THINK TWICE
ABOUT INCREASING TAX INCENTIVES
FOR CHARITABLE DONATIONS

A Brief Presented to the Standing Committee on Finance
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Canadians for Tax Fairness is a non-profit association which aims to build a national campaign to promote fair taxation. We support a tax system -- based on ability to pay -- to fund the comprehensive, high-quality public services and programs required to meet our social, economic and environmental needs in the 21st century.

Canadians for Tax Fairness opposes any increase in tax incentives for charitable donations, particularly those that would disproportionately benefit those with higher incomes.

It is a particularly bad idea at this time when the government is dealing with a deficit and can ill afford to forgo tax revenues. And it is especially objectionable when the government plans to make major cuts to spending on public services and social programs.

Downloading social services to charities or expecting them to pick up the pieces from government cuts inevitably will lead to less comprehensive and less accessible services as charities will not have the resources to be able to fill the gap.

Tax credits for charitable contributions also allows high income individuals and large corporations to direct the spending of hundreds of millions of dollars of government money in a way over which neither government or anyone else has any control and for which there is little public accountability.

The tax rules which provide a credit at the lowest personal tax rate of 15% for donations up to $200 (except for Québec, which uses 20%), and a tax credit at the highest tax rate federally of 29% for the amount over $200 further exacerbates this inequity. This despite that fact that donations by the rich, when credited, represent a smaller proportion of their total wealth than do donations by lower income earners. The tax rules are even more favourable to the rich when it comes to how the capital gains tax is waved on charitable contributions of shares. And this form of credit is most costly in terms of loss of government revenue.

Causes upheld by the rich tend not to be in the interest of the poor. Choice of priorities differ between different income groups. Control of allocation of resources by the rich through tax credits on charitable giving bolsters the priorities of the rich and reduces the diversity of priorities represented. This results in large sums going to support activities that governments could not justify if they were providing direct funding.

Social service charities that are struggling to help the poor or aboriginal peoples or immigrants receive only about 10% of the charitable giving pie, while religious organizations, for most of whom community service is a minor part of their activity, gets 46%.[i]

Because income is geographically/spatially distributed, regions with higher per capita incomes will receive significantly higher charitable donations and grant matching than low-income areas. This exacerbates regional disparities across Canada. Large universities or cultural organizations in large cities get far more charitable dollars from the greater number of wealthy people living there or corporate head offices based there, while those outside the centres of power struggle to meet their needs.

Leaving social priority setting to charities also can result in inefficient allocation of resources. The system of disease charities in Canada, each organ or disease group competing with each other undermines a more rational and evidence-based approach to improving the population health of Canadians. The best way to improve population health is to address the social and environmental determinants of health and provide better treatment for those suffering from mental health and addiction issues, yet these approaches get very little of the charitable dollars for health.

Charities also spend a lot of money raising money. This results in a smaller percentage of their funds going to the services provided than if the government would fund them directly or provide those services directly through government programs.

Charities produce a lot of good PR and many Canadians assume it is a good thing to encourage more charitable giving through the system of tax credits. But a closer examination of the facts should cause us to think twice about whether this is the best way to address the growing inequality between rich and poor and the many pressing social needs today.

Recommendations:

1. Do not increase tax incentives for charitable donations as this will cost tax revenue that the government can ill afford to forgo when it has a large deficit, and will result in less money going to the most pressing social needs.

2. Do not make the charitable tax credit rules even more favourable to the rich or to corporations, giving them even more say in where government resources are directed. This will disadvantage the poor as their needs and priorities will likely be ignored.

3. Reverse the erosion of progressivity of the tax system by restoring the federal corporate income tax rate to the 21% rate that was in place in 2007 and increasing tax rates on top incomes. This will help to ensure that corporations and the rich are contributing to the common good according to their ability to pay and not leaving it up to their whim as to whether they give or what they choose to give to.

[i] According to **Canada Survey of Giving,Volunteering and Participating** conducted in 2007 by Statistics Canada, http://www.givingandvolunteering.ca/files/giving/en/csgvp_highlights_2007.pdf