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## 2018 FEDERAL BUDGET

### WHAT DOES IT MEAN FOR CHARITIES AND NON-PROFITS?

Not surprisingly, the Federal Budget, which was released on February 27, 2018 (**Budget Day**), has minimal impact on the charitable and not-for-profit sector. The applicable provisions in the Budget largely address technical issues and include some commitments to consider various policies. This article contains a summary of the relevant provisions of the Budget to the sector.

#### Revocation Tax

When a charity's registration is revoked under the *Income Tax Act* (Canada) (ITA), whether voluntarily or involuntarily, it is subject to a revocation tax equal to one hundred percent (100%) of the total net value of its assets. The amount of the tax payable can be reduced by various permitted expenditures which include gifts to certain other arm's length charities, called "eligible donees". The Budget proposal would allow a charity, in the event of revocation of its status, to distribute its property to a municipality. This new qualifying expenditure will not be a blanket one but rather a

charity that wishes to make such a payment will need to apply to the Minister of National Revenue for permission to do so. The rationale for this proposal is that in certain circumstances a charity may not have a suitable eligible donee to donate its remaining property to and transferring the property to the municipality will permit the property to continue to be used for the benefit of the community.

#### Universities Outside of Canada

For the past 50 plus years, if a university outside of Canada has Canadian students, the university can be recognized as a "qualified donee" under the ITA which means that a donation made to it by a Canadian could be claimed as a charitable donation tax credit or tax deduction just like a donation to a Canadian registered charity. (Qualified donees include Canadian registered charities, registered Canadian amateur athletic associations, Canadian municipalities, the federal government, provincial and territorial governments, etc.) A list of these types of foreign

universities is included in the Regulations to the ITA. Seven years ago, a new requirement was introduced that mandated universities outside of Canada to register as qualified donees with the Canada Revenue Agency (CRA). A separate list of these registrations is maintained and posted on the CRA website. As of Budget Day, a list of universities outside of Canada will no longer be included in the Regulations to the ITA. The rationale for this proposal is simply for administrative purposes to avoid duplication.

### Reporting Requirements by Trusts

Charities and non-profit organizations which are established as trusts may be concerned about the additional reporting requirements for trusts included in the Federal Budget. However, there are no immediate concerns in this regard as non-profit organizations and registered charities are specifically excluded from these changes.

### Newspapers as Charities?

The Canadian Government proposed to give \$50 million over five years to support journalism in communities without local newspapers and over the next year to consider new ways of supporting non-profit journalism and local news. Recognition was specifically given to the possibility of newspapers qualifying to become registered charities for “not-for-profit provision of journalism, reflecting the public interest that they serve.” Currently, in order to qualify as a Canadian registered charity, the

purposes of an organization must fit within one of the “four heads of charity”, namely, advancement of education, advancement of religion, relief of poverty and certain other purposes which are beneficial to the community in a way that the law regards as charitable. This fourth category includes purposes which promote health, advance the public’s appreciation of the arts, protect the environment, address and prevent specific problems faced by children, youth or families, relieve conditions attributable to being aged or associated with disability, etc. We will watch with keen interest to see if a new purpose pertaining to newspapers and journalism will be recognized by the CRA under the fourth head.

### Political Activities

The Federal Government committed to responding to the March 31, 2017 Report of the Consultation Panel on the Political Activities of Charities “in the coming months.” The referenced report was prepared by a group of sector experts in consultation with several charities and contained various recommendations to the Government. The Government had previously committed to clarifying the rules for charities on political activities, so the Budget does not contain anything new on this front. Since no further details were provided, the sector must continue to wait and see what will come of this promise.

### Conclusion

While the Federal Budget did not itself contain too much of interest to the charitable and non-profit sector, there is still much to anticipate in 2018 including further word on expanding the permitted purposes for charitable registration to encompass newspapers and journalism and a response to the political activities expert panel report. In addition, the sector will follow with interest the undertakings of the Special Committee on the Charitable Sector which was approved by the Senate in late January of this year. This Committee is charged with examining “the impact of federal and provincial laws and policies governing charities, non-profit organizations, foundations and other similar groups; and to examine the impact of the voluntary sector in Canada”. While the work of the Special Committee is still at the fledgling stages, we are hopeful that it will result in positive reform for the sector.