

Budget 2012

Summary of items affecting the charitable and nonprofit sector

Context/Bigger Picture

[Budget 2012](#) maintains the federal government's target to balance the budget by 2015-16. In order to achieve this, spending will be reduced in a number of departments – including several of interest to the sector (see list below) – over the next three years. The scale of reductions varies from department to department. [Annex 1](#) of the [Budget Plan](#) (p. 257-284) provides limited information about the impact on specific programs and initiatives and we will monitor more detailed announcements, as well as the Main and Supplementary Estimates, in the coming weeks and months. Organizations are encouraged to contact Imagine Canada if they learn more specific details from their contacts within individual departments and agencies.

There were a number of announcements that will affect the sector as a whole – both in terms of how they carry out their missions, and in their role as employers. These measures, as well as a number of announcements of interest to particular subsectors, are outlined below.

Stretch Tax Credit

The budget did not include the [Stretch Tax Credit for Charitable Giving](#). Indeed, there were no new tax credits in the budget at all.

The budget did note that “[a]t the request of the Government, the [House of Commons Standing Committee on Finance](#) is studying current and proposed incentives for charitable giving to ensure that the tax incentives are as effective as possible.” (p. 204)

The Finance Committee is expected to resume its hearings into charitable giving in the near future. Many of the organizations that have already appeared have called on the Committee to recommend the Stretch Tax Credit, and we anticipate that Members of Parliament will continue to hear that message upon resumption of the hearings. For its part, Imagine Canada will continue to press for the adoption of this key measure.

We would like to thank all of those who have contributed to date to increasing awareness of the Stretch proposal and who contacted their Member of Parliament to advocate for its adoption.

Social Impact Bonds/Financing

The budget did not announce any new initiatives with regard to financing instruments, but did note a commitment to forthcoming action in this regard.

[HRSDC](#) “will explore social finance instruments” and social impact bonds are cited as holding promise “as a tool to further encourage the development of government-community partnerships.” The Minister of HRSDC is to announce details in the coming months. (p. 173) In addition, HRSDC is “modernizing the administration of grants and contributions” and is “testing ways to maximize the impact of federal spending...including pay-for-performance agreements and encouraging leveraging of private sector resources.”

Imagine Canada has recently met with the Minister and Deputy Minister of HRSDC and has been invited to comment on key considerations that should inform the government’s efforts in this area.

Elimination of the Penny

With the elimination of the penny later this year, the government has announced that it wants to work with Imagine Canada and the Mint to find innovative ways that charities can use this as a fundraising opportunity. While pennies will remain legal tender and can still be used once production has stopped, the government will be encouraging Canadians to redeem or dispose of their pennies. When New Zealand eliminated its five-cent coin, and when Eurozone countries eliminated their local currencies, charities in those countries engaged in successful fundraising. Imagine Canada has already begun to reach out to colleagues overseas to learn from their experience and looks forward to working with the government and the sector on the implementation of this measure.

Grants and Contributions

The budget announced a \$5.2 billion reduction in departmental spending (p. 212-213). This is a 6.9 percent decrease to the \$75.3 billion worth of programs reviewed. Several departments of particular interest to the sector are affected by these measures. Annual spending reductions in place by 2014-15 include:

- \$84.3 million at [Citizenship and Immigration](#) (5.3% of the spending reviewed);
- \$88.2 million at [Environment](#) (8.3% of the spending reviewed);
- \$309.9 million at [Health](#) (6.4% of the spending reviewed);
- \$191.1 million at [Heritage](#) (6.9% of the spending reviewed);
- \$286.7 million at [HRSDC](#) (3.8% of the spending reviewed); and,
- \$377.6 million from the [International Assistance Envelope](#) (9.7% of the spending reviewed).

We will monitor closely the implications of these spending reductions and will continue to press for the modernization of the administration of grants and contributions.

Reporting of political activities

Budget 2012 introduces changes that will require charities “to provide more information on their political activities, including the extent to which these are funded by foreign sources”. (p. 204-205) In reading the budget documents and in discussion with government officials, the intent does not appear to be to change the current law regarding what constitutes political activity, but rather the extent to which charities may fund the political activities of other qualified donees.

It is anticipated that some charities will be concerned that this change may further complicate the provisions regarding political activity and result, overtly or inadvertently, in a further advocacy chill. As Imagine Canada has publicly and repeatedly emphasized the important role that charities play in contributing to the development of public policy, we will work with organizations across the sector and with government to ensure that our sector’s engagement in public policy is not undermined by these new requirements. As the budget document notes: “Given their unique perspective and expertise, it is broadly recognized that charities make a valuable contribution to the development of public policy in Canada.”

In particular, we will engage with CRA as they develop the educational components that will clarify these new requirements to ensure that they allow charities to fully play their public policy roles as per the budget acknowledgement. Five million in 2012-13 and \$3 million in 2013-14 has been set aside to implement these education and compliance activities.

New sanctions are also being introduced for charities that exceed the limits on political activities, or that fail to provide complete information in relation to any aspect of their annual return. The sanction in both instances is a suspension of the receipting privileging of the registered charity for up to a one year period. Previously, failure to complete a T3010 could have resulted in loss of charitable status, though the severity of this sanction meant in practice that this was rarely, if ever invoked.

Tax Shelter Arrangements

Budget 2012 proposes a number of measures to encourage tax shelter registration and reporting by:

- modifying the calculation of the penalty applicable to a promoter when a person participates in an unregistered charitable donation tax shelter;
- introducing a new penalty for a promoter who fails to meet their reporting obligations with respect to annual information returns; and
- limiting the period for which a tax shelter identification number is valid to one calendar year. (p. 437-439)

Imagine Canada has welcomed these provisions.

Donations by Canadians to foreign charities

The budget proposes to modify the rules to allow the CRA, in consultation with Finance, to recognize foreign charities as qualified recipients of tax-receiptable donations only if they are “related to disaster relief or urgent humanitarian aid; or in the national interest of Canada.” This may technically narrow the definition, but the clarification may mean the addition of a number of reputable international groups that are involved with disaster relief and urgent humanitarian aid over the next few years. Furthermore, the category “in the national interest of Canada” may apply to other groups such as those involved with international development (that is not disaster relief or urgent humanitarian aid) or other groups dealing with, for example, health care. (p. 435)

Charities as Employers

The [Hiring Credit for Small Business](#) has been extended for one year. Under this initiative, employers whose share of EI contributions was less than \$10,000 in 2011, will be eligible for a rebate of up to \$1,000 if their share of contributions increases in 2012. Despite the name of the credit, charities and nonprofits below the \$10,000 threshold are eligible for it. (p. 139-140)

The government is moving forward with the [Pooled Registered Pension Plans Act](#), which was introduced in November 2011 and is working its way through Parliament. The PRPPA only applies to federally-regulated employers, and will thus affect charities and nonprofits operating in the Territories. The government will continue to encourage provincial governments to introduce a framework to make PRPPs available to all employers. (p. 202)

Issues of interest to particular subsectors

- An additional \$50 million will be invested over the next two years in the [Youth Employment Strategy](#). The budget includes examples of projects delivered by sector organizations (p. 140-141)
- The [Opportunities Fund](#), helping people with disabilities gain employment, will see an additional \$30 million over three years. Examples are given of sector organizations participating. (p. 142-143)
- A two-year, \$150 million [Community Infrastructure Improvement Fund](#) will support repairs and improvements to existing facilities such as community centres. Projects will be supported on a cost-shared basis in partnership with municipalities, community organizations and not-for-profit entities. (p. 156)
- The budget will “maintain record support for the [Canada Council for the Arts](#).” (p. 174)
- Investment in [ParticipACTION](#) will continue, with details to follow in the coming months. (p. 176)



- The [National Round Table on the Environment and the Economy](#) will be eliminated. (p. 218)
- Financial support for [Katimavik](#) is being eliminated. (p. 218)
- [CIDA](#) and other International Assistance Envelope organizations “will adjust their programming in keeping with the ability of partners and regional institutions to implement programs, thus ensuring that Canada achieves sustainable results and improves the effectiveness of its aid.” (p. 272)
- Literacy organizations that are exempt from paying the GST/HST on materials they acquire for their use, will see that exemption extended to printed books they acquire to give away to, for example, children in low-income families. (p. 431)
- A series of significant investments to support research, education and training. (p. 50)

Imagine Canada will monitor the budget implementation legislation and assess the implications of these and any other budget-related measures brought to our attention in the coming weeks. We also invite colleagues to share information with [Michelle Gauthier](#) or [Bill Schaper](#) that they learn from their contacts in various departments and agencies.