



2013 Canadian Federal Budget - How will it affect the Canadian charitable sector?

By Mark Blumberg¹ (March 21, 2013)

There are about 15 pages of material in the 2013 Federal budget dealing with Canadian charities. Here are some excerpts from the budget and I will be placing further information on www.globalphilanthropy.ca

FIRST TIME DONOR'S SUPER CREDIT

To help sustain a higher quality of life for hard-working Canadian families, Economic Action Plan 2013 proposes to: Introduce a new, temporary First-Time Donor's Super Credit for first-time claimants of the Charitable Donations Tax Credit to encourage all young Canadians to donate to charity.

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Economic Action Plan 2013 responds to the Committee's report by proposing a new temporary First-Time Donor's Super Credit (FDSC) designed to encourage new donors to give to charity.

The FDSC will increase the value of the federal Charitable Donations Tax Credit by 25 percentage points if neither the taxpayer nor their spouse has claimed the credit since 2007. The FDSC will apply on up to \$1,000 in cash donations claimed in respect of any one taxation year from 2013 to 2017.

This new credit will significantly enhance the attractiveness of donating to a charity for young Canadians who are in a position to make donations for the first time and—by helping to rejuvenate and expand the charitable sector's donor base—will have an immediate impact in supporting the sector.

This measure is expected to cost \$25 million in each of 2013–14 and 2014–15.

Response to the Report of the House of Commons Standing Committee on Finance on Charitable Donation Tax Incentives

Economic Action Plan 2013 responds to the report of the House of Commons Standing Committee on Finance on charitable donation tax incentives and proposes a new temporary First-Time Donor's Super Credit to encourage all young Canadians to donate to charity.

Canadians recognize that the charitable sector plays a vital role in our society and provides valuable services to Canadians, including the most vulnerable. Canadians also provide generous support to the sector in recognition of its important work: recent data from Statistics Canada show that more than 5.7 million Canadians donated almost \$8.5 billion to registered charities in 2011.

Canada's incentives for charitable donations have been described as among the most generous in the world. Registered charities are exempt from tax on their income and may issue official donation receipts for gifts received; donors may use those receipts to reduce their taxes by claiming the Charitable Donations Tax Credit (for individuals) or the Charitable Donations Tax Deduction (for corporations). In 2012, federal tax assistance for charitable donations exceeded \$2.9 billion.

Since 2006, the Government Has Taken a Number of Important Steps to Support the Charitable Sector

- To encourage increased charitable donations, the Government introduced a complete exemption from the capital gains tax associated with donations of publicly listed securities, donations of ecologically sensitive land to public conservation charities and certain donations of exchangeable shares.
- To reduce the administrative burden on charities, the Government eliminated many of the disbursement quota requirements, allowing charities to focus more of their time and resources on charitable activities.
- To ensure that Canadians have confidence that donations of their hard-earned dollars support legitimate charities and are used for charitable purposes, the Government has put in place several new measures to improve accountability and transparency in the charitable sector.

Most recently, the Government has taken additional steps to ensure that tax incentives for charitable giving remain effective. The Government supported Motion 559, sponsored by the Member of Parliament for Kitchener–Waterloo, Peter Braid, and subsequently adopted by the House of Commons, which called for the Standing Committee on Finance to study charitable donation incentives. The Committee published its report, *Tax Incentives for Charitable Giving in Canada*, on February 11, 2013. The Government thanks Peter Braid for this important initiative, and thanks the Committee for its work.

The Standing Committee on Finance heard that there is a need to foster and promote a culture of giving, and that tax incentives can play a role both in increasing the number of new donors and encouraging existing donors to give more.

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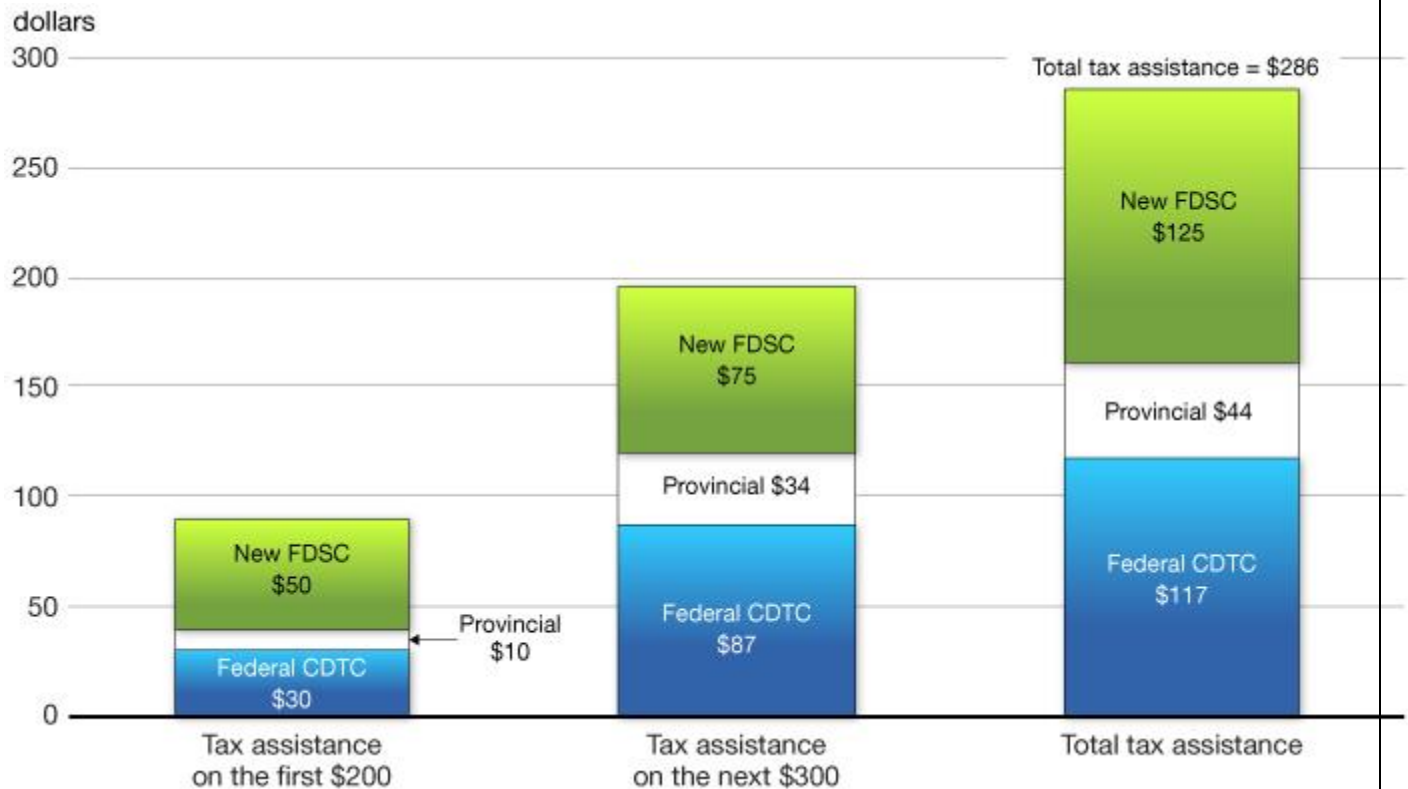
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The FDSC Will Substantially Increase the Value of the Charitable Donations Tax Credit (CDTC) for First-Time Donors

Tax Relief for New Donors—Example

Katherine and Marc are a couple living in Timmins, Ontario, who recently joined the labour force. They have decided to make a charitable donation of \$500 for the first time to a registered charity of their choice. As new donors, they will be able to take advantage of the First-Time Donor’s Super Credit (FDSC) and claim additional tax assistance of \$125 on their donation.

Chart 3.5.4 Federal-Provincial Tax Assistance on a Donation of \$500 to a Registered Charity for an Individual Living in Ontario, 2013



Source: Department of Finance.

The Government will redouble its ongoing efforts in the areas identified by the Committee in their recommendations:

- With respect to monitoring charitable giving trends and characteristics, Statistics Canada publishes annual data on the amounts Canadians donate to charity, as well as a demographic breakdown and trends in giving.
- With respect to public awareness, the Canada Revenue Agency provides education and information related to charitable giving.
- With respect to social finance, as noted below, the Government will bring together key players in the non-profit and private sectors to develop investment-worthy ideas and tap the potential of the social finance marketplace to promote economic growth and prosperity.
- With respect to red tape reduction, the Government has taken action, as part of the Small and Rural Charities Initiative, by restructuring the Registered Charity Information Return to minimize the time small and rural charities need to complete the form.
- Finally, with respect to transparency and accountability, the Government has taken steps to combat fraud and abuse in the charitable sector and enhance transparency and accountability around the political activities of charities.

Consistent with recommendations put forward in the Standing Committee's report and the need for restraint in the current fiscal context, the Government will work with the charitable sector, including Imagine Canada, to encourage more donations by a greater number of Canadians and further enhance public awareness, reduce red tape, and increase transparency and accountability in the charitable sector.

First-Time Donor's Super Credit

2. (1) Subsection 118.1(1) of the Act is amended by adding the following in alphabetical order:

"first-time donor", for a taxation year, means an individual (other than a trust)

(a) who has not deducted an amount under subsection (3) for a preceding taxation year that ends after 2007, and

(b) who is not, at the end of the year, married to a person (other than a person who was at that time separated from the individual by reason of a breakdown of their marriage), or in a common-law partnership with a person, who has deducted an amount under subsection

(3) for a taxation year that ends after 2007 and before the year;

(2) Section 118.1 of the Act is amended by adding the following after subsection (3):

(3.1) For the purpose of computing the tax payable under this Part by a first-time donor for a taxation year that begins after 2012 and ends before 2018, the first-time donor may deduct an amount not exceeding the lesser of \$250 and the amount that is 25% of the total of all amounts, each of which is an eligible amount of a gift of money in the year or in any of the four preceding taxation years and in respect of which the first-time donor, or a person who is, at the end of the year, the first-time donor's spouse (other than a person who was at that time separated from the first-time donor by reason of a breakdown of their marriage) or common-law partner, has deducted an amount for the year under subsection (3).

(3.2) If, at the end of a taxation year, both an individual and a person with whom the individual is married (other than a person who was at that time separated from the individual by reason of a breakdown of their marriage) or in a common-law partnership may deduct an amount under subsection (3.1) for the year, the total of all amounts so deductible by the individual and the other person shall not exceed the maximum amount that would be deductible for the year by either person if the individual were the only one entitled to deduct an amount under subsection (3.1), and where the individual and the other person cannot agree as to what portion of the amount each can deduct, the Minister may fix the portions.

(3) The definition "first-time donor" in subsection 118.1(1) of the Act and subsections 118.1(3.1) and (3.2) of the Act, as enacted by subsections 2(1) and (2), are repealed. (4) Subsections 2(1) and (2) apply in respect of gifts made on or after Budget Day.

(5) Subsection 2(3) applies to the 2018 and subsequent taxation years.

Support for Social Finance

Economic Action Plan 2013 reinforces the need to help facilitate bringing partners together to tap the potential of the social finance marketplace.

In communities across the country, Canadians are finding innovative approaches to tackling local challenges by building partnerships across sectors and leveraging new ideas and sources of funding. In Budget 2011 and Economic Action Plan 2012, the

Government highlighted the potential of social finance to strengthen government-community partnerships.

In November 2012, the Minister of Human Resources and Skills Development launched a pioneering, web-based public policy engagement process, the National Call for Concepts for Social Finance, to seek ideas from individual Canadians and not-for-profit and private sector organizations to help the Government identify new ways to address social and economic issues. The Call for Concepts issued a challenge to Canadians: propose solutions to complex social issues that are funded through social finance instruments. The response to the Call has exceeded expectations—over 150 submissions from across the country were received that address key priorities for Canada’s long-term prosperity, such as supporting youth at risk, reducing homelessness and improving employment outcomes for persons with disabilities.

The Government can help bring partners together to turn these ideas into action. The Minister of Human Resources and Skills Development will help facilitate this process and build on the Call for Concepts by bringing together key players in the non-profit and private sectors to develop investment-worthy ideas and tap the potential of the social finance marketplace to promote economic growth and prosperity.

NATURE CONSERVANCY

Provide \$20 million in 2013–14 for the Nature Conservancy of Canada to continue to conserve ecologically sensitive land. Each federal dollar will be matched by two dollars in funding from other sources.

Economic Action Plan 2013 proposes \$20 million in 2013-14 for the Nature Conservancy of Canada to continue to conserve ecologically sensitive land under the Natural Areas Conservation Program. Each federal dollar will be matched by two dollars in new funding from other sources.

The Government is committed to the preservation and protection of Canada’s natural environment. The Nature Conservancy of Canada is a not-for-profit, private land conservation organization that works with companies, communities, landowners and others to protect Canada’s most important natural areas and the species they sustain.

Budget 2007 provided \$225 million to the Conservancy to protect ecologically significant land over six years under the Natural Areas Conservation Program. This investment is expected to leverage over \$600 million and conserve 531 properties totalling more than 800,000 acres.

Building on the Government's strong record of conservation, Economic Action Plan 2013 proposes to provide an additional \$20 million for the Nature Conservancy of Canada to continue to conserve ecologically sensitive land in 2013-14 under the Natural Areas Conservation Program. Each federal dollar will be matched by two dollars in new funding from other sources, leveraging additional funds for the conservation of Canada's natural environment. The Government is also working on the development of a National Conservation Plan. Further details will be announced in the coming year.

Canada Cultural Investment Fund: Endowment Incentive

Economic Action Plan 2013 announces that the Endowment Incentive component of the Canada Cultural Investment Fund will increase to a maximum benefit of \$15 million over the life of the program, an increase of 50 per cent.

The Endowment Incentive component of the Canada Cultural Investment Fund helps promote corporate philanthropy and private investment in the arts by providing government grants to match private sector donations. Starting in 2013, the amount of funding an arts organization can benefit from, over the life of the program, will increase from a maximum of \$10 million to \$15 million, an increase of 50 per cent. This will help ensure that large arts organizations such as the National Ballet of Canada, the Orchestre symphonique de Montreal, the Banff Centre and the Stratford Festival can continue to demonstrate leadership in building private sector support, while maintaining access to the program for small- and medium-sized arts organizations. With this program adjustment, the Government of Canada is taking concrete steps to help ensure that Canada's arts and culture sector contributes to a strong economy, with arts

organizations becoming more resilient and self-sustaining through the continued support of the private sector.

Massey Hall Revitalization

Economic Action Plan 2013 proposes funding of \$8 million in 2013-14 to help support the restoration and revitalization of Massey Hall.

Massey Hall, which was opened in 1894, has played a unique role in Canada's cultural history and is an important venue for concerts and other events, attracting many of the world's leading performers. Economic Action Plan 2013 proposes funding of \$8 million in 2013-14 to help support the restoration and revitalization of Massey Hall. A revitalized Massey Hall will provide a modern venue to support Canada's current and future artists.

Expanding Library Services for the Blind and Partially Sighted

Economic Action Plan 2013 proposes \$3 million in 2013-14 to the Canadian National Institute for the Blind in support of a National Digital Hub.

The Government is committed to supporting the full participation of persons with disabilities. To improve library services available to the print-disabled community, Economic Action Plan 2013 proposes \$3 million in 2013-14 to the Canadian National Institute for the Blind for a National Digital Hub.

The National Digital Hub will acquire and produce alternative format materials and distribute them to the print-disabled community through public libraries, direct service points and ultimately the web as downloadable formats become available. This will support Canadians who are blind or partially sighted in their ongoing educational development and improve their quality of life.

Taxes in Dispute and Charitable Donation Tax Shelters

The Canada Revenue Agency (CRA) is generally prohibited from taking collection action in respect of assessed income taxes and related interest and penalties where a taxpayer has objected to the assessment. The CRA has been successful in challenging charitable donation tax shelter cases in the Tax Court and the Federal Court of Appeal, but some taxpayers continue to participate in these questionable tax shelters. Prolonged litigation of these disputes can delay final collection of the taxes.

In order to discourage participation in questionable charitable donation tax shelters and to reduce the risk that unpaid amounts will ultimately become uncollectible, Budget 2013 proposes to modify the prohibition on the CRA from taking collection action in these cases. If a taxpayer has objected to an assessment of tax, interest or penalties that results from the disallowance of a deduction or tax credit claimed in respect of a tax shelter (as reported by the taxpayer or determined by the Minister of National Revenue) that involves a charitable donation, the CRA will be permitted, pending the ultimate determination of the taxpayer's liability, to collect 50 per cent of the disputed tax, interest or penalties.

This measure will apply in respect of amounts assessed for the 2013 and subsequent taxation years.

9. (1) Subparagraph 164(1.1)(d)(ii) of the Act is replaced by the following:

(ii) 1/2 of the amount so assessed that is in controversy if

(A) the taxpayer is a large corporation (within the meaning assigned by subsection 225.1(8)), or

(B) the amount is in respect of a particular amount claimed under section 110.1 or 118.1 and the particular amount was claimed in respect of a tax shelter.

(2) Subsection 9(1) applies in respect of amounts assessed for taxation years that end after 2012.

10. (1) The portion of subsection 225.1(7) of the Act before paragraph (a) is replaced by the following:

(7) If an amount has been assessed under this Act in respect of a corporation for a taxation year in which it was a large corporation, or in respect of a particular amount claimed under section 110.1 or 118.1 where the particular amount was claimed in respect of a tax shelter, then subsections (1) to (4) do not apply to limit any action of the Minister to collect

(2) Subsection 10(1) applies in respect of amounts assessed for taxation years that end after 2012.

- **Investments in post-secondary institutions** supporting repair, maintenance and construction projects at universities and colleges across Canada through the \$2 billion Knowledge Infrastructure Program. An additional \$3.2 billion was leveraged from the projects partners for a total investment of \$5.2 billion in post-secondary infrastructure. Examples of projects supported include:
 - An overhaul of the chemistry facility at Simon Fraser University in British Columbia to bring the laboratories up to modern standards supported by a federal contribution of \$24.4 million.
 - Construction of an addition to the Great Plains College in Saskatchewan to provide new shop space for industry training supported by a federal contribution of \$13.5 million.
 - Construction of a new medical school at Queens University in Ontario to help meet the demand for additional doctors supported by a federal contribution of \$28.8 million.
 - Construction of new facilities at the Collège Lionel-Groulx in Quebec, dedicated to technical programs in theatre, production and theatre interpretation supported by a federal contribution of \$2.4 million.
 - Construction of new classrooms, offices and laboratories at the Crandall University in New Brunswick, allowing the university to double its student enrolment supported by a federal contribution of \$6 million.
 - Retrofit of the Life Sciences Centre at Dalhousie University in Nova Scotia, including new electrical transformers, solar panels to heat water and new energy-efficient windows supported by a federal contribution of \$14.3 million.

- **Investments in community infrastructure** improving the quality of facilities enjoyed by Canadians while supporting job creation in communities across the country through the Community Infrastructure Improvement Fund. Examples of projects include:
 - Modernization of the Stettler Public Library in Alberta supported by a federal contribution of \$250,000.
 - Rehabilitation and expansion of the Saint-Prime Marina in Quebec supported by a federal contribution of \$237,000.
 - Improvements to the accessibility and functionality of the Leif Erikson Park in Yarmouth, Nova Scotia supported by a federal contribution of \$125,000.
 - Renovations to the Northern Frontier Visitors Centre in Yellowknife supported by a federal contribution of \$200,000.

PARKING

Supplies of Paid Parking through Charities

A special exemption from GST/HST applies to parking provided by charities that are not a municipality, university, public college, school or hospital. This special exemption is intended to reduce the GST/HST collection and accounting obligation of charities, many of which are small and rely on volunteers.

Annex 2

Budget 2013 proposes to clarify that the special GST/HST exemption for parking supplied by charities does not apply to supplies of paid parking that are made by way of lease, licence or similar arrangement in the course of a business carried on by a charity set up or used by a municipality, university, public college, school or a hospital to operate a parking facility. This measure is intended to ensure consistent tax treatment of supplies of paid parking made directly by municipalities, universities, public colleges, schools, hospitals and supplies made by charities set up or used by these entities to supply their parking.

This measure will apply to supplies made after Budget Day.

GST/HST on Paid Parking

Under the GST/HST, supplies of paid parking are taxable, whether provided by the private or public sector, as supplying paid parking is a commercial activity. To maintain competitive equity with private sector suppliers, since the introduction of the GST, paid parking has been excluded from the general exempting provision for supplies made by a public sector body (PSB). For the purposes of the GST/HST, a PSB is a municipality, university, public college, school authority, hospital authority, charity, non-profit organization or government.

Budget 2013 proposes two measures to clarify that certain special exempting provisions for PSBs do not apply to supplies of paid parking.

Supplies of Paid Parking by PSBs

A special provision exempts from GST/HST all of a PSB's supplies of a property or a service if all or substantially all – generally 90 per cent or more – of the supplies of the property or service are made for free. This provision is intended to simplify the application of GST/HST for PSBs by relieving them of the obligation to collect tax on occasional sales of a good or service they provide for free substantially all of the time. It was never intended that this provision would exempt a commercial activity, such as paid parking provided on a regular basis by a PSB that may compete with others providing paid parking services.

Budget 2013 proposes to clarify that this special simplifying exempting provision does not apply to supplies of paid parking that are made by way of lease, licence or similar arrangement in the course of a business carried on by a PSB. Taxable parking would include paid parking provided on a regular basis by a PSB, such as parking spaces or parking facilities operated by a municipality or hospital. Occasional supplies of paid parking by a PSB, such as those made as part of a special fund-raising event, would continue to qualify for the exemption.

This measure clarifies that GST/HST applies to commercial paid-parking facilities and spaces operated by a PSB, even where the PSB provides a significant amount of parking at no charge. This clarification is intended to ensure that the legislation provides for the application of the GST/HST to paid parking provided in the course of a business as intended, as generally understood by suppliers and taxpayers, and administered by the Canada Revenue Agency.

This measure will be effective the date the GST legislation was enacted.

Supplies of Paid Parking through Charities

A special exemption from GST/HST applies to parking provided by charities that are not a municipality, university, public college, school or hospital. This special exemption is intended to reduce the GST/HST collection and accounting obligation of charities, many of which are small and rely on volunteers.

Budget 2013 proposes to clarify that the special GST/HST exemption for parking supplied by charities does not apply to supplies of paid parking that are made by way of lease, licence or similar arrangement in the course of a business carried on by a charity set up or used by a municipality, university, public college, school or a hospital to operate a parking facility. This measure is intended to ensure consistent tax treatment of supplies of paid parking made directly by municipalities, universities, public colleges, schools, hospitals and supplies made by charities set up or used by these entities to supply their parking.

This measure will apply to supplies made after Budget Day.

GST/HST on Paid Parking

10. (1) Section 1 of Part V.1 of Schedule V to the Act is amended by striking out “or” at the end of paragraph (m), by adding “or” at the end of paragraph (n) and by adding the

following after paragraph (n):

(o) a parking space if

(i) the supply is made for consideration, by way of lease, licence or similar arrangement and in the course of a business carried on by the charity,

(ii) the parking space is situated at a particular property for which, at the time the supply is made, it is reasonable to expect that the parking spaces at the particular property will

be used, during the calendar year in which the supply is made, primarily by individuals who are accessing a property of, or a facility or establishment operated by, a particular person that is a municipality, a school authority, a hospital authority, a public college or a university, and

(iii) any of the following conditions is met:

(A) under the governing documents of the charity, the charity is expected to use a significant part of its income or assets for the benefit of the particular person,

(B) the charity and the particular person have entered into one or more agreements with each other or with other persons in respect of the use of the parking spaces at the particular property by the individuals referred to in subparagraph (ii), or

(C) the particular person performs any function or activity in respect of the supplies by the charity of parking spaces at the particular property.

(2) Subsection 10(1) applies to any supply made after Budget Day.

11. (1) Section 5 of Part V.1 of Schedule V to the Act is replaced by the following:

5. A supply made by a charity of any property or service if all or substantially all of the supplies of the property or service by the charity are made for no consideration, but not including a supply of

(a) blood or blood derivatives; or

(b) a parking space if the supply is made for consideration, by way of lease, licence or similar arrangement and in the course of a business carried on by the charity.

(2) Subsection 11(1) applies to supplies for which consideration becomes due after 1996 or is paid after 1996 without having become due.

12. (1) Section 10 of Part VI of Schedule V to the Act is replaced by the following:

10. A supply made by a public sector body of any property or service if all or substantially all of the supplies of the property or service by the body are made for no consideration, but not including a supply of

(a) blood or blood derivatives; or

(b) a parking space if the supply is made for consideration, by way of lease, licence or similar arrangement and in the course of a business carried on by the body.

(2) Subsection 12(1) is deemed to have come into force on December 17, 1990.

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