

Tax Tip
Week of July 5, 2010

Capital Gains Reserves

If an individual generates a gain from selling an asset and a portion of the proceeds of the sale are not payable until a future calendar year, a capital gains reserve can be claimed that will defer the payment of the tax on the gain to a future year. In most cases the gain must be brought into income over a five year period, but it can be extended up to ten years if the sale was to a child or grandchild of a small business or family farm.

The gain that can be deferred is calculated by the following formula:

$$\frac{\text{Capital gain}}{\text{Selling price}} \quad \times \quad \text{amount payable after the end of the year}$$

There may be a net savings on the capital gain if the taxpayer's marginal tax rate will decline in the next few years, due to retirement or some other factor.