

## **BREIF TO THE STANDING COMMITTEE ON FINANCE** **TAX MEASURES TO ENCOURAGE CHARITABLE GIVING**

### **Introduction**

I am now, and have been for some time, heavily involved as a volunteer in the charitable sector. In the past number of years I have seen many charities struggle to comply with ever-increasing – and tightening – rules and regulations from the federal, provincial, and municipal governments. Funding is always a concern as well, particularly since the demand for the services provided by charities continues to increase. A recent article indicated that the average amount of money donated by the roughly 25% of Canadians who donate to charity was only about *one-third* as much as the average for those in the USA. Given all of these, the timing of your review into potential changes to taxation rules to encourage higher levels of giving is entirely appropriate.

I live in Alberta, where the combined federal-provincial tax credit for donations over \$200 was increased to 50 a few years ago. One would think that this very generous level of tax credit would in itself increase giving, but I cannot find evidence to support this in the several charities with which I am involved. A recent change made at the federal level, to provide a capital gains tax exemption on publicly-held securities donated to charity, did result in some donations of securities; however, I suspect that the donors who donated the securities would have donated the net cash after selling them if this incentive did not exist. Therefore, I do not think this initiative has resulted in a material increase to total donations either. I do suspect that the federal and provincial initiatives together did at least have a role in maintaining the level of giving during the current economic downturn. Any reduction in the incentives currently available would likely have a substantial negative effect on future donations.

Two questions then remain: firstly, why is the level of giving so much lower in Canada than in the USA? And secondly, what changes to the tax code might improve the comparison and enhance the revenue streams of charities? The items that follow are my suggested answers to both questions.

### **1. Communications from the Canada Revenue Agency (CRA)**

The CRA issues a news release when its audits result in findings of substantial non-compliance, resulting in the revocation of a charity's registration. This is picked up in newspapers and an impression is left that non-compliance is rampant in the charitable sector. It would be beneficial if the CRA also issued a periodic news release indicating the number of audits and reviews conducted where no material non-compliance was found. People are less likely to donate to any charity if they think most charities are wasting their money.

### **2. Tax credits for social service agencies**

One of the things we enjoy in Canada is a social safety net which is clearly superior to that in the USA. It is possible that this difference is responsible in some part for the relatively smaller amounts of donations made by Canadians. However, that social safety net has holes in it, and there are numerous charities who fill in the gap by providing

services that governments cannot or will not provide. Often there is a very good reason for devolving the service to the charity; one being that the charity may be able to provide the service using some degree of volunteer help, thereby reducing costs without affecting effectiveness. The Edmonton Dream Centre, further mentioned below, is one such agency. In order to provide such charities with a higher profile and encourage more giving, it may be a good idea to provide an enhanced tax credit for donations to social service agencies only.

In order to implement this suggestion, several steps would be necessary: Firstly, the government would need to provide a very clear definition of social services. I would suggest a fairly narrow range including health care, social housing, support for seniors, support for immigrants, and special education. Secondly, each charity that thinks it would qualify would need to apply for that status. The application would have to clearly identify the projects undertaken in the past year and those planned to be undertaken in the years following. An annual return would then be necessary which includes the same requisite information.

This proposal would no doubt face resistance from some in the charitable sector who do equally worthwhile work, such as research into various diseases; however, it can be defended because it is only the social service agencies that actually reduce government costs. Making them more efficient and effective can only help to reduce those costs further.

### **3. Allow charities leeway in defining for-profit enterprise**

One of the restrictions charities face is the prohibition from for-profit operations. Let me illustrate how I think loosening those rules a little could assist one of “my” charities. The Edmonton Dream Centre operates a long-term, in-residence addictions recovery centre for women. At present we run out of a 12-suite apartment, which can accommodate at most 16 women with 6 children (we are the only facility in Alberta that allows women with children to enter the program and bring their children with them). Because of our very high success rate, the demand for our services far exceeds our capacity, and we are embarking on a fundraising program. Our goal is to have at least 50 suites available, which we anticipate will cost around \$12 million..

Moving from 12 suites to 50 cannot easily be done in one step, without compromising the effectiveness and efficiency of our program. It would be optimal for us to grow incrementally, and during our growth period, to be able to rent out our unused suites as apartments. In addition, the most cost-effective building type would have retail stores on the first floor, with the program suites located above (which are common in apartment complexes). We think that renting out the retail spaces to stores for a slightly lower than market rent, in exchange for their agreement to provide work experience to the women in our program, would make a lot of sense. Finally, it may be more advantageous for us to keep our present building and rent it out as apartments rather than selling it.

These plans run afoul of current rules because renting out space in owned buildings is considered to be a for-profit enterprise, and charities are not allowed to engage in such.

Yet, it makes abundant sense, and would improve our financial situation without costing government coffers one thin dime.

#### **4. Allow charities to participate in international partnerships**

Another area the committee should review is rules respecting the definition of charitable activities as they relate to international operations. The Canadian Bible Society is a member of the United Bible Societies (UBS), an international body of like charities that is world-wide in scope. Member societies in “first-world” countries raise funds for projects in “third-world” countries. In most countries, the societies raising monies can simply enter into agreements with the UBS and let it manage the projects. In Canada, however, we must have and monitor agreements with the member society in specific recipient countries, rather than allowing the UBS to accumulate the funds from all over the world and allocate the funds efficiently to the projects agreed to by the UBS members. The result is a great deal of paperwork and travel costs which reduce the efficiency of our charity while adding virtually nothing to controls against the misuse of funds. I understand that Canada and Germany are the only two countries whose rules are so cumbersome.

#### **5. Increase cooperation with provincial regulators**

Charities incur needless costs due to the requirement to be aware of, and comply with, both federal and provincial regulations and reporting requirements. Alberta has announced that it wishes to “play nice in the sandbox” with the federal government. Perhaps this is an opportune time to explore one-stop shopping for charities, in which the rules are reviewed and, where possible, harmonized, and where one report can be provided to one jurisdiction that satisfies the needs of both. While this may not be seen as strictly a tax initiative, it might require changes to the tax legislation in order for it to be implemented.

#### **Conclusion**

Once again, I think the Committee for taking on this important review. Charities have been integral to the success of Canada as a country for many years, and the tax system has played a very important part in enabling them to be successful. The changes suggested above would help improve both efficiency and effectiveness, with very little net cost to the federal treasury. I hope they will receive due scrutiny.

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