains inclusion rate from 50% to 66 2/3% as of June 25th, 2024.

Three Tax Incentives

Note that there will now be 3 tax measures to provide relief for entrepreneurs on the taxation of capital gains from the sale of their shares:

- (i) As of June 25th, 2024, an increased lifetime capital gains exemption of \$1.25 million (prior to June 25th it was \$1 016 836)
- (ii) The \$250 000 capital gains threshold at which an individual's capital gains are taxed at the 50% inclusion rate rather than the 66 2/3rds inclusion rate
- (iii) The Canadian Entrepreneurs Incentive where up to \$2 000 000 (by 2029) of capital gains will be subject to a 33 1/3% inclusion rate.

[continued...]

Eligibility Criteria

To qualify for the Canadian Entrepreneurs Incentive, the business must meet specific criteria:

- It must be a CCPC and most of its assets must be used in an active business conducted primarily in Canada;
- A shareholder must have a minimum 5% investment throughout any continuous 24 months since the business inception;
- The shareholder must also be actively engaged on a regular and continuous basis in the business activities of the company for a total of at least 3 years since inception; and
- Certain industries are excluded:
 - the professional practice of an accountant, lawyer, notary, physician, mental health practitioner, health care practitioner, veterinarian, optometrist, dentist, chiropractor, engineer or architect;
 - a business whose principal asset is the reputation, knowledge or skill of one or more employees;
 - the provision of consulting services;
 - the provision of financial services;
 - the provision of services or instruments relating to insurance;
 - the provision of services relating to property;
 - the purchase, sale and rental of real property;
 - the provision of services or sale of goods relating to providing short-term lodging and complementary services to travelers, vacationers and others;
 - the provision of services or sale of goods relating to preparing meals, snacks and beverages, for immediate consumption on or off the premises; and
 - operating facilities or providing services relating to cultural, entertainment and recreational interests.

Conclusion

The Canadian Entrepreneurs Incentive is a key measure that supports small business growth and entrepreneurship by providing tax relief on capital gains. This initiative is vital in promoting a thriving entrepreneurial ecosystem in Canada, one that encourages innovation and economic growth. **This summary is based on draft legislation released August 12th, 2024.** Further modifications may be made before the law is finally adopted.

If you're an entrepreneur considering how this incentive could benefit you, it's advisable to seek professional guidance to ensure that your business qualifies and that you make the most of this opportunity.



Padgett Business Services is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.