ACPC
ADAM CAITHNESS PROFESSIONAL CORPORATION

The Exit Tax Playbook

What the tax on selling your business depends on, and when to start working on it

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FOR	Owners of Canadian-controlled private corporations
RULES AS OF	October 28, 2026 (federal rules for the 2026 tax year)

1 Why the tax is settled years before the sale

Most owners start thinking about the tax on a sale when there's a buyer at the table. By then most of the big decisions have been made, usually by default.

The biggest break the Income Tax Act gives a business owner is the lifetime capital gains exemption. Whether you get it, and how many people in your family get it, depends on what your company owned over the two years before the sale and on how your shares were set up long before that. Some of the planning needs five years or more to work. None of it can be done the week before closing.

I've sat on the owner's side of that table. I was co-owner and CFO of SimFront and SimWave, two Ottawa tech companies. In 2018 I led a management buyout, and in 2021 both companies were sold to Calian. I learned what a buyer looks for, how long the paperwork takes, and which decisions you can't undo once a letter of intent is signed.

This guide sets out the federal rules as they stand in October 2026, in plain words. It won't make you a tax expert. It should tell you whether you have work to do, and roughly how long you have to do it.

> **HOW TO READ THIS**
> Read section 2 and the timeline in section 11 first. Then read what fits you: farms (4), family (6 and 7), employees and managers (8). If you might sell within two years, read section 3 this week.

2 The lifetime capital gains exemption

When you sell shares for more than you paid, the profit is a capital gain. Half of it is taxed. The lifetime capital gains exemption (LCGE) lets you sell qualifying shares, or qualifying farm or fishing property, and pay no regular income tax on the gain up to a set limit.

For 2026 the limit is $1,275,000. It was $1,250,000 for sales from June 25, 2024 through the end of 2025. That increase became law in March 2026, and the limit is now indexed to inflation each year, starting in 2026.

Lifetime capital gains exemption	2026	2025
Limit: the capital gain you can shelter	$1,275,000	$1,250,000
Deduction on your return (half the limit, because half a gain is taxable)	$637,500	$625,000

Three things about it matter more than the number.

- **It's per person.** You have your own exemption. So does your spouse, and so does each adult child, if they own qualifying shares directly or through a family trust. That's what section 6 is about.
- **It's lifetime.** Anything you've claimed before comes off what's left.
- **It's on shares, not on what the company sells.** If your corporation sells its equipment and customer list, the corporation pays the tax and the exemption doesn't apply. Section 5 covers this.

You also have to be resident in Canada throughout the year of the sale. And a large gain sheltered by the exemption can still trigger alternative minimum tax. Section 9 covers that.

3 Whether your company qualifies

The exemption only applies to shares of a qualified small business corporation (QSBC). There are four tests. Fail any one and the exemption is gone for that sale.

Canadian-controlled	The company has to be a Canadian-controlled private corporation (CCPC): a private Canadian company that isn't controlled by non-residents or a public company. It has to stay that way through the 24 months before the sale.
The 90% test, at the sale	At the time of sale, 90% or more of the market value of the company's assets has to be used mainly in an active business carried on mainly in Canada. Shares and debt of connected small businesses that qualify can count too.
The 50% test, over 24 months	Throughout the 24 months before the sale, more than 50% of the market value of the company's assets has to meet that same active-business test.
The holding period	Throughout the 24 months before the sale, nobody other than you, or someone related to you, can have owned the shares.

WHAT USUALLY FAILS

It's rarely the business itself. The tests count the market value of everything the company owns. A profitable company that keeps its earnings builds up cash, GICs, an investment account, sometimes a rental property. None of that is used in the active business. Once it's more than about a tenth of the company's value, the 90% test fails. The test runs on market value, not on the balance sheet, and goodwill counts on the active side, which helps.

PURIFYING THE COMPANY

Getting the passive assets out is called purifying. The usual ways are paying the surplus out to the shareholders, moving it up to a holding company before it becomes a problem, or putting it to work in the business. Each has a tax cost, and moving money between companies has its own rules that can turn a tax-free dividend into a taxable capital gain if it's done carelessly.

Purifying the week before a sale can fix the 90% test. It can't fix the 50% test, which looks back 24 months. That's why I want to see your balance sheet at least two years before you sell.

4 Farms and fishing property

Farm families get the same exemption under different rules. The exemption for qualified farm or fishing property is the greater of $1 million and the indexed limit for small business shares. Right now that means it's the same number: **$1,275,000 for 2026.**

What can qualify: farmland and farm buildings, quota, shares of a family farm corporation, and an interest in a family farm partnership. The big difference from small business shares is that **farmland you own personally can qualify on its own.** You don't need a share sale to use the exemption on the land.

The property has to pass two tests.

- **Ownership.** You, or a related person, owned it throughout the 24 months before the sale.
- **Use in farming in Canada.** Either, in at least two years while it was owned, the gross revenue of the person farming it was more than their income from all other sources, and they were actively engaged in farming on a regular and continuous basis. Or, for at least 24 months, a family farm corporation or partnership used it in a farming business that you or a family member was actively engaged in.

Land that's been rented to an unrelated farmer can fail the use test, depending on its history. If you've rented out land, I'll want to know who farmed each parcel and how, back to when you bought it.

PASSING THE FARM TO A CHILD

If you're handing the farm to a child rather than selling it, there's a separate rule. Farmland, farm buildings and equipment, shares of a family farm corporation, and an interest in a family farm partnership can go to a child who's resident in Canada at any price between your cost and market value.

Transfer at cost and the tax is put off until your child sells. Transfer at a higher price and you can use some of your own exemption on the way out, which also gives your child a higher cost for when they sell. And if your child pays you over time, the gain can be spread over up to ten years instead of the usual five. That choice is worth working out with real numbers before the papers are drawn up.

5 Selling shares or selling assets

There are two ways to sell a business. You sell your shares, and the buyer gets the company with everything in it. Or the company sells its assets (equipment, inventory, customer list, goodwill), and you're left holding a company full of cash.

Buyers usually want assets. They choose what they take and leave the history behind, so any old tax or legal problems stay with you. They also get to write off what they paid for the equipment and goodwill against their future profits.

Sellers usually want shares. A share sale is the only way to use the exemption, apart from farm property you own personally. It's one tax event, on your personal return. In an asset sale, the corporation pays tax first: on any gain, and on recaptured depreciation where equipment sells for more than its tax value. Then you pay personal tax again when you take the money out. Part of that is softened, because the untaxed half of the company's gain can come out to you tax-free through its capital dividend account. Even so, an asset sale usually leaves you with less after tax than a share sale at the same price.

What that means for you: the price isn't the number that matters. What you keep after tax is. A higher price for assets can be worth less to you than a lower price for shares, so I'd run both before you answer an offer. And because buyers want a clean company in a share sale, the purifying in section 3 makes your shares easier to sell, too.

Many deals land in between: a share sale for the company, a separate deal for land or a building held outside it, or a price adjustment to make up for the write-offs the buyer gives up.

6 Multiplying the exemption across your family

Because each person has their own exemption, a family of four that owns the shares the right way can, in principle, shelter four times as much gain as one owner. That only works if the shares are in their hands, or held for them, long enough before the sale. This is the planning with the longest lead time.

ESTATE FREEZE

You exchange your common shares for preferred shares fixed at today's value. New common shares are issued for a nominal amount, usually to a family trust or directly to family members. From that day the growth belongs to the new shareholders, and your own tax on a sale or on death is capped at today's value. A freeze needs a proper valuation, and a lawyer to draft the share terms.

FAMILY TRUST

A discretionary family trust can hold the new common shares. When the company is sold, the trust can pass the gain out to the beneficiaries, and each one who qualifies claims their own exemption.

Watch the clock. Brand-new shares issued from the company's treasury are treated as if a stranger owned them before they were issued, so they generally have to be held for 24 months before they can qualify. A freeze has to happen at least two years before a sale, and in practice much earlier, because the growth you're trying to share has to happen after it.

TAX ON SPLIT INCOME (TOSI)

TOSI charges the top personal rate on certain income paid to family members through a private company, which has shut down most income splitting with dividends. The good news for an exit: a taxable capital gain from selling qualified small business corporation shares or qualified farm or fishing property is generally excluded from TOSI. There's an exception for children under 18 selling shares to someone they don't deal with at arm's length. Dividends paid out along the way are a separate question and are often caught.

THE TRUST'S 21-YEAR RULE

A family trust is treated as selling everything it owns at market value every 21 years. If the shares have grown and the business hasn't been sold, that's a large tax bill with no sale proceeds to pay it. The usual answer is to move the shares out to beneficiaries before the anniversary, which forces a decision about who ends up owning what. Write the date down the day the trust is set up.

WHETHER IT PAYS

Giving your family a stake in the company is a family decision first and a tax decision second. A trust lets you decide later, within limits, who benefits. It also costs money to set up and to keep up, including a trust return every year. It tends to make sense when the expected gain is well above one person's exemption and the sale is still years away.

7 Selling to your kids

For years, selling your company to your own children could cost more tax than selling to a stranger. If your child set up a company to buy your shares (the usual way, so the purchase can be paid for out of the company's after-tax profits), an anti-avoidance rule in section 84.1 of the Income Tax Act could turn your capital gain into a dividend. That meant no exemption and a higher rate.

Rules in force for sales from January 1, 2024 fix that, if you meet the conditions. There are two routes. You and your child choose one with a joint election (Form T2066), filed by the tax-filing deadline for the year of the sale.

Immediate transfer (36 months)	Your child's company buys the shares and takes control right away. From the sale, you and your spouse can't own 50% or more of any class of shares other than non-voting preferred shares, and within 36 months you can't own any shares other than those. Within 36 months you've taken reasonable steps to hand over management and stepped back for good. For those 36 months your child controls the buying company and at least one child is actively engaged in the business on a regular, continuous and substantial basis.
Gradual transfer (five to ten years)	Your child's company takes control right away and you hand over the rest over time. Within 10 years of the sale, the value of what you and your spouse still hold in the company (shares and debt) has to come down to 30% of its value at the time of sale, or 50% for a family farm or fishing corporation. Your child keeps control and stays actively engaged until the later of 60 months and the

	end of that wind-down. You hand over management within 60 months, or a longer period if that's reasonable.

Both routes need qualifying shares (qualified small business corporation shares or shares of a family farm or fishing corporation), and the buying company has to be controlled by your children who are 18 or older. "Child" is wide here: grandchildren, step-children, children-in-law, nieces and nephews can count.

If the conditions stop being met later, the sale is taxed as a dividend after all, and your child is liable along with you for the extra tax. If your child pays you over time, the gain can be spread over up to ten years.

These rules work, but they're strict. They suit a family where a child already works in the business and wants to run it. If you're not ready to let go of management, they're the wrong tool, and we should talk about a freeze instead.

8 Selling to employees or managers

EMPLOYEE OWNERSHIP TRUST

An employee ownership trust (EOT) holds a company's shares for the benefit of its employees. You sell your shares to the trust, and it usually pays you over time out of the company's profits. Since 2024 there's been a separate exemption for these sales: **up to $10 million of capital gains can be exempt.** It also covers sales to a worker co-operative. It's a different exemption from the LCGE, with its own conditions.

Time limits. As first enacted, it only applied to sales from 2024 to the end of 2026. That end date is gone. The Spring Economic Update 2026 legislation, which became law in June 2026, made the exemption permanent.

The conditions are strict. The main ones:

- The $10 million is a cap on the sale, not on each person. If several owners sell together, they share it.
- Shares of a professional corporation don't qualify.
- For the 24 months before the sale, only you or people related to you can have owned the shares, and more than half the company's asset value has to be in its active business.
- You or your spouse must have been actively engaged in the business on a regular, continuous and substantial basis for at least 24 months at some point before the sale.
- At least 75% of the trust's beneficiaries must be resident in Canada.
- If the trust stops qualifying within 24 months after the sale, your exemption is reversed. If it fails later, the tax generally falls on the trust instead.

An EOT suits a business with a steady group of employees and steady profits, since the trust pays you out of those profits over several years. It doesn't suit a business that runs on you alone.

SELLING TO YOUR MANAGERS

A management buyout is a sale to the people who already run the place, usually with a bank loan and often with part of the price paid to you over time. I led one in 2018. For tax, it's an ordinary sale to a buyer you deal with at arm's length: if the managers buy your shares, the tests in section 3 decide whether you get the exemption.

The practical issues are financing and timing. Managers rarely have the cash, so expect to lend them part of the price (a vendor take-back). That carries risk, because you're relying on the business doing well after you've left. When you're paid over time, a capital gains reserve lets you spread the gain over up to five years.

9 Minimum tax on a big gain

Alternative minimum tax (AMT) is a second tax calculation that runs alongside the regular one. You pay whichever is higher. It was overhauled starting in 2024, and the changes land hardest on people who sell a business.

Rate	20.5% federal, on the amount above the exemption.
Exemption for 2026	$181,440. It's tied to the start of the fourth federal tax bracket and moves with it each year.
Ordinary capital gains	100% of the gain counts for AMT, not the usual 50%.
Gains sheltered by the LCGE	30% of the gain still counts for AMT.
Ontario	Ontario adds its own minimum tax on top of the federal amount.
Getting it back	AMT you pay can be credited against your regular tax over the next seven years, to the extent your regular tax is higher than AMT in those years.

A ROUGH EXAMPLE

Assume you sell qualifying shares in 2026 for a gain of exactly $1,275,000, claim the full exemption, and have no other income. Your regular federal tax on that gain is nil. For AMT, 30% of the gain counts: $382,500. Take off the $181,440 exemption and $201,060 is left. At 20.5%, that's **roughly $41,200 of federal minimum tax**, before personal credits and before Ontario's minimum tax. These are simplified assumptions; your real number depends on the rest of your return.

You can usually recover it, but only if you have enough regular tax in the following seven years. A retired owner with modest income may never get all of it back. The year of the sale, how the price is paid, and who in the family reports the gain all change the AMT. They belong in the plan, not in the last week.

10 What's law, what's proposed, what's cancelled

Tax announcements and tax law aren't the same thing. Here's where the measures that matter for a sale stood on October 28, 2026.

Measure	Where it stands
LCGE increase to $1.25 million	Law. Enacted March 26, 2026 (Budget 2025 Implementation Act, No. 1), for sales from June 25, 2024. Indexed from 2026: $1,275,000 for 2026.
Increase in the capital gains inclusion rate to two-thirds	Cancelled. Announced March 21, 2025, and confirmed in Budget 2025. The inclusion rate stays at one-half.
Canadian Entrepreneurs' Incentive	Not going ahead. Proposed in Budget 2024 and never enacted. The government confirmed in Budget 2025 that it would not proceed.
$10 million exemption for sales to an employee ownership trust or worker co-operative	Law, and now permanent. The end-of-2026 cut-off was removed by the Spring Economic Update 2026 Implementation Act (Royal Assent June 2026).
Family business transfers (section 84.1)	Law, for sales from January 1, 2024. Further amendments to the conditions were enacted in March 2026.
Alternative minimum tax changes	In force from the 2024 tax year. The 20.5% rate and the 30% inclusion of LCGE gains are in the Income Tax Act.

11 The timeline

This is the one place a checklist is the right tool. If you're already inside one of these windows, start with the earlier lists anyway and do what still can be done.

FIVE OR MORE YEARS OUT

- ☐ Keep the books current and get year-end statements done every year. A buyer and the CRA will both want them.
- ☐ Find out whether your company would pass the QSBC tests today. If it wouldn't, start purifying.
- ☐ Decide whether family members should share in future growth. If so, look at an estate freeze and a family trust now.
- ☐ If surplus cash keeps building up in the operating company, look at a holding company.
- ☐ If there's a family trust, write down its 21-year date.
- ☐ Farms: write down who has farmed each parcel, and how, since you bought it.
- ☐ Make sure your will and shareholder agreement match the plan. That's your lawyer's part.

TWO TO THREE YEARS OUT

- ☐ Run the QSBC tests again with the 24-month look-back in mind. Whatever is in the company 24 months before the sale counts.
- ☐ Get a valuation, or at least a realistic range.
- ☐ Pick the likely buyer: family, managers, employees through a trust, or an outside buyer. Each route has its own conditions and timing.
- ☐ Selling to family: check the section 84.1 conditions against your own plans to step back.
- ☐ Clean up what a buyer's accountant will find: shareholder loans, personal expenses run through the company, assets in the wrong company.

TWELVE MONTHS OUT

- ☐ Confirm the 90% test will be met on the closing date, and plan any final purifying.
- ☐ Compare what you'd keep after tax from a share sale and from an asset sale.
- ☐ Estimate the AMT, and decide whether payments should be spread over more than one year.
- ☐ Line up your lawyer, and your banker if you're financing the buyer.

AT THE SALE

- ☐ Before you sign, check the price allocation, earn-outs, holdbacks and vendor financing for their tax effect.
- ☐ Confirm the 90% test on the closing date itself.
- ☐ File the elections on time: for example Form T2066 for a family transfer, or Form T24EOT for a sale to an employee ownership trust.
- ☐ Set cash aside for AMT and tax instalments.
- ☐ Decide where the money goes next: a holding company, RRSP and TFSA room, your estate plan.

12 How I help

Succession and exit plans from $7,500, plus HST. That covers the whole plan: whether your company qualifies, an estate freeze, a holding company or family trust, share sale against asset sale, the LCGE, and the route to a buyer, whether that's family, managers or an outside buyer. Your lawyer drafts the legal documents and a valuator does the valuation; I work with both.

Planning engagements from $1,000, plus HST. If you're not ready for a full plan, start here: how you pay yourself, what to do with the money building up in the company, and whether family should be on the payroll.

I'm in Metcalfe. I'll meet you at your shop or your kitchen table, or by video if that's easier.

NEXT STEP

Start at www.adamthecpa.ca/start/. Tell me about your business and when you might want out. If it looks like a fit, we'll set up a short call to decide together whether to work together. There's no charge for that call, and paid work only starts with a signed proposal.

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This guide is general information, not tax or legal advice; it reflects federal rules as of October 28, 2026, and those rules change, so talk to me before you act on any of it.