

## INVESTMENT INCOME OF CLUBS AND OTHER NON-PROFIT ORGANIZATIONS

### *White Paper Proposal*

#### 5.54

Investment income of organizations covered by section 62 (1)(i) of the *Income Tax Act* would be subject to corporation tax.

#### *Comment*

The sections in the present law exempting certain organizations from tax do not seem to have any overall rationale for their groupings. Agricultural organizations, boards of trade, chambers of commerce, charities, labour organizations and non-profit corporations for scientific research are all exempt.

At the other end of the scale from these there are purely social clubs organized entirely for the personal enjoyment of members, while in between are many organizations such as lodges, service clubs and professional societies which exist for the benefit of members but which also often perform activities of benefit to the community. The briefs indicate some difficult cases in this area, such as cemeteries where investment income is used to meet the expenses of maintaining graves from settlements of many years' standing, and yet the cemetery does not qualify as a charity.

The Committee understands that in most cases the investment income of organizations such as those mentioned in the White Paper is very small, sometimes only a few dollars of bank interest in a year.

#### *Recommendation*

The Committee recommends that this proposal be dropped for the time being, and that the whole area of the law on this question—an area which is a haphazard accumulation of odds and ends, going back to the *Income War Tax Act*—be redrafted, not with a view to eliminating exemptions but for clarification and rationalization of the provisions, after which the proposal should be re-examined. Possibly groups of non-profit organizations should be redefined for tax purposes as: (a) charities; (b) "semi-charities" (those whose activities do have a degree of benefit to the community but which do not fall within the present concept of charitable organizations); and (c) primarily social organizations (those whose activities are entirely for the benefit of their own membership).

#### *Trusts*

#### 5.56

A trust that has issued transferable or redeemable units would be treated as a corporation (widely held, closely held or mutual, according to circumstances).

Other trusts would continue to be taxed as at present, but income accumulating therein would be subject to a flat-rate federal tax of 40%, which provincial taxes would increase to about 50%.