



## THE COST OF RELIGION IN CANADA

Tax Implications of Charities Advancing Religion

The Fourth in a Series of Reports

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## INTRODUCTION

This report in the Centre for Inquiry Canada’s Cost of Religion series looks at the tax advantages granted to religious charities, including the implications of policies related to income tax, property tax, and sales tax. The numbers and analysis in this report are based on data from the 2018 T-3010 forms submitted to Canada Revenue Agency (CRA) by Canadian charities with the self-declared purpose of “advancement of religion”.

The first report in the series, “The Cost of Religion in Canada: An Introductory Report Exploring Advancement of Religion as a Charitable Purpose”, provides background about why advancement of religion is a charitable purpose in Canada, and information about the types and distribution of religious charities in Canada. Religious charities in Canada have over \$5.7 billion in cash and bank accounts, and nearly another \$10 billion in long term investments. Land and buildings worth over \$26 billion (at the time of purchase) are also owned by religious charities. These assets have accumulated, tax free, over the course of several decades.

This report examines the unique tax status of charities and churches. Because it is not possible to provide a precise calculation for foregone taxes using the macro level data available from the T-3010 information, CFIC has made conservative assumptions which might significantly understate the actual benefits enjoyed by religious charities.

Additionally, CFIC has assumed that were CRA to eliminate the category “advancement of religion” as a charitable purpose, most religious charities would be reconstituted as non-profit organizations, similar to a social club or a sports league. This is important as taxation is different for for-profit ventures, non-profit organizations, and charities.

## TAXATION IN CANADA

Tax is the major source of income for government and is a fundamental plank in social policy: paying for services and serving as a form of redistribution of wealth. The programs and infrastructure enjoyed by all Canadians are funded through user fees, debt and a variety of taxes. Any reduction in taxes by one party results in some combination of:

- An increase in taxes by a different party (this may include user fees or other charges to individuals or corporations)
- A reduction in services or infrastructure
- An increase in debt.

In 2017-18, the [largest source of federal revenue](#) was personal income tax (49%) followed by corporate income tax (15.2%) and GST revenues at 11.7%. [Provinces also derive a significant proportion of revenue through income tax](#) and [sales tax](#).

[Property taxes are the largest source of income](#) for municipalities across Canada. [Every municipality has its own rate of taxation](#), and municipal funding obligations vary by province or territory. Most charities

receive special status regarding property taxes and churches are exempt from paying property tax in every Canadian province and territory.

## DO RELIGIOUS CHARITIES AVOID INCOME TAX?

In determining the potential impact of charitable status on religious charities, one must first ask whether, without charitable status, these organizations would pay income tax. Neither charities nor non-profit-organizations pay income tax on most revenues, with the exceptions of rental income and capital gains. If a charity identifying under advancement of religion were recategorized as a non-profit organization, it would retain its tax-exempt status. If a religious charity became a for-profit corporation, where the profit is retained by an individual or redistributed to shareholders, income tax would apply.

## INCOME TAX ON RENTAL INCOME AND CAPITAL GAINS

Non-profit-organizations [pay tax on property income and capital gains](#). Religious charities earned over \$350 million in rental income in 2018. As the available data does not identify the type of rental income, the amount of tax that would be owed if they reincorporated as non-profits cannot be calculated.

Similarly, T-3010 does not require charities to report on capital gains. It is therefore unknown the extent to which religious charities have earned capital gains, and how much tax they would be liable for should they be treated instead as non-profits.

## SALES TAX

[Sales tax is applied](#) differently to charities and non-profits. Charities generally receive a rebate for a portion of the sales tax they pay (called a Public Service Body (PSB) rebate) and generally do not charge sales tax. Non-profits do not usually receive the PSB rebate, and are required to charge sales tax on taxable goods and services.

Were religious charities to be reconstituted as non-profits, they would be required to charge sales tax for some of the goods and services they offer. For example, fees for holding a wedding, hall rentals, fund-raising suppers, or course fees might be subject to sales tax. In fact, any provision of a “business-like” service could trigger sales tax. There is insufficient publicly available data to determine the percentage of religious charity income that would fit into this category. For the same reason, it is also impossible to identify which expenses would qualify for input tax credits, which would reduce the GST/HST payable. Therefore, this report does not offer any suggestion about the amount of sales tax (provincial and federal) that is foregone as a result of categorizing organizations advancing religion as charities.

Charities are eligible to claim a portion of the HST or GST they pay, in the form of a [public service body \(PSB\) rebate](#). The federal government reimburses charities for 50% of GST or the federal portion of HST paid. Some provinces also provide a rebate for a portion of the provincial sales tax paid by charitable organizations. The PSB rebate is paid directly to the charity. This rebate program for religious charities cost the federal and provincial treasuries over \$300 million in 2018.

## METHODOLOGY

Charities are eligible to claim a rebate on the GST/HST paid for supplies. This report estimates the percentage of each expense line for which HST/GST would be applied (see Appendix 1).

The federal sales tax (5%) and rebate amount (50%) is consistent across the country. Provincial sales tax rates differ across the country, as does the proportion of sales tax rebated to charities. Manitoba, Saskatchewan, Alberta, British Columbia, Nunavut, Northwest Territories, and Yukon Territory do not offer charities a provincial sales tax rebate.

The provincial and federal sales tax rebate is calculated by province and these rates determine the extraction factor (the factor by which the total applicable expenses would be multiplied to determine the PSB rebate). The federal and provincial rates and extraction factors are found in Appendix 2.

<b>Province/ Territory</b>	<b>Estimated Eligible Expenses</b>	<b>Extraction factor</b>	<b>Estimated PSB rebates received</b>
AB	537,249,148	2.44%	13,103,638
BC	645,494,299	2.28%	14,737,313
MB	189,530,850	2.26%	4,288,028
NB	92,189,867	6.98%	6,431,851
NL	62,534,651	6.98%	4,362,883
NS	130,327,417	6.98%	9,092,610
NT	5,987,546	2.44%	146,038
NU	426,210	2.44%	10,395
ON	2,310,445,822	8.72%	201,391,564
PE	25,099,366	5.50%	1,381,616
QC	729,154,172	8.25%	60,168,381
SK	138,767,565	2.30%	3,197,409
YT	2,663,323	2.44%	64,959
outside canada	3,095,999	2.44%	75,512
<b>Total</b>	<b>4,872,966,240</b>		<b>318,452,197</b>

Table 1 shows the estimated PSB rebates received by religious charities exceeded \$300 million in 2018. Note that the province or territory refers to the location of the charities' head office, though it might have operations elsewhere in the country as well.

## PROPERTY TAX EXEMPTIONS

Although the cost of property tax exemptions in Canada cannot be quantified with precision, significant evidence points to lost revenue of hundreds of millions of dollars annually. There are three major challenges to accurately determining the forgone property tax income to Canadian religious charities:

1. The property tax rate per \$1,000 of property value is [different for each municipality in Canada](#).
2. The value of land and buildings, as reported on the T-3010 form, reflects the original cost minus depreciation. This is the basis of municipal property taxes, which significantly understates the true market value.
3. Churches are treated differently from other charities. Every provincial and territorial government in Canada specifically exempt churches from paying property taxes. Most provinces also extend these exemptions to clerical residences and cemeteries. See Appendix 3 for the provincial rules related to property taxes and religious charities.

#### AN ESTIMATE FOR THE COST OF PROPERTY TAX EXEMPTIONS

In November 2019, the government of New Brunswick calculated the cost of property tax exemptions for churches in the province as part of a broader examination of lost tax revenues. New Brunswick reported that its churches owned more than \$1 billion worth of property at prevailing market rates. This is nearly twice the value reported (approximately \$545 million) by all religious charities in the province on their T3010 forms (which is original cost minus depreciation). The province of New Brunswick [calculated](#) that the foregone tax on these buildings amounted to \$18.2 million per year.

Using the New Brunswick data as a proxy makes it possible to create a rough estimate for forgone municipal revenues due to the property tax exemption granted to churches and religious charities. Municipal revenues were lessened by \$18.2 million in New Brunswick on land and buildings with a T3010 value of \$545 million, for an implicit rate of approximately 3.3%. Table 2 shows that nearly \$900 million is lost across Canada every year by exempting churches from property taxes.

Province / Territory	Reported T3010 Land and Building Value	Estimated Foregone Municipal Revenue
Alberta	4,000,000,000	133,577,982
British Columbia	3,800,000,000	126,899,083
Manitoba	1,100,000,000	36,733,945
New Brunswick	545,000,000	18,200,000
Newfoundland and Labrador	442,000,000	14,760,367
Nova Scotia	1,400,000,000	46,752,294
Northwest Territories	46,000,000	1,536,147
Nunavut	2,000,000	66,789
Ontario	10,500,000,000	350,642,202
Prince Edward Island	158,000,000	5,276,330
Quebec	3,100,000,000	103,522,936
Saskatchewan	1,300,000,000	43,412,844
Yukon Territory	13,700,000	457,505
<b>Total</b>	<b>26,406,700,000</b>	<b>881,838,422</b>

## CONCLUSION

The preferential GST/HST and property tax treatment for religious charities costs Canadian governments over \$1.2 billion annually. There are additional beneficial tax implications associated with charitable status that cannot be calculated but would add to this total. It is not possible to calculate the amount of net sales tax that would be contributed were these organizations not charitable, nor is it possible to calculate the taxes that would be triggered by rental income and capital gains and the loss of property tax excludes any religious charities which are not places of worship.

The special status of churches and religious charities in Canadian tax law allows them to enjoy the services and benefits paid for through taxation while minimizing their contributions (or avoiding them entirely). All levels of government— federal, provincial, and municipal— must all absorb the loss of these revenues from religious charities by increasing taxes on all Canadians, growing government debt, or reducing funding of governmental programs.

At all levels of government, money is a scarce resource. Providing special tax status to organizations that exist to promote their religion is inappropriate and unaffordable.

## APPENDIX 1: EXPENSE ACCOUNTS USED FOR CALCULATION OF PSB REBATE

Table 3 describes the percentage of expenses in each expense account considered in calculating the HST/GST paid for purpose of claiming a PSB rebate.

Table 3: Expense accounts used for calculation of PSB rebate		
T-3010 line #	Expense Account name	HST / GST
4800	Advertising and Promotion	100%
4810	Travel and Vehicle Expenses	95%
4820	Interest and bank charges	0%
4830	Licenses, memberships, and dues	50%
4840	Office supplies and expenses	100%
4850	Occupancy costs	50%
4860	Professional and consulting fees	n/a
4870	Education and training for staff and volunteers	n/a
4880	Total expenditure on all compensation	n/a
4890	Fair market value of all donated goods used in charitable activities	n/a
4891	Purchased supplies and assets	n/a
4900	Amortization of capitalized assets	n/a
4910	Research grants and scholarships as part of charitable activities	n/a
4920	All other expenditures not included in the amounts above	n/a



## APPENDIX 2: PSB REBATE AMOUNT BY PROVINCE

Charities are eligible to receive a rebate for a portion of the sales tax they pay to acquire goods and services. This is known as the Public Service Body rebate.

While the federal public service body rebate is constant for all provinces, the provincial sales tax amount and the provincial rebate rate differs by province. Table 4 itemizes the sales tax rates by province, and the extraction factor used to calculate the PSB rebate cost.

Province	Total tax rate	Federal tax rate	Provincial tax rate	Federal rebate	Provincial rebate	Total rebate	Extraction factor
AB	5.000	5.00		2.50	-	2.500	2.44
BC	12.000	5.00	7.000	2.50	-	2.500	2.28
MB	13.000	5.00	8.000	2.50	-	2.500	2.26
NB	15.000	5.00	10.000	2.50	5.000	7.500	6.98
NL	15.000	5.00	10.000	2.50	5.000	7.500	6.98
NS	15.000	5.00	10.000	2.50	5.000	7.500	6.98
NT	5.000	5.00		2.50	-	2.500	2.44
NU	5.000	5.00		2.50	-	2.500	2.44
ON	13.000	5.00	8.000	2.50	6.560	9.060	8.72
PEI	15.000	5.00	10.000	2.50	3.500	6.000	5.50
QC	14.975	5.00	9.975	2.50	6.264	8.764	8.25
SK	11.000	5.00	6.000	2.50	-	2.500	2.30
YT	5.000	5.00		2.50	-	2.500	2.44

## APPENDIX 3: VALUE OF LAND HELD BY RELIGIOUS CHARITIES

The following is a summary of the tax status of churches in each province and territory and the value of their land and buildings, as reported in 2018 on the T-3010. Current market price for land and buildings is likely significantly higher than the reported value, which is the original cost less building depreciation.

### **Newfoundland and Labrador**

The property tax system in Newfoundland and Labrador is managed by [Municipal Assessment Agency Inc.](#) Churches, rectories, and cemeteries [are exempt](#) from paying property taxes in NL. Each municipality may grant additional exemptions to anyone who applies for it, including charities and non-profit organizations.

Religious charities in Newfoundland and Labrador reported the value of land and buildings as slightly more than \$442 million.

### **Nova Scotia**

Churches are exempt from paying property taxes in Nova Scotia. In 2018, [a court ruled](#) that this exemption does not apply to the portion of the church property which is used to run a daycare service.

Religious charities in Nova Scotia reported value of land and buildings of more than \$1.4 billion.

### **New Brunswick**

In New Brunswick churches are exempt from paying property tax. [New Brunswick allows](#) any charity that owns and occupies property to apply for a reduction of their assessment. The Director may reduce the assessment by 35 to 100% at their discretion.

All religious charities in New Brunswick report the value of land and buildings as approximately \$545 million.

### **Prince Edward Island**

In Prince Edward Island, churches are exempt from paying property tax. Churches used for commercial purposes that have net revenues of more than \$500 per year are ineligible for this exemption. Nonprofit cemeteries are also exempt. [Nonprofit organizations may](#) apply to the “Grant-in-lieu of Property Taxes Program” to receive a grant that is credited against the organization’s property tax account.

All religious charities in Prince Edward Island report the value of land and buildings as almost \$158 million.

### **Quebec**

Churches in Quebec are exempt from paying property taxes; however, the City of Montreal recently changed its interpretation of the law. [In 2015](#), the City of Montreal began taxing churches for the proportion of the building that is not used for public worship and directly related activities.

Consequently, churches and manses which are vacant receive a tax bill, and churches that host

community groups including Boy Scouts, Girl Guides, and food banks are taxed on the portion of property used for these purposes.

Religious charities in Quebec report total value of land and buildings of more than \$3.1 billion.

#### **Ontario**

[In Ontario](#) charities are eligible for at least a 40% rebate of property taxes. Many religious charities qualify for a greater reduction or even an exemption. Cemeteries, burial sites, and land that is owned by a church or religious organization are exempt from paying municipal taxes. Churches and places of worship also receive a 50% reduction of property taxes for the principal residence of the clergy who officiates, provided that property is located on the site of the place of worship.

Religious charities in Ontario reported value of land and buildings in excess of \$10.5 billion in 2018.

#### **Manitoba**

[Churches in Manitoba](#) are exempt from paying property taxes.

Religious charities in Manitoba reported the value of land and buildings as in excess of \$1.1 billion in 2018.

#### **Saskatchewan**

[Churches in Saskatchewan](#) are exempt from paying taxes.

Religious charities in Manitoba reported the value of land and buildings as almost \$1.3 billion in 2018.

#### **Alberta**

[Churches in Alberta](#) are exempt from paying property taxes. Alberta also provides exemptions for many other charities and nonprofit organizations.

Religious charities in Alberta reported the value of land and buildings as almost \$4 billion in 2018.

#### **British Columbia**

[Churches and cemeteries in British Columbia](#) are exempt from paying property taxes. These are labeled “legacy exemptions.” Along with “certain farm fixtures” they are the only exemptions in BC other than for government properties or “properties that provide some equivalence to government services.” [Other charities and nonprofit organizations](#) may receive an exemption from paying property taxes at the discretion of the municipality.

Religious charities in British Columbia reported the value of land and buildings as more than \$3.8 billion in 2018.

## **Yukon Territory**

[Churches and cemeteries in the Yukon Territory](#) are exempt from paying property taxes.

Religious charities in Yukon Territory reported the value of land and buildings as almost \$13.7 million in 2018.

## **Northwest Territories**

[Churches and cemeteries in the Northwest Territories](#) are exempt from paying property tax; however, this exemption restricts the size of the property it applies to. For example, land used by a church for a cemetery may not be more than 4 hectares.

Religious charities in Northwest Territories reported the value of land and buildings as slightly more than \$46 million in 2018.

## **Nunavut**

Churches in Nunavut are exempt under the [Consolidation of Property “Assessment and Taxation Act,”](#) (g Part 3, section 74 (2) (a)).

Religious charities in Nunavut reported the value of land and buildings as slightly more than \$2 million in 2018.

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