

September 22, 2009

New tax breaks could give charities a big boost

Don Cayo

Several federal tax measures over the past decade or so to encourage and regulate charitable gifts of capital appear to be yielding great results.

And it's a good thing they are. Because fewer and fewer Canadians are giving anything at all to charities these days -- the number of tax filers who claim charitable deductions has dropped over a decade from 30 per cent to just 24 per cent. So it's good fortune -- or perhaps the fruit of good tax policy -- that the loss in small-donation revenue has been more than compensated for by a surge in big gifts.

The net result has been more money for charities, at least until now. A new study from the C.D. Howe Institute notes that total donations from Canadians soared from \$3.6 billion in 1996 to \$8.65 billion in 2007 -- although it doesn't have the data on what has happened since the economic downturn began.

The tax policy changes that have come together to create this more favourable treatment for big gifts include higher contribution limits, direct designation rules for registered retirement funds and life insurance, and the elimination of capital gains on donations of public securities and related assets.

However, author Malcolm Burrows notes in the study, no such incentives exist for gifts drawn from Canada's two other big pools of wealth -- real estate and privately held companies.

He thinks it's time these two kinds of assets were also exempted from capital gains tax when they're given to a charity.

So does Al Etmanski of the Vancouver-based Planned Lifetime Advocacy Network.

Etmanski's the guy who conceived of and won political support for the tax-assisted Registered Disability Savings Plan that was approved by Ottawa and endorsed by the province late last year. So he knows something about both public policy and behind-the-scenes politics.

He's particularly struck by the timing of the proposal, coming at a time when charities have more to do and less to do it with.

"Foundations have less revenue to distribute from their endowments," he notes. "Gaming revenues are being withdrawn or reduced for many non-profits. And government budgets are tightening."

Burrows says the main beneficiaries of the existing tax breaks for big gifts have been the big non-profits -- universities, hospitals, and that sort of thing. But Etmanski sees real potential for the kinds of issues he's involved in -- among other things, helping aging parents provide for disabled children.

"Donation of real estate is a viable option for them, providing long-term housing security for people with disabilities," he said.

And tax policy is at the root of an upsurge in some really big gifts to international charities -- for example, the \$100-million commitments of Vancouver mining magnates Frank Giustra and Lukas Lundin to the Clinton Foundation for work in some of the poorest parts of the world.

So the potential usefulness of this kind of policy change is broad, and it's beyond dispute.

It would be easier for an unscrupulous donor to fiddle with the values of real estate or privately held shares than with publicly traded shares, of course, so some special safeguards will be needed.

And there would be a cost to both the federal and provincial treasuries. Burrows reckons this to be \$60 million to \$115 million a year if capital gains on real estate is exempted, and \$130 million to \$325 million a year to similarly treat private company shares.

These sums are substantial, but, in the context of overall government revenues, they are relatively small. And tax policy that fosters giving is -- as the breaks on publicly traded shares have proven -- an effective way for governments to help charities help themselves.

dcayo@vancouver.sun.com

© Copyright (c) The Vancouver Sun