



TaxNewsFlash

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Charities — Take Stock of New 2024 Budget Changes

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Charities should determine how they may be affected by new changes proposed in the 2024 federal budget. This year, the budget announced several new measures, including some welcome revisions to the proposed alternative minimum tax (AMT) rules and an increase to the capital gain inclusion rate that may affect certain donors. The budget also included other administrative proposals that are expected to affect charities, including changes to donation receipt requirements and adjustments to the way the CRA and charities communicate. As a result of these changes, registered charities should reach out to high-net-worth prospective donors to explain how they may be affected by the budget's proposed adjustments, and also consider how their own administrative processes may need to change.

Background

The 2024 federal budget was delivered on April 16, 2024. The budget announced several important tax changes, including an increase to the inclusion rate for capital gains realized on or after June 25, 2024. Specifically, the budget proposed to increase the capital gains inclusion rate from one-half (50%) to two-thirds (67%) on capital gains realized annually above \$250,000 by individual taxpayers, and on all capital gains realized by corporations and trusts, for gains realized on or after June 25, 2024. Draft legislation for these changes has not yet been released.

The budget also included changes to the draft Alternative Minimum Tax (AMT) legislative proposals published for consultation on August 4, 2023. These changes, which are proposed to apply to taxation years that begin after 2023, provide some

welcome relief for donors subject to AMT and are included in Bill C-69, which passed first reading in the House of Commons on May 2, 2024.

For details, see *TaxNewsFlash-Canada* 2024-17, "[2024 Federal Budget Highlights](#)".

Changes affecting donors

AMT and the Charitable Donations Tax Credit

Charities should be aware of the budget's changes to certain aspects of the AMT calculation when speaking to individual donors. Specifically, the budget increases the percentage of donation tax credits individuals can claim for charitable donations when calculating AMT to 80%. Previously, Finance's changes to the AMT calculation proposed in the 2023 federal budget would have limited the donation tax credit to 50% of the credit otherwise calculated.

As a result of being able to claim 80% of their donation tax credit, individual donors affected by the AMT may now be able to reduce their AMT liability by an additional amount of up to approximately 10% of the value of their donation, compared to the previous AMT proposals (i.e., 30% of the top federal donation credit rate of 33% that applies to donations in excess of \$200).

KPMG observations

While the budget's proposal to increase the donation tax credit for purposes of AMT to 80% is still lower than the 100% that was available for 2023 and previous taxation years, this is still a welcome change from the original AMT proposals that provides some income tax relief to certain donors. The increase in the allowable credit rate is likely in response to concerns raised by the charitable sector that the original proposals announced in the 2023 federal budget could dissuade higher income individuals from making large gifts to charities.

Capital gain inclusion rate

Charities should also be aware of the impact of the budget's increase to the capital gains inclusion rate when speaking with prospective donors. After June 24, 2024 donations of certain capital items will become less advantageous.

Note that these changes should not affect individuals who realize \$250,000 or less in capital gains (including from the disposition of donated capital property) in a calendar year. In addition, these changes should not affect individuals that donate certain types of capital property such as certain types of publicly traded securities, mutual funds and segregated funds of life insurance companies, which are exempt from the capital gains tax.

Further, since the proposed capital gains inclusion rate increase does not apply to capital gains realized on dispositions prior to June 25, 2024, donors planning to donate capital property to a charity this year, should also consider making the donation before that date to continue to benefit from the 50% capital gains inclusion rate.

Where individuals donate other types of property after June 24, 2024, that result in capital gains that are in excess of the individual's annual \$250,000 capital gain threshold, the tax benefit of the donation will likely decrease. In particular, 2/3 (instead of half) of the capital gain will be included in the individual's income for regular tax purposes, while the donation tax credit remains the same. Depending on the individual's particular circumstances and the province they reside in, the increased inclusion rate could result in the donor having lower excess donation tax credits to offset taxes owing from other sources.

Similarly, for corporations that donate capital property after June 24, 2024 and recognize a capital gain, 2/3 of that gain will be included in the corporation's taxable income (i.e., there is no \$250,000 threshold for corporations), while the maximum donation deduction remains the same.

KPMG observations

Registered charities should consider contacting high net worth donors to discuss these changes, including how donors may be affected depending on their own facts and circumstances, the timing of their donation, as well as the type of capital asset donation they wish to make.

Administrative changes affecting charities

Updating donation receipts

The budget also includes administrative changes intended to simplify the way charities issue official donations receipts. In particular, charities will no longer have to include the following information on receipts:

- The place of issuance
- The name and address of the appraiser, if an appraisal of the donated property has been done.
- The middle initial of the donor.

The budget also now allows charities to mark a spoiled donation receipt as "void", as an alternative to "cancelled".

Finance further advises that it will also make legislative changes to expressly permit charities to issue official donation receipts electronically. Note that charities and other

qualified donees are still required to collect all pertinent information if issuing receipts electronically.

Tax authority communication

The budget also outlines certain other administrative changes affecting how charities and the CRA communicate, including to:

- Allow the CRA to send certain official notices digitally (only where agreed to by the receiving charity)
- Make the revocation of the registration of a charity or other qualified donee effective once an official notice of revocation is published on a government webpage (instead of upon publication in the Canada Gazette)
- No longer require charities to address certain objections to the Assistant Commissioner of the CRA's Appeals Branch.

We can help

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