



**REVITALIZING CHARITABLE GIVING FOR TODAY  
AND TOMORROW**

**Submission by Imagine Canada**

**to the House of Commons Standing Committee on Finance**

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## *Introduction and context*

Canada's charitable and nonprofit sector is a driving economic and social force. A wide variety of organizations are active in areas as diverse as education, health care and research, amateur and youth sport, arts and culture, social services, religion, the environment, and international development. Their contributions to our standard of living are immeasurable. It would be difficult to imagine what Canada would be like without the opportunities and services provided by charities and nonprofits.

More than two million Canadians work for charities or nonprofits – approximately 11 percent of the labour force. People are employed in every province and territory and in virtually every community in Canada. The sector generates more than seven percent of GDP, contributing more to the economy than oil, gas and mining, retail, forestry, manufacturing or the automobile sector.

Within the nonprofit sector there are approximately 85,000 registered charities. As we have reported in our *Sector Monitor*, they have faced a number of challenges resulting from the global recession that began in 2008. A majority of charities reported stronger demand for their products and services. Donations to many organizations were down. Investments lost value. Governments at all levels have begun the process of fiscal retrenchment and spending reviews, which will likely have an impact on the funds available for grant and contribution programs.

In November, we held the first ever National Summit for the Charitable and Nonprofit Sector, bringing together more than 500 leaders from across Canada. This followed two years of debate at the local, provincial and regional levels about what was driving change in charities and nonprofits. A significant focus of the Summit was discussing how charities can achieve greater financial diversity and sustainability. Charities have three major sources of revenue: donations, earned income activities, and government grants and contributions. Broadening the donor base and expanding and developing earned income activities are essential to achieving greater financial sustainability, particularly in light of potential constraints on grant and contribution funding.

It was clear at the National Summit that charities are more determined than ever to take responsibility for finding solutions. But they cannot do it alone, nor should they given the role they play in meeting public policy objectives and delivering quality public services in meeting the needs of our society.

The federal government is and will remain an important partner. Regulatory and administrative reforms would help expand earned income and revenue generating activities. Improved administration of grants and contributions would enable organizations to redirect resources to achieve better outcomes. Tax policy changes would encourage more giving.

This brief limits itself to the specific mandate the Committee has given itself, namely using the tax system to encourage giving. Imagine Canada is prepared to discuss with the Committee any other issues involving the financing and governance of charities in which members may be interested.

*Recommendation – adoption of the Stretch Tax Credit for Charitable Giving*

Donations are a direct way for Canadians to support the causes that are most dear to them and to contribute to building stronger communities. They embody the relationship that Canadians have with one another and their communities. People who donate to charities are more likely to volunteer their time. By supporting Canadians' philanthropic activities, the federal government helps to strengthen communities and our pool of social capital. It contributes to ensuring a strong sector that, alongside strong public and private sectors, ensures a healthy society.

The proportion of income derived from donations varies significantly from one charity to the next even as donations for all charities combined make up less than 10 percent of the sector's revenue. Increasing the revenue from donations will help all charities improve their financial sustainability and their engagement with Canadians.

For the last three years, Imagine Canada has recommended the adoption of the Stretch Tax Credit during the Committee's consultations on the federal budget. In its report leading up to Budget 2010, the Committee endorsed the Stretch Tax Credit. It again recognized this innovative proposal this year in the main and supplementary reports.

*The Canada Survey of Giving, Volunteering and Participating* found that a majority of Canadians would give more if better tax incentives were in place. More recently, an Ipsos Reid survey found 82 percent of Canadians polled are in favour of the Stretch Tax Credit, with a majority wanting it implemented immediately.

Very simply, the Stretch Tax Credit for Charitable Giving would augment the existing tax credit for individuals who give more than their previous highest giving level. Every dollar in "stretched" giving, up to a maximum of \$10,000 in total annual giving, would be eligible for the higher credit. In practice, this would mean that ten percentage points would be added to the existing tax credit for the eligible portion of donations. Thus, eligible amounts below \$200 would accrue a tax credit of 25 percent, while eligible amounts above \$200 would accrue a tax credit of 39 percent.

We believe that, ideally, any measures the Committee might recommend to encourage greater philanthropy should fulfill a number of goals:

- challenge more Canadians to give and to give more (i.e. an overall increase in donors and donations);
- strengthen and revitalize the donor base for many years to come;
- benefit the broadest number of taxpayers;  
support the broadest number of charities and communities; and,
- entail minimal impact on the federal Treasury in proportion to the benefits gained.

We believe that the Stretch Tax Credit for Charitable Giving is a unique and innovative policy approach that will fulfill all of these goals.

### *Challenging Canadians to give and to give more*

Preliminary figures for 2010 show that donations totalled \$8.3 billion, approximately \$500 million more than in 2009. Adjusting for the effects of inflation and tax shelter arrangements, this is the first year over year increase since 2007. It is too early to say, however, whether or not this represents movement back towards annual increases outpacing inflation.

Ongoing global economic uncertainty may yet have an impact on Canada despite our own economic fundamentals being sounder than those of our trading partners. Canada weathered the 2008-09 recession much better than most countries, but still saw a notable decline in donations. At the same time that donation revenue was decreasing, we saw a significant increase in demand for the services and supports provided by charities. This left many organizations in a precarious financial position; some have not yet emerged from this, while many are only just beginning to rebuild their fiscal capacity.

Budget 2011 confirmed the Strategic and Operating Review that will need to generate \$4 billion annually in savings towards the government's goal of a balanced budget in 2015-16. This represents approximately five percent of the \$80 billion in federal spending not comprised of debt servicing charges, transfers to individuals, and transfers to the provinces and territories. Charities will remain important partners of the federal government, but there can be little doubt that grant and contribution programs that constitute a portion of their revenue may be negatively affected.

The possibility that further economic uncertainty will combine with government spending cuts makes it imperative that we seek ways to increase the overall donation level. There may be a number of ways to achieve this, but we believe the Stretch Tax Credit for Charitable Giving to be the most desirable. We believe it will help us achieve the structural and behavioural change so vital to ensuring charities' continued contributions to Canadian life.

The Stretch Tax Credit will challenge Canadians to be even more generous. For those who already give, it will encourage them to "stretch" and give a bit more. Those who have not yet established a pattern of giving will be encouraged to do so. Adoption of the Stretch Tax Credit would also challenge charities to engage more intensely with current and potential donors in order to fully benefit from the new incentive. This intensification of the dialogue between charities and donors will further enhance accountability, build up social capital, and contribute to stronger communities.

In 2010, the Parliamentary Budget Office carried out an impact and cost analysis of a proposed Private Members Bill that would have implemented a Stretch Tax Credit on amounts exceeding \$200. The PBO found that total donations would increase due to two factors: the median donation would rise by up to 26 percent within three years, and there would be between 350,000 and 600,000 new donors.

### *A strengthened and revitalized donor base for many years to come*

In 1990, almost 30 percent of tax filers claimed a tax credit for charitable donations. Preliminary figures for 2010 indicate that only 23.4 percent of tax filers made a similar claim. While this would represent a slight increase over 2009, it is clear that there has been a significant decline over time.

The age profile of donors is also potentially troubling. Using Canada Revenue Agency figures, the PBO found that 44 percent of total donations were made by individuals 55 years of age and older, while only 15 percent came from Canadians under the age of 35. There are many reasons that older Canadians donate more -- they have higher incomes, they may no longer have the expense of supporting children, they are less likely to be carrying mortgages. But as the baby boom generation -- which accounts for such a disproportionate amount of donations -- reaches retirement age, their incomes (and thus their ability to donate) will decline. Moreover, as the prosperity of their own children and grandchildren may be less certain, their giving power beyond their own family may be reduced. Even as Canadians who are currently younger achieve the financial security to give more, there will be far fewer of them than there are baby boomers.

Encouraging new donors will have an additional significant benefit in that it will also encourage more individuals to volunteer with charities. There is a direct and established link between donating and volunteering -- people who donate are more likely to volunteer than those who do not. As noted above, the PBO envisages the Stretch Tax Credit resulting in up to 600,000 new donors. Even if only a small percentage became volunteers, the energy and talent that would be unleashed would make an enormous positive contribution to communities across Canada.

#### *Benefit to the broadest number of taxpayers*

The incentives to encourage ordinary Canadians to give have remained stagnant since 1994. Over that period, successive governments have implemented measures to encourage extraordinary donations, such as publicly-listed securities or ecologically-sensitive land. Our research shows that the overall growth in donations since 1996 may be attributable to higher net wealth individuals, and not the contributions of modest- or middle-income Canadians.

We believe that in a time of fiscal restraint, any new tax relief should be broad-based and benefit as many Canadians as possible. The Stretch Tax Credit would provide additional tax relief to millions of individuals and benefit a far greater proportion of taxpayers.

#### *Benefit to the broadest number of charities and communities*

The vast majority of charities are small, community-based organizations that are much more reliant on donations overall, and particularly on smaller donations, than their larger counterparts. Even many large national charities, such as those raising funds for specific health issues or international development, derive their donation income from a large number of small donations.

The reforms since 1996 that have encouraged large donations are likely to have benefitted a relatively small number of taxpayers, and are similarly likely to have primarily benefitted larger charities. Many charities, particularly those that are community-based and community-focussed, do not have the internal capacity to seek or administer large donations of securities or land. The adoption of the Stretch Tax Credit would benefit larger organizations, but would also allow smaller charities to broaden their appeal to existing and potential donors. In the long run, developing and strengthening relationships with a large number of smaller donors is key to the sustainability of the donor base for years to come.

*Minimal impact on the federal Treasury in proportion to the benefits gained.*

At a time when the federal government is seeking to restore fiscal balance, it would not be responsible to propose new tax measures which would have a disproportionate cost. Imagine Canada firmly believes that the Stretch Tax Credit for Charitable Giving represents the best possible value for money.

In carrying out its study on a version of the Stretch Tax Credit, the Parliamentary Budget Office concluded that after three years, the annual incremental cost to the Treasury in foregone revenue would be between \$10 million and \$40 million. While the current Stretch Tax Credit proposal is more generous, in that it would also apply to amounts below \$200, we do not believe the annual cost would be significantly out of line with the PBO estimate.

This is not a negligible amount. However, that investment would generate tax savings for millions of individuals and families. It would see new funds invested in programs and services in every community in Canada. It would maintain and generate jobs in every community in Canada. It would encourage and increase volunteerism. It would challenge all Canadians to better support those causes and initiatives that are most important to them and to continue to stretch their giving for years to come, helping to build the kinds of communities in which they want to live. We cannot think of any other approach that would achieve these benefits, particularly for such a relatively low cost.

### *Conclusion*

The charitable sector is and will always be a vital part of Canadian life and an important partner for the federal government. Imagine Canada strongly believes that no other potential action would provide the range of benefits -- to Canadians, to communities, to charities, and to the federal government -- as the adoption of the Stretch Tax Credit for Charitable Giving.

The Stretch Tax Credit will primarily benefit hard-working lower- and middle-income individuals and families. Its effects will be felt in every community from coast to coast to coast.

The Stretch Tax Credit will encourage more giving. As noted above, most Canadians say they would give more if better tax incentives were in place, an overwhelming majority of those polled support the Stretch Tax Credit and most want to see it implemented immediately.

Beyond the dollars and cents, though, the Stretch Tax Credit is about challenging ourselves to do better. It is about asking Canadians whether they can be a little more generous year over year. It is about charities themselves stepping up their engagement with the communities they serve. It will help charities across the country engage with a new generation of donors and volunteers. And it will do all of this in an extremely cost-effective manner.

There are a number of challenges that will impact on charities' long-term financial sustainability. These include expanding and developing earned income opportunities, and the future of grants and contributions. They also include broader issues such as financial literacy and governance. We are confident that we can build on our opportunities and address our challenges -- sometimes by ourselves, and sometimes in partnership with governments, the private sector and/or communities. Adoption of the Stretch Tax Credit for Charitable Giving would represent a major step forward, and we encourage the Committee to reiterate its support for this distinct and innovative proposal.