



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

## **Standing Committee on Finance**

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FINA • NUMBER 039 • 1st SESSION • 41st PARLIAMENT

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**EVIDENCE**

**Thursday, February 2, 2012**

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**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Thursday, February 2, 2012

• (1535)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call this meeting to order. This is the 39th meeting of the Standing Committee on Finance. This is our second discussion regarding our study of tax incentives for charitable donations, pursuant to Standing Order 108(2).

We have a number of individuals here in person and we have one person by video conference.

First of all, we have Rachel Laforest, associate professor, School of Policy Studies, Queen's University. We have Abigail Payne, professor, Department of Economics, McMaster University. We have Paul Reed, Department of Sociology and Anthropology, Carleton University. We have Adam Parachin, professor, Faculty of Law, University of Western Ontario.

By video conference from Thompson Rivers University in Kamloops, British Columbia, we have Laura Lamb, assistant professor, School of Business and Economics. As you know, you each have up to five minutes for an opening statement.

*Nous allons commencer avec Mme Laforest.* We'll then have questions from members.

**Professor Rachel Laforest (Associate Professor, School Of Policy Studies, Queen's University, As an Individual):** *Merci beaucoup pour me donner l'occasion de vous parler cet après-midi.*

My name is Rachel Laforest, and I'm an associate professor at the School of Policy Studies at Queen's University. I head up the public policy and third sector initiative. Most of my research focuses on government and non-profit sector relationships. What I wanted to do this afternoon is to give you a broad-brush overview of some of the trends that I think are important for the work of your committee.

First, I would like to start out by acknowledging that since 1994 the federal government has adopted a number of initiatives to make the tax treatment of charitable donations more generous. I'd like to applaud the committee on these measures, for they have yielded some good results. According to data collected by Statistics Canada, Canadian tax filers claimed \$8.3 billion in donations in 2010. This was an increase of over \$500 million from 2009. There is reason to be pleased that Canada has one of the highest levels of charitable giving around the world.

However, that doesn't mean that we should be complacent, because this data obscures another reality: the base of donors in Canada has been steadily shrinking. The number of donors has

actually declined from 30% in 1990 to 23.4% in 2010. Not only is the base of donors shrinking, but a high proportion of our charitable contributions are borne by very few individuals.

In 2004, the Canada survey of giving, volunteering, and participating showed that 9% of our donors are responsible for 62% of our charitable donations. Therefore, our donor base is fragile and precarious. I believe very strongly that there is cause for concern. The resource base in the voluntary sector is weakening, particularly in light of the current economic situation and the government cuts that are looming on the horizon.

For this reason, there is still more work to be done by your committee to create incentives to foster charitable giving. The voluntary sector is a significant social, political, and economic force in Canada. It accounts for 8.6% of the GDP and has a full-time equivalent workforce of over two million. More importantly, it brings value to all aspects of our communities, and it has a direct impact on the quality of life of Canadians.

The voluntary sector relies on three main sources for its funding. It relies on government funding, charitable donations, and earned income. I'm going to focus on the first two.

As we all know, the federal government and some levels of provincial governments are having to deal with serious budgetary constraints. Already, federal government expenditures as a percentage of GDP have decreased from 21.5% in 1992 to 17.1% in 2007. So in the face of the deficit reduction measures that are coming, we will most likely see reductions in contributions from various levels of government to the voluntary sector.

In addition, many of the services that were formerly provided by the federal government and other levels of government are being reduced or transferred to the voluntary sector. The assumption is that voluntary sector organizations will be able to pick up that burden. I think it's important to ask ourselves whether the voluntary sector actually has the capacity and the ability to take up this additional burden, because ultimately it will have an impact on our communities and our quality of life.

In the context of declining government resources, charitable donations will become even more important as a source of revenue. Already more than half of the \$112 billion raised in this sector comes from private funding, and a significant portion of that comes from charitable donations from individual Canadians.

I want to come back to the original fact that 9% of our donors are responsible for 62% of our charitable donations. What this data indicates is that the measure of our society depends, to a large extent, on a small proportion of Canadian adults, who Paul Reed has described as the “civic core”.

I don't know if Paul is going to talk about that today, but the civic core means that there's a small number of individuals that account for more than two-thirds of all volunteering, giving, and community activities in Canada. These contributory behaviours are all linked, and they all come from that same small portion of civic donors. What we know about this civic core is that it tends to be older, religious, well-educated, in higher-status and higher-income occupations, with children between 6 and 12, and living in communities outside of major metropolitan centres.

Two of these characteristics are really important. The first one is the older population. Our population is aging, and the segment of mature donors—those born before 1945—who tend to be amongst the most generous, is rapidly shrinking. Secondly, we are facing a decline in religious belief. This decline may have implications for overall levels of charitable giving in the future, as we may lose more of our generous givers.

Because the donor base in Canada is neither wide nor deep, these trends place charitable giving in a precarious situation. If they remain unchanged, the long-term consequences will be a serious depletion of civic resources and a diminished capacity for voluntary organizations to support well-being.

To conclude, I invite the committee to consider tax incentives that can reverse the erosion of the donor base. We cannot take the health of the voluntary sector for granted.

Thank you.

• (1540)

**The Chair:** Thank you very much for your presentation.

We'll now hear from Ms. Payne, please.

**Professor A. Abigail Payne (Department of Economics, McMaster University, As an Individual):** Thank you very much for inviting me to appear before this committee.

My testimony is based on 20 years of research on charities and donations. I am a professor of economics and director of the Public Economics Data Analysis Laboratory at McMaster University. I have a Ph.D. in economics from Princeton University and a law degree from Cornell University.

I encourage the committee to take a broad perspective when thinking about tax incentives for charitable donations. Whether and how much a donor gives depend on more than her preferences. Giving can depend on influences of other individuals, on the level of charity interaction with the donor, and on other funding sources such as foundation and government funding.

To understand these influences, my research focuses on the empirical analysis of large data sets. Canada has some of the best data for studying charitable giving. My background statement illustrates that we can observe using measures from these sources. Let me briefly summarize my findings.

To explore patterns of individual giving, I relied on individual tax returns that were aggregated and provided at a neighbourhood level. Between 1991 and 2010, the number of donors increased, but the number of tax filers also increased and at a faster rate. This faster growth rate in tax filers explains why we see declines in the share of tax filers reporting charitable donations. Put in this context, the question, should not be, “Why have people stopped giving?” but rather, “Why is the growth rate in donors slower than the growth rate in tax filers?”

One of the many plausible explanations is that as our communities have become more diverse, giving has fallen. While community diversity is a good thing, it is not uncommon to find that diversity leads to a decline in support for public and charity-provided goods. Our research finds that between 1996 and 2006, neighbourhood diversity increased an average of six percentage points, resulting in an average decline in donations of 12 percentage points.

Overall growth in donations in the last few decades has been in the higher-income areas. Giving by individuals residing in lower- and middle-income neighbourhoods has been declining. While part of this is likely attributable to economic growth during most of the period, the growth in giving in the higher-income neighbourhoods may also be attributable to changes in the tax treatment of donations such as publicly traded securities.

Next, what do we know about charities and their influence on private giving? Over the last two decades, the number of charities and total charity revenues from public and private sources has increased. Religious organizations count for the lion's share, both in terms of the number of charitable organizations and in the receipt of private donations. Charities involved in the provision of social welfare and community-oriented services are numerous, but they receive a low proportion of private donations, and while social welfare and community charities rely more on government grants, more government grants flow to charities in the areas of health and education.

Increasingly, foundation support of registered charities is important, especially for religious and health-related charities. But how do these other forms of funding affect private giving to charities? Much of my research has been focused on trying to understand how government grants to a charity impact private giving. The research suggests, at least for social welfare and community organizations, that charities play an important role in raising funds. Yet charities may care more about their mission than about things like maximizing revenues. We find on average that if charities receive an increase in direct government funding, private giving declines, but this decline in private giving is more attributable to a decline in charity fundraising efforts. There is some evidence to suggest that donors view direct government funding to a charity favourably.

For instance, the funding may serve as a signal of the important work being done by the charity, encouraging tax-receipted giving. Similarly, in preliminary work by one of my doctoral students, we are finding that if a charity receives funding from a foundation, the foundation grant may also serve as a positive signal and increase individual giving to the charity.

This leads me to my last finding. The number of foundations and their revenues have both grown significantly. Foundations represent approximately 12% of registered charities.

• (1545)

Between 1992 and 2008, reported tax-receipted gifts to foundations increased from \$1 billion to more than \$4 billion annually. This growth swamps the growth in tax-receipted giving to charitable organizations.

While revenues have been growing over the last two decades, not all charities have benefited from this growth. In any given year it appears that for every charity that experiences a growth in revenue, another charity is experiencing a decline. About one-third of charities experience a decline from one year to the next.

I recently conducted a survey of small to medium-sized charities. An increasing number of these charities reported a decline in revenue but an increase in demand for their services in recent years.

I have just provided you with a bit of information about charities and giving in Canada. I hope you can see how taking a broad perspective when evaluating tax incentives for donations will result in providing a stronger foundation to our charitable sector.

Thank you.

**The Chair:** Thank you very much for your presentation.

We'll now hear from Mr. Reed, please.

**Professor Paul Reed (Department of Sociology and Anthropology, Carleton University, As an Individual):** Thank you, Mr. Rajotte and committee members, for the invitation to contribute to your deliberations.

I am going to offer you a summary of a summary of a summary, and I may end up being cryptic, but there is a lot of material in my brief. In the next several minutes I'd like to hit some high points, some main items that I'd like to encourage you to consider.

At first glance, looking at tax credits for charitable donations may have the appearance of a routine administrative matter, but beneath it lie some profound issues, such as how to encourage Canadians to be aware of and contribute directly to the collective good, and what should be the nature and size of the government's role in fostering that contribution.

While there may appear to be a considerable volume of information in my brief to the committee, I now want to speak in support of only three or four straightforward points.

Before addressing the tax credit issue, it's important to recognize that long-term trends indicate that charitable giving in Canada is changing in a number of ways. I'm not going to cover the same ground that Professor Laforest did, but there are some very important developments there that I believe have to be taken into account.

Principal among them is a softening and possibly a weakening of charitable giving. Second, the evolving patterns and flows of charitable giving may be resulting in increasing financial support going to a limited number of large charitable organizations and a diminishing, disproportionately smaller volume of financial support going to the many thousands of smaller, often local, community-oriented ones, an important consequence of changes in the charitable domain.

Increasingly, we hear references to the charity industry because it is becoming increasingly rational, seeking ever more efficiency and successful techniques of fundraising. A response to that is a growing sign of donor fatigue in reaction to aggressive fundraising.

Charitable donations to religious entities, such as churches and synagogues and related organizations, once accounting for well more than half of all charitable donations, are now less than half and in ongoing long-term decline.

Charitable giving is not a single, homogeneous, uniform phenomenon. It takes a number of forms that are quite different. Incidental and occasional or sporadic giving are the most common forms, in contrast, for example, to proactive planned giving, which is practised by a minority of Canadians but accounts for the lion's share of charitable giving every year.

Some forms of charitable giving are not likely to be responsive to increased tax credits, and analysis of Canadians' behaviour and views regarding tax credits shows this incentive to have modest effects at best. There are some hard numbers in my brief supporting that.

Yet another point is that a good portion of charitable giving—and I really want to underline this point—is strongly driven by particular values and ideals. It doesn't surprise us, but it needs underlining. This fact merits closer scrutiny in any consideration of how to strengthen charitable giving.

My final point is that encouraging and increasing charitable giving may benefit from considering other approaches in addition to changing Canada's charitable donation tax credit regime.

Thank you.

• (1550)

**The Chair:** Thank you very much, Mr. Reed.

We'll now hear from Mr. Parachin.

**Professor Adam Parachin (Faculty of Law, University of Western Ontario):** Thank you. My name is Adam Parachin. I am an associate professor at the Faculty of Law at the University of Western Ontario, where I research and lecture in the field of the legal definition and regulation of charity. Perhaps not surprisingly, then, I'm going to bring the committee a distinctly legal lens through which to approach this matter.

A useful starting point is to recognize that any tax regime providing for the recognition of charitable donations has to deal with three key issues. The first is identifying eligible recipients. That raises the complicated issue of the definition of charity, about which I understand there were some questions from committee members on Tuesday.

The second deals with the design features of a donation incentive. Should it take the form of a credit or a deduction, and if a credit, how much? Should it be a two-stage credit, as we have now, or a three-stage credit, as has been proposed with the stretch tax credit?

The final issue a regime dealing with charitable donations needs to deal with is what eligible donations are. What kinds of contributions to charities qualify for donation incentives in the first place? That's the issue I'm going to be making some submissions on.

In a simple world, we could confine ourselves to simple donations—unconditional cash donations. The law does a pretty good job of recognizing those, because frankly, you probably can't get that wrong. But we don't live in a simple world and we don't have the luxury of confining ourselves to simple donation arrangements. There are many other forms of donations that often arise. I can list some examples.

We can contemplate a person creating in his or her will a trust for a charity whereby the charity gets a fixed income entitlement for a period of years. That's not recognized as a gift under current regulatory publications.

We can also think of a scenario in which a donor contributes capital to a trust under which a charity has a fixed entitlement to receive that capital at some determined date in the future. That also might not be recognized as a gift under current law.

We can contemplate a scenario in which there's an estate dispute over the interpretation of a will, and the parties resolve in their resolution to the dispute that a portion of the estate proceeds be given to charity. That will not be recognized as a gift under current regulatory publications.

We can contemplate a scenario in which a donor forgives a debt owed by a charity. Rather than transfer funds, they forget a debt owing. It's not clear that this will qualify either. Neither will necessarily allowing the charity the temporary use of property, such as the free occupation of land, a leasehold, for no charge for a limited period of time. It's not clear that this will qualify under current law, nor will it when a corporation issues shares or stock options directly to a charity.

Until recently, when a donor sold property to a charity—for example, land worth \$100,000 for a price of \$10,000—most of us would sit here and probable instinctively and intuitively realize that it was the fundamental and functional equivalent of a \$90,000 gift. Until recently, that was not recognized as a gift. It took draft amendments to the Income Tax Act to bring about that outcome.

Similarly, incurring expenses on behalf of a charity might not qualify as a gift. I have found this, as a legal analyst, somewhat perplexing.

I think three questions emerge. Why has this happened? Should we do something about it? And if so, what should be the something?

In terms of why this has happened, quickly, I will provide a statement: it is because the Income Tax Act does not define the term "gift"; it has been left to courts to define. The law in the area has developed somewhat haphazardly and somewhat reactively. I would suggest to you that there has been insufficient attention paid in the

case law and regulatory publications as to why we have donation incentives in the first place.

The academic and theoretical literature on the point supports the view, and this is the prevailing view, that donation incentives exist to help raise funds for charities. If that's the case, then presumably all donation arrangements that essentially achieve that goal should qualify as tax receiptable donations. If that's what we're trying to achieve, then those are the kinds of donations we're trying to target. But all too often we miss the mark in the law by focusing on variables that frankly lack any policy relevance.

What to do, or rather, should we do something about it? In my submission, we should. Currently, a lot of charitable funds are used to support legal opinion work in this area, where answers should be clear. I shouldn't be complaining, because it means charities have to hire people like me, but that's probably not the best use of charitable funds.

• (1555)

In terms of what we should do, I've proposed in my brief a statutory definition of charitable donations, and I would be happy to take questions on that, should that be of interest to the committee.

Thank you.

**The Chair:** Thank you very much for your presentation.

We'll now go to Ms. Lamb, please, for your five-minute opening statement.

**Professor Laura Lamb (Assistant Professor, School of Business and Economics, Thompson Rivers University):** Thank you to the committee for inviting me to participate in this meeting today. I'm an assistant professor at Thompson Rivers University, in the Department of Economics. I have a Ph.D. in economics from the University of Manitoba.

A colleague of mine, Dr. Belayet Hossain, and I have completed a couple of empirical studies on the effectiveness of tax incentives on charitable giving by individuals in Canada. That's the information I'd like to present today—some of the results we found there.

As I mentioned, we've done two studies. The first focuses on an individual decision to give to charity, and the second is on the decision on how much to give to charity. Our studies used data from the public use microdata files of the 2007 Canada survey of giving, volunteering, and participating, published by Statistics Canada. The target population for this survey was all persons 15 years of age and over residing in the ten Canadian provinces.

Our first study explores two aspects of the Canadian tax credit system. First of all, it assesses the effectiveness of tax incentives on the decision to give, and, secondly, we evaluate and compare the effectiveness of tax credits across different donation sectors. The analysis includes the four largest donation sectors according to value of total donations, which are religious, health, social services, and international.

The empirical results indicate that the current tax incentive does have a statistically significant effect on the decision to give. For example, a 10% increase in the tax credit is expected to increase the likelihood of making a donation by 5%, on average.

The results of the second part of the analysis show that the tax incentive varies across the different sectors. It was found that the tax incentive does have a significant effect on giving to health, social services, and international sectors, but not to the religious sector; people give for other reasons.

Our second study focuses on the effectiveness of the tax credit on the donation expenditures themselves. Again, we extend the analysis to compare effectiveness across the same four donation sectors. The statistical significance again appears, and the tax incentive variable implies that the tax credit is effective in influencing the amount of total donation expenditures of an individual, as well as to each of the donation sectors. The results imply that a 10% increase in the tax incentive would cause a 17% increase in total donation expenditures.

The term “price elasticity of donating” is applicable here. It's a measure of the responsiveness of the donation expenditure to changes in tax incentives. It's considered price elastic because the expected increase in donation expenditure is greater than the proposed increase in the tax credit itself.

It has also found that the responsiveness of the different donation sectors varies to a given increase in the tax credit. For instance, a 10% increase in the tax incentive is expected to lead to an increase in individual donation expenditures of 17% to social services, 15% to health, 22% to international, and 8% to religious organizations.

The results imply that a marginal increase in the tax credit will result in a proportionately larger increase in the level of total individual donation expenditures and donation expenditures to the health, social services, and international sectors. The amount of tax revenue foregone will be less than the rise in donation expenditures for the three sectors, except for religion.

•(1600)

**The Chair:** Ms. Lamb, you have about one minute left.

**Prof. Laura Lamb:** Okay, thank you.

The results of the two research studies suggest that tax incentives have a significant effect on both the likelihood of Canadians making a donation and on the amount of the donation, suggesting the ability of government policy to be successful in influencing both the number of donors and the level of donation expenditures. The tax credit also appears to be fiscally efficient, as indicated. In other words, the increase in the tax credit is expected to lead to a loss of tax revenue to the public sector, which would be more than fully compensated by a rise in donation expenditures.

Thank you.

**The Chair:** Thank you very much for your presentation.

We'll begin members' questions with five-minute rounds, starting with Mr. Julian, please.

**Mr. Peter Julian (Burnaby—New Westminster, NDP):** Thank you, Mr. Chair, and thanks to all our witnesses, particularly Dr.

Lamb; it's nice to have a voice from British Columbia out here in Ottawa.

I wanted to come back to your study because I find it quite intriguing. What you are saying is that a 10% increase in the tax credit brings in a marginal increase in the number of people who donate but a significant increase overall in the contributions made: 3.6% more contributors to the social services sector and 17% more donations overall. It's pretty significant.

I'm wondering if in your model you've projected what the overall impact would be right across the country. We've got tax incentives at this point of \$2.9 billion and overall contributions of \$8.3 billion. If we look at that change, that increase in the tax credit, what is the overall contributory envelope across the country? What would be the expenditure by governments?

**Prof. Laura Lamb:** I have to say that we didn't make those calculations; we just went to the extent of calculating the price elasticities themselves. The assumption or the statistics suggest that those percentages could be applied to the fiscal information.

I'm sorry, I don't have that information.

**Mr. Peter Julian:** It's a very interesting model.

I would like to go to Madame Laforest. You said that about 9% of the donors are providing 62% of the overall donations. Could you give us a sense of that 9% of donors? Are we talking about high-income donors, generally speaking? If you gave us a profile of what that 9% is, how would you describe it?

**Prof. Rachel Laforest:** It tends to be any of these characteristics, but not all together: older; highly educated, which links up with having both high income and high status; young families who tend to be in that high civic core; and those who are living in rural areas outside of major metropolitan areas. It has some of those characteristics.

**Mr. Peter Julian:** Thank you.

I'd like to ask all of our panellists a question. On Tuesday we had representatives from the Department of Finance who came forward to talk about the assistance from government for tax incentives for charitable donations. The testimony indicated the following: that for cash donations, governments pick up the tab through tax incentives, about 46%, but when we're talking about exemptions from capital gains tax, the rate of assistance on donations from listed securities is typically 60% and can be as high as 69%. So there is a very clear differentiation within the tax system of charitable donations cash, such as the donation from the widow who lives next door to me who gives a small amount because she's low-income, as compared to donations of listed securities.

I'm wondering if you can give us your opinions on that structure and how you feel about it: whether you feel that it's an appropriate structure, whether you feel that it's out of equilibrium in some way, and whether changes would need to be brought to how that differentiated treatment is in place.

• (1605)

**The Chair:** There's a little over a minute left. Do you want to direct it to perhaps two panellists?

**Mr. Peter Julian:** Perhaps Mr. Reed and Mr. Parachin can answer.

**Prof. Paul Reed:** First of all, there is no question that charitable giving is concentrated in a small minority of the Canadian population.

Secondly, that small minority practises what you might call planned giving, and within that small minority the largest chunk is religious. About half of all giving in Canada is religious. So we have concentration within concentration within concentration. When developing a changed tax credit regime, I think that really needs to be taken into account.

**The Chair:** Mr. Parachin, can you give just a brief response, please?

**Prof. Adam Parachin:** Yes. I have two points, just quickly.

On the difficulty with the calculation regarding the tax expenditure for the capital gains exemption for gifts of capital property, it's very difficult to determine what revenue would have otherwise been realized, because the donor may well have sold at a time when the price was depressed or further elevated. It's a very speculative calculation that actually elevates the tax expenditure to that precise degree.

Second, just quickly, the tax policy question is whether or not donating shares is a realization event that's indistinguishable from selling the shares to purchase a new home, or some other form of personal consumption. I think there's at least a policy case to be made that when someone gives shares to charity, that's not an indistinguishable form of personal consumption, and we may well want to treat that differently for tax law purposes.

**The Chair:** Thank you.

Thank you, Mr. Julian.

We'll go to Ms. McLeod, please.

**Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC):** Thank you, Mr. Chair.

I would like to thank all of the witnesses, of course, but I do have to acknowledge Ms. Lamb from Kamloops, my hometown.

It's really great to have you join us from not just British Columbia but Kamloops.

First of all, to Mr. Parachin, I really appreciate your comment regarding the definition of gifts. I think it's something that makes perfect, logical sense. If we're struggling with the definition and it's creating a lot of challenges, then I think that's an important point.

Maybe I can let the academics debate this a little bit, but I think Mr. Reed said that tax credits had a modest effect at best. I think we

heard from the research coming from Ms. Lamb that it seemed to have some significant impact in terms of giving. One of the critical things we need to understand is the effectiveness of the current system, so perhaps you could elaborate and we could have a bit of back-and-forth on that issue.

**The Chair:** Mr. Reed, do you want to start with that?

**Prof. Paul Reed:** Sure.

What I've taken into account, using exactly the same data as Professor Lamb, is to look not only at what donors said they felt about tax credits; look also at how they actually behaved subsequently. After saying tax credits were important to them, did they intend to claim them? The answer, for a very significant number, was no. Another question was asked: Do you take tax credits into account in your charitable giving? The answer again was a very strong no.

So we look at both views and anticipated behaviours, and the numbers shrink progressively as you move through that analytical sequence.

**The Chair:** Do you want Professor Lamb to address that next?

**Mrs. Cathy McLeod:** Absolutely.

Do you have any comments? I think this is a really critical piece for us to understand, and it sounds like we have research showing different things.

**The Chair:** Would you like to comment?

**Prof. Laura Lamb:** Sure.

Our study was based on behaviours rather than on the survey question directly asking individuals whether a tax credit was important to them. I agree that statistically it's a difficult thing to test.

The Canadian survey of giving, participating, and volunteering asks a specific question about whether tax credits are important to you and if you plan to claim for a tax credit. That wasn't the measure we used in our study. We used a regression analysis, where the price of donation was a variable. So we included a variable that represented the tax credit, and that was shown to be statistically significant.

Granted, it's a difficult variable to measure, and I'm not sure what the statistical expertise of the committee is, but we have to deal with endogeneity issues. You probably work and consult with Statistics Canada people as well, but it's a difficult variable to measure, and we use a proxy variable to measure it.

There is a little bit of uncertainty, but there is whenever you're dealing with survey data. The specific study we have done has been recently accepted for publication in a peer-reviewed economics journal, *Applied Economics Letters*, in the U.S., so it has gone through a peer-reviewed process as far as statistical technique.



In addition to that, in one of our papers we compared our results with some other results done in different areas. For example, a couple of studies done in the U.S. have also found.... And I understand their tax credit system is different. Instead of using a tax credit, they use a tax deduction. A study by Brooks in the U.S. from 2007 also found the tax incentive to be effective. The two former Canadian studies we found that go back a little ways—Kitchen and Dalton in 1990, and Kitchen in 1992—also found tax incentives to be a statistically significant variable.

Although there are some complications and difficulties in measuring such a variable, our results did appear to be in line with some other studies that were quite similar.

•(1610)

**The Chair:** Okay. Thank you, Mrs. McLeod.

We'll go to Mr. Hsu, please, for a five-minute round.

**Mr. Ted Hsu (Kingston and the Islands, Lib.):** Thank you, Mr. Chair.

I'm going to ask a question and I'm not sure who to direct it to. I'm interested in this idea of the elasticity of donors.

Suppose we wanted to incent an increase in the number of donors, not necessarily an increase in the total amount of donations. What sorts of tax incentives do you imagine could incent one but not necessarily the other—or focus on one?

**The Chair:** Is that directed to anyone?

**Mr. Ted Hsu:** No, because I don't know who to direct it to.

**The Chair:** Madam Laforest.

**Prof. Rachel Laforest:** To date, most of the tax measures have targeted the wealthier donors and improved tax treatment of giving of assets. But now we really need to focus on first-time donors and those of limited needs. I'm supportive of the idea of the stretch tax.

I know that the economic data is really mitigated around whether you can use tax incentives to change behaviour, but I think that measure is interesting because of the full support it has from the non-profit sector. I think it's a useful tool they can then use to incite and get people to think about giving differently and setting benchmarks in order to improve from year to year.

I also think it's a really useful tool for the youth population. If we're looking at the fragility of the civic core, we need to be thinking about the future generation of youth and how they're engaging. The reality is that they're giving smaller donations and they're involved in youth movements, like Me to We. They engage in the public sphere very differently, and the stretch tax credit would be useful to them because they would have a huge impact even at the lower level of donations.

**The Chair:** I think Ms. Payne wants to comment.

**Prof. A. Abigail Payne:** Yes.

Something that's coming out in all of this, which is being missed, is that there have been two events, the effects of which we could measure if we used individual tax returns. There's a longitudinal administrative data set through Statistics Canada that you could get private access to, so you guys could request that.

The first thing is the change in the treatment of publicly traded securities. You could actually look from year to year for individuals who used those types of deductions for their giving mechanisms, and you could understand better who was motivated by those changes.

The other big thing, more for the small or the bigger donor tax base, was the Haiti earthquake. If you remember, there was a big push put on regarding the government matching funds if people started giving. You could look at individual tax returns and ask who started giving to Haiti as a result.

There's potentially a lot of information you could gather to try to see whether a matching grant motivated people. That would help inform you whether doing something in terms of tax credits would be sufficient to motivate the donor base.

•(1615)

**Mr. Ted Hsu:** Thank you.

A lot of people who maybe are not necessarily so wealthy often want to help out a cause, and they switch back and forth between donating money and donating time. How do tax incentives affect this balance? Do we know anything about that?

Mr. Parachin.

**Prof. Adam Parachin:** Donations of services don't qualify under current law. That's not unique to Canada. There are probably some good reasons for that, at least one of which is the potentially highly significant revenue implications of recognizing donations of services, in the sense that people aren't bound, given the scarcity of their time, to donate in the same way as they're bound by scarcity of financial resources or property.

One of the other difficulties is there's generally a principle that you find in the cases, although it's not always articulated as bluntly, and that is we generally don't like to recognize donations that are difficult to value. That's one of the fundamental problems with recognizing donations of services as tax-receiptable gifts. If that's something the committee wants to look at, it would best be done as a separate regime, rather than piggybacking on the current one, which would require a valuation of the service contributed.

Those are reasons why this jurisdiction and others historically haven't recognized those kinds of donations.

**The Chair:** Mr. Hsu, you're out of time.

Mr. Reed, you had put your hand up. Did you want to comment on that briefly?

**Prof. Paul Reed:** Very briefly; it's relatively easy. Mr. Hsu's question is a very sharp and pointed and important one. It's very important to recognize the difference in what I'll call the instrumental objective in raising more funds for the non-profit sector through a change in tax credits. But charitable giving has another dimension to it that involves civic participation: how people learn to contribute to their communities. That's where increasing the number of donors and the activity of giving become very important as long-term objectives.

We don't know very much about that.

**The Chair:** Okay, thank you.

Thank you, Mr. Hsu.

We'll go to Mr. Hoback, please.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, Chair.

I would like to thank the witnesses for being here this afternoon.

First, I want to review what we have in place right now, and I want to make sure we've done the proper job promoting what's in place right now. I know there were a few comments earlier about how we seem to see an income gap between who's willing to donate and who's not. I wonder if that's as much knowledge-based as anything. In the higher income, you have a third party doing your income taxes. You have the ability to look at what your options are to take advantage of whatever programs are there.

Have we done a good enough job promoting the existing tax benefits that are sitting there right now?

**The Chair:** Again, did you want to direct this to someone?

**Mr. Randy Hoback:** I was going to leave it wide open in case somebody wanted to express their opinion.

**The Chair:** Is there someone who wants to take this?

Ms. Payne, go ahead, please.

**Prof. A. Abigail Payne:** I think one of the interesting things is that as people are using computerized tax services—so even if they're not using a personalized tax service to do their taxes—it's not uncommon for the software to ask you, "Did you donate? Are you aware of this?" That raises a very interesting thing about creating more knowledge for people. That's something we really haven't studied, or I don't know of anybody who has studied that particular phenomenon. But there is probably an issue about what information is out there.

The other issue is that these are non-refundable tax credits.

• (1620)

**The Chair:** Mr. Reed, you wanted to comment?

**Prof. Paul Reed:** The difference between the incidental givers, people who respond to a knock at the door and hand over a twenty-dollar bill, and the people who put \$50, let's say, on the offering plate at their place of worship, is huge. The median annual donation for people who are incidental givers is somewhere barely above \$100 a year. It's approaching \$1,000 a year for the second.

The second kind all know about tax credits. The first kind, who are somewhere in the vicinity of two-thirds of donors but who account for a minuscule portion of all dollars donated—they don't know about it. So it becomes an issue of how to change the first into the second.

**Mr. Randy Hoback:** Moving forward, in your research or in any of your studies, have you looked at a model in another region or another country where you've said, "Hey, they've got it, they've got it figured out", where we could maybe look at it and say, "This is not a bad model to copy"?

**Prof. A. Abigail Payne:** I would encourage you to look at what the U.K. is doing. They have the Gift Aid system, where high-income earners can get a tax credit. But if you're not a high earner, if you give to charity, the charity will ask you, "Are you a U.K. taxpayer?" The equivalent to the tax credit is given back to the charity.

Some research has been done for HMRC by Sarah Smith and Kimberley Scharf on the differences in terms of individual behaviour with regard to how they perceive that type of indirect government support of charities versus a credit system.

**Prof. Adam Parachin:** Some of the submissions that I've read online pertaining to the exemption of capital gains tax from donations of capital property already exist in the U.S. That would certainly be an example of the difference it can make in terms of volume of donations and the kind of donor you're attracting. We're actually the holdout on that issue.

**Mr. Randy Hoback:** Do you have any suggestions on how we'd work with the provinces and the municipalities when we start looking again at increasing donations, and the taxation...? As you know, there's federal tax and there's also provincial tax and then there are the municipal taxes.

Do you have any ideas on how they interact with those models? It may be a little more detailed, but....

**The Chair:** Is that to Mr. Parachin?

**Mr. Randy Hoback:** To Mr. Parachin—and Ms. Payne, actually, I think.

**Prof. Adam Parachin:** In my specific proposal in terms of actually identifying what donations qualify, the provinces typically piggyback the federal system. In terms of gifts that are recognized federally, they're also recognized provincially. So that's one of the talking points.

The second is that Quebec historically has had a broader definition of "gift" applied, because Quebec law actually recognizes split transactions as qualifying as gifts under provincial law. So in the kind of example where a donor sells property for less than its fair market value, it's actually recognized as a gift under Quebec law.

The problem with the rest of the country is that it wasn't a gift at common law, and that's one of the issues that the law has sort of tried to reconcile. We have a bijural state. That's been one of the other talking points that the proposed split receipting rules were meant to remedy, but of course they're not enacted, and they may not even be in draft form before the House anymore.

**The Chair:** Can you make a very brief response, please, Ms. Payne?

**Prof. A. Abigail Payne:** There are differences in the tax credits, so effectively in the price of giving across the provinces. You could use both charity information returns, because you know the location of the charity, for tax-receipted giving, as well as individual tax returns, because you know the residence of the individuals, to explore the differences across the province.

Also, I believe in Alberta a few years ago they instituted a change where they increased a credit for donations to charities within Alberta. I believe that is correct.

**The Chair:** Thank you.

We'll go to Mr. Mai, please.

**Mr. Hoang Mai (Brossard—La Prairie, NDP):** Thank you, Mr. Chair.

Thank you to all for being here.

To Ms. Laforest, you mentioned that with the reduced expenses in...well, programs helping the organizations, and the government getting out of its role of helping society and giving more of that role to the organizations. Can you perhaps expand on that and tell us since when, maybe, and what you've seen regarding that?

• (1625)

**Prof. Rachel Laforest:** Do you mean in terms of funding cuts?

**Mr. Hoang Mai:** I mean in terms of funding cuts and the fact that it's becoming more the responsibility of the charitable organizations to help out, in terms of delivering services.

**Prof. Rachel Laforest:** That started in the early nineties with the program review in the first restructuring of the federal government, and then there was a gradual shift in the system of grants and contributions. A blue-ribbon panel studied and assessed the fact that government funding is less functional. There are a lot of accountability rules, so it's not a useful mechanism for supporting organizations. That's part of the story.

It has also shifted since 2006 with the election of the Conservative government. There has been a shift away from funding groups that do political representation, that engage in that form of advocacy activity. That has created some strain, certainly on national organizations, but it has trickled down to provincial organizations as well.

Then, at the provincial level, it varies from one province to another. In Quebec, the voluntary sector, the community sector, is actually quite strong, because the provincial government continues to fund through grants and contributions but they also have special funds set aside for advocacy and political representation, and then it varies from one province to another. But there has been a shift since the early nineties.

**M. Hoang Mai:** And how can that be repaired? You mention that a lot of the service organizations are having problems and the ban has been increased. They're the ones having the most problems.

Can you expand on that?

**Prof. Rachel Laforest:** I'm not very positive that government funding is going to come back or that in the short term funding to community organizations is going to increase. Therefore, in that context of constrained resources, I think it's important to at least increase the capacity of voluntary organizations or charitable organizations to get individual donations, because those are an important source of revenue.

I also think it's important to place in context those two funding trends—the fact that funding revenue is declining but also that charitable donations or the civic core that is responsible for charitable donations is very fragile. In the short to medium term, if the number of people who donate declines, and if the population continues to age and therefore stops making those generous donations they've been making, and if religious practice continues to decline, all of that will create even more pressure on the voluntary organizations.

**Mr. Hoang Mai:** Thank you.

Ms. Lamb, you were saying we need to be more cognizant of varying levels of responsiveness for each donation sector to potential changes in tax incentives.

How can we help? If you want to focus on a specific sector—let's say donations that provide services—what would be your recommendation about tax incentives? How do you model that?

**Prof. Laura Lamb:** The results of this research, which show the varying levels of responsiveness to the same change in tax credit, would suggest that there could potentially be different tax credits for different sectors. Now, on the government level, it's getting kind of messy, but potentially there could be a specific tax credit for social services and health centres and a different tax credit for a religious sector. Of course, it brings to light all kinds of normative discussions about which sectors are more important than others, so it gets politically messy, but that's what the research implies—that sectors do respond differently to the tax credits, and that potentially that would be the way to go forward.

**Mr. Hoang Mai:** Thank you.

**The Chair:** Thank you, Mr. Mai.

Mr. Adler, go ahead, please.

**Mr. Mark Adler (York Centre, CPC):** Thank you, Chair.

I'd like to thank all of the witnesses here and not here this afternoon for their participation.

I would like to begin with Dr. Payne. What is the total percentage of giving relative to GDP in Canada? Do you know that?

• (1630)

**Prof. A. Abigail Payne:** I do not know that.

**Mr. Mark Adler:** Okay. Does anyone on the panel know that?

As a comparison, in terms of giving, maybe on a per capita basis, how does Canada rate in comparison with other G-8 countries?

Do you know?

**Prof. A. Abigail Payne:** No. Actually, that's a really interesting question. I'm working on a chapter for the *Handbook of Public Economics* with another professor, and we can't get that number.

**Mr. Mark Adler:** Really?

**Prof. A. Abigail Payne:** It's an amazingly simple number that you would think you should be able to get.

Part of it, if you think about it, is that in tax return data, not everybody identifies that they have been giving to charity. Plus, not all giving is tax-receipted. If you attend a gala, is that a donation? It's not tax-receipted, but you are giving. You are supporting that charity. Or you give \$5 to somebody in the subway who is collecting money for a charity. I think the better source is to actually look at the charities, the registered charities, and ask them how much they are bringing in. Even then, you're not able to value the volunteer time.

Nobody has really done anything to ask, if we look across all the charities in Canada, the U.S., and the U.K. for stuff like that, how we compare. In the U.S., if you're a religious organization, you don't have to file a tax return. If you're a charity that has a low level of revenue, you don't have to file a tax return. Canada is the only one that requires all charities that issue tax receipts to file. That's in part why Canada actually has really good data to study this. To make us comparable is very difficult.

**Mr. Mark Adler:** If the Government of Canada did not issue credits at all and just had a total hands-off approach and left it up to individuals to choose to give to charity or not, what do you think the effect would be?

**Prof. A. Abigail Payne:** This is my gut.

**Mr. Mark Adler:** Yes. I'm just curious.

**Prof. A. Abigail Payne:** My gut says that it would be disastrous, because—

**Mr. Mark Adler:** Do people need to be incented to give?

**Prof. A. Abigail Payne:** It's just like you going out and deciding to buy something or not, right?

What tax credits do is reduce the price of giving. There are people out there who do react to that incentive. You can see that. What has bolstered the growth in giving? It's the giving from individuals who reside in high-income neighbourhoods. I suspect that's because of the tax credits that were given for publicly traded securities and other types of provisions over the last 15 years. I think it does have an impact.

**Mr. Mark Adler:** In terms of religious denomination, which one would you say, relative to others, tends to be more charitable? Do you have any studies on that?

**Prof. Paul Reed:** Without question, it's Protestants. It's conservative Protestants, above all, markedly above mainline Protestants.

**Mr. Mark Adler:** Really? Okay. Why is that, do you suppose?

**Prof. Paul Reed:** That would take more time than I would be allowed, but it has to do not so much with creed, what they believe, as it has to do with frequency of observance, how often they go to church or to synagogue, etc.

**Mr. Mark Adler:** Protestants don't go to synagogues.

**Prof. Paul Reed:** I'm sorry. But it occurs right across the spectrum of religious affiliation. That's my point.

**Mr. Mark Adler:** Okay. I get you.

**The Chair:** You have about 30 seconds.

**Mr. Mark Adler:** Just sort of as an eyeball observation, when you go to the U.S., people seem to be very philanthropic. Buildings are named. People give big money to charity. Is that more cultural in the U.S. as opposed to Canadian culture? The Americans don't seem to need to be incented to give as much as Canadians do. Is that a correct observation?

Anyone can answer it.

**Prof. A. Abigail Payne:** We have a different tax system. We have a higher tax rate, so people have different positions.

Ultimately, you have to think about how charities behave. If you look at the U.S. and you look at Canada, what charities contribute towards fundraising and the dollars they get from private giving as a result of that is the same.

•(1635)

**Mr. Mark Adler:** I have just a five-second question. Do you think an increase in taxes on individuals or on corporations would have a diminishing effect on the level of giving by individuals to charitable organizations?

Would that be a yes or a no? What do you think?

**Prof. A. Abigail Payne:** Maybe.

**The Chair:** We can come back to that on another round.

*Monsieur Giguère, s'il vous plaît.*

[Translation]

**Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP):** Good afternoon, Mr. Chair. Ladies and gentlemen, we are pleased to have you here.

According to my sources, the CMA, the organization of management accountants, and Mr. Papillon and Mr. Morin, two authors on tax matters, if I, Alain Giguère, donated \$1,000, as a Quebecker I would be entitled to a tax refund of \$494 according to current tax regulations, that is to say if I added up the federal and provincial tax returns. If we applied the improved tax credit regulation, according to these same sources, for a \$1,000 donation I would receive a return of \$574.

My question is quite simple. What is the point of giving to these charitable organizations, substituting ourselves for the government, if the administrative and funding costs of these campaigns to obtain charitable donations are over 50% or close to it?

The second obvious problem is the following. If, for instance, the government reduced its support for healthcare by a billion dollars, even if there were \$1 billion dollars in gifts to charitable organizations, that amount would not necessarily be used to compensate the loss of health care services.

Indeed, that billion dollars could be allocated elsewhere, for instance to political or pseudo-political or religious organizations. It would not necessarily go to the sector where the government has withdrawn its support.

Ms. Laforest and Ms. Payne, could you answer that question?

**Ms. Rachel Laforest:** You come from Quebec. The Quebec reality and Quebecers' perceptions regarding these matters are very different from those elsewhere in Canada.

I've had the opportunity to work with Paul. We interviewed people who make charitable donations. We asked them why they made those donations, what their thinking was, and the reason behind their gift. Often, Quebeckers replied that they preferred to give their money to the state, since they felt it was preferable that that decision be made by the state so that the resources would be well redistributed. They had a preference. They associated the idea of paying income tax with that of charitable donations. In Quebec, the percentage of charitable donations is considerably lower than elsewhere in Canada because Quebeckers prefer to give and get involved in the public sphere in an informal way and not through charitable organizations.

For my part, I am a Quebecker and I share that vision. In an ideal world, I would have preferred a strong state that would deal with the redistribution of wealth. However, since that is not the case, and since the federal government is cutting back on its support and funding for these organizations, and in the context of a resource and capacity shortage within the voluntary sector, one of the solutions in my opinion is to increase those donations. It is not the ideal solution, but I believe it is the most realistic one.

[English]

**Prof. Adam Parachin:** I'll just add that I do have some sensitivity for the perspective that at some point the income tax subsidy for charities becomes so extensive that the sector actually will become somewhat indistinguishable from government. That is a relevant policy consideration to take into account.

But I'll counter that with this observation. Just because it might be more efficient to provide a particular program through a direct state subsidy does not make it a preferred program. Nor does the fact that a particular tax subsidy is inefficient. For example, if each dollar of foregone tax revenue only generates 60¢ of donations that would not otherwise have been made, and if that's the case with a particular tax credit, it does not mean that the tax credit should be abandoned, for the very reasons Professor Reid referred to: that foregone revenue is an investment in a particular kind of society and a particular kind of program delivery. It fosters competition among charities to provide better services. People want to support it. It fosters a pluralism of services that might not otherwise exist. There's a wealth of literature that supports this.

So I would emphasize very, very strongly for the committee in deliberating on the various proposals that efficiency is not a predominant consideration. It's relevant, but it's not determinative.

• (1640)

[Translation]

**The Chair:** Thank you, Mr. Giguère.

[English]

We'll go to Mr. Van Kesteren, please.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you, Chair.

Thank you, everyone, for appearing. This is really interesting stuff.

I used to work for a man who was an actuary and he used to say it was all in the numbers, and I believe that.

Madame Laforest, you talked about the increase in the age as the demographics shift. We're seeing more people in that higher giving bracket. Are we seeing a larger increase in giving as the shift starts to take place?

**Prof. Rachel Laforest:** As they get older, whether they're giving a higher donation?

**Mr. Dave Van Kesteren:** Let's talk about 1991 to 2010. I forget what those numbers were. I had them just a couple of days ago. But as that shift to 55 increases, is the giving increasing proportionately as well?

**Prof. Rachel Laforest:** I don't have that data.

**Mr. Dave Van Kesteren:** Okay.

One of the statements made by Ms. Payne, I think, was about charities. Do I have this right? If a charity loses popularity, does it receive more government revenue?

**Prof. A. Abigail Payne:** The question is, if the government drops money into the charity, what happens to private donors?

Traditional economic theory says that as an individual—and this would be similar to public goods—I see that the government has given that charity money, so I'm going to stop giving. But the problem is that it appears from our research that the government funding may serve as a signal of quality.

**Mr. Dave Van Kesteren:** Could you have that wrong and maybe the fact that less money is received—and the largest group is the church groups. Let's take a group that's active in the third world. I'm not going to name any names, but as they lose popularity with the church groups, would they start targeting the government for more money? Is that a possibility?

**Prof. A. Abigail Payne:** That is certainly a possibility, and I think one of the key facets of our research says that the charities are active participants. They are not passive recipients of funding. Be it government money or be it private donations, they are active in raising money for their charities.

**Mr. Dave Van Kesteren:** Okay.

I want to make a quick comment on different types of charitable giving. Traditionally we recognize moneys or we're recognizing a few others.... I'm familiar firsthand because my wife spends a lot of time in a thrift store, and they raise money for third world countries. Sometimes I'm amazed at the people who give their time, and I don't see a need for them to be compensated. More and more people seem to be giving, and people from the community are giving things too. That doesn't seem to be a problem. There seems to be something else.

Mr. Reed, do you think governments should tag on to what is obviously a very popular, very successful giving mode?

Ms. Payne, you talked about the U.K. I could be wrong, but I think they have an equivalent to CIDA, and I'm not sure what it is. Don't they allow people to target where they want to give their money through NGOs, and use that as a charitable giving? Is that possibly a good solution?

We saw, for instance, the success in Haiti. We saw the success in Pakistan. Especially in Haiti at the time of the earthquake, people were just so generous. Should governments start to look at that? Obviously—and this might seem a little crass, but this is factual—the money these charities raise and where that money is spent is money the government doesn't have to spend. Is that something you would recommend governments look at more closely?

• (1645)

**The Chair:** We have about 30 seconds for a response.

Mr. Reed.

**Prof. Paul Reed:** I would say yes. The more dramatic a situation, the greater the giving, such as Haiti. The tsunami in Southeast Asia, etc., produced enormous volumes of charitable money. The 9/11 event in New York City produced an extraordinary outpouring.

If the objective is to foster giving as a civic activity, there's a wonderful opportunity for government there, with matching contributions.

**Mr. Dave Van Kesteren:** Thank you.

**The Chair:** Thank you, Mr. Van Kesteren.

We'll go to Mr. Harris, please.

**Mr. Dan Harris (Scarborough Southwest, NDP):** Thank you.

I apologize. I don't remember if it was Madame Laforest or Ms. Payne who mentioned that 9% of donors are responsible for 61% of donations now. Do you have any statistics as to how that compares to 10, 15, or 20 years ago in terms of that small number of people giving the largest amounts? Is it more constrained than it used to be?

**Prof. Rachel Laforest:** The civic core is shrinking. There has always been a civic core, and Paul is an expert in this area. The civic core is made up of the people who are engaged in contributory behaviour in the civic sphere in multiple ways. We are seeing that the civic core is itself shrinking, so that 9% is down from where it was before.

I'm sure you could give the number, but I would guess it was 12% or something like that in the 1990s.

**Prof. Paul Reed:** The civic core has several parts to it. The really hard core massive givers spend enormous time volunteering and so on. That primary core represents something like 8% of the adult population, and it has shrunk by perhaps 1% or 1.5% over a decade.

The primary and secondary core, which represent around one-quarter of the active adult population, we're not so sure about. What we think is happening is that people in the primary core are moving into the secondary core. That is to say they're giving less, volunteering less, or participating in their communities less.

**Mr. Dan Harris:** Based on your experiences and the fact that the core is shrinking, do we think that can be attributed more to the fact that there's more household debt, that people have less disposable

income, that they're working longer hours for less remuneration, or more to societal shifts?

I remember when I was a child we were individually referred to as citizens, which implied a sense of community and responsibility towards each other, whereas now we're all just simply referred to as taxpayers and brought down to that lowest denominator of money. We're a combination.

It will wrap up my five minutes, I'm sure, but if each of you has a comment to make on that, as to whether it is one or the other or both, I'd be interested in hearing it.

**The Chair:** Who would like to start?

Mr. Reed.

**Prof. Paul Reed:** All the items you listed are contributing to an attenuation, a weakening, as is the movement away from religion. Religion is really the spark plug for civic activity.

On the other hand, there's a counter factor as well, and that's university education. Fundamentally, one of the strongest factors in civic activity, including charitable giving, is having a degree. More and more Canadians are falling into that category, and that's making a difference.

**Mr. Dan Harris:** Education is the one silver bullet we all know about.

**The Chair:** There is more time.

Madame Laforest.

**Prof. Rachel Laforest:** I knew that Paul would give you a comprehensive answer, because that's his area.

The one thing I would flag is the fact that the pre-1945 generation is slowly becoming disengaged. I think it's really problematic, because they have a particular ethos. They have a particular way of engaging with the civic sphere. In volunteering and giving, they're very generous. The decline and aging of that particular generation and not having a subsequent generation with those particular characteristics you were talking about I think might be problematic.

• (1650)

**The Chair:** There's about a minute left if anyone else would like to comment.

**Prof. A. Abigail Payne:** Thinking of it in more of a macro perspective, if you look at the tax returns, the number of tax filers reporting donations is increasing. We've seen a growth in the number of tax filers, so that's what's causing the decline, or what we're saying is the perceived share of tax filers reporting to decline.

One of the things I would want to think about is what the "right set" of volunteering, giving, and government services would be for a community. What is it that our communities need?

We've seen a growth in donations. We have seen a growth in the number of charities. We don't really understand how charities work with each other. Do they compete with each other or do they work with each other? I think you get a little bit of both. You need to go back to the charities and how they're operating in our communities.

**Mr. Dan Harris:** I certainly think a fair amount of competition exists among the various charities. There's also the way charities have been professionalized, in that each of us, I'm sure, gets a lot more calls and asks than we used to. Of course, one of the factors there is that they call everybody, because a different person will be able to give each time. I think that contributes as well.

**The Chair:** Thank you, Mr. Harris.

We'll go to Mr. Jean, please.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Thank you, Mr. Chair. Thank you, witnesses.

I have some questions in relation to Gift Aid. I'm using that in context out of the U.K. I know that originally when that was started in 1990, they required it to be a gift in cash of more than £600. My understanding is that in essence it adds approximately 25% to the value of the gift to the charity and gives a refund of 25% to the giver. They've changed that policy dramatically since its introduction in relation to the minimums, etc.

I do agree with you. My understanding is that there was a report by the *National Post* or *The Globe and Mail* four months ago to the effect that conservative Protestants give more. I was quite surprised by that report. The people who do give are usually making substantial incomes of over \$1 million, and they give tremendous amounts of money. I know some people who do that kind of thing; they usually give about 10% of their income because of religious and other views, but they usually give it to non-religious organizations in developing worlds.

I'm wondering if you would recommend an encouragement to give more through an escalating percentage based on a certain amount given, such as \$10,000 per year, but escalating over time. Most of the people I know who give these amounts.... I'm from Fort McMurray, and I know that the United Way gets more per capita from Fort McMurray than from anywhere else across the country. Many charities tell me that we give more than anywhere else.

It would be an escalating value over time, and it would identify blue-ribbon charities, which are charities that specifically have low delivery and administration costs. That's what I hear most from people: that they want those kinds of things and that they want more money getting to the end people in need. Would you encourage something like that through an escalating value? Would you encourage a particular set of charities receiving a designation by the government based on certain criteria?

**Prof. Paul Reed:** Perhaps I can tell you why, and after that I'll tell you what my answer is.

**Mr. Brian Jean:** I only have five minutes, but please go ahead.

**Prof. Paul Reed:** We don't know very much about the difference between giving from income and giving from assets, from capital, but I think it's reasonable to expect that giving from capital, when there is substantial capital, is a lot less painful than giving from income, meaning from what you're earning. I think there are pools of capital and I think there are individuals with large amounts of capital who can be targeted. In my brief, I mentioned looking specifically at bequests. There is a lot of money there.

The answer I offer to your question is yes. I think having a sliding scale will be psychologically advantageous, because large donation

donors are, with very high probability, giving from capital rather than from income.

**Mr. Brian Jean:** I would disagree with you in relation to my personal experience with the people in Fort McMurray. They give from income and they give an amount based on certain criteria, but there is no encouragement to give more. If they give 10% of their income, there is no encouragement to give 15%. There's no encouragement to give more money. That's probably because it's not a capital-rich place, but an income-rich place.

Please continue. Sorry.

**Prof. Rachel Laforest:** I'd like to say something. One of the dangers is that we keep squeezing the minority of people who already make a lot of donations, and we just rely on them for the future of our charitable sector—

● (1655)

**Mr. Brian Jean:** But wouldn't you agree with demographics and the change in our older population? I think a million people a year, or 100,000 people a year, are reaching over 65, so wouldn't the amount increase because those people give more as they get older?

**Prof. Rachel Laforest:** Yes, but eventually, if that's the way you go, with their further aging they will stop contributing. If you are just shrinking your base, it can topple over very quickly, because you are relying on just a small number of individuals for the greater good.

**Mr. Brian Jean:** If they are doing it from income instead of capital, I would argue that we could get more money from them—you can tell I'm a litigator by trade—over time by encouraging them to give more and matching it through government tax credits.

**The Chair:** You have about 30 seconds.

**Mr. Brian Jean:** I'd actually like to hear from Mr. Parachin, if I could, please.

**The Chair:** Please give just a short response, sir.

**Prof. Adam Parachin:** We did have something similar to what you described before we transitioned from deductibility to tax credits. It had essentially the same effect. If you were in a higher tax bracket, you got a greater tax incentive. This was seen as regressive and as being unfair to donors.

One solution for that lies in what you propose. You would treat everybody equally, regardless of income, so that if you gave a greater amount, you would get a greater tax recognition. There could well be something to be said for that approach, although the exemption of capital gains tax on donations of land and private securities would achieve a similar outcome. That's before the committee from a variety of submissions.

**The Chair:** Thank you, Mr. Jean.

We'll now go to Ms. Glover, please.

**Mrs. Shelly Glover (Saint Boniface, CPC):** Thank you, Mr. Chair.

I do have a number of questions, but I'd like to get clarification on something Madam Laforest said.

I personally am very proud to be part of a government that chooses not to provide funding for political advocacy when the money is really supposed to go to the grassroots level. I'm curious to know where you got your information that funds for charitable organizations under this government have gone down. Simply looking at our record since 2006, it's increased substantially. When we look at Haiti and the money that was provided by the government to match, when we look at Japan and the tsunami and the matching of dollars there, when we look at the fact that we are the first country to actually double aid to Africa at \$5 billion, it's incredible. We actually have the highest amount of funding for women's programs in the history of government.

So I'd like you to tell me what you were talking about when you referred to the funding going down. I would note that we did see, in the charts provided by Statistics Canada, that 2007 was the peak of donations at \$9 billion, which clearly shows that under this government donations have gone up substantially.

**Prof. Rachel Laforest:** I'm sorry, can you tell me what that chart is again?

**Mrs. Shelly Glover:** Statistics Canada was here to show us how many donations were made every single year. In constant dollars, they are substantially up. As you see, the Conservative government took office here, and this is where donations are.

**Prof. Rachel Laforest:** My first comments were not about charitable donations. I was asked about government funding of voluntary organizations and the trend in terms of how they support voluntary organizations. Within that I was talking about a decline in the practice of funding. The defunding of advocacy began before the Conservative government came to power. It was just a bit accentuated after that. So I wasn't—

**Mrs. Shelly Glover:** I'd like your proof on that afterwards. You can send that to the committee. Our documents actually show the opposite, so I'm interested in your proof on that.

Going to bequests, Mr. Reed, thank you for that submission. I'm going to ask the clerk if we could get some further information, because I do want to ask you about page 7 of your submission on bequests and matching contributions and whether you actually have perhaps some projections on what we might actually gain by going that way. I think it was an interesting suggestion.

Perhaps I could ask the clerks, through you, Mr. Chair, for a note on the U.K. Gift Aid system—Mr. Jean talked about it also—so that we understand it well. Ms. Payne mentioned it, and I think it's interesting. I'd also like to see how the split receipting that was mentioned works. I thought that was interesting.

Then let's go to the bequests. Perhaps you could explain to us what you said in your document about matching contributions and how that might help us increase donations.

**Prof. Paul Reed:** I've already said more than I know. I'm simply dropping this out for discussion.

There is an incredible pool of capital in the baby boom generation. There has been, to my knowledge, close to no research on this, on how it's going to be used. There has been some excellent research done in the United States at Boston University.

We are also, however, looking at the coinciding of two things. The first is the end of what is called the “long civic” generation, people who grew up during the Depression and World War II and who learned to participate in civic life. You needed to. You had to. Combined with that is the arrival of the baby boom at retirement. As the long civic generation is passing and the other is coming in, how we as a society make the connection between those two is perhaps the reason why we're here.

**The Chair:** Ms. Glover, you have one minute left.

● (1700)

**Mrs. Shelly Glover:** Thanks, Chair.

I understand that, but in your documentation you talk about the suggestion that perhaps we ought to look at a way that bequeathed estates could obtain a matching contribution by government of either 10% to 15%. Have you looked at how much might actually be injected into the charitable sector if we did something like that?

**Prof. Paul Reed:** I've only done back-of-envelope kinds of calculations, and they don't count here.

**Mrs. Shelly Glover:** Okay.

Mr. Parachin, I'll add just one thing—I know I only have 30 seconds—and then I'll come back to you.

Ms. Payne, I would like to know if you also looked at...because tax dollars are going up and donors don't seem to be. Do you know that we heard from Statistics Canada about pooling of donations? Husbands and wives might be donating, so it's not accurate. Perhaps you have a comment on that if we can get to it later.

Go ahead, Mr. Parachin.

**Prof. Adam Parachin:** Very quickly on bequests, I used to be an estate planner prior to joining the academy.



A useful first step might be to take a look at what donations out of testamentary trusts created in wills are actually recognized as gifts. The way the law currently stands, many distributions of income out of testamentary trusts do not qualify as gifts. Many distributions of capital out of family trusts created under wills do not qualify as gifts, and there's the potential to lose out on billions of dollars.

That might be a bit of an exaggeration there, but the point is that there's going to be billions of dollars of wealth transferred through trusts, and there's the potential that a bunch of that won't go tax-receipted. That's a serious problem.

**The Chair:** Thank you.

I think we'll have to let Ms. Payne answer in a following round. I believe Ms. McLeod has another round.

I'll go to Mr. Mai now, please.

**Mr. Hoang Mai:** Thank you, Mr. Chair.

As you've probably seen, a lot of the organizations or briefs talk about the stretch tax credit. I'd like to know your opinion. I think we've heard from Madame Laforest, and she's for it. From your perspective and according to your research, do you think it's a good thing, or do you think it should be amended, and how? Anyone?

**Prof. Paul Reed:** It will be of greatest advantage to those who are already currently serious, systematic, and probably large-amount donors. It will contribute some increase in the dollars that are contributed charitably.

What is it going to do in terms of increasing the number of donors, or charitable giving as an activity behaviour in Canada? I'm not sure. For very small-amount donors, it's probably not going to do very much.

**Prof. Adam Parachin:** I have some concerns over this particular proposal.

I think, as it's already been published in the media, it could trigger some potentially abusive planning in terms of people just aggregating donations into a single year, giving nothing in other years, or combining spousal donations. I can tell you, as a certainty, that will be the tax advice that will be given. There will be ways to draft around that. There will be anti-avoidance rules to prevent that, but what that will make the rule complicated.

I don't have empirical data for this, but I suggest that the more complicated a tax incentive is, the less likely it is to act as an incentive. If you don't know the baseline above which you have to give, how is it going to incent more donations? I think the bigger the tax incentive, the more the government's likely to take a stronger regulatory posture in relation to charities. That concerns me in terms of preserving the independence of the sector.

I also have concerns regarding the tax equity of treating two donors, who donate the same amount in the same tax year, differently. Two taxpayers give \$5,000 under that proposal, and one taxpayer might get a 10% greater incentive, even though they've behaved identically. Tax policy has a rule called tax equity. We typically try to treat taxpayers identically when they behave identically, and this particular proposal departs from that tax policy criterion.

I don't think any of those are fatal to the credit, frankly, but they're at least talking points to be taken seriously.

• (1705)

**Mr. Hoang Mai:** Mr. Reed, in your study of the core civic donor and how we can actually engage... You mentioned the matching, or what happened in Haiti and all that, but what's your view on the best way to actually go forward in terms of which tools we should use to get people more involved? Obviously, we can't replace religion, but how can we help in terms of getting people to be more participative?

**Prof. Paul Reed:** Point number one is that it takes a generation to create a generation of civically active people. It's a learned process. Giving public prominence to this activity, not to individuals necessarily but to the activity, and the difference that it makes in our society, as well as public education—those are a couple of observations.

[*Translation*]

**Mr. Hoang Mai:** Ms. Laforest, we talked about the fact that the government was withdrawing from programs.

There is less and less support for organizations and their expenses. It is accepted politically that up to a certain percentage, everything in these organizations is verified. You mentioned certain concerns or consequences on the ground.

Can you tell us more about that?

**Ms. Rachel Laforest:** In fact, in practice, the organizations do not have many tools to find other resources. I think that that explains in part why they are very favourable to the idea of what is called in English the stretch tax. Indeed, this would give them a tool that would allow them to promote social action and community participation. That is their perspective, in any case. There is a lack of mechanisms to encourage people.

In the research that I did, I observed that in several provinces, in Ontario especially, organizations are turning to the provincial government because the federal government is withdrawing its funding. For instance, in the area of immigration, a number of services are offered to the community. There is a lot of uncertainty in this area, and because organizations are turning to the province to obtain funds, the provincial governments are under pressure. Those are two situations I observed in the field.

[*English*]

**The Chair:** Merci, Monsieur Mai.

I'm going to take the next round.

Mr. Parachin, I wanted to ask you two questions, and then hopefully I'll have time for another issue. I'll ask both of them at the same time.

You talked about the stretch tax credit and how it becomes then a three-stage credit. We have a two-stage credit now. What are your thoughts on moving then to a single stage, for which it would be the same percentage with respect to donations under \$200 and over \$200? That's the first question.

The second one is that I have the same reaction Ms. McLeod has. I like the fact that you're recommending clarifying the term "charitable donation" or replacing the term "gift". I like that on the face of it. The concern I have is whether there are going to be unintended consequences that we are going to have to clarify through the legal system. If this legislative change is enacted, are we going to then have a whole new series of clarifications through the legal system regarding "charitable donation" that we have had to this point with respect to "gift"?

Could you please address those two points?

**Prof. Adam Parachin:** On the first issue of the single credit, there are other people making that submission before the committee. There's certainly something to be said for it. I don't think it's going to solve the revenue dilemmas that charities are currently facing, although it does have the benefit of simplifying the law. The other potential concern is that if you look at what that actually does, depending upon the value of the credit, donors are receiving more back in the form of a credit than they're actually contributing, which currently goes on, to some extent, depending on the tax bracket you're in.

That causes me some concern in terms of how we actually approach charities from a policy perspective. Are charitable funds public funds? Are charities public? Are they different from the government? That causes me some concerns, because it'll have impacts on how the government regulates charities. What hangs in the balance there is whether or not we actually lose some of the innovative potential of the sector if it's regulated too rigidly on the theory that this is all public money. I think that's a relevant concern.

On the other topic on unintended consequences, the big potential unintended consequence is regulating abusive donations. One of the advantages of the ambiguity of existing law is that regulators always have in their back pocket the ability to say that if you participated in an abusive arrangement you lacked "donative intent", and because of that you made no gift. In theory, "donative intent" has no relevance. It's just something that's out there in the case law to give courts and regulators a safety valve to pull the plug on those schemes. But there has been some published literature on better ways to target them.

So there are concerns, but they're answerable, and they're answerable in a way that is better than the current way.

• (1710)

**The Chair:** If you have anything to submit as follow-up to that, and certainly on that point, I'd appreciate it.

The second issue I wanted to raise was that of tax filers and charitable donors.

Ms. Laforest, you said that the number of donors actually declined from 30% in 1990 to 23.4% in 2010.

Mr. Reed, you stated that the incidence of income tax returns that report charitable donations for tax credit purposes has been falling since 1982.

I asked Statistics Canada about a chart that showed the tax filers going from about \$18 million to \$24 million and the charitable donors staying constant in terms of numbers. My recollection of what they said to me on Tuesday was that I shouldn't be reading too much into that, and in fact they used the example of a couple, where one person may donate for the couple. I can certainly follow up with them on that, but they seemed to indicate to me that it wasn't too much of a concern that I ought to be looking at, whereas I think both of you are saying something opposite. So I wanted to give you the opportunity to expand on that point.

I have about a minute between the two of you.

Who would like to go first?

**Prof. Rachel Laforest:** The data I have from Statistics Canada is that the number of tax filers has increased and the number of donations has increased, but the actual.... From Imagine Canada, the trends in individual donations show that the number of donors has actually declined. I'm not sure.... I'm assuming they base that on Statistics Canada. I don't have direct knowledge, but that's where I got that information.

**The Chair:** I can certainly share it with you afterwards as well.

**Prof. Rachel Laforest:** Yes, please.

**The Chair:** Briefly, Mr. Reed, for 30 seconds.

**Prof. Paul Reed:** There are four sources of information, surveys, or programs that produce data on charitable giving. No one of them has a monopoly on accuracy and precision.

The stuff that comes from the income tax returns has some absolute strengths and advantages, but in other respects it has to be taken with great care. Stats Can's presentation was based entirely on income tax returns. Stuff that comes from the Canada survey of giving, volunteering, and participating is a different number. The stuff that comes out of the survey of household spending is a different number. The stuff that comes from.... I could go on.

**The Chair:** Okay.

**Prof. Paul Reed:** There is a great deal of care that has to be used.

**The Chair:** Yes. In fairness, Statistics Canada did advocate that we wait until their spring survey. I think it comes out—

**Prof. Paul Reed:** But it's going to tell a different story.

**The Chair:** It's going to tell a different story?

**Prof. Paul Reed:** Oh yes, for sure, because it's a different kind of measurement.

**The Chair:** Okay Thank you.

I'm going to go to Ms. McLeod first and finish with Mr. Brison.

Ms. McLeod.

**Mrs. Cathy McLeod:** Thank you.

We have focused the conversation today on charitable giving by persons. I want to quickly mention charitable giving by corporations. I don't know if anyone has information they can share. Certainly corporations are in the business of making a profit, but does anyone have any thoughts or insights they would like to share in terms of this whole particular area?

• (1715)

**Prof. Paul Reed:** I've looked at it. Corporate giving is a very pale...it's at a very modest level compared to giving by individuals and households. If I recall, it's somewhere around \$2 billion compared with somewhere up above \$8 billion to \$10 billion for individuals and households.

**Mrs. Cathy McLeod:** Anyone else...?

Actually, hopefully we'll have time to hear from everyone.

**Prof. Adam Parachin:** There are some Canada Revenue Agency technical interpretations offering the view that when a corporation issues stock of its shares to a charity or issues stock options to a charity, that's not a recognized donation. That might be one way to incentivize corporate giving: the actual giving of shares.

You might want to think about it in terms of looking at donors. You might not want to draw too stark a distinction between the privately held corporation and the sole shareholder of that corporation, because the person calling the shots is one and the same.

You can look at the rules dealing with the donation of private company shares to arrive at the same outcome. There are some submissions before the committee on removing the capital gains tax—some call it the capital gains penalty—on the donation of such shares.

I would offer you that perspective.

**The Chair:** Okay.

Ms. Payne.

**Prof. A. Abigail Payne:** I think the problem is twofold. One is that we have very difficult data to try to do any kind of analysis with. If you look at the charity tax returns, you'll see that the charity tax returns are not specifically asked how much money they received from corporations or businesses.

But from a corporation standpoint, corporations give money and corporations give food, but corporations also give sponsorships, and how they're treated under the tax code is going to differ. So trying to get a number on their involvement is going to be very difficult. I suspect their involvement is probably more than what was just stated as \$2 billion, but what that number is, I don't know. I think it would be difficult for any of us to know.

**The Chair:** Ms. McLeod, I think you wanted Ms. Lamb to comment on that.

Ms. Lamb, would you like to comment on that?

**Prof. Laura Lamb:** I really haven't done any research in that area, but by nature, corporations are making decisions in much different ways than households do. Corporations generally would probably require a larger incentive to increase their giving than individuals and households would.

**The Chair:** Okay.

Ms. McLeod.

**Mrs. Cathy McLeod:** I appreciate those comments.

When I mentioned to someone in the riding that we were doing this study, he certainly felt we were missing some magnificent opportunities by not finding some ways to provide incentives to corporations, so that was why I was explaining it that way.

The study really is focused on tax incentives. I do know there are probably some important things we can do that are not about tax incentives, and I don't think we should restrict ourselves to just tax incentives when we finish our report. But I wonder if we could get each person to say, in one sentence, what they think the single most important tax incentive change we should make would be.

**The Chair:** Okay, there's about one minute.

Mr. Parachin.

**Prof. Adam Parachin:** It would be the one I proposed.

**The Chair:** Mr. Reed.

**Prof. Paul Reed:** To pick one of several, I would say in particular targeting contributions from capital.

**The Chair:** Ms. Payne.

**Prof. A. Abigail Payne:** I think I would eliminate the two tiers and make it a single tier.

**The Chair:** Ms. Laforest.

**Prof. Rachel Laforest:** I don't have a specific recommendation, but I would pay attention to the shrinking civic core and the implications of that.

**The Chair:** Ms. Lamb, go ahead briefly.

**Prof. Laura Lamb:** I would support the idea of a single-level tax credit at a level higher than the current lower level.

**The Chair:** Okay, thank you, Ms. McLeod.

We'll go to Mr. Brison for a five-minute round.

**Hon. Scott Brison (Kings—Hants, Lib.):** Good afternoon, and thank you very much for appearing today. I want to start by apologizing. I had a speech in the House on the old age security issue today. I would have been here earlier.

I really appreciate the onus and the insight that you've provided to the committee, which will no doubt help guide our deliberations.

I want to start with a quick question. We met with Department of Finance officials earlier this week, and they were discussing the issue of a term of tax expenditure, which they use to describe what they perceive to be a cost as a result of a tax change or a tax benefit that leads to charitable giving. They had attributed, I think in 2011, \$36 million as a cost of the exemption of capital gains tax on gifts of publicly listed securities.

I'd appreciate your input on this, because their assumption is based on—and I'll give you an example—somebody giving \$100,000 in gifts of publicly listed securities. If you were to calculate, depending on inclusion rate, depending on their tax bracket, say, a \$20,000 capital gains tax that would have been paid had there not been the exemption of capital gains tax on gifts of publicly listed securities.... The Department of Finance looks at that and says that's a tax expenditure. That cost us money. It's like a line item in the budget. I was looking at that and thinking, well, that's assuming the contribution would have occurred in any case notwithstanding, and my feeling is that in a lot of cases it wouldn't happen. Capital gains tax kind of locks up capital, and the tendency is to hold on to it, and you may never divest yourself of it, or it might be something that's so far into the future that it's hard to put a cost on that.

So is it accurate to say that the \$36 million figure that the Department of Finance applies as a tax expenditure for this is a bit of a specious or at least questionable figure in terms of actual cost to the government?

• (1720)

**Prof. Adam Parachin:** There is a school of thought in tax theory that charitable donations aren't tax expenditures because they're not within the normative tax base. It's not a widely held view, but it is a view that does have some adherence, and that continues to this day.

On the specific question of the \$36 million figure, I would readily agree that it's speculative, because it's based on a number of assumptions that arguably do not hold true. A realization of capital gains from a donation of capital property is very much unlike any other disposition of capital property for the very reasons you mentioned. So I assume that number derives from an assumption the donor would have sold the shares on the open market but for the donation. That may not have happened. They might have been held and sold at a time when there was a capital loss, which would radically impact that tax expenditure calculation.

**Hon. Scott Brison:** For example, if a couple of years ago your donation was Research In Motion shares, that would have been a very different reality from what it is today. I'm not saying that to be facetious. I'm just saying there's a reality in this.

**Prof. A. Abigail Payne:** Can I add something?

**Hon. Scott Brison:** Sure.

**Prof. A. Abigail Payne:** From an economic standpoint, it's a two-point question: would they have sold and would they have donated? Those are two big assumptions. We don't know what would have happened without the tax credit.

**The Chair:** You have one minute left, Mr. Brison.

**Hon. Scott Brison:** Okay.

Thank you very much. I think it's important, because when Finance tells us that these kinds of measures are a tax expenditure, we need to consider the degree to which they represent an expenditure like any other expenditure or in fact are something that is attributed to that which may in fact may not be the case in terms of cost to treasury.

I have a question on the proposal to eliminate capital gains tax on gifts of private companies. I'd like to seek your input. I represent a rural and small-town riding. In my riding, and I think in rural and small-town communities across Canada, there's a fair bit of wealth in small businesses and small-town millionaires who have done very well over the years. In many cases they have succession issues. They've run these businesses successfully, they may be approaching their seventies, and their children are off in cities doing something. There could be a real unleashing of capital.

**The Chair:** Question....

**Hon. Scott Brison:** I just would appreciate your view on the potential of unleashing a lot of potential philanthropic capital and charitable giving in rural and small-town Canada if we were to make changes on the tax treatment of small businesses.

**The Chair:** Could we have one person respond to that, please? Is there someone who would like to tackle that?

Ms. Payne.

**Prof. A. Abigail Payne:** My sense is that private shares can be valued. We do have forensic accountants. So the concern of not having the tax treatment for them because there will be some sort of abuse should...or that's not the reason for doing it. I don't know what the reason is for treating them differently if we have good forensic accountants.

• (1725)

**Hon. Scott Brison:** It might be more of this phantom tax expenditure stuff they're afraid of, right?

**The Chair:** Thank you.

Mr. Parachin, did you want to very briefly comment?

**Prof. Adam Parachin:** Just quickly, there are some concerns about charities holding illiquid assets as well. So the preferred model would be that you can dispose of the private company shares and then donate the cash, because what does a charity do with the share of a private company?

**The Chair:** Thank you.

I want to thank you all for being with us today.

Ms. Lamb, I want to thank you for being with us from Kamloops, British Columbia.

If you have anything further in response to any of the questions you've been asked today, anything further you wish the committee to consider during our deliberations on this issue, please do forward it to the clerk, who will ensure that all members get it. I want to thank you so much for being here.

Colleagues, I have just a very brief administrative note. We did have a subcommittee meeting this morning. You have the first report before you just identifying what the subcommittee agreed to. Please take a look at that and be aware of those issues.

The only other item we should address on here is the visit to Cisco to see the TelePresence issue. We will add that for the next one.

Thank you, all. The meeting is adjourned.







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