



FORGING A NEW PATH TO SUSTAINABILITY

**Pre-budget brief submitted by Imagine Canada
to the
House of Commons Standing Committee on Finance**

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Executive Summary

Imagine Canada, a national umbrella organization for Canadian charities and nonprofits, welcomes the opportunity to participate in the House of Commons Standing Committee on Finance's pre-budget process. Charities and nonprofits face a number of challenges and opportunities in the years to come and are identifying innovative ways of dealing with a changing world. As a sector, one of our main priorities this year is to meet the growing and changing needs of the communities we serve and engage by ensuring the diversification of our financing, and thereby the sustainability of our efforts to build stronger, more vibrant communities at home and abroad. The Government of Canada remains an important partner but the likely focus on deficit reduction in the near future means finding innovative and cost-effective ways for the government and citizens to invest in charities and nonprofits. With this in mind, Imagine Canada makes the following recommendations:

- 1. Broaden the base of charitable giving and encourage Canadians to enhance their community support by establishing a Stretch Tax Credit for Charitable Giving.**
- 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.**
- 3. Amend the *Income Tax Act* so that appeals of charitable status registration or revocation be moved in the first instance from the Federal Court of Appeal to the Tax Court.**

Every day, Canada's 161,000 charitable and nonprofit organizations help Canadians and their communities address intractable economic, social and environmental challenges. They engage and empower citizens, provide vital social, family and community services, and contribute to quality of life through such pursuits as sport and recreation, arts and culture, and religious practice. They also embody Canadians' commitment to the world around us, working to improve conditions around the globe. In doing so, they enhance Canada's international reputation, reach and influence.

The sector is a significant economic force and key contributor to the labour force and job creation. It accounts for more than \$100 billion in economic activity, representing approximately seven percent of GDP. More than 2 million Canadians work in the sector and 12.5 million Canadians are engaged as volunteers.

Yet, like many sectors of the economy, charities and nonprofits are undergoing rapid transformation. In the wake of the recession, increasing demand for their services and supports are colliding with a slowdown in donations, the loss of value in endowments and constrained government investment. Over the longer-term, charities and nonprofits seek to diversify and

sustain their financing, improve conditions for the attraction and retention of staff, better respond to the changing expectations of volunteers, meet heightened demands for transparency and accountability, and engage in transformative partnerships – all with a view to better fulfilling their missions. It is a daunting but necessary transformation, one that is being led by the sector itself, but which can be facilitated by strategic, targeted and supportive contributions from governments and citizens themselves.

The recommendations that follow reflect the evolving partnership that charities and nonprofits seek with the Government of Canada and its citizens to improve quality of life for all.

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.

In the 2007 Canada Survey of Giving, Volunteering and Participating, more than half of all donors indicated that they would increase their charitable giving if there were better tax credit incentives to do so. Incentives encouraging increased giving – both by Canadians who already give, and by those who have not yet done so – would renew the partnership between charities and local communities and would help place charities on a firmer financial footing, ensuring they can continue to respond to growing and changing demand.

As a new generation of workers begin their careers and start to raise their families, they want to build and contribute to their local communities and communities of interest, but most face multiple financial demands on their hard-earned dollars. The federal government has, in recent years, made use of tax credits such as the Children’s Fitness Tax Credit, the Children’s Arts Tax Credit, the Volunteer Firefighters Tax Credit and the Public Transit Tax Credit to reduce Canadian families’ tax burden and improve their quality of life. As the Minister of Finance stated in this year’s Budget Speech, “[p]art of helping hard-working Canadians, of course, is keeping their taxes low as they try to make ends meet.” In keeping with this approach, the Government of Canada has an opportunity to help all Canadians, but young career earners and young families in particular, develop a culture of philanthropy by encouraging them to support their favourite causes and contribute to their communities in a sustainable way.

To help Canadians develop and expand their philanthropic activities, Imagine Canada proposes a Stretch Tax Credit for Charitable Giving. 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.

The Stretch Tax Credit would encourage Canadians from across the income spectrum to adopt a

culture of giving and see themselves as philanthropists. By making the first dollar of donation eligible, the Stretch Tax Credit would recognize the important contribution made by all Canadians and allow them to decide where their hard-earned dollars should be invested in support of their community. This would complement recent incentives encouraging gifts of assets, which have benefited primarily higher income earners. The broadened donor base and increased levels of giving would have a sustained impact as charities of all sizes, and rural, urban and remote communities would benefit from this joint government-citizen investment in quality of life.

Realizing the potential of the Stretch Tax Credit would require charities and the federal government to work collaboratively to ensure high rates of awareness of philanthropic giving. One way to achieve this would be for federal tax forms to provide individuals with updates as to their eligibility -- similar to what is currently done with regard to RRSPs. This would provide Canadians with a timely reminder of their recent philanthropic activities, how they could stretch their giving, and the tax benefits they realize.

In August of 2010, the Parliamentary Budget Office conducted an analysis of the Stretch Tax Credit, based on boosting the tax credit for donations exceeding \$200. Under this scenario, the PBO found that, after three years, the annual cost to the federal government in foregone tax revenue would be between \$10 million and \$40 million a year. Between 30 and 45 percent of this would arise from new charitable donations that would not otherwise have occurred.

The PBO further estimated that within three years, up to 600,000 Canadians would be encouraged to donate for the first time, and the median donation would increase by between 3 and 26 percent. Even with the extension of our proposal to also include donations under \$200 dollars, a relatively small investment in the form of foregone revenue would leverage the efforts and commitment of hundreds of thousands of Canadians, strengthening their bonds with each other and their communities and infusing new dollars into local economies across the country.

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.

Earned income has become an increasingly important source of funds for charities and nonprofits to carry out their missions. Across the sector, almost half of the funds available for serving and engaging Canadians are generated through earned income activities such as the sale of goods or services related to one's charitable or nonprofit mission. Some organizations generate more than two-thirds of their income from these activities.

As governments at all levels constrain their investment in grants and contributions in order to address deficits, earned income is becoming even more important for the charitable and nonprofit sector to ensure financial sustainability. However, as organizations seek to become

more entrepreneurial in order to stabilize and expand their revenue base, they face many of the same challenges as those of private entrepreneurs. They need business planning assistance; advice to identify and exploit market opportunities; support to develop and adapt new technology; and capital to launch and scale up their enterprises.

To address these challenges, charities and nonprofits will need to leverage investments and expertise from within the sector as well as from government and the private sector. We therefore call upon the Government of Canada to facilitate charities' and nonprofits' ability to access the support, advice and capital they require to solidify their financial base and contribute in a more sustainable way to local communities.

One action that could be taken immediately is to allow charities and nonprofits to access federal business development initiatives such as Canada Business Service Centres, the Business Development Bank of Canada, the National Research Council's Industrial Research Assistance Program, and Community Futures Development Corporations. A small federal investment to open up these programs to charities and nonprofits where they are not currently accessible and to better promote and support these programs in instances where they are made available to the sector but are not well known, would facilitate charities' and nonprofits' access to a wealth of federal services and support to launch or grow their entrepreneurial activities.

We made a similar recommendation last year. This measure was also recommended by the Canadian Task Force on Social Finance, which in December 2010 stated that "the eligibility criteria of government sponsored business development programs targeting small and medium enterprises should be expanded to explicitly include the range of social enterprises." We hope that the Committee will at some point want to consider the broad range of issues pertaining to earned and generated income for charities and nonprofits, which could be done as part of the study into the charitable sector that was requested by the Minister of Finance in the 2011 federal budget.

Recommendation #3

Amend the *Income Tax Act* so that appeals of charitable status registration or revocation be moved in the first instance from the Federal Court of Appeal to the Tax Court.

If an organization is refused registration as a charity or the Canada Revenue Agency (CRA) revokes a charity's registration, its first level of court appeal is the Federal Court of Appeal (FCA). This is an expensive and cumbersome process, well beyond the means of most organizations that are or want to be charities. The only other type of CRA appeal that goes to the FCA are decisions related to registered pension plans, where the appellants' resources are generally not an issue.

Both the Federal Court of Appeal and the Supreme Court of Canada have commented that a hearing at Tax Court would be preferable, since it would allow for testimony by witnesses, and greater detail than an FCA hearing which is conducted on the basis of documentary evidence

that has already been prepared by CRA and the organization involved. The Tax Court has in the past indicated that it would be able to take on the additional responsibility without having to add more resources. The Canadian Bar Association has also written to the Minister of Justice requesting this change.

As charities seek to increase their earned income activities, there may be cases where the limits of the current regulatory regime governing their engagement in these activities require clarification from the courts. Shifting the primary level of appeal to the Tax Court would not represent a cost to the federal government, and would improve the development of charity law by making the judicial system more accessible to those who may require its intervention. In addition to the reduced financial burden on organizations, Tax Court is more accessible geographically as it sits in more centres than does the Federal Court of Appeal.

Conclusion

Charitable and nonprofit organizations are responding to economic and social change. They are working to engage more Canadians, emphasizing that “philanthropy” is within the reach of everyone, not just the wealthy. They are testing new ideas and approaches and looking for new ways to sustain and diversify the revenue base that makes their contributions possible. They embody the words of the Governor-General in the 2010 Speech from the Throne that “the best solutions to the diverse challenges confronting Canada’s communities are often found locally. Every day, the power of innovation is seen at work in communities across this country, as citizens, businesses and charitable groups join forces to tackle local problems.”

Our recommendations are all about building a stronger future. They are realistic, achievable and would come at minimal cost in part through foregone federal tax revenues driven by the priorities of taxpayers. They will help hard-working families and individuals build the kind of communities that they want. They will enhance charitable and nonprofit organizations’ ability to respond to community needs, and strengthen the important partnership between charities and nonprofits and the Government of Canada.