Navigating Capital Gains Tax Changes: A Call for Strategic Intergenerational Wealth Planning

The recent and abrupt changes to the taxation of capital gains in Canada is likely a harbinger of our future tax climate. These types of changes will persist as all levels of government seek to raise revenues in a post-COVID-era characterized by an ever-aging demographic profile. Although voters will ultimately decide whether these tax code responses will persist, the changes themselves highlight an inflection point for farmers, business owners, and all Canadians with wealth and their associated advisors to develop a more holistic and responsive process to intergenerational wealth planning.

The increased tax load for Canadian taxpayers associated with these changes is an opportunity to review and revise wealth planning strategies and processes more collaboratively. Traditional tactical tools such as exemptions, deferrals, and substantial rollovers will remain critical features of the farm succession toolkit. However, going forward, what has really changed is that some of these responses to these tax changes may require genuine, supplemental attention to collating and sharing family values, developing communication strength between generations, and crafting comprehensive and shared intergenerational wealth plans.

The main upshot of the changes is that there is now an increased level of friction (tax cost) on transition of capital between generations. Friction creates heat that can often engulf a poorly planned estate into flames. Therefore, the opportunity created by this friction is to identify the grease and lubricants needed to lower the heat. Traditional approaches may no longer be sufficient and ignoring these planning gaps will cause issues. Farm and business families need to approach their planning with a strategic mindset by understanding the shared goals of the impending asset transition.

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The responses may be far more complicated than previous transitions and demand added tools such as strategic ownership restructuring, sinking funds, and strategically owned and managed life insurance. Moreover, there may be some very difficult choices to be made, such as tactical asset divestment, to achieve the broader strategy for the enterprise assets of the farm or business.

One of the biggest planning changes that may now be needed while in a period of flux is a different approach to planning itself. Understanding the shared goals of all members of the family is an essential form of planning intelligence. It assists with crafting tactical responses that are more likely to succeed. The new burdens of cost friction on transition will need shared planning between generations to create successful tactical responses. However, tactical success requires alignment with strategy. Many business families have not paid much attention to creating strategic planning muscles in the body of their family. The recent tax increases make strategic intergenerational wealth planning even more essential.

Strategic planning starts with understanding the shared values of the family members involved in the asset transition. Do they want the farm to transition across future generations? Will there be future generations that are interested in the farming opportunity? Are we prepared to wait, and see? What is the interest of those family members that don't want to be part of the broader transition but want to cut their own paths? What sacrifices are we prepared to make to ensure that the tax cost on transition does not substantially interfere with the strategic, longer-term goals?

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These are all tough questions that require a unified family vision. The key is to have unified introspection, governance, and communication within the family. Have these questions been assessed, discussed and developed to allow for meaningful growth? The next generation must be engaged in financial pre-transition planning. Is there a process to permit successful family meetings and shared decision-making? It is not easy for parents to suddenly expect their adult children, who will likely be very different people with varying skill sets, to successfully engage in shared decision-making on important issues such as farm transition planning. This may require several years of working with a family business advisor and other professionals to create the necessary capacity.

Change is a constant and tax changes should never derail a successful business transition. This is the time to hold a family meeting to discuss and align the future of the family business. Aligning the values, vision, and mission of the family and the business is the first step in creating a plan and dealing with the constant changes that will impact the future of the family and the business. It is not a one-and-done plan. It needs to be flexible to deal with changes that occur in your family, the tax implications, and the opportunities that present themselves over the years.

Now is the time to gather your family and your advisor team to come up with strategies that will allow for all the changes that will impact your future vision and legacy. Don't let tax changes, death, or disability derail your plans.

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