

Encouraging Charitable Giving; Building Nonprofit Innovation & Entrepreneurship

Pre-Budget Briefing – 2012 Federal Budget
Presented to the
House of Commons Standing Committee on Finance

August 2011

CanadaHelps



Executive Summary

CanadaHelps is Canada's online charitable foundation, facilitating giving for hundreds of thousands of donors and tens of thousands of charities annually. We are pleased to present these pre-budget recommendations to the House of Commons Standing Committee on Finance.

As we have witnessed the increasing challenges of charitable organizations to secure essential donation funding, and to access funds to spur innovation, we believe that the Government of Canada can play a vital role in supporting communities, donors, and charities through the budget for next year.

Considering that the economic future remains somewhat murky, our recommendations are based on simple, cost-effective means to support the charitable sector. We are writing to support two key recommendations previously proposed by Imagine Canada. These two recommendations will create better incentives for charitable giving, and provide access for charities and nonprofits to the pool of business and innovation consulting and funding already available through the Government of Canada.

Recommendation #1: Broaden the base of charitable giving and encourage Canadians to enhance their community support by establishing a Stretch Tax Credit for Charitable Giving.

Recommendation #2: Facilitate charities' and nonprofits' ability to access business support and advice and work towards an environment facilitating the access to capital necessary to increase support for Canadians.

Everyday Canadians Support Their Communities

Canada's charities and nonprofits are a vital component of Canadian communities, providing essential services and support to local and regional populations. They represent a market-oriented solution to critical needs, and represent the interests of the myriad of cultures, values, and interests of Canadians.

Canadian donors are generous, supporting charities across the country to further their work from local to international concerns. However, the general trend in giving for average Canadians has been going downward over recent decades, impacting all charities, but especially small and mid-size organizations. The recent economic downturn and on-going financial uncertainty has continued to take its toll on giving, and on the organizations that depend on this form of support.

Charities are responding to urgent and critical needs, and are working hard to grow their appeal to donors by improving their effectiveness and management capacity, and reaching out to grow community support. The falling level of individual giving, however, is a challenge to raising necessary funds. Some organizations are turning to more earned

revenue models, attempting to reduce their reliance on sinking donations. For this, they need capacity and resources to develop robust business plans and capital.

At CanadaHelps, we have witnessed the challenges that donors face when giving, and work with over ten thousand charities that are working to increase their fundraising and simultaneously, look at business models that can reduce their reliance on donations.

CanadaHelps is Canada's online charitable foundation. Since 2000, we've facilitated over \$200 million in giving through our online portal at www.canadahelps.org. We've witnessed the generosity of average Canadians who choose and give to any number of the thousands of charities across Canada.

Donors can find and give to any charity in Canada at CanadaHelps, giving securely by credit card, debit, PayPal, and securities through our online service. CanadaHelps is also a shared service for the charitable sector – as a charitable nonprofit, we provide back-end online donation facilities for more than ten thousand charities across Canada. By serving such a large number of charities and aggregating transaction volumes, donors and charities benefit from the low costs of these large economies of scale and best-in-class software and security; by offering the services as a charitable, nonprofit provider there is minimal overhead and a better understanding of the market we serve.

CanadaHelps has also become a voice for charities and donors, helping donors find charitable causes and encouraging them to give and to give wisely. During peak seasons of giving and humanitarian crises, CanadaHelps provides tools for donors to find and give to the causes that matter the most to them. Through our secure services, we help donors avoid fraudulent appeals, and we educate donors and charities on avoiding fraud and being diligent before giving.

As an online service provider, we must also remain both vigilant and innovative. Our vigilance in providing the best online transaction tools means we must continually maintain a high level of security against data theft and monitor emerging threats to internet data safety. Innovation is also critical, as we respond to the new ways that donors choose to give, such as mobile payments on smart phones, and other internet-enabled commerce.

While CanadaHelps has remained innovative, we have been hampered in our access to funding programs from the Government of Canada that could assist in the development of some of these new technologies. For-profit providers, however, have benefited from government funding to develop similar technologies.

It is in this context that CanadaHelps supports two key recommendations submitted by Imagine Canada.

Recommendation #1: Broaden the base of charitable giving and encourage Canadians to enhance their community support by establishing a Stretch Tax Credit for Charitable Giving.

CanadaHelps is witness to the generosity of Canadians every day through our giving site at www.canadahelps.org. Since 2000 we have processed over \$200 million in donations to Canadian charities - charities that form an essential part of the fabric of Canadian communities. In 2011, we will transact more than \$75 million in giving.

Most notably, the donations processed through CanadaHelps are not large donations from wealthy donors: they are small donations from working Canadian families who want to contribute to causes they care about – the average donation size through CanadaHelps is \$160. Donors through CanadaHelps represent families across the country – in every province and every territory.

The Stretch Tax Credit encourages Canadians from across the income spectrum to adopt a culture of giving and see themselves as philanthropists. Under the Stretch Tax Credit proposed by Imagine Canada and supported by CanadaHelps, Canadians would receive an additional 10 percent tax credit for each dollar of their charitable donations that exceeded their previous highest giving level, using 2010 as a baseline. This would add ten percentage points to the tax credit for the eligible portion of donations – the 15 percent credit would be boosted to 25 percent and the 29 percent credit to 39 percent. Once an individual reached \$10,000 in annual donations, no enhanced credit would be offered.

Would this encourage giving?

In a recent survey of CanadaHelps donors, 45% said that they would be encouraged to give more if there was an increase in the tax credit available for donations. Another 35% would consider giving more if the tax credit was increased.

Further, while many donors indicate the tax incentives are not their primary reason for giving, they still rank tax incentives as among the reasons for giving. In fact, CanadaHelps has observed that the annual tax deadline for charitable giving drives a significant portion of giving: December 31st is the busiest day for online donations. CanadaHelps processed over \$3 million on December 31st, 2010 – 5.4% of our annual volume in one day.

Who benefits?

Larger charitable organizations have benefited from the tax incentives that came from the elimination of capital gains taxes on donated securities, but mid-size and small organizations continue to struggle for donations.

CanadaHelps largely facilitates donations to medium-sized charities in Canada, those that provide essential services to their communities but don't have the name recognition as some of the largest charities in the country. 75% of all charities registered to receive donations through CanadaHelps have annual revenues below \$1 million. They represent all areas of charitable programming.

The total annual cost of this program has been estimated by the Parliamentary Budget Office at between \$10-\$40 million for donations exceeding \$200. Imagine Canada's recommendation to provide the Credit for all increased donations would increase this cost nominally.

Over 10,500 Canadian charities have registered with CanadaHelps for online fundraising: these charities rely on individual donations from average working Canadian families to fulfill their important missions. A Stretch Tax Credit would benefit the local community initiatives that form the foundation of many essential services.

Recommendation #2: Facilitate charities' and nonprofits' ability to access business support and advice and work towards an environment facilitating the access to capital necessary to increase support for Canadians.

Some Government of Canada programs to create innovation and build enterprise are open to the nonprofit and charitable sector, but many are not. Unfortunately, this excludes a sector of the economy that is rich in innovation and talent, and is a major employer of Canadians: over 2 million Canadians work in the nonprofit and charitable sector.

From our own experience as a charity that works at the leading edge of online technological innovation, we have been unable to access funding that is assisting for-profit enterprises develop nearly identical products for the marketplace. This has been a major competitive disadvantage, and creates an un-level playing field.

As an example, in the National Research Council's Industrial Research Assistance Program, CanadaHelps is barred from applying, as the criteria for application specifically require that applicants:

- Be a small and medium-sized enterprise in Canada, incorporated and profit-oriented;
- Have the objective to grow and generate profits through development and commercialization of innovative, technology-driven new or improved products, services, or processes in Canada." (*Emphasis added.*)

As a nonprofit, charitable foundation, CanadaHelps cannot apply. However, a for-profit software development company in the Toronto-area has received over \$450,000 in grants between 2008 and 2011 to develop mobile internet giving solutions from the NRC IRAP program. These solutions are being rolled out to a small number of large-scale charitable enterprises. Currently, CanadaHelps is developing similar solutions for use by all charities in Canada without any grant or capital investment opportunities. This innovation, however, could be greatly accelerated by access to these types of funding options, and would benefit the entire community of Canadian donors and charities.

The NRC IRAP funding, and other similar Government of Canada funding intended to stimulate enterprise, entrepreneurship and Canadian innovation is a fantastic investment in Canada's competitive position in the global marketplace. However, sector-based

restrictions on access to these types of program eliminates the possibility of leveraging the entrepreneurship and innovation that comes from all economic activity throughout the country.

Changing these restrictions to allow charities and nonprofits to access federal business development initiatives such as Canada Business Service Centres, the Business Development Bank of Canada, the NRC IRAP, and Community Futures Development Corporations will facilitate charities' and nonprofits' access to a wealth of federal services and support to launch or grow their entrepreneurial activities.

No new funding for these programs is required in a federal budget for these changes to be effective, although some funding may be required to promote these programs to the nonprofit and charitable sector to increase awareness levels, or to add funding to programs where increased benefits might be seen to the Canadian economy as a result of accelerated innovations by charities and nonprofits that take advantage of these programs.

Conclusion

Charities struggle to provide key services and programs every day across Canada. They respond to local needs and are at the whim of donors who may or may not give, depending on their personal decisions.

Simple tools to enhance the funding possibilities for small to medium charities, and incentives for average Canadian donors will provide essential benefits to maintain the capacity of the nonprofit and charitable sector. A Stretch Tax Credit will encourage Canadians to continue to support, and to grow their support for the organizations they care the most about. Enhancements to the federal business and innovation programs will ensure that charities and nonprofits continue to be at the forefront of enterprise and innovation in their service provision.

Respectfully submitted,

August 12, 2010

Owen Charters,
President & CEO

CanadaHelps 179 John Street, Suite 403, Toronto, Ontario, M5T 1X4

www.canadahelps.org, owen@canadahelps.org, 416.628.6948 x2384