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Charities expect donations to rise in wake of proposed tax changes

JANET McFARLAND
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The charitable sector will get a major boost from new tax amendments allowing people to donate proceeds from the sale of private companies and real estate without having to pay capital gains tax on the sales, charity experts say.

Malcolm Burrows, head of philanthropic advisory services at Scotia Private Client Group, said some of the greatest wealth in Canada is held in private companies and in real estate investments. Proposed tax changes in the federal budget will be "very significant" in helping more of it flow to charities as people move into retirement and sell their assets, he said.

"This is the quiet money and it's very significant, but it's quite illiquid," he said.

The federal government changed charity rules in 2006 to allow people to donate shares in publicly listed companies without having to pay capital gains tax on the investments. Similar changes to allow donations of private company shares and real estate have been more difficult to craft, however, because of concerns about how private holdings are valued for tax donation purposes.

The solution announced in Tuesday's budget is to require people to sell private companies or real estate and donate some or all of the cash proceeds to charity within 30 days of the sale to receive an exemption from capital gains tax on the donated portion. The rule change is expected to take effect for sales starting in 2017, so will not apply to gains from assets that have already been sold.

Most of the donations will likely come from people who are at a later stage in their careers and are ready to sell their companies, Mr. Burrows said.

"It really emphasizes donors that are going to be selling a major asset at a natural time – they're selling a business after 25 years, and they are giving something back," he said.

The federal budget estimates the tax change will cost the government $265-million over four years between 2017 and 2020.

Jacline Nyman, CEO of United Way Centraide Canada, which represents United Way charities across Canada, said the tax changes are coming as baby boomers are moving into retirement, creating an "unprecedented" transfer of wealth as they age.

"If people can look at transferring major assets like real estate or private securities, this is a really exciting moment in time," she said Wednesday.

Ms. Nyman said the 2006 change to allow tax-free donations of public company shares is estimated to have increased charitable giving in Canada by $1-billion a year. Expanding the program to private shares and real estate should increase donations significantly. She said people do not give to charity primarily because of tax rules, but they will give more when tax rules are favourable.

"In my experience, donors do look at their out-of-pocket expense post-tax, so it does really encourage a greater amount of philanthropy," she said.

Susan Manwaring, chair of the government relations committee of the Canadian Association of Gift Planners, said people who currently sell assets must pay capital gains tax on their profits even if they donate the funds to charity. The new tax change will allow them to pay no capital gains tax on the portion donated to charity, and receive a tax benefit from the donation.

"That may be very attractive because the numbers will cause people to think, 'I can either pay it to government, or I can make a gift to a charity.' "

Bruce MacDonald, CEO of charity advocacy group Imagine Canada, said the change should provide a significant new source of donations for charities, but it will particularly benefit larger charities with connections to the kind of wealthy people who own companies and have investment real estate.

"Larger organizations or ones that have connections to Canadians who have those kinds of means, I think, will certainly benefit from it," he said. "And I think they're going to work hard to take advantage of that, because I think this is a nice new opportunity for them."

The budget did not contain the key tax change Imagine was seeking for the charitable sector. The association has been lobbying for a new "stretch" tax credit that would increase the charitable donation credit for people who exceed their previous highest level of giving, encouraging more people to stretch to donate more than they have previously.

Michelle Gauthier, Imagine vice-president of public policy, said she believes there is high-level support for a stretch tax credit within the Harper government and it will be adopted in coming years. She said it did not get adopted this year because the government wanted to balance the budget and not add another costly tax credit.

The federal rules for donations of private company shares will contain safeguards to minimize the risk of tax avoidance. For example, assets must be sold to an arms-length buyer, so that people cannot sell their companies or real estate to a related party or a company they control and still receive a tax benefit.

The tax benefit will also be reversed if people buy back the assets – even indirectly – within five years.

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