



2018 Canadian Federal Budget - How will it affect the Canadian charitable sector?

**By Mark Blumberg, Max Ma, Helene Mersky and Jasmine Vallve
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Today, Canadian Finance Minister Bill Morneau introduced his third Federal Budget of the Liberal Government of Justin Trudeau. The emphasis was clearly on helping the middle class, gender equality, support for indigenous communities, enhancing skills and research. While there was financial support for a number of individual charities announced in the Budget, as well as initiatives that benefit universities and other charities, there was very limited discussion or changes in terms of the charity and non-profit sector as a whole.

The Government had little to say about charities and political activities. The Conservatives opened a Pandora's box in 2012 with this issue and the Liberals have been making promises of modernization of charity law and stopping the alleged harassment of charities. Although the Liberals received a report from a CRA consultation panel on March 31, 2017, there has been no government response since then and there was no response in this Budget. The Budget stated "The Government will provide a response to this report in the coming months." This will be disappointing for some registered charities who were looking for charities to be able to conduct either far more political activities or unlimited political activities.

Clarifying the Rules on Political Activities by Charities

The Government has pledged to allow charities to do their work on behalf of Canadians free from political harassment, and promised to clarify the rules

governing political activity, with an understanding that charities make an important contribution to public policy. An expert panel was created to study the issue of political activities by charities, and in 2017 this panel provided a series of recommendations to the Government based on consultations held with charities. The Government will provide a response to this report in the coming months.

As was discussed in the Toronto Star on February 23, 2018, the Government will provide a fund of \$50m over 5 years to support local journalism. Practically that means that \$10 million per year to support journalism by giving funds to “trusted” non-profits (not necessarily registered charities). As well there is a cryptic reference to “exploring new models that enable private giving and philanthropic support for trusted, professional, non-profit journalism and local news. This could include new ways for Canadian newspapers to innovate and be recognized to receive charitable status for not-for-profit provision of journalism, reflecting the public interest that they serve.” There is lots of work that charities can currently do in the area of journalism (such as research, investigative journalism, scholarships) but journalism unto itself is very broad and not necessarily charitable. Journalism can include the CBC and also Rebel Media! Although we have worked on significant donations for journalism, unfortunately so far despite the hype there is limited donor interest in this area.

Supporting Local Journalism

As more and more people get their news online, and share their interests directly through social media, many communities have been left without local newspapers to tell their stories. To ensure trusted, local perspectives as well as accountability in local communities, the Government proposes to provide \$50 million over five years, starting in 2018–19, to one or more independent non-governmental organizations that will support local journalism in underserved communities. The organizations will have full responsibility to administer the funds, respecting the independence of the press.

Further, consistent with the advice laid out in the Public Policy Forum’s report on news in the digital age, over the next year the Government will be

exploring new models that enable private giving and philanthropic support for trusted, professional, non-profit journalism and local news. This could include new ways for Canadian newspapers to innovate and be recognized to receive charitable status for not-for-profit provision of journalism, reflecting the public interest that they serve.

There was nothing on new tax incentives for donations. This is not surprising. Keep in mind that in December 2015, the Liberals [announced a major tax incentive when they raised taxes on those earning over \\$200,000 to 33%](#) but provided a matching tax incentive for those high income earners who make charitable donations. In 2016, the Liberal Budget had indicated that the Liberals will not be proceeding with the extra tax incentives for donations of real estate and shares of private corporations. It is very unlikely they will reverse themselves on this position.

The amount of tax incentives for donations is already higher in Canada than any other country so it is not surprising there are and probably will not be further incentives to encourage individuals and corporations to donate to registered charities. In the 2017 Budget they had removed the additional deduction for corporations who donate medicine and announced that the First-Time Donor's Super Credit "will be allowed to expire in 2017 as planned".

The world has changed a lot in the last year. The Liberals are more focussed in how tax dollars can be used to help certain marginalized groups rather than encouraging donors to donate to registered charities. They are probably also concerned that most of the tax benefits accrue to higher income individuals. As Donald Trump has just changed the US system so 19 out of 20 Americans will not receive any tax incentive for donating to charities, there is probably little pressure on Trudeau and Morneau to increase incentives on giving.

The Government has committed to improving client services at the CRA. Perhaps this will result in shorter waiting times for CRA responses to written communications (currently often a year) and faster processing of charity applications (also currently between 3 months and 1 year depending on the complexity of the application). It will be interesting to see if any of those funds filter down to the Charities Directorate.

There was no mention of the NPO Risk Identification Project (NPORIP) in the last few budgets. The NPORIP was a CRA review of non-profits that are not registered charities and their compliance especially in the area of non-profits and business activities. It would have been nice if Finance would have provided greater clarity on this issue.

We were disappointed that there was no mention of increased transparency in the area of non-profits and charities. Currently, CRA is very limited in what information they can provide on registered charities and they cannot provide any information on non-profit organizations that are not registered charities. Here is a recent [submission](#) on this topic.

There were some minor technical amendments in the Budget that will have little impact on non-profits and charities.

For example, expanding the definition of eligible donees for purposes of the revocation tax to include listed municipalities, but “only subject to the approval of the Minister of National Revenue on a case-by-case basis”. Therefore, if a charity is being revoked and there is not another “eligible donee” they can give money to then CRA may allow the funds to be provided to a municipality.

Municipalities as Eligible Donees

The Government of Canada supports registered charities in a number of ways, including through the charitable donation tax credit (for individuals) and deduction (for corporations). As a condition of registration, charities are required to follow certain rules, including that they operate exclusively for charitable purposes, devote all of their resources to charitable activities and file an annual information return six months after their fiscal year-end. The registration of a charity may be revoked at the request of the charity or because the charity has not complied with its registration requirements. In either case, the Income Tax Act imposes a 100-per-cent revocation tax on the charity based on the total net value of its assets. In order to ensure that a revoked charity’s accumulated property stays within the charitable sector, a charity can reduce the amount of revocation tax by making qualifying expenditures, including gifts to “eligible donees”. Generally speaking, an eligible donee in respect of a particular revoked charity is a registered charity in good standing, the majority of whose directors or trustees deal at arm’s

length with the directors or trustees of the revoked charity. In some circumstances, a charity may not be able to locate an eligible donee that is willing or able to assume ownership of one or more of its assets. For example, a charity may operate in a rural area where there are very few charities or it may own assets that are of importance to the community, such as a fire hall or a cemetery. In such cases, a municipality may be the most appropriate recipient of such property even though it is not a charity. Budget 2018 proposes to amend the Income Tax Act to allow transfers of property to municipalities to be considered qualifying expenditures for the purposes of the revocation tax, subject to the approval of the Minister of National Revenue on a case-by-case basis. In situations where a suitable recipient cannot be found to keep a property in the charitable sector, this change will allow the property to be transferred to a municipality for the benefit of the community. This measure will apply to transfers made on or after Budget Day.

The Government of Canada has altered their internal processes to make it easier to add foreign prescribed universities to the list of foreign universities approved as qualified donees. This does not affect any prescribed foreign universities and only may speed up the process that new ones are added. The best thing about the change is it highlights the importance of the over 600 foreign prescribed universities. Here is an [article](#) we recently wrote on foreign prescribed universities. Here is information from the Budget on the change relating to foreign prescribed universities.

Universities Outside Canada Canadians may claim the charitable donation tax credit or deduction for donations made to registered charities and other “qualified donees”. Since 1966, universities outside Canada have been eligible to be recognized as qualified donees if they demonstrate to the Canada Revenue Agency that, among other things, their student body ordinarily includes students from Canada. Qualifying universities outside Canada are included in Schedule VIII to the Income Tax Regulations.

In 2011, the Income Tax Act was amended so that certain categories of qualified donees, including universities outside Canada, are now required to register with the Canada Revenue Agency, and to meet certain receipting

and record-keeping conditions. In addition, they may have their registration suspended or revoked for certain non-compliance with the rules. Once these qualified donees are registered, public notification is provided by listing them on the Government of Canada's website. As a result of these two registration processes, qualifying universities outside of Canada are required to be added to two separate, identical lists. To simplify the administration of these rules and streamline the registration process for universities outside Canada as qualified donees, Budget 2018 proposes to remove the requirement that universities outside Canada be prescribed in the Income Tax Regulations. This measure will apply as of Budget Day.

Here are some excerpts relating to funding of groups that are non-profits and charities:

Research Institutes and Organizations

At present, the Government allocates funding to a number of third-party research organizations that study a broad range of topics, from quantum science to regenerative medicine. The government will consider a new approach to determine how to allocate federal funding to third-party research organizations, as advocated by Canada's Fundamental Science Review. The three federal granting councils and the Canada Foundation for Innovation, for example, use a competitive model to determine funding allocations. To improve the adaptability and effectiveness of federal research funding, the Government will communicate in the coming year new competitive processes for research institutes and organizations. In the meantime, Budget 2018 proposes to provide support for the organizations below.

Institute for Quantum Computing

This world-leading Canadian research facility focuses on the development of new quantum technologies. The Government proposes to provide the Institute with renewed funding of \$15 million over three years, starting in 2019–20, to continue to undertake high-calibre quantum research.

Centre for Drug Research and Development

This not-for-profit organization works in partnership with academia, industry, governments and foundations to identify and evaluate promising discoveries in drug technology. The Government proposes to provide \$48 million over three years, starting in 2019–20, in renewed support for the Centre’s efforts to translate promising drug discoveries into commercialized health innovations and therapeutic products.

Rick Hansen Institute

Founded by the “Man in Motion”, this not-for-profit research organization focuses on creating more accessible and inclusive communities and supporting research aimed at better treatment and a higher quality of life for people living with spinal cord injuries. The Government proposes to provide renewed funding of \$23.6 million over four years, starting in 2018–19, through Western Economic Diversification, to support the Institute's efforts to achieve breakthroughs in spinal cord injury research and care.

Centre of Excellence on the Canadian Federation

The Government proposes to contribute \$10 million in 2018–19 to the Institute for Research on Public Policy to endow a Centre of Excellence on the Canadian Federation, a permanent research body to promote shared understanding of the Canadian federal community. The Centre will undertake research on issues such as the impact of emerging economic and social trends on Canada’s federal arrangements.

There is information and funding for Granting Councils:

Granting Councils

Canada’s three granting councils are arm’s-length organizations that provide federal funding for the work of researchers at post-secondary institutions and research hospitals. In Budget 2018, the Government is proposing a historic investment to support this work—the most new funding for fundamental research through the granting councils in Canadian history. The

Government proposes to invest \$925 million over five years, starting in 2018–19, and \$235 million per year ongoing:

- \$354.7 million over five years (\$90.1 million per year ongoing) to the Natural Sciences and Engineering Research Council (NSERC).
- \$354.7 million over five years (\$90.1 million per year ongoing) to the Canadian Institutes of Health Research (CIHR).
- \$215.5 million over five years (\$54.8 million per year ongoing) to the Social Sciences and Humanities Research Council (SSHRC).

To accelerate Canada’s transition to a more modern approach to research, Budget 2018 also proposes to create a new tri-council fund to support research that is international, interdisciplinary, fast-breaking and higher-risk. The Government proposes to provide \$275 million over five years, starting in 2018–19, and \$65 million per year ongoing, for this innovative approach, which will be administered by SSHRC on behalf of the granting councils.

These two proposed investments would increase the granting councils’ annual budgets for fundamental research by over 25 per cent when they reach their peak in three years time. The proposed funding would provide increased support and training opportunities for about 21,000 researchers, students and high-quality personnel across Canada every year by 2021–22, including: 6,000 top-tier researchers and principal investigators; 3,500 early career researchers; 8,000 undergraduate, master’s and doctoral students; 1,300 postdoctoral students; and 2,000 research assistants and technicians.

With this investment, the granting councils will be tasked with developing new plans, strategies and targets to ensure greater collaboration between NSERC, CIHR and SSHRC and support for interdisciplinary research, as well as plans to achieve greater diversity among research funding recipients, including improved support for women, underrepresented groups and early-career researchers. To support these goals, the Government proposes to provide \$6 million over five years (\$0.5 million ongoing) for surveys to collect improved data on researchers, and \$15 million over five years to implement programs that support improved equality and diversity in academia at post-secondary institutions.

International Assistance Policy

The Liberals have now committed to add \$2 billion over 5 years for foreign assistance. This will be of interest to Canadian charities and non-profits working in humanitarian assistance and international development.

To strengthen the impact of Canada's new Feminist International Assistance Policy, and advance our international leadership in key areas, the Government proposes to provide an additional \$2 billion over five years, starting in 2018–19, to the International Assistance Envelope. These new resources will be dedicated to support humanitarian assistance and Canada's core development priorities, in particular supporting women and girls, and will reinforce Canada's commitment to reduce poverty and to do its part to support a more inclusive, peaceful and prosperous world. Further details on the allocation of this funding will be announced in the coming year.

Canada's new Feminist International Assistance Policy represents a turning point for the Government's approach to international assistance. Through it, Canada has made clear its commitment to contribute to eradicating poverty and building a more peaceful, inclusive and prosperous world. In support of the United Nations 2030 Agenda for Sustainable Development, the Feminist International Assistance Policy puts women and girls at the centre of its plan as agents of positive change for their families, communities and countries. Gender equality will be a focus of all of Canada's international assistance investments to address economic, political and social inequalities that prevent individuals from reaching their full potential.

The Feminist International Assistance Policy's Recent Projects Include

- \$180 million over three years for the Global Partnership for Education to support girls' education and help strengthen education systems in developing countries.

- \$15 million over four years to Marie Stopes Tanzania to provide girls and women with improved access to family planning information and services.
- The launch of the Elsie Initiative on Women in Peace Operations, which includes
 - \$6 million to designated United Nations missions to improve their ability to support and benefit women's increased participation in peace operations.
 - \$15 million to launch a global fund to support the deployment of women peacekeepers.

The Government will track and report on progress to Canadians based on a clear framework with targets for action and indicators for results, aligned with the 17 goals of the United Nations 2030 Agenda for Sustainable Development. The Feminist International Assistance Policy establishes baselines and sets clear targets to:

- Shift its programming with no gender equality focus from 30 per cent to 5 per cent to ensure that at least 95 per cent of Canada's bilateral international development assistance will either target or integrate gender equality and the empowerment of women and girls by 2021–22.
- Strengthen its focus on sexual and reproductive health and rights by doubling its commitment to \$650 million over the next three years.
- Target the poorest and most vulnerable by boosting bilateral assistance to Sub-Saharan African countries from 46 to 50 per cent by 2021–22.

Taking more innovative approaches to international assistance will also be an essential part of Canada's Feminist International Assistance Policy. In addition to the new international assistance resources announced in Budget 2018, the Government proposes to provide \$1.5 billion over five years, starting in 2018–19, on a cash basis (\$553 million on an accrual basis), and \$492.7 million per year thereafter, from existing unallocated International

Assistance Envelope resources, to support innovation in Canada's international assistance through the following two new programs:

- The International Assistance Innovation Program. This program will give the Government greater flexibility for financing arrangements and partnerships and ensure Canada remains at the leading edge of development financing. The Government proposes to commit \$873.4 million over five years on a cash basis, and \$290.5 million per year thereafter, for this new program.
- The Sovereign Loans Program. This pilot program will diversify the tools Canada has to engage partner countries and international development organizations. It will also better align Canada's international assistance toolkit with that of other donors. The Government proposes to commit up to \$626.6 million over five years on a cash basis, and up to \$202.2 million per year thereafter, for the Sovereign Loans Program.

Enhancing Transparency in Canada's International Assistance Programming

Over the last number of years, the international assistance community has called on Canada to further improve communications around its international assistance budget. Previously, public commitments did not always include comprehensive details, including the total size and allocations of federal international assistance. To address this, the Feminist International Assistance Policy has committed to clarify Canada's federal contributions to international assistance.

The Government is also bringing forward a reform to the International Assistance Envelope funding structure regarding humanitarian assistance and core development assistance. For many years, the Minister of International Development has had to manage a single pool of funding to address core development priorities, as well as humanitarian assistance priorities. With the increasing scope of conflicts around the world, demand for humanitarian assistance has increased, and under the current funding

structure, this has led to reductions in resources for other programs. With this reform, the Government will create a dedicated pool of funding for humanitarian assistance, and a separate dedicated pool of funding for core development assistance. These changes will help to achieve the goals of the Feminist International Assistance Policy.

Canada is committed to ensuring information on its international assistance funding is open and transparent, and is pleased to chair the International Aid Transparency Initiative. The Government will explore further enhancing its international assistance reporting, including consideration of legislative updates as appropriate. Over the coming year, the Government will determine how it can better communicate international assistance efforts to Canadians, nongovernmental organizations and the international community from a historical perspective as well as the size and distribution of assistance planned for the coming year.

The Federal Budget will have a lot of indirect effects on Canadian registered charities and non-profits, but there was little on issues of importance to the sector as a whole.

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To find out more about legal services that Blumbergs provides to Canadian charities and non-profits please visit www.canadiancharitylaw.ca or www.globalphilanthropy.ca Blumbergs also maintains Canada's largest charity information portal at www.charitydata.ca with up to 13 years information on every Canadian registered charity. The portal is free and the aim is to increase transparency in the Canadian charity sector.

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