



Association of Fundraising Professionals (AFP)

Pre-Budget Consultation Brief

**To The House of Commons
Standing Committee on Finance**

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Executive Summary

AFP appreciates the opportunity to once again provide our recommendations to the Standing Committee on Finance. We are grateful for the federal government's support of the charitable sector, which includes last year's provisions to eliminate the capital gains tax on charitable gifts of real estate and private company shares.

The charitable sector has a considerable economic impact on Canada—employing two million Canadians and contributing 10.5% of our labour force and 8.1% of GDP (according to the *National Survey of Nonprofit and Voluntary Organizations*).

Twice now, AFP and Ipsos-Reed has surveyed a wide range of Canadians about their views on philanthropy, giving, volunteerism and charity (*What Canadian Donors Want Survey*). There were many positive findings.

More than three quarters (77%) of Canadians agree that that charities play an important role in society to address needs not being met by the government or the private sector. Confidence in the charitable sector is significantly higher than that for either the private and public sector (75% versus 63% and 49%, respectively).

In addition, Canadians are very supportive of charity, with 70% having made a financial donation to a charity over the past 12 months. Most donors are very generous: 44% support 2-3 causes, 21% give to 4-5 causes and 16% support 6 or more causes. Just 20% support only one charity.

Accordingly, we call on the Senate Committee on Finance to continue to support charities and philanthropy in innovative ways. This year, we recommend that the government:

1. Include the 2015 Budget Provision to eliminate the capital gains tax on charitable gifts of private company shares and real estate in the 2016 Budget.
2. Increase the flow of charitable funds and encourage Canadians to enhance their charitable giving by extending the First-Time Donor's Super Credit and establishing a Stretch Tax Credit for Charitable Giving.

Background

The Association of Fundraising Professionals (AFP) represents 33,000 individual fundraisers and charities that raise more than \$115 billion annually for charities around the world—equivalent to nearly one-third of all charitable giving in North America. In Canada, AFP's 3,500 members in 20 chapters work for more than 1,800 charities across the country and raise billions of dollars every year.

These dollars are not raised in a vacuum but in accordance with AFP's *Code of Ethical Principles and Standards*—first developed in 1964 and one of the few ethical codes that is enforced. Our code, which sets the highest standards for ethics in fundraising, has been used as the foundation for subsequent codes of conduct in many different countries

around the world. AFP also has convened more than 30 national fundraising associations from across the globe to draft the *International Statement of Ethical Principles*, an additional series of values and standards for the international fundraising community.

AFP instituted a credentialing process in 1981, which was designed to identify for the giving public fundraisers who possess the demonstrated knowledge and skills necessary to perform their duties in an effective, conscientious, ethical and professional manner. More than 4,000 fundraisers around the world have earned the CFRE (Certified Fund Raising Executive) and ACFRE (Advanced Certified Fundraising Executive) credentials.

Recommendation 1: Include the 2015 Budget Provision to eliminate the capital gains tax on charitable gifts of private company shares and real estate in the 2016 Budget.

The 2015 Budget included the elimination of the capital gains tax on charitable gifts of private company shares and real estate with an effective date of Jan. 1, 2017. Because this provision was not included in the Budget Bill passed in June 2015, it is necessary to include it in the 2016 Budget to ensure that it is enacted into law.

The federal government removed the capital gains tax on donations of securities to most charities in 2006, making these donations more attractive to potential donors than they had been previously. We encourage the federal government to now turn its attention to private company shares, appreciated land and real estate. This provision has widespread support throughout the nonprofit sector and received strong support from all parties in the 2015 Budget.

Eliminating the capital gains tax would remove a huge barrier to these types of gifts and make it far more likely and appealing for donors to give private company shares, land and real estate to charity. In fact, there is significant potential and interest from Canadian donors for these gifts.

It has been estimated that this proposal would enable the charitable sector to access an estimated \$170 to \$225 million of incremental funding from the private sector with a tax revenue cost to the government of only \$50 to \$65 million. This recommendation would exponentially leverage the programs and services provided by Canada's charities.

Recommendation 2: Increase the flow of charitable funds and encourage Canadians to enhance their charitable giving by extending the First-Time Donor's Super Credit and establishing a Stretch Tax Credit for Charitable Giving.

Introduced in Budget 2013, the First-Time Donor's Super Credit effectively adds 25% to the rates used in the calculation of the charitable donation tax credit for up to \$1,000 of monetary donations. The credit can be claimed once from the 2013 to 2017 taxation years.

For example, if an eligible first-time donor gives \$500 in charitable donations in 2015, and all of the donations were donations of money, the donor would receive the following federal tax credits:

- \$30 (first \$200 claimed [$\$200 \times 15\%$])
 - \$87 (charitable donations claimed in excess of \$200 [$\$300 \times 29\%$])
 - \$125 (First-Time Donor's Super Credit [$\$500 \times 25\%$])
- \$242 Total

This is a vital charitable giving incentive that cultivates new donors and a culture of philanthropic giving. With the provision set to expire in 2017, we urge the government to extend the tax credit, preferably permanently.

AFP also supports the recommendation from Imagine Canada that proposes a Stretch Tax Credit for Charitable Giving that would apply to donated amounts above \$200 that exceed a donor's previous highest giving level. It would provide a Stretch Tax Credit of 39% on these new donations— 10 percentage points higher than the current level of tax credit on donations above \$200.

To continue benefitting from the Stretch Tax Credit in subsequent years, tax payers would need to continue to increase their levels of giving over their previous year's baselines. This measure is intended to encourage all Canadians, but particularly middle-income earners, who wish to give for the first time or to give more in response to current needs— up to a maximum of \$10,000.

This provision would have the beneficial effects of reducing the tax burden on Canadians while fueling charitable giving directly, which in turn, creates economic gains throughout the sector. This giving incentive would particularly alleviate tax burdens on working families and middle-income Canadians. Because there is no floor on the Stretch Tax Credit, even those who can only afford to make smaller donations will benefit.

The maximum benefit would be \$980 if used in one year (i.e. a one-year increase from \$200-\$10,000 in giving), though it is likely that for many the increased benefit would be incrementally achieved over several years.

The Stretch Tax Credit would benefit charities of every size and in every region. It should also, over time, broaden the base and increase the giving levels of Canadians across the country. It would also complement recent incentives encouraging gifts of assets aimed primarily at higher income Canadians with an initiative that is less exclusive and recognizes that most Canadians donate income rather than assets.

The Chief Economist for the Charitable and Nonprofit Sector has studied the impact of the Stretch Tax Credit under a number of scenarios. Conservative estimates indicate that the provision would generate \$234 million a year in new giving. The incremental cost to the federal government would be approximately \$40 million per year, which indicates a strong and significant return on investment.

By encouraging more Canadians to become donors, the Stretch Tax Credit would also help strengthen communities. We also know that donors are more likely to be involved with charities in other ways, such as volunteering. Thus, encouraging more Canadians to give could lead to higher levels of charitable engagement in communities.

Conclusion

Charitable organizations need the support of government in order to better serve all Canadians. More importantly, a healthy charitable sector can help drive Canada's economy. The recommended policy changes will go a long way towards lowering the tax burdens on Canadians while strengthening the capacity of the charitable sector to provide critically needed programs and services.

AFP appreciates this opportunity to submit recommendations for the Standing Committee on Finance. Should members of the committee have questions about these proposals, please contact AFP at (416) 941-9212 or jlee@afpnet.org.