Tax Incentives for Charitable Donations

Submission to the House of Commons Standing Committee on Finance
By

Canadian Council of Christian Charities

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Introduction:

The Canadian Council of Christian Charities (CCCC) is a member-based association with over 3200 faith-based charities. Our membership also includes approximately 132 umbrella charities serving districts of churches and parishes each with twenty-five to several hundred charities in their respective membership.

As of November 2011, and based on the most recent T3010s available, collectively our members account for 39.4% of all receipted charitable donations to religious charities made in Canada. In numbers that is - Line 4500: $1,859,956,549 (all CCCC members) divided by Line 4500: $4,716,962,572 (all receipted donations from religious charities) = 39.4%

What We do:

Our association provides two key functions to our sector. First, we provide practical, expert resources for the support and leadership functions of faith-based charities. Each year we answer over 18,000 calls and emails from our members on a wide range of issues including finance, charity law, governance, and human resources. Because of this, we feel we have an excellent pulse on our sector and their needs.

The second key function we provide is a charity certification program. Since 1983 CCCC has conferred a Seal of Accountability on charities who have met our standards. These standards include:

- Having an independent, active governing board
- Having an independent financial audit
- Being committed to public financial disclosure
- Undertaking regular evaluation of programs for effectiveness and efficiency
- Adopting a Code of Accountability dealing with Ethical Fundraising & Financial Accountability
- Pursuing integrity

As an organization we have made a strong commitment to accountability and transparency.

Committee Review of Tax Incentives For Charitable Donations

CCCC is pleased with the willingness of this Committee to review tax incentives for charitable donations. We have canvassed our members to determine what their concerns and hopes are for this initiative and we have recommendations for your consideration.

Context

Members of CCCC bring not only an altruistic impetus to doing good, but a deep spiritual motivation to be “our brother’s keeper.” This is because Jesus has left us with an example of unconditional service to the afflictions of the poor, the sick, and the needy within the local community. Our members will continue to provide charitable undertakings such as food banks, counseling centres, schools, care for the elderly, emergency relief, and international development, regardless of government policy because this work reflects who we are. For the most part we are not dependent on government funding. Nevertheless, given recent demographic changes, as noted below, our members expect challenges to their current level of funding. Your current review raises for us the potential of government bringing about a more favourable environment for us to do even more good deeds in helping the Canadian public.

We recognize there is a great burden on government to provide social services in a time of economic uncertainty. We are cognizant of the debates that go on in all levels of government to reduce expenditures. This reality compounds our members' struggle with the change in giving patterns.

Our members tell us that the younger generation do not give as did their parents. What they do give is often with conditions that it be spent on specific programs. Without flexibility to spend revenue where the need is greatest, a charity will often be challenged to meet its core program needs. Further, there is a movement away from a large donor base giving small amounts to a smaller (and aging) donor base giving larger amounts. Though funding might be constant with such a shift for the time being, there is a real concern for the long term as the donor base shrinks. The younger generation tends to get involved in causes rather than to systematically support one charity over a lifetime. These changes mean charities have to work harder to maintain the necessary funding for their work.

Our members are anxious to see government make positive initiatives to encourage more donors and encourage the current donors to give more. We want changes in public policy to allow charities to be creative in developing sustainable models of funding that may involve commercial enterprise.

Nurturing The Creative Spirit

Churches expressed a desire to be involved in social enterprise endeavors but are concerned for their charitable status with Canada Revenue Agency (CRA). One church would like to run a coffee house for troubled youth, another thought of developing a program they called a "small business incubator" where young people with innovative ideas but no cash would be able to obtain not only funding but other assistance (such as financial counseling) to get their idea off the ground. Another church shared the concept of establishing an arts and theatre complex for the local community to give the youth opportunities they would not otherwise have. Still another told us of a desire to establish community gardens, literacy, and English as a Second Language (ESL) programs.

Christians have been involved in camping ministries for a long time. Some have faced revocation as a charity because their retreats focused on supporting marriages, leadership training, and camp experience for the youth which was held by the CRA as not fitting under the charitable head of 'advancing religion.' Without the benefit of charitable giving, camps would be priced out of range for the average family. Camps provide children a rich life experience of learning new skills including: independence, self-confidence, tolerance, and conflict resolution.

There remains an untapped reservoir of creativity in the hearts and minds of the church-going community that want to make changes for the better. Winston Churchill once stated, "Give us the tools and we'll finish the job." The creative spirit of our members is waiting to be unleashed. In church settings across the country, people debate, share ideas and actively address community problems. They are a great civic resource.

Government policy will need to become more flexible for such creativity to take wing and bring solutions. For example, a church fears losing its charitable status with CRA if it does a charitable work that is outside of its charitable head "advancing religion." There is a requirement that charities cannot engage in for profit business enterprise except where it is "incidental" to its charitable endeavors. These restrictive policies, along with the increased financial pressure, necessitates a more accommodating approach enabling charities to raise income by profit enterprises that will assist the charities to be self-sustaining.

We note that for-profit commercial enterprise has been involved in popular causes that not only provide good corporate citizenship (e.g., fair trade coffee, summer camps for children, etc.) but that make good business sense. We ask why not allow the reverse for charities – allow charities to use profits from business activities for their charitable causes putting such profits back into the charitable work? Obviously there will have to be some mechanism that deals with times of loss. The principle here is to protect the charity from business losses but gain from the profits. Corporate structure could insolate the charity from the business. We recognize that charitable leaders may not have the expertise to run such related businesses but by having charitable representation on the business board of directors the same mind and management would serve both i.e. the business exists for the charity and its charitable purposes.

Accountability

Our members know what it is to work within a limited budget. They are efficient and effective because they have to be. Volunteers give of their time to work in thrift shops so that money is used to assist the poor overseas, or assist with young people in church scouting programs. That culture of frugality can provide confidence that incentives to encourage further giving will not be taken for granted. Nevertheless, we recognize the “fraudulent soul of man” and the need for accountability – audits and other tests of integrity remain a necessity. The Canadian public has every right to insist on the highest standards.

We are keen on insuring transparency and integrity. CCCC has a stringent certification process that has stood the test of time. Our members understand that with any additional benefits the government may want to bestow there will have to be proper controls in place to ensure that nothing untoward will occur that would bring the charitable sector into disrepute.

While transparency and accountability are very important, our members are concerned that their work be made easier and less complicated. For example, the current requirement that there be agency agreements with partners in other countries, regardless of the amount of funding or the overall percentage such funding represents of the charity’s overall budget, is cumbersome. As charities work with their colleagues outside of Canada, they develop synergetic relationships. Foreign charities face similar challenges and by using their experience and resources Canadian charities are able to come up with solutions much more efficiently than if they struggled on their own. Much anguish would be eliminated and efficiencies gained if the paper work of transferring funds between countries could be limited. We suggest that a threshold of 1% of a charity’s annual revenue be permitted to be used in such fashion without the need of an agency agreement. That does not mean the charity would not be accountable for such funds – on the contrary – it is just that the paper work would be more limited.

Our Recommendations

We bring 5 recommendations to the Standing Committee on Finance

Recommendation # 1: Real Estate

We recommend that the current tax treatment for donations of publicly listed securities be extended to donations of real estate and land.

Donations of real estate could include vacant land; vacation, industrial, commercial, and residential investment properties. Principal residences would not be included, given that they are already tax-exempt.

Two ways charities could receive donated land are: in-kind (this way parallels the treatment for donations of publicly listed securities); and cash proceeds of the sale of land:

In-Kind

a) The donor could make an in-kind real estate donation that would enable the recipient charity to liquidate the property itself or retain the property for its own use. The donor would be exempt from capital gains tax on the entire value the real estate gifted. The charitable tax receipt for Income Tax purposes would be reduced by any benefit to the donor (e.g., the amount of a mortgage assumed by the charity). A charity may find this preferable if they can use the property in their charitable programs. Fair Market Value would be established the same way as the value of a gift of real estate is established today.

Cash Proceeds

b) The donor would give all or part of the cash proceeds from the sale of the property to the recipient charity or charities. The donor would be exempt from capital gains tax on that portion of the real estate proceeds donated. For a donor, this may be preferable to in-kind, because the donor controls the timing of when the property is sold and the amount it is sold for (i.e., the fair market value (FMV)) as opposed to the charity controlling the sale as it may delay selling, or is not as aggressive in selling, the FMV may be less. Other reasons why this approach may be preferable include: not having to worry about liquidating or holding the property if the charity has no immediate use for it; and no worry about due diligence requirements including environmental assessments. This would be similar to gifts in s. 38 (a.1), where donors have a limit of 30 days from the sale of real estate to make their gift to a qualified donee.

Recommendation # 2: Increase Charitable Tax Credits

We recommend that the charitable tax credit (for individuals) increase from 29% (highest federal tax rate and credit rate on donations over $200) to 42% on all charitable donations.

We are of the view that this measure would work to increase support from core existing donors. It is a straightforward adjustment that will stimulate and foster a healthy civic core of generosity.

According to research prepared by Cardus, the estimated cost of the over $200 threshold is approximately $900M in decreased revenue. If this suggestion were implemented only for donations over $450, the cost in decreased revenue, caused by the proposed 42% credit rate, would be reduced to approximately $300M.

Recommendation #3: Publicly Listed Securities

That donations of publicly listed securities eligible for the capital gains exemption should be given:

(a) a charitable tax credit of 42% on the adjusted cost base (assuming an initial $200 has already been donated). The rationale for this is as follows: the adjusted cost base is generally the cost in cash of the shares; the benefit on this portion of the gift is 29% (just like other donations). Adjusting the tax credit from 29% to 42% on this cost portion would align it with the treatment of donations in our 2nd recommendation. It would also align the benefit received by this portion of the gift more closely with the benefit received from the capital gain portion. In the gifted capital gain portion the exemption from paying capital gains tax is a benefit of 23% (½ the 46% marginal tax rate otherwise payable) AND the federal charitable credit of 29%.

(b) the existing charitable tax credit of 29% on the capital gain.

Recommendation #4: Reduce Paperwork for International Operations

We suggest that a threshold of 1% of a charity's annual revenue be permitted to be used outside of the country without the need of agency or joint ministry agreements. Canadian charities would remain accountable for the spending of such funds and ensuring that they are used for charitable purposes. The objective is to limit the paperwork of being involved in overseas operations.

Recommendation #5: Extend the Carry-over of Charitable Gifts

We feel that it would be an encouragement for donors to give even in times of slow economic growth if they can be assured that their charitable gifts can be credited when they have greater income. We recommend that the 5 year carry forward rule for donations be extended to 7-10 years.

Recommendation #6: Further Study Needed for Charities Engagement with For-Profit Business

We are supportive of further dialogue between the government and the charitable sector about charity involvement in for-profit social enterprise. We recognize that it is a complex matter given the sector's diversity and the multiplicity of options. Careful study about what can and cannot be achieved through government policy should be reviewed.