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Getting credit(s) for financing the political process

CANADA'S current minority government has now held office for just over five years, and this spring a federal election will take place. To win such elections, politicians need votes. And to run the election campaigns needed to garner those votes, they need an organization, volunteers, and money. The task of raising that money is made somewhat easier by the fact that Canadian taxpayers who donate money to political parties or candidates can claim a federal tax credit for those donations.

The *Income Tax Act* provides for a credit to be claimed by taxpayers who contribute funds, either to registered political parties or to candidates running in a federal election. Contributions can be made at any time, not just during an election campaign, as long as the donation is received by an official candidate or registered party.

Contribution limits

Official candidates can, of course, be running either as candidates for one of the registered parties or as independents. Once an election is called, Elections Canada will keep a running list (updated daily) of confirmed candidates running in the election on its Web site at www.elections.ca

Limits are also placed on the amount of contributions which may be made by any one individual Canadian. The current limits imposed are no more than $1,100:

- in any calendar year to each registered political party;
- in total in any calendar year to the various entities of each registered political party (registered associations, nomination contestants, and candidates);
- to each independent candidate for a particular election; and
- in total to the leadership contestants in a particular leadership contest.

Putting all of the above together, an individual could contribute, in a year in which there is both a party leadership contest and a general election, a total of $4,400 to a combination of a registered political party, a registered candidate (or riding association or nomination contestant), an independent candidate in a general election and a leadership contestant. However, only funds contributed to a registered political party or an official candidate are eligible for the tax credit, and dollar limits are placed on the amount of funds contributed which will be eligible for that credit.

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19 political parties in Canada

While the parties which currently hold seats in the House of Commons are, of course, the most well known, there are in fact (as of February 9, 2011) 19 political parties registered and in good standing with Elections Canada. They are as follows, in alphabetical order:

- Animal Alliance Environment Voters Party of Canada
- Bloc Québécois
- Canadian Action Party
- Christian Heritage Party of Canada
- Communist Party of Canada
- Conservative Party of Canada
- First Peoples National Party of Canada
- Green Party of Canada
- Liberal Party of Canada
- Libertarian Party of Canada
- Marijuana Party
- Marxist-Leninist Party of Canada
- New Democratic Party
- People's Political Power Party of Canada
- Pirate Party of Canada
- Progressive Canadian Party
- Rhinoceros Party
- United Party of Canada
- Western Block Party

Donations to any one of these registered parties, within prescribed limits, would qualify for the federal political contribution tax credit.

Calculating the tax credit

The federal political tax credit is calculated as a percentage of donations given. However, the credit percentage decreases as contribution amounts increase, and no credit at all is given for donations in excess of $1,275. The credit percentages allowed at different contribution levels are as follows:

CONTRIBUTION AMOUNT	ALLOWABLE TAX CREDIT
$0.01 to $400.00	75% of the contribution
$400.01 to $750.00	$300.00 + 50.0% of the contribution over $400.00
$750.01 and over	$475.00 + 33.3% of the contribution over $750.00

The maximum credit claimable in any taxation year by a single taxpayer is $650. Once the math is worked out, it becomes clear that the maximum credit obtainable is reached once contribution levels reach $1,275.

CONTRIBUTION AMOUNT	ALLOWABLE TAX CREDIT
$400.00 x 75.0% =	$300.00
$350.00 x 50.0% =	$175.00
$525.00 x 33.3% =	$175.00
$1,275.00	$650.00

While taxpayers are free, of course, to donate up to the limits imposed by law, where donations exceed $1,275 in any one taxation year, no tax credit can be claimed on the "excess" donation. As well, there is no provision which allows the taxpayer to carry over any "excess" contributions to a subsequent taxation year, meaning that no credit will ever be obtainable with respect to those "excess" contributions.

Non-monetary contributions

Many Canadians who are committed to a particular political party or candidate volunteer their time during a nomination or election campaign–canvassing for the candidate, putting up election signs, or telephoning voters to encourage them to vote for the candidate. However, in most cases, the work must be its own reward, as no income tax receipts can be issued for most such non-monetary contributions, and consequently no credit can be claimed for the value of any non-monetary contribution (including volunteer hours) donated.

The *Canada Elections Act* provides for two exceptions from the rule that no tax receipts can be issued for non-monetary contributions. As outlined on the Elections Canada Web site, the contribution of services by a self-employed person who normally charges for such services can qualify as political contribution for which a credit may be claimed. As well, if a political party or campaign pays for work done at less than commercial rates, the difference between the commercial value of the service and the amount that is paid constitutes a non-monetary contribution by the person who did the work.

More details of how the contribution rules apply in such situations can be found on the Elections Canada Web site under FAQs on Political Financing, found at www.elections.ca.

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Issuing receipts

Where a qualifying contribution is made, an official receipt must be issued in order for the tax credit to be claimed. During an election campaign, the official agent of a candidate issues that receipt, and it must be issued between the time the candidate is officially nominated and Election Day. Outside an election period, any receipts are issued by the registered agent of a political party or association. A receipt must be issued for every contribution over $20.

The actual credit for qualifying donations made is claimed on the tax return for the year in which the contribution was made. The amount of the credit is calculated (according to the formula outlined above) on the Federal Worksheet, and the amount of the actual credit entered on line 410 of Schedule 1 of the federal tax return. By the time the return is filed, of course, the election is long since over, the newly elected government is in Ottawa, and the taxpayer is in a position to assess whether it was, in fact, money well spent.■

The following is from the Conservative Party's proposed budget that ultimately triggered this spring's election. This has not yet been passed into law and is dependant on the outcome of the spring election.

Proposed federal budget projects surplus by 2015-16

PROJECTIONS INCLUDED in the 2011-12 federal budget brought down on March 22, 2011 by Minister of Finance Jim Flaherty indicate that the federal government will return to a surplus position by the 2015-16 fiscal year.

The projections indicate that the current federal deficit—$40.5 billion for the 2010-11 fiscal year ending March 31, 2011—will decline by about $10 billion per year, on the following schedule:

2011-12	2012-13	2013-14	2014-15
-$29.6 billion	-$19.4 billion	-$9.5 billion	-$0.3 billion

In 2015-16, the budget projections call for a surplus of $4.2 billion. Complete budget papers and the budget's financial projections can be found on the Department of Finance Web site at www.budget.gc.ca

Individual Pension Plans

An *Individual Pension Plan* (IPP) is a type of *Registered Pension Plan* (RPP) that is established by the employer for one individual (generally an owner of the business or executive). A main advantage of an IPP is that a higher annual contribution is permitted than would otherwise be possible under an RRSP and, depending on the circumstances, a lump sum amount for past services may be contributed to the IPP. This allows the employer to contribute a large lump sum payment to the IPP for years of employment before the IPP was established, thereby deferring tax on that amount. The 2011 Budget, however, proposes two new tax measures that will apply to IPPs.

Firstly, effective beginning in 2012, an annual minimum amount will be required to be withdrawn from an IPP similar to current withdrawal requirements from *Registered Retirement Income Funds* (RRIF), once a plan member attains the age of 72. The minimum withdrawal rate for RRIFs increases annually and reaches a maximum withdrawal requirement of 20% upon the plan member attaining the age 94 (and over).

Secondly, effective for contributions made after March 22, 2011, contributions made to an IPP that relate to past years of employment will be required to be funded first out of a plan member's existing RRSP assets, or by reducing the individual's accumulated RRSP contribution room before new deductible contributions in relation to past services may be made. Accordingly, a major benefit of using an IPP will be eliminated; namely the ability to defer taxes by contributing a large lump sum amount into the IPP at the commencement of the plan.■

Tax on split income—capital gains

IN 2000, a tax often referred to as the "kiddie tax", but officially referred to as "tax on split income", was introduced. This tax was intended to reduce income splitting and was targeted at dividends received on shares held by minors in private corporations.

(The original measures also dealt with income other than dividends, and were amended subsequently to broaden their scope, in response to certain other planning techniques).

The existing legislation subjects such dividends to tax at the top marginal tax rate, notwithstanding the marginal tax rate that would otherwise be applicable to the minor on such income.

Prior to the *Kiddie Tax Amendments*, it was possible to significantly reduce the effective combined corporate and personal tax levied on business income by paying dividends out of after-tax corporate earnings to shareholders who were minors. However, when the *Kiddie Tax Amendments* were introduced, they did not apply to capital gains realized by minors.

The 2011 Budget proposes a new measure specifically designed to prevent certain planning techniques implemented since the *Kiddie Tax Amendments*. The tax on split income will be extended to capital gains included in the income of a minor from a disposition of shares of a corporation to a non-arm's length person, if taxable dividends on such shares would have been subject to the tax on split income. These capital gains will be deemed to be dividends and therefore, subject to tax at the top marginal rate.

Furthermore, the lifetime capital gain exemption will also not be available with respect to such disposition. This proposed amendment will apply to capital gains realized on or after Budget Day. ■

Children's Arts Tax Credit

The proposed *Children's Arts Tax Credit*, except for the definition of eligible activities, is similar to the *Children's Fitness Tax Credit*. Where the latter applies to physical activities, the new credit will apply to programs that promote artistic, cultural, recreational, or developmental activities.

Parents will be able to claim a 15% non-refundable tax credit based on an amount of up to $500 in eligible expenses paid per child in a taxation year. The credit will be available for the enrolment of a child, under 16 years of age at the beginning of the year, in an eligible program of artistic, cultural, recreational, or developmental activities. For a child under 18 years at the beginning of the year who is eligible for the *Disability Tax Credit*, the 15% non-refundable tax credit may be claimed on an additional $500 disability supplement amount, when a minimum of $100 is paid for eligible expenses.

The new credit will apply to eligible expenses paid in 2011 and subsequent years. ■

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