

Recent Tax Developments

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Recently, legislation has been proposed that may affect registered charities and their donors. More specifically, on December 16, 1987 the Minister of Finance tabled a Notice of Ways and Means Motion to amend the *Income Tax Act* which will represent the final form of tax reform when enacted. In addition, a Notice of Ways and Means Motion to amend the *Excise Tax Act* was tabled with the Budget Papers on February 10, 1988.

Replacement of Charitable Donation Deduction With a Tax Credit

On June 18, 1987 the Minister of Finance unveiled the government's Tax Reform proposals, one of which included the conversion of various personal and other deductions to tax credits. One of the proposals was that the present tax deduction by individuals in respect of charitable donations be replaced by a two-tier non-refundable federal tax credit. Under the Tax Reform Proposals, there will be a 17 per cent federal tax credit on the first \$250 of charitable donations made in the year and a 29 per cent tax credit for any donations in excess of this threshold amount. The tax credit was to be given in respect of charitable contributions, gifts to the Crown and gifts of cultural property to institutions, however the charitable donation deduction would continue to apply for corporations. None of the other provisions relating to donations (such as the 20-per-cent limitation in respect of the taxpayer's net income) was changed.

The Notice of Ways and Means Motion to amend the *Income Tax Act* introduced in the House of Commons on December 16, 1988 provided for implementation of the two-tier federal tax credit in exactly the manner proposed in the Tax Reform Proposals of June 18, 1987, effective for 1988 and subsequent taxation years and assuming, of course, that the provision is enacted in its present form. Presumably, the provincial governments will follow suit with the result that the tax credit will be approximately 44 per cent.

Excise Tax Act

The February 10, 1988 Budget proposes several changes affecting certified institutions. The proposals were intended to clarify the existing provisions that allow certified institutions, some of which are registered charities, to obtain refunds of federal sales tax in respect of goods purchased for their own use. The eligible public institutions would include nursing homes for the

elderly, day care centres for children and rehabilitation centres for the mentally and physically handicapped which:

- must qualify as non-profit organizations or charities within the meaning of the *Income Tax Act*;
- have to provide their care on a regular and continuing basis within the premises of their institutions while making use of a sufficient number of qualified personnel to provide adequate care;
- will have to provide care as may be prescribed by regulation of the Governor-General in Council on the joint recommendation of the Minister of National Health and Welfare and the Minister of Finance;
- will have to obtain separate certificates for each specific address of their institutions;
- can be decertified by the Ministry of Health and Welfare should they cease to meet the requirements; and
- will no longer be required to be in receipt of financial aid from the Government of Canada or a provincial government.

In addition, eligibility for tax refunds will be extended to organizations whose sole purpose is to provide administrative services to certified institutions.