



**Association of Fundraising Professionals (AFP)**

**Pre-Budget Consultation Brief**

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

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## **Background/Executive Summary**

The Association of Fundraising Professionals (AFP) is a professional association representing individuals responsible for generating philanthropic resources for charitable and public service organizations. AFP is the largest association of fundraisers in the world, representing more than 30,000 practitioners across the globe, including 3,400 members in 16 chapters across Canada.

AFP sets the highest standards for ethical behavior in the fundraising profession. AFP members are required annually to sign our *Code of Ethical Principles and Standards*, which was first developed in 1964 and is one of the few codes that is enforced. The AFP *Code of Ethics* has provided the basis for subsequent codes of conduct for fundraising in different countries around the world, including Canada. AFP also instituted a credentialing process in 1981, which was designed to identify for the giving public fundraisers who possess the demonstrated knowledge and skills necessary to perform their duties in an effective, conscientious, ethical and professional manner. More than 4,000 fundraisers around the world have earned the CFRE (Certified Fund Raising Executive) and ACFRE (Advanced Certified Fundraising Executive) credentials.

AFP collaborates with fundraising communities, government agencies and partners internationally to advance fundraising and philanthropy. AFP convened more than 30 national fundraising associations from around the world to draft the *International Statement of Ethical Principles*, a series of values and standards for the global fundraising community.

## **Recommendations**

AFP appreciates the opportunity to once again provide our recommendations to the Standing Committee on Finance. We also are grateful for the committee's commitment to the charitable fundraising profession and Canada's voluntary sector, as indicated by the committee's support of the elimination of the capital gains tax on gifts of listed securities a few years ago. This year, AFP offers the following recommendations:

1. Increase the flow of charitable funds in the wake of the recession and encourage Canadians to enhance their charitable giving by establishing a "stretch" charitable tax credit.
2. Extend the exemption from capital gains tax to charitable gifts of land and real estate.
3. Create a government-sponsored day – National Philanthropy Day, November 15 – which unambiguously recognizes the importance of the voluntary sector and increases public awareness of charitable giving.

## **Charitable Incentives Lower Tax Burdens and Drive Economic Recovery and Job Sustainability**

The charitable sector represents a significant source of jobs and economic stimulus. The charitable sector in Canada is made up of more than 161,000 organizations with over 1.2 million paid staff and 6.5 million volunteers (Voluntary Sector Awareness Project).

The sector has more than \$100 billion in annual revenue and possesses even more than that amount in net assets. The charitable sector is approximately equal in size to the economy of British Columbia. In effect, the sector is a business unto itself, essentially an entire province worth of organizations exclusively devoted to the strengthening of the factors (workforce, infrastructure, cultural initiatives, etc.) on which our country's economic future is based.

When the economy stagnates, that is when charitable organizations and their services are needed the most. Charitable and philanthropic organizations provide jobs and bridge the gap by serving those in need and our communities when budgetary constraints hinder provincial and federal governments from providing similar services.

Unfortunately, the economy has taken its toll on this vital sector. According to Statistics Canada, Canadians donated \$7.8 billion to charity in 2009, down from \$8.19 billion in 2008. The 2009 data represents a \$700 million decrease in charitable giving in comparison to 2006 numbers, which set the all-time high for Canadian giving.

There is clearly a need for new incentives to spur additional giving to charitable organizations, particularly in this tumultuous economic climate. The government and the nation's economy both benefit when the charitable sector receives the resources it needs. Private donations can help leverage the impact of government investments and allow charities to provide the programs and services that do much to augment the work of the government.

Accordingly, AFP encourages the committee to examine and approve the following recommendations that will promote more robust private giving to, and support for, the charitable sector.

### **Recommendation #1: Increase the flow of charitable funds in the wake of the recession and encourage Canadians to enhance their charitable giving by establishing a "stretch" charitable tax credit.**

To immediately increase charitable giving and create a long-term national culture of giving, AFP supports the recommendation from Imagine Canada that proposes a Stretch Tax Credit that would apply to donated amounts above \$200 that exceed a donor's previous highest giving level. This new measure would be based on an individual tax payer's best previous year of giving using 2008 as a baseline. It would provide a Stretch Tax Credit of 39 per cent on these new donations – 10 percentage points higher than the current level of tax credit on donations above \$200.

To continue benefitting from the Stretch Tax Credit in subsequent years, tax payers would need to continue to increase their levels of giving over their 2008 and previous year's baselines. This measure is intended to encourage all Canadians, but particularly middle-income earners, who wish to give for the first time or to give more in response to current needs up to a maximum of \$10,000.

This provision would have the beneficial effects of reducing the tax burden on Canadians while fueling charitable giving directly, which, in turn, creates economic gains throughout the sector. This giving incentive would particularly alleviate tax burdens on working families and middle income Canadians. A \$10,000 cap on eligibility for the Stretch Tax Credit would target it towards average families who donate cash and have not benefited from previous tax measures that encourage larger gifts of assets. Because there is no floor on the Stretch Tax Credit, even those who can only afford to make smaller donations will benefit.

The maximum benefit would be \$980 if used in one year (i.e. a one-year increase from \$200-\$10,000 in giving), though it is likely that for many, the increased benefit would be incrementally achieved over several years. The Stretch Tax Credit would benefit charities of every size and in every region and should, over time, broaden the base and increase the giving levels of Canadians across the country. It would also complement recent incentives encouraging gifts of assets aimed primarily at higher income Canadians with an initiative that is less exclusive and recognizes that most Canadians donate income rather than assets.

The Parliamentary Budget Office (PBO) recently prepared an analysis based on implementing the Stretch Tax Credit on donations above \$200. The PBO estimated that after three years, the incremental cost to the Treasury in foregone revenue would be between \$10 and \$40 million a year. Within three years, the PBO estimates that there would be up to 600,000 new donors, and that median donations would increase by up to 26%. The Stretch Tax Credit would be an extremely efficient way to maximize and leverage federal investment in vital community services.

Research shows that more than half of Canada's donors would increase their giving if there were better tax incentives. By encouraging more Canadians to become donors, the Stretch Tax Credit would also help strengthen communities. We also know that donors are more likely to be involved with charities in other ways, including volunteering; thus, encouraging more donors could lead to higher levels of volunteerism in communities.

## **Recommendation # 2: Complete elimination of the capital gains tax on gifts of appreciated land and real estate to charities.**

In addition to the Stretch Tax Credit, the Government of Canada can further lower the tax burden on Canadians while spurring charitable giving and the associated economic growth of the sector by eliminating the capital gains tax on gifts of appreciated land and real estate to charities.

Donors are interested in giving all types of wealth, and the two most common ways individuals are acquiring and accumulating wealth are through securities and real estate.

The federal government removed the capital gains tax on donations of securities to most charities in 2006, making these donations more attractive to potential donors than they had been previously. We encourage the federal government to now turn its attention to land and real estate.

Eliminating the capital gains tax would remove a huge barrier to these types of gifts and make it far more likely and appealing for donors to give land and real estate to charity. In fact, there is significant potential and interest from Canadian donors for these gifts. Land and real estate are not just owned by the very wealthy. According to the *Survey of Financial Security* (2005), the single most important asset for all Canadians was their principal residence, which accounted for one-third of the \$5.6 trillion in total assets surveyed. In addition, a significant change in the composition of assets from 1999 to 2005 consisted of growth investments in real estate such as cottages, timeshares, rental properties and other commercial properties. The aggregate amount of investment in this type of real estate was \$481 billion in 2005, roughly 1.8 times what it was in 1999, in constant 2005 dollars. This asset category exhibited by far the largest rate of growth of any asset type.

As was the case for gifts of securities, contributions of land and real estate are currently stymied by a tax system that makes such giving too burdensome and not attractive to most donors. It is, therefore, instructive to examine the effect of the elimination of the capital gains tax on gifts of securities to learn more about the potential positive impacts of similarly eliminating the capital gains tax on gifts of land and real estate.

The initial evidence is quite strong. Research conducted by Imagine Canada and supported by AFP found that the number of stock donations doubled from 2005 to 2006. In addition, the value of those gifts more than doubled, and the average value of donations to securities, expressed as a percentage of organizational revenues, almost doubled as well. All of this evidence points to the increasing importance of these gifts for many organizations and that the provision is working as intended. It should also be noted that just 50 percent of organizations in the survey had marketed the new incentive or otherwise tried to educate donors about the elimination of the capital gains tax on gifts of appreciated securities. Thus, there is still significant donor education to be done about the provision, which will in turn lead to additional gifts in the future.

Both the Finance Committee and the Standing Senate Committee on Banking, Trade and Commerce have already recommended that the capital gains tax be eliminated for gifts of land and real estate to charities.

**Recommendation # 3: Creation of a government-sponsored day – National Philanthropy Day, November 15 – to recognize the importance of the voluntary sector and increase public awareness of charitable giving.**

In 2009, the Minister of Canadian Heritage officially declared Nov. 15, 2009 as National Philanthropy Day in Canada. Canada is the first country to officially recognize National Philanthropy Day since its creation in 1986.

To instill some added permanence to the Minister's declaration, Senator Terry M. Mercer, CFRE (Liberal, Nova Scotia-Northend Halifax) introduced Bill S-203 on March 4, 2010 that would permanently recognize National Philanthropy Day every November 15. The bill received its third reading in the Senate on June 10, 2010, and now awaits House passage. It is hoped that the House will pass the bill as well.

National Philanthropy Day was created with the intent of increasing awareness of giving at all gift levels. Many organizations such as AFP already hold celebrations designed to encourage giving, raise awareness and honour donors and volunteers. Many voluntary sector organizations already celebrate National Philanthropy Day on November 15 every year across Canada. The government's involvement could help create partnerships with media sources and other organizations to further increase awareness of philanthropy and encourage Canadians to invest in the voluntary sector.

As you may recall, National Philanthropy Day legislation has come very close to passage over the past few years, but each time, it died just prior to passage in the House due to adjournment or prorogation. With this bill on the cusp of passage for so many years, it is time to finally pass it and formally honour this country's donors, volunteers and charities.

We encourage the Finance Committee to support this recommendation.

**Conclusion**

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

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