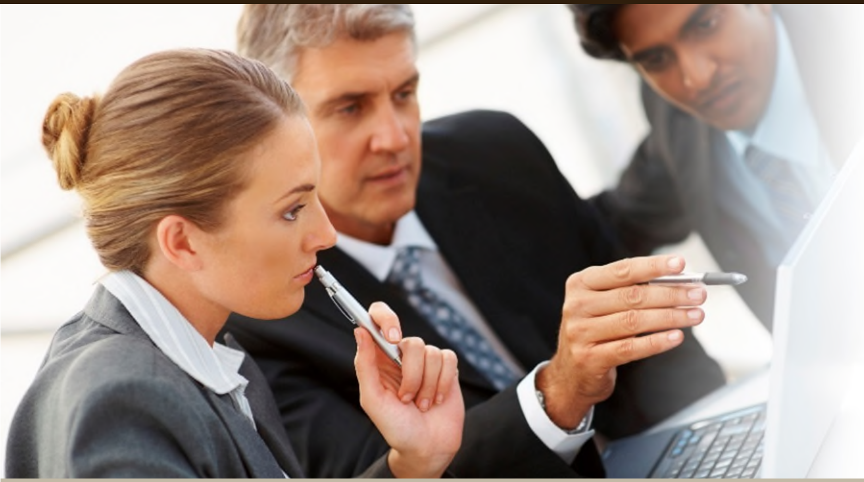


Potential Changes to Capital Gains Inclusion Rate

There is plenty of speculation in the media that the Federal government may increase the amount of a capital gain that is subject to tax. Currently, only 50% of a capital gain is included in a taxpayer's income and subject to tax. Historically the inclusion rate was up to 75% of the capital gain.

The potential change to the inclusion rate could have a significant impact on selling real estate with accrued gains. The potential change could affect both current taxes payable on the sale of real estate and taxes owing on the distribution of proceeds to the shareholders. For example, for a property with a $10M accrued gain, for a change to a 75% inclusion rate the overall taxes payable would increase up to $2.2M --- an increase in overall tax of up to 22%!

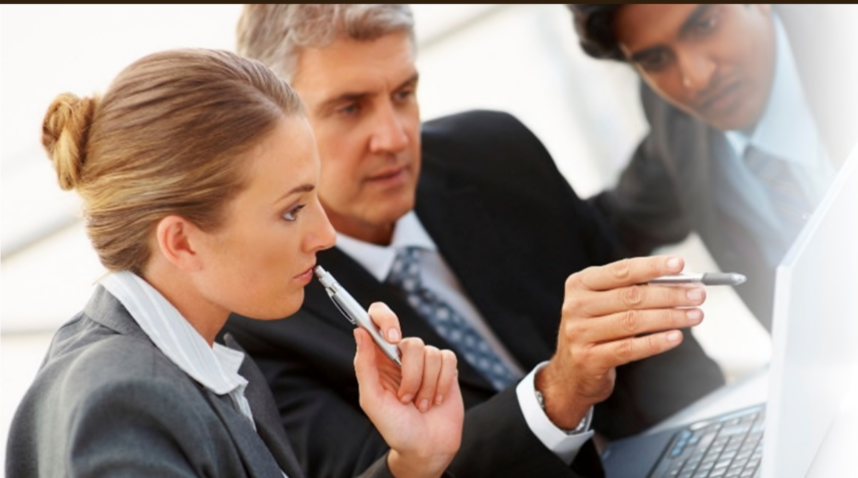
MNP has developed specific tax strategies tailored to maximizing after-tax proceeds from any disposition of real estate and help clients mitigate the impact of any possible change in the capital gains inclusion rate. The opportunity to act is before any changes to the tax legislation are announced by the Federal government.

Contact an MNP representative to learn how we can help you maximize your after-tax proceeds from the sale of real estate.

Craig Donnelly
Vancouver Leader, Real Estate and Construction Services
604.637.1523
Craig.Donnelly@mnp.ca

Kevin Wong
Regional Tax Leader
604.637.1546
Kevin.Wong@mnp.ca

Ryan Hoag
Partner, Taxation Services
604.637.1502
Ryan.Hoag@mnp.ca



Potential Changes to Capital Gains Inclusion Rate

General overview and illustration of a sample plan that acts as “insurance” against any increase in the capital gains inclusion rate.

1) Before the federal budget, RealCo1 transfers its beneficial ownership in the Property to RealCo2 in exchange for shares of RealCo2.
2) A tax election form must be completed and filed with the CRA within 6 months of the of the companies’ taxation year end in which the transfer occurred (i.e., later in 2017 or in 2018 depending on earliest year end of RealCo1 and RealCo2). When filing the election form the companies can elect to transfer the property at cost or up to fair market value of the property.
3) If there is a change in the capital gains inclusion rate introduced in the budget, the companies can elect to trigger the accrued gain under an inclusion rate of 50% (i.e., realize gain internally at 50% inclusion rate and increase cost base of property before external sale). If there is no change to the capital gains inclusion rate, the companies can elect to transfer the property at cost (i.e., no capital gain triggered on the transfer).