

**SUBMISSION TO THE HOUSE OF COMMONS  
STANDING COMMITTEE ON FINANCE**

**IN THE CONTEXT OF A STUDY ON  
TAX INCENTIVES FOR CHARITABLE DONATIONS**

**BY: HABITAT FOR HUMANITY CANADA**

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## **Introduction**

Habitat for Humanity appreciates the opportunity to provide its input to the House of Commons Standing Committee on Finance and its Study on Tax Incentives for Charitable Donations. We recognize that many thoughtful opinions from other leading Canadian charities and charitable groups will be provided on ideas to improve support for individual donations, ideas which we believe there should be consideration of. Therefore, we have sought to provide our input specifically on the issue and opportunity for government support of earned income or charitable business activities.

Habitat for Humanity has more than a 25-year history in Canada as an efficient and effective non-profit affordable housing provider, delivering its program through 69 local affiliates active in all provinces and territories in the country, serving over 200 cities, towns and communities. We build affordable housing through our unique and effective homeownership model by mobilizing volunteers, corporate partnerships, individual donor relationships and earned income related business activities.

## **Habitat for Humanity Program**

Habitat helps individuals and families in vulnerable situations build and buy affordable environmentally-friendly homes by reducing barriers to homeownership. These families would not otherwise qualify for traditional mortgage financing and are often reliant on social services.

This is accomplished by offering a “hand up, not a hand out” with innovative terms, including:

- no down payment
- an interest-free mortgage and monthly payments set at 25% of gross income (covers principal and taxes) with the mortgage held by Habitat
- extensive homeowner training (i.e. money management, credit, financial planning, home maintenance) and on-going support services.

The Habitat homeownership program provides affordable housing with built-in future equity and families giving back to the community. In order to qualify, homebuyers must demonstrate a need for affordable housing, be at or below published regionally based low income thresholds and have an ability to carry an interest-free mortgage. They must also agree to contribute a minimum of 500 hours of “sweat equity” into building their own home and/or providing additional assistance to Habitat for Humanity.

Habitat families break the cycle of poverty and develop into productive, community-minded citizens. The tangible benefits of breaking the cycle of poverty are demonstrated in the results of a national survey of Habitat families.

### *Tangible Benefits - Affordable Homeownership = A Family Transformation*

- **36%** were less reliant on social assistance
- **33%** moved on to better jobs
- **24%** of parents went back to school
- **53%** noticed improvement in child behavior
- **39%** showed remarkable improvement in children's school grades

\*Source: Canadian Mortgage and Housing Corporation, *Assessment of the Outcomes for Habitat for Humanity Home Buyers* (March 2004)

The “home raising” process increases civic engagement and social capital, transforms families and strengthens entire communities – individuals, local businesses, professionals, trades people, volunteers, donors, students, church groups, service clubs, educational institutions, corporations and others.

An investment in Habitat for Humanity today is also a future investment for sustainable and affordable housing for Canadian families. All money collected by way of monthly mortgage payments is re-invested directly into a *Fund for Humanity*, which is administered by Habitat for Humanity. This revolving fund is self-sustaining, and leverages homeowner payments into more home building for more families. For an average affiliate, the mortgage payments received on 10 homes will provide the seed funding to enable in time an additional Habitat home to be available and the mortgage payments on this home will enable even more future builds. Without exception, every dollar provided in support of affordable housing with Habitat stays in affordable housing and continues to work in perpetuity.

Prior to being afforded the opportunity for homeownership, many Habitat families live in subsidized housing and rent-geared-to-income housing programs, particularly in large urban centres. The cost of operating these programs is significant and ongoing. A Wellesley Institute study in 2006 estimated, on average, the annual per family subsidy of \$10,508 for such housing programs in Toronto. Costs will be greater now than then but the important point is the need for affordable housing constantly outpaces the public sector's capacity to provide.

A financial investment from the private sector through corporate and individual donor support of Habitat programs, encouraged by the public sector – especially through federal taxation codes and policy – not only allow for a family to live in decent and affordable housing but also allows for this per family subsidy to be redeployed to a greater need. The public sector is further enhanced when these new Habitat homeowners become municipal tax payers. The math is compelling and clearly demonstrates that public sector support of programs like Habitat for Humanity are investments, not costs.

## **ReStore Funding**

To help fund the charitable activities of Habitat for Humanity, over 80% of Canadian affiliates operate ReStores, which are non-profit outlets which sell donated new and gently used building and housing related goods to customers in that local community at affordable prices. The net proceeds from ReStores are invested directly into local affiliate operations, providing critical funding for increasing capacity (i.e. funding staff positions) and often covering all of the affiliate's fundraising and administration expenses so that 100% of homebuilding donations go to homebuilding.

ReStores have also represented a significant environmental achievement by redirecting an estimated 20 thousand tonnes of material annually that would otherwise be destined for landfill sites. Many ReStores act as recycling and electronic disposal depots, both as a means to serve our environmental agenda and to generate additional revenues for homebuilding programs.

ReStores frequently provide staff opportunities to groups traditionally with barriers to the regular employment marketplace, including various return to work programs, youth and mentally challenged adults.

Currently, 250 Canadians work for and over 7,000 volunteer annually for Habitat ReStores and in doing so provide important contributions to support of homebuilding programs and their local community through the engagement and education of ReStore customers on the affordable housing issue.

ReStores were first started in Canada over 20 years ago and currently represent a critically important revenue generating activity, but which has required significant time, energy and expense to ensure that operations are within the Canada Revenue Agency's guidelines for business activities by charities.

We believe that the uncertainty associated with current Canada Revenue Agency guidelines for charitable earned income activities, such as ReStores, constrain the opportunity for this type of funding to grow the capacity and effectiveness of many Canadian charities, for the following reasons:

1. Earned income business activities provide stable and predictable funding, that risk adverse volunteer organizations are more likely to rely on when making important capacity investments. This is because most charitable organizations rely significantly on donation funding, which has no guarantee of being generated in future years, particularly in this difficult economic time.
2. Corporate donors see complimentary charitable earned income activities as effective partnerships for their Corporate Social Responsibility programs, by encouraging and supported a higher degree of self funding versus reliance on purely philanthropic support.

3. Charitable earned income activities can provide additional benefits to community and positive contributions to Canadian society in employment and skills training, particularly for disadvantaged groups.
4. Charitable earned income activities can provide funding to offset administrative costs, thereby ensuring that a higher percentage of charitable donation goes to the actual program and helps to maintain the support of individual donors.

By reasonable estimates, we believe that our homebuilding program in Canada would have been 50% less without the critical funding support of the ReStore program, representing over 1,000 Canadian families that would have otherwise not had access to safe, decent and affordable shelter.

### **Recommendations**

This government has been clear in indicating that charities and other non-profit agencies must find new ways to create partnerships and establish funding to support their programs. We believe that Habitat for Humanity demonstrates that resolve through our ReStore program but does so within a regulatory and policy framework that does not fully enable these approaches.

*Our recommendation is for regulators and policymakers to modernize their frameworks so that charities and non-profit organizations are better positioned to pursue and grow earned income activities in support of their missions.*

As examples, both Australia and New Zealand charity regulators have recognized the “destination of profits test” in which as long as the profits of a related business activity remain within the charity and serving the public good, then it is considered a legitimate non-taxable activity.

Over 25 years in Canada, Habitat for Humanity has sought to provide a permanent solution to poverty through affordable homeownership and the engagement of volunteers and community partners. This can only be accomplished when the charitable organization has the capacity to effectively deliver on its program and partnership commitments. Earned income activities provide a stable and predictable funding for this organizational capacity and we strongly encourage this approach to charitable funding to be supported.

Respectfully submitted,

Stewart Hardacre  
President & CEO  
Habitat for Humanity Canada  
40 Albert Street  
Waterloo, ON N2L 3S2  
Email: [shardacre@habitat.ca](mailto:shardacre@habitat.ca)  
Telephone: 519-885-4565, ext. 259