Carleton Centre for Community Innovation
Centre d'innovation communautaire de Carleton
1125 Colonel By Drive, Ottawa ON K1S 5B6

This submission to the Standing Committee on Finance has been prepared by Calum Carmichael, an Associate Professor at the School of Public Policy and Administration, Carleton University, and a Research Associate at the Carleton Centre for Community Innovation. As a combined service and academic organization, the Centre is pleased to support and promote the work of Professor Carmichael and its other Research Associates. In order to foster and preserve an environment of open inquiry, however, it does not corporately vet or necessarily endorse their conclusions.

Summary

In reviewing the tax incentives for charitable donations, the Standing Committee on Finance should consider programs that would differentiate those incentives across charitable organizations in ways that take into account the purposes being pursued, activities performed and populations served. Differentiating the tax incentives could enable the Government of Canada to increase the social impact of the revenues it forgoes in providing the incentives. An example of such a program is one that would provide a higher tax credit for a capped quantity of donations made by individuals to organizations that provide basic goods and services to persons in low income. What is more, a 'charity+' program along these lines has the potential to surpass the 'stretch tax credit' in realizing the goals for which the latter has been promoted.

A case for differentiating the tax credit

The nonprofit and charitable sectors are diverse – in terms of organizations at play, the goods and services they produce and deliver, and the people who receive and benefit from those goods and services. Some organizations address basic human needs (e.g., food, shelter, safety), and the effects on the well-being of the recipient populations are determined by physical exigency. Others promote human development (e.g., education, rehabilitation, health), and the effects are determined by circumstance or ability. Still others enrich human civilization (e.g., culture, sport, religion), and the effects are determined by taste and affiliation. In light of these and other diversities, it is unlikely that a government should weigh equally the tax dollars it foregoes in order to encourage and supplement the donations of individuals and corporations – without taking into account on what and on whom those dollars are spent.[1]

One of the ways that the Government of Canada can take such things into account is by differentiating the tax incentives it provides, so as to increase donations and focus its foregone tax dollars on the purposes and activities and populations that it, on behalf of all citizens, recognizes as having the greatest importance to the well-being of society as a whole. Indeed, the Government of Canada has taken steps in this direction – although to date these steps encourage occasional and large donations, rather than an ongoing engagement with and support of nonprofit and charitable organizations and the populations they serve. They include the temporary programs that have matched the contributions of individuals to certain relief agencies following certain international disasters (e.g., the December 2004 tsunami in

Southeast Asia; the January 2010 earthquake in Haiti; the July 2010 floods in Pakistan; and the July 2011 declaration of famine in East Africa); or the Endowment Incentives Program that since 2001 that has matched the contributions of individuals and corporations to the endowments of approved performing arts organizations.

Other jurisdictions provide examples of how the tax incentives could be differentiated in order to encourage the ongoing engagement and support of donors.[2] In Arizona and several other US states, for example, individuals receive a 100% state tax credit – rather than a tax deduction – for a capped quantity of their donations ($200) to organizations providing services to persons in low income. France provides two tiers of tax credits – at 66% and 75% – for the contributions of individuals, the higher rate applying to a capped quantity of their donations (approximately €500) to organizations that provide food and accommodation to persons in low income. India provides four tiers of tax deductions – from 50% to 175% – for the contributions of individuals and corporations to categories of charitable organizations, the highest rate applying to universities for scientific research and development. Portugal provides not only two tiers of tax credits – at 25% and 32.5 % – for the contributions of individuals, but also four tiers of tax deductions – from 120% to 150% – to categories of charitable organizations, with the higher rates applying to religious organizations (for individuals), and organizations providing post-natal care to women in need (for corporations). Although these and other international programs provide examples of what *could* be done in Canada, they do not indicate what *should* be done. What *should* be done here in order to differentiate the tax incentives should take into account among other things the existing level and allocation of donations by individuals and corporations in Canada, and the priorities that the Government of Canada places across the range of donee organizations and populations that receive the tax dollars it forgoes in providing those incentives.

An example of differentiating the tax credit

As described by the *2007 Canada Survey of Giving, Volunteering and Participating*, approximately 85% of adult Canadians donate to charitable organizations, the median and average contributions being, respectively, $120 and $437. Donations are concentrated in terms of both their source and their destination: 10% of donors account for 62% of total donations; 46% of total donations are for religious organizations, 21% for health and hospitals, and 9% for social services. Donors with higher income tend to give more in dollar amounts, but less as a percentage of household income. In light of these and other patterns, it is appropriate for the Standing Committee to consider ways to revise the tax incentives for charitable donations not only to direct the government's tax dollars to the sectors most in need – as proposed above – but also to encourage more Canadians to give, and to give more.

Differentiating the tax credit could serve these ends. Under the status quo, individuals receive a credit of 15% of their donations up to $200, and 29% thereafter. Consider a 'charity+' program that would add a higher credit – say, of 40% – on donations up to $400 made to a category of organizations providing basic services to persons in low income.

Table 1 Illustration of 'Charity+' program

Scenario	Donor	Charity donation	Charity+ donation	Total donation	Tax credit	Net outlay	△ donation / △ credit
Scenario A – status quo **Tax credit undifferentiated**: i.e., 15% on first $200, 29% thereafter **Assumed donor behaviour**: 10% of total donations made to 'charity+' category	1	$180.00	$20.00	$200.00	$30.00	$170.00	NA
	2	360.00	40.00	400.00	88.00	312.00	NA
	3	720.00	80.00	800.00	204.00	596.00	NA
	4	1440.00	160.00	1600.00	436.00	1164.00	NA
	5	2880.00	320.00	3200.00	900.00	2300.00	NA
Scenario B – 'charity+' **Tax credit differentiated**: i.e., 15% for first $200, thereafter 29% for donations made to 'charity' category, and 40% for donations up to $400 made to 'charity+' category (29% thereafter) **Assumed donor behaviour relative to status quo**: total donation does not change, but re-allocated to minimize net outlay	1	$180.00	$20.00	$200.00	$30.00	$170.00	0
	2	200.00	200.00	400.00	110.00	290.00	0
	3	400.00	400.00	800.00	248.00	552.00	0
	4	1200.00	400.00	1600.00	480.00	1120.00	0
	5	2800.00	400.00	3200.00	944.00	2256.00	0
Scenario C – 'charity+' **Tax credit differentiated**: i.e., 15% for first $200, thereafter 29% for donations made to 'charity' category, and 40% for donations up to $400 made to 'charity+' category (29% thereafter) **Assumed donor behaviour relative to status quo**: net outlay does not change, but donation re-allocated to maximize the total	1	$180.00	$20.00	$200.00	$30.00	$170.00	0
	2	200.00	236.67	436.67	124.67	312.00	1.41
	3	461.97	400.00	861.97	265.97	596.00	1.41
	4	1261.97	400.00	1661.97	497.97	1164.00	1.41
	5	2861.97	400.00	3261.97	961.97	2300.00	1.41

Table 1 illustrates the effects of such a program on donations and tax credits, given alternative assumptions about donor behaviour. Scenario A depicts the status quo for 5 donors, assuming that with the existing undifferentiated credit all would allocate 10% of their donations to 'charity+' organizations. Scenarios B and C depict the effects of differentiating the tax credit, given alternative assumptions about donor response. Scenario B represents the worst case: donors do not increase their total donations relative to the status quo (as highlighted), but reallocate them in order to minimize their net outlay (i.e., donations less tax credit). The higher credit increases the share of donations received by the charity+ organizations, but generates no new donations for each additional tax dollar foregone. Scenario C represents a more-likely case: donors do not increase their net outlay relative to the status quo (as highlighted), but reallocate their donations in order to maximize the total. The higher credit both increases the share of donations received by the charity+ organizations, and generates new donations of $1.41 for each additional tax dollar foregone.

A charity+ program could increase the donations and direct more of the foregone tax revenue to organizations that address immediate human and social needs. To anticipate and measure these effects more exactly, rather than simply illustrate them, is beyond the scope of this submission. That being said, there are reasons to expect that the beneficial effects of charity+ would exceed those of the 'stretch tax credit' described by Imagine Canada, even under the terms by which the latter has been promoted.

These terms and reasons include the following.

- *'Challenge Canadians to give and to give more'*. The incentives created by the stretch tax credit are likely to self-extinguish. The incentives created by charity+ would not be diminished by their success in encouraging greater giving.
- *'Strengthen and revitalize the donor base for many years to come'.* In addition to being long-lived, the incentives created by charity+ would focus on purposes and activities that could be readily endorsed by existing and potential donors of all ages, income levels, and faith perspectives.
- *'Benefit the broadest number of taxpayers'.* The one-time benefit of the stretch tax credit would apply disproportionately to potential or low donors. Charity+ would equally benefit all donors, including high donors who are already stretched.
- *'Benefit the broadest number of charities and communities'.* The stretch tax credit would likely perpetuate the existing concentration of donations to particular organizations. Charity+ would moderate this concentration, encouraging and enabling a range of organizations – including religious and health organizations – to expand their basic social service activities.
- *'Minimize the impact on the federal Treasury in proportion to the benefits gained'.* Increasing the tax incentives for charitable donations will, of course, increase the tax revenue forgone. The social benefits generated by those revenues depend not only on the additional donations they lever, but also the destination of those donations. Charity+ would direct additional donations to purposes and activities that are and will remain humanly, socially and economically important. What is more, those donations would supplement the existing outlays of governments at all levels that are engaged in providing basic goods and services to persons in low income. On another front: charity+ would not undermine the incentives created by the type of matching-grant programs that the Government of Canada has adopted in the recent past to encourage occasional increases in donations, say following an international disaster. In comparison, Canadian donors who heed the call to address severe but occasional humanitarian needs would thereafter distance themselves from accessing the stretch tax credit.

Conclusion

The Standing Committee on Finance should consider differentiating the tax credit for individual contributions – along the lines of the charity+ program described here. Such a program could assist the Government of Canada in financially supporting charitable and nonprofit organizations more efficiently and more effectively: more efficiently in the sense that a given amount of foregone tax revenue would generate greater donations; more effectively in the sense that a given amount of donations could generate a greater social impact.[3] What is more, a charity+ program has the potential to surpass the stretch tax credit in realizing the goals for which the latter has been promoted.

Notes

1 Carmichael, CM 2012, 'Dispensing charity: the deficiencies of an all-or-nothing fiscal concept', *Voluntas*, vol. 23, forthcoming.

2 Carmichael, CM 2010, 'Doing good better? The differential subsidization of charitable contributions', *Policy and Society*, vol. 29, no. 3, pp. 201-17.

3 See, e.g.: Culyer, AJ et.al. 1976, 'Charity and public policy in the UK – the law and economics', *Social and Economic Administration*, vol. 10, no. 1, pp. 32-50; HRH The Duke of Edinburgh 1994, 'Charity or public benefit', 11th Arnold Goodman Charity Lecture; Reich, R 2005, 'A failure of philanthropy: American charity shortchanges the poor and public policy is partly to blame', *Stanford Social Innovation Review*, vol. 3, Winter, pp. 25-33; Carmichael, CM 2012, 'Sweet and not-so-sweet charity: a case for subsidizing contributions to different charities differently', *Public Finance Review*, vol. 40, forthcoming.