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OPINION

Charitable giving in the age of digital currency

By TANYA WOODS NOV. 28, 2019

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Charitable donors across the country are used to receiving a tax credit from Ottawa on donations made to any of Canada's registered charities or other qualified organizations. Since 1930, Canadian taxpayers have received a tax credit of 15 per cent on the first $200 they donate, and 29 per cent for eligible amounts over $200. It's a tradition that covers assets ranging from cash and securities to gifts of ecologically sensitive land. So, now that digital currency is becoming more prevalent, with more than five per cent of Canadians holding Bitcoin, according to the Bank of Canada, why don't donors of digital assets receive the same treatment?

It's clear through the recent meeting of G7 finance ministers in France and the launch of Libra, Facebook's digital currency, that lawmakers are struggling to understand digital currencies. This new technology is undoubtedly disrupting markets across traditional boundaries. Canada itself has yet to clarify many legal "grey areas" surrounding income-tax policy on digital currencies. Specifically, the treatment regarding capital gains exemptions on donations of digital assets.

Widespread adoption, according to a report from Ernest Young, is expected when "understanding of these cryptocurrencies occurs by regulators, exchanges and businesses in the economy".

The main problem that arises with donations of digital currency versus that of traditional assets is that the capital-gains exemption is not brought across to donations made through this new technology. Under current regulations, a $1,000 donation of digital currency would be taxed at the current capital gains tax rate of 50 per cent, with no favourable deductions on the tax rate for donating wealth accrued through digital assets. A normal donation of $1,000 Canadian dollars would see a federal tax credit of $262 with an Ontario provincial credit of $99.38. This combined deduction of $361.38 would see a donation of $1,000 to charity effectively costing the donor only $638.62 with the Income Tax Act.

Modernizing the Income Tax Act to support digital currencies is becoming increasingly important in a space where traditional charitable donations are stagnating. A report on Canada's charitable sector by the Fraser Institute showed that donations in 2016 amounted to $9.1-billion. That's down nearly one billion from the previous year.

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While the United States amended the status of digital currency to that of an asset in 2014, Canada has not. This is unfortunate as digital currency presents a vast input of donations to charitable organizations. Canadians should get excited about digital assets, as it allows a group of people traditionally marginalized by the financial sector to begin to access the lifeline that first-world citizens are extended with modern financial developments.

Amending the Income Tax Act would address the divide between digital currencies and current assets under capital gains treatment. Canadians would see this simple and positive legislative change benefit charities across the nation, while potentially encouraging the donation of millions of dollars in digital assets. With interest from a number of Members of Parliament, the bill is expected to make headway this fall when the house sits on September 16th.

If we are to maximize the charitable impact and opportunity afforded to us with digital currency in 2019, stakeholders must be on board with modernizing charitable infrastructure both at the organizational level and through federal regulation, to create an environment in Canada through which this new technology can thrive. Digital currency can encourage giving, and we hope that favorable tax treatment will provide an incentive for those with digital currency assets to donate to Canada's many registered charities.

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