

Brief

A Wide-Angle Picture of Charitable Giving in Canada with Particular Attention to Possible Effects of Tax Incentives

presented by
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to The House of Commons Standing Committee on Finance
Government of Canada

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Background and Introduction

Many Canadians applaud this Committee's undertaking an examination of how charitable giving might be encouraged, with specific consideration of tax credits. The giving of gifts and charitable donations is a nearly invisible but deeply consequential activity in our country; it is a crucial glue that helps hold our social fabric together, and it is a significant element in our economy as well. In the present age and in today's culture, buying and selling, acquiring and consuming, hold a central place in our worldview and our lives. Despite their social and economic importance, giving behaviours have received surprisingly little sustained or systematic empirical research from social scientists. In Canada, an initiative underway now for 15 years has been striving to redress this lacuna. One of the results of the Nonprofit Sector Knowledge Base Project is a growing body of knowledge about the character of various forms of giving, especially charitable giving.

More than 50 studies and reports have been produced in this project, and more are underway. Eight of those available now, along with two more in preparation, are pertinent to the Committee's task, and they are listed in an Appendix to this Brief. The remarks I will offer to the Committee are based on findings from this research initiative

I would note that beyond some summary observations about charitable giving in Canada, many of my points are not yet widely known either by social scientists nor by Canadians

generally; while the incidence and magnitude of charitable giving have been reported on descriptively from national surveys for more than 40 years, systematic analytical examination of the phenomenon has taken place only in the past decade. (Parenthetically, I would note that due to Statistics Canada's work, Canada has more and better statistical information on giving time (volunteering) and financial and material resources (gifts and donations to charitable organizations) than anywhere else.)

There are several broad points that I would note before offering a number of observations.

First, and contrary to assumptions that many of us make, charitable giving is not a uniform, homogeneous phenomenon; it takes quite varied forms and some of them show little or no responsiveness to tax credit incentives, while others may do so.

Second, tax incentives may be the easiest way to encourage charitable giving but that is not the only one. Based on extensive statistical analysis, we have constructed a model of the antecedents of charitable giving which is attached to this Brief; it displays the causal structure underlying charitable giving, and each of the six boxes represents a point of possible leverage for fostering charitable giving.

Third, it is important to decide whether the goal of increasing charitable giving is solely to increase the volume of dollars donated, or to increase the number of Canadians making charitable donations, or both, to foster a "giving society". Considering tax measures to encourage charitable giving is arguably at least as much a matter of social analysis as of economic analysis.

Turning to substantive points that address the key question facing the Committee, what are the features of charitable giving and charitable givers that might point to responsiveness to an enhanced income tax credit regime?

Trends and Types of Charitable Giving in Canada, and Distinguishing Traits of Charitable Donors

1. I would note, first of all, that while more than 80% of Canadians say they donate to charitable organizations each year, many do not do so generously; median annual per person amounts are only modestly above \$100. Many Canadians spend more on such quotidian items as pet food, or donuts and coffee, than on charitable giving.

Nonetheless, there is a civic core, less than one-quarter of the adult population, that consists of Canadians who can be termed “generous” in their charitable giving; this core is made up of individuals and households who are frequent, committed, ongoing givers and a another set of givers whose donating is episodic and occasional, rather than ongoing, but involves significant amounts. The notable thing about this overall core is that the top 25% of donors gave 82% of all charitable dollars in 2007, the latest year for which we have published statistics.

2. Annual figures for charitable giving were rising slowly for many years, jumped sharply in the first several years of this decade to approximately \$10 billion in 2007, but then dropped in each of the past several years, almost certainly due to the global financial crisis. By contrast, household disposable incomes have remained flat for several decades despite rising before-tax incomes (all in constant dollars). There is an uncertain environment for charitable giving at present.
3. Declared charitable giving by businesses and corporations is far below that by individuals and households — at about \$2 billion annually, less than one-quarter of private personal giving.
4. The incidence of income tax returns that report charitable donations for tax credit purposes has been falling since 1982 and stood at 24% in 2010.
5. Canadians’ combined giving of both charitable donations and gifts to non-related individuals totals an average of 5% of disposable income. Across income levels,

charitable donations amount to between 0.5% and 1.4% of pretax income, but differences between low income and high income households are negligible when using after-tax disposable income as the denominator.

6. Half of all charitable donation dollars go to religious organizations, but this proportion is in slow, long-term decline.
7. Broadly speaking, the traits that most strongly characterize charitable givers in general are higher household income, being civically active, being older, frequency of religious attendance, frequency of helping others informally and directly, and living in the Prairie region.
8. Although we were unable to include it in some of our analyses because it came from a different survey, one of the single most influential factors in giving and volunteering is a particular ethos or set of ideals and values that is distinctive to volunteers and charitable donors. Among the components of this ethos are a strong orientation to supporting the common good with individual action, and a sense of connection with others.
9. Salient facts about types of charitable giving and charitable donors are these:
 - Of the approximately 80% of Canadians who make one or more donations to charities each year, half do so without deliberation or planning — what may be called incidental or reactive givers whose giving is most often in response to solicitation. The proportion of incidental donors fell from 62% in 1997 to 51% in 2007; reciprocally, the proportion of planned givers rose during this decade from 38% to 49%.
 - The ability of households to make donations from assets results in quite different donation behavior compared with making donations from earned income. We have no data that permits us to make this important distinction in our analyses, however.
 - Giving by charitable donors who give to religious organizations is distinctive relative to that of donors to secular organizations; it is more ongoing, regular, and with larger amounts. Half of all giving is to religious organizations, and religious

donors also give with above-average generosity to non-religious organizations as well.

10. Charitable donations from the 49% of donors who planned their giving accounted for three quarters of all charitable dollars in 2007.

11. Planned givers are distinctive in such ways as the following:

- Their charitable giving is disproportionately greater — about four times more than that of non planned-giving donors. In 2007, for example, planned givers averaged \$971 in annual donations, compared with \$227 for non-planners.
- Those who planned both their total annual donation amounts and the recipient organizations comprised 15% of donors in 2007, contributing \$3 billion, nearly one-third of total charitable donation dollars.
- The percentage of planned givers reporting having prepared a bequest in 2007 was 8 percent, a rising proportion compared with previous years, and significantly higher than the figure for other types of giver.
- The prevalence of planned giving is greatest in British Columbia and the Prairie provinces, lowest in Quebec and the Atlantic provinces.
- The incidence of planned giving is highest among Conservative Protestants and markedly lower (but generally equal) among all other religious categories. People with no religious affiliation were least likely to engage in planned giving, and contributed smaller amounts than religiously affiliated donors.
- Beyond the religious factor, additional traits of planned givers that set them apart from other Canadians were (in descending order) being older and better educated, the number of years residing in their present home, being more civically involved (e.g., a higher incidence of voting), and providing direct help to others. Surprisingly, planned giving was practiced least by professionals and white collar workers and most by managers and administrators.

Assessing the Impact of Tax Incentives — Donors' Views and Behaviours

12. Striving to increase charitable giving entails swimming against the tide of Canadians' declining trust and confidence in charitable organizations.
13. While the number of donated dollars has been rising, the number of donors has been falling, as has the number of donations per year, and the number of organizations donated to. Polarization is occurring in the charitable sector: A shrinking proportion of the population is donating, but on average, a portion of those donating are donating more.
14. One of the dominant reasons Canadians give for not contributing, or not contributing more, to charitable organizations is that they already support the provision of community and social services through already paying considerable, and rising taxes.
15. Although the expressed intention among NSGVP survey respondents to claim a tax credit is proportional to the amount they give, rising from 25% for those giving \$120 or less annually to 83% for those giving above \$1000, there is no difference in the proportion saying they would contribute more if given a larger tax credit — it ranges from 51% to 57%.
16. Detailed analysis of data from Statistics Canada's National Survey of Giving, Volunteering and Participating in 2000 revealed that
 - 13% of respondents said they make donations because of a tax credit
 - 46% said they intended to claim a tax credit
 - 41% of those who said they donate because of a tax credit reported they would not in fact be claiming it.

Most notably, 90% of Canadian adults neither donated because of tax credits nor planned to claim them; and although half said they would donate more if there were a better tax credit, only 21% of those who said they donated because of the existing tax credit would give more if provided with greater tax benefits.

There is, then, a clear disjunction between charitable donors' views and behaviours with respect to tax credits, and only a small minority of the population that would respond to increased tax credits. Further analysis is under way to ascertain how many charitable dollars are contributed by people who express indifference, in word or in their actual behavior, to tax credits.

To Conclude:

In light of its complex character, fostering charitable giving requires insights derived from careful empirical analysis. With tax credit incentives as a first line of initiative, evidence suggests that in addition to high-income and high-asset individuals/households, people whose charitable giving is frequent and ongoing may also be responsive to increased tax credits. But the evidence is that the majority of donors have a low likelihood of responding with greater giving to an increase in tax credits.

Raising the incidence of charitable giving rather than the total dollar amount contributed depends on strengthening social learning processes that underlie commitment to the good of the community and acquisition of the distinctive ethos that is part of a documented "generosity syndrome" characterizing a modest core of Canadian adults. Though strongly desirable in principle, such a goal would require wise policy and considerable lead time before payoff became visible. This option might be given consideration for longer-term development.

Financial incentives may be worth considering for charitable donations that take the form of bequests. As baby boomers move into retirement and approach old age, Canada is on the verge of a period of historically unprecedented numbers of estates containing significant value. Baby boomers have been labeled "the trillion dollar generation", and are not only relatively affluent but have also been markedly idealistic. There may well be potential for a graduated tax credit regime that would facilitate the making of bequests, which entail capital gains to charitable organizations. The potential total value of this generation's bequestable funds is difficult to estimate, but tapping this extremely large society-wide pool of financial assets could be expected

to provide an enormous boost to charitable giving. A further possibility that would have much the same effect as a tax credit scheme and would cost the public treasury no more than a tax credit approach would be a partial “matching contribution” approach, where for example, a modest percentage (say, 10 or 15%) of funds in a bequest assigned to a charitable organization would be matched by the Government of Canada.

It is my hope that this sampling of findings and suggestions will advance the Committee’s work.

I wish the Committee well in its continuing deliberations.

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**Pertinent Reports* from
The Nonprofit Sector Knowledge Base Project**

Generosity in Canada: Trends in Personal Gifts and Charitable Donations Over Three Decades, 1969-97, by Paul Reed. Statistics Canada Research Report, 1999. Abridged version published as “Generosity: Thirty Years of Giving”, in Canadian Social Trends, 62, pp. 11-13, Autumn 2001.

Formal and Informal Volunteering and Giving: Regional and Community Patterns in Canada, by Paul Reed and Kevin Selbee. Ottawa: Statistics Canada Research Report, 2000. Also published in abridged form in Canadian Social Trends, 63, pp. 16-18, Winter 2001, as “Volunteering and Giving: A Regional Perspective”.

The Civic Core in Canada: On the Disproportionality of Charitable Giving, Volunteering, and Civic Participation, by Paul Reed and Kevin Selbee. Ottawa: Statistics Canada Research Report, 2001. Also published in Isuma, 2, 2, pp.28-33, 2001 and in a revised and updated version, “The Civic Core in Canada: Disproportionality in Charitable Giving, Volunteering, and Civic Participation”, in Nonprofit and Voluntary Sector Quarterly, 30, 4, pp. 761-80, 2001.

Is There a Distinctive Pattern of Values Associated with Giving and Volunteering?: The Canadian Case, by Paul Reed and Kevin Selbee. Ottawa: Statistics Canada Research Report, 2002.

The Other Side of the Coin: Who Are The People Who Neither Volunteer Nor Make Charitable Donations?, by Paul Reed and Kevin Selbee. Ottawa: Statistics Canada Research Report, 2003.

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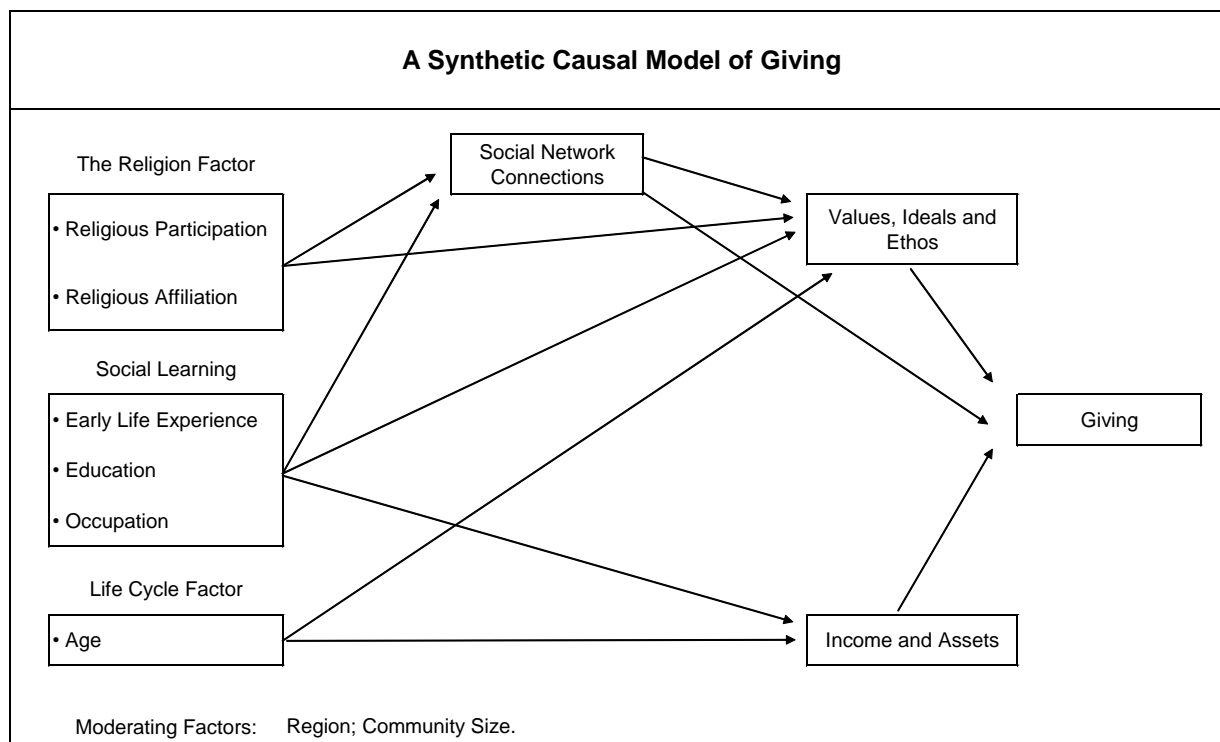
Do Tax Incentives Really Make a Difference in Charitable Giving? Why Not?, by Paul Reed and Kevin Selbee. Ottawa: Statistics Canada Research Report, 2004.

In Preparation:

Planned Giving Among Canadians: A National Study, by Paul Reed and Kevin Selbee. Prepared for the Canadian Association of Gift Planners, and Cardus.

A Further Analysis of the Potential Impact of Tax Incentives on Charitable Giving, by Paul Reed and Kevin Selbee.

* Available at www.carleton.ca/casr/publications.



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