2018 Federal Budget Bulletin

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Measures for Charities

Municipalities as Eligible Donees

In order to maintain the charitable status registration, charities must make qualifying expenditures, including gifts to eligible donees. Some charities find it difficult to locate an eligible donee that is willing or able to assume ownership of one or more of its assets.

Budget 2018 proposes to allow transfers of property to municipalities as a qualifying expenditures, subject to the approval of the Minister of National Revenue on a case-by-case basis. This could be particularly helpful for charities in rural areas, who own assets that have significance to the community, such as a fire hall or a cemetery. In these cases, a municipality may be the most appropriate recipient of such property even though, under current rules, it is not a charity. This measure will apply to transfers made on or after Budget Day.

Universities Outside of Canada

Gifts are eligible for donation tax benefits if they are made to certain universities outside of Canada, who meet specific criteria and comply with receipting and record keeping conditions. These two registration processes result in some administrative inefficiencies, including the listing of qualifying universities outside of Canada in the Income Tax Regulations and on the Government of Canada's website. Budget 2018 proposes to improve efficiencies by eliminating the requirement to include the list in the Income Tax Regulations. This will take effect as of February 27, 2018.

Measures for Trusts

Increased Reporting Requirements

Trusts that do not earn income or make distributions in a year are generally not required to file a T3 Trust return. Also, trusts which do file T3 returns are not generally obligated to disclose the identity of all its beneficiaries. Budget 2018 proposes for certain trusts to provide additional information on an annual basis. Where the new reporting requirements apply to a trust, the trust will be required to report the identity of all trustees, beneficiaries and settlors of the trust, as well as the identity of each person who has the ability to exert control over the trustee. These proposed new reporting requirements will apply to trust returns filed for the 2021 and subsequent taxation years.

Budget 2018 also proposes new penalties for failure to file a T3 return. The penalty will be equal to $25 for each day of delinquency, with a minimum penalty of $100 and a maximum penalty of $2,500. Additional penalties may apply if the failure to file was due to gross negligence.

Health & Welfare Trust

A Health and Welfare Trust (HWT) is a trust established by an employer for the purpose of providing health and welfare benefits to its employees. In 2010, the Employee Life and Health Trust rules were introduced to the Income Tax Act. These trusts also provide health benefits for employees including; group sickness or accident insurance plans, private health services plans, and group term life insurance policies. While differences exist, the Employee Life and Health Trust rules are very similar to the rules for HWTs.

Budget 2018 proposes to have only one set of rules apply to these trusts and, as a result, the CRA will no longer apply their administrative positions with respect to HWTs after the end of 2020. To facilitate the conversion of existing HWTs to Employee Life and Health Trusts, transitional rules will be added to the Income Tax Act, including guidance on winding up existing HWTs. The Government is looking for stakeholder input.

Previously Announced Measures

Budget 2018 confirmed the Government's intention to proceed with the following previously announced tax measures:

- Income tax measures released on December 13, 2017, to address income sprinkling
- The income tax measure announced on October 16, 2017, to lower the small business tax rate from 10.5 per cent to 10 per cent, effective January 1, 2018, and to 9 per cent, effective January 1, 2019 (with related amendments to dividend tax credits for taxable dividends)
- The income tax measure announced on October 24, 2017, in the Fall Economic Statement to provide for the indexing of the Canada Child Benefit amounts as of July 1, 2018, instead of July 1, 2020, and;
- The income tax measure announced in Budget 2016 on information reporting requirements for certain dispositions of an interest in a life insurance policy.