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Chair

Mr. Phil McColeman

Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities

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• (1530)

[English]

The Chair (Mr. Phil McColeman (Brant, CPC)): Good afternoon, ladies and gentlemen. This is meeting number 55 of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. We're here to continue with our current study to explore the potential of social finance in Canada.

Members of the committee expressed an interest in bringing back government officials for further questioning after hearing from witnesses across Canada.

We're pleased today to have with us from the Department of Employment and Social Development, Ms. Siobhan Harty, director general, social policy directorate, strategic policy and research branch, along with Mr. Blair McMurren, director, social innovation, strategic policy and research branch. Welcome back to the committee.

From the Department of Finance we have Miodrag Jovanovic, director, personal income tax, tax policy branch.

Finally, from the Canada Revenue Agency, we have Ms. Cathy Hawara, director general, charities directorate, legislative policy and regulatory affairs branch, and Mr. Bryan McLean, director, policy, planning and legislation division, charities directorate, legislative policy and regulatory affairs branch.

Members, we have just the one panel today, so we'll start with seven-minute rounds during the first round. I'm at your behest in terms of how long you want the meeting to go on. If you exhaust the questioning, at a certain point we'll end the meeting, because I think there's a feeling there may be some redundancy. I'm just pointing that out. I've talked to a few members of the committee who feel that might be the case. We may end early, but I'm at your behest in terms of how many questions you wish to ask or your timing of them.

Let's begin with our first round of questioning with Madam Groguhé. Are you going first?

Mrs. Sadia Groguhé (Saint-Lambert, NDP): Yes, I can go first, but we have to—

The Chair: Oh, I'm sorry. I told you earlier before the meeting started that I was getting punchy, because I'm looking forward to getting home.

Sorry, to the witnesses. You have my sincerest apology.

The witnesses who are presenting will have up to 10 minutes, and I'll try to give you a signal at nine minutes if you're approaching the 10-minute mark.

Shall we begin with Ms. Harty.

Ms. Siobhan Harty (Director General, Social Policy Directorate, Strategic Policy and Research Branch, Department of Employment and Social Development): Thank you very much.

I want to thank the committee for giving me the opportunity to return to speak today. I am pleased to be here with my colleagues from the Department of Finance and the Canada Revenue Agency to address any final questions you may have, or indeed to provide you with clarification on particular points.

[Translation]

I would first like to take a moment to thank the committee for the valuable work you have undertaken with this study.

I also acknowledge all the stakeholder groups who took the time to contribute to your study.

Since I last spoke to you, the Government of Canada has announced new measures in Budget 2015 to grow the social finance marketplace in Canada.

First, Budget 2015 proposes that registered charities be permitted to invest in limited partnerships with some conditions. My colleague from the Department of Finance will speak about that in his remarks.

[English]

Second, the budget announced the forthcoming launch of a social finance accelerator initiative to be led by ESDC. This announcement follows up on a commitment made by the government in the 2013 report of the National Call for Concepts for Social Finance, called "Harnessing the Power of Social Finance", to bring together innovative, not-for-profit, and private sector organizations in order to sharpen their social finance ideas into investment-ready proposals.

Greater detail on this initiative will be made available in the coming weeks. It's expected to involve advisory services, mentorship, brokering, and investor introductions to help fast-track promising social finance ventures to a greater stage of investment readiness.

Finally, I want to advise the committee of an upcoming event. The last regular meeting of the international Social Impact Investment Taskforce will take place in Toronto next month. The task force was created during the United Kingdom's G-8 presidency in 2013, with the aim of catalyzing the development of a global market for social finance.

The former minister of employment and social development, the Honourable Jason Kenney, had nominated me and Tim Jackson of the MaRS Centre for Impact Investing to sit on the task force.

This task force meeting will be hosted by the MaRS Centre for Impact Investing, and it offers a unique opportunity to profile Canadian approaches to social impact investment and benefit from the perspectives of task force members, who might have advice on how to advance the development of the Canadian market. Every task force member country that has hosted a meeting has used the opportunity to organize panels profiling aspects of their market that distinguish them from other countries.

• (1535)

[*Translation*]

These panels have created important cross-national learning opportunities. For the Canadian Task force meeting, there is a proposed panel on Aboriginal models that will likely elicit strong interest. A proposed panel on using social finance to advance international development will also be of great interest, given the government's record on innovation.

Thank you again for this opportunity to appear as a witness.

[*English*]

The Chair: Thank you very much.

Now we can move to Mr. Jovanovic.

[*Translation*]

Mr. Miodrag Jovanovic (Director, Personal Income Tax, Tax Policy Branch, Department of Finance): Thank you, Mr. Chair.

[*English*]

My name is Miodrag Jovanovic. I am director of the personal income tax division with the Department of Finance.

Thank you very much for your invitation to appear here today before the committee regarding your study of the potential for social finance in Canada.

First, I would like to speak briefly in broad terms about the Canadian taxation and regulatory framework for registered charities in the Income Tax Act as it relates to social finance and social enterprise. I understand that my colleagues from the Canada Revenue Agency will speak in more detail about how they administer the provisions in the Income Tax Act.

Second, I would also like to draw your attention to a measure in the recent budget that responds to recommendations made to this committee.

The rules that relate to charities' involvement in social finance take into account a number of different principles, policy objectives and practical considerations. These considerations include the following:

In Canada, charities are exempt from taxes and are permitted to issue tax receipts for charitable donations for which individuals may claim a tax credit and corporations may claim a tax deduction. This results in forgone revenue and a tax expenditure of about \$3 billion annually. This tax expenditure recognizes the charitable sector's important social and economic contributions. The Income Tax Act provides a set of rules to ensure that tax assisted charitable resources are used to advance the purposes for which a charity has been established. In other words, charitable resources must be used for charitable purposes.

In this context, the Income Tax Act aims to strike a balance between allowing charities to engage in business activities, including social enterprise, as a source of revenue while ensuring that charities ultimately remain focused on their charitable purposes and activities.

Most charities can raise revenues directly to support their charitable activities as long as their business activities are directly related to, and subordinate to, the purposes for which they have been created. Where the business activity is closely related to the charitable purpose, it can make sense to integrate the business activities into the charity.

With the exception of private foundations, charities that wish to engage in unrelated business activities can do so by establishing a separate entity, typically a corporation, to carry out these activities. This can be an attractive option for charities since there are few, if any, restrictions on how a corporation's capital is raised and how its assets and revenues are used. Having a separate entity allows the charity to maintain its focus on charitable activities and use its charitable assets towards these activities.

The rules also attempt to provide a level playing field between businesses run by charities which are tax-exempt and businesses that pay tax. Taxpaying businesses, including small and medium-sized businesses could be placed at a competitive disadvantage if charities were able to conduct tax-exempt business activities without restriction.

[*Translation*]

To re-iterate, this suite of parameters is intended to allow charities to engage in business activities as a source of revenue while at the same time ensuring that charitable resources are not diverted from their charitable purposes.

As mentioned by my colleague from the Department of Employment and Social Development, I would like to discuss briefly a measure introduced in Budget 2015.

The Department of Finance discusses policy issues concerning registered charities with the charitable sector on an ongoing basis. We have been in touch with the charitable sector on social finance for several years. A number of stakeholders have told us that, if charities were permitted to invest in limited partnerships, they would be able to make more impact investments, that is, investments that generate both a social and financial return.

● (1540)

[English]

Up to now, charities have not been permitted to hold interests in limited partnerships in most cases because a charity that held an interest in a partnership was considered to be carrying on a business. Charitable organizations and public foundations can only engage in related businesses, with the result that few are in a position to hold interests in a partnership. Private foundations cannot engage in any business activities that prohibited them in all instances from holding interests in a partnership.

Charities have also told us that allowing them to invest in limited partnerships would permit them access to a wider range of investment opportunities to diversify their investment portfolios.

In light of these recommendations, budget 2015 proposed that registered charities be permitted to invest in limited partnerships subject to certain conditions. This measure is expected to have two benefits. First, in allowing charities to diversify their investments, it will provide them with the opportunity to access a wider range of private market investments, such as infrastructure investments, and by so doing enable them to obtain better returns on their investments. This will in turn increase the resources they have available to fund charitable programs. Second, since there are many social impact investments that are structured as limited partnerships, allowing charities to invest in limited partnerships will enable them to better align their investment portfolios with their charitable purposes, and will potentially make available additional funds for social enterprise projects in Canada.

I would be pleased to respond to any questions the committee might have.

Thank you.

The Chair: Thank you very much.

Now we move on to Madam Hawara.

[Translation]

Ms. Cathy Hawara (Director General, Charities Directorate, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency): Thank you very much, Mr. Chair.

My name is Cathy Hawara and I am the Director General of the Charities Directorate within the Canada Revenue Agency.

As my finance colleague explained, it is their role to write the rules that support the government's tax policy agenda. It is the CRA's responsibility to administer those rules.

[English]

Let me start by saying that while the term "non-profit" is sometimes used to refer to both registered charities and non-profit organizations, there are some important differences. First, only

charities are registered by the CRA. While both are tax-exempt, only registered charities can issue official donation receipts to donors. In exchange for the privilege of issuing receipts for donations, registered charities are also required to file a publicly accessible annual information return. Finally, while registered charities can carry on related business activities with the intention of making a profit, NPOs cannot have a profit purpose.

As the charities directorate of the CRA is responsible for the regulation of registered charities, that's where I will focus my remarks.

[Translation]

There are approximately 86,000 registered charities in Canada and these entities enjoy significant tax privileges. In 2014, the Department of Finance estimated that the fiscal cost for the federal government of tax incentives for charitable donations by individuals was more than \$2.5 billion. As my colleague mentioned, when we take business deductions into account the fiscal cost is closer to \$3 billion. These tax privileges come with the obligation to follow the rules set out in the Income Tax Act.

Under the basic statutory framework, there are three types of registered charities: charitable organizations; public foundations; and private foundations. Regardless of the designation, the Income Tax Act requires that all registered charities operate in one of two ways: they can carry on their own charitable activities; or they can make gifts to other "qualified donees". In this context, the term "qualified donee" usually refers to other registered charities, but it also includes low-cost housing corporations for the aged, municipalities, municipal or public bodies performing a function of Canadian government, prescribed universities, certain foreign charities, registered Canadian amateur athletic associations, the United Nations and its agencies, and Her Majesty in right of Canada or a province.

● (1545)

[English]

In order to finance their charitable programs, whether they be through direct activity or funding of other qualified donees, registered charities need to generate revenues and do so in a number of ways.

The first is through fundraising. Most registered charities rely on fundraising to generate revenues. In 2013, registered charities reported \$14.79 billion in tax-receipted gifts according to the information reported in their annual information return, the T3010. The recent budget proposal to exempt capital gains tax on gifts involving real estate and private shares adds a new incentive with respect to fundraising efforts.

Second, most charities can conduct related business activities. Under the Income Tax Act, there are two basic types of acceptable business activities: businesses that are related to a charity's purposes and subordinate to those purposes, and businesses that are run substantially by volunteers. An important caveat is that private foundations are prohibited from engaging in any business activity.

Third, registered charities can generate revenues by making prudent market investments, which may include investments in separate taxable corporations or trusts established by the charity.

A charity's board of directors would need to ensure that the investment is a prudent use of the charity's assets. It must also ensure that no benefit of a private nature is conferred on the corporation or the trust.

Charities can also make program-related investments, commonly referred to as PRIs. A PRI is not an investment in the conventional financial sense since it would not necessarily yield a market rate of return. If a PRI furthers the investor charity's charitable purposes, it could be considered a charitable activity. Common examples of PRIs include loans, share purchases, and leases of land or buildings.

An additional point to note, as my colleague has already, is that the recent budget announcement relating to investments in partnerships increases the flexibility charities have in structuring their investments.

Finally, registered charities can generate revenues through their charitable activities. Registered charities can charge fees for the services they provide.

In closing, while the common law and the Income Tax Act place certain restrictions on the use of charitable assets, Canadian registered charities can and do play an active role in addressing pressing social problems, as service delivery agents, as funders, and as investors.

Registered charities can also work together with the business community to deliver programs that are designed to achieve social outcomes, for example, educational activities relating to employability training, career counselling, entrepreneurial training, or on-the-job training in vocational or work skills; running social businesses with individuals with disabilities; and preserving and maintaining high standards of practice within an industry.

[Translation]

The CRA is committed to helping registered charities understand the rules and for that reason, publishes a variety of guidance products on a wide array of topics. Our website contains information of interest to charities, donors, legal representatives, and researchers.

You can also find the annual information return for each of Canada's 86,000 registered charities. The return contains a wealth of both program and financial information on charities.

As we add new information to our website and develop and refine our tools, we continue to be interested in receiving feedback from external stakeholders.

I would now be happy to take any questions.

[English]

The Chair: Thank you very much to all our presenters today. Now we move on to questioning.

Madam Groguhé, for seven minutes.

[Translation]

Mrs. Sadia Groguhé: Thank you, Mr. Chair.

I want to thank the witnesses for being here today.

My first question is for our witnesses from the Canada Revenue Agency and the Department of Finance.

You quickly went over the criteria, if I may put it that way, for the new rules for charities.

However, I would like to come back to the negative impact that a number of witnesses raised here, before this committee, with regard to the costs associated with adopting social finance. For example, when David Juppe, senior operating budget manager and tax expert from Maryland testified, he illustrated to us that using social finance, including SIBs, would cost the government more because of the use of a third party and the pay-for-success model. He even described SIBs as the government's credit card.

I would like your take on this warning. In your view, how can we effectively assess the recurring cost of social finance in general and SIBs in particular? When might such an assessment take place? Before, after, or during the launch? How can we truly know, in any meaningful way, what the government is getting itself into and what costs will be associated with this social finance?

•(1550)

[English]

The Chair: Before we move on to your answers to these questions, just for all committee members, obviously, we have professional people of the government service before us. Opinions are generally not asked of government officials at this level. Witnesses are welcome to answer in any way they would like, but I am just saying to committee members to be aware that in many cases, asking our government officials for opinions is not appropriate. Instead, the question should be geared toward things, other than opinion.

I will let that continue. If anyone chooses to answer that, you are welcome to. Otherwise, we'll move on.

[*Translation*]

Mrs. Sadia Groguhé: I could reword my question.

Mr. Miodrag Jovanovic: If I may, I would like to clarify something. I am here as an expert in tax legislation. I can speak to how social finance fits in that framework. However, I am unfortunately unable to answer broader questions on social finance and on the cost of using it as an instrument, if the questions go beyond the legislative and regulatory framework of taxes.

Mrs. Sadia Groguhé: Okay.

Ms. Harty, you mentioned at a prior committee meeting that you studied the issue. Can you tell us a bit more about it?

[*English*]

Ms. Siobhan Harty: I think that there are probably different costs. Again, I am not speaking from experience. I am speaking from a comparative perspective, knowing how other countries have managed this. The first cost is a transaction cost, just from the legal dimensions of having to make contractual arrangements related to social finance or a social impact bond. What we hear from other countries is that the more you do, the lower the transaction costs become. The transaction costs are high for the first transaction because there is a learning dimension to it, but the more you do, the lower the cost. The British case is a good example here. They have multiple social impact bonds, so they have been able to capture lessons learned from the first social impact bonds and apply them to subsequent ones, thereby reducing the transaction costs.

In terms of evaluating things as you proceed, I am not sure here if you mean the costs of implementing a social finance initiative like a social impact bond, or if you mean evaluating any kinds of savings. As with any kind of project or expenditure, costs are monitored. With any project management approach, you would monitor costs along the way, and then you would do an assessment at the end.

In terms of being able to assess whether there are any savings, that could only come at the end, unless you establish some milestones of payments along the way, which is done, for example, in standard pay-for-performance contracts in many countries, including our own, as well as in some of the social impact bond projects that have been put together in various jurisdictions.

• (1555)

[*Translation*]

Mrs. Sadia Groguhé: Okay.

Ms. Hawara, you said that charities would be allowed to work on social issues involving education, job integration, and other things. The rules serve to promote the implementation you described.

On the other hand, is the method for determining the social impact of these initiatives applied ahead of time? I suppose they are, or at least I hope so.

Ms. Cathy Hawara: Charities have to abide by a rather specific framework. Before accepting them and registering them as charities in Canada, we are required by law to ensure that they pursue activities for charitable purposes that are recognized by the courts.

As you said, we are talking here about advancing education and alleviating poverty.

As far as the impact is concerned, our role as a regulatory agency is not to determine the effectiveness of charities or the results obtained within the framework of their program. That exceeds our mandate and our jurisdiction. Our role is to ensure that the organizations are obeying the rules established under the law, and to help them understand those rules, and give them the tools they need to implement them.

Mrs. Sadia Groguhé: Okay.

[*English*]

The Chair: Thank you.

Mr. Mayes.

Mr. Colin Mayes (Okanagan—Shuswap, CPC): Thank you, Mr. Chair, and thank you to the witnesses for being here today.

It's interesting that today I had a delegation representing national charities in my office talking about our government's initiatives and policies as far as charities are concerned and trying to encourage them and make their job easier to raise funds, and to do their good work, and they did commend the Department of Finance and CRA for the great work you've done together with the group. So thank you for that.

The chair was quite right that politicians are going to look at the value of social finance. You are here to tell us how the framework will work in order to make it happen, and also to be able to regulate it to a certain extent. One of the things that the framework has to do is to talk a little bit about best practices, and the tax framework, and financial policy.

I would like to direct my first question to Mr. Jovanovic.

In business you have two types of income. You have active and passive income, and you're taxed at a different rate for those. Is there any possibility of having something like that for a social initiative even in a small business or a large business where you could look at the social impact and have a different level of taxation so that you wouldn't have, like you say, charities competing against businesses? A business could take advantage of it too if they wanted to hire disabled people and there was a certain way that we could evaluate that social value and it could be reflected on their income and how it's taxed.

I just throw that out there, because for me I'm having some challenge in looking at the value of social finance with regard to maybe replacing some of the services provided by government, and then there's the private sector. I'd like to see an opportunity for the private sector to take advantage of what I call social finance in what they do. This could be as partners. Could you share a little bit on whether or not that would be something that could even entertained?

•(1600)

Mr. Miodrag Jovanovic: As you can understand, it's a bit difficult for me to discuss the pros and cons of a policy that is not in place. What I can maybe explain to you is how it works, and how it could work now for a charity that wished to also develop some social enterprise and generate some commercial activities and income.

As I said in my remarks, a charity can invest directly in related businesses, in which case then it's simply not taxable. Any income generated would be tax-exempt. If the charity wants to undertake unrelated businesses, as long as it's not a private foundation, it is possible right now for that charity to do so. They simply have to set up a separate entity. It can be a corporation. Once that is set up, and as long as there is a separation between the charity and the charitable activities and the commercial activities that are undertaken by the corporation, as long as there's clear separation, the income generated in the corporation, yes, will be taxed as it is in any corporation. However, there's up to 75% of the income generated there that can be sold back to the charity to support charitable activities. Within that system there's already this flexibility for these charities to be creative and develop their own business activities.

Mr. Colin Mayes: I'll move away from charities. I'll give you an example.

We had a witness here when we first started this study who mentioned that there was a family foundation in Quebec that gives capital out to new businesses that want to start and they discount the interest, their ROI, if there's a percentage of the people who they hire with disabilities. I think that is a great initiative for a small business, or even a large business, that they are going to benefit by having a social conscience and hiring people with disabilities.

Is there any way we could even incorporate that in our finance or the things that we do? That's where I'm going, to that type of thing, because as I say, I just think that in Canada we don't do enough to encourage trying to help people with disabilities and work them into the workforce. I think there could be policy forwarded by the government that would assist businesses and encourage them. I had that experience myself. We had a program. We had a person with Down's syndrome work for us stocking shelves in our grocery store. It made a big difference in how our customers and our employees, as they saw that person working in our store, looked at me as the owner. The program was only for a certain length of time and then it was gone. The manager discontinued it, and everybody was disappointed, including myself. The thing is if there was some sort of initiative so that you go into that program and then you can carry on, I think it would be great and it would be an opportunity for what I call social finance. It's a government acting in a way of social finance to help a business incorporate that.

Maybe you could comment on any of those. Is there any possibility maybe in finance that you could discuss the opportunity that would present?

The Chair: We've really exhausted the time on this round through your comments, Mr. Mayes.

If you want to comment on that perhaps in another round of questioning, you can look at providing some input.

Mr. Cuzner.

Mr. Rodger Cuzner (Cape Breton—Canso, Lib.): Thanks very much, Mr. Chair.

Thank you to the witnesses for being here today. My question is not going to be for an opinion, but it will be "opinion-ish" I think. Let's go with that one.

Mr. Brad Butt (Mississauga—Streetsville, CPC): That has to be a Cape Breton thing.

•(1605)

Mr. Rodger Cuzner: What we've heard from a great number of witnesses is the concern around measurement and trying to get a handle on success, or the lack thereof, on outcomes. That seems to be the challenge: measuring it. If the government is contracting with another firm to provide those sorts of outcomes, how good are we at measuring those types of outcomes? I don't imagine in public you're going to say that we suck at it or whatever, but how good are we at ensuring that we're getting value for dollar with contracting out?

Ms. Siobhan Harty: Right now we don't do any of it. We don't typically measure outcomes. We tend to measure outputs in the context of our grants and contributions programs. I'll give you an example within my ministry of where we are, I think, quite adept at being able to measure things because we deal with social outcomes all the time. For instance, in my directorate we do poverty measurement. We measure labour market outcomes in my ministry. We have a research function that allows us to determine what the risk factors are for somebody who might have a poor labour market outcome, what the risk factors are for a young adult who's going to drop out of high school or post-secondary education. There's a large body of research in this country and internationally that would allow us to measure those things.

Mr. Rodger Cuzner: Do you see a need for growth within your department? If you're going to develop these partnerships and this contracting out, do you see a need to acquire that skill set within your department to be able to assess those things?

Ms. Siobhan Harty: We have the skill set.

Mr. Rodger Cuzner: You have the skill set?

Ms. Siobhan Harty: Yes, because we are very—

Mr. Rodger Cuzner: And you have the resources?

Ms. Siobhan Harty: We have a very strong research function within our department already. We have a very strong evaluation function within our department. Both of those are applied social sciences. We already measure things in the context of our program evaluations and in the context of our research. We are doing right now, for instance, some pay-for-performance related to labour market issues. To be able to set the appropriate outcomes, we're drawing on the body of research that we've already done within the department, but also that has been done, say, in the university context or with partners outside.

I think we can have faith that there is already in the social sciences a large body of research upon which to draw. We know the risk factors for many poor outcomes.

Mr. Rodger Cuzner: If we grow this sector, and we see this as a way forward, do you see the potential to replicate the measurement models? Do you see those best practices being easily applied in other sectors?

Ms. Siobhan Harty: Yes, I do.

Mr. Rodger Cuzner: Without much growth in resources.

Ms. Siobhan Harty: I do. Also, I think I said earlier that the more you do, the lower the costs become. As I said, there are already large bodies of research upon which to draw, but also thinking in the federal context, we already do a lot of cross-jurisdictional work. For instance, with the provinces and territories my team co-chairs a poverty advisory committee. We already look at all these things across the country. We look at the interactions between employment insurance and social assistance. We know how people go back and forth across those programs. We have the data. We understand people's life paths and what those risk factors are.

Mr. Rodger Cuzner: This is the "opinion-ish" part, okay?

Voices: Oh, oh!

Mr. Rodger Cuzner: Do you see limits to the things that you believe absolutely have to be kept in-house? Do you see limits within the sector?

Ms. Siobhan Harty: Which sector, government?

Mr. Rodger Cuzner: In social financing.

Ms. Siobhan Harty: In terms of measurement?

Mr. Rodger Cuzner: No, no, not so much in measurement, just in delivery of programs.

Ms. Siobhan Harty: No, I can't comment.

Mr. Rodger Cuzner: That's an opinion.

How much time do I have?

The Chair: You have about three minutes left. It's a seven-minute round.

Mr. Rodger Cuzner: Oh, that's right, yes, yes.

The Chair: Actually, two.

Mr. Rodger Cuzner: Like Pavlov's dogs, you want start to wind down at four and a half minutes.

A number of concerns have been raised by some of the witnesses around the SIBs of higher costs of government, a fear that there may be a movement rather than any innovative programming, more proven, you know, picking off low-hanging fruit. Is there any way that governments or your department would be able to curb against that? Would it be ongoing evaluation? What would it be?

• (1610)

Ms. Siobhan Harty: I can't comment for the Canadian context because we obviously haven't done any in the federal government. We've just launched one, a kind of hybrid between pay-for-performance and social impact bonds, but it's in its early stages.

Mr. Rodger Cuzner: Which one is that?

Ms. Siobhan Harty: Minister Kenney had announced something in October 2013, and this is in the area of literacy and essential skills. It is a short-term project. It will run for 18 months, approximately. It has two populations: one of employed Canadians and one of non-

employed Canadians. In both cases, interventions are applied to increase their literacy and essential skills levels, with the objective of their having stronger labour market attachment. These are en route. They're currently being finalized in terms of the partnerships and the negotiations.

What we hear from other jurisdictions, of course, is that the potential to cherry-pick, as you say, or to cream—another term that's used—should be present in order to ensure you get a return on your investment. In social sciences there are different methodologies and techniques that can be used in the assignment of people to experiments, because these are experiments that will try to prevent that.

Some contracts will introduce those. For instance, some contracts will say you have to work with the most difficult clients, and they will put that in there.

Mr. Rodger Cuzner: A percentage?

Ms. Siobhan Harty: Yes, or 100%, and they'll define that—people who have multiple barriers, for instance.

As I said, there are different techniques, and that's common in applied social sciences, but there are also many remedies from a research design perspective to address that.

Mr. Rodger Cuzner: Thank you.

The Chair: On to Mr. Eglinski.

Mr. Jim Eglinski (Yellowhead, CPC): Thank you, Mr. Chair.

I'd like to thank all the witnesses for coming out today.

I'm going to follow through on the trend Mr. Mayes was starting. I was very interested in that, so it's going to be very similar.

Just to step beyond, he was talking about a grocery store, but in just about every community across Canada, we have recycling depots. Many of these recycling depots are operated by charitable groups. Some are offered by private companies, etc. They're an ideal place for handicapped people or people with learning disabilities to work because they can do one function.

I'd like you to answer what Mr. Mayes started. I think it's very important. We see it in almost every community in Canada, and for many, it's a part of social finance. It gives them a place to work.

Who wants to start?

Blair, you haven't answered—

Ms. Cathy Hawara: I can begin answering the question.

There are actually a number of things that charities can do currently within the existing framework by working with partners that are not registered charities that might be non-profit organizations, or that might be businesses. That's what I referred to in my opening remarks in relation to program-related investments.

This is where charities might make an investment, a non-conventional investment, an investment that is really made for the purpose of furthering a charitable purpose, for furthering their own charitable purpose. Their purpose might be to relieve a condition associated with a disability or to relieve unemployment of a particular class of beneficiary, such as persons with disabilities. They can make an investment, let's say, in a corporation through the purchase of shares, for example, and then a proportional number of employees would be individuals who meet the eligibility criteria of the charity, so potentially in this case, persons with disabilities.

There are also ways in which a charity itself through charitable programming can do what you've described. In our policies, we indicate that charities can run what we call social businesses for persons with disabilities, where the majority of the workforce is made up of persons with disabilities. The work is structured and operated in a way that addresses the disability and accommodates the workers so that they can be permanently employed and productive members of society.

All of this is guidance that we've provided to charities, in particular, through our community economic development policy, and they are things we can do now. It's not so much an incentive on the business side. From our perspective, we are enabling charities to carry out these kinds of activities in furtherance of their own charitable purposes. It's a way for them to bring in other partners from outside the charitable sector to achieve the social outcomes you've identified.

• (1615)

Mr. Jim Eglinski: What about stepping outside the box of charities? What about the private individual—and that may be a firm—who has a compassionate side and sees a function? It may cost his company money to have that person there, but he feels it's worthwhile to give that person something to do in life, to give him a purpose in life. Is there room for him to move in that respect, which we can look at? It is a form of social finance, in a sense.

Mr. Miodrag Jovanovic: I would just say that if it costs the business to hire these individuals...and the cost can be reflected, I guess, in lower productivity and lower returns and income. Then, when the income is taxed, it's the lower income that is taxed. Implicitly there's a deduction there that is taken into account when assessing the income. There also could be more direct expenditures or expenses for the business related to the training of that person or accommodating that person and making some adjustment to the physical place of work.

All of that would be deductible at the corporate level, if it's a corporation, or even if it's not a corporation. Implicitly there's already a recognition in the system for that.

Mr. Jim Eglinski: Budget 2015 proposes to remove the restriction on registered charities investing as passive investors in limited partnerships. What amendments would be necessary to implement such a change?

Mr. Miodrag Jovanovic: The reason they were not able to invest in limited partnerships is that the general interpretation under the Income Tax Act is that investment in a partnership is by definition carrying on business. That's why they could not invest in limited partnerships.

The way this will be brought in within the legislation is to say that the mere fact of investing in a partnership now, if you're a registered charity, doesn't necessarily mean that you are carrying on business. We're going to look beyond that. We're going to say that as long as you invest in a limited partnership and you respect these conditions, i.e., you, the charity, along with related parties, don't invest more than 20% in that partnership, are not related to any general partner in that partnership, and comply with other conditions as well, which we call "anti-avoidance" provisions, then you should be fine. You will be able to invest in that limited partnership.

That's how we're going to change the legislation, so that it provides way more flexibility for charities.

The Chair: That's the end of round one. We'll move on to round two.

Madam Morin.

[*Translation*]

Ms. Marie-Claude Morin (Saint-Hyacinthe—Bagot, NDP): Thank you very much, Mr. Chair.

I also want to thank the witnesses for coming here today. It is always greatly appreciated.

Ms. Harty, my question is for you.

Some witnesses mentioned that some of the programs for SMEs could also benefit non-profit and charitable organizations. Are you able to give us a brief overview of the programs that are available to the SMEs that are not available to non-profits? If not, perhaps your colleagues could say a few words about this. I don't know whether you are able to answer that question.

Ms. Siobhan Harty: Personally, I don't know. I think this has more to do with the mandate of our colleagues at Industry Canada.

Industry Canada has programs that may be accessible to non-profit organizations, especially social enterprises. I think it is up to Industry Canada to answer that question. My department doesn't have the answer.

• (1620)

Ms. Marie-Claude Morin: Okay.

Ms. Siobhan Harty: Sorry.

Ms. Marie-Claude Morin: No problem. In fact, I wanted clarification on that question.

I have no further questions, Mr. Chair.

Ms. Siobhan Harty: We might be able to work with our colleagues at Industry Canada in order to provide that information to the committee.

Ms. Marie-Claude Morin: Yes, that would be good if Industry Canada were able to indicate which programs are for SMEs and non-profits, and which programs are not for non-profits.

Ms. Siobhan Harty: They might not know that they can access those programs.

Ms. Marie-Claude Morin: Thank you very much.

I have no further questions, Mr. Chair.

[English]

The Chair: Mr. Butt.

Mr. Brad Butt: Mr. Chair, I want to thank everyone for being here today.

I think it's a great irony that Imagine Canada is touring around, visiting us MPs today, promoting the charitable sector, and promoting the important work they're doing. Social enterprise is very much on their minds. I think, and I'm hoping, that this study and the recommendations from this committee are going to be very helpful to the government in looking at ways we can be promoting, encouraging, and supporting greater social enterprise and social finance in the country.

One of the things a few of the charities have raised with us is their concern about their charitable status if part of the social enterprise is engaging in some commercial activity. I'm going to give you an example. There is a place called Destination Cafe in Mississauga that I'm familiar with. It specifically helps individuals with mental illness-related issues. It is affiliated to some degree with the Canadian Mental Health Association. Basically, it provides housing and employment opportunities in running a cafe. The cafe is on the ground floor. The apartments are on the second floor. The people who live in the building also work. They are earning commercial revenue as that social enterprise. As I understand it, if the revenue is a higher percentage of their overall budget in a year, it could jeopardize their charitable status.

I'd like someone to explain to me how that works, because I think that would be a real shame. I think it would be a shame if we had a group doing some excellent work on the ground, but because of the technical requirements in the rules around how much revenue they can bring in as a percentage of their overall budget it could threaten their charitable status.

I don't know who the best person is to answer. Cathy, are you the best person to answer that? Maybe you could walk us through how that would work with a typical charity that wants to do something like that.

Ms. Cathy Hawara: Thank you for the question.

Of course, I can't speak about specific cases because of the confidentiality provisions of the Income Tax Act, but I am happy to speak generally about the rules.

I think the starting point has to be that there are a number of different ways in which charities can generate revenues. They can generate revenues through charitable programs. There's no limit on how much revenue they can generate through charitable programs. They can generate revenue through business activities, and there are rules around business activities. They need to be related business activities. If they meet all of the requirements laid out in the Income Tax Act, there's no limit to how profitable those things can be. Simply looking at the percentage of the business revenue in relation to the overall revenues wouldn't be a sufficient indicator from our perspective.

In a scenario similar to what you've described, where a charity's purpose is to help relieve employment of a group of at-risk youth, let's say, or help relieve the conditions associated or related to these at-risk youth, part of the activities of the charity could certainly be

providing on-the-job training, training skills, and providing the kinds of opportunities that you've described. That could all very well be a charitable activity. It's going to be a factual determination based on the individual facts of the case.

The first question I would have is whether the activity is a charitable activity that allows the charity to generate revenue. If the activity is not a charitable activity, it could still be a related business activity. Charities are allowed to participate in related business activities to the extent that.... There are two forms of related businesses. One, either a business is linked and subordinate to the charitable purpose of the charity, so the charitable purpose always has to be the focus of the organization, or two, linkage is established by looking at whether it's a use of excess capacity or whether it's an offshoot of the charitable program. There is a number of criteria we would use to determine whether the business is a related business.

If the business is not linked to the charitable purpose, but it is run substantially by volunteers, then that is absolutely acceptable under the Income Tax Act. There are many rules in place currently that allow charities to generate the kinds of revenues and the kinds of social outcomes that you've described. You can find both of those in two of the policies we've put out. One is the community economic development policy and the other is our related business policy, which lays all of this out, including some examples, to help charities.

We are constantly looking at the policy work we do and the policies we have available to charities. We listen to the feedback that we hear from charities. A lot of times what they tell us is that examples are really helpful, and to the extent that we can provide examples of what's acceptable, those are the kinds of things that they're looking for.

I have one last comment on charities being concerned about their charitable status. Our approach is an education-first approach, whether it's through the educational materials we provide or through the compliance work we do. To the extent that we can work with charities, explain to them the rules, and help them get back on track, that's what we aim to do.

• (1625)

Mr. Brad Butt: Very good. Thank you.

The Chair: Typically, we go to the NDP for the next round of questions, but they have yielded their time. I am going to suggest we open it up to any other members who wish to pose questions.

Mr. Boughen, you are next, then.

Mr. Ray Boughen (Palliser, CPC): Thank you, Mr. Chair.

I welcome the panel.

Just for my own edification, are you the folks who visited with us a while ago when we had to bail out on you because the bells rang and we had to run over to vote? No?

Ms. Siobhan Harty: No, that didn't happen to me. Blair and I were here at the beginning, but you didn't abandon us.

Mr. Ray Boughen: Well, we are glad you didn't hold it against us and you showed up today, so welcome.

Mr. Jim Eglinski: They have you marked down for income tax.

Mr. Brad Butt: You're getting audited.

Voices: Oh, oh!

Mr. Ray Boughen: We've heard from a lot of witnesses about the different aspects of social finance. I am wondering if somebody could walk us through what qualifies for a registered charity. There are 86,000 registered charities, and I think I receive mail from hundreds of them. They all want the same thing, money.

Could you talk a little bit about non-profit charities and how you can make money in the charity game and not pay tax on it? I am interested in that.

Ms. Cathy Hawara: Yes, I can take that question. Thank you very much.

There are 86,000 registered charities in Canada today, more or less.

In order to be registered as a charity in Canada, you have to meet a few requirements. First, you have to have exclusively charitable purposes. Charitable purposes are actually not defined in the Income Tax Act. We have to look to what the courts have said. There are four broad categories of charity: charities that relieve poverty; charities that advance education; charities that advance religion; and then another catch-all with charities that advance other purposes beneficial to the community as a whole. You'll find lots of different kinds of organizations in that last category, including health organizations and animal welfare organizations.

When we receive applications from organizations that want to be registered, we have to satisfy ourselves that they have exclusively charitable purposes and activities that will further those purposes. As part of that analysis, we have to assure ourselves that they will be delivering a public benefit. Those would be the main requirements to be a registered charity in Canada, to get in the door, as opposed to a non-profit organization. Oftentimes the two types of organizations are mistaken one for the other.

A non-profit organization is defined in the Income Tax Act as being a club, association, or society that is organized to carry out activities that relate to civic improvement, recreation, pleasure, etc., for any purpose other than profit. That is essentially the definition of a non-profit organization. They cannot have a profit purpose. They are limited in the kinds of activities they can undertake that generate some income, although it is not impossible, by any means.

The difference between the two in terms of obligations is that, first of all, charities are registered; NPOs are not. Charities have to file a public return that is made available to the public through our website; non-profit organizations do not.

Those are the kinds of distinctions between the two.

Our directorate is focused exclusively on registered charities. I don't deal with non-profit organizations.

• (1630)

Mr. Ray Boughen: Under the social finance umbrella, we have all these various charities, bonds, and investments. Is that true? We put all these different charitable organizations under the umbrella that we call "social finance".

Ms. Siobhan Harty: Not per se...

Charities exist in civil society to serve the purposes that Cathy mentioned. I would say that social finance is just an instrument, just as charitable donations are in order to be able to help them advance some of their objectives. They are different types of funding streams that can help a charity or a not-for-profit organization accomplish a goal or a mission within all the rules and regulations that Cathy articulated.

Mr. Ray Boughen: When it comes to taxation, if we're talking about stocks and bonds, there are set taxation procedures to go through. Do the charities have a set procedure to go through, or do they fall under the stocks and bonds issues that we deal with?

Mr. Miodrag Jovanovic: A registered charity would not be subject to tax, and the income generated within the charity, as long as, as we explained before, it's income related to a related business or direct income generated by the charitable activities, then it's tax-exempt.

The Chair: I think that's exhausted. I was going to keep time limits on things.

Mr. Ray Boughen: That's good, Chair. Thank you very much.

The Chair: I have an indication that you would like to ask a supplementary question, Mr. Mayes.

We're opening the floor up to members. If you choose to carry on the meeting by asking questions, I'm going to give you the latitude to ask them.

Mr. Colin Mayes: Mr. Chair, this will be the last question for the government side.

Is there a board or a spokesperson from the various charitable groups across Canada to help you? For example, do they discuss with you policies they are interested in? Does anyone provide input to your department, give you feedback so you know some of their challenges? Is that established and ongoing?

Ms. Siobhan Harty: In terms of an active consultation process, no. There's no advisory board of charitable organizations that meets with us on a regular basis, but as with many other government departments, we regularly meet with stakeholders.

I would say that over the years we meet with stakeholders in the sector to discuss various issues. Imagine Canada was mentioned. That's a stakeholder group we meet with fairly frequently in my department. It serves as an umbrella group and that facilitates quite an energetic discussion.

In other cases, we just meet with individual organizations that might have an idea they want to share with us about a program or an intervention that they think might work within the department's mandate.

In the area of social finance per se, there have been task forces. There was an ad hoc task force created out of MaRS in Toronto in 2010. Since then there has been a national advisory board to that G-8 Social Impact Investment Taskforce that I mentioned earlier. As well, it's ad hoc. It doesn't have any long-term standing, but it did publish a report. I think, given the representation that was on that national advisory board from across the country, it does serve as one voice. It's not a model, but it's one voice, and there are many others out there.

I think, as my colleagues would agree, part of our responsibilities is to be able to meet with stakeholder groups and hear what their ideas and their concerns are.

• (1635)

Mr. Colin Mayes: Thank you.

Ms. Cathy Hawara: I would just add that, because the charities directorate works so closely with registered charities in particular, we do have mechanisms in place to ensure ongoing consultation and engagement with them, and we do it in a variety of ways.

We have a working group with representation from different types of organizations, including umbrella organizations we meet with twice a year to discuss a range of issues that relate to the regulation of charities in Canada.

Whenever I refer to policy documents that we prepare and publish on our website, those documents we consult on as well before we finalize them to make sure that we understand what the impact of them might be on the ground, and so that we can adjust them as we go. We continually receive feedback on those and update them.

Those are just two examples of the ways in which we engage with the charitable sector.

Mr. Colin Mayes: Thank you very much.

The Chair: Thank you.

Madam Groguhé.

[*Translation*]

Mrs. Sadia Groguhé: Thank you, Mr. Chair.

Ms. Harty, I would like some clarification.

How will we proceed with social finance? Are we going to keep issuing calls for proposals under a very specific framework for which

the organizations will be able to submit an application or will it be the organizations that will issue very specific requests to implement such-and-such a project?

Ms. Siobhan Harty: That is a good question.

We currently do not have a program with a social finance component.

There aren't any at my department, but there are some examples at the Public Health Agency of Canada. The Agency has worked on projects with organizations that had social finance dimensions.

I believe that Citizenship and Immigration Canada is going to start integrating social finance aspects into a few of its subsidy programs, but we haven't done that with our programs.

However, we have this pilot project I mentioned earlier. We may have more in the future. We currently do not have an education program on social finance.

Given that we have many programs in the social and labour market fields, we may launch some pilot projects, but we currently do not have any.

Thank you.

Mrs. Sadia Groguhé: Thank you.

[*English*]

The Chair: Seeing no further indications of questions from the members, I want to thank all of you for taking the time to be here today and for being so highly professional in your activities in terms of the areas of government for which you're responsible. We thank you for that.

The meeting is adjourned.

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