



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

Legislative Costing Note

Publication date:	2021-01-25	
Short title:	Cost Estimate of Bill C-256, An Act to amend the <i>Income Tax Act</i> (donations involving private corporation shares or real estate)	
Description:	This private member's bill would amend the <i>Income Tax Act</i> so that charitable donations of the cash proceeds of the disposition of real estate and privately-held shares would not be subject to capital gains tax. The donations would have to be made to a qualified donee within 30 days of the disposition of the property to an arm's length third-party. ¹	
Data sources:	<u>Variable</u>	<u>Source</u>
	Donation and capital gains data	Canada Revenue Agency
	Consumer Price Index and various other projections	PBO September 2020 Economic and Fiscal Outlook
	Coefficients to project donation evolution and elasticities to project behavioural effect	<i>Cost Estimates of Proposed Tax Measures to Encourage Charitable Donations of Assets</i> , PBO, 2012
	Federal effective tax rates and lifetime capital gains exemption data	Finance Canada
	Provincial effective corporate income tax rate 2018	Statistics Canada Table 33-10-0006-01 Financial and taxation statistics for enterprises, by industry type
	Provincial/territorial effective personal income tax rate	Statistics Canada Table 11-10-0058-01 Federal and provincial effective tax rates of census families
	Provincial/territorial donation tax credit rates	Websites of each province and territory
	Provincial/territorial donation amounts	Statistics Canada Table 11-10-0130-01 Summary of charitable donors
	Population age projections	Statistics Canada Table 17-10-0057-01 Projected population, by projection scenario, age and sex, as of July 1

¹ Certain other restrictions would apply. Details are in the text of Bill C-256.

Estimation and projection method:

The methodology of this analysis is based on a 2012 PBO report entitled *Cost Estimates of Proposed Tax Measures to Encourage Charitable Donations of Assets* which examined a similar proposed tax measure.

For each year of data, taxpayers (individuals, graduated rate estate trusts and corporations) that made a charitable donation and had a capital gain from the sale of privately-held shares or real estate were identified. In the case of individuals donating privately-held shares, only donors who had already exceeded their lifetime capital gains exemption were included. The calculations estimated that less than 10% of capital gains from the sale of shares in private corporations would ultimately be donated. Following the approach of the 2012 PBO report, this analysis assumes that these donors would respond to the measure by donating the same total amount as they would have otherwise, but they would switch to donating money that they received from selling real estate or privately-held shares, as opposed to money from other sources. By doing this, the donors would avoid paying capital gains tax on the proceeds of the sale, and the "cost" of their donation would be lower. The cost to the government would be the foregone capital gains tax. This will be referred to as the static effect of the policy.

Historical donation amounts were projected to the time period of this analysis by using a variety of coefficients estimated in the 2012 PBO report. These coefficients predicted how donation amounts are impacted by other variables. The evolution of capital gains on privately-held shares was also based on these coefficients, while the evolution of capital gains on real estate was based on inflation. See "Source of Uncertainty" section for more details.

The policy is predicted to provoke an increase in the total amounts donated due to the decreased "cost" of making donations. To predict the magnitude of the behavioural response to this measure, this analysis used the average of 5 elasticity estimates from academic literature. The cost of this foregone revenue will be referred to as the behavioural effect of the policy. The behavioural effect includes not only the loss of capital gains tax revenue, but also the cost of the charitable donation tax credits (for individuals and trusts) and deductions (for corporations) claimed due to the increased amounts of charitable donations that would be made under the new policy.

For individuals and trusts, the charitable donation tax credit rates were effective rates based on the historical donation data used in this costing. For corporations, the entire donation amount was assumed to be tax deductible.

This analysis calculated the cost of the policy being in effect as of January 1, 2021.

Aggregate Results:

PBO estimates total net cost of this measure to be \$777.5 million over the first 5 fiscal years of the policy. This includes an estimated cost of \$354.7 million due to the static effect and a cost of \$422.8 million due to the behavioural effect. Within the behavioural effect, \$301.2 million was due to the charitable donation tax credits/deductions.

The time horizon for this costing is aligned to PBO's current Economic and Fiscal Outlook, although there may be potential fiscal impacts for subsequent years.

Source of Uncertainty:

It is unclear how the economic effects of COVID-19 will impact the markets for real estate and for company shares, as well as the amounts that taxpayers will donate.

The results of the static effect calculations should be interpreted as an upper bound. Although the new policy would create a financial incentive for donors to shift to donating capital gains of privately-held shares or real estate, these types of property are often less liquid than other types of property and the total number of such shares is small when compared to shares in publicly-traded companies.

The coefficients from the 2012 PBO report that were used to project the evolution of donations were estimated based on data about individuals. Coefficients based on data about trusts or corporations were unavailable.

The data used in this analysis shows that growth rates of capital gains vary greatly from year to year. For capital gains relating to real estate, the evolution used in this report was calculated based on PBO inflation predictions, which were similar to the 3-year average growth rate based on recent historical data. For capital gains relating to privately-held shares, the amounts of capital gains of all types of shares and of donation amounts are very volatile from year to year. The measure will most likely have a cost of zero in some years, while other years will have large costs. To create a reasonable average, the growth rates of these capital gains were assumed to be the same as the growth rates of donations.

For individuals and trusts, capital gains on the sale of qualified small business corporation shares were used as a proxy for capital gains on the sale of all privately-held shares. Capital gains on the sale of real estate and depreciable property were used as a proxy for capital gains on the sale of real estate. More detailed data was unavailable. The use of these proxies is expected to lead to an underestimation of the cost relating to privately-held shares and an overestimation of the cost relating to real estate.

Provincial and territorial data was used in calculations of the behavioural effect to estimate behavioural change. Provincial government revenues would be affected by this measure, but they are outside of the scope of this analysis.

If donated, the capital gains from certain other types of financial assets (e.g. publicly-held shares) are presently exempt from capital gains tax. It was necessary to use data about some of these financial assets to deduce the value of capital gains from corporate-owned privately-held shares. This analysis did not take into account any other data about these financial assets or how the introduction of the new policy would affect taxpayers' choices about selling or donating these assets.

This analysis did not take into account how the same taxpayers may have capital gains from both privately-held shares and real estate, which would lead to a likely overestimation of the cost. However, taxpayers in this position may make different choices about how much of each type of asset they will donate. Therefore, it is unclear how large the overestimation would be.

Donations of ecologically sensitive land and certain other types of non-financial property are exempt from capital gains tax. There is a relatively small number of these donations that are made each year, and donors may not be representative of the average donors making donations that would be affected by the new policy. This analysis did not take donations of ecologically sensitive land into account,

which would lead to a potential overestimation of the measure's cost in some years.

The federal effective tax rate for corporations was calculated based on data that excluded the top 10 largest donors. This may impact the results of the measure.

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Cost of proposed measure

\$ millions	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Individuals	39.5	159.7	167.1	176.1	186.3
Trusts	0.1	0.6	0.6	0.7	0.7
Corporations	2.5	10.1	10.6	11.1	11.8
Total cost	42.1	170.4	178.3	187.9	198.8

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost

Cost of static effect of proposed measure

<i>\$millions</i>			2020-21	2021-22	2022-23	2023-24	2024-25
Individuals	Privately-held shares	Lost federal capital gains revenue	2.0	8.0	8.4	8.9	9.4
	Real Estate	Lost federal capital gains revenue	15.5	62.5	65.5	69.0	72.9
Trusts	Privately-held shares	Lost federal capital gains revenue	0.01	0.04	0.04	0.04	0.04
	Real Estate	Lost federal capital gains revenue	0.1	0.2	0.2	0.3	0.3
Corporations	Privately-held shares	Lost federal capital gains revenue	0.2	0.7	0.7	0.8	0.8
	Real Estate	Lost federal capital gains revenue	1.5	6.2	6.5	6.8	7.2
Total		Lost federal capital gains revenue	19.2	77.7	81.4	85.7	90.7

Cost of behavioural effect of proposed measure

<i>\$millions</i>			2020-21	2021-22	2022-23	2023-24	2024-25
Individuals	Privately-held shares	Lost federal capital gains revenue	0.7	2.8	2.9	3.0	3.2
		Lost federal tax revenue from charitable credit/deduction	1.9	7.6	7.9	8.3	8.8
	Real Estate	Lost federal capital gains revenue	5.6	22.7	23.8	25.1	26.5
		Lost federal tax revenue from charitable credit/deduction	13.9	56.1	58.7	61.8	65.4
Trusts	Privately-held shares	Lost federal capital gains revenue	0.003	0.01	0.01	0.01	0.01
		Lost federal tax revenue from charitable credit/deduction	0.01	0.03	0.03	0.03	0.03
	Real Estate	Lost federal capital gains revenue	0.02	0.1	0.1	0.1	0.1
		Lost federal tax revenue from charitable credit/deduction	0.1	0.2	0.2	0.2	0.2

Corporations	Privately-held shares	Lost federal capital gains revenue	0.03	0.1	0.1	0.1	0.1
		Lost federal tax revenue from charitable credit/deduction	0.1	0.2	0.2	0.2	0.3
	Real Estate	Lost federal capital gains revenue	0.2	1.0	1.0	1.1	1.1
		Lost federal tax revenue from charitable credit/deduction	0.5	1.9	2.0	2.1	2.3
Total			22.9	92.7	97.0	102.2	108.1