LIFETIME CAPITAL GAINS DEDUCTION

Lifetime Capital Gains Deduction (LCGD)

- The lifetime Capital Gains Deduction is a **$750,000** gross deduction available throughout the taxpayer's lifetime on the disposal of **Qualified Small Business Corporation (QSBC)** shares.
- The LCGD is a Division C deduction = 750,000 * 50% = $375,000 (over a taxpayer's life)
- This deduction will mean that $375,000 of taxable capital gains on the disposal of QSBC are not taxable
- This deduction is only available to individuals
- There are some changes proposed in the 2013 budget
    - Proposal to **increase the Lifetime Capital Gains Exemption (LCGE)** by $50,000 (from $750,000 to $800,000) effective for the 2014 tax year

Qualified Small Business Corporation (QSBC) Shares:

The following 3 must be met for shares to be considered QSBC Shares:

1. The shares must be of a **Small Business Corporation** on the date of disposal:
    - A small business corporation is a Canadian Controlled Private Corporation (**CCPC**) of which **all or substantially all (≥ 90%)** of the **fair market value** of its assets are
        - used in an active business carried on **primarily (>50%)** in Canada; or
        - invested in shares or debt of a **connected small business corporation**
            - connected means ownership of > 10% of the voting shares
    - Assets not used in an active business include:
        - Marketable securities
        - Vacant land
        - Cash not being used in active business (excessive cash beyond what is needed to run operations)
    - Purification Techniques
        - If this 90% rule is not being met, you can **purify** your assets by selling your non-active business assets (like vacant land) and using the proceeds to pay off liabilities
2. The shares must have been owned by the **taxpayer or a related person** throughout the last **24 months** before disposal
3. Throughout the last 24 months before disposal:
    - The share is a CCPC share; and
    - More than **50%** of the FMV of the corporation's asset must be used in an active business carried on primarily in Canada

Cumulative Net Investment Loss (CNIL):

- Cumulative Net Investment Loss = the excess of investment expenses over investment income since 1988
- The Cumulative Net Investment Losses decrease the $375,000 Lifetime Capital Gains Deduction claimed in Division C