Association of Fundraising Professionals (AFP)

Tax Incentives for Charitable Donations Submission

To the House of Commons Standing Committee on Finance

January 17, 2012

Association of Fundraising Professionals
260 King Street East
Suite 412
Toronto, ON M5A 4L5
(416) 941-9212

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.

Fundraising serves as the engine that drives the charitable sector by developing and maintaining relationships with donors and philanthropists who provide the necessary funding for education, social services, healthcare, medical research and the many other altruistic functions provided by the sector. Fundraising complements governmental support for charities and ensures the survival of the charitable sector when state, local and federal governments lack the budgetary means to help. AFP fosters development and growth of fundraising professionals through training and education and promotes high ethical standards in the fundraising profession.

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 several countries around the world, including Canada.

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 applauds the House of Commons Standing Committee on Finance for launching a study of charitable giving. We appreciate the opportunity to provide the following recommendations regarding tax incentives for charitable donations:

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 private company shares and land and real estate.

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 85,000 registered charities with over 1.2 million paid staff and 6.5 million volunteers (Voluntary Sector Awareness Project).

The sector has more than $190 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's 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.

Charitable and philanthropic organizations provide jobs and bridge the gap by serving those in need and our communities and complement provincial and federal governments providing similar services, particularly when those governments face budgetary constraints.

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.

AFP, therefore, encourages the committee to consider and approve the following key recommendations when it undertakes the study of charitable giving.

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 taxpayer's best previous year of giving. It would provide a Stretch Tax Credit of 39 percent 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, taxpayers would need to continue to increase their levels of giving over their previous year's baselines.

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 existing incentives that encourage 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. The PBO estimates that there would be up to 600,000 new donors within three years, and that median donations would increase by up to 26 percent.

It is clear that Canada needs a tax incentive like the stretch credit to stimulate charitable giving across the country. In 1990, almost 30 percent of tax filers claimed a tax credit for charitable donations. Preliminary figures for 2010 indicate that only 23.5 percent of tax filers made a similar claim. While this would represent a slight increase over an economically challenging 2009, it is clear that there has been a significant decline over time.

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. Because there is no floor on the Stretch Tax Credit, even those who can only afford to make smaller donations will benefit.

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

In addition to enacting 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 private company shares and appreciated land and real estate to charities. The Private Member's Motion (M-559) introduced by Peter Braid, Member of Parliament for Kitchener-Waterloo that launched this study on tax incentives for charitable donations included this key proposal. This recommendation is supported by Donald K. Johnson and other representatives of the charitable sector.

The federal government removed the capital gains tax on donations of marketable 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 private company shares and land and real estate. Gifts of both these appreciated capital assets are exempt from capital gains taxes in the United States, and Canadian charities should have the same opportunity to access donations from the private sector.

The C.D. Howe Institute hosted the Conference on Strengthening Charity Finance in Canada on March 8, 2011. A presenter at the conference estimated that our two proposals would result in an annual increase in charitable giving in the form of private company shares and real estate of $170 to $225 million and the tax revenue cost to the federal government would be only $50 to $65 million. These estimates were based upon an analysis of the Department of Finance's Annual Tax Expenditure Report, taking into consideration the percentage of donations of appreciated capital property in the U.S. that are made in the form of private company shares and real estate.

The capital gains tax exemption in Canada was limited to listed securities because there is a publicly listed market for these securities and there was no concern about valuation abuse. Concerns about valuation abuse for gifts of private company shares can be addressed by requiring a charity to issue a tax receipt to the donor only after it has received the cash proceeds from the sale of the asset. In the vast majority of cases, the charity wants to monetize its gift of appreciated capital property at the earliest opportunity, for its fair market value. If the purchaser of the asset is not at arm's-length from the donor, the charity would be required to obtain two independent, third-party professional appraisals for the asset to ensure that it is receiving fair market value on the sale.

The elimination of the capital gains tax on gifts of securities has been quite successful. Research conducted by Imagine Canada and supported by AFP found that the number of stock donations doubled from 2005 to 2006 after the proposal was enacted. 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.

We urge the committee to now eliminate the capital gains tax on gifts of private company shares and land and real estate to spur charitable giving from these sources as well.

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 two 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.

We are aware that the committee may contemplate accountability and transparency matters in conjunction with its study of tax incentives. AFP has strongly supported tough measures to enhance transparency and accountability in the past including the June 2009 Guidance on Fundraising which, due in large part to open, comprehensive and cross-sector consultation, was well-designed and welcomed by the sector. Indeed, an Attorney

General’s Report (Chapter 7 October 2010) highlighted the Canada Revenue Agency’s (CRA) improved performance in charity regulation and enforcement following the release of the 2009 guidance.

There is a fine balance between strong accountability and transparency and unnecessary bureaucracy that stifles existing and potentially new tax incentives intended to encourage charitable giving. We believe that a robust regulatory framework for accountability transparency already exists between the CRA’s fundraising guidance, which was recently updated, and the regulations existing through the Income Tax Act and the T3010 form.

We urge the committee to carefully consider the potential impacts on charities and charitable giving if the committee chooses to contemplate accountability and transparency measures. We also suggest that the committee seek charitable sector input to ensure that the sector can lend its own expertise and experience to the process.

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 jlee@afpnet.org.