



**Improving Social Infrastructure**

**by**

**Enabling Charities and Nonprofits**

**Submission to the House of Commons Standing Committee on Finance**

**February 2016**

**Recommendations:**

- (1) Establish a partnership with the charitable and nonprofit sector to identify gaps in data being collected by the federal government, and ways to address barriers to charities' and nonprofits' access to data held by the federal government.**
- (2) Establish a federal working group composed of government and sector representatives in order to:**
  - a. assess federal business development initiatives which could help charities and nonprofits achieve financial sustainability and identify and address barriers to participation in these initiatives; and,**
  - b. identify and address grant and contribution administrative policies that have a detrimental effect on organizations' financial sustainability.**
- (3) That charities and nonprofits be eligible for any and all new youth employment initiatives (such as EI premium holidays for new hires, youth service programming, and co-op opportunities), and that the federal government work with us to explore potential employment incentives that would help young Canadians accept employment in our sector.**
- (4) Extend the First-Time Donor's Super Credit and implement the Stretch Tax Credit for Charitable Giving.**

**More than 86,000 registered charities, alongside a similar number of nonprofits, make significant economic and social contributions to every community in Canada and many others around the world. Charities and nonprofits are vital social infrastructure, helping create communities in which people want to live, engage and invest.**

These organizations, ranging from volunteer-only organizations to multi-million dollar enterprises, make enormous contributions to our quality of life and public policy decision-making in areas like health care and research, postsecondary education, the arts and heritage, amateur sport, the environment, social services, and religious observance. Donors, and the 13 million Canadians who volunteer their time, contribute to their own communities, support the domestic and international causes in which they believe, and foster local solutions to local issues.

**Charities and nonprofits are also significant economic contributors.** They employ more than two million people and generate more than 8.1 percent of GDP. The wages they pay, the goods and services they purchase, and the investments they make stimulate economic activity in communities large and small, in every corner of Canada. During the 2008 recession, charities and nonprofits continued to create jobs even as employment in the public and private sectors declined.

The federal government has outlined an ambitious social and economic agenda. Fulfilling this agenda will mean charities and nonprofits playing a significant role as partners with governments and communities. The federal government has an important role to play in creating the framework in which strong, sustainable organizations can maintain and expand the contributions they make across Canada. Below we recommend a number of actions that, if taken, will strengthen the social infrastructure in communities all over Canada.

### ***(1) Data for and about the sector***

Decision-making and program and policy development require good, up-to-date data. The government has committed itself to improving the quality of publicly-available data and developing an Open Data initiative.

In past years, two Statistics Canada programs – the National Survey of Nonprofit and Voluntary Organizations and the Satellite Account of Nonprofit Institutions and Volunteering – provided key information about the economic and social impact of the nonprofit sector writ large. Unfortunately, both were discontinued. As a result, we struggle to understand the employment and economic impact of the sector, based on data that is more than ten years old. This is highly detrimental to public understanding of this critical and vibrant economic sector, and to the ability of the federal government to develop policies regarding it.

In addition, while the federal government collects a great deal of information that could help charities and nonprofits serve their communities more effectively, organizations face significant access barriers. While great strides have been made over recent years in increasing access, such as with Statistics Canada’s Data Liberation Initiative for the academic community, reducing barriers for nonprofits and charities requires a tailored approach of its own.

We recommend that **the federal government establish a partnership with the charitable and nonprofit sector to identify gaps in data being collected by the federal government, and ways to address barriers to charities’ and nonprofits’ access to data held by the federal government.**

**(2) *Ensure that federal policies and programs promote charities' and nonprofits' financial sustainability***

Charities' and nonprofits' primary sources of income are earned income activities and government grants and contributions. When universities, hospitals, and colleges are removed from the equation, almost half of the sector's revenue is derived from earned income. At a time when philanthropy and government investment are constrained, organizations need to maximize their ability to generate unrestricted funding, reduce their reliance on fluctuating funding streams, and identify and take advantage of new opportunities and forms of finance.

The federal government has a number of programs (such as the Business Development Bank of Canada) that assist entrepreneurs in developing business plans, identifying market opportunities, researching and developing new technology, and identifying funding and investment sources. Charities and nonprofits are important economic players, and often face the same challenges as private entrepreneurs. Their ability to access federal programs is, however, inconsistent. In some cases, federal programs specifically prohibit service to charities and nonprofits. In many cases, though, restrictions on access have come about through administrative processes and decisions.

Some recent progress has been made, including opening up the Mitacs program to participation by charities and nonprofits. This approach should be replicated across the federal government.

Grant and contribution agreements with charities and nonprofits allow for efficient community-based delivery of federal government programs and priorities. Many of these agreements, though, do not allow for the recovery of reasonable administrative and infrastructure costs by the organization involved. Other revenues, including donations by individuals, are in essence subsidizing the delivery of federal government policy. This harms the sustainability of organizations.

Charities and nonprofits are vital social infrastructure. Ensuring their financial sustainability is every bit as important to our communities as is renewing physical infrastructure. In order to strengthen this social infrastructure, **we recommend that the federal government establish a federal working group composed of government and sector representatives in order to:**

- **assess federal business development initiatives which could help charities and nonprofits achieve financial sustainability and identify and address barriers to participation in these initiatives; and,**
- **identify and address grant and contribution administrative policies that have a detrimental effect on organizations' financial sustainability.**

**(3) *Ensure that youth employment initiatives recognize the contribution that the charitable and nonprofit sector can make.***

Charities and nonprofits are not only major job creators, they are an important source of employment for young Canadians. As the demand for the sector's services increases, many charities and nonprofits are expecting their staffing needs to grow. Yet like many sectors, charities and nonprofits struggle to attract and retain high-quality talent as Canada's labour force continues to shrink due to an aging and retiring baby boomer population, longer life expectancies, and declining birth rates. New graduates are an increasingly important source of labour for the sector, not just to fill current job vacancies but also to fill future leadership positions resulting from an anticipated baby boomer exodus.

Yet, employers within the charitable and nonprofit sector face structural barriers that make it difficult to compete with other sectors for young talent. The constrained fiscal climate marked by stagnating philanthropic dollars and a reduction in public funding makes it difficult for many small to medium-sized charities and nonprofits to offer sustainable employment and competitive compensation. Likewise, young Canadians are faced with financial challenges that increase the likelihood of them seeking employment in other sectors that can offer higher compensation. These challenges include graduating with debt as a result of increasingly high tuition fees and substantial student loans, as well as the high costs of living in many major cities and remote communities alike.

The federal government has made a number of commitments to encourage youth employment. Charities and nonprofits can help to achieve the government's goals, and can provide employment where young people actually live. To that end, **we recommend that charities and nonprofits be eligible for any and all new youth employment initiatives (such as EI premium holidays for new hires, youth service programming, and co-op opportunities), and that the federal government work with us to explore potential employment incentives that would help young Canadians accept employment in our sector.**

**(4) *Create a culture of long-term and incremental giving by extending the First-Time Donor's Super Credit and implementing the Stretch Tax Credit for Charitable Giving.***

Tax credits can have an impact on charitable giving. We welcome the increase to the charitable tax credit for individuals in the new highest income tax bracket. This recognition of the importance of tax incentives will help maintain donations from higher-income Canadians.

More can be done, though, to encourage more giving by lower- and middle-income Canadians.

The First-Time Donor's Super Credit is set to expire after 2017. This important tool for attracting new donors should be extended, perhaps permanently.

The proposed Stretch Tax Credit for Charitable Giving would provide an enhanced federal tax credit on eligible charitable giving by an individual that exceeds their previous highest level of giving. In the last Parliament, the Finance Committee conducted a detailed study on tax incentives for charitable giving, and recommended consideration of the Stretch Tax Credit.

The Stretch Tax Credit would be available for donations large and small, for donations made to one charity or to several charities, and would benefit taxpayers regardless of their income or family situation. Encouraging Canadians to give more, year over year, will promote charities' financial sustainability and strengthen communities' social infrastructure.

Given the strong correlation between giving and volunteering, the Stretch Tax Credit would also encourage more Canadians to give not only of their treasure, but also of their time and talent. This policy measure would thus promote and renew the relationship between charitable organizations and the communities which they serve.

Based on a conservative estimate made by the Chief Economist for the Charitable and Nonprofit Sector, the Stretch Tax Credit would generate new and increased giving of at least \$234 million per year, above any "natural" growth related to population and income growth. Based on this assumption, the full cost to the Treasury (that is, the base charitable tax credit plus the Stretch Tax Credit) to induce these donations would be \$108 million.

The charitable and nonprofit sector is very labour-intensive, which is largely due to the nature of the services and programs it provides. Based on current revenues and employment levels, our Chief Economist estimates that even the most conservative projection of the uptake of the Stretch Tax Credit could generate a minimum of 3,500 new full-time jobs across Canada.

By creating new jobs, and improving their financial position, charities will be able to deliver services and programs on a larger scale and better respond to governments' and citizens' expectations. By increasing their support for charities of their choice, Canadians will help build more vibrant, prosperous, inclusive and resilient communities.

***We recommend the implementation of the Stretch Tax Credit for Charitable Giving.***

## ***Conclusion***

As we approach the 150<sup>th</sup> anniversary of Confederation, we are justifiably proud of the social and economic opportunities we enjoy as Canadians. Alongside governments and the private sector, charities and nonprofits have played a major role in building our communities, our economy, and our social structure, all of which are the envy of much of the world.

Even as we celebrate these contributions and assets, we cannot be complacent. All sectors of the economy face significant challenges in the coming years, particularly as a consequence of the “silver tsunami” of retiring baby boomers. The charitable and nonprofit sector will feel these effects in a number of ways including the impact on their donor pool, and the increased demand for their services – even as they compete for a shrinking labour force. Federal government policy can act as a catalyst, so that charities and nonprofits can adapt to and meet the needs of Canadians in the years ahead.