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# TAX INCENTIVES FOR CHARITABLE DONATIONS
# CARDUS SUBMISSION TO FINANCE COMMITTEE
### JANUARY 17, 2012

## THE CONTEXT

Cardus is a think tank whose mission is the renewal of social architecture. We are motivated by the conviction that the institutions of society that exist *between* individuals and government have much to contribute to public life. Our work includes mapping the capacity and measuring the contribution of these organizations. The importance of the charitable sector to Canadian public life is demonstrated by the Finance Committee's current initiative, and is a most welcome step.

In 2009 Cardus published *A Canadian Culture of Generosity*, which argued that the trajectories of decline in civic participation, whether measured by charitable giving, volunteering, or voting, ought to be a matter of serious concern to all Canadians. That report highlighted *nineteen specific recommendations* that might contribute to reversing this trend. The *five* relevant to the Federal Government included:

- Using political influence to inspire and challenge Canadians to volunteer and give;
- Increasing the Charitable Tax Credit to promote increased giving;
- Providing for new models of social enterprise;
- Considering in advance the impact of legislation on civil society;
- Improving the coordination between the efforts of government and faith-based organizations;

We recognize that since that time, attention has been given to these issues including the establishment of the Prime Minister's Volunteer awards and an Advisory Council on Social Innovation created by Minister Finley. In the lead-up to each of the past several budgets, various proposals supported by research data have been made which, although varying in detail and emphasis, agree in general that our increased reliance on fewer donors is a serious threat to the viability of the charitable sector. This submission focuses on recommendations that will have the greatest positive impact.

## THE PROBLEM

The decline in the number of donors as well as in the level of charitable giving over the past few decades is well-documented. In addition to the concern that this overall decline represents, there are various sub-trends we would do well to understand if we are to address the concerns.

**We are relying on a sparsely populated civic core of Canadians**. Although there was a modest increase in the number of donors from 2009-2010, the decline in the number of donors from 29.5% of tax-filers in 1990 to 22.7% of tax-filers in 2009 is cause for concern. The trend over the past decade shows that six percent of adults were responsible for one out of every three dollars donated and that 80% of all volunteer hours given were given by nine percent of the population. One out of five adults accounted for nearly two-thirds of all civic participation. This pattern has remained unchanged in recent years.[1]

**The overall numbers mask an increased reliance on gifts from capital and less reliance on gifts from regular income.** Since 1996, there have been various tax policy changes (elimination of capital gains on public shares) which have motivated the donation of large capital gifts. While this has been useful and is estimated to have contributed to more than $3 billion of public securities donated since 1997, the net benefit to the donor is the accumulating of the charitable tax credit and the capital gains exemption. Since this varies with every gift, it is impossible to accurately measure but it can be concluded that the current system provides a greater incentive for gifts from capital than gifts from income. According to an analysis by Malcolm Burrows, "the system now provides the greatest incentives to donors of exceptional, not everyday, gifts...[t]he last time there was a benefit for the ordinary donor was in 1994, when the first tier federal tax credit was reduced from $250 to $200 (which provided a maximum benefit of $7 per taxpayer.)"[2]

**The result has been growth for larger charities and greater financial vulnerability for smaller charities.** It can be argued that this is happening at the 'expense' of small charities and 'ordinary' donors. The *National Survey of Non-Profit and Voluntary Organizations* shows that the top one percent of charities have annual revenues of $10 million or more and account for 59% of all revenues received. In contrast, 42% have revenues of less than $30,000 and collectively account for just 1% of all revenues.[3] One might note the prevalence and prominence of capital campaigns for hospitals, universities, and other similar ventures with sophisticated fundraising professionals leading them. This is not meant in any way to detract from the legitimate public good that these charities represent (nor would we argue with the value-for-money and honourable service provided by most fundraising professionals). Our purpose is to point out that simply looking at the overall numbers masks the even greater challenge presently facing many smaller local charities, who we would argue provide indispensible local services and public goods.

**Our discomfort with talking about the public role of religion complicates the discussion.** The trend towards increased secularization and pluralisation of society over the past few decades has resulted in institutional religion playing a lesser formal role than it once did. This has made it more difficult to have a public conversation about the role and contribution of religion despite faith institutions being significant generators of positive social capital. This is relevant to the discussion about the charitable sector in two ways. First, the definition of charity has included "the advancement of religion" and while there are a few who have made arguments that this should be changed, we would make the argument that the prevailing culture is such that the public good of religion often goes unmeasured and unsupported. We would suggest that the contributions of faith networks to broader communities, not only in their social and literacy programs but also in areas of the arts, emergency relief, foreign aid, immigration settlement, and support to the otherwise isolated, are often overlooked. Secondly, the role of faith is a significant motivator for charitable giving. The recent Innovative Research Group survey reported in the *Globe and Mail* suggested that "(r)eligion, however, was a factor, with 46 per cent of donors of more than $500 agreeing that giving is an important part of their faith, compared to the national average of 31 per cent. We're not that religious a country any more but those who are

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[1] These measures are taken from Paul Reed and Kevin Selbee, "The Civic Core in Canada: Disproportionality in Charitable Giving, Volunteering, and Civic Participation." 2001 available online at http://www3.carleton.ca/casr/civic.pdf
[2] This case is made in Malcolm Burrows, "Charitable Tax Incentives in Canada: Overview and Opportunities for Expansion" in *The Philanthropist*, 2009, Vol 22, p. 5
[3] Cited in Burrows, p 7.

more religious are a disproportionate share of donors."[4] Cardus is currently in the midst of an extensive research project comparing the impact of sixteen potential variables on different civic engagement behaviours (such as volunteering, formal giving, participating in civic organizations, attending religious services, informal helping, informal giving, following the news and voting). The early analysis shows that religious groups manifest substantial differences in the patterns and rates of civic participation. We have compared the contribution to faith institutions in our country's public life as the civic equivalent of the rain forest. The social ecological implications of a decline of this contribution would be far more significant than many comprehend.

**The nature of institutions is changing.** The lines between the charitable, not-for-profit, and for profit institutions are increasingly blurred, with many organizations having to employ a complicated combination of legal structures in order to properly achieve their goals. This complexity is impairing genuine and much-needed institutional innovation. There are many practical suggestions—including the creation of hybrid corporations and raising capital through social bonds, which are being applied in other jurisdictions such as Great Britain and Australia—that might be applied in Canada. We recognize that there is significant work to be done in identifying appropriate social impact measurements before these measures can become a significant part of the Canadian equation. Elsewhere we have identified concrete Canadian policy themes that can contribute positively to this agenda.[5]

## ANALYSIS

It is clear from the foregoing that to achieve any long-term impact, recommendations from this committee will need to address these particularities within the sector. As a think tank dedicated to the renewal of social architecture, Cardus is predisposed to encourage measures which would increase the capacity of this sector. We recognize that from among the many constructive proposals presented, you will need to prioritize proposals hold the promise of significant impact. We do not believe that there is a single solution for the challenges we face.  In this section, we briefly analyze the impact of alternative proposals.

**Increasing the types of gifts that might qualify for deductions.** Some high-profile proposals have suggested that the definitions regarding gifts be changed so that the capital gains exemptions might apply to private shares. Although this would almost certainly have an impact on the total amount donated, we are concerned that the regulations required to fairly protect the public interest against the potential abuse of such provisions would be complex. More significantly, these would be measures which would almost exclusively work to the benefit of larger charities and wealthier donors and would reinforce the existing trends of exceptional gifts from capital, doing little to encourageen the sustaining donor pool that provide annual gifts (from income) to charities that require them for their ongoing operations.

**Providing a premium benefit for new gifts.** Proposals that provide a premium incentive to new gifts, most prominently advocated as a "stretch credit," are intended to focus donors attention on giving more this year than they have last year. The challenge is that such a system would be complex to administer and would be unlikely to have a significant impact on donors. It has been pointed out that the problem with the present system "is not value and equity but clarity. Few taxpayers understand the

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[4] "In Charity Canadians Trust" in the *Globe and Mail*, November 27, 2011 available online at http://www.theglobeandmail.com/life/giving/canadians-who-trust-more-give-more-study-shows/article2251468/

[5] Ray Pennings, "Towards a Sustainable Canadian Consensus: 'Big Society and a Four-Sector Approach for Renewed Prosperity" in *Big Society and Social Responsibility* (2011: Manning Center, 18-29).

benefit that they are receiving, or would be receiving if they gave more."[6] Adding the complexity of an additional category of incentive for new monies only muddies the waters further. Additionally, we fear that this system will incentivize "strategic giving" (for example, a regular donor combines their planned donations over multiple years into a single tax year in order to maximize the credit, having the effect of encouraging strategic episodic giving over regular planned giving) . We concur with, and urge you to remember, the analysis that suggests "belief in cause, trust in charity, nature of the solicitation and identity of solicitor"[7] are more significant factors in donation than tax incentive. This is particularly true for the majority of the population which are presently not part of the "civic core."

**Provide increased means to the civic core donor.** The most likely measure to have an immediate impact on donations would be a substantial increase in the tax credit rate for donors who give more than $200 per year. In 2010 we recommended increasing the rate for donations in excess of $200 from 29% to 42%. When concerns were raised that the tax expenditure cost injured this worthwhile idea 2011 pre-budget submission suggested creating a new category of 37% for donations in excess of $450 as a compromise. (A complete costing of the variations on these proposals is attached as Appendix I.) Our argument remains that the greatest potential to boost the charitable sector in the short term remains in a substantial increase to the charitable tax credit. This measure will benefit the regular civic core of donors who are sustaining the sector. For them, tax benefit is not the primary motivator for their donation, but it *will* provide them with increased capacity to give. Even better, the evidence shows they are most likely to return that increased capacity right back to the charitable sector. This measure will help the charitable sector encourage and rely not on exceptionally large gifts, but on regular, repeated gifts from dedicated donors. These are the everyday gifts enabling charities to provide valuable service, and to pursue common good.

## RECOMMENDATIONS

There are many details and supportive documentation which the forgoing argumentation invites, and we would be happy to supply them to the Committee. Our recommendations are two-fold:

1. An immediate and substantial increase to the charitable tax credit rate that is designed to provide benefits to the "civic core" of donors who, by their previous behaviour, have proven their reliability and likelihood of investing this back into the charitable sector.
2. Continued financial investment in exploring and developing alternative forms of charitable and non-profit organizational structures that will be able to utilize financial and other capital effectively through development of new social enterprise platforms and approaches. This will require legal, financial, and regulatory innovations.

Respectfully submitted on behalf of Cardus,

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**Appendix I**

Table 1: Costs Estimates of Increasing the Federal Charitable Donations Tax Credit

| Scenario | Description | Additional loss in federal personal income tax revenue (millions), 2011 |
|---|---|---|
| Base | 15% credit for donations below $200; 29% for donations above $200 | $2,150 million[8] |
| 1 | 15% credit for donations below $200; 29% credit for donations between $200 and $450; and a 42% credit for donations above $450 | $856 |
| 2 | 15% credit for donations below $200; 29% credit for donations between $200 and $450; and a 37% credit for donations above $450 | $537 |
| 3 | 15% credit for donations below $200; 29% credit for donations between $200 and $450; and a 47% credit for donations above $450 | $1,155 |
| 4 | 15% for donations below $200; 29% for donations between $200 and $450; and a 42% credit for donations above $400 | $870 |
| 5 | 15% for donations below $200; 29% for donations between $200 and $450; and a 42% credit for donations above $500 | $843 |

[8] The baseline data for this scenario is from 2010