

Registered Charities and Tax Shelters

The Canada Revenue Agency (CRA) warns registered charities against becoming involved in tax shelter gifting arrangements. The CRA has ongoing, serious concerns about these abusive arrangements, and registered charities should be aware that participating in such arrangements can jeopardize their charitable status or expose them to monetary penalties.

A tax shelter gifting arrangement typically promises its participants tax savings greater than the cost of participation in the scheme, thus allowing donors to “profit” from donating to a charity. Prominent examples of such schemes include gifting trust arrangements, leveraged cash donations, and buy-low, donate-high schemes.

The CRA has found many of these arrangements provide little or no benefit to the charities involved or to their intended beneficiaries. Instead, many of these arrangements exploit a registered charity’s receipting privileges for the private gain of promoters and participants.

The CRA reviews all tax shelters to ensure that the tax benefits being claimed meet the requirements of the *Income Tax Act* (the *Act*). The CRA continually audits these arrangements, and as a result it reassesses donors and disallows donations claimed. In many cases, the CRA has reduced the donation amount to no more than the cash paid by the taxpayer. When the donation is not a true gift, the CRA will reduce the claim to nil.

The CRA intends to challenge and proceed with compliance action against any arrangement that does not comply with the *Act*. Charities that knowingly exploit their tax-receipting privileges by participating in schemes that are abusive or fraudulent, or that fail to devote their resources to legitimate charitable activity, will be subject to revocation and/or significant monetary penalties. In addition to penalizing charities involved in these arrangements, the CRA may also apply penalties against those persons that promote such arrangements or who participate in the making of false statements to the CRA.

For more information on registered charities visit the CRA Web site at www.cra.gc.ca/charities