

The Effect of Tax Reform Proposals on Unpaid Volunteer Work

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One of the oddest aspects of the June 18, 1987 Tax Reform proposal to replace tax deductions for charitable donations by individuals with tax credits is the effect this may have on unpaid volunteer work. Suppose an individual with only a modest income has been in the habit of teaching Sunday School without remuneration. Under present law, there is no tax advantage if this individual is paid for these services and then donates to the "employer" all remuneration so received. This is explicitly dealt with in a note in Revenue Canada's Interpretation Bulletin IT-110R2, which states:

Contributions of services (i.e., time, skills, effort) which are not property do not qualify. There is nothing to prohibit a charity from paying for services and later accepting the return of all or a portion of the payment as a gift—provided it is returned voluntarily. The donor must, in such an arrangement, account for the taxable income that would be realized either as remuneration (in which case the charity may be obliged to issue a T-4 slip) or as business income.

However, if the proposed tax reform is instituted, there will be a definite tax advantage in having the "employer" pay the individual, on the understanding that the remuneration will be "voluntarily" donated back to the charity. While the remuneration will be included in the individual's income and taxed at his or her low marginal rate, all but \$250 of the charitable donation will qualify for a tax credit at the top marginal rate. As a result, the individual will be a lot better off than if this work were not paid for.

We can expect that this will lead to a very substantial change in "volunteer work" for charities. While the tax reform proposal was supposed to encourage charitable giving by those in lower tax brackets, it seems unlikely that this was what the government intended. The actual volume of charitable work will not be changed by paying volunteers and having them donate back their remuneration, but the cost to the Treasury will be extraordinarily high, if this practice becomes popular.