

# Recent Tax Developments

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## Tax Reform Stage II: Some Implications for Charities

As part of its tax reform package, on June 17, 1987 the federal government announced a proposal to replace the existing federal sales tax with a broad-based multi-stage sales tax (MSST), to be implemented only after extensive consultation with the provinces and the private sector.

Although the MSST proposal exempts most activities of charities and non-profit organizations, they will not be eligible for any credit for the tax paid on purchases made in order to provide the tax-exempt services.

The government also proposes to tax certain commercial activities of charitable and non-profit organizations including: sales of goods in a retail store; sales of food or drink in a restaurant, cafeteria, or pub; admissions to a professional theatrical, musical, or other such performance, film presentation, slide show, or professional athletic event; and any sale of land to a private individual for purposes of residential construction or personal use.

To the extent that these activities will be taxable, charitable and non-profit organizations will be eligible to claim a sales tax credit for purchases related to these taxable activities. Unfortunately, as it stands, the proposal does not clearly distinguish "taxable" and "tax-exempt" activities and therefore cannot fail to give rise to uncertainty and dispute.

Consultation is now taking place and charities and non-profit organizations should immediately consult their tax advisors to assess the implications for their particular operations. Those who would be interested in participating in a co-ordinated response from the charitable sector should write: Mary Louise Dickson, Q.C., McCarthy & McCarthy, Barristers and Solicitors, P.O. Box 48, Toronto-Dominion Bank Tower, Toronto-Dominion Centre, Toronto, M5K 1E6, for further information.