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Fact and Fiction On Capital Gains Taxation: A Chartbook

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Contents

Summary and Key Findings ... 4
Introduction ... 5
Very high-income people make up a tiny share of all taxpayers… ... 7
Yet they receive a much larger share of total income… ... 8
Most capital gains are received by the richest 1.5% of Canadians… ... 9
Capital gains have grown much faster than other income... ... 10
Capital gains are more concentrated than other investment income… ... 11
Over half of very high-income tax-filers receive capital gains… ... 12
Per person, high-income individuals' capital gains are enormous… ... 13
Capital gains are insignificant for most tax-filers, but not for the wealthy… ... 14
Capital gains significantly increase inequality… ... 15
Very high-income tax-filers receive huge tax savings on capital gains… ... 16
Two-thirds of partial inclusion tax savings go to the richest tax-filers… ... 17
Other capital gains tax breaks are also concentrated among the rich… ... 18
Partial inclusion reduces federal revenues by over $30 billion… ... 19
Many other provisions further reduce taxes on capital gains… ... 20
Business investment spending is insensitive to capital gains taxation… ... 21
Cutting capital gains inclusion did not increase technology investment… ... 22
Corporate capital gains have expanded dramatically... ... 23
Financial industries receive a larger share of corporate capital gains... ... 24
Finance and property businesses capture most corporate capital gains… ... 25
Major corporate capital gains recipients create very few jobs… ... 26
Myths and misinformation about capital gains… ... 27
Data Sources and Methodology ... 31
References ... 33

Centre for FutureWork

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Summary and Key Findings

The federal government's proposal to reform capital gains taxation, by increasing the inclusion rate for large capital gains for individuals, and all capital gains for corporations, has elicited loud opposition from financial investors and advisors, other business groups, and Conservatives. Opponents of the reform have invoked arguments (that the tax will hurt middle-class Canadians, kill jobs, and hinder investment) that are inconsistent with the statistical record.

In reality, the vast majority of capital gains are received by the richest 1.5% of Canadian households, and by corporations in sectors (like financial intermediation and real estate) that focus on buying and re-selling assets – not production, innovation, and jobs. This chartbook reviews statistical evidence regarding capital gains distribution and taxation in Canada, both across income classes of individuals and across sectors of the economy. Key findings include:

- The highest-income 1.5% of tax-filers (those with total income over $250,000) receive 61% of individual capital gains, and 67% of tax savings from partial inclusion of capital gains.
- Capital gains are more concentrated among very high-income tax-filers than any other kind of income – even more than other forms of investment income (like dividends or interest).
- Most very high-income tax-filers (over $250,000) report capital gains, and the average those with capital gains report is over $180,000 per year. The average tax saving received by those claimants (under the previous 50% inclusion rate) is estimated at $95,000 per year.
- For very high-income tax-filers, capital gains make up 18% of total income. For those with less than $100,000 income, capital gains make up less than 1% of total income.
- Capital gains increase the ratio of inequality between top and average incomes by 16%.
- Capital gains have grown seven times faster than overall personal income, and have tripled as a share of total assessed income per tax-filer. This is partly due to very high profits on financial assets and real estate. But it also reflects efforts by tax-filers (and their accountants) to convert income into capital gains and thus maximize tax savings.
- Federal revenues were reduced by $38 billion in 2021 due to the partial inclusion of capital gains for individuals, trusts, and corporations.
- There is no historic correlation between capital gains taxes and business investment in machinery, equipment, and intellectual property. Canada's strongest sustained technology investment was in the 1980s and 1990s, when the inclusion rate was 66.7% or 75%.
- Capital gains reported by Canadian corporations have doubled since the COVID pandemic, and risen 11-fold since 2002. Corporate capital gains set a new record in 2022 of $87 billion.
- Most corporate capital gains are captured by industries that buy and sell assets, rather than undertake direct production. A growing share (over one-third) is captured by financial firms.
- The biggest recipients of corporate capital gains, in general, have very poor job-creation records. In the last five years, the two biggest recipients (Miscellaneous Intermediation and Real Estate) received over half of all corporate capital gains, but created no net new jobs.

Introduction

The federal government's 2024-25 budget included an important reform to the taxation of capital gains. Capital gains occur when an asset is sold for more than it cost to acquire and maintain. Capital gains are heavily concentrated among high-income Canadians – more so than any other form of income. And making matters worse, they benefit from lucrative tax preferences: until this year, recipients only had to declare half their capital gains on their income tax (for a so-called 'inclusion rate' of 50%). The other half was entirely tax-free. In contrast, other forms of income (like wages and salaries) must be fully reported on a tax return: in other words, their 'inclusion rate' is 100%.

The federal budget announced a change in the capital gains inclusion rate. As of June 24, 2024, it rose to 66.7% for capital gains declared by corporations. The inclusion rate will also be 66.7% for any capital gains declared by individuals *above* $250,000 in a single year. (The first $250,000 still faces the lower 50% inclusion rate.)

The number of individuals directly affected by this change will be very small: Canada Revenue Agency data indicates that only about 0.1% of tax-filers (about 40,000 people) report over $250,000 capital gains per year. And the proportion of Canadians who would declare over $250,000 in capital gains in *any* year in their lives is also very small.

Moreover, even those affected by the higher inclusion rate will still receive very attractive tax preferences. Half their first quarter-million in capital gains is fully tax-free. One-third of anything above that threshold is also fully tax-free. And several provisions in the tax code allow most capital gains claimants to further reduce their taxes: including exemptions for small businesses and farms, principal residences, a new lower inclusion rate for entrepreneurs, provisions for splitting capital gains (and taxes on them) over several years, and special exemptions for transferring capital assets to family members.

However, while the number of Canadians significantly affected by this change is small, they are mighty. This reform (which has been advocated for many years by tax specialists and equality advocates) will primarily impact the richest Canadians. They are very powerful, as are their allies and advisors in the financial sector. So this new policy is being aggressively resisted by an alliance of wealthy Canadians, financial advisers, and Conservatives. Conservative leader Pierre Poilievre has promised to reverse these capital gains tax reforms, and to start a broader revolt against taxes in general (and the public programs they pay for).

The campaign against capital gains tax reform has relied on scare tactics and outright misinformation about who will be affected, how much extra they will pay – and even why capital gains are taxed at all. This chartbook presents a range of statistical evidence to refute many of these myths. It reviews several dimensions of capital gains in Canada: including their distribution across income groups, the value of the tax preferences received by capital gains claimants, the distribution of corporate capital gains, and the lack of relationship between

capital gains tax rates, real business investment, and job-creation. It shows that the large majority of capital gains, and an even larger share of the tax savings from the capital gains loophole, accrue to a very small group of the wealthiest Canadians. On the corporate side, the lion's share of capital gains are captured by industries which buy and sell financial assets and property (rather than producing real goods and services).

For both personal and corporate capital gains, the value of capital gains claimed has grown exponentially in recent years. This reflects the general shift toward financialized and speculative activity in the economy (and the downgraded focus on real investment and production), and the very high profits generated in the finance and real estate sectors in recent years. It also reflects the lucrative tax preferences which the current tax system offers to both individual and corporate capital gains recipients. Because the tax system treats capital gains so generously, investors (and their accountants) have found ways to amplify capital gains, even converting other types of income (like dividends or salaries for business executives) into capital gains, so as to maximize the value of this tax loophole. This distortion in the tax system is also distorting economic and financial activity – which is why many independent tax policy experts have long supported increasing the inclusion rate (in part to achieve more equal treatment relative to other forms of investment income, like dividends[1]). The 2024 reform in capital gains taxation only partly moderates the disequalizing effects of preferential tax treatment of this lucrative but highly concentrated form of income. Capital gains income will still be taxed less intensely than other forms of income, and most of the enormous loss of tax revenue resulting from these preferences will continue. The report also shows that changes in capital gains inclusion have historically had no impact on the pace of investment and innovation by Canadian business.

In sum, capital gains are heavily subsidized by enormously expensive tax breaks. Because of those subsidies (which amplify already-large profits on financial investments, real estate, and other assets), capital gains are expanding rapidly as a share of total income and GDP. This is notably widening income inequality, and causing a growing drain on government revenues, at a time when funds are needed for more important priorities (like affordable housing, school lunches, and new pharmacare and dental care programs). This tax reform is a modest but overdue effort to rein in a surge of tax-subsidized profits – the vast majority of which is captured by the richest households, and the most speculative industries. Ultimately, the debate over capital gains is not about 'growing the economic pie'. Rather, it's about how that pie is divided. Those opposing this reform are not speaking out for 'middle-class' Canadians; rather, they are advocating for powerful corporations and a high-income elite.

The chartbook concludes with a list of statistical sources, notes on methodology, and bibliographic references.

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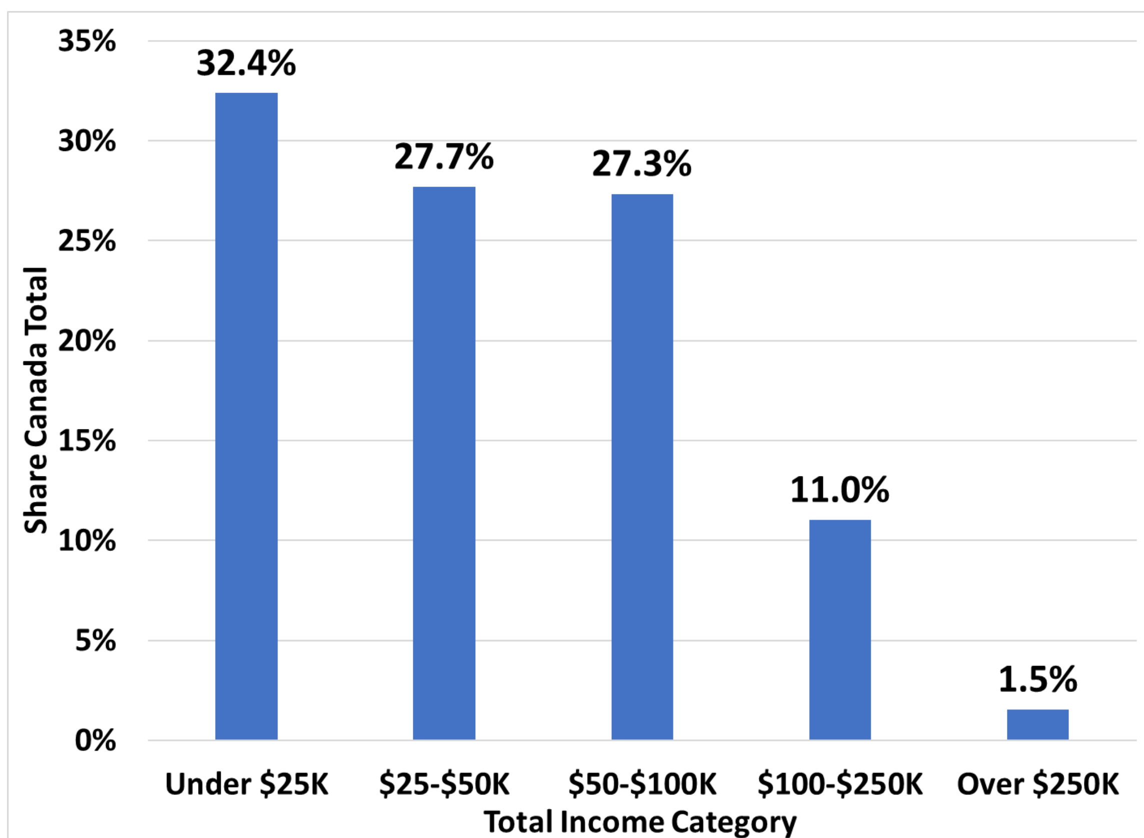
[1] See, for example, Advani (2021), Kesselman (2024), and Smart and Jafry (2021). Woolley et al (2021) sum up their edited compendium of academic reviews of capital gains taxation as follows: "While the articles in this Policy Forum contain a variety of perspectives on capital gains taxation, on balance they favour an increase in capital gains inclusion rates" (p. 1154).

Very high-income people make up a tiny share of all taxpayers…

Figure 1. Tax-Filers by Income Category, 2021



Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

For individuals, the new inclusion rate applies only to those with over $250,000 in capital gains in a single year – and the new rate affects only capital gains ***above*** that threshold. Very few Canadians ever receive incomes that high, from *any* source. In 2021 (most recent data), only 1.5% of tax-filers had *total* income (from *all* sources) over $250,000.[2] About one-third of tax-filers reported total income under $25,000. Slightly over one-quarter of tax-filers had total income between $25,000 and $50,000, and another quarter reported total income between $50,000 and $100,000. Slightly over one-tenth of tax-filers reported total income between $100,000 and $250,000. The ***average total income of tax-filers in 2021 was $57,700***. That average was pulled up by the very high incomes reported by the small group at the top. ***Median total income in 2021 was about $35,000*** (representing the person at the exact half-way point of the income distribution). Anyone earning over $250,000 in a single year from all sources, let alone just from capital gains, belongs to a small minority of the most well-off Canadians.

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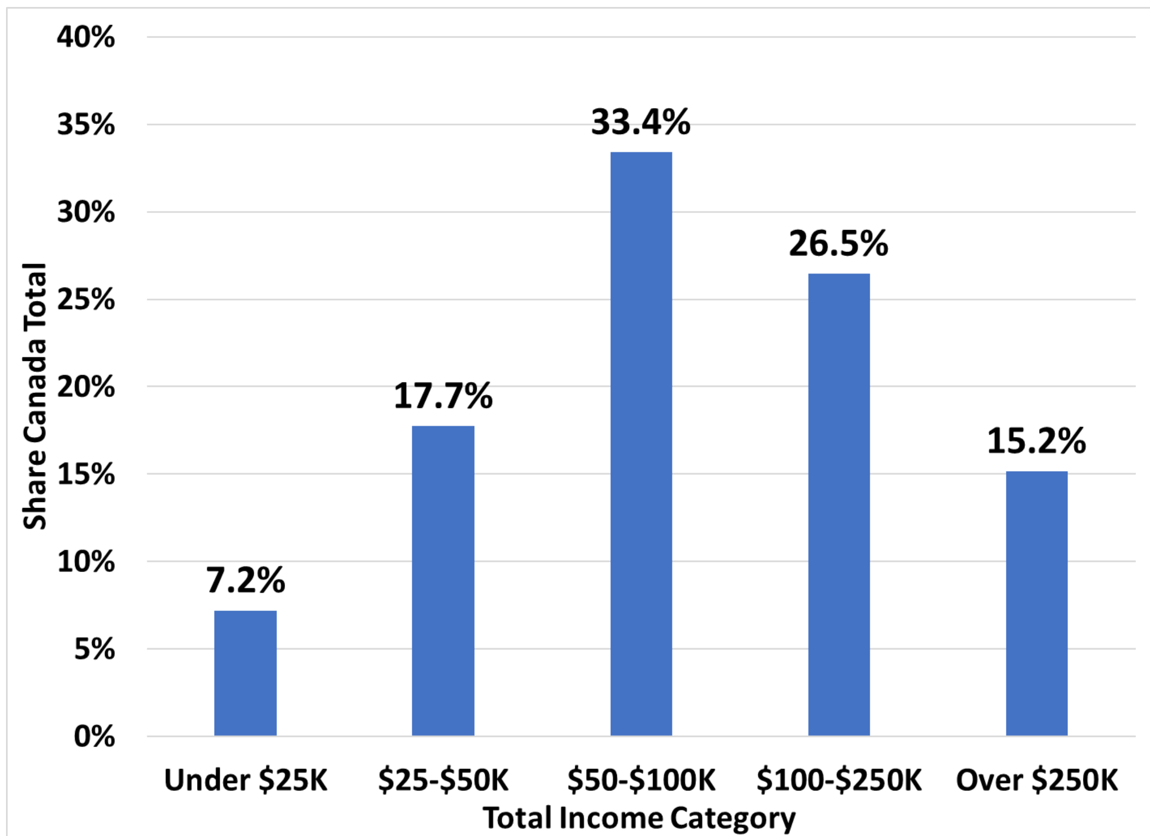
[2] It is coincidental that the highest-income category reported in Canada Revenue Agency tax data covers those with *total* income over $250,000, while the threshold above which the new 66.7% inclusion rate will apply is also $250,000 (of *capital gains* income in a year). There is no direct connection between the two $250,000 thresholds.

Yet they receive a much larger share of total income…

Figure 2. Total Income Shares by Income Category, 2021

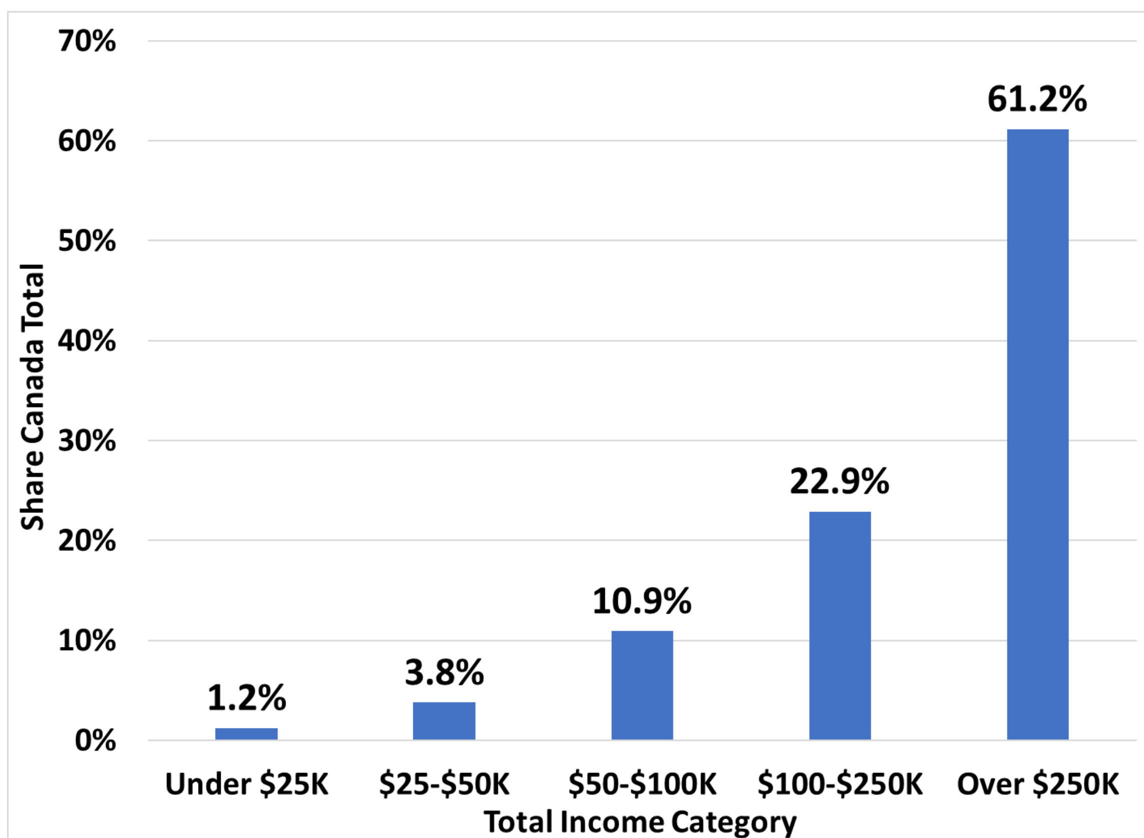


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

Only 1.5% of tax-filers reported total income over $250,000, yet they receive a much larger share of total income – in fact, ten times larger. Over 15% of total income reported was received by the small group of Canadians with over $250,000 income (and ***that does not include the roughly 50% of capital gains which they were allowed to exclude***). The lowest-income Canadians (with income below $25,000) accounted for only 7% of total income – even though they make up almost one-third of tax-filers. They get less than one-quarter of their proportional 'share' of total income. The next group of tax-filers (with income between $25,000 and $50,000) reported 18% of total income, well under their 28% share of the total population. The middle group of Canadians (with $50-$100,000 total income) received roughly their proportionate share of total income. In aggregate, people with incomes below $100,000 made up 87.4% of all tax-filers, but received only 58.4% of total income. ***Canada's income distribution is very unequal*** – and the favourable tax treatment of capital gains, as we will see, makes that problem significantly worse.

Most capital gains are received by the richest 1.5% of Canadians…

Figure 3. Shares of Total Capital Gains Income Reported by Income Category, 2021

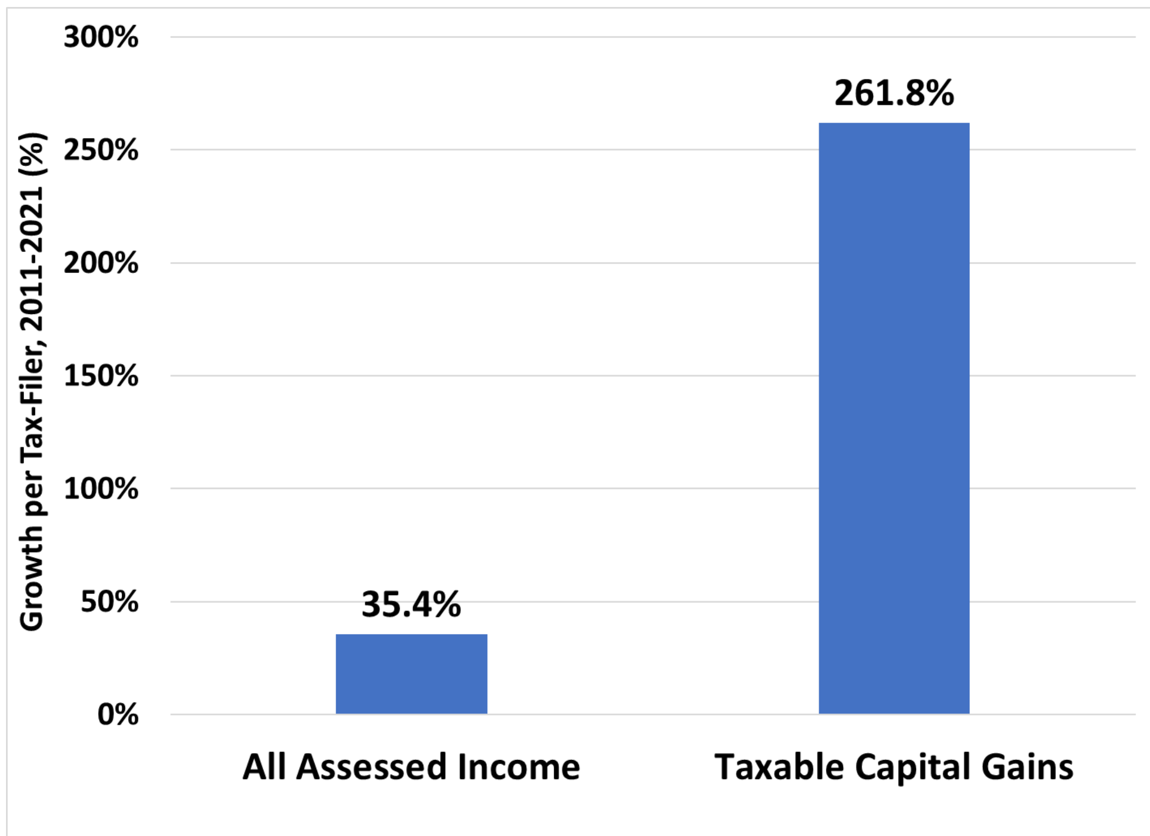


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

Very high-income Canadians receive a disproportionate share of total income. But they receive an even more lopsided share of total capital gains. In 2021, those with total income over $250,000 (the top 1.5% of tax-filers) received 61% of all capital gains. That is ***forty times bigger than their share of the population***. A clear majority of capital gains income is received by this small group of lucky Canadians. In contrast, low- and middle-income Canadians receive hardly any capital gains. Those with total income under $25,000 (one-third of tax-filers) receive barely 1% of all capital gains. Those with incomes between $25,000 and $50,000 (another 27% of tax-filers) receive 3.8%. Together, ***all those with total income under $50,000 (60% of tax-filers) receive just 5% of all capital gains***. Those with total incomes between $100,000 and $250,000 received 22% of capital gains – twice their share of tax-filers. Together, all those with total incomes over $100,000 (one-eighth of the population) received almost seven-eighths of capital gains. ***There is no other form of income more concentrated among the richest people in the country***. This is both because high-income people have more wealth (generating capital gains), and because they use specialized (and costly) tax-avoidance strategies to convert other forms of income into capital gains (thus accessing lucrative tax benefits).

Capital gains have grown much faster than other income…

Figure 4. Growth in Aggregate Reported Income per Tax-Filer, 2011-2021

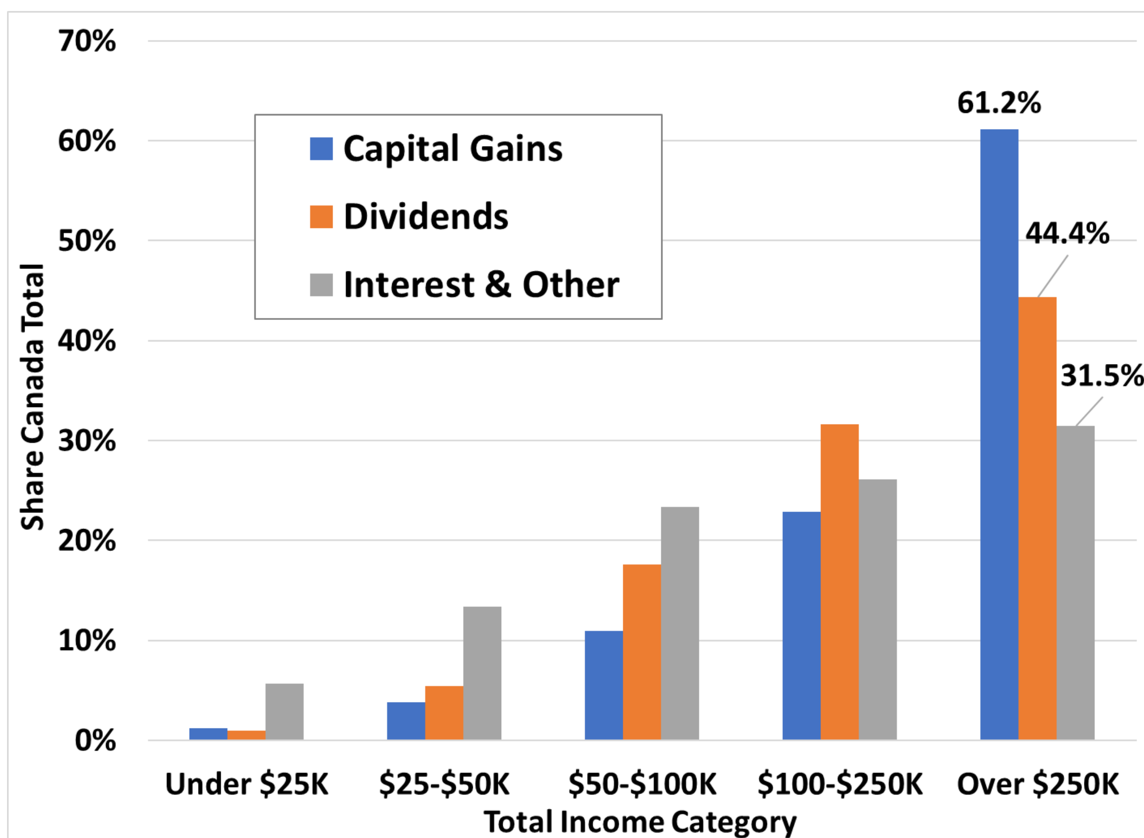


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2013 and 2023 editions.

Capital gains income has grown much faster than other forms of income reported by Canadians on their tax returns. ***In the last decade, taxable gains reported on Canadians' tax returns (expressed per person, to adjust for population growth) increased by over 260%***. Almost two-thirds of that additional capital gains income was declared by tax-filers with total income over $250,000. ***Capital gains grew more than seven times faster than total assessed incomes*** per tax-filer. As a result, ***the share of taxable capital gains in total assessed incomes has tripled*** over the last decade. One reason for the faster growth of capital gains income is the strong profits generated recently in Canadian financial, property, and other assets – delivering high returns for their owners. But another reason is conscious efforts by Canadians (especially the most well-off) to take advantage of favourable tax treatment of capital gains, by restructuring income and investments to shift payouts from other income forms into tax-preferred capital gains. This disproportionate growth in capital gains causes a two-pronged rise in income inequality: wealthier Canadians get most of those capital gains, and the tax advantages they receive are more lucrative than for other tax-filers (explained further below).

Capital gains are more concentrated than other investment income…

Figure 5. Shares of Various Forms of Investment Income Reported by Income Category, 2021

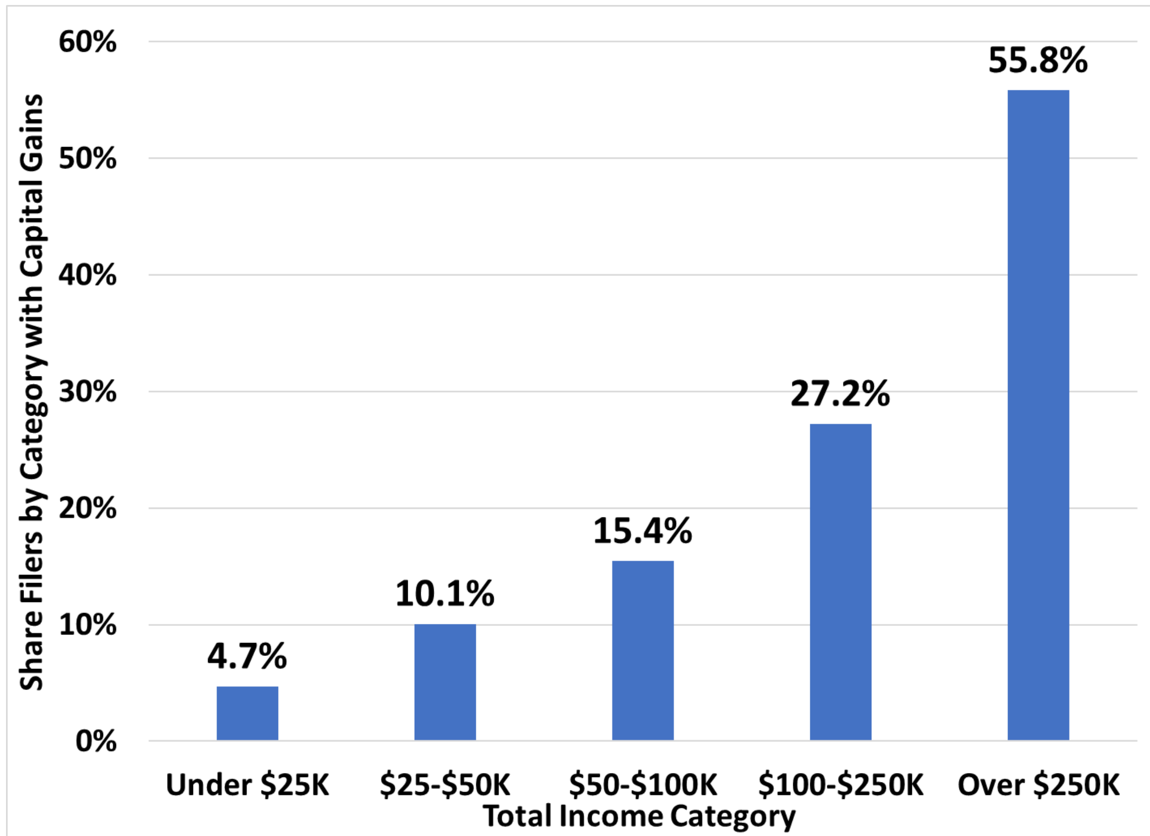


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

All investment income is disproportionately concentrated among higher-income households – for the simple reason that wealthier households have more savings and wealth with which to generate investment income. Many forms of investment income receive favourable tax treatment. In theory that is supposed to encourage Canadians to save more. In practice it delivers tax preferences to the wealthiest (and most influential) members of society. However, ***even compared to other forms of investment income (like dividends and interest), capital gains are especially concentrated among high-income Canadians***. Those with total income over $250,000 received ***61% of all taxable capital gains, 44% of all taxable dividends, and just 32% of interest and other investment income***. Their large share of capital gains reflects both their concentrated wealth, and their ability to access tax avoidance strategies (to convert other forms of income into tax-preferred capital gains). In contrast, basic interest income is shared more evenly across income categories. Less sophisticated or wealthy investors are more likely to receive their (limited) investment income in the form of interest, and hence miss out on the lucrative tax preferences offered for capital gains.

Over half of very high-income tax-filers receive capital gains…

Figure 6. Proportion of Tax-Filers by Income Category Reporting Capital Gains, 2021

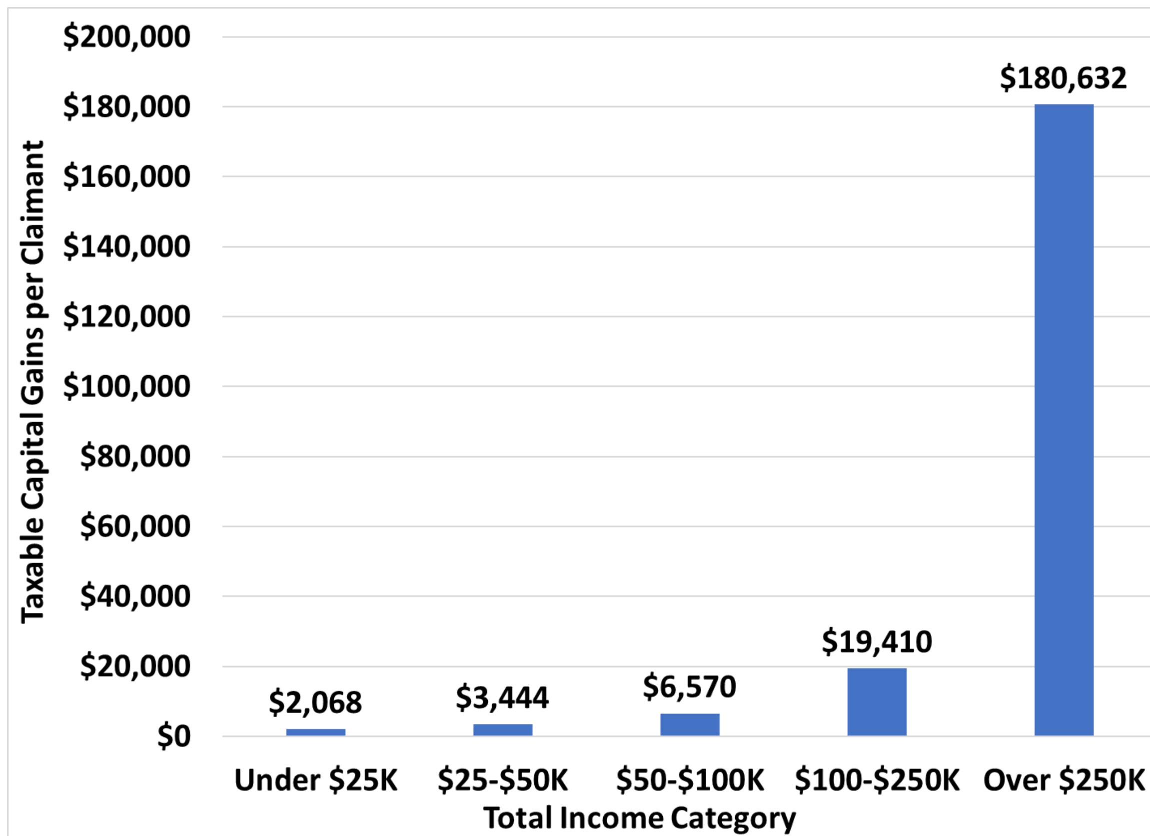


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

Over half of very high-income tax-filers report capital gains. For them, making profits from the purchase and sale of assets is a regular feature of their financial lives. ***56% of those with total income above $250,000 reported capital gains in 2021***. In the next income category (with total income between $100,000 and $250,000), over one-quarter of tax-filers (27%) reported capital gains. ***Among Canadians of more modest means, however, capital gains are rare***. Among the one-third of tax-filers with income below $25,000, less than 5% reported any capital gains at all (and most of those gains were very small). Among those with total incomes between $25,000 and $50,000, just one in ten reported any capital gains – again, mostly very small.

Per person, high-income individuals' capital gains are enormous…

Figure 7. Taxable Capital Gains Income per Claimant by Income Category, 2021

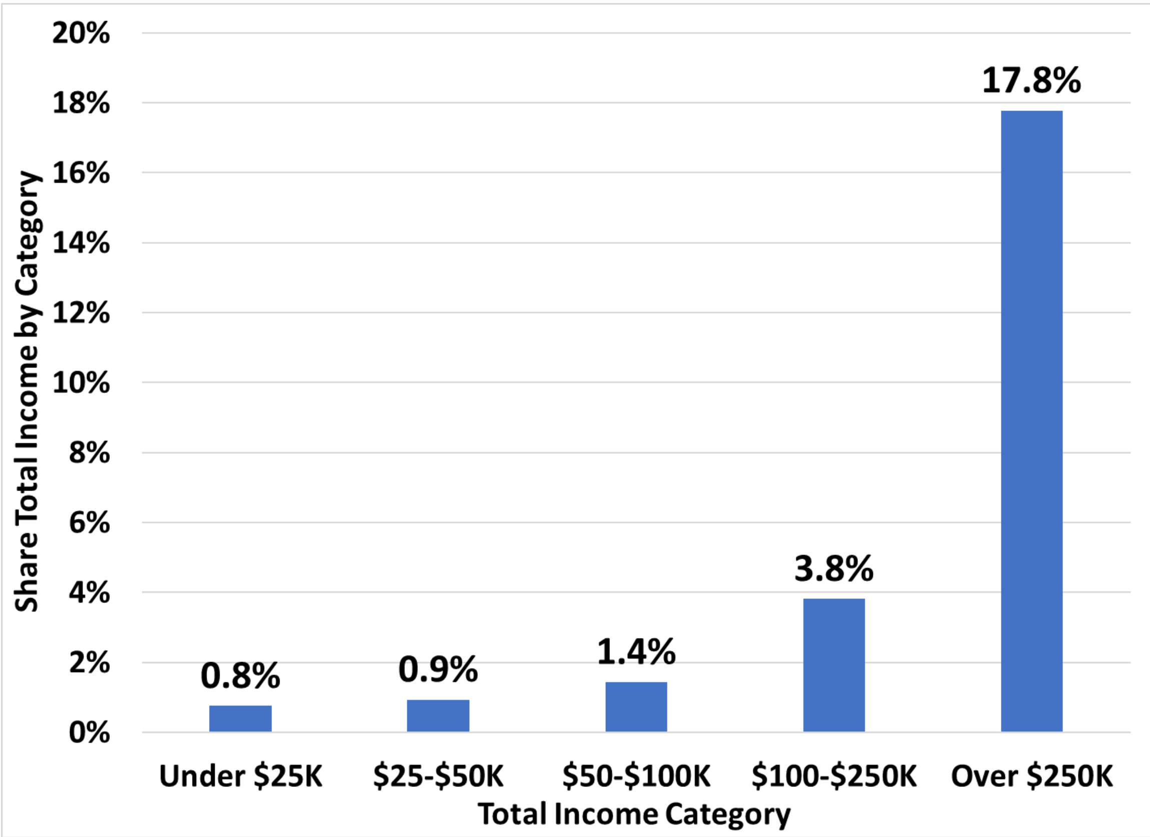


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

Not only are very high-income Canadians far and away the most likely to declare capital gains, the gains they report are enormous compared to other Canadians. In 2021, just over one-quarter million tax-filers with total income over $250,000 declared taxable capital gains. ***On average, each of them declared taxable capital gains of $180,000***. And that is only the portion of capital gains that was taxable under the inclusion rate at the time (50%). This means that ***the total capital gains received by each of those very high-income tax-filers was about twice as large – around $360,000 each***. In contrast, the capital gains declared by low- and middle-income taxpayers (when they have any at all) are very small. Those tax-filers with reported capital gains and total income under $25,000, declared average taxable capital gains of just $2000 per claimant. Those with capital gains in the next-lowest income category ($25,000 to $50,000) had average taxable capital gains of under $3500. Not only are high-income Canadians far more likely to receive capital gains, ***the gains they receive are 90 times larger per claimant than those received by low-income*** capital gains recipients. This causes a double-barreled increase in inequality.

Capital gains are insignificant for most tax-filers, but not for the wealthy…

Figure 8. Capital Gains Income as Share Total Income by Income Category, 2021

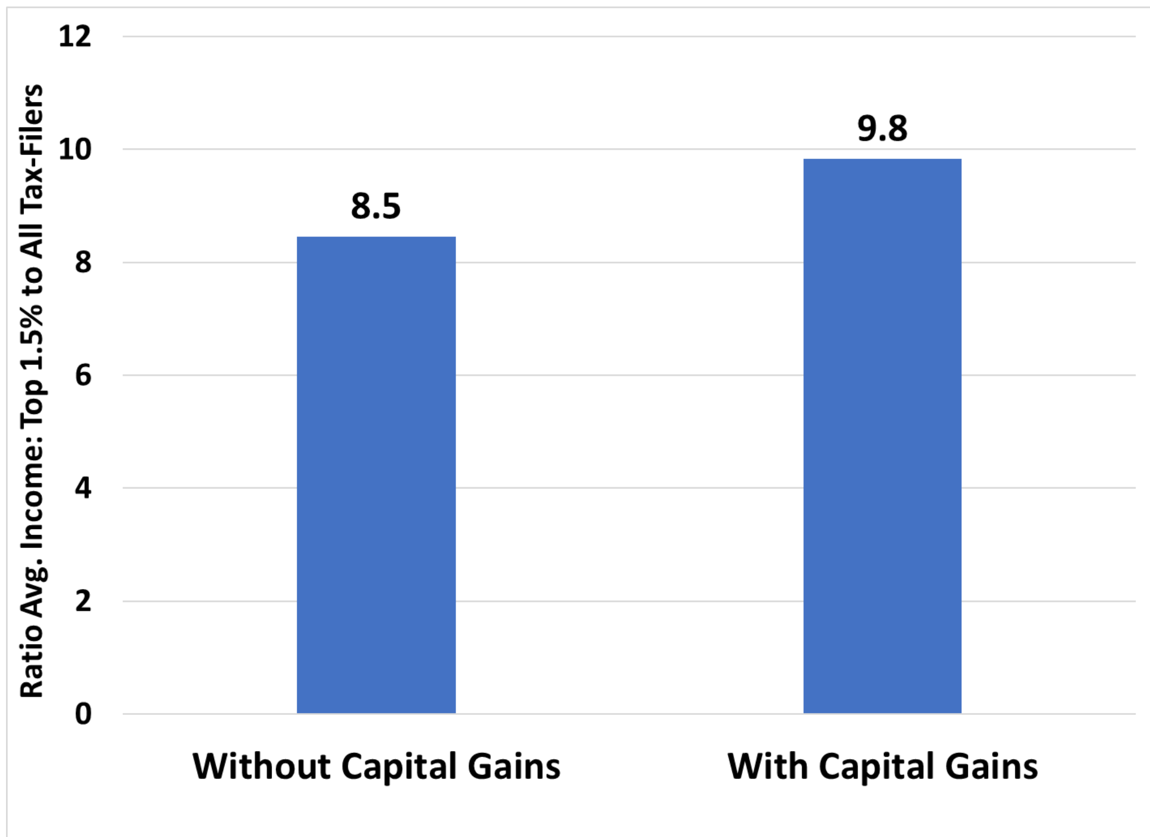


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

Because most very high-income tax-filers receive capital gains, and the capital gains they receive are huge, capital gains constitute a central source of income for most high-income Canadians. ***For the 1.5% of Canadians with total income over $250,000, capital gains account for 18% of their total incomes*** (which are much higher than for other Canadians). In contrast, ***for the seven-eighths of Canadians with incomes under $100,000, capital gains make up an average of less than 1% of their total incomes***. For the vast majority of Canadians, therefore, capital gains are not relevant to their incomes and living standards – and hence changes in taxation of capital gains can have no significant direct impact on them, either.

Capital gains significantly increase inequality…

Figure 9. Ratio of Very High Incomes (Top 1.5%) to Average Incomes, 2021

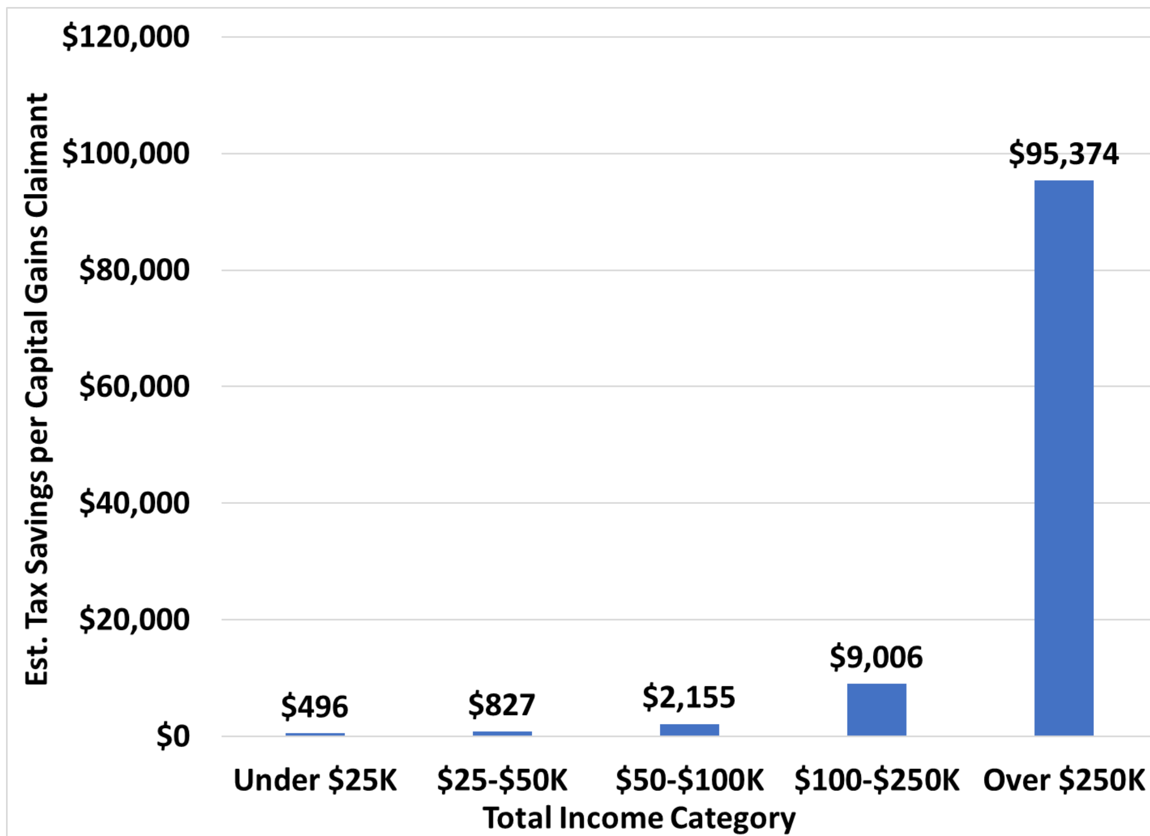


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition. Includes taxable capital gains only.

Because capital gains have grown so rapidly in recent years, and are so concentrated among the highest-income tax-filers, they have significantly widened income inequality in Canada. As noted above, the highest-income tax-filers (those with total income over $250,000) account for just 1.5% of all tax-filers. Excluding their capital gains income, they reported average total incomes of $466,000 in 2021. That was 8.5 times higher than the average for all tax-filers that year ($55,000, also excluding capital gains). However, ***when just the taxable portion of capital gains is included, the ratio of top incomes to average incomes rises by 16%.*** Now the average total income for the top 1.5% is $567,000 (again, including only the taxable portion of capital gains). That was almost 10 times larger than average incomes for all tax-filers that year ($57,700, also including capital gains). ***If we include all capital gains (not just the taxable half), then the impact on inequality is even worse***. This disequalizing effect is further amplified by the uneven tax savings on capital gains: high-income households receive more tax savings for each dollar of capital gains, exacerbating the impact of capital gains on inequality in *after-tax* incomes.

Very high-income tax-filers receive huge tax savings on capital gains…

Figure 10. Estimated Tax Savings per Claimant from Partial Inclusion by Income Category, 2021

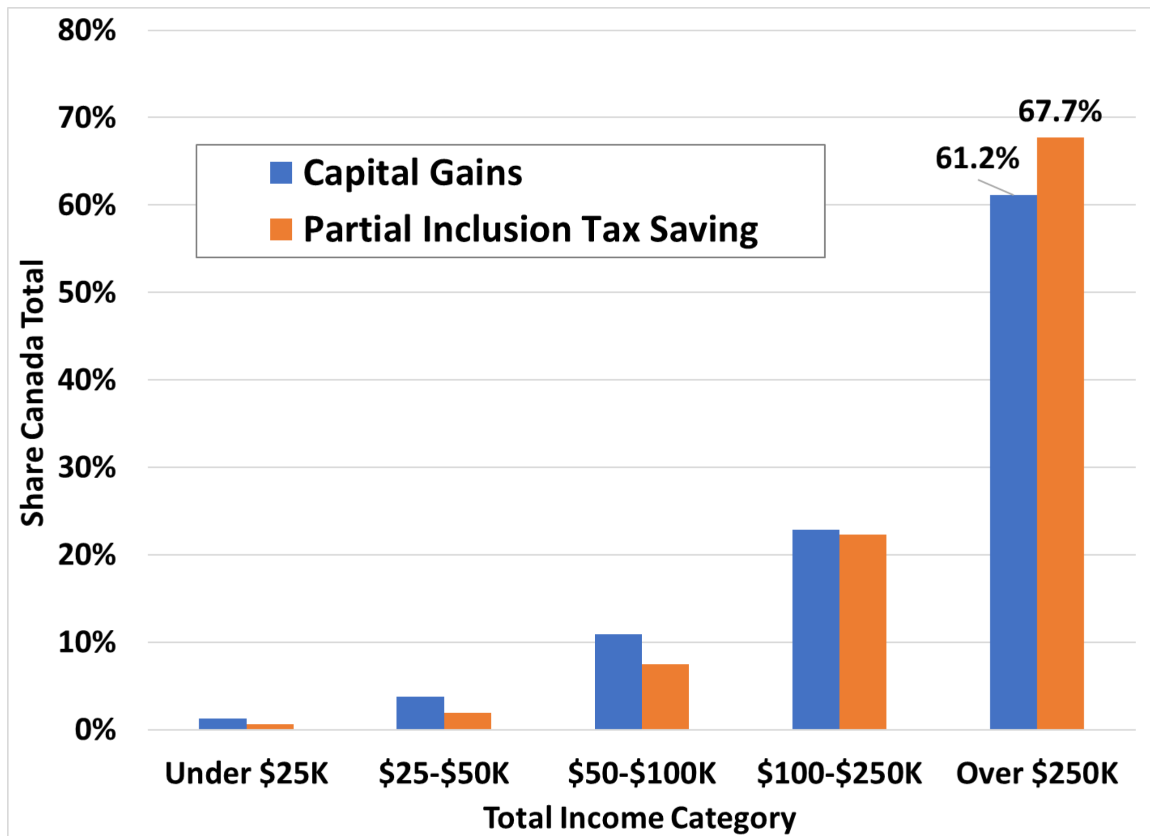


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

Because high-income capital gains recipients receive ***more tax support for each dollar of capital gains*** than other Canadians, they benefit from supercharged tax savings under the partial inclusion system. Most very high-income Canadians save over 50 cents in taxes, for each dollar of capital gains they are allowed to exclude from their tax returns. This is due to the higher marginal income tax rates they pay. Excluding half of capital gains thus generates a larger tax saving. Each very high-income claimant (in the over-$250,000 income category) excluded an average of about $180,000 in capital gains (at the former 50% inclusion rate); therefore, ***each of them saved about $95,000 in taxes*** as a result of this loophole. (See appendix for methodology in estimating these tax savings.) Low- and middle-income tax-filers, in contrast, face much lower marginal tax rates, and therefore save less for each dollar of capital gains they are allowed to exclude. Capital gains recipients with total income under $25,000 receive only about 22-23 cents in taxes for each dollar of their (small) capital gains – producing average tax savings of under $500. Since high income tax-filers get far more capital gains, and they get more tax support for each dollar of capital gains, ***each very-high-income capital gains claimant receives 192 times more tax savings than each low-income capital gains claimant***.

Two-thirds of partial inclusion tax savings go to the richest tax-filers…

Figure 11. Share of Estimated Tax Savings from Partial Inclusion by Income Category, 2021

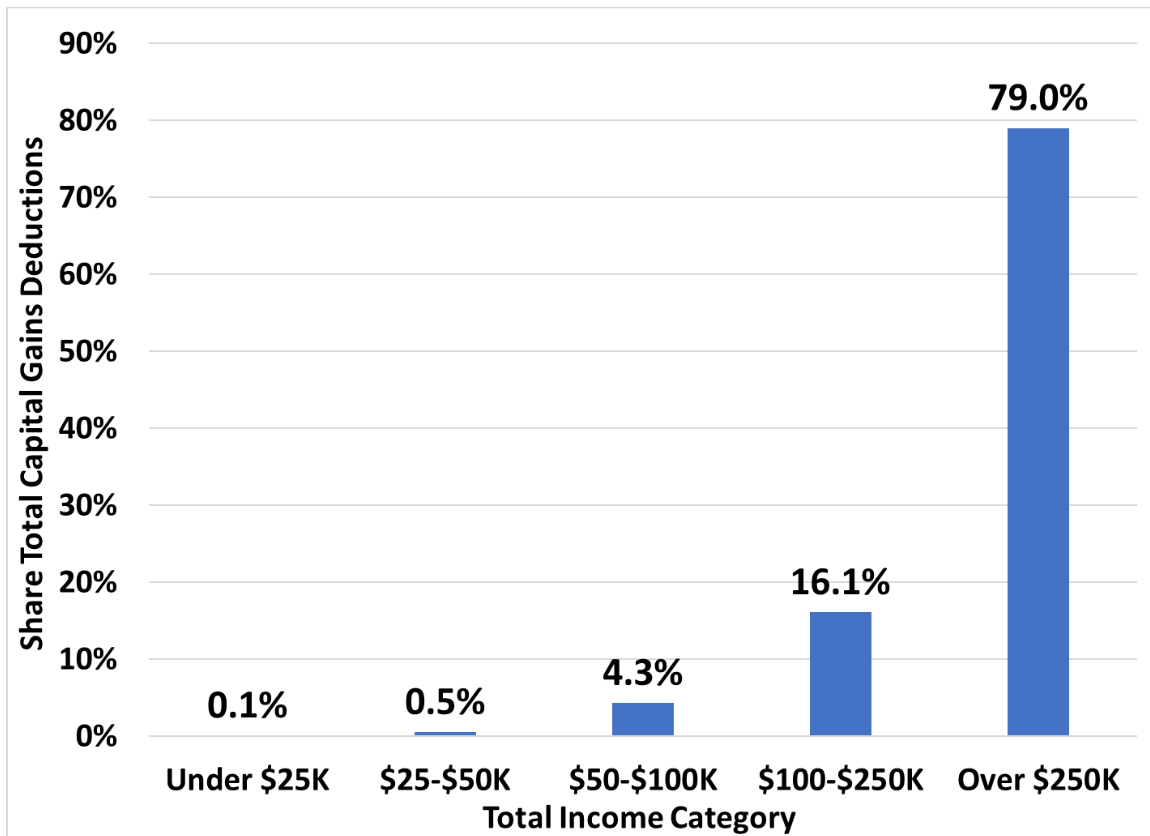


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

Very high-income earners receive most capital gains. But they also receive more tax savings per dollar of capital gains, as a result of the design of the partial inclusion system (which rewards tax-filers with higher marginal tax rates more than those with lower marginal tax rates). Therefore, those ***very high-income taxpayers receive an even larger share of total tax savings*** from the partial inclusion system, than their already-large share of total capital gains payments in the first place. The 1.5% of tax-filers with incomes over $250,000 received 61.5% of all capital gains – but captured ***67.7% of all the estimated tax savings from partial inclusion*** of capital gains. (See appendix for methodology in calculating these estimated tax savings.) At the same time, tax-filers with total income under $100,000 received a smaller share of total tax savings, than the already-small share of capital gains they received in the first place. Those tax-filers (who make up seven-eighths of tax-filers) received ***only 10% of estimated savings from partial inclusion, even smaller than their 16% share of all capital gains***.

Other capital gains tax breaks are also concentrated among the rich…

Figure 12. Share of Capital Gains Deductions Claimed by Income Category, 2021

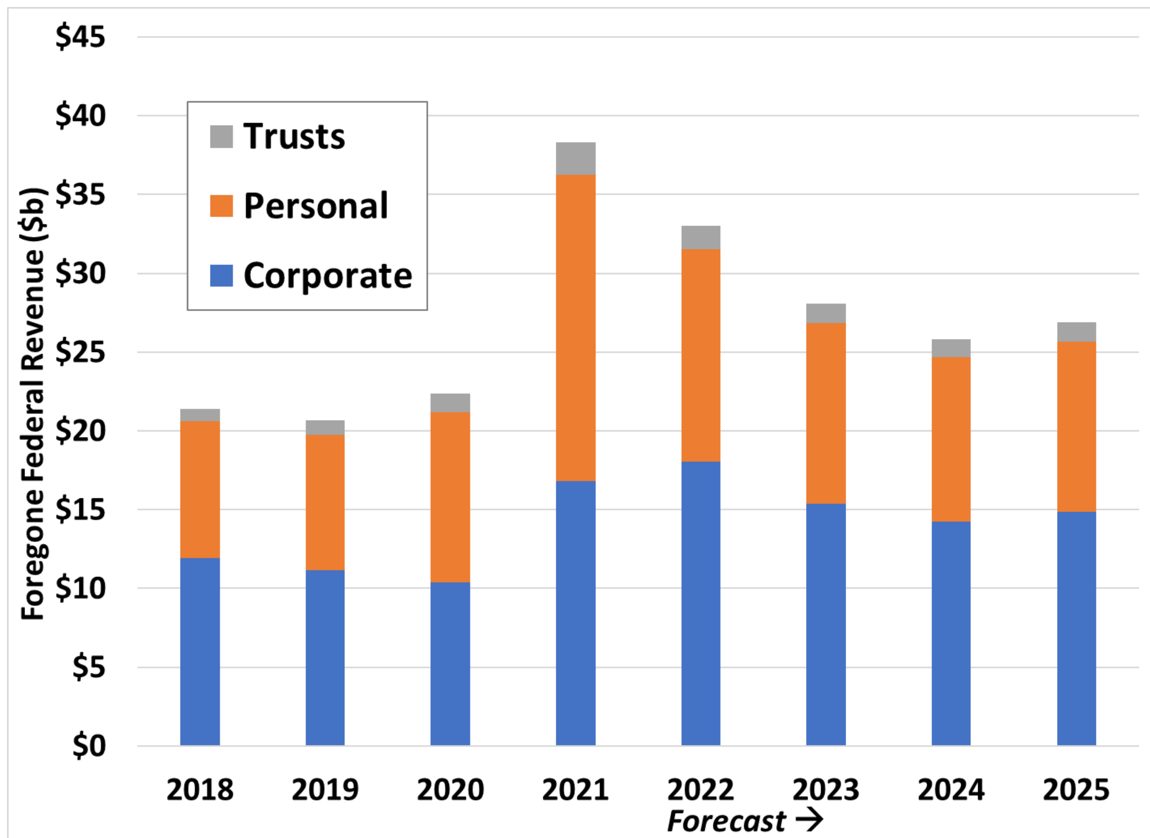


Source: Centre for Future Work from Canada Revenue Agency, T1 Final Statistics 2023 edition.

In addition to the partial inclusion of capital gains, the tax system includes several other provisions that further reduce the tax liabilities arising from the partial inclusion of capital gains. These provisions include special rules entirely exempting some capital gains from the sale of small businesses, farms, and fishing properties, and a special capital gains 'reserves' system (allowing for averaging over several years capital gains generated by one-time sales of assets). ***These broad capital gains deductions totaled $9.4 billion*** across all tax-filers in 2021. ***Very high-income tax-filers (those with total income over $250,000) received 79% of those deductions***. That's even larger than their 61% share of all capital gains, and their 67% share of partial inclusion tax savings. This concentration reflects the different composition of the capital gains typically declared by very high-income Canadians (which are more likely to reflect direct ownership stakes in businesses or other assets, rather than passively-held shares or mutual funds), and the greater capacity of high-income people to hire and pay for specialized tax advice to take advantage of these additional tax preferences.

Partial inclusion reduces federal revenues by over $30 billion…

Figure 13. Annual Foregone Federal Revenue from Capital Gains Partial Inclusion, 2018-2025



Source: Report on Federal Tax Expenditures - Concepts, Estimates and Evaluations 2024: Part 2.

By generating such lucrative tax savings, concentrated among the highest-income Canadians, ***the partial inclusion system reduces federal government tax revenues by a very large amount***. Finance Canada generates an annual estimate of 'tax expenditures': that is, the foregone revenue resulting from various loopholes and preferences in the tax system. It estimates that ***foregone revenues from the 50% inclusion rate for capital gains totaled $38 billion*** in 2021 (most recent actual data). About half of that lost revenue ($19 billion) was experienced through the personal income tax partial inclusion. The rest was shared between reduced corporate taxation, and reduced tax revenues from trusts (a tax vehicle used primarily by high-income Canadians to further reduce taxes). Finance Canada forecasts that revenue losses from continuing the 50% inclusion rate will range between $25 and $30 billion annually in coming years. The announced ***reform to the partial inclusion system will reduce those revenue losses*** by several billion dollars per year, generating resources to help fund new public programs (like dental care, free school lunches, and affordable housing – measures also announced in the 2024 budget). In addition to these foregone federal revenues, provincial governments also lose $10-20 billion per year in revenues because of the partial inclusion system.

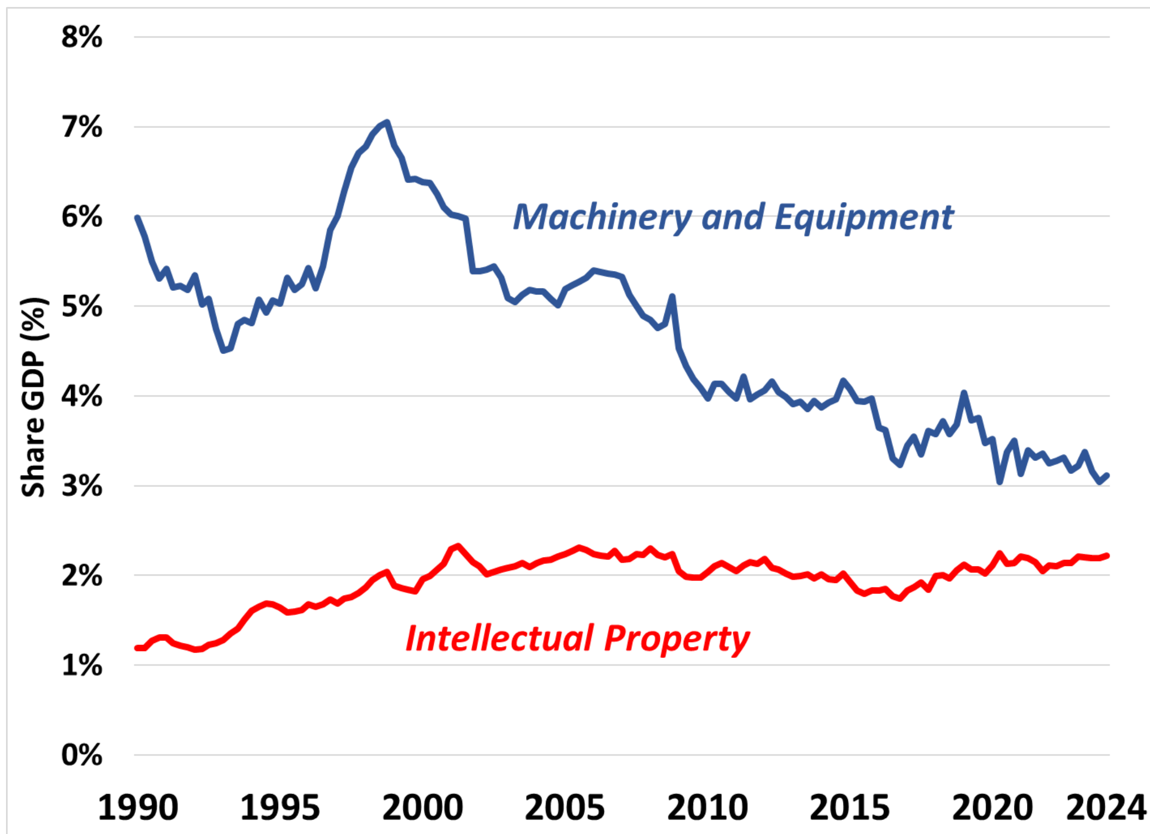
Many other provisions further reduce taxes on capital gains…

Table 1 **Existing Federal Provisions to Reduce Capital Gains Taxes Paid**	
Exemption or Reduction	**Foregone Federal Revenue (2021, $b)**
Deferral of capital gains through intergenerational rollovers of family farms or fishing businesses	n.e.
Deferral through rollover of capital gains and capital cost allowance recapture in respect of involuntary dispositions	n.e.
Deferral through rollover of capital gains and capital cost allowance recapture in respect of dispositions of land and buildings	n.e.
Lifetime Capital Gains Exemption	$2.550
Non-taxation of capital gains on donations of cultural property	n.e.
Non-taxation of capital gains on donations of ecologically sensitive land	n.e.
Non-taxation of capital gains on donations of publicly listed securities	$0.312
Deferral of capital gains through transfers to a spouse, spousal trust or alter ego trust	n.e.
Non-taxation of capital gains on principal residences	$13.355
$200 capital gains exemption on foreign exchange transactions	n.e.
Capital gains exemption on personal-use property	n.e.
Taxation of capital gains upon realization	n.e.
Deferral through five- or ten-year capital gain reserve	n.e.
Partial inclusion of capital gains (personal)	$19.440
Partial inclusion of capital gains (trusts)	$2.015
Partial inclusion of capital gains (corporate)	$16.835
Refundable capital gains tax for investment corporations, mutual fund corporations and mutual fund trusts	$9.975
Total (partial)	**$64.482**
Source: Report on Federal Tax Expenditures - Concepts, Estimates and Evaluations 2024: Part 2. n.e. = not estimated	

In addition to partial inclusion, there are ***numerous other special exemptions, deductions, and other loopholes which further reduce taxes for capital gains*** recipients. These include special lifetime exemptions on capital gains for owners of small businesses and farms. It also includes a 'reserve' system where large one-time capital gains can be effectively averaged over several years (to reduce marginal taxation on each instalment). Finance Canada has estimated the foregone revenue resulting from some, but not all, of these special provisions. The ***revenue loss from those provisions which it costed totaled almost $65 billion in 2021***. The total loss (including other loopholes it did not cost) was much more. Even with a higher inclusion rate, recipients of capital gains will continue to benefit from a whole spate of tax preferences which already reduce their taxes even further.

Business investment spending is insensitive to capital gains taxation…

Figure 14. Business Technology Investment as Share of GDP, 1990-2024



Source: Centre for Future Work from Statistics Canada Table 36-10-0104-01.

Supporters of special tax treatment for capital gains claim it enhances the incentive for investors to start and grow new businesses, and invest in capital equipment, technology, and innovation. However, capital gains taxes (and other business taxes, like the corporate income tax rate) have been reduced dramatically since the turn of the century. Yet ***business capital spending has declined substantially under these lower tax rates***. Spending on tangible machinery and equipment by Canadian businesses averaged around 6% of Canadian GDP until 2000 – when the capital gains inclusion rate was reduced from 75% to 50%, and corporate income taxes were also cut deeply, as well. Since then, ***machinery and equipment investment has declined steadily***. ***Business spending on intangible innovation (such as R&D, computer software, etc.) has also stagnated***: it nearly doubled as a share of GDP in the 1990s (when the inclusion rate was 75%), but has not grown since. Previous research indicates that business investment is not strongly impacted by general corporate taxation, but rather is more sensitive to factors like economic growth, innovation, targeted ta supports, and sectoral composition.[3]

[3] See, for example, Gechert and Heimberger (202), and Stanford (2020).

Cutting capital gains inclusion did not increase technology investment…

Table 2
Capital Gains Taxation and Technology Investment, 1961-2024

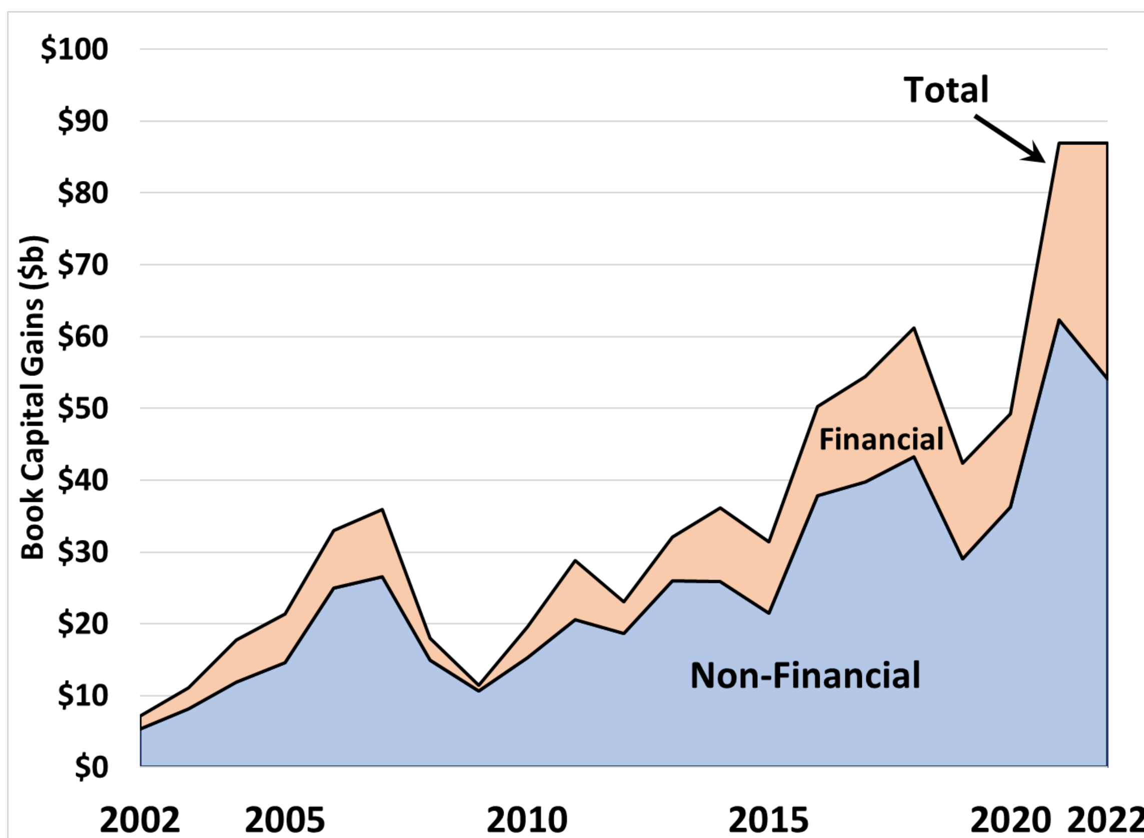
Time Period	Inclusion Rate	Technology Investment (% GDP)		
		Machinery & Equipment	Intangible / IP	Total
1961[1]-1972	0.0%	5.83%	0.58%	6.41%
1972-1988	50.0%	6.12%	0.89%	7.01%
1988-1990	66.7%	6.19%	1.18%	7.38%
1990-2000[2]	75.0%	5.62%	1.56%	7.18%
2000-2000[3]	66.7%	6.34%	2.01%	8.34%
2000-2024	50.0%	4.26%	2.09%	6.35%

Source: Centre for Future Work from Statistics Canada Table 36-10-0104-01.
1. First year of Statistics Canada quarterly GDP data.
2. Inclusion rate changed in February (first quarter).
3. Inclusion rate changed in October (fourth quarter).

Since the introduction of capital gains taxes in 1972 (following recommendations of the Carter Commission on tax fairness), the federal government has adjusted the inclusion rate on capital gains several times: lifting it from 50% to 66.7% and then to 75%, and then reducing it in reverse increments. ***There is no evidence of a predictable impact of capital gains inclusion on the rate of investment by Canadian businesses in new technology*** – whether tangible machinery and equipment, or intangible investments in research and intellectual property. Both types of ***business technology investment increased after the capital gains tax was introduced*** (first at 50% inclusion), and then both increased again when the rate was raised to 66.7%. In contrast, ***since the reduction of the inclusion rate to 50% in late 2000, business capital spending on machinery and equipment has weakened dramatically***: falling in recent years to barely 3% of GDP, by far the lowest in postwar history (and half the pace of investment in the 1970s, 1980s, and 1990s). Investment in intangible innovation and IP has stagnated since the inclusion rate was reduced (remaining around 2% of GDP). Combined, total business investment in both classes of technology has been weaker since the inclusion rate was cut to 50%, than in any of the other periods covered. ***The strongest sustained technology investment recorded was in the period from 1988 through 2000, when the inclusion rate was either 66.7% or 75%.***

Corporate capital gains have expanded dramatically…

Figure 15. Capital Gains Reported by Canadian Corporations, 2002-2022

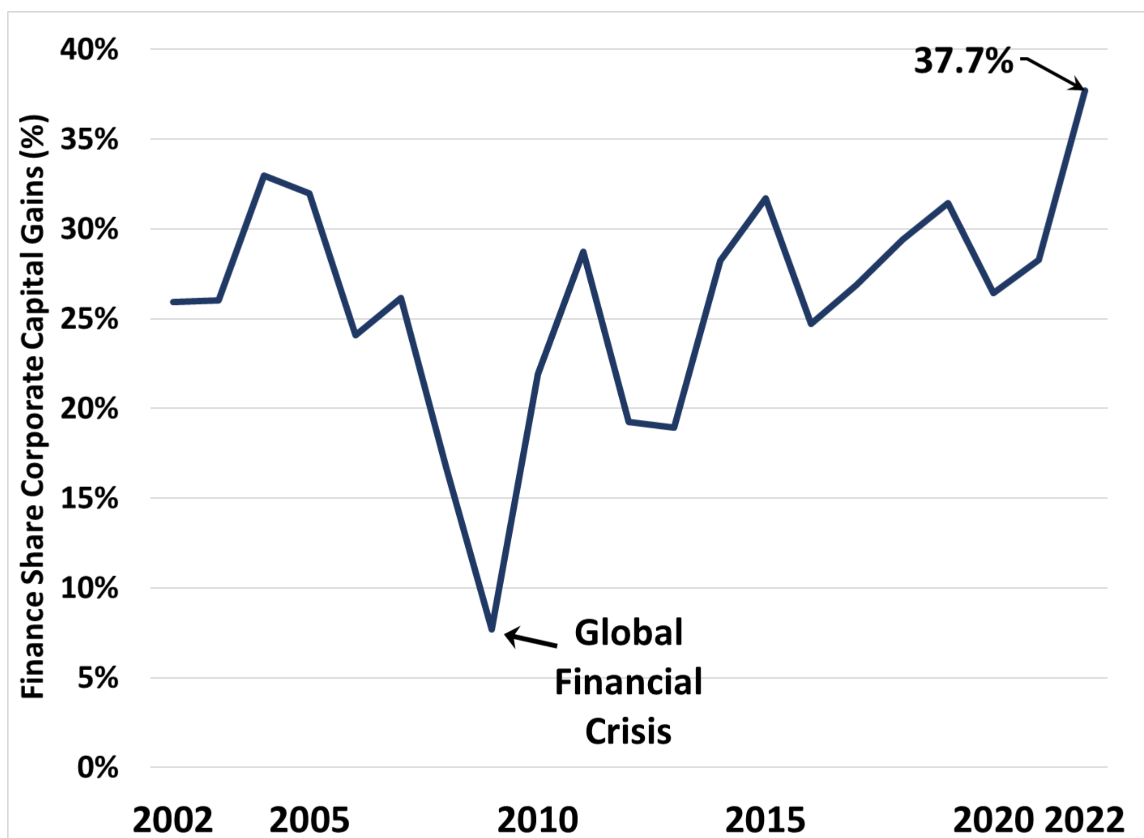


Source: Centre for Future Work from Statistics Canada Tables 33-10-0499-01 and 33-10-0500-01.

In 2021, in the midst of the COVID pandemic, Canadian corporations reported $87 billion in capital gains – by far the highest ever. Then in 2022, in the face of inflation and rising interest rates, they matched that record. ***Corporate capital gains more than doubled (up 105%) since 2019*** (the last full year before COVID). In the longer-term, corporate capital gains have increased eleven-fold (up 1113%) over the last two decades. Over the same period, ***booked corporate capital gains quintupled as a share of national GDP: from 0.6% in 2002, to over 3% of GDP in 2022 and 2023***. Thanks to the 50% partial inclusion rate, only about half of total corporate capital gains are taxable: the ratio of taxable corporate capital gains to book value gains was 51.5% in 2022. The favourable tax treatment of capital gains encourages corporations to put more emphasis on buying and selling assets, rather than producing goods and services.

Financial industries receive a larger share of corporate capital gains…

Figure 16. Financial Share of Corporate Capital Gains, 2002-2022

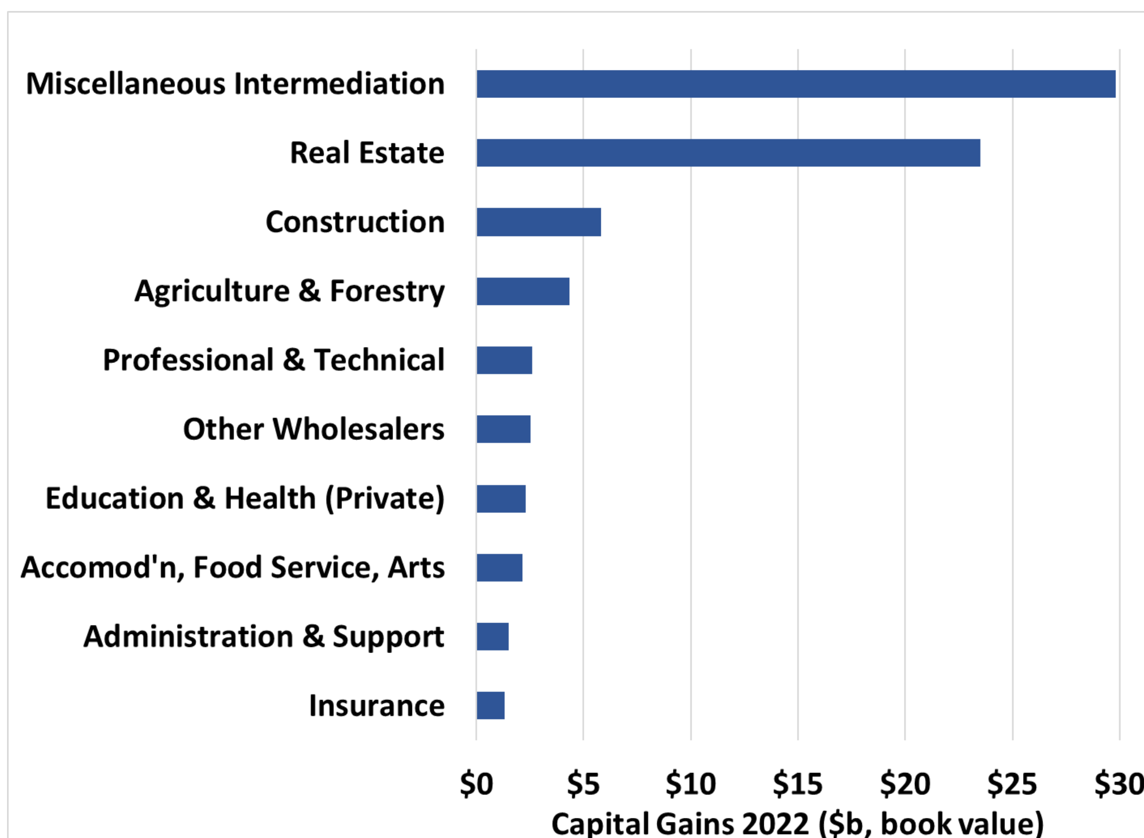


Source: Centre for Future Work from Statistics Canada Tables 33-10-0499-01 and 33-10-0500-01.

A growing share of corporate capital gains has accrued to businesses in the finance and banking sector of the economy. In 2022 (most recent data available), ***financial corporations reported $33 billion in book capital gains*** – by far their highest ever. That represented ***38% of all corporate capital gains in 2022***, also the highest share ever. Over 90% of those financial capital gains in 2022, and over 75% over the entire previous decade, were reported by one specific sub-sector of finance, called 'Miscellaneous Intermediation.' This sector includes sophisticated investment banks, brokers, and other financial traders, which buy and sell many billions of dollars of securities and financial assets each day, profiting from often-small changes in prices. Using derivatives like short-selling, they can even profit when asset prices are falling. ***Favourable tax treatment of capital gains rewards this unproductive speculative behaviour***, and is one reason for the longer-run expansion in hyperactive financial activity – even amidst the broader economic stagnation which has gripped Canada's economy.

Finance and property businesses capture most corporate capital gains…

Figure 17. Top Ten Corporate Capital Gains by Sector, 2022



Source: Centre for Future Work from Statistics Canada Tables 33-10-0499-01 and 33-10-0500-01.

Corporate capital gains have expanded dramatically in recent years. However, they are not shared broadly across the economy. Because capital gains result from selling assets for more than they cost, ***corporate capital gains are concentrated in sectors that focus on trading and re-selling (rather than real production)***. As noted above, 'Miscellaneous Intermediation' had the largest capital gains in 2022 (almost $30 billion, over one-third of the economy-wide total). The next biggest claimant was real estate – not surprisingly, given escalating property prices. It reported $23.5 billion in capital gains in 2022, over a quarter of the national total. The construction sector came third, with $5.8 billion in gains (mostly from sales of new or renovated properties). Other entries on the 'top ten' list include other sectors for which property ownership and resale is an important part of business: including agriculture and forestry, private health care (such as long term care facilities), and hotels. In sum, ***the vast majority of corporate capital gains arise from speculative financial and property sales*** (the intermediation, real estate, and construction sectors alone account for over two-thirds of the total). It is often argued that tax preferences for capital gains are necessary to support the technology industry. However, ***the professional, technical, and scientific sector received less than 3% of all corporate capital gains in 2022***.

Major corporate capital gains recipients create very few jobs…

Table 3
Employment Performance of Major Corporate Capital Gains Recipients

Sector	Five-Year Capital Gains to 2022 ($B)	Share Canadian Total	Five-Year Job Creation to 2022	Share Canadian Total
Miscellaneous Intermediation	$93.4	28.6%	1,183	0.1%
Real Estate	$78.4	24.0%	-5,931	-0.5%
Construction	$18.7	5.7%	133,334	11.2%
Professional, Science, Technical	$17.9	5.5%	274,480	23.0%
Mining & Petroleum	$17.0	5.2%	6,827	0.6%
Agriculture & Forestry	$16.5	5.1%	-12,500	-1.0%
Other Wholesalers	$8.5	2.6%	7,808	0.7%
Accommodation, Arts, Food Service	$8.0	2.5%	-72,151	-6.0%
Transportation (excl. Warehouse)	$6.5	2.0%	44,535	3.7%
Administrative Support & Waste	$5.6	1.7%	24,026	2.0%
TOP TEN	**$270.7**	**82.9%**	**401,611**	**33.6%**
ALL OTHER SECTORS	**$55.9**	**17.1%**	**792,058**	**66.4%**

Source: Centre for Future Work from Statistics Canada Tables 14-10-0202-01, 14-10-0392-01, 33-10-0499-01, and 33-10-0500-01. Capital gains at book value. Sector definitions adjusted to match payroll employment data. Agriculture & forestry sector reports labour force survey data (and total job-creation is adjusted to include that sector). Excludes private health and education capital gains due to lack of compatible employment data. See appendix for concordance of NAICS codes for employment comparisons.

The Conservative leader calls the budget's capital gains reform a "job-killing tax". But ***corporations receiving the largest capital gains have a poor record of job-creation***. Reducing tax subsidies for these corporations, therefore, will not significantly impact overall job-creation. The largest gains recipient, ***Miscellaneous Intermediation, reported $93 billion in gains over the most recent five years (to 2022), while creating just 1,183 new jobs***. The second-largest, ***Real Estate, reported $73 billion capital gains and eliminated almost 6000 jobs***. Among the top ten capital-gains-reporting sectors, only two (Professional Services and Construction) saw significant employment growth – and the relevance of capital gains tax rates to that job-creation is questionable. The seventh biggest capital gains recipient, Other Wholesalers, received most of its gains in 2021 and 2022, as a result of price hikes resulting from pandemic shortages.

Myths and misinformation about capital gains…

To conclude, here are brief responses to some of the most common and misleading arguments against capital gains tax reform being promoted by opponents of the government.

Capital gains will be taxed at 67%.

This claim has been advanced by many critics – including one Conservative MP (who posted false information he retrieved from Chat GPT!).[4] 67% is the new *inclusion rate* (for those with over $250,000 capital gains in one year), not the *tax rate* on capital gains. The actual rate of tax paid by a capital gains recipient is the inclusion rate times the marginal tax rate that applies to their level of income. Individuals with low or middle incomes will still include only 50% of their capital gains, which are then taxed at marginal rates ranging from 15% (up to about $56,000 total income) to 20.5% (in the next category up to $112,000). Including provincial income taxes (which range between 5% and 16% for those income categories, depending on the province), the combined marginal capital gains tax rate for those individuals is therefore between 10% and 18% – not 67%. For low and middle-income earners, that's lower than many other countries, including the U.S. (which has no partial inclusion system: someone with $50,000 income pays 15% tax on all capital gains, topped up in most states with a state-level capital gains tax). Higher-income capital gains recipients pay higher marginal rates, consistent with the principles of progressive taxation. But even the tiny group of taxpayers with over $250,000 capital gains in one year, will pay only the higher inclusion rate (66.7%) times their marginal tax rate (around 50% including provincial taxes) – or about 34%. And that is only on capital gains *above* the $250,000 threshold. The overall rate is lower, depending on how much capital gains are reported. For example, someone with $300,000 capital gains would face a combined inclusion rate of 53% (the weighted average of 50% on the first $250,000, and 66.7% on the rest), for a marginal tax on capital gains (including provincial income taxes) of about 27%. Under this reform, those who exceed the $250,000 single-year threshold will have to pay income tax at existing tax rates on an additional one-sixth of their capital gains (the difference between 50% and 66.7%) over and above $250,000 in a year. That results in a roughly 9 percentage-point increase in their marginal tax, just for the above-threshold gain. Meanwhile, employees and other Canadians must pay tax on all their income: their 'inclusion rate' remains 100%.

This change will hurt middle-class people.

As shown above, two-thirds of tax savings from partial inclusion are received by tax-filers with total incomes over $250,000. That grous constitutes the richest 1.5% of the population, who cannot be considered 'middle-class' by any definition. A few people with modest incomes in *most* years, may receive one-time capital gains large enough (over $250,000 in a single year) to attract the higher inclusion rate (and even then only on gains over and above that threshold).

[4] See Major and Mohan (2024) for details.

But claims this will affect large numbers of middle-class people are false.[5] Existing and expanded exemptions for small businesses, farms, and entrepreneurship investments will reduce or eliminate those extra taxes for most people in this situation. Additional flexibility is provided through other provisions allowing for splitting capital gains over several years (with the $250,000 threshold applied in each year), special provisions for selling capital assets to family members, and other exemptions. Canada's income tax system does not have a general income-averaging provision. So any other one-time or non-continuing surge in a person's income *in any form* will also normally incur higher marginal tax rates. Nevertheless, the proposed capital gains reform will protect the vast majority of Canadians from any impact at all because of the $250,000 single-year threshold. At any rate, and in moral terms, asking those with capital gains large enough (in just a single year year) to not only exceed the $250,000 threshold, but also exhaust all other exemptions and cushions (for farms, small businesses, etc.), to pay an incrementally higher tax rate on those above-threshold gains, hardly seems unfair.

Capital gains shouldn't be taxed, because only investors take risks.

Some opponents of reforming capital gains taxes argue that investors deserve lower taxes on their gains (or, in the view of many pundits, shouldn't have to pay tax on them at all) because of the 'risks' they encounter in making an investment. In contrast, they claim, other forms of income do not face risks – and hence it's not unreasonable that workers and other taxpayers should face an 'inclusion rate' of 100% (while investors only include half their gains). However, 'risk-taking' is not, in itself, a productive activity: to the contrary, we teach our children to *avoid* unnecessary risks—and it is hardly efficient for public policy to encourage risk-taking for its own sake. Where investments face a genuine risk-return trade-off, investors demand a higher rate of return on assets that are considered riskier, and this is already reflected in differential returns generated by different asset classes (such as higher interest rates paid to investors who lend to borrowers with higher credit risk). And in the sectors where most capital gains (and resulting tax savings) have been concentrated, most of the 'risk' faced by asset owners arises from wild fluctuations in asset prices that are made worse by hyper-speculative buying and selling (in markets like financial assets and real estate). Those fluctuations are exacerbated by tax subsidies on capital gains, and moreover impose substantial spillover risks on the rest of the economy. Finally, it is obviously wrong to imply that workers and other participants in the economy do not take risks: workers face risks in all areas of their working lives, from health and safety risks at work, to the risk of job loss, to risks of exploitation and mistreatment on the job. Owners of most small businesses, many of which are not incorporated and will never generate capital gains, face far more risk in their day-to-day operations (including high bankruptcy rates) than passive financial investors – yet they also do not have access to this preferential tax loophole.

[5] A coalition of six business groups opposing the tax reform (including the Canadian Chamber of Commerce and the Canadian Federation of Independent Business) initially claimed that one in five Canadians would pay higher capital gains taxes as a result, but had to retract the claim when it was shown to be false; see al Mallees (2024) for details.

Higher capital gains taxes will hurt farmers and food supply.

Capital gains taxes do not affect the continuing operation of farms. They only kick in when an owner of a farm *sells* their property. So the reform in capital gains taxes does not affect working farms; rather, it affects people who want to sell their farms. Indeed, the biggest capital gains for (a lucky few) farmers are accrued on farms near larger towns or cities that are sold off for residential or commercial development. Those farms become worth many millions of dollars – not for growing food, but for property development. In this regard, capital gains loopholes are a subsidy for the *diminishment* of agricultural activity, not its *continuation*. An inadvertent example is provided by the Grain Growers of Canada (2024), which published tax analysis for what it calls "illustrative" farms as part of its campaign against the capital gains tax reform. The examples chosen for their analysis were based on pre-tax capital gains from the sale of farms of between $10 million and $16 million each. Remember, those are the *net* proceeds after deducting purchase price and all investments in maintenance and improvement while the property was owned; the *gross* purchase prices for these "illustrative" examples would be much higher. Any individual who makes $10 million (or more) net profit from sale of a property, even if they 'worked hard' to make that investment successful, cannot be considered 'middle class' by any stretch of the imagination. The Grain Growers of Canada then extrapolated this analysis to make the preposterous claim that the capital gains tax change "will increase taxes by 30% on family farms." Wrong! It will have no impact on operating family farms. Only an owner pocketing multi-million-dollar net profits from *selling* their farm, after exhausting all the special exemptions that already exist for farms, would see their capital gains tax (not their total tax) increase by this much. For genuine family farms, existing rules provide several different exemptions and options to reduce capital gains taxes on the sale of farms: including a $1.25 million lifetime exemption on any capital gains tax, capital gains reserves (which allow the sale to be staged over five years or even longer, with the $250,000 threshold applied in each year), and special provisions for transferring assets to family members. Xuereb (2024) shows that the sale of a *median* farm in Ontario will face slightly *less* capital gains tax as a result of this reform, due to the simultaneous increase in the lifetime capital gains exemption for farmers and small business owners.

Investors already paid taxes on their capital, they shouldn't have to pay taxes again.

An investor may or may not have paid tax on the funds they used for an initial investment, depending on how they came by that initial stake. If they inherited it, they did not pay tax on it. If they reinvested proceeds from a previous capital gain, they paid tax on only half of it. But at any rate, capital gains taxes are not levied against the value of that *initial investment*. They are only applied against the *proceeds* made from its sale: after deducting the initial investment value, as well as any other money spent on that investment in the meantime (such as maintenance or renovation costs, in the case of a building or property). And for the individual investors, those net proceeds are only taxed once.

Higher taxes on capital gains will undermine investment and innovation.

As noted above, there is no historical correlation between the capital gains inclusion rate and investment by Canadian companies in things like machinery & equipment, new technology, or innovation (via R&D, intellectual property, etc.). Indeed, the strongest historical investment effort by Canadian business occurred in the 1980s and 1990s, when the inclusion rate was either 66.7% or 75%. Investment slowed down appreciably after the inclusion rate was reduced to 50% in 2000. Moreover, only a small share of corporate capital gains (just 3% in 2022) is received by the professional, technical, and scientific sector. Most are received by industries that focus on buying and selling assets (like financial intermediation and real estate), not developing new technology. A well-known problem in Canada's R&D underperformance is the tendency by successful Canadian start-up firms to sell out to bigger buyers (usually based in the U.S. or other countries), rather than sustaining their businesses through a longer-term process of expansion.[6] In this context, making the sale of a business *more appealing* on tax grounds (which is the effect of tax loopholes for capital gains) has counter-productive implications for growing Canada's high-tech sector. At any rate, if the goal of policy is to support more investment, innovation, and growth in technology-intensive industries, the current system of capital gains partial inclusion is incredibly inefficient: it would be far more efficient for government to directly subsidize or target desired technology investments, rather than dispersing tens of billions in tax subsidies across a whole range of industries (most of which have little if anything to do with technological innovation). Other research suggests that the share of technology workers in Canada with single-year capital gains income high enough to exceed the $250,000 threshold is very low;[7] it is mostly the owners of technology businesses, not the large majority of their employees, who would be affected by this change.

[6] For more discussion of this problem, see Gallini and Hollis (2019).

[7] Lockhart and Vu (2024) report that just 0.2% of workers in the technology sector reported over $250,000 in capital gains in 2021.

Data Sources and Methodology

This chartbook relies on data from official Government of Canada sources, including:

- Statistics Canada National Income and Expenditure Accounts (including Table 36-10-0118-01).
- Statistics Canada corporate balance sheet, income statement and taxation statistics (including Tables 33-10-0499-01 and 33-10-0500-01).
- Canada Revenue Agency (including T1 Final Statistics, 2023, for the 2021 tax year, https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/t1-final-statistics/2021-tax-year.html).
- Finance Canada (including *Report on Federal Tax Expenditures* 2024, https://www.canada.ca/en/department-finance/services/publications/federal-tax-expenditures/2024.html).

CRA statistics covering the 2021 tax year are the most recent complete actual data available.

Estimates of the size and distribution of tax savings resulting from the previous 50% capital gains inclusion rate (presented on pages 15-16 of this report) were developed as follows. Conveniently, current federal marginal income tax thresholds correspond reasonably closely to the total income categories used in Figures 1 through 12 above. For those with taxable income less than $56,000 in 2024, the federal marginal tax rate is 15%. For those earning $100,000 or somewhat below, the rate is 20.5%. For those earning $250,000 or somewhat below, the rate is 29%. For those earning over $250,000 the marginal rate is 33%. Provincial income taxes add to these marginal rates. While there is great variation in tax rates and thresholds across provinces, on average provincial personal income taxes add about 60% to federal income taxes.[8] To calculate tax savings from partial inclusion for each income category, the average exempted capital gains in 2021 (roughly equal to the declared capital gains, since the inclusion rate was 50%) was multiplied by 1.6 times the marginal federal personal income tax rate for that category. Total savings for each category were then estimated by multiplying that estimated saving per claimant by the number of claimants in that category in 2021.[9]

The analysis of sectoral employment performance for major recipients of corporate capital gains (provided in Table 3 above) requires a concordance between the sectors defined in the Statistics Canada corporate financial data, and the Statistics Canada employment data (taken from the payroll survey). Since the two sources do not always use identical sectoral definitions, some of the top ten sectors listed in Table 3 have been consolidated from more disaggregated sectors

[8] Based on calculations from Statistics Canada Tables 11-10-0054-01 and 36-10-0118-01.

[9] Consistent with this estimate, other research has also found that the share of top-income tax-filers in total tax savings resulting from partial inclusion is several percentage points larger than the share of top tax-filers in total taxable capital gains; see, for example, Smart (2021).

broken out in one or the other of those sources. In particular, the following major capital gains receiving sectors in Table 3 were defined with adjusted NAICS codes to be consistent with available data from the two sources:

Miscellaneous Intermediation: 5232, 5239
Mining & Petroleum: 211, 212, 213
Other Wholesalers: 41 excluding 415, 416, and 417
Arts, Accommodation & Food Service: 71 and 72
Transportation (excl. Warehouse): 48-49 excluding 493

The agriculture and forestry sector is a major recipient of capital gains, but is not covered by Statistics Canada's payroll employment survey. Five-year change in employment for that sector in Table 3 was thus calculated from the labour force survey, and the total economy employment change was adjusted accordingly to be consistent.

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