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Liberals should reconsider this capital-gains oversight on donations

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The removal of the capital-gains tax on gifts of listed securities in 2006 has been an enormous success. Charities have received more than $1-billion in gifts of stock virtually every year since 2006. Prior to 1997, when the capital-gains tax was reduced by 50 per cent on such gifts, virtually no one gave stock to charities in Canada, because they did not want to pay a tax on their gift.

The 2015 federal budget included a measure that, beginning in 2017, when private-company shares or real estate are sold to an arm's-length party and the cash proceeds from the disposition are donated to a registered charity within 30 days, the donor is exempt from the capital-gains tax on the disposition. This measure provided the same tax treatment for donations of these appreciated capital assets as currently applies to gifts of listed securities.

Importantly, the measure had the support of the Liberals and New Democrats. However, it was not included in the budget bill because the legislation documents had not been drafted. Naturally, all stakeholders in the not-for-profit sector expected the measure to be included in the 2016 budget. These include hospitals, universities, social-service agencies and arts and culture organizations that would benefit from an estimated additional $200-million per annum in charitable donations.

The 2016 budget surprised many stakeholders in the sector because Ottawa announced it would not proceed with this measure. There are many compelling reasons the Liberals should reconsider:

- The demand for services provided by not-for-profit organizations continues to grow, particularly for health care as our population ages, but federal and provincial governments have limited financial capacity. The private sector can help fill this gap. Charitable donations are much more tax-effective than direct government spending.

- This measure would remove an inequity in the current tax system. An entrepreneur who takes his or her company public and donates shares to a registered charity is exempt from capital-gains tax on their gift. Entrepreneurs who decide to keep their companies private do not have the same treatment. There are 109,000 members of the Canadian Federation of Independent Business and they are all private.
- There should be no concern about valuation abuse because the owner must sell the asset to an arm's-length party, which ensures they are receiving fair market value for the asset's sale.
- Our hospitals and universities compete with U.S. counterparts to attract and retain the best doctors, professors and researchers. Charitable donations often play a key role in providing funding for these talented people. In the United States, gifts of appreciated capital property are exempt from capital-gains taxes. Removal of this barrier would also help Canadians donate more, as our per-capita donations are one half of donations by Americans.

After consulting with people involved with not-for-profit organizations in each constituency, MPs should discuss this issue in upcoming caucus meetings. All stakeholders strongly recommend the Liberals consider implementing this important measure in the 2017 budget.