



January 17, 2012

Ms. Guyanne Desforges  
Clerk, Standing Committee on Finance  
Standing Committee on Finance  
Sixth Floor, 131 Queen Street  
House of Commons  
Ottawa, Ontario  
K1A 0A6

Facsimile: 613-996-1626  
E-mail: [fina@parl.gc.ca](mailto:fina@parl.gc.ca)

Dear Ms. Desforges,

**RE: Simplification of the Donation Tax Credit**

I am writing to you today, on behalf of CIBC, in response to your recent request for submissions regarding potential new tax measures to encourage charitable giving in Canada. You have stated that, among other things, your examination will include a review of charitable tax credit amount and that is the focus of this submission.

Anecdotal evidence would suggest that the tax benefits associated with giving to charity are based on one's tax bracket, such that the more you earn, the higher the value of your charitable donation receipt. For individuals, this is not true and this misconception perhaps can be most likely attributed to the pre-1988 system of where donations gave rise to a deduction, which is still the case for corporations who donate to charity.

**Two-tiered System**

In provinces and territories without a high-income surtax, the value of a donation credit is therefore independent of a taxpayer's tax bracket and level of income, since donations give rise to a credit rather than a deduction from taxable income.

Under the present tax system, donations made to registered charities give rise to a non-refundable tax credit, both federally and provincially, depending on the amount a donor gives in a calendar year.

Federally, a donor receives a 15% non-refundable credit for the first \$200<sup>1</sup> of annual donations. Anything donated above \$200 in a calendar year entitles the donor to a federal tax credit of 29% on the balance. The provinces and territories each have a similar tiered donation credit system such that the value of the credit is enhanced to

---

<sup>1</sup> *Income Tax Act (Canada)* subsection 248(1) "appropriate percentage".

about 20% for the first \$200 and from 40 to 50% for amounts above \$200 by parallel provincial tax credits.<sup>2</sup>

So if a donor was to donate \$500 to charity in 2012, this would entitle her to a federal donation tax credit of \$117 — a \$30 credit on the first \$200 (15% x \$200) and an \$87 credit on the balance (29% x \$300).

This is a complex and confusing system and the methodology is lost on most of the 5.7 million taxfilers who reported charitable donations in 2010.<sup>3</sup> With the 2010 median donation being \$260, more than half of these taxfilers had to contend with the complexity of this two-tiered credit.

In recent years, as a result of more government scrutiny and oversight of our charitable sector, Canadian charities are facing increasingly arduous rules and regulations, and have scarce resources to dedicate to donor education, choosing instead to focus their funds on the charitable programs they were established to facilitate.

Indeed, the donation system is so complex that the Canada Revenue Agency had to create an online charitable donation tax credit calculator in which a donor can select his or her province of residence and enter the eligible amount of annual donations before hitting the “Calculate” button to have the CRA tell the donor the value of his or her donation tax credit.

## **Policy History**

Tax benefits for charitable giving can be traced back to our first Tax Act, the *Income War Tax Act of 1917* which contained an exemption for taxpayers who gave to a specified list of charitable organizations. This Act was then amended in 1930 to expand the exemptions to any charitable organization.

The exemption originally took the form of a tax deduction but in 1987, as part of tax reform, the two-tiered credit system was introduced. Beginning in 1988, the first \$250 of charitable donations gave rise to a tax credit of 17% with donations exceeding that eligible for the 29% credit.

The current two-tiered credit system, aside from being complex, favours those who give more than \$200 annually. Thus the current government’s two-tiered donation policy disproportionately rewards those who give more to charity, and while it may encourage the wealthiest Canadians to give more, it does little to encourage widespread charitable donor participation by the average Canadian. Given that in 2010 only 23.4% of taxfilers claimed a donation credit, increasing the number of Canadians who participate in charitable giving is clearly a worthwhile goal.

---

<sup>2</sup> While most provinces apply the lowest provincial tax rate to the first \$200 of donations and the highest rate to any excess, Quebec and Alberta have slight differences in their systems. In Quebec, the provincial donation tax credit is 20% of the first \$2,000 of annual donations and 24% on any excess (*Quebec Taxation Act* art. 752.0.10.6) while in Alberta, since 2007, an enhanced 21% provincial credit makes the combined credit worth 50%.

<sup>3</sup> Statistics Canada, The Daily, December 5, 2011, “Charitable Donors”.

## **Recommendation**

**To encourage charitable giving participations rates among Canadians and to simplify the tax system, we are recommending that the current two-tiered system be replaced with one donation credit at 29% for a donor's entire annual donation amount.**

We do not have the data required to estimate the total cost to the government of eliminating the lower credit threshold but it would be important to weigh this cost against the potential benefit of increased private sector individual funding which would provide much needed funds towards many important social causes such as healthcare, research and education, which would be to the benefit of all Canadians.

We would be pleased to appear before the Committee as a Witness if it should decide to hear from us on this important matter.

Sincerely,



**Jamie Golombek CA, CPA, CFP, CLU, TEP**  
Managing Director, Tax & Estate Planning  
CIBC Private Wealth Management

Phone: 416-980-8558