

# Prorogation Purgatory: What Parliament's Shutdown Means for Proposed Tax Changes



On January 6, 2025, Prime Minister Justin Trudeau resigned, effective upon selection of a new leader of the Liberal Party of Canada, and requested that Parliament be prorogued. The Governor General consented to the request, terminating all parliamentary activities until March 24.

## What does this mean for previously announced proposals?

Any bill that hasn't become law by the time of prorogation is effectively canceled, and would need to be reintroduced when Parliament resumes—unless the House votes to reinstate it.<sup>1</sup> Given the government is expected to face a confidence vote soon after Parliament reconvenes, and opposition parties have stated they will vote down the government, there's uncertainty about whether any new or previously cancelled bills will be introduced before an election is called.

Over the past year, several significant tax proposals have been announced, but not yet been included in a bill. With prorogation and the possibility of a spring election, the fate of these proposals is now unclear.

## Here are some key proposed tax measures you may be wondering about:

### 1. Increase to the capital gains inclusion rate

The [2024 Federal Budget](#) proposed to increase the capital gains inclusion rate from 50 per cent to 66.67 per cent for individuals' capital gains in excess of \$250,000 and for all capital gains of corporations and trusts, starting on June 25, 2024. These proposals would effectively raise the tax rate on capital gains by seven to nine per cent depending on the jurisdiction.

While draft legislation for these changes was included in a September 2024 *Notice of Ways and Means Motion* (NWMM), and reaffirmed in the [December 2024 Fall Economic Statement](#), it still needs to be passed in a bill. If an election is called before such a bill is enacted, the future of this proposal will depend on the next government.

However, the Canada Revenue Agency's (CRA) longstanding practice is to administer tax rules introduced in a NWMM even before they are formally enacted.

CRA confirmed it will apply the new inclusion rate to capital gains realized on or after June 25, 2024, even if the rules haven't, and may never, become law.<sup>2</sup>

Impacted taxpayers preparing their 2024 tax returns will face a tough decision:

- File returns and pay taxes based on the proposed 66.67 per cent inclusion rate now, and potentially need to amend those returns down the road to recover overpaid tax if the change doesn't pass, or
- Use the current 50 per cent inclusion rate and risk facing additional taxes and interest if the change is eventually enacted.

<sup>1</sup> Parliamentary Cycle - Our Procedure - ProceduralInfo - House of Commons of Canada

<sup>2</sup> <https://www.canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-tips-2025/top-changes-affecting-business-taxes-2025.html>

## 2. Trust reporting and bare trusts

Starting for the 2023 tax year, new trust reporting rules required many informal "bare trusts" to file tax returns for the first time. Following significant confusion over these rules, CRA exempted bare trusts from these filing requirements for 2023, mere days before the returns were due.<sup>3</sup>

In August 2024, draft legislative proposals were released to clarify the trust reporting rules, revise the bare trust reporting requirements starting in 2025, and exempt bare trusts from reporting for the 2024 tax year. CRA subsequently announced that it will not require bare trusts to file trust returns for the 2024 tax year, unless a direct request is made.<sup>4</sup> CRA confirmed the filing exemption for bare trusts on January 7, post-prorogation.<sup>5</sup>

Because of the technical nature of these amendments to address prior issues with the trust reporting rules, they are perhaps more likely to proceed (though possibly with further amendments) than the more controversial proposed increase to the capital gains inclusion rate.

## 3. Extension for 2024 charitable donations

Mere days before prorogation, the government announced plans to allow charitable donations made up to February 28, 2025 to be applied to the 2024 tax year.<sup>6</sup> The announcement was intended to address delays caused by a Canada Post mail stoppage.

Because Parliament is now prorogued, there will be no opportunity to introduce legislation to bring these changes into effect before the proposed February 28, 2025 donation deadline or possibly even before the April 30, 2025 personal tax filing deadline. If an election is called before the legislation is enacted, the new government will decide whether to introduce the measure.

### What now?

Taxpayers should consult their qualified tax advisors to understand how Parliament's prorogation may affect their tax filings. Underused Housing Tax reporting in 2022 and the bare trust reporting requirements in 2023, provide recent examples of how early filers were penalized as last-minute extensions and/or exemptions were announced. Whether and when this year's uncertainties will be clarified further remains to be seen.

<sup>3</sup> New – Bare trusts are exempt from trust reporting requirements for 2023 - Canada.ca

<sup>4</sup> Trust reporting for the 2024 tax year – Bare trusts not required to file the T3 Return and Schedule 15 - Canada.ca

<sup>5</sup> <https://www.canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-tips-2025/top-changes-affecting-business-taxes-2025.html>

<sup>6</sup> <https://www.canada.ca/en/department-finance/news/2024/12/government-of-canada-announces-extension-of-2024-charitable-donations-to-february-28-2025.html>

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