

Encouraging Charitable Giving for All Canadians

Tax Incentives for Charitable Donations
Presented to the
House of Commons Standing Committee on Finance

January 2012

CanadaHelps

179 John Street, Suite 403
Toronto, Ontario, M5T 1X4



CanadaHelps is Canada's online charitable foundation, facilitating giving for hundreds of thousands of donors and over twelve thousand charities annually. We have witnessed the challenges that donors face when giving, and work with charities that are striving to increase their fundraising and adapt to a changing competitive environment. We are pleased to present this brief to the House of Commons Standing Committee on Finance.

As we have observed the increasing challenges for charitable organizations to secure essential donation funding, we believe that the Government of Canada plays a vital role in supporting communities, donors, and charities in developing strong donor bases and sustainable community support.

Considering that the economic future remains unknown, our recommendation is based on simple, cost-effective means to support the charitable sector. We are writing to support a key recommendation proposed by Imagine Canada, to broaden the base of charitable giving and encourage Canadians to enhance their community support by establishing a Stretch Tax Credit for Charitable Giving.

About CanadaHelps

CanadaHelps is a participant in the generosity of Canadians every day through our giving site at www.canadahelps.org. CanadaHelps is Canada's online charitable foundation: since 2000 we have processed over \$240 million in donations to Canadian charities - charities that form an essential part of the fabric of Canadian communities. In 2012, we will transact \$70 million in giving. We've witnessed the generosity of average Canadians who choose and give to any number of the thousands of charities across Canada.

Donors can find and give to any charity in Canada at CanadaHelps – as such, we are often referred to as the 'Google of giving'. We provide services for donors to give securely by credit card, debit, PayPal, and securities through our online service.

CanadaHelps is also a shared service for the charitable sector – as a charitable nonprofit, (and the third largest charitable public foundation by annual revenue) we provide back-end online donation facilities for more than twelve thousand charities across Canada. By serving such a large number of charities and aggregating transaction volumes, donors and charities benefit from the low costs of these large economies of scale and best-in-class software and security; by offering the services as a charitable, nonprofit provider we incur minimal overhead and also have a better understanding of the market we serve (being nonprofit and charitable ourselves).

CanadaHelps has also become a voice for charities and donors, helping donors find charitable causes and encouraging them to give and to give wisely. During peak seasons of giving and humanitarian crises, CanadaHelps provides tools for donors to find and give to the causes that matter the most to them. Through our secure services, we help donors avoid fraudulent appeals, and we educate donors and charities on avoiding fraud and being diligent before giving.

The Stretch Tax Credit

The Stretch Tax Credit encourages Canadians from across the income spectrum to adopt a culture of giving and see themselves as philanthropists. Under the Stretch Tax Credit proposed by Imagine Canada and supported by CanadaHelps, 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. In practice, under the Stretch Tax Credit, eligible amounts below \$200 would accrue a tax credit of 25%, while eligible amounts above \$200 would accrue a tax credit of 39%.

The total annual cost of this program has been estimated by the Parliamentary Budget Office at between \$10-\$40 million for donations exceeding \$200. Imagine Canada's recommendation to provide the Credit for all increased donations would increase this cost nominally.

Why the Stretch? Encouraging Everyday Canadians to Support Their Communities

Canada's charities and nonprofits are a vital component of Canadian communities, providing essential services and support to local and regional populations. They represent a quasi market-oriented solution to critical needs, and represent the interests of the myriad of cultures, values, and interests of Canadians: Canadians are freely choosing the organizations and issues they wish to support through their contributions.

Canadian donors are generous, supporting charities across the country to further their work from local to international concerns. However, the general trend in giving for average Canadians has been downward over recent decades, impacting all charities, but especially small and mid-size organizations. The recent economic downturn and on-going financial uncertainty has continued to take its toll on giving, and on the organizations that depend on this form of support. Tax data demonstrates that overall, the aggregate amount of giving is slowly increasing, but that fewer Canadians are giving, hitting an all-time low of 23% of tax-filers reporting charitable giving in 2009.

The discrepancy of growing donation dollar volumes yet fewer Canadians giving has directly impacted small and mid-size charities, the very organizations that support key issues in their local community. Large institutions are benefiting from the generous gifts of wealthy philanthropists – it is these gifts that are driving up the dollar amount given to charities, but the underlying concern is that fewer Canadians are participating in community philanthropy.

Charities are responding to urgent and critical needs, and are working hard to grow their appeal to donors by improving their effectiveness and management capacity, and reaching out to grow community support. The falling level of individual giving, however, is a challenge to raise necessary funds. While some organizations may turn to other forms of

support, from earned revenue income, to gifts of capital and other structure gifts of assets, there are a number of organizations that rely heavily on the modest contributions of average Canadians.

Will the Stretch Tax Credit work? Will it encourage giving?

In 2010, the economics department at McMaster University undertook a survey of CanadaHelps' 250,000+ donors. Significantly, 42.3% said that they would increase their donations if there was an increase in the tax credit. Another 22.7% were unsure if they would increase their donations – but were potentially persuadable – in response to a change in the tax credit offered.

Further, while many donors indicate the tax incentives are not their primary reason for giving, they still rank tax incentives as among the significant motivators for giving. In fact, CanadaHelps has observed that the annual tax deadline for charitable giving drives a significant portion of giving: December 31st is the busiest day for online donations, with almost 6% of our total annual volume of gifts transacted in one day. Clearly, donors are indeed motivated to action by tax incentives, and tax deadlines.

Most notably, the donations processed through CanadaHelps are not large donations from wealthy donors: they are small but significant donations from working Canadian families who want to contribute to causes they care about – the average donation size through CanadaHelps is \$160 (the median donation is \$200 in the 75th percentile). Donors through CanadaHelps represent families across the country – in every province and every territory.

“As a grassroots organization we rely heavily on individual donations (and volunteers) to help us (The Alzheimer Society of Alberta & Northwest Territories) accomplish our mission. We are very proud to say that some 70% of our total revenue comes from individuals. For us any fiscal or tax measures that would increase the ability of these individuals to give would allow us to extend our services and support to those who are currently beyond the capacity of our resources.

Bill Gaudette, CEO
Alzheimer Society of Alberta and Northwest Territories

Who benefits?

Small and medium-sized charities in Canada provide essential services to their communities, but don't have the name recognition as some of the largest charities in the country. These organizations also represent the majority of organizations served by CanadaHelps – the small and mid-sized organizations that form the bulk of Canada's 86,000 charities. Of the 12,000 agencies that use CanadaHelps for their online donation capacity, more than 70% have revenues of less than \$1 million annually. They represent all areas of charitable programming.

Larger charitable organizations (and some smaller organization) have benefited from the tax incentives that came from the elimination of capital gains taxes on donated securities, but the majority of small and mid-size organizations continue to struggle for donations.

In fact, CanadaHelps created an online facility to receive gifts of publicly-traded securities (stocks, bonds, and mutual funds) in response to the removal of the capital gains tax on donated securities. This has allowed charities of all sizes to receive these forms of tax-beneficial gifts. Launched in 2007, it consistently represents less than 2% of annual donation dollars through CanadaHelps: charities continue to depend largely on more typical donations transacted on credit or debit cards. In particular, local grassroots community organizations overwhelmingly depend on lower dollar-value philanthropic contributions.

“The Valley Regional Hospital Foundation exists to enhance patient care in our health care district by funding critical health equipment and patient needs. The Stretch Tax Credit would give donors and potential donors opportunities to fulfill their philanthropic goals while supporting the health needs of the communities in which we all live and work. As health care costs continue to increase for governments, organizations like our Foundation count on the generosity and capacity of individuals to help us meet health needs.”

Gerry MacIsaac, Executive Director
Valley Regional Hospital Foundation, Kentville, Nova Scotia

The twelve thousand Canadian charities registered with CanadaHelps for online fundraising rely heavily on individual donations from average working Canadian families to fulfill their important missions. In motivating the typical donor on the street (or increasingly, online) to reach further, a Stretch Tax Credit would benefit the local community initiatives that form the foundation of many essential services. The Stretch Tax Credit would be a very welcome and much-needed incentive for giving for many local, grassroots organizations and their supporters.

Conclusion

Charities struggle to provide key services and programs every day across Canada. They respond to local needs and are at the whim of donors who may or may not give, depending on their personal decisions.

The Stretch Tax Credit will be a short-term incentive, motivating new behaviours and increased giving through enhanced tax incentives for giving, including the very donors that choose the convenience of online giving through CanadaHelps.

These tax incentives for average Canadian donors will provide essential benefits to maintain the capacity of the nonprofit and charitable sector. A Stretch Tax Credit will encourage Canadians to continue to support, and to grow their support for the organizations and communities they care the most about.

Respectfully submitted,

January 17, 2012

Owen Charters,
President & CEO, CanadaHelps

179 John Street, Suite 403, Toronto, Ontario, M5T 1X4
www.canadahelps.org, owen@canadahelps.org, 416.628.6948 x2384