

## APPENDIX A

### An Excerpt from The Federal Budget, March 23, 2004

#### Annex 9

### Tax Measures: Supplementary Information

#### Trading Charitable Donations (pages 347 – 348)

Individuals who make charitable donations, but who do not have sufficient tax payable in the year of donation to use all of the resulting tax credits, may carry forward their unused credit balance to be claimed in any of the five subsequent taxation years. Similarly, corporations may carry forward unused charitable donations deductions for up to five taxation years. There are no provisions in the Income Tax Act intended to allow individuals or corporations to sell or otherwise transfer these unused claims to other taxpayers, except in certain circumstances where a corporation is wound up into its parent corporation or amalgamates with another corporation to form a new successor corporation.

In recent years, however, transactions have occurred under which a donation of property is made indirectly, by a person who could not otherwise use the resulting charitable donations deductions or credits, by means of a transfer of the property to a corporation, the subsequent donation of the property by the corporation to a charity, followed by a sale of the shares of the corporation to another corporation that is in a position to make use of the unused charitable donations deductions. In this regard, and in response to similar transactions involving other deductions, the Income Tax Act includes provisions that restrict the deductibility of accumulated losses and other tax pools after control of the corporation is acquired. In particular, capital losses realized by a corporation before an acquisition of control of the corporation cannot be carried forward for deduction after the acquisition of control.

The budget, therefore, proposes that the Income Tax Act be amended to provide that charitable donations deductions of a corporation that were unused at the time control of the corporation was acquired will be claimable only for taxation years that end before that acquisition of control. This restriction will treat unused charitable donations deductions of a corporation in a manner that is similar to the treatment accorded capital losses and will ensure that unused charitable donations deductions cannot be traded.

To prevent avoidance of this rule, it is proposed that no charitable donations deduction be allowed in respect of a gift of a property by a corporation (or a successor corporation) after the time control of the corporation has been acquired, if the property was acquired by the corporation before that time under an arrangement under which it was expected that control of the corporation would be so acquired and the gift would be so made.

These amendments will apply in respect of gifts made after March 22, 2004.

#### Registered Charities—Regulatory Reforms (pages 349 – 363)

There are approximately 80,000 charities registered under the Income Tax Act. Canadians recognize the value of charitable giving and the important contribution that Canada's registered charities make towards improving quality of life. In 2002 alone, 5.5 million Canadians made financial or in-kind donations worth \$5.8 billion.

In March 2003 the Joint Regulatory Table (JRT), in its report "Strengthening Canada's Charitable Sector: Regulatory Reform", made 75 recommendations for improvements to the rules governing charities under the Income Tax Act. This report is the result of extensive consultations

between the Government of Canada, the charitable sector and other key stakeholders. The JRT was launched in November 2000, as one of six tables established by the Government's Voluntary Sector Initiative.

Registered charities have not benefited from any significant updating to the administrative regime since 1983. The following budget measures significantly improve the regulatory framework for registered charities. These measures will also enhance Canadians' confidence that their generous donations to registered charities are well-managed. Specifically, Budget 2004:

- § Responds to the recommendations of the JRT concerning registered charities by proposing:
  - § A new compliance regime.
  - § A more accessible appeals regime.
  - § More transparency and greater accessibility to information.
  
- § Proposes to improve the disbursement quota rules.

## ***Compliance Regime***

### ***Overall Compliance Strategy***

The JRT established as key principles of regulatory reform that the regulatory framework should uphold the integrity of the provisions in the Income Tax Act and facilitate public trust in the work of charities.

Currently, the only sanction against a registered charity that does not comply with the requirements of the Income Tax Act is the revocation of its status as a registered charity (i.e. de-registration). A revoked charity loses its tax-exempt status and its privilege to issue tax receipts. It must also transfer its assets within one year from its revocation to one or more registered charities. Any property remaining in the hands of the charity one year after the revocation must be transferred to the Crown. This requirement is often referred to as the revocation tax.

Each year the registration of about 2,000 charities is revoked. Most of those revocations occur because of a failure to file the required annual information return, or because the charity is being discontinued. A small number (15-20) are revoked each year for serious non-compliance.

Because of its harshness, revocation is seldom imposed for minor infractions. Consequently, lesser forms of non-compliance may go unchecked, thus diminishing public confidence in the legitimacy of charities and in how donations are spent.

Budget 2004 therefore proposes a more responsive approach to the regulation of charities for Income Tax Act purposes, taking into account the small size of most registered charities and the goodwill of the volunteers who operate them.

The first priority will be to encourage compliance through education. The Canada Revenue Agency (CRA) will work in partnership with leading sector organizations to help volunteers and employees who work for charities to know and understand the rules better.

Coupled with the continued use by the Minister of National Revenue of compliance agreements to help correct minor or inadvertent infractions, this new approach will emphasize risk control, problem solving, and compliance management. The Minister of National Revenue will continue to be able to revoke the registration of charities for more severe cases of non-compliance.

In addition, the budget proposes to introduce new, more effective sanctions that are more appropriate than revocation for relatively minor breaches of the Income Tax Act. The proposed sanctions will generally respond directly to activities that contravene the rules, thereby making the income tax rules for charities clearer and fairer. The sanctions will also be progressive, generally increasing in severity

for repeat infractions. All proposed sanctions deal with infractions that are already identified in the Act. Moreover, a mechanism will be established to allow financial penalties to be reinvested in the charitable sector.

### ***Proposed Intermediate Taxes and Penalties***

Proposed sanctions and taxes include:

- § The taxation of gross revenue generated by a registered charity from prohibited activities that generate income. The tax will apply: to private foundations that carry on a business activity; to charitable organizations and public foundations that carry on an unrelated business activity; and to foundations that acquire control of a corporation through means other than those allowed under the Act.
- § Suspension of a registered charity's tax-receipting privileges for using donated funds other than for charitable purposes. This may include, for example, situations where a registered charity provides undue benefits to its trustees. A suspended charity will be prohibited from issuing official receipts and from receiving funds from qualified donees—that is, other organizations that can also issue official receipts—for a period of one year. The charity will also be required to advise potential donors of its suspension. A suspended charity's administrative and regulatory obligations—for instance, meeting its disbursement quota, or filing its annual information return—will continue during the suspension period.
- § Monetary penalties for failure by a registered charity to file its annual information return on time as stipulated in the Act, together with publication of the names of late- or non-filers. These measures are intended to encourage registered charities to be more diligent in filing annual information returns for the benefit of the public and the tax authorities. Registered charities currently have six months from the end of their fiscal year to file an annual information return. Registered charities that have not filed on time will, as a first step, be subject to a penalty of \$500. Further, registered charities that do not file upon the receipt of a demand to file from the Minister of National Revenue will have their registration revoked. Revoked charities will be allowed to apply for re-registration. If they do so apply and are re-registered within one year of the date of revocation, they will not be required to pay the revocation tax, provided they file the missing returns, pay all outstanding penalties and other taxes, and otherwise comply with the provisions of the Income Tax Act. However, revoked charities that are not re-registered during that period will be subject to the revocation tax.

The proposed new sanctions regime is described in more detail in the table below. Charities will have the right to object to the imposition of an intermediate tax or penalty and, subsequently, to appeal to the Tax Court of Canada.

**Table A9.3  
Registered Charities: Intermediate Taxes and Penalties**

Infraction	Tax or Penalty (Unless registration of the charity is revoked)	
	First infraction	Repeat infraction (Repeated acts or omissions will increase the probability of revocation)
Late filing of annual information return	\$500 penalty	\$500 penalty
Issuing of receipts with incomplete information	5% penalty on the eligible amount stated on the receipt	10% penalty on the eligible amount stated on the receipt
Failure to comply with certain verification and enforcement sections of the Income Tax Act (230 to 2315), eg keeping proper books and records	Suspension of tax-receipting privileges	Suspension of tax-receipting privileges
Charitable organization or public foundation carrying on an unrelated business	5% tax on gross unrelated business revenue earned in a taxation year	100% tax on gross unrelated business revenue earned in a taxation year and suspension of tax-receipting privileges
Private foundation carrying on any business	5% tax on gross business revenue earned in a taxation year	100% tax on gross business revenue earned in a taxation year, and suspension of tax-receipting privileges
Foundation acquires control of a corporation	5% tax on dividends paid to the charity by the corporation	100% tax on dividends paid to the charity by the corporation
Undue personal benefit provided by a charity to any person. For example, a transfer to a person who does not deal at arm's length with the charity or who is the beneficiary of a transfer because of a special relationship with a donor or a charity	105% tax on the amount of undue benefit	110% tax on the amount of undue benefit and suspension of tax-receipting privileges
A gift that is restricted under subsections 149.1(2), (3) or (4) of the Act	105% tax on the amount of the gift	110% tax on the amount of the gift
Issuing receipts in a taxation year for eligible amounts that in total do not exceed \$20,000 if there is no gift or if the receipt contains false information	125% tax on the eligible amount stated on the receipt	125% tax on the eligible amount stated on the receipt
Issuing receipts in a taxation year for eligible amounts that in total exceed \$20,000, if there is no gift or if the receipt or if the receipt contains false information	Suspension of tax-receipting privileges and 125% tax on the eligible amount stated on the receipt	Suspension of tax-receipting privileges and 125% tax on the eligible amount stated on the receipt
Delaying expenditure of amounts on charitable activities through the transfer of funds to another registered charity	The charities involved are jointly and severally, or solidarily, liable for the	The charities involved are jointly and severally, or solidarily, liable for the

amounts so transferred plus a 10% tax on those amounts	amounts so transferred plus a 10% tax on those amounts
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#### Notes:

These intermediate sanctions will not prevent application of the current provisions, which allow the Minister of National Revenue to revoke the registration of a charity in respect of any of the above infractions. For example, failure to file an information return may result in revocation of registered status upon a first infraction.

This chart does not include infractions for which no tax or penalty would be assessed, yet which would lead to revocation, e.g. ceasing to conduct charitable activities.

Taxes and penalties will be assessed in aggregate for a taxation year.

A repeat infraction is an action in a taxation year that gives rise to a tax or penalty in respect of which an assessment was previously raised for a preceding taxation year.

Rules of general application may also apply in addition to the sanctions referred to above, e.g. the failure to keep proper books and records is an offence punishable by a fine or imprisonment.

These measures will apply in respect of taxation years that begin after March 22, 2004.

#### ***Transfer of Amounts in Respect of Taxes and Penalties***

Where a particular charity is required to pay taxes and penalties for a taxation year which total more than \$1,000, the charity will be permitted to satisfy its liability by transferring amounts to eligible donees as determined by the Minister of National Revenue. This will ensure that funds raised for charity may continue to be applied to charitable purposes.

For these purposes, an eligible donee in respect of a particular charity is a registered charity that satisfies all of the following conditions:

- § It is fully compliant with the requirements of the Income Tax Act (i.e. not at that time subject to any tax, penalties or suspensions, etc. under the Act).
- § It is not subject to a certificate pursuant to the Charities Registration (Security Information) Act.
- § It is a charity, more than 50 per cent of the members of the board of directors or trustees of which deal at arms' length with each member of the board of directors or trustees of the particular charity.

#### ***Revocation***

The Minister of National Revenue will retain the authority to revoke the registered status of a charity for severe breaches of the Income Tax Act including continued, repeated or cumulative infractions, and in cases where it is clear that the organization is being operated for purposes that are not charitable.

In addition, Budget 2004 proposes to allow the Minister of National Revenue to revoke the registration of an organization that obtained its registration on the basis of false or deliberately misleading information. This new ground for revocation is intended to provide the Minister of National Revenue with an expedited method of dealing with organizations that have obtained registration on false pretences.

### ***Revocation Tax***

Currently, a charity that has had its registration revoked has one year from the date of that revocation to divest itself of its assets—to registered charities or other qualified donees. The balance of the net assets of a revoked charity, after this divestiture, must be transferred to the Crown as a revocation tax.

### **Eligible Transfers on Revocation**

The budget proposes that a particular charity whose registration has been revoked will be able to transfer assets only to registered charities, and only where those charities satisfy the conditions of the new eligible donee definition set out above. Other qualified donees such as municipalities, foreign universities and United Nations Agencies will not be eligible for transfers on divestiture, since the intent is to keep the money invested within the charitable sector in Canada, and applied to charitable purposes that are analogous to those for which the funds were originally raised.

### **Freezing Tax-Assisted Assets**

The ability of a revoked charity to divest assets within one year of revocation provides a one-year suspension of any collection action in respect of the revocation tax. Cases can arise, however, where the Minister of National Revenue becomes aware that a revoked charity's assets are being diverted or directed for private benefit.

In order to collect the revocation tax in a timely manner, the budget proposes that the revocation tax be assessed in the Notice of Intended Revocation issued by the Minister of National Revenue. The assessment will be based on information received as a result of an audit or from the latest information return submitted by the charity. The normal suspension of collection for one year from the date of the publication of the Notice will not apply if the CRA obtains authorization from a judge to commence collection proceedings before that time. A charity whose registration has been revoked will retain the opportunity to satisfy the liability by transferring assets to an eligible donee, as described above.

### ***Annulment***

The Income Tax Act will be amended to provide explicit authority to the Minister of National Revenue to annul an organization's registration in circumstances where the Minister registered the organization in error. In recognition of the CRA's role in registering charities, and consistent with the current practice of the Minister of National Revenue under annulments made pursuant to administrative law, a revocation tax will not be applied in such circumstances, and official receipts issued prior to annulment will be honoured.

The measures relating to revocation and annulment will apply to notices issued by the Minister of National Revenue after the later of December 31, 2004 and 30 days after Royal Assent to any measure giving effect to this proposal.

### ***Appeals Regime***

Where a registered charity or applicant for registration disagrees with a decision of the Canada Revenue Agency (CRA), its recourse is to appeal the decision to the Federal Court of Appeal. Budget 2004 proposes to make the appeals process more accessible and affordable for registered charities and unsuccessful applicants by creating an impartial CRA internal reconsideration process for matters affecting charities, and by allowing for appeals of taxes and intermediate penalties to be made to the Tax Court of Canada.

### ***Internal Reconsideration Process***

Unlike other taxpayers, registered charities and applicants do not currently have access to the internal objection review process of the CRA. The budget proposes to extend the application of CRA's existing objection review process to notices of decisions regarding:

- § Applications for registration that have been denied.
- § Revocations or annulments of a charity's registration
- § Designations relating to whether a registered charity is a private or public foundation or one that is directly involved with charitable programs and services.
- § Impositions of any taxes or penalties against a registered charity.

As part of this objection process:

- § A valid Notice of Objection by an organization will be required to be filed within 90 days from the issuance by the CRA of the notice which is the subject of the objection.
- § The results of the review will be required to be communicated to the organization in writing.
- § The objection process will be mandatory before an appeal may be made to a court.

### ***External Appeals Process***

Appeals of decisions on registration and revocation will continue to be directed to the Federal Court of Appeal. Appeals of decisions to annul the registration of a charity will also be directed to the Federal Court of Appeal. Appeals of taxes and penalties, described above under the heading *A New Compliance Regime for Registered Charities*, may be directed to the Tax Court of Canada.

It is proposed that these measures apply in respect of notices of decisions referred to above that are issued by the Minister of National Revenue after the later of December 31, 2004, and 30 days after Royal Assent to any measure giving effect to this proposal.

This new objection and appeals processes will not apply to an applicant or a registered charity that is the subject of a certificate under the Charities Registration (Security Information) Act. The current process for such cases will continue to apply.

### ***Transparency and Accessibility of Information***

The Canada Revenue Agency (CRA) is authorized to disclose information about the status of registered charities and some of their financial information. The budget proposes to further enhance transparency and accessibility by making new information available on registered charities, the registration process, regulatory decisions, and compliance activities and results. These proposals will not compromise existing safeguards that are in place to protect the privacy of individuals.

Making the CRA's decision process more transparent and accessible will enhance the charitable sector's awareness of the income tax rules and how they are applied. At the same time, greater transparency and accessibility means greater accountability, serving to reinforce confidence within the donating public in the integrity of the CRA and the charitable sector.

### ***Information Pertaining to Registered Charities***

At present, Canadians have access to a variety of useful information on currently or previously registered charities. This includes annual information returns, governing documents, the names of directors and the periods during which they were directors, registration letters and notices of revocation.

Budget 2004 proposes to authorize the Minister of National Revenue to release to the public the following additional information regarding registered charities, where such information has been submitted to the Minister after 2004:

- § Financial statements that are filed with annual information returns.
- § Letters sent by the CRA to a charity relating to the grounds for annulment of the charity's registration.
- § The CRA's decisions regarding a notice of objection filed by a registered charity.
- § The information that a registered charity has filed in support of an application for special status or an exemption under the Act, as well as any responses to such applications from the CRA (e.g. requests for permission to accumulate assets).
- § The identification of a registered charity on which a sanction has been imposed, the type of sanction imposed, and the letter sent to the charity relating to the grounds for the sanction.

### ***Information Pertaining to Organizations Denied Registration***

Currently, no information is made available to the public about organizations that have been denied registration as registered charities under the Income Tax Act. Access to such information will assist the charitable sector and the public in understanding how the CRA determines whether an organization meets the criteria for registration as a registered charity. Accordingly, the CRA will make available its reasons for denying the registration of an organization. This will include, in such a manner as to withhold the identity of an applicant, the following information if submitted or received by an organization in the course of making an application to the CRA for registration as a registered charity:

- § The governing documents of the organization, including the organization's statement of purpose.
- § Information disclosed by the organization in the course of making the application.
- § A copy of the notice of denial in respect of the organization.
- § A copy of the decision, if any, of the CRA's Appeals Branch regarding a notice of objection, if any, filed by the organization.

### ***Additional Information on Official Tax Receipts***

The Income Tax Regulations currently require registered charities to include certain information on their official receipts, such as details about the charity and the donor, the eligible amount in respect of the gift and the date of the gift. The budget proposes to also require that the name and website address of the CRA appear on all official receipts. This change will take effect for receipts issued after 2004.

### ***Increasing Public Information and Sector Education***

The CRA proposes to increase public education on what to be aware of when giving to charities, how to confirm the status of a charity, and how to file a complaint about a charity. In addition, the CRA will post on its website the reasons for its registration decisions as well as the policies, procedures and research databases it uses for its decision-making. The CRA will also make available to the public an annual report on its activities related to registered charities.

### ***A More Transparent Relationship with the Charitable Sector***

Registered charities will now have a stronger voice in shaping the administration of tax rules through a newly created Charities Advisory Committee. The Committee will be comprised of sector



representatives, and mandated to advise the Minister of National Revenue on these administrative issues.

### ***Disbursement Quota Rules***

In order to retain registered status, charities must fulfil minimum annual disbursement requirements set out in the Income Tax Act. These rules, known as the disbursement quota rules, ensure that a significant portion of a registered charity's resources are devoted to charitable programs and services, rather than, for example, fundraising, management, or administration. A summary description of these rules is provided below.

## Overview of Current Disbursement Quota Rules

A registered charity must annually disburse an amount at least equal to the total of the following:

- § 80 per cent of tax-receipted donations (other than endowments) received by it in the previous year.
- § 80 per cent of the proceeds from the disposition of endowments in the year.
- § For charitable foundations, 4.5 per cent of the fair market value of its capital assets (such as investments) that are not used directly in charitable activities or administration.
- § For charitable foundations, a percentage of amounts received by it from other registered charities: 80 per cent for public foundations and 100 per cent for private foundations.

A registered charity meets its annual disbursement obligation by expending amounts on the delivery of its own charitable programs and services, or by transferring funds to registered charities and other qualified donees.

The budget proposes to introduce several changes to the disbursement quota rules and to eliminate certain regulatory barriers to ensure that registered charities can effectively manage the gifts entrusted to them by Canadians.

### ***Disbursement Quota on Capital Assets***

#### **Disbursement Quota Rate**

Budget 2004 proposes to replace the fixed 4.5 per cent disbursement quota rate with a new rate that is more representative of historical long-term real rates of return earned on the typical investment portfolio held by a registered charity.

Given the ongoing nature of charitable activities, it is appropriate to allow charities to maintain a capital asset base on a sustainable long-term basis. Accordingly, the disbursement quota rate on capital assets should be set at a level that can sustain the real value of a charity's capital assets over the long-term. This is consistent with the long-term intentions of donors who provide gifts in the form of endowments.

Analysis indicates that the current 4.5-per-cent disbursement quota rate is high relative to long-term investment returns. Accordingly, the budget proposes to reduce the 4.5-per-cent disbursement quota rate on capital assets to 3.5 per cent. This rate will be reviewed periodically to ensure that it continues to be representative of long-term rates of return.

This change will apply to taxation years that begin after March 22, 2004.

#### **Realizing Capital Gains from Endowments**

Registered charities typically hold capital endowments that produce investment income in the form of capital gains, dividends, and interest. Since an annual disbursement quota is applied on the value of these capital endowments, registered charities will need to use the investment income in order to meet their disbursement obligations. In some cases, the return on an investment is weighted heavily in favour of capital gains, rather than cash flow such as dividends or interest. In these circumstances, a registered charity might prefer to meet its disbursement quota by realizing, and expending, capital gains that have accrued on endowments, if the terms of the gift do not restrict the charity from this action. However, if the charity does so, under the current rules it must then meet an 80 per cent

disbursement obligation to the extent that the proceeds of disposition are expended by the charity. The effect of the current rules is to discourage registered charities from realizing capital gains in order to meet disbursement obligations to fund charitable programs and services.

Budget 2004 therefore proposes to reduce the 80 per cent disbursement requirement that applies to the expenditure of proceeds from the disposition of such endowments, by the lesser of 80 per cent of the capital gain realized on the disposition and 3.5 per cent of the value of all property not used directly in charitable activities or administration.

This proposal will apply to taxation years that begin after March 22, 2004.

### **Extending the 3.5 per cent Disbursement Quota to Charitable Organizations**

Historically, charitable foundations were the primary beneficiaries of endowments. For that reason, only charitable foundations were made subject to a disbursement obligation on endowments. Currently, however, both charitable organizations and charitable foundations may hold capital endowments from which they generate investment income. Accordingly, the budget proposes that charitable organizations be made subject to the 3.5 per cent disbursement obligation on their capital assets. With this change, all registered charities will be subject to the same disbursement obligations on their capital assets.

In order to provide charitable organizations registered before March 23, 2004 with sufficient time to adjust to this new requirement, this measure will apply only to their taxation years that begin after 2008. For charitable organizations registered after March 22, 2004, this measure will apply to taxation years that begin after that date.

### ***Transfers Between Registered Charities***

#### **Gifts Transferred to Charitable Organizations**

Currently, both charitable organizations and charitable foundations may receive funds transferred from other charities. Those transfers may be used to satisfy the disbursement quota of the transferor charity and, if the transfer is made to a registered charitable foundation, is taken into account in calculating its disbursement quota (at a rate of 80 per cent for public foundations and 100 per cent for private foundations). However, the receipt of these transfers is not taken into account in calculating the disbursement quota of a charitable organization.

The budget, therefore, proposes to ensure that all transfers from one registered charity to another are subject to a disbursement requirement. In particular, an 80 per cent disbursement requirement will be applied to transfers (other than specified gifts and transfers of capital endowments, as described below) received by registered charitable organizations in taxation years that begin after March 22, 2004.

#### **Transfer of Endowments**

Registered charities often receive gifts by way of bequest or inheritance, or that are subject to a condition that the gift be held by the charity for a period of not less than 10 years. Such gifts are often referred to as endowments.

Where the terms of the endowment so allow, a registered charity may transfer property received as an endowment to another registered charity. However, the existing income tax rules for endowments provide impediments to such transfers, generally because of the interaction of the disbursement obligations on both the transferor and the transferee.

In order to facilitate these transfers, Budget 2004 proposes that an endowment received by a registered charity from another registered charity result in the same treatment as if the endowment had

been received directly from the original donor. This will be effected by applying a 100 per cent disbursement requirement to the transferor (which will be satisfied by the transfer), and by treating the endowment in the hands of the recipient charity as if it had been received directly from the original donor.

This proposal will apply to taxation years that begin after March 22, 2004.

#### ***Gifts Made by Way of Direct Designation***

Currently, upon the death of an individual, a charitable donations tax credit may be claimed in the individual's terminal income tax return for gifts made to a registered charity as a result of a designation of the charity as the direct beneficiary of the individual's registered retirement savings plan (RRSP), registered retirement income fund (RRIF), or life insurance policy. The charitable sector has expressed concern that, while these gifts are analogous to endowments, they are currently subject to the same disbursement quota rules as ordinary gifts.

The budget proposes to treat such gifts made by way of direct designation as endowments for the purpose of the disbursement quota rules. This means that such gifts will be subject only to the 3.5-per-cent disbursement quota while they are held as capital, and the 80-per-cent disbursement requirement in the year they are liquidated.

This proposal will apply to taxation years that begin after March 22, 2004.

#### ***Endowments Received and Spent in the Same Year***

Currently, endowments are subject to an 80-per-cent disbursement requirement to the extent that the registered charity liquidates and spends the capital in a year following the year in which the gift is received. Budget 2004 proposes that the 80-per-cent disbursement requirement also apply to gifts of capital that are liquidated in the same year that they are received.  
This proposal will apply to taxation years that begin after March 22, 2004.