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## **Standing Committee on Finance**

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**EVIDENCE**

**Tuesday, January 31, 2012**

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**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Tuesday, January 31, 2012

• (1530)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call this meeting to order. It is the 38th meeting of the Standing Committee on Finance. I want to welcome all our colleagues back to the House of Commons for our first finance committee meeting in 2012.

Before I get to orders of the day, I understand, Mr. Julian, you have a brief announcement to make.

**Mr. Peter Julian (Burnaby—New Westminster, NDP):** Thank you, Mr. Chair.

Yes, I just wanted to welcome Robert Chisholm to the committee. He will be officially a member of the committee as of Thursday as the new deputy finance critic for the NDP. Mr. Marston, who is our pensions critic, will be focusing on pension issues over the coming weeks, as you may imagine. He will be in and out of the committee as need be over the course of the next few weeks as well.

**The Chair:** I think I can speak for everyone in welcoming Mr. Chisholm. We will welcome Mr. Marston back any time. We certainly valued his input here. He was Shelly's dance partner.

Thank you very much for that, Mr. Julian.

We will now get to orders of the day. Pursuant to standing order 108(2), we are starting our study of tax incentives for charitable donations. This is our first meeting on this issue. We have before us here today, first of all, the Canada Revenue Agency. Second, we have the Department of Finance. Third, we have Statistics Canada. We'd like a presentation from each of you. I think we'll start with CRA and then just go down the table.

I believe it's Ms. Hawara who's doing the presentation. If you want, you may introduce your colleague as well. Welcome to the committee. You may begin your presentation.

**Ms. Cathy Hawara (Director General, Charities Directorate, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency):** Good afternoon, Mr. Chairperson.

Thank you for the invitation to appear before you today on the study of the current tax incentives for charitable donations. My name is Cathy Hawara, and I am the director general of the charities directorate within the Canada Revenue Agency. With me is Bryan McLean, director of the charities directorate's policy, planning, and legislation division.

As you know, the study of the charitable tax incentive is primarily a tax policy question, and my colleagues from the Department of

Finance will be addressing that aspect today. As the federal regulator of registered charities in Canada, the CRA brings an administrative perspective to the study of this tax incentive. For the benefit of the committee, I would like to provide a brief overview of the existing regulatory framework administered by the CRA and also describe our administrative perspective when assessing new legislative proposals.

[Translation]

Under the Constitution, the provinces have jurisdiction over the establishment, maintenance and management of charities. The CRA's authority to regulate charities exists solely under the Income Tax Act.

To qualify for registration, applicants must be established for charitable purposes and devote their resources to charitable activities.

However, the act does not define the term "charitable". As a result, the common law meaning is applied to make determinations about what is charitable.

[English]

The common law has established that charities must further purposes that relieve poverty, advance education, advance religion, or are beneficial to the community in a way the law regards as charitable. Charities must also pursue such purposes for the benefit of the public in a manner that does not confer any undue private benefit.

Some of the advantages of registration for a charity include exemption from paying income tax at the federal level, possible exemption from certain provincial and/or municipal taxes, the ability to issue official donation receipts for income tax purposes, and the ability to receive gifts from other registered charities.

In order to ensure that the benefits of charitable registration and the charitable tax incentive are not misused, the CRA administers the requirements for obtaining and maintaining charitable registration. The CRA monitors the activities of charities, taking a measured approach to resolving non-compliance, based on the severity of the offence. The CRA also monitors the accuracy of charitable donation claims made by individual taxpayers.

While tax policy is a matter for the Department of Finance, the CRA is often asked for its views on various legislative proposals. In considering any new measure, the CRA is guided by the following administrative perspectives: the first is cost and burden, which is the cost and level of effort for taxpayers to comply and for the CRA to administer, the second is accountability and transparency, and the third is risk.

• (1535)

[Translation]

From a taxpayer perspective, we would want to understand whether the new measure is likely to increase the existing administrative compliance burden, in this case on registered charities. Administrative cost considerations for the CRA would include the impact on human resource requirements, as well as any resulting changes that might be required to information technology systems.

[English]

Canada's tax system is based on voluntary compliance and self-assessment. Accountability and transparency considerations are focused on how the measure fits within a self-assessment system, but in the case of registered charities there is also a requirement that the majority of operational and financial information be made available to the public.

Finally, we consider the perspective of risk. Increasing the value of a tax measure might also increase the incentive or opportunity for abuse. Similarly, increasing the complexity of the regulatory framework might increase the likelihood of unintentional non-compliance. Assessing legislative proposals from these perspectives helps us identify any issues that, if not addressed, might impede the efficient and effective delivery of the charities program.

Mr. Chairperson, I would be pleased to answer any questions the members of the committee might have.

**The Chair:** Thank you very much for your presentation.

We'll now go to Mr. Keenan from the Department of Finance. Please go ahead.

**Mr. Sean Keenan (Director, Personal Income Tax Division, Tax Policy Branch, Department of Finance):** Thank you, Mr. Chair.

My name is Sean Keenan. I'm the director of the personal income tax division of the tax policy branch in the Department of Finance. With me today is Mr. Blaine Langdon, who is the acting chief of the charities section of the personal income tax division.

I welcome this opportunity to be here today.

[Translation]

Let me first describe the role of the Tax Policy Branch in the Department of Finance when it comes to the charitable sector.

The branch is responsible for developing tax incentive policies to encourage Canadians to make donations to registered charities. This entails examining current tax incentives in order to make sure that they are as effective as possible. This also includes analyzing and developing options to limit excessive or inappropriate tax benefits, and making sure that regulations for charities are in place in order to

safeguard the integrity of the tax system and to protect the donations made by Canadians.

[English]

We have provided you with a presentation that gives an overview of the tax treatment of charitable donations and the regulatory regime for charities in Canada. I'd like to mention a few key points from that presentation.

First, Canada has a two-tiered tax credit structure for individuals making charitable donations. For the first \$200 in annual donations there is a federal tax credit at a rate of 15%, while amounts above \$200 per year attract a 29% federal tax credit. When combined with incentives offered by the provinces, government support for donations over \$200 per year is roughly 46% of the value of the donation. For most taxpayers, once they have donated \$200 in a year, the credit provides tax relief at a rate that exceeds the tax they pay on the income used to make the donation.

While government assistance on charitable donations is usually about half of the value of a donation, for donations that also receive an exemption from capital gains tax, the rate of assistance is typically about 60%. Canada's high net income limits and carry-forward provisions also allow donors to receive greater tax assistance for gifts that are large in relation to the donor's income. In terms of overall generosity, Canada's tax incentives for charitable giving have been described as among the most generous in the world.

• (1540)

[Translation]

Based on the statistics provided by Statistics Canada, donations for which official tax receipts were issued totalled \$8.3 billion in 2010, a 6.5% increase over 2009. Excluding tax shelter donations, donations have been increasing at a rate of 4.5% since 2003. Donations are obviously a significant source of revenue for Canadian charities, but the extent to which these organizations rely on different revenue sources varies considerably.

For organizations in general, government funding represents more than two-thirds of all the revenue whereas donations represent only 11%. However, the charitable sector includes hospitals, universities, colleges and school boards, which receive significant amounts in government funding. If we exclude those organizations, charities typically collect 60% of their revenue from donations.

[English]

The regulation of charities is an important part of any discussion of tax incentives, as giving to charities is very dependent on donors having confidence that their donations will be used appropriately. As such, in the presentation we mention a few of the key regulatory provisions for charities.

First, under the Income Tax Act, charities must be established for and operate exclusively for charitable purposes. Charities may not have secondary or additional purposes that are not charitable and may not use their resources for the benefit of any private individual or organization.

Second, registered charities must either devote their resources to charitable activities they carry on themselves, or, if they make gifts of their resources, the gifts must be made to other qualified donees.

Third, charities may engage in business activities as long as these are related business activities.

Finally, although not specifically mentioned in the presentation, while charities are able to engage in advocacy and political activities, these activities must be limited, which means they can involve no more than 10% of a charity's resources, ancillary and incidental to its charitable purposes, and they must be non-partisan in nature.

These rules are designed to strike a reasonable balance between permitting charities to contribute their expertise to the public debate and recognizing that charitable resources should be devoted to charitable activity.

I would be happy to walk the committee through any of this material in greater detail or to take any questions the committee may have.

**The Chair:** Thank you very much for your presentation.

We'll now hear from Statistics Canada. I understand that Madame Michaud will speak for Statistics Canada.

[*Translation*]

**Mrs. Sylvie Michaud (Director General, Education, Labour and Income Statistics Branch, Statistics Canada):** I am going to start.

[*English*]

I'd like to thank you for the opportunity to speak to you.

I'm Sylvie Michaud. I'm the director general of the education, labour, and income statistics branch within Statistics Canada. With me I have Alison Hale, the director of the income statistics division. She'll go through a few of the highlights in the presentation.

I just want to give you a bit of background or a caveat on the information we'll provide. The statistics that we have on charitable donations and that are being presented today are based on tax filer data from the Canada Revenue Agency. The most recent data available are for 2010 and were released in December 2011.

[*Translation*]

The statistics are based on a preliminary file containing approximately 96% of all tax filers. We receive the file at the end of August and we use it to produce our statistics each year.

[*English*]

While Canadians contribute in many ways to charitable organizations, we cover just what is reported on the tax file in terms of charitable donations.

To have a more complete picture of charitable donations at all, we have a survey called the "Canadian Survey of Giving, Volunteering

and Participating". That survey will be released in the spring. If you're interested at that time, it provides extra information on charitable donations, such as who's giving and to what kinds of organizations and that kind of information. That's not part of the deck today; however, Alison will go over a few of the highlights from what we released in 2011.

**Ms. Alison Hale (Director, Income Statistics, Statistics Canada):** I'm going to highlight a few things that are in the presentation that was handed out to everybody.

I want to clarify that this is information from tax filer data. We have information on the person who reported the donation, who is not necessarily the person who made the donation, because families can pool their donations. In addition, individuals may keep their donations up to five years to pool and maximize the tax advantage.

If you want to follow along, slide 2 shows the key findings in 2010. One in five tax filers reported making charitable donations on their tax return—almost six million individuals—for a total of \$8.3 billion. The median donation for Canadians was \$260. I realize we're from Statistics Canada and we have to describe the statistics a bit, so the median is a number halfway through the distribution, meaning that 50% of the population have numbers lower than that median and 50% have numbers that are higher. For things like income-related tax donations, it's important to look at the median, because the average is often skewed by very high donations that are fairly infrequent.

Slide 4 shows that the total charitable donations in constant dollars since 1990 has almost doubled in the last 20 years. The figures have been adjusted so they're comparable over time. Total donations peaked in 2006-07 at about \$9 billion. They decreased in 2008-09, coinciding with the recession, but we did see an increase in total donations in 2010.

Next is slide 5. It's not surprising that the proportion of donors is increasing as donors get older. Looking at this graph, you can see that 5% of tax filers under 25 reported charitable donations, but when you look at older tax filers between 55 and 64, approximately 31% reported donations. As well, as income goes up, so does the percentage of donors: just 4% of individual tax filers with incomes under \$20,000 reported donations, versus 57% of filers with incomes of more than \$80,000.

Looking at the picture of total donations on slide 7, we see that 80% of total donations are given by donors 45 years of age and older. We've given you a bar chart showing that 3% of donors are under 25 and account for about 1% of all total donations. It's still approximately \$68 million. However, the 24% of donors who are 65 and older account for 33% of total donations, or about \$2.7 billion.

Moving to slide 8, you can see that half of the total donations are given by donors with incomes over \$80,000 a year. Again we're looking at individual information. Donors with incomes of less than \$20,000 make up 6% of donors and 3% of total donations. While those donors with incomes of \$80,000 or more make up 25% of donors, they make over 50% of all donations.

I also want to highlight the data on donations at the provincial-territorial level. The median donation varies quite a bit by province. I'm looking at slide 9, which is the last presentation in the deck. You'll notice that the median donation for Quebec is markedly lower than for the other provinces and territories. This is a trend that has been observed over time. As mentioned earlier, median donation for Canada in 2010 was \$260. Nunavut had the highest median donation at \$470, followed by Alberta at \$390. Those are median donations by individuals in those provinces and territories. Quebec filers had a median donation of \$130.

That was a brief highlight of some of the statistics in the presentation.

• (1545)

That ends our presentation. Thank you very much.

**The Chair:** Thank you very much for your presentations.

We'll begin our members' questions with Mr. Julian, please. This is a five-minute round.

**Mr. Peter Julian:** Thank you very much, Mr. Chair.

Thanks to all our witnesses. I'm going to quickly go through my questions, and hopefully you can answer them or provide us with information later.

I'd like to start off with you, Ms. Michaud, with regard to the Statistics Canada information. As I see it, if I'm correct, with regard to the income groups in the table on page 6, "Charitable Donors as a Percentage of Taxfilers by Income Group", what is being shown is basically income quintiles, right? Am I correct that we're looking at 20% chunks of the population?

You're indicating not completely.

I would be interested in knowing whether you have access to the percentage of charitable donations by quintile, by revenue of the population, and then how that's fared historically over the past ten years. I suspect that we would see higher-income earners giving more and lower-income earners, as times get tight, giving less.

Do you have any statistics of that kind that you could share with us?

• (1550)

**Ms. Sylvie Michaud:** Not here, but we could provide them. This doesn't represent the income quintile; this represents the income range. However, we could calculate something by income quintile, which we'd be happy to provide to you.

**Mr. Peter Julian:** Is it possible to look at it historically, at just the last ten years?

**Ms. Sylvie Michaud:** Yes.

**Mr. Peter Julian:** Okay. Thank you very much.

Secondly, to Ms. Hawara, thank you very much for providing us with the CRA information. Could you give us some sense, since you're responsible for administering and maintaining charitable registrations, of the number of charities over the past few years that have had their status withdrawn, and, if you have different categories for withdrawing registration, what the reasons were?

**Ms. Cathy Hawara:** Mr. Chairperson, we do have access to that information, and I can certainly provide it to the committee.

There are different reasons that a registered charity might lose its registered status. It might be revoked for cause, because of some serious non-compliance. It might ask for voluntary revocation. There actually are quite a few voluntary revocations each year. We have also started taking action in the last few years against charities that do not file their annual information return. A charity has to file its information return with us within six months of the end of its fiscal year. If it does not, we proceed to revoke their registered status for failing to file that return.

We have statistics about those three categories of information, if that would be helpful to the member or to the committee.

**Mr. Peter Julian:** Yes. Thank you very much.

Another question I had—hopefully you can provide this to us later—is on whether you do an evaluation of the proposals, which you've perhaps seen, that have come before committee. Do you do an evaluation of what the costs might be of changing the stretch donation credit, for example, or what the overall fiscal impact would be, or is that something that the finance ministry is charged with?

**Ms. Cathy Hawara:** Most of the proposals before the committee that deal with the charitable tax incentive and other incentives that might further increase giving are matters of fiscal policy that fall within the jurisdiction of the Department of Finance. Whenever a proposal comes forward, we would look at what the impact might be for the regulator as well. We would need, in order to be able to do that, detailed proposals of what is being considered and what is being proposed.

**Mr. Peter Julian:** Okay. It's not something that you do, but it's something that you could do, and it's something that is more in your bailiwick than the Ministry of Finance's—or do you work together and consult?

**Ms. Cathy Hawara:** We certainly work together. Their role is to make decisions with respect to tax policy issues. Once those sorts of determinations have been made, we would then look to see what the impact might be for the Canada Revenue Agency. It really does depend on the specific proposals being considered.

**Mr. Peter Julian:** Thank you.

**The Chair:** You have 45 seconds, Mr. Julian.

**Mr. Peter Julian:** Okay.

Finally, Mr. Keenan and Mr. Langdon, I was quite interested to see, in the exemption of capital gains tax, that the rate of government assistance is as high as 69%. Could you give us a sense of what the dollar figure is on capital gains tax charitable support for previous years, and maybe the evolution over the last 10 years?

**Mr. Sean Keenan:** We have some estimates that we produced in the annual tax expenditure report. We have figures on the reduced inclusion rate for capital gains, for example, on donations of publicly listed securities. The estimate is that the reduced inclusion rate provided a tax benefit of \$34 million in 2011. For donations of cultural property, we estimate the figure to be in the \$6 million range.

We have estimates that go back to 2006, when the measure was introduced. We'd be happy to provide those figures to the committee. They are available in the 2011 version of our tax expenditure report.

• (1555)

**The Chair:** If you can provide all of that information to the clerk, we'll ensure that all members of the committee get it.

**Mr. Sean Keenan:** Absolutely.

**The Chair:** Thank you.

We'll go to Mr. Hoback, please.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, Chair.

I would like to thank everybody for coming here today. I'd also like to welcome Mr. Chisholm to the committee. Mr. Marston was a good committee member and we'll certainly miss his input, but I'm sure Mr. Chisholm will try his best to fill his shoes.

My question is on the role of governance. I'd like to use an example process whereby we talk about setting up and establishing a charity and then about what we do in terms of governance modelling to ensure that the charity is actually a proper charity and is functioning as a proper charity. That's where you're going to see my questions go, so, Ms. Hawara, they will probably be directed toward you.

Please explain to us the process of establishing a charity. If I want to establish a new charity to help homeless people in Prince Albert, what process takes place? How do you evaluate whether it should be a registered charity or not?

**Ms. Cathy Hawara:** Mr. Chairperson, there is an established process for determining whether an organization can be registered as a charity in Canada. Primarily it has to be established for exclusively charitable purposes and it needs to operate on a not-for-profit basis.

We look to the common law to determine whether the purposes of the organization are charitable. There are four categories for what is charitable at law: the relief of poverty, the advancement of education, the advancement of religion, and other purposes that have been found to be beneficial to the community.

We have a team within the charities directorate that would look carefully at the 4,000 or so applications we receive every year in order to determine, first of all, whether the organization has charitable purposes; second, whether it is proposing to undertake activities that will further those purposes; and third, whether they are conferring a public benefit by virtue of those activities.

Those are the broad strokes of the framework we would use. More detail is provided in some of the materials we have provided to the committee.

**Mr. Randy Hoback:** Okay, that gives us a macro sense of what goes on.

Then let's say that we have a charity established and that it has been functioning for two years. What kind of process is in place to establish the governance model for that charity to ensure that it is actually operating in accordance with the intent that it was originally established under? How do you go about evaluating that?

**Ms. Cathy Hawara:** The Canada Revenue Agency has a limit in its mandate, so we don't actually get involved in the governance of charities per se.

However, there are quite a number of obligations that registered charities must abide by under the Income Tax Act. Probably the most important obligation on that charity is to make sure that its operators file their annual information return within the prescribed timeframes. That return describes the activities they have been undertaking and it provides quite a bit of information in terms of their financial position, their expenditures, their revenues, their assets, and their liabilities. That information return is accompanied by their financial statements. Every year they must provide this information to us.

We monitor the activities of charities. We then make that information available to the public through our website or upon request by the public. That is probably the most important interaction that we have with the charities on an ongoing basis, leaving aside audits and things of that nature.

**Mr. Randy Hoback:** As far as the public disclosure of the charity is concerned, whether it is done via the good old Internet or in printed material, how do you evaluate the processes? As well, do you have established best practices that charities should utilize for public disclosure? Is there something that would say what the best practices are for disclosing salaries or for disclosing where they receive their funds? Is that in the system right now?

**Ms. Cathy Hawara:** We do quite a bit of outreach with registered charities. We also make quite a bit of information available through our website, as well as through information sessions that we offer and through webinars, to explain to charities how they're supposed to be completing the information return. It can be complicated, especially when we consider that many registered charities are supported by volunteers who may not have joined the charity for this particular purpose, but rather to support the program. We do a lot to help charities understand how to meet their reporting obligations.

**Mr. Randy Hoback:** Do you evaluate a charity when they say they are a homeless shelter—I'll use that example again—to ensure the funds are being used for a homeless shelter and not for something that isn't in their original mandate? How would you evaluate that, and what would the ramifications be if they weren't using it according to what they were originally established for?

• (1600)

**Ms. Cathy Hawara:** We do have an audit program, which we establish every year. We audit roughly 1% of charities every year.

If we were to audit a particular charity, we would ask that exact question: whether they are carrying out the charitable activities they said they were going to carry out. There could be a range of non-compliance, and we're able to choose the appropriate tool depending on the extent of the non-compliance that we find. That ranges from educating the charity to sanctions or penalties to, in the most egregious circumstances, revocation.

**Mr. Randy Hoback:** I have about a million more questions, but I'll turn it back to the chair.

**The Chair:** Thank you, Mr. Hoback.

We'll go to Mr. Brison, please.

**Hon. Scott Brison (Kings—Hants, Lib.):** Thanks very much to each of you for joining us today.

I have a question, Mr. Keenan, on tax expenditure. You said there was a \$34 million tax expenditure in 2011 attributed to the capital gains tax exemption on gifts of publicly listed securities. Is that correct?

**Mr. Sean Keenan:** In the personal income tax system, that's right, yes.

**Hon. Scott Brison:** I have two points. First, if the contributions that were catalyzed by the reduction and ultimately the elimination of the capital gains tax on gifts of listed securities had never been made, you would have no tax expenditure. Am I correct?

**Mr. Sean Keenan:** Do you mean if they had never been donated?

**Hon. Scott Brison:** Yes.

**Mr. Sean Keenan:** Yes, essentially—

**Hon. Scott Brison:** I think it's very important when you're using terms like “tax expenditure” to understand that while you deem it a cost to the treasury, it's difficult to argue that it is a cost if you view it as something that doesn't really cost the treasury directly as a tax expenditure. If there had been no contribution whatsoever in the first place, there would also have been none of the leveraging that leads to other types of activities in the philanthropic sector.

When you say “a tax expenditure of \$34 million”, it somehow attributes a cost to the federal government. What if they never sold the shares at all?

**Mr. Sean Keenan:** The government publishes a tax expenditure report, which is the name that's provided, and generally that's used across—

**Hon. Scott Brison:** But it implies a cost to the government. If a person had Royal Bank shares for 20 years and never parted with them, there would be no revenue to the government from that, correct?

**Mr. Sean Keenan:** Do you mean if they held on to the shares?

**Hon. Scott Brison:** Yes.

**Mr. Sean Keenan:** That's true.

**Hon. Scott Brison:** So when you have people actually giving their shares, there is a leveraging on that gift that is yielding....

For instance, have you calculated the amount of charitable giving that was catalyzed by and leveraged on those contributions that resulted from the donation of publicly listed securities?

**Mr. Sean Keenan:** The tax expenditure report provides an estimate of the tax relief provided by the charitable donations tax credit in respect of donations of publicly listed securities. As well, it tries to break it down between the charitable donations tax credit and the reduced inclusion rate for capital gains.

We don't have the data, per se, to say—

**Hon. Scott Brison:** But the term “tax expenditures” does imply, in some ways, a cost to the government. It implies, like any other line item in the budget, a tax expenditure as a result of that. If somebody had given their Research In Motion shares a couple of years ago to a charitable foundation, you may argue that there had been a tax expenditure, but if they had waited until more recently, looking at that historically, you could say that the charitable foundations benefited significantly and the taxpayer didn't lose anything.

I'm just saying that it's very important for this committee to consider not just this.... There's a theology, if you will, within the Department of Finance around tax expenditures and around tax leakage. I'm saying that it's very important for us to consider not just the tax expenditure figure, which in many cases does not—

•(1605)

**The Chair:** You have 30 seconds.

**Hon. Scott Brison:** —reflect the real cost to the government and the benefit in terms of society. If we believe that the charitable sector sometimes is better able to identify need and address it more cost-effectively, it's important for this committee to consider that impact as well, and the leveraging on that. I'm just saying that when you use a \$34 million figure for the tax expenditure, in some ways that doesn't reflect the real cost to the government or to society.

**The Chair:** Mr. Keenan, you can give a brief response if you want to.

**Mr. Sean Keenan:** “Tax expenditure” is a term used across countries, and there's generally an understanding that essentially it's just an estimate of the revenues foregone as a result of having this measure in the income tax system.

**The Chair:** Okay, we'll have to continue this discussion in a further round.

We'll go to Mr. Van Kesteren, please.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you, Chair.

I'm going to go a little bit along the lines Mr. Brison was going with Ms. Hawara.

You mentioned the reasoning behind it. The common law that establishes relieving poverty, advancing education, advancing religion, or being beneficial to the community is very interesting. I guess I want to track that for a minute.

Before I do that, I just want some clarification from Mr. Keenan. You said that 10% of charitable organizations can be political. Did I catch something along those lines? Then you mentioned that they have to be non-partisan, as well. This is from your opening remarks.

**Mr. Sean Keenan:** What I said in my opening remarks was that charities are able to engage in advocacy and political activities, and these must be limited. The “limited” definition is that they represent no more than 10% of the charity's resources. They must be limited and they must be ancillary and incidental to the charitable purposes and be non-partisan in nature.

**Mr. Dave Van Kesteren:** Okay, good.



Ms. Michaud, you said that among people earning more than \$80,000, 25% were donors, and 50% of donations came from those individuals. That came from your chart, I think. Was it the CRA?

**Ms. Sylvie Michaud:** Yes, it was in our presentation, in slide number 8.

**Mr. Dave Van Kesteren:** I wrote it down, and I'm quite sure that's what it was.

**Ms. Sylvie Michaud:** Yes, it was 25% of donors and 53% of total donations.

**Mr. Dave Van Kesteren:** How much have incomes risen since 1990? You have charts from 1990. Has that percentage changed? Is that something that has changed, or is it a constant? Can you answer that?

**Ms. Sylvie Michaud:** We could calculate that for you and provide it to you.

**Mr. Dave Van Kesteren:** I think that's important, because we are often critical of those making higher wages, yet we see there's a net benefit there.

Your other total says that \$8 billion is collected or is paid out in donations. That's correct, as well, too, at a high point. I think the high-water mark was \$8 billion. That's \$8 billion the government doesn't have to spend on social programs. I think that stands to reason. That is very interesting, because I see the wisdom of the government when they have applied the rules, the common law, which says that religious giving and those attending churches and those with higher education....

What about statistics in that respect? Do you have statistics for those who attend churches and those with higher education? Do you have statistics that prove that those groups are more charitable?

• (1610)

**Ms. Sylvie Michaud:** This is the kind of information that would come from the Canada Survey of Giving, Volunteering and Participating that will be released in the spring. We wouldn't have that directly from the tax files.

**Mr. Dave Van Kesteren:** So we'll be able to get that survey?

**Ms. Sylvie Michaud:** You will be able to in the spring, when it will be released, absolutely.

We can provide information from the previous years, which would be 2007 and 2004, so that you have a bit of a historical trend. We'd be happy to provide that information.

**Mr. Dave Van Kesteren:** Okay. I'd like to have that, Chair, if we could get that information. I think it's very relevant; we need to have it.

I think there's another tie-in with organizations, as was mentioned before. There are organizations like CARE, the Mennonite relief agency, and CRWRC. They do a good job at identifying needs, especially in third world countries, but we also often match dollar for dollar with organizations like CIDA as well. Is that something you're seeing grow? In the past we've seen the catastrophe in Haiti, an earthquake in Pakistan, and I believe there was another. Has that grown as well?

Maybe I'm talking to the wrong people at this point—

**The Chair:** Thank you.

Please provide a brief response—

**Mr. Dave Van Kesteren:** Maybe CRA could tell us if donations are coming in from those requests from governments.

**The Chair:** Okay. Let's just have a brief response to that, please.

**Ms. Cathy Hawara:** I don't believe the CRA tracks that particular information, although when there are disaster situations, we do work closely with CIDA and other partners to see where we can help. However, I don't think we track those particular donations separately.

**The Chair:** We can return to that inquiry in a future round.

Ms. Michaud, I just want to clarify. The Canada Survey of Giving, Volunteering and Participating is coming out in the spring. When was the last one done?

**Ms. Sylvie Michaud:** It was in 2007.

**The Chair:** Maybe we could get a copy of that for the committee.

**Ms. Sylvie Michaud:** Absolutely.

**The Chair:** Thank you.

Monsieur Mai, *s'il vous plaît*.

[Translation]

**Mr. Hoang Mai (Brossard—La Prairie, NDP):** Thank you, Mr. Chair.

Mr. Keenan, let me go back to what Mr. Van Kesteren was saying about the 10% for political activities.

You mentioned that they have to be non-partisan. Who determines what is partisan and what is non-partisan? Is it the Department of Finance or the CRA?

**Mr. Sean Keenan:** I am going to let Ms. Hawara answer that question.

**Ms. Cathy Hawara:** The CRA deals with that.

**Mr. Hoang Mai:** Very well. I am going to continue the dialogue with you.

At the moment, we are seeing a number of charities lose their charitable registration—and, as a result, their funding—because they are involved in political activities.

Some are quite concerned about the government's potential interference in this, because the charities sometimes criticize what the government does. Although they comply with all the rules, including the 10% rule, they lose their funding.

We have asked some charities to speak out publicly, but they are afraid of potential government reprisal.

Does the government give you any instructions on which charities you have to investigate or on the political activities of some organizations?

**Ms. Cathy Hawara:** We have clear instructions. They are listed and available on our website.

**Mr. Hoang Mai:** Yes, it says what political action is. I have seen that on your website.

Do you receive instructions on which charities you have to investigate?

**Ms. Cathy Hawara:** No, we don't receive instructions like that.

The audit plan is developed each year by the charities directorate. We then have the opportunity to review the complaints we receive from the public.

So we are developing a balanced program with several components, including high-risk files, meaning abusive tax shelters and false receipts. We are also able to review the complaints we receive, but this all falls under the charities directorate.

**Mr. Hoang Mai:** Okay. I would like to continue discussing this.

You have briefly talked about receipt-related fraud. We know that there have been a lot of cases lately where the value of some donations was higher... You know what I mean.

How have you used your staff and policies to address cases of fraud committed by charities?

• (1615)

**Ms. Cathy Hawara:** We work closely with the other sectors of the agency that might provide us with useful information based on what they see too. When we are informed that a charity has been involved in receipt-related fraud, we obviously have to audit the charity. Depending on what we discover during the audit, once again —

**Mr. Hoang Mai:** You have said that you get complaints, but do you have a process in place? And if you don't receive complaints but donations have been made and the receipts are fraudulent, do you have a mechanism that automatically checks the amounts or do you have a policy in place instead of just waiting for complaints from the public? Do you still not have informers?

**Ms. Cathy Hawara:** It is very difficult to manage this problem because things often happen without our knowing it. So the complaints are crucial. The information we might get from the other sectors of the agency is also very important.

Unfortunately, at the moment, we don't have an automated system that could allow us—

**Mr. Hoang Mai:** Is there a shortage of staff, auditors or people who could go and check? We know that the Canada Revenue Agency could go after a lot of money.

**Ms. Cathy Hawara:** It is more than a shortage of staff. It is rather the way the systems handle the receipts and the way we do our audits. So it is not just a shortage of staff.

**Mr. Hoang Mai:** Thank you.

[English]

**The Chair:** *Merci.* We will now go to Mr. Adler, please.

**Mr. Mark Adler (York Centre, CPC):** Thank you, Mr. Chair. I want to thank everybody for being here today.

Ms. Michaud, thank you so much. You took me back to quantitative methods with your talk of median. You just didn't talk about standard deviation, though; that's what I was waiting for.

I want to follow up on a few things. I see on page 4 of the graph that in 2010 the dollars are constant, but the levels of charitable

donations have increased quite markedly. What would you attribute that to? Is it a result of government policy over a few decades, or is it just that Canadians are feeling more generous, or is it beyond the scope of your...?

**Ms. Sylvie Michaud:** It's beyond the scope—

**Mr. Mark Adler:** It's beyond the scope. Okay—

**Ms. Sylvie Michaud:** —but I'll be happy to talk about standard deviation.

**Mr. Mark Adler:** Okay. Also, on page 7—I guess this is pretty typical—the number of donors is larger than the number of donations until you hit... The older you get, the more the number of donations outstrips the number of donors. Okay.

I want to move over to CRA. A non-profit corporation, or a non-share capital corporation, is different from a charitable organization. Is that correct?

**Ms. Cathy Hawara:** That is correct.

**Mr. Mark Adler:** In terms of tax treatment, I understand a non-profit also does not have to pay tax in certain circumstances.

**Ms. Cathy Hawara:** That's correct, Mr. Chairperson. A not-for-profit organization can be tax exempt if it meets the requirements in any given year for being tax exempt. The difference between a not-for-profit and a registered charity is that the registered charity cannot operate on a for-profit basis, just like a non-profit, but on top of that, it also has to pursue exclusively charitable purposes, as has been defined by the act.

It's a subset, if you will. Registered charities are a subset of the larger group of NPOs, non-profit organizations.

**Mr. Mark Adler:** The not-for-profits, then, do have to file a return every year. Am I correct?

**Ms. Cathy Hawara:** There is some information that needs to be filed by a non-profit every year, yes. It doesn't come to my directorate, so I'm not as familiar with it, I have to admit.

• (1620)

**Mr. Mark Adler:** How public is the financial information of the charitable organizations right now?

**Ms. Cathy Hawara:** It's very public. The annual information return, which they have to file, contains financial information, and it is available on our website.

In addition to that, they have to file their full financial statements. Those are also available upon request to the public. They're not available online, but they are fully disclosable.

**Mr. Mark Adler:** You mean that by law, they have to be made available.

**Ms. Cathy Hawara:** Yes.

**Mr. Mark Adler:** A non-profit, then, is still, if you can just clarify it for me, permitted to make a profit, correct? It's kind of a misnomer, isn't it?

**Ms. Cathy Hawara:** A not-for-profit organization cannot be structured with the intent of earning a profit.

**Mr. Mark Adler:** What happens if it does earn a profit?

**Ms. Cathy Hawara:** Then it is not non-profit in that year.

**Mr. Mark Adler:** Would it be required to give up its non-profit status, or would it just pay tax on its profit and be treated as a for-profit organization for that particular year?

**Ms. Cathy Hawara:** It doesn't actually have a status that can be taken away in the same way that the status of a registered charity can be. It's based on an assessment that's done every year. If there are profits and the organization does not meet the definition for a non-profit in a given year, then it would owe tax.

**Mr. Mark Adler:** Would the onus be on the not-for-profit to declare that information to Canada Revenue?

**Ms. Cathy Hawara:** That is correct.

**Mr. Mark Adler:** Everyone else risks the possibility of an audit; if the not-for-profit is audited and is found to have made a profit, then there are going to be taxes or penalties and interest due and all that sort of thing. Is that right?

**Ms. Cathy Hawara:** That would be correct.

**The Chair:** You have thirty seconds.

**Mr. Mark Adler:** You can see what I'm getting at here.

Take a trade union, for example, which is set up as a non-profit but makes a profit. Its revenues do exceed its expenses over the course of any given year, yet I'm not aware of any trade union that pays taxes.

**Ms. Cathy Hawara:** The Income Tax Act requires the not-for-profit to make the assessment every year to determine whether it meets the definition of a not-for-profit organization. Under our system of self-assessment, it would need to properly assess whether or not tax was owing.

**The Chair:** Okay, thank you.

Thank you, Mr. Adler.

We'll go to Mr. Marston, please.

**Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP):** Your timing is absolutely perfect, Mr. Chair.

Following from Mr. Adler's comment and the fact that I came out of the labour movement, I will point out that trade unions survive on fees paid by their membership. They're not raising money by earned income, so it is a whole different thing.

Before I go too far, I want to just thank the chair for my time on this committee and for the fair and balanced way that you've conducted yourself, sir. Across this place, where we have significant differences, we went through the pre-budget hearings, I think, in a very good fashion, and showed that we're prepared to work together and disagree together.

Now I'll go back to work.

It struck me when the \$200 level for a tax credit was mentioned in the CRA presentation, and then above that the proportion was higher—29%, if I remember correctly.

I was on the United Way board for 27 years. I was never the treasurer, but most of our donations to the United Way from ordinary people in the campaign were under the \$200 limit. It just struck me that, sure, it's wonderful if somebody can give you \$50,000, for instance, but why would the tax treatment for the two different levels

be different? The value of what the person gives you at the lower level should be equal to the value of what somebody gives you at the higher level, should it not?

**Mr. Sean Keenan:** The tax credit that applies on the first \$200 of charitable donations is not necessarily limited to the donation that an individual may make to one organization. If they gave \$100 to the United Way and \$100 to another organization, then that's the first \$200. Anything above that amount that the individual chose would receive a credit at 29%.

Essentially, the system is designed to provide an incentive for people to give more. It provides a credit at the first income tax rate on the first \$200, and then at the highest rate for anything above that, which, generally, for most taxpayers, is well in excess of the tax they would pay on the income they earned to make that donation.

• (1625)

**Mr. Wayne Marston:** My point was that the person who's giving you the \$100 sometimes has to work harder to give that \$100 to the charity than someone who has an income of \$100,000-plus a year does, and so that gives it less value. It seems to me we could be encouraging them to do a little bit more by treating them equally together, but that's just my own humble view of it.

You talked about your audits, the 1%, and the compliance. I'm just curious. In those audits, what is the compliance rate? The second part of that is the reporting that has to be done. Every place you go, you hear people talk about red tape and the problems of accessing government in one form or another or about compliance.

Has there been a look at streamlining it, improving it, taking some of the burden off of these non-profits, which very often have volunteers doing much of the work?

**Ms. Cathy Hawara:** Mr. Chairperson, the first part of the question was with respect to overall levels of compliance with registered charities. We've been conducting a random audit program over the last few years to be able to address that very question. While I don't have percentages, our overall conclusion from these random audits we've conducted is that levels of compliance within the sector are quite good. We have small pockets of charities that unfortunately engage in very egregious and serious non-compliance, but those are small numbers.

By and large, what we find is a lot of willingness to comply with the rules, but the rules are sometimes a bit complex. As the member noted, there are a lot of volunteer-run organizations, and what we often find is unintentional non-compliance. They just don't know that they're running afoul of the rules. That unintentional non-compliance ranges as well from not very serious things to more serious things, so that's why our range of tools is such that we can choose the most appropriate sanction or approach in the circumstances.

I think that leads nicely into the second part of the question, which is on the burden. We are very aware that within registered charities we're talking about very diverse groups. At one end of the spectrum are large, highly sophisticated organizations that include hospitals, universities, and large foundations, but at the other end of the spectrum, more than half of registered charities are actually quite small, are run by volunteers, and might be located in very rural parts of the country. In 2007, we launched an initiative especially focused on small and rural charities to better understand their needs and to understand whether we needed to reduce the burden, which we did.

**The Chair:** Thank you.

Thank you very much, Mr. Marston.

We'll go now to Ms. McLeod, please.

**Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC):** Thank you, Mr. Chair.

I'd like to thank all the presenters. That was a great start to our study in terms of the overview and getting a bit of a baseline as we head into a very important area.

First of all, I think that the spring survey is going to be a critical piece of what our picture is. I wonder if you could tell me a little bit more.

You look at people and what they put on their tax returns. Well, I know numerous 20-year-olds and 30-year-olds who will give \$50 here and \$70 there, and of course that's never reflected, because they haven't kept the receipt or hadn't intended to.

First of all, does the survey give us a picture of those kinds of activities? Do you manage to project dollars and compare that picture to what your Statistics Canada income tax returns say? Does it explore provincial variation at all, and have you gotten in the past any understanding of it? I mean, when I looked at Nunavut, that was a very significant variation. There were significant changes across the provinces. Are some provinces or territories doing something that perhaps could help us in this study in terms of charitable giving?

I think that's a number of questions to start with, but I'd appreciate....

**Ms. Sylvie Michaud:** You're absolutely right. The CSGVP provides a more complete picture of total charitable donations because it does include people who would give \$20 to the United Way at a barbecue or a fundraiser. That may not lead to a tax receipt and it may not be reported in the tax system. What we usually see with the CSGVP are higher amounts of charitable donations than we would see in regard to the tax filers.

I don't have the results for 2010 yet. The results have changed between the different years—2004 and 2007—in terms of how much difference there is between what is reported on the tax file and what is reported on the survey. I can give you some numbers, but we do validations. We do comparisons between what we get on the tax file and what we get on the surveys. We try to see what's happening.

For example, you're talking about provincial and territorial differences. We have observed similar patterns across a number of the sources we have within Statistics Canada. As I said, we're hoping to have results in the spring of 2012. We're hoping for March; I want

to be careful about the date, but we're hoping to have these results by March.

• (1630)

**Mrs. Cathy McLeod:** I think that perhaps I'd like to go to Revenue Canada.

I think my colleague Mr. Adler was going back into his statistical days. I was going back into my memory of being responsible for a small rural health centre in the 1980s and what was to me a significant nightmare, because we had many, many responsibilities. Of course, we were a registered charity and that was very important for us in terms of donations, specifically donations for equipment.

I have two questions. I remember that at the time it was a little daunting. How have things changed overall to make it easier? I remember the other frustration we had. It was a disbursement quota every year. You might be trying to save over five or ten years for a very important piece of equipment, but you had to disburse I think 17% every year. Perhaps you can tell me how that system has changed to make it easier for that small rural charity and for that one person who is responsible for a lot more than just the charity.

**Ms. Cathy Hawara:** In terms of the reporting requirements, Mr. Chairperson, we have made quite a few significant changes to the return that needs to be completed every year. It has been downsized to a four-page form, specifically keeping in mind small and rural charities, small charities that might not have revenues over \$100,000 and that might be well under that. There's a core form that provides fields as simple as possible to be completed, with some additional schedules if you carried out certain activities that require further disclosure or if you are a larger organization and more detailed financial information is required. The form now is a core form of four pages. This is a change we introduced in 2009.

With respect to the disbursement quota, that was significantly reformed as part of budget 2010, I believe. The proportion of the disbursement that was required is 80% of the tax-receipted revenues from the previous year, more or less. That has been dropped. There's only one final component that remains with respect to the disbursement quota, which is 3.5% of the assets you've got in your investment, meaning the assets you're not using as part of your charitable programs. This has been quite an important change for the sector.

**Mrs. Cathy McLeod:** Can we get that new form tabled?

**Ms. Cathy Hawara:** Absolutely.

**The Chair:** Thank you, Ms. McLeod.

*Monsieur Giguère, s'il vous plaît.*

[Translation]

**Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP):** Thank you, Mr. Chair. I have three questions for the CRA.

Based on the current structure of provincial and federal funding, my understanding is that, if I make a donation of \$1,000 in Quebec, I have to get a tax receipt for a combined total of \$494, meaning 20% for the first \$200 in Quebec, 24% for the other \$800, also in Quebec, 15% for the first \$200 at the federal level, and \$29 for each \$100 of the remaining \$800 at the federal level, for a total of \$494.

**Ms. Cathy Hawara:** Mr. Chair, I am going to let my colleague from the Department of Finance answer that question. He had some statistics in his presentation that might help the honourable member.

**Mr. Alain Giguère:** Could you give me a short answer, a yes or no, please?

**Mr. Sean Keenan:** I don't have those figures with me, but I could provide them to the committee.

**Mr. Alain Giguère:** I will rely on my numbers then.

The projected increase in the resolution on the stretch tax credit was \$574. If I understand correctly, this charitable donations tax credit is the most generous in the world. So, when the financing, advertising and administrative costs of fundraising organizations go over 50.6% or 42.6%, it would be better for the federal and provincial governments to give the money directly to charities than to deal with donations. Therein lies the problem. Have I captured it well?

If the financing, advertising and administrative costs of the organizations are too high, the government would be better off giving money directly to hospitals rather than dealing with charitable donations. It would cost the government less.

•(1635)

**Ms. Cathy Hawara:** When it comes to funding, fundraising and expenses, charities have to follow guidelines for their expenses and the way in which they report those expenses. I am not sure if that fully answers your question. There are guidelines for funding and fundraising.

**Mr. Alain Giguère:** Very well. Thank you. I would like you to send me your figures.

I live in Laval. And there is an island between Laval and Montreal called île Lapierre. It used to be called île d'Argent. Since the island was a charitable donation, an ecological gift, \$14 million were paid in tax credits. And your own officials confirmed that this dump—it is actually a dump—had no ecological value and its real market value was \$400,000.

I would like to know—and you could send me the information later—the name of the officials who authorized the amount of \$14 million to be paid for the island. I for one would have done many other things in Laval. I would have protected the islands that have true ecological value, but we no longer have the resources because of this expense.

Could you tell me why you have overlooked the ecological reports from your own officials about the \$14 million paid for the island, an island with nothing but garbage six feet under?

**Ms. Cathy Hawara:** Unfortunately, Mr. Chair, the provisions of the act do not allow me to discuss specific cases like the one the honourable member has brought up just now.

**Mr. Alain Giguère:** Do I have to accept that answer, Mr. Chair?

This is the Standing Committee on Finance. Unless there is an actual RCMP investigation and the case is currently before the courts, I don't think the witness is bound by that restriction. Ms. Hawara has to give the Standing Committee on Finance an answer.

[English]

**The Chair:** Ms. Hawara, you can answer it again, but if that's the answer she has to give, that may not satisfy you, Mr. Giguère.

Ms. Hawara, can you speak to specific cases, or are you prevented from doing so?

**Ms. Cathy Hawara:** The confidentiality provisions of the Income Tax Act don't allow me to discuss the specifics in relation to any registered charity.

**The Chair:** Thank you.

[Translation]

**Mr. Alain Giguère:** So—

**The Chair:** Thank you, Mr. Giguère.

Unfortunately, your time is up.

[English]

We'll go to Ms. Glover, please—sorry, it's Mr. Jean.

**Mrs. Shelly Glover (Saint Boniface, CPC):** Sorry.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Thank you, Mr. Chair, and thank you, witnesses, for appearing today.

I'm interested in proactive disclosure of charities, and the non-profit sector in particular. There was a recent story—I think on CBC, of all places—related to clothing charities that receive money, and some of the wages paid to executives, employees, and leaders of those organizations. I'm also interested in dealing with proactive disclosure of some of these groups relating to the websites.

You mentioned that some of this information is available on your website, but I suppose that would be only basic financial statements such as profit and loss, etc. Is that the case?

•(1640)

**Ms. Cathy Hawara:** There's more than simply that. I don't have all the details, but certainly anything that's on the public portion of the information return is available on the website.

**Mr. Brian Jean:** I understand that.

Would that include employee wages?

**Ms. Cathy Hawara:** There is information about compensation on the information return. Charities are required to disclose how many full-time employees they have and to estimate how many part-time employees they have.

On the top 10 remunerated employees, they need to disclose within which salary ranges those salaries fall. There are nine different salary ranges, with the highest being \$350,000 and above.

**Mr. Brian Jean:** Is that disclosed on the public website?

**Ms. Cathy Hawara:** It is.

**Mr. Brian Jean:** Is there any measurement related to the efficiency of those operations now? I know it's very difficult to understand, and I don't know how I can grasp it myself, but when I looked at donating money to charities around the developing world, I looked at specific charities that had less than 5% administrative and delivery costs of the product.

Is that kind of thing reported overall?

**Ms. Cathy Hawara:** Registered charities need to indicate what their costs are in administering the charities. They have to report their administrative costs and fundraising costs, for example, to give a picture to potential donors and current donors as to what it represents for them to run their charities.

**Mr. Brian Jean:** Are these all available on the public portion of the website for CRA?

**Ms. Cathy Hawara:** They are.

Perhaps I can mention to the committee at this stage that we are looking at introducing a new feature for our website. There will be a summary page for each registered charity that will highlight some of the most relevant information, including expenditures on fundraising, administrative costs, program-related investments, and salaries. That will be highlighted. It can be a little bit difficult to find all of the information now because of the way the website is laid out. That point was actually made to us the last time we appeared before the committee, and by donors in focus groups. That information will hopefully be up and available sometime this summer.

**Mr. Brian Jean:** Right.

You mentioned the top 10 remunerated employees of an organization. Are there any people who are not named within this proactive website, such as directors of the corporations, CEOs, and people like that, or are they all included within that employee rationale?

**Ms. Cathy Hawara:** Directors of registered charities, the individuals who sit on the board, are not meant to be remunerated. The remuneration is in relation to the officers or employees of the charity. They're not named, in terms of their compensation information. However, there is information on the website on who the directors are of any given charity.

**Mr. Brian Jean:** Would this information also include contractors who provide services to the charities or non-profit sectors?

**Ms. Cathy Hawara:** I don't believe we provide that level of information. There may be some general numbers that are requested in terms of the expenditures that have been made in hiring individuals, but we do not ask them to name who those companies or individuals are.

**Mr. Brian Jean:** All right.

Have you heard anyone ask for that detail of information—for instance, corporations obviously providing services to these non-profit entities?

**Ms. Cathy Hawara:** If the question is whether the—

**Mr. Brian Jean:** Finally, since I have only one other question, I'm also interested in donations to other charities. Are those also proactively disclosed?

**Ms. Cathy Hawara:** In answer to the first question, I'm not sure that we've heard from third parties who have been engaged by charities about further disclosure, if that was the question.

**Mr. Brian Jean:** All right, but the corporations themselves aren't listed.

Would other non-profit entities be listed, or not?

**Ms. Cathy Hawara:** If a registered charity has made a gift to another registered charity, we do ask them to provide the details of the donation and who it's been made to.

**Mr. Brian Jean:** Is that provided on the proactive website?

**Ms. Cathy Hawara:** It is, for—

**The Chair:** Okay, thank you.

We'll go to Ms. Glover now, please.

**Mrs. Shelly Glover:** Mr. Chair, I too want to take just a moment to thank Mr. Marston for putting up with some of us during some of our trips. You're just a very kind man; I know you work very hard, and we are truly going to miss you on this committee.

• (1645)

**Mr. Wayne Marston:** She has me turning red.

**Mrs. Shelly Glover:** Sorry.

I want to ask a couple of questions for clarification. I know we have more time to come around and I have some specific questions on something that was mentioned during pre-budget consultations. The stretch tax credit comes up quite often, so I'm going to get to that in a moment, but I want to ask about a couple of things on your slide. I'll start with Ms. Hawara.

What is a non-qualified donee?

**Ms. Cathy Hawara:** The Income Tax Act defines what a qualified donee is. By and large, we're talking about registered charities, but there are other entities under the Income Tax Act that are qualified donees and are therefore able to issue tax receipts as well. Examples of those would include, first, the crown, but also municipalities—

**Mrs. Shelly Glover:** I did see the list of the qualified ones, but it indicates something about how the qualified ones sometimes transfer money to non-qualified donees, and I don't know what "non-qualified" means.

**Ms. Cathy Hawara:** It essentially means they are not in the list of what is considered to be a qualified donee. A municipality, for example, is a qualified donee, and the municipality is able to issue a receipt and is able to receive gifts from other registered charities. However, if a registered charity were to make a gift to a foreign organization, let's say, more than likely that organization would not be part of that defined group of qualified donees. That's when we would say that the charity has made a gift to a non-qualified donee.

**Mrs. Shelly Glover:** That is not allowed, right? Are there any circumstances under which that would be allowed?

**Ms. Cathy Hawara:** Under the Income Tax Act, charities are obligated to devote their resources to their own activities or to gift them to qualified donees. If they want to work with a non-qualified donee, they could do so if they have the appropriate contractual agreements in place, but the basic framework would still be that the registered charity would carry out its own activities through this intermediary. There are no circumstances under which a registered charity can simply hand over money to a non-qualified donee.

**Mrs. Shelly Glover:** Okay, very good. Thank you.

I also want to talk about another CRA slide, which I think it was slide 14. We talked about the appeals process and how, if the appeals process is exhausted, the applicant then has to go through to the Federal Court.

I am wondering why they're going to Federal Court. Would there be an argument for savings and accessibility if they were to go to the Tax Court of Canada?

**Ms. Cathy Hawara:** Currently the legislation provides the appeal to the Federal Court of Appeal. Making any changes to that structure would be a matter of tax policy. Perhaps—

**Mrs. Shelly Glover:** I'm looking for the pitfalls there, because to me tax courts typically don't have the backlog, but maybe I'm wrong, so I'm looking for your expertise. Would there be an advantage to allowing appeals through that court rather than through Federal Court?

**Mr. Blaine Langdon (Chief, Charities, Personal Income Tax Division, Tax Policy Branch, Department of Finance):** I think I'll answer that question in two ways.

First I'm going to address the issue of backlog. The one thing I would say is that it can be a quicker process to go through the Tax Court of Canada, but there are concerns right now about the current workload of the Tax Court. The department has actually put forward some proposals to try to mitigate some of the backlog. A lot of that has to do with the tax shelter gifting arrangements that have been prevalent over the last 10 years and a lot of the appeals that are going through in that connection.

In terms of moving jurisdiction from the Federal Court of Appeal down to the Tax Court, certainly that's a proposal we've seen before. It was put forward—I think, probably not the first time—to the joint regulatory table. The government looked at that proposal, and there were a number of different concerns with it. The Federal Court of Appeal has more expertise when it comes to common law issues. When you're dealing with registration and deregistration of a charity, that's primarily based on the common law. When we put in place the intermediate sanctions for registered charities—the imposition of a penalty, the imposition of a suspension—we actually did make those types of appeals go directly to Tax Court, seeing as they are issues it would address more frequently.

• (1650)

**The Chair:** You have 30 seconds.

**Mr. Blaine Langdon:** In terms of cost savings, because of the ramifications of a charity law decision and its implication for other groups and on who gets registered and the impact on the tax system in that way, certainly if there were a decision in the Tax Court that the government didn't agree with, more than likely it would appeal it, so I'm not certain if you're saving the charities any money as much as building a layer onto the actual appeal process for them.

**Mrs. Shelly Glover:** Thank you for the explanation.

I'm hoping there's a second round.

**The Chair:** Yes, there will be more time.

We'll go to Mr. Mai, please.

**Mr. Hoang Mai:** Thank you, Mr. Chair.

I have a question for Mr. Keenan. In the documents, on chart A.1, page 24, there's mention of donations to tax shelters. In 2010 we know it was \$300 million. I understand that tax shelters are accepted. Can you explain to us what exactly those donations for tax shelters are?

**Mr. Sean Keenan:** Blaine, do you want to take this one?

**Mr. Blaine Langdon:** “Tax shelter” has a particular meaning in the Income Tax Act. In a nutshell, it is any donation arrangement where, through accommodation of tax credits or tax deductions, individuals will receive a benefit more than the cost they've actually paid to acquire the property. It's been a big problem since about the early 2000s. They started out as art-flip arrangements. That's what they were known as. Somebody buys a piece of property for a low price and then donates it to a charity.

Over the years, they've become more sophisticated. We introduced some rules back in 2003. There were additional rules that were introduced, which are part of a technical bill that hasn't passed, but those are what you're seeing there.

There was, as you see from that chart, a high level of those types of donations in and around 2006, but through the proposed changes and CRA audit work have managed to bring that number down quite considerably.

**Mr. Hoang Mai:** A report in 2008 from the CRA noted that they refused \$2.5 billion in terms of agreements relating to tax shelters. Should that be a concern in terms of a way for people to use it as a loophole or as a way to maybe benefit from the system in terms of gift donations on that issue?

**Ms. Cathy Hawara:** At the Canada Revenue Agency, we are very concerned about abuse of tax shelter gifting arrangements. We have been very public about that issue, issuing tax alerts and making it very clear that we are going to audit every single tax shelter. We will reassess the donors where appropriate.

With respect to the charities, each and every one of them is audited, and we have revoked the registered status of approximately 45 charities in the last few years, I think since 2003, for participating in abusive tax shelter arrangements. Because the confidentiality provisions of the Income Tax Act actually do allow us to release some information about charities, including when they're revoked, we have been issuing news releases every time we revoke a charity for having participated in one of these schemes.

We are very concerned at the Canada Revenue Agency, and we're doing everything we can at the moment to address it.

**Mr. Hoang Mai:** Would you have any recommendations on how to get rid of that problem?

**Mr. Sean Keenan:** I don't know that we would have any specific recommendations. In general, a very generous tax regime is currently in place. When any regime provides an opportunity for people to benefit, there's going to be abuse. There has to be a balance. Each time we assess proposals, we're trying to assess the opportunities for abuse. To an extent, we're always chasing what the next level of abuse is. That's why we thought it was important for the committee to have the data on donations, but to disaggregate that data to establish the value of donations going to registered charities versus how much is going to these tax shelter arrangements to get an idea about abuse....

There is abuse in the system. It's very true that there are opportunities for abuse. We're always trying to look at ways to ensure that we don't have that kind of abuse, and we work with the CRA to ensure that it's stopped. It's an important consideration when analyzing any policy proposals.

● (1655)

**The Chair:** I'm going to take an extra round as the chair.

I wanted to follow up on Mr. Mai's first round of questions, which I thought raised an important issue.

Ms. Hawara, I want you to really be strong on this point on the concern of organizations or individuals that CRA may be acting under political influence in terms of any of its auditing activities.

I remember being in opposition and having a lot of Conservative friends come in and say that they knew that the Liberal government audited them because they were Conservatives. I would insist to them that no, CRA is very independent; that does not happen, and there's no political influence directing CRA in terms of personal income tax issues, business income tax issues, or charities.

I want to clarify that point, because it has been an issue raised in some media circles. I want you to clarify. Is there any political direction given to you whatsoever in terms of who you audit or do not audit at CRA?

**Ms. Cathy Hawara:** No, there is not.

**The Chair:** There is none whatsoever.

**Ms. Cathy Hawara:** There is none.

**The Chair:** I appreciate that clarification very much.

I want to follow up on a second issue. Mr. Jean raised some points we raised with you last time you were at committee. They are with respect to a private member's bill on salaries of officials and transparency and accountability. At that time, many of the charities recognized the need to be more transparent and accountable.

One of the things raised was, I know, beyond what you have on your website. It is a very good website, and there's a lot of financial information there, but have you looked at publicly listing on the website any donation amounts above a certain amount, as they do with donations to political candidates or parties, as well as publicly listing all the activities the charity is involved in? You'd have the money coming in to a charity and the money going out. It would be fully transparent. People could analyze it. Citizens could analyze it, supporters of those charities could analyze it, and parliamentarians could analyze it. Is there any thought being given to implementing that type of a system?

**Ms. Cathy Hawara:** Mr. Chairperson, currently charities have to report on the various sources of their funding. They also have to report on what they do with all of their resources.

In terms of disclosing the names of individual donors, if I understood the question correctly, certainly there would be some issues with the current confidentiality provisions of the Income Tax Act. If you were looking to disclose the donations of Canadians, that would be confidential taxpayer information, so it would not be within our administrative discretion to simply amend the form to have that kind of information released.

**The Chair:** Okay. I'm on your website now. Where do I find the most information? I've surveyed the financial information section. It's actually fairly general. Where would I find the activities of a specific charity, such as the Canadian Cancer Society, which is a very reputable charity. Where would I find its activities listed here?

**Ms. Cathy Hawara:** There's only a brief description of the actual activities. The form is more geared toward, unfortunately, yes-or-no answers and some financial data. Currently we don't have a lot of narrative information about what the charities are undertaking.

**The Chair:** It's very basic information at this point.

**Ms. Cathy Hawara:** It would be, and it would depend on whether they completed the short form of the financial information or the more in-depth schedule. Further information would be found in the financial statements, which unfortunately are not available on the website.

**The Chair:** Okay. Thank you for clarifying that.

I would like to turn to Statistics Canada. I have a little over a minute left.

Page 3 deals with tax filers and charitable donors from 1990 to 2010. If I'm seeing it correctly, the number of charitable donors stays fairly constant at just over 5 million, but the number of tax filers goes from about 17 million or 18 million to 24 million. Do you have any insight as to why the number of donors has not increased, while the number of tax filers has?

**Ms. Sylvie Michaud:** I think we mentioned at the beginning of the meeting that charitable donations could be pooled for a married couple. Both of their charitable donations could actually be pooled on one tax file donation, but both spouses may have actually contributed.

**The Chair:** Does this explain why the number has not gone above 5 million, while the number of tax filers has increased? My sense is that some groups come before us and say that the number of people giving is not going up with the number of tax filers, so therefore we need things like the stretch tax credit to encourage people, especially middle- or lower-income people, maybe, or younger people, to give more. They say we need the stretch tax credit because of this information, so I want to make sure that I understand why this number is fairly constant.



•(1700)

**Ms. Sylvie Michaud:** This is the number of the people who reported a charitable donation on their tax form, but as Alison has mentioned, donations can be pooled, so it doesn't necessarily reflect the number of charitable donors. More information on charitable donors would come from the CSGVP, which has a bit more detail.

**The Chair:** Okay. Thank you. I appreciate that.

I'm going to go to Mr. Brison now, please.

**Hon. Scott Brison:** Thank you very much.

I want to go back to this whole issue of tax expenditure just for a moment, in terms of the figure of \$34 million. If taxpayer A has shares worth \$5 million, donates them, and as such doesn't pay any capital gains tax on that transaction, you might attribute, depending on the inclusion rate, a tax expenditure of \$1 million to that transaction.

However, if taxpayer A doesn't make any donation and holds onto his shares, he doesn't pay any capital gains tax either. Therefore, your tax expenditure figure is contingent on the assumption that taxpayer A would have sold his shares in any case, when in fact the argument in favour of reducing—and in this case, eliminating—capital gains tax on gifts of publicly listed securities is contingent on the idea that this public policy decision actually catalyzed an activity that would not have occurred otherwise.

If we assume that taxpayer A would not have executed any transaction or donation, there's no tax expenditure. I think it's very important when you apply what is, in some ways, a government construct of a tax expenditure to this situation that we consider, depending on how we look at it, that there's no tax expenditure if in fact there had been no contribution, and if the reduction in and elimination of the capital gains tax on publicly listed securities had no impact on taxpayer A's decision. Do you understand the logic?

**Mr. Sean Keenan:** I do understand the point you're making. I think Mr. Julian had the question about what the value is of the tax benefit that is being provided as a result of this measure, which is what we're trying to show in the tax expenditure report. Yes, you could say that without that incentive, the person would not have donated those shares. I think that's a very valid point.

**Hon. Scott Brison:** Sure, that's the point. When you use the tax expenditure verbiage—and I know it's widely used within government, and I respect that—it does imply a cost that in some ways is subjective, depending on one's assumptions, and the motivation.

Speaking of subjectivity and the whole issue of political advocacy and how you judge that, I'll give some examples. One is of the wildlife federation that hypothetically advocates against a gun registry, which is hypothetical these days. We register lobbyists now in Canada, but we don't register long guns. As another example, let us consider an environmental NGO that may express views contrary to government policy on the environment, or an international NGO that may campaign vigorously against government cuts to international development in certain countries. How do you compare those to, for instance, a church that may oppose or campaign against a government social policy?

This is very subjective, and I find it difficult. I'd really appreciate some of your insight in terms of how you define what is appropriate.

How do you quantify or analyze granularly, in an objective way, something that seems inherently subjective in terms of what are appropriate levels of advocacy, and what type of advocacy crosses the line? That's one I'm really concerned about.

**The Chair:** There are about 45 seconds.

•(1705)

**Ms. Cathy Hawara:** I'll take that question, Mr. Chairperson.

We do have guidelines available that lay out our interpretation of what's allowable under the Income Tax Act.

Registered charities are allowed to participate in political activities. By political activities, we mean when there is a call to political action, so it could be urging the public to contact their MPs or an explicit communication by a charity that a particular piece of legislation or a decision should be changed. Those are political activities, in our view.

Charities are entitled to undertake those types of activities so long as it's non-partisan—which is essentially support for or opposition to a political party or a candidate to public office—so long as the activities are connected to the organization's purposes, and so long as those activities remain a small part of what the charity does, and that's where the 10% limit comes in. Looking at all of their resources, we would determine whether they are beyond that threshold.

**The Chair:** Thank you.

Thank you, Mr. Brison.

We'll go to Ms. Glover, please.

**Mrs. Shelly Glover:** Chair, I'm going to continue in that vein. The detective in me is telling me to ask who actually goes to investigate that. Earlier we were talking about complaints being so important, but do you do any proactive investigation of that type of behaviour?

**Ms. Cathy Hawara:** We do, actually, in the sense that we audit, as I mentioned, about 1% of charities a year. It's a little less than that. We do about 750 audits. In each and every one of those audits, one of the essential components is to look at whether the charity is engaging in political activities, and if they are, to make a determination as to whether they're partisan or whether they're excessive—that is, whether they're beyond the 10% threshold. In every audit, including the random audits we conduct every year, the organization does get looked at from the perspective of political activities. This is in addition to the complaints we might specifically receive.

**Mrs. Shelly Glover:** Very good.

When I think of auditors, I think of numbers. When I think of policing this issue, I think of people who are actually going out and seeing what happens at these rallies to hear whether or not there is criticism of, or support for, a specific party or a person. Does that happen?

**Ms. Cathy Hawara:** The way the audit would unfold is that normally an auditor would attend a registered charity's offices and look at all of the books and records and ask a lot of questions, but the auditor wouldn't work by himself or herself. There is a team back at headquarters that is specialized in the activities of registered charities, including political activities, so they work together to do a lot of research about the various activities and pronouncements that charities might have made to be able to draw a picture both on the activity side and on the financial side.

**Mrs. Shelly Glover:** But does anyone go on the ground to rallies?

**Ms. Cathy Hawara:** To rallies? No.

**Mrs. Shelly Glover:** Do they ever look at newspaper articles for quotes and pull them as evidence that there has been a breach?

**Ms. Cathy Hawara:** We would look at a wide range of possible sources of information, including the media.

**Mrs. Shelly Glover:** Okay. Sounds good.

Mr. Jean will get into the stretch tax credit for me; I wanted to get into the monetary penalties. One of the slides, I think the Finance slide, talked about a monetary penalty.

Ms. Hawara, I think you talked about some of the repercussions. What is the range of monetary penalties for any kind of breach?

As well, I believe it was you, Ms. Hawara, who talked about the salary ranges. I'd like those tabled. I would also like to know how many people fit in each of the ranges, if that's possible.

Thank you. We're back to your answer, Mr. Keenan.

**Ms. Cathy Hawara:** We have information about the penalties. I have to apologize, because I don't know them off the top of my head, but there's usually a percentage associated. For example, if an undue private benefit were given to someone, then a percentage of that would be applied. For second infractions, the penalty is increased. We have all of that information, which we can certainly table with the committee.

With respect to the compensation, the ranges are included in the information return, which we'll be tabling as well. We'll highlight that for the committee. We can certainly provide a breakdown of how registered charities have been reporting against those salary ranges.

**Mrs. Shelly Glover:** That's perfect. Thank you.

Now, on "revocation" versus "annulment": what's the difference? Those were the words used in the deck.

**Ms. Cathy Hawara:** An annulment is available as a tool in two specific circumstances. If, in looking at a file, the charities directorate comes to the conclusion that it actually made an error in registering the organization in the first place, we'll essentially annul our decision. That's as opposed to a revocation. In a revocation, we don't annul the decisions; they were registered and they are now revoked.

The practical distinction between the two is that when a charity is revoked, it must divest all of its assets within a one-year period. They can do that either by disbursing their assets on their charitable programs or by gifting to eligible donees, which is another subcategory of qualified donees—I apologize to the committee—

whereas in the case of an annulment, because we say we made a mistake, the charity is allowed to keep its assets.

There is another instance in which annulment is available, and that is if there has been a change in the law that now means that a charity is offside. We don't hold that against the charity.

**Mrs. Shelly Glover:** What do you mean, "offside"?

**Ms. Cathy Hawara:** It's when there's a change in the law that means that the charity, by no fault of its own, is now no longer compliant.

• (1710)

**Mrs. Shelly Glover:** It no longer meets the criteria.

Thank you.

[Translation]

**The Chair:** Mr. Giguère, it is your turn again.

**Mr. Alain Giguère:** In terms of revocations, we have essentially been told that when a revocation is challenged, it could take a while and the charity could continue to issue receipts during that time. Is that correct?

**Ms. Cathy Hawara:** That is what happens when we decide that the charity can have access to every recourse available under the act. However, in certain circumstances, if we are particularly concerned about the charity's activities, the legislation enables us to revoke the registered status 30 days after the charity was informed of our intent to revoke its registered status. So, in more serious cases of non-compliance, we act quickly; we can and we do.

**Mr. Alain Giguère:** But if the charity challenges the 30-day period in court, can you still do that?

**Ms. Cathy Hawara:** We proceed with the revocation after 30 days, unless the charity is able to obtain a court order preventing us from doing so, which hasn't happened yet.

**Mr. Alain Giguère:** In the case of... We won't use names because you don't want to talk about that, but when there is fraud, what guarantees do parliamentarians have that this documented fraud, even reported by some of your officials, will be corrected?

**Ms. Cathy Hawara:** We take all the complaints and all the information we receive about charities seriously. The act does not allow us to disclose our actions until a decision has been made about whether a revocation is justified under the circumstances.

Once we make the decision to revoke the registered status of a charity, the letters with the reasons for our decisions that were sent to the charity are available to the public and can be provided to the public.

We also issue—

**Mr. Alain Giguère:** I'm sorry but when there is an ecological gift, are you able to cancel the donation if it does not comply with the guidelines of your agency?

**Ms. Cathy Hawara:** I must admit that determining whether the donation is acceptable or not does not really fall under my responsibilities. I don't think I can help the honourable member with this particular question.

**Mr. Alain Giguère:** Who can answer this question? After all, it is a case of fraud that is publicly documented. Documents from your own officials are going around and we cannot get any information. I truly want to believe that the intent is to protect the presumption of innocence, but I would like to have the assurance that corrective action has been taken. Could anyone give me an answer?

[English]

**Mr. Blaine Langdon:** Ordinarily the CRA has jurisdiction to look at and challenge the value of a gift. When it comes to ecological gifts, the value of the gift is from a certification given by the Minister of the Environment, and that is deemed to be the fair market value of a gift. In that instance the CRA wouldn't have any cause to take a look at that type of ecological gift; they wouldn't have the authority to challenge it.

In terms of information arising from how that valuation was done, all of that information would largely be in the hands of the Minister of the Environment. That's presumably where the answers would come from.

• (1715)

[Translation]

**The Chair:** You have 30 seconds left.

**Mr. Alain Giguère:** The Minister of the Environment has already come out against this ecological gift. The problem is that the credit was already granted despite the opposition of Department of the Environment officials. That is where I have a problem. It was not the Department of the Environment that messed up: the Canada Revenue Agency allowed a gift despite the assessment from and the opposition of the Department of the Environment.

[English]

**The Chair:** Would any of you like to comment further on that?

**A voice:** No.

**The Chair:** Okay.

[Translation]

Fine. Thank you.

[English]

We'll go to Mr. Jean, please.

**Mr. Brian Jean:** Thanks again, and thank you, Director General. Your answers have been very forthright and very quick.

I have a question in relation to the stretch tax credit. You've obviously heard of it, and as a donor, I think it's great.

We've had several proposals, but what would in essence be the broad cost implications if it were put in place?

**Ms. Cathy Hawara:** Unfortunately, I don't even have a rough estimate that I could share with the committee. There are a number of areas within the agency that would be impacted, and a full cost estimate would need to be undertaken.

To give the committee a sense of it, there would definitely be system changes involved in order to be able to track the donations from previous years, which we don't do currently. It would be quite a significant rethink on how the system is currently structured,

certainly in terms of forms and publications and all of the things that would normally come along with it.

We have not done a full assessment of the proposal, nor have other areas of the agency that would be even more impacted than we would be at the charities directorate.

**Mr. Brian Jean:** So it's fair to say that for tracking donations year to year, the changes to the systems within the agencies themselves would be quite tremendous, and also that the systems now in place would have to be modernized or at least changed somewhat.

Have any other countries adopted a similar tax strategy? If so, have you looked at the implications for those countries?

**Ms. Cathy Hawara:** We do maintain close relationships with certain countries, and I'm not aware of any of them having implemented something similar.

I don't know whether the Department of Finance has anything they want to add on that particular question.

**Mr. Sean Keenan:** In terms of whether other countries have adopted a stretch tax credit idea, we're not aware of any that have done so.

**Mr. Brian Jean:** Bluntly, from my perspective, wouldn't there be some potential integrity issues relating to a year-to-year tax credit like this?

**Mr. Sean Keenan:** In analyzing any proposal for a tax policy change, we would look at the cost and the implications. Especially with the charitable donations incentive, one of the major considerations is whether you're going to be subsidizing existing donations or actually providing an incentive for new donations.

Recently there was an article in *The Globe and Mail* about the stretch tax credit, which essentially said it would encourage more donations but would also provide an incentive for people to act strategically to increase the tax credit they receive without necessarily increasing overall donation levels.

For instance, spouses could alternate between who claimed the credit. One spouse could give \$500 one year, and then the other spouse could give the next year, so there are opportunities there for strategic giving. I think the example in *The Globe and Mail* said to give a little bit less in year one and a little bit more in year two. Whether that's going to lead to additional donations in the sector would have to be a consideration that we would have to take into account.

**Mr. Brian Jean:** I did have a chance to look at the website that you referred me to relating to practice of disclosure. I have a couple of questions, and maybe suggestions.

Why not include the total number of employees in each bracket of the amount made? It seems fairly easy to do, because it's already being done, for the most part. You have the total number of employees, and then you have the top 10 in each sector. A particular organization that I give to has only 21 employees. I can imagine that even if they had thousands, it would still be fairly simple to put them into each bracket, to be blunt. That would certainly give you a good idea of what kind of organization it is, such as whether it's hands-on or executive or administrative, and it would help Canadians, I think, donate to those particular organizations that fit their needs.

Also, with respect to schedule 5, non-cash gifts, is that a per-year schedule of gifts? For instance, this organization that I looked at was \$39 million. Is that per year or is it overall in the life of the organization? It wasn't specified on the website. I'd just refer you to that.

I also looked for third party expenditures and contractors. In one particular case that I looked at, professional and consulting fees amounted to half a million dollars. It was a small charity. I would suggest a breakdown of those types of organizations and contractors would be very helpful. I think it gives opportunities to organizations to enrich certain types of people in the organizations themselves through professional fees. As an ex-lawyer, I can assure you that people look at all sorts of ways to defraud others of money, and I think it would be greatly encouraged to do exactly that.

• (1720)

**The Chair:** Do you want to have a brief response, Ms. Hawara?

**Ms. Cathy Hawara:** I believe the answer to the question on non-cash gifts is that it is every year. It's reported for each fiscal year.

With respect to greater disclosure on compensation, we always look at the form and see what can be done. There are significant system costs associated with the form itself.

**Mr. Brian Jean:** A \$5,000 amount or a certain limit would be advantageous, I think.

**The Chair:** Thank you. Thank you, Mr. Jean.

Mr. Mai is next, please.

[*Translation*]

**Mr. Hoang Mai:** Thank you, Mr. Chair.

My question is for you, Ms. Hawara.

With charitable organizations that operate at community level, have there been more complaints about political activities in recent years? Have there been more complaints, by which I mean revoked registrations, for those kinds of organizations?

**Ms. Cathy Hawara:** According to the information at my disposal, there has been no increase in complaints. Have we revoked registrations of organizations for engaging in political activities to an unreasonable degree? Actually, in recent years, no registrations have been revoked for those reasons.

We have identified a number of problems; really, non-compliance comes in a wide range of forms. In each case, we chose the appropriate tool. But there have been no revocations in recent years.

**Mr. Hoang Mai:** Thank you.

In chapter 7 of the Auditor General of Canada's 2010 report, it states that the Canada Revenue Agency does not have sufficiently detailed internal guidance to apply sanctions to fraudulent charitable organizations.

Has that been corrected? What steps have been taken along those lines?

**Ms. Cathy Hawara:** Yes, that was one of the recommendations that was made to us. So we have established a procedures manual. The report also indicated that, if an infraction is subject to a sanction

or penalty and the decision is not to impose the sanction, the auditor should justify that decision. It is checked at head office.

There is also now a person responsible for sanctions in our central administration. So that person can liaise with the auditors and develop the expertise that allows to us to better apply the range of sanctions we have available.

**Mr. Hoang Mai:** You said earlier that you lack the staff to come to grips with the gift problem in terms of receipts, for example.

Now that you have guidelines on the application stage—because the CRA has been criticized for not really having taken any steps, or not having succeeded in collecting fines associated with the sanctions—what specifically are the sums involved; what progress has been made in this area since then?

**Ms. Cathy Hawara:** I would like to make a clarification. I do not believe I mentioned a lack of staff. Now, there are some difficulties with receipts and with the fact that we have no automated system. But it is fair to say that we do have enough staff.

In the auditor general's report, she made the point that few sanctions had been issued in the period covered by the audit. She made some suggestions about our procedures, our manuals and our approach. We have almost finished implementing what she asked and we are committed to doing so. I do not have with me the number of penalties that have been imposed since, but we can certainly send that information to the committee, including the sums involved. I do not know them by heart. I would also like to point out that, if a charitable organization has been the subject of a sanction, the public has access to that information through our website.

• (1725)

**Mr. Hoang Mai:** In terms of the steps you have taken to deal with the problem, could you tell me if you need any extra tools—I am specifically thinking about staff—to make sure that the situation regarding fraudulent activity is really corrected?

**Ms. Cathy Hawara:** I appreciate the question.

I don't think that we need more staff at the moment. First of all, we have to see whether those situations correspond to the provisions of the act in terms of our discretionary power to impose a penalty. We always have that discretionary power. So we are trying to see whether that actually provides a way for the organization to come once more into compliance with the act.

[*English*]

**The Chair:** Thank you. *Merci*.

Ms. McLeod, we have time for just a very brief round, unfortunately.

**Ms. Cathy McLeod:** I think perhaps it's a quick question, and it will probably be for another panel, but have you had any experience internationally? Are there any countries that you are aware of that are involved in important and significant issues? I'll leave that question to anyone who might want to answer it. Does anyone have any insight into what other countries are doing?

**Mr. Blaine Langdon:** You'd probably want to take a look at some of the things coming out of the United Kingdom. They have a fairly large charity-related project they refer to as The Big Society. They're looking at social enterprise over there, and they're looking at social impact bonds. There's a lot of stuff going on over there.

Right now, Australia is another country you could look at in terms of some of the measures they're taking. In their last budget there was a commitment to look at non-profit organizations. They're also going to be looking at the establishment, I believe, of a charities commission down there.

Then there is the United States as well. They have a lot going on in terms of social enterprise and different types of community corporations and different business corporations. As well, they're looking at their tax system more generally, but they're also, as I understand, looking at donation incentives with the aim of seeing what they can scale back rather than making them more generous. It would be interesting to follow that as well.

**The Chair:** Thank you very much, Ms. McLeod.

On behalf of the committee, I want to thank all of our witnesses. Today's discussion was very interesting. Thank you so much for your responses.

If you have anything further to share, either a response to a question today or anything you wish the committee to consider, please submit it to the clerk, and we will ensure that all members get it.

Colleagues, just before you go, I want to propose a motion to cover primarily witness expenses for this study. I move that the proposed operational budget in the amount of \$37,700 for the study on tax incentives for charitable donations be adopted by the finance committee.

*D'accord?* Okay?

(Motion agreed to)

Thank you all, colleagues.

Finally, I would like to thank Mr. Marston for his excellent work and for his kind words here today.

**Some hon. members:** Hear, hear!

**The Chair:** Thank you.

The meeting is adjourned.

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