

Submission to the Standing Committee on Finance

Hearings on M-559 Private Member's motion (Braid)

January 17, 2012

Toward a More Charitable Marketplace

(Subtitle - From the Plutocratization to the Democratization of Donations)

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## Introduction

From the mid-1990s to the present, there have been a number of proposals to increase charitable giving and the vast majority of the proposals involved the giving of assets and tax reduction on the capital gains associated with those gifts. Over the last fifteen years, these are the tax measures that have been adopted by successive governments. These measures are important, indeed critical, to many of the larger charities in Canada. They help fund many universities and colleges, hospitals, health organizations and arts groups. They help create the pools of wealth that organizations, such as Community Foundations or United Ways across Canada, need in order to grow and become community leaders. To be blunt, they help fund the Spanish trawlers of the charitable world.

What we have **not** done for years is provide tax relief that entices someone to become a donor for the first time or that recognizes the cost of a gift from someone with limited means. These are the gifts that all types of charities receive, but they are especially important to smaller groups. This submission will outline the current situation and propose a measure that will affect donors of small and modest means in order to address a shrinking base of tax filers that claim charitable donations.

## Background

For the past 45 years, I have been a volunteer in Canada. I have worked with local groups such as neighbourhood associations, hockey leagues and soccer teams. I have given my time and money to citywide groups such as the United Way of Ottawa-Carleton, also to regional and national organizations.

I have coached, fundraised, stuffed envelopes, cleaned offices, flooded rinks, made coffee and bought cookies (you don't want me to bake them, believe me). I find working with voluntary organizations one of the most rewarding aspects of being a Canadian.

I have also worked professionally with voluntary organizations for over 30 years. I have spoken to hundreds of groups whether it was sitting around a kitchen table or standing at a conference podium. I have spoken on topics as wide ranging as volunteering, fundraising, membership development, the rules and regulations that charities need to follow to stay on-side and, more importantly, how to overcome the neutral zone trap in hockey.

The program that I managed developed a number of fundraising guides for voluntary groups and was instrumental in a number of surveys including developing and revising the Canada Survey of Giving, Volunteering and Participating.

I was also the project manager on a series of small contracts in the mid-1990s with Scott Wilson, a Partner in Price Waterhouse. It was one of those contracts that introduced the concept of the stretch target to Canada.

## The Contribution of Voluntary Groups

The overall nonprofit sector, which includes hospitals, colleges and universities, was valued at \$100.7B in 2007 or 7.0% of Canada's Gross Domestic Product (GDP)<sup>1</sup>. Even when one excludes the hospitals, colleges and universities, the remaining groups or the core nonprofit sector represents \$35.6 B or 2.5% of GDP.<sup>2</sup>

The best estimate of the number of voluntary organizations in Canada comes from the 2003 National Survey of Nonprofit and Voluntary Organizations. At that time, there were an estimated 161,227 groups in Canada<sup>3</sup>. This survey also found that the largest 1% of organizations accounted for 59% of all revenues<sup>4</sup>. In contrast, 42% of the organizations (or just over 67,700 groups) had annual revenues of less than \$30,000 and accounted for only 1% of all revenues<sup>5</sup>.

As Members of Parliament, you know the number of voluntary groups that make your city or town a community. You deal with the larger groups regularly, but you know that it's the smaller groups that complete your community. They are the ones that advocate for after school sports programs for youth. They look at ways to ensure that children get a good breakfast even if that meal has to be served at the local school. Those organizations are as much the fabric of your community as the hospital or local college and it's those organizations that have not been served by the tax changes that support the gifting of assets. We need to look at ways to encourage small and medium sized gifts at the local level.

The objectives of these groups complement, but do not replace the role of government. These organizations deliver services, but, more importantly, they undertake the research and thinking that makes those services relevant to Canadians. We cannot assume that all the problems are solved and all we need to do is deliver services. Voluntary groups need to meet, discuss ideas and try out new solutions based on their experience. The funds for this experimentation do not come from major funders as years of reductions have led to a service delivery approach by these funders. The only place left for unrestricted funds comes from donations.

Another thing that should be said is that our communities are better when these organizations push, advance, promote, further, encourage, assist, champion, improve, bolster and yes, advocate for change. Since I started coaching hockey, our recreational association has grown from 600 players to just over 1,000. Part of that is due to demographics, but part of it was due to other factors. Players are not

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<sup>1</sup> The Daily, December 21, 2009, Statistics Canada article on the Satellite Account of Nonprofit Institutions and Volunteering 2007, at page 1.

<sup>2</sup> Ibid at page 1

<sup>3</sup> Cornerstones of Community: Highlights of the National Survey of Nonprofit and Voluntary Organizations, Statistics Canada, 2005 Table 1.1 at page 14.

<sup>4</sup> Ibid at page 22

<sup>5</sup> Ibid at page 22

dropping out of hockey, as they get older. Our 15, 16 and 17 year olds are staying in hockey and expanding the midget division because the association changed its emphasis from competition to participation. These players are not going to make the NHL, but they will play hockey for the rest of their lives because of their memories growing up.

A group like Citizen Advocacy sets up matches between volunteer advocates and people with a wide range of disabilities including physical limitations, developmental delays, mental illness and disabilities related to aging. This group advocates by passing their message of inclusion to the public, to employers and to governments in order to help its target group reach their full potential in society.

Daniel Alfredsson advocates for the Royal Ottawa Foundation for Mental Health on these issues in order to help get rid of the stigma associated with mental health, to encourage people to seek treatment and to have society understand and accept that people need support during this phase of their life.

### Shrinking Base of Donors

The 21 years from 1990 to 2010 were marked by 13 decreases in the percentage of tax filers claiming a donation<sup>6</sup>. Over those years, the number of tax filers claiming a donation has gone from 5.538M to 5.742M or an increase of only 204,000 donors<sup>7</sup>. If the percentage of tax filers claiming a donation had remained at the 1990 level of 29.5%, then Canada would now have a total of 7.236 M donors<sup>8</sup> or an increase of 1.494 M tax filers making a donation. For some reason, Canadians have unlearned this behaviour, this part of citizenship.

This is where the rubber hits the road. These statistics are not a survey of planned giving or of recalled donations. These numbers show what Canadians have claimed. I would put forward that Canada has lost those 1.5M tax filers over the years. This has occurred for a number of reasons. Studies have shown that donations increase with age and, as Canada ages, we lose more donors. This is a natural progression. I would also suggest that, with one exception<sup>9</sup>, all of the tax changes related to donations since 1990 have been aimed at wealthier donors and many of these measures have targeted increased tax treatment for the giving of assets.

We have not, except for the one measure mentioned above, dealt with improving the tax treatment of first time or smaller donors. We have not cultivated our first time

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<sup>6</sup> Trends in Individual Donations: 1984-2010, Imagine Canada Research Bulletin – December 2011 (Vol. 15, No. 1) at page 3.

<sup>7</sup> Ibid at page 3

<sup>8</sup> To extrapolate, if 5,742,000 donors are 23.4% of tax filers, then 29.5% of tax filers would be 7,236,000 people.

<sup>9</sup> The 1994 budget lowered the first tier of the tax credit system for donations from \$250 to \$200.

donors. The two-tiered system for charitable donations is confusing and, to be frank, discriminates against first-time donors and donors of limited means.

I think that Canadians would agree that an increased number of tax filers donating would be a good thing. Canadians would agree that having more donors would broaden the support of Canada's 86,000 charities and would help our communities become better places to live. Think of what it would mean to Canada to have 1.5M more Canadians involved in their communities. Think of the advances in health, the delivery of social services, the arts or the sciences. Think of the skills, knowledge and participation coming from 1.5M new donors. Can we afford to continue to lose this resource?

### The Current Tax Treatment Structure

As a donor, the current two-tiered donation structure actively discourages the first donation. Follow the Ontario example below to see what I mean.

#### 2010 Tax treatment for a charitable gift of \$200

Federal tax credit of 15%	\$30.00
Ontario tax credit of 5.05%	\$10.10
Total tax treatment	\$40.10

#### 2010 Tax treatment for a charitable for the next \$200

Federal tax credit of 29%	\$58.00
Ontario tax credit of 11.16%	\$22.32
Total tax treatment	\$80.32

In Ontario, the tax treatment for the second \$200 gift is just over twice the amount for the first \$200.

We could eliminate the first tier for donations, but as Department of Finance officials will tell you, and rightly so, that rewards existing behaviour. All those donors who already give will reap the benefits of this new tax treatment without giving any more. In Ontario this would mean giving them (giving me) an extra \$40.22 for maintaining the same behaviour. While it makes more functional sense to have a one-tiered system, it would cost the treasury millions of dollars of foregone tax revenue before it started to entice new donors to give. It is not politically sound.

We have painted ourselves into a corner. How can we get out? I would propose that the stretch target proposal is even more relevant now than it was in 1995.

## Stretch Target Proposal

The stretch target would give individuals, who increase their charitable giving from one year to the next, let's say from \$100 to \$400, an increased tax credit of 10% for the amount of the increase, the \$300, for that year only. In the next tax year, the platform from which the stretch target is calculated will be any donations over \$400. Once the donor has reached a donations level of \$10,000 the enhanced tax treatment for increased donations would stop. The base year for the stretch target would be 2012.

The idea of the stretch target is to challenge all donors below the \$10,000 threshold to increase their giving. It would help first time donors get over the first tier of the tax structure by making the tax treatment of their donation closer to the amount received for donations over \$200. It would start to create the giving behaviour that Canada has seemed to lose over the years.

Just as the Children's Fitness Tax Credit is in place to increase the physical activity of children, the stretch target is aimed at increasing the charitable behaviour of Canadians. The belief is that you encourage the behaviour and, once done, people will continue to practice charitable giving in future years. They will have been exposed to benefits of becoming a more caring and responsible citizen.

It is not a perfect proposal, but then we have an imperfect existing system. The stretch target proposes a way to meet the needs of first time and modest means donors. If there are concerns about how the stretch target would work in practice, then we can address that by having a five-year trial period. The Department of Finance would monitor the use of the stretch target over five years to see how it changes donations.

It would help us go from a charitable tax structure that is biased toward larger asset-based gifts to a more democratic system based on widespread donor participation.

Thank you.