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BMO Recommendation on Charitable Giving

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According to the latest figures from Statistics Canada, fewer than a quarter of tax-filing Canadians claim deductions for charitable donations (23.4% of all filers in 2010, or 5.74 million people). Part of the reason for the relatively low reading reflects tax-planning strategies by couples, whereby the higher-earning spouse can earn a higher credit by combining the total donations in a family. Even so, the share of Canadians claiming for such donations has steadily drifted lower over the past two decades from 30% as recently as 1990. And, the share of filers donating is also below that in the U.S. (26.6% of Americans).

Moreover, the total value of charitable donations claimed has drifted lower in recent years. While donations did rise 6.5% in 2010 to $8.25 billion, that was still below levels prevailing in 2006 and 2007 (each more than $8.5 billion). Donations stood at just over a 0.6% share of total personal income in 2010. The actual amount of donations may in fact be somewhat higher, as charities reportedly issued more than $13 billion of tax receipts that year, but that still represents a modest 1% of personal income. Again, this is well below the share donated by American tax filers (1.3% of personal income), who donate roughly twice as much as Canadians, on average.

One way to encourage more charitable donations by Canadians would be to extend the current 29% tax credit to all donations, and not just those above $200. (Donations below $200 currently receive a 15% credit.) While this would have little or no impact on large donors, it could encourage giving for more modest donors, as the marginal return would nearly double for gifts of up to $200. And, the median claimed charitable donation in 2010 was $260 (versus an average of $1,437), suggesting that many donors could benefit from such a step.

The potential fiscal cost to Ottawa of such as step would include: 1) revenue losses on any donations that currently receive the lower tax credit, and 2) revenue losses on any credits for new additional donations. We estimate that the first part will cost roughly $140 million to $150 million annually in foregone revenue for Ottawa. The cost of the second part would depend on to what extent the new policy attracted new donors, which can only be roughly estimated. If the new policy eventually prompted enough donors to bring the share back to 1990 levels (i.e. 30% of tax filers), and the new donors claimed $100 each, the cost of 2) would be less than $50 million. Thus, the overall cost of this suggested step would be less than $200 million, even if more than 1.5 million Canadians began giving more generously to charities. (This compares with recent estimates of a total cost of $2.2 billion for the overall charitable tax deductions, increasing the total cost of the deduction to Ottawa by less than 10%.)

Given the projected fiscal cost, and the budget realities currently facing the federal government, we would recommend considering implementing this change only when the revenue situation is stronger and the fiscal position is closer to balance.