

Background Statement
Prepared for Testimony Before The Standing Committee on Finance
Tax Incentives for Charitable Donations

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Background: I am submitting this statement as background information for my appearance before the committee, as per their invitation. I am writing this as a researcher who has studied charities and the impact of government policies on charities for close to twenty years. This statement is based on an objective analysis of data on charities and reported giving by individuals. I am a professor of economics and director of the Public Economics Data Analysis Laboratory (PEDAL) at McMaster University. I hold a PhD from Princeton University and a law degree from Cornell University.

Summary: Understanding incentives for giving, how tax policy may impact giving, and how charities and foundations operate are complex issues. What follows is a discussion of some of the reasons for taking a broader perspective when evaluating what best to do to support charities. Moreover, there are good data that can be used to understand the complexities of private and public support of charities. Below is a brief analysis of some of these data on patterns of public and private support of charities over the last two decades. The analysis suggests that over the last two decades patterns of giving has varied across individuals based on income and neighbourhood composition. The analysis also suggests there are striking differences in the reliance of private and public revenues across charity types. Finally, the analysis suggests that foundations are playing an increasingly important role in financing charitable organization activities.

Analysis:

I. Understanding charitable giving is more than just thinking about individual donors

Many of the submissions focus on promoting policies that would increase tax credits given to individuals for their donations. Whether these are good policies, I will not address. Instead, I encourage the committee to take a broader view when thinking about how best to help charities. Individual donations are an important component to the sector. Yet, we should not forget that these donations are given to charities, churches, community centres, service clubs, foundations, and other organizations. These are the organizations responsible for providing charitable goods and services. If one wants to understand better what policies impact individual giving, then one should also try to understand:

- (a) How charities work: For example one should explore the role charities play in soliciting contributions, and how other sources of funding (e.g. direct funding from the government, funding from foundations to charitable organizations) affect charities' decisions to solicit private donations as well as individual decisions about contributing to charities that receive funding from other sources.
- (b) How neighbourhood composition affects individual giving and charity operations as well as how we as individuals influence the giving of others.
- (c) How best to balance direct and indirect government support. Indirect support of charities would come through tax credits for donations, among other things. Direct support of charities often comes in the form of grants and contracts to the charities. Presumably, if there is a change that increases tax credits for giving, this could result in there being fewer funds available for direct grants and subsidies that are given to charities.

Some of these issues have been well studied. Examples of research on charitable giving that look beyond the impacts of a change in tax policy on individual behaviour include:

- Work I have done with James Andreoni (UC-San Diego) using data from Canada and the US suggests that if charities are more concerned about the services they provide and view fundraising as a necessary evil, with the receipt of a government grant, charities will decrease their fundraising efforts and this can result in a decrease in private donations to the charities.
 - For certain types of charitable goods, research suggests individual donors view government grants to a charity positively and give more to charities that receive government funding.
- In preliminary work by a current PhD student I am supervising, if a charity receives funding from a foundation, this results in an increase in individual donations to that charity.
- In work that James Andreoni (UC-San Diego), Justin Smith (Wilfrid Laurier University) and I are doing, we are finding that individual giving declines as neighbourhoods become more diverse.

While diversity, in general, should be viewed as a good thing, our work complements the work of other researchers that find that publicly funded goods and services decline as diversity increases.

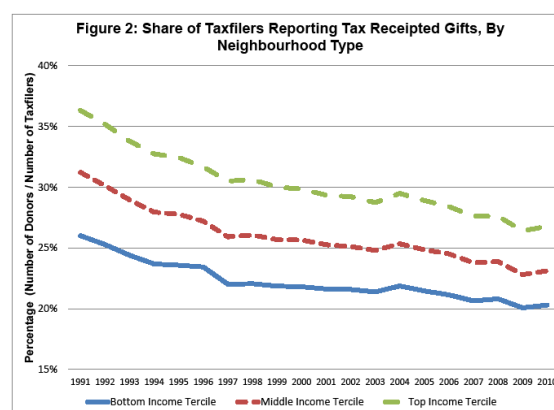
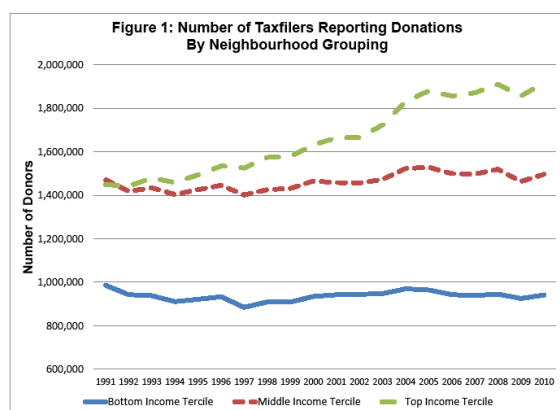
- There has been little quantitative work done to explore how charities interact with each other. Over the last two decades we have seen a growth in charities: has this resulted in charities having to compete for donations? Has this growth benefited the communities in which the charities are located? These are two of the many questions that could be asked about charity operations.

II. Importance of using existing data and exploring what we know about patterns in reported charitable giving and patterns in charity operations.

There is a wealth of data that could be used to understand better charitable giving. Data from individual tax returns could be used to explore patterns in giving and what explains a lower proportion of tax filers reporting charitable donations. Data from charity information returns could be used to also explore patterns in tax-receipted giving, government funding, and foundation grants to charitable organizations. These data could also be used to understand better the growth in foundations and the impacts of this growth on charities. What follows are straightforward examples that use these and other data sources.

a. Patterns in Individual Giving

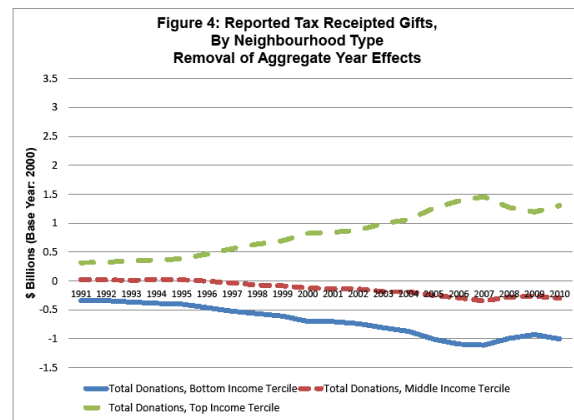
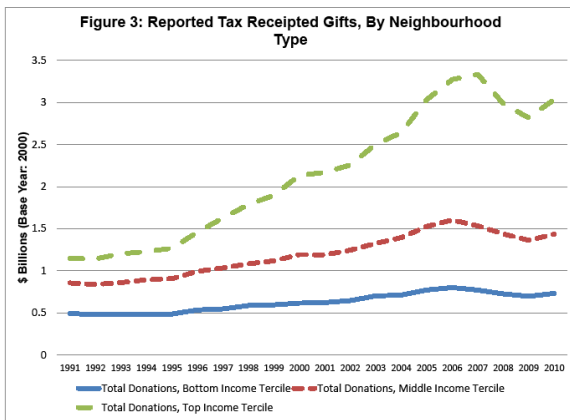
I rely on data provided from Statistics Canada that aggregates information from individual tax returns to a neighbourhood level (the first three characters of the postal code). What follows is for a group of neighbourhoods located in urban areas for which we had data over all years. I group the neighbourhoods into a top, middle, and bottom income based on reported average income on the 2006 Census for residents of these neighbourhoods.¹ The following graphs depict information between the period 1991 and 2010. During this period all three groups experienced an increase in tax filers.² The largest growth in tax filers is for the neighbourhoods classified as top income.



We observe three things: first, the number of tax filers reporting donations increased over the period, with the greatest growth by individuals residing in the top income neighbourhoods (Figure 1) but that this growth was not proportionate to the increase in tax filers (Figure 2). Second, over the 20 year period, the bulk of the growth in total donations is by individuals residing in the top income neighbourhoods and there was a dip in donations around the time of the most recent recession (Figure 3). Third, if one controls simply for macroeconomic fluctuations (remove a time trend), overall donations have been declining for the middle and bottom income groupings; the increase in giving by the top income grouping only slightly covers the decline observed in the other two groupings (Figure 4).

¹ Neighbourhoods do grow and decline. However, for the purposes of the analysis, it was important to assign a neighbourhood to a single grouping.

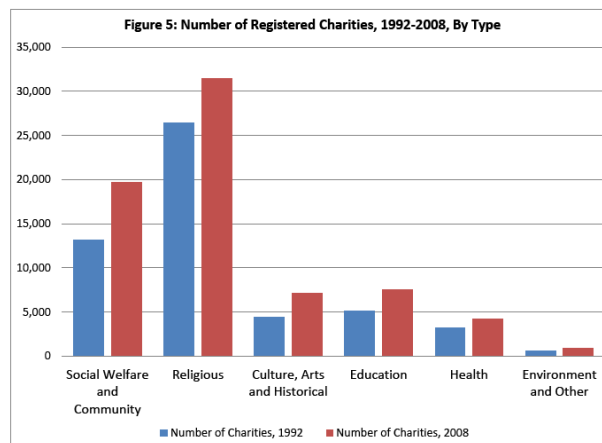
² Bottom Income Group: in the sample used for analysis there were 3.7 million tax filers in 1991 and 4.6 million tax filers in 2010. Middle Income Group: there were 4.7 tax filers in 1991 and 6.5 million tax filers in 2010. Top Income Group: there were 4.0 tax filers in 1991 and 7.2 tax filers in 2010.



What I have presented is a simple example of how one can use data from individual tax returns to learn more about donating behaviour across our population, even if the information is aggregated to a neighbourhood level. If one were to access individual returns, one could paint a clearer story of these patterns. For example, the data suggest changes in the treatment of donated publicly traded securities may have had a big impact in donation growth. With more individual level data, one could explore in more detail the impacts of the changes in tax treatment of these and other types of donations. One could also better understand what distinguishes individuals that regularly report private donations from those that irregularly or never report private donations on their tax returns.

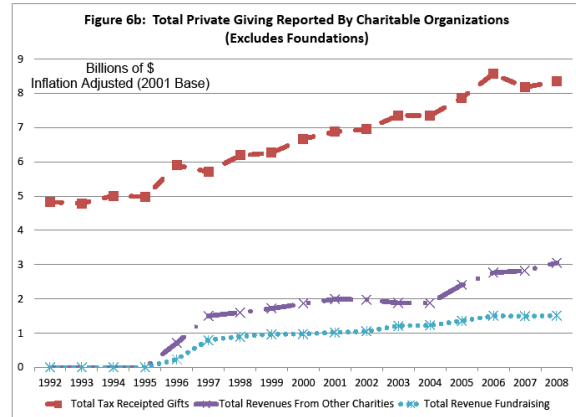
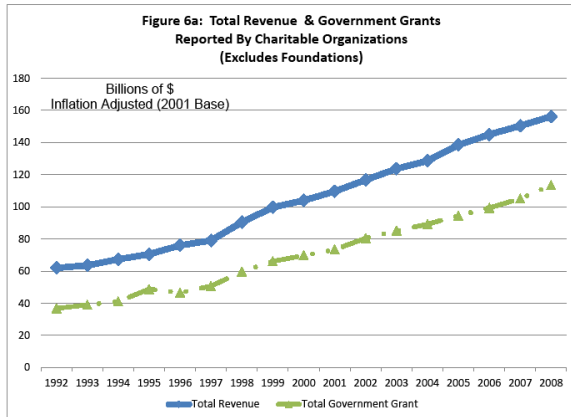
b. Patterns Observed When Studying Charity Information Returns for Charitable Organizations (excludes foundations)

What follows is based on the use of data from charity information returns for registered charities. In some instances, we have grouped the charities based on the category code reported by the Canada Revenue Agency into the following groupings: social welfare and community; religious; arts, culture, and historical; education; health; environmental and other. Between 1992 and 2008, the number of charities increased by more than 30%, from approximately 53,000 to approximately 71,000.³ Over the period, the net increase in charities each year ranged from 300 to well over 2000. The bulk of charitable organizations fall under the religious category with those categorized as social welfare and community oriented coming in second (Figure 5).



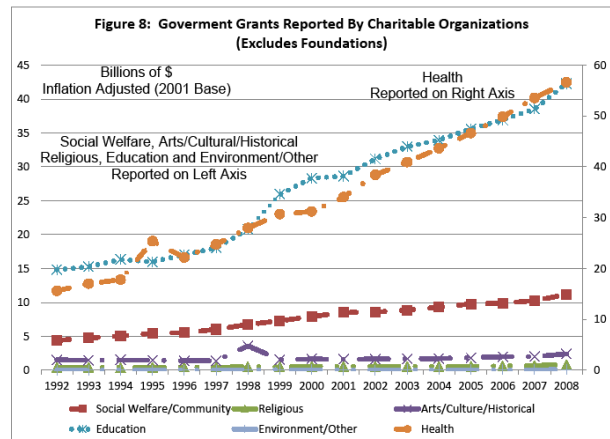
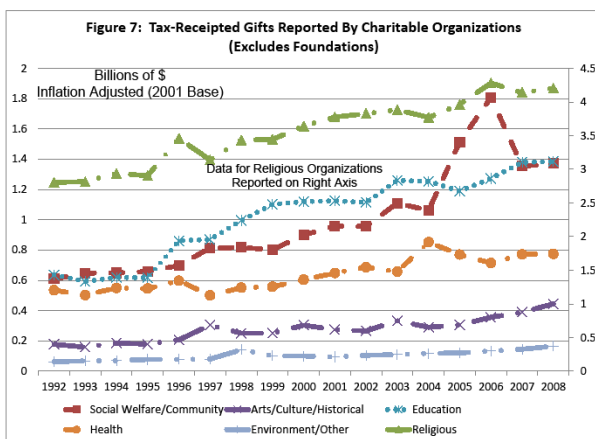
³ Note, the period covered by each year are those charities that filed an information return with CRA with their fiscal period ending between June in one year and May in the next year. We only have partial information for 2009 (those charities with a fiscal period ending between June and December).

Approximately 85 percent of the registered charities report receiving donations through tax-receipted gifts. In Figure 6a, I depict the overall total reported by all charitable organizations (excluding foundations).⁴ This is revenues from all sources. I also report the total level of government grants across all charities. Between 1992 and 2008, total revenues rose from \$62 billion to more than \$156 billion (inflation adjusted dollars). Government grants followed a similar pattern. We observe in any given year that approximately one-third of charities suffer a decline of more than 5% in year over year revenues; similarly approximately one-third of charities observe an increase of more than 5% in year over year revenues. Thus, while it appears that over the last two decades charities have seen an increase in revenues, not all have benefited from this increase.



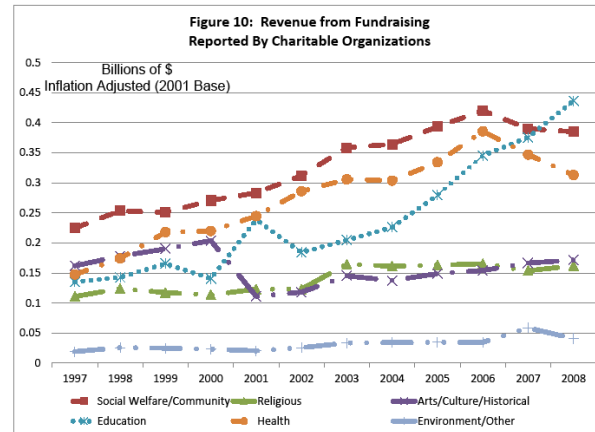
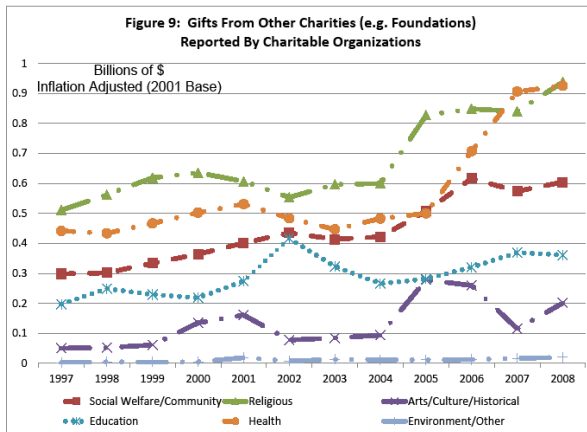
In Figure 6b, I report the overall total reported in tax-receipted gifts by charities. During this period, total tax-receipted gifts increased from approximately \$5 billion to approximately \$8 billion. Starting in the mid-1990s, charities began reporting their revenues from other charities (e.g. foundations) and their revenues from fundraising events that are not recorded as tax-receipted gifts. Between 1996 and 2008, revenues from these sources grew: from less than \$1 billion to more than \$3 billion for revenues from other charities and from \$236 million to more than \$1.5 billion for revenues from fundraising.

Not all charities benefit the same from tax-receipted gifts. In Figure 7, I depict the reported totals of tax receipted gifts by charity grouping. By far, the most amount of tax-receipted gifts is reported by religious charities. Donations to these organizations grew from \$1.2 billion to more than \$4 billion between 1992 and 2008. In the last few years of data, however, the level of gifts flattened. Unlike the other types of charities, however, religious charities do not benefit as much from government grants and revenues from fundraising.



⁴ For these figures, we exclude a few observations for charities with reported revenues that seem absurdly high (e.g. government grants of more than \$90 billion).

Social welfare/community and education related charities received similar levels of tax-receipted gifts throughout the period – around \$600 million in 1992 and around \$1.4 billion in 2008. For the other groupings of charities, the level of tax-receipted giving more than doubled. In Figure 8, I depict the level of government grants reported across the charity groupings. Health related charities received the bulk of the government grants, next followed by education related and social welfare/community charities.



In Figures 9 and 10, I depict the total level of revenue from other charities (e.g. foundations) and revenues from fundraising, by charity type, respectively. Most groups experienced growth during the period. Religious and health related charities benefited the most from this revenue source. The social welfare and health related charities benefited the most from the revenues from fundraising. Education related charities, however, experienced the greatest growth in this revenue source.

c. Patterns of Revenues for Foundations

Between 1992 and 2008, the number of foundations (public and private) came close to doubling – from 5,800 in 1992 to 9,421 in 2008. In Figure 9, I depict the total assets (right axis) and total tax-receipted gifts (left axis). There has been tremendous growth in foundations. Total assets increased from more than \$8 billion to more than \$30 billion. And tax-receipted gifts increased from \$1 billion to more than \$4 billion. This is tremendous growth. Recall that there are more than 70,000 charitable organizations and annual reported tax-receipted gifts in the same period for these organizations increased by the same dollar amount, from \$5 billion annually to \$8 billion annually. The number of foundations represents 12% of registered charities that filed an information return for 2008 – yet their growth in tax receipted gifts swamps the growth of non-foundation charities.

