

August 12, 2011

Via email to fina@parl.gc.ca

Standing Committee on Finance
c/o Guyanne L. Desforges, Clerk
6-14 131 Queen Street
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Sirs/Madams:

Attached is a submission to the House of Commons Standing Committee on Finance in response to the invitation for Canadians to submit their priorities for the 2012 federal budget.

Cardus is a North American public policy think tank, equipping change agents with the best theories and practices of public life to renew North American social architecture. We are presently preparing an additional comprehensive research paper on the decline of Canada's civic core.

We look forward to the opportunity to make an in-person presentation to the committee where we will have an opportunity to discuss these important matters further.

Respectfully,

A handwritten signature in blue ink, appearing to read "Ray Pennings".

Ray Pennings
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FEDERAL PRE-BUDGET CONSULTATION SUBMISSION
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EXECUTIVE SUMMARY

The decline in charitable giving in recent years is one of the consequences of the short-term economic challenges facing the country. What should not be overlooked is the longer-term trend in which fewer Canadians provide the vast majority of the giving, volunteering, and civic engagement on which our social infrastructure relies. There are many critical issues facing the sector which deserve intelligent policy support, a matter made more urgent by the demographic, immigration, and urbanization trends which confront us. As governments consider the limits of its own capacity in dealing with social issues, the maintenance of a strong not-for-profit sector is important in order to maintain a prosperous and sustainable standard for all Canadians.

Although broader-reaching structural changes are urgent, immediate support is needed for charities to retain the capacity to meet the immediate demands for their services. We recommend the creation of an additional tax credits that will provide benefits primarily to that civic core of Canadians who are providing a hugely disproportionate share of the resources for the charitable sector, recognizing that those who already are giving are the most likely to respond to the short-term needs of this sector.

We recommend:

1. That in recognition of the immediate challenges facing Canadian charities, an additional category be added to the charitable tax credit to provide a 37% tax credit for donations greater than \$450 per year from a taxpayer;
2. That steps be taken to initiate a national conversation regarding the rules and framework within which the not-for-profit sector functions within our society so that structural changes can be implemented which allow for this sector to continue its important contribution to our social fabric;
3. That a sunset clause of five years be introduced for the new tax category in order to emphasize the urgency of implementing a longer-term strategic solution.

RATIONALE

- ***Support for the Charitable Sector has been declining in recent years.***

The important contribution of the charitable sector to Canada needs no great explanation or defence. In its recommendations to the Minister of Finance leading to the 2010 budget, this committee heard extensive submissions and various proposals addressing the needs of this sector. The committee's report noted:

The Committee believes that the country's not-for-profit organizations and volunteers are valuable, both for individuals who need assistance and for people who are seeking to support their communities. We know that the need for charitable assistance is particularly high during times of crisis, and believe that the federal government has a role to play in encouraging charitable giving and in supporting charitable organizations. In our view, this support is needed in order to position charities and volunteers for the future role that they can play in society and the contribution that they can make.¹

The government's own tax expenditure report highlights that this reflects the government's existing policy commitments. "This measure is designed to support the important work of the charitable sector in meeting the needs of Canadians (Report of the Royal Commission on Taxation, Vol. 3, 1966; Tax Reform 1987).² Those same tax expenditure reports indicate, however, the significant decline that has taken place in this support during the recent economic crisis. In the 2007 report, the projected tax expenditures for charitable donations in 2006 were \$2.38 billion and for 2009 \$2.64 billion. The 2010 report indicates that the actual for 2006 was \$2.325 billion (relatively close to the original projection) but the project for 2009 had been lowered to \$2.105. The reduction in charitable giving on the part of Canadians translated into an almost \$500 million reduction of tax expenditures for the federal government. This benefit to the federal treasury is offset by a reduction of almost \$1 billion in the capacity of this sector at a time when the needs for charitable services were increasing. Charitable gifts were down from \$8.65 billion in 2007 to \$7.75 billion in 2009.³

In the context of government budgets, the significance of these numbers is easily lost. It is the capacity of the front-line charity that is focused on alleviating poverty, helping educate children, providing programs for seniors, helping immigrants settle and the host of similar goods that Canadians have taken for granted that are at stake. Well beyond the receipted charitable dollars provided to these grassroots charities by their donors are the volunteer and in-kind contributions, not to mention goodwill and humane caring for neighbour that this represents. As immigration, demographic changes, and urbanization all provide well-documented challenges to our society and increase in demand for the sort of services provide, the proposition that these organizations have a vital role to play in Canada's future borders on being self-evident.

- ***Most of the support is provided by a small "civic core" of Canadians***

In the past 20 years extensive research has been conducted into the health of Canadian civil society and the charitable sector.⁴ Researchers have discovered the existence of a small "civic core" in Canada—a dedicated minority of citizens who are responsible for the overwhelming majority of

1. <http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=4304866&Language=&Mode=1&Parl=40&Ses=2&File=384#33>

2. <http://www.fin.gc.ca/taxexp-depfisc/2010/taxexp1004-eng.asp#tocnotes-04>

3. Statistics Canada. *Table 111-0001 - Summary of charitable donors, annual (number unless otherwise noted)*, CANSIM (database). <http://www5.statcan.gc.ca/cansim/a01?lang=eng>

4. Major research initiatives include the National Survey of Giving, Volunteering, and Participating; more than 50 published studies and detailed analyses published by the Nonprofit Sector Knowledge Base Project at Carleton University; and additional research by Statistics Canada.

all charitable giving, volunteering and civic engagement.⁵ Researchers have analyzed data from the Canada Survey of Giving, Volunteering and Participating (CSGVP) to define the demographics of those who take part in charitable, civic and voluntary activities. Their findings are surprising. In Canada in 2000, 18% of adults were responsible for 80% of all money donated to charities. Six percent of adults were responsible for one out of every three dollars donated. 80% of all volunteer hours given were given by nine percent of the population. One out of five adults accounted for nearly two-thirds of all civic participation. This pattern has remained unchanged in recent years.⁶

The great majority of Canadians donated very little or nothing at all throughout the year. A small fraction of the population, 10 percent, is responsible for contributing the lion's share, nearly two-thirds, of all charitable donations. Within the group of those who chose to make one or more charitable donations during 2007, half of the donors contributed less than \$120 in annual giving. For individuals with incomes over \$100,000, the median amount donated over twelve months was \$210.⁷

The size of the core group of active donors, volunteers, and civic participants is surprisingly small relative to the proportion of total contributions they make to general civic well-being. Researchers estimate that the primary civic core is made up of approximately seven percent of the population. An additional 20% of the population make up a slightly less engaged "secondary core". They conclude that just over one quarter of the population accounts for nearly three-quarters of all civic engagement in Canada.⁸

- ***This has long-term implications that deserve a strategic policy response***

Neither any single policy initiative nor government by itself can change these trends which have been many years in development. In Cardus' *Culture of Generosity* study released in 2009, we made nineteen recommendations outlining steps that charities themselves, businesses and unions, the media, educational institutions, and philanthropists might take in addressing this issue. Later this year, Cardus expects to release a follow-up study which analyzes the implications of these trends on ten factors of civic engagement: volunteering, formal charitable giving, participation in civic or community organizations, attending religious services, informal helping, informal giving, donating clothes or food, making a bequest, news following, and voting. There is a strong interrelationship between the trends affecting these factors and the prospect of current trends continuing unaddressed that poses serious challenges for much of what we take for granted as "the Canadian way of life." We urge all of the stakeholders, including the federal government, to engage in a national conversation regarding the future of this sector and how a policy framework should be developed which will enable it to flourish.

5. A helpful description of the size and structure of Canada's civic core is presented in "The Civic Core in Canada: Disproportionality in Charitable Giving, Volunteering, and Civic Participation," Paul B. Reed and L. Kevin Selbee, *Nonprofit and Voluntary Sector Quarterly*, vol 30, no.4, December, 2001, pages 761-780.

6. These measures are taken from "The Civic Core in Canada: Disproportionality in Charitable Giving, Volunteering, and Civic Participation."

7. *Caring Canadians, Involved Canadians: Highlights From the 2007 Canada Survey of Giving, Volunteering and Participating*, Statistics Canada, Minister of Industry, June, 2009. pages 14, 15.

8. "Patterns of Civic Participation and the Civic Core in Canada," Paul B. Reed and L. Kevin Selbee, Nonprofit Sector Knowledge Base Project, November, 2000.

- ***An additional category of tax credits for existing donors is the most likely strategy to provide immediate support for the sector while a longer-term strategy is implemented.***

The need for increased support for this sector has been the subject of various proposals during the past number of budget cycles. We are amending our previous proposals for an increased tax credit out of recognition that in a period of government expenditure review, the ability of the federal treasury to forgo additional tax revenues is limited. However, we do recommend that an additional category be added to the charitable tax credit to provide a 37% tax credit for donations from a taxpayer greater than \$450 per year. This will affect the estimated tax expenditure by \$537 million increasing it from the current \$2.15 billion to \$2.687 billion. In light of the fact that as recently as 2007 the anticipation was that in 2009 the charitable tax expenditure would be \$2.64 billion, this measure is required simply to restore the level of support to the sector to the level projected, without even anticipating the increased demands that have been put upon it by our recent economic challenges.

This measure does not address the issue that fewer Canadians are part of the civic core. Rather, it recognizes the reality that while longer-term solutions for this problem are considered and implemented, the charitable sector requires ongoing support to meet its immediate needs and that those most likely to provide for those needs are those whom are already giving. This provides those civically responsible tax payers with additional resources which are, in turn, most likely to be reinvested into this sector. The research shows that “the small proportion of donors whose giving is planned, recurring, and in significant amounts will be most likely to respond to incentives.”⁹

9. Paul B. Reed and L. Kevin Selbee, “The Social Dynamics of Contributory Behaviours: A Synopsis of Key Findings and Implications from a Multi-Year National Study” (Ottawa: Statistics Canada and Carleton University, 2006) p. 42.