



UNIVERSITY
OF MANITOBA

Tax Incentives for Charitable Donations

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

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University of Manitoba

Submission on Tax Incentives for Charitable Donations

Executive Summary

Canadians are regarded as among the most generous people in the world when it comes to their support for charitable causes. We display the spirit of giving whether it is in support of organizations and appeals at home, or to relieve suffering in nations abroad. Post-secondary institutions in Canada are prime beneficiaries of the generosity of Canadians. In fact, after religious organizations and social agencies, education is the largest recipient of philanthropic donations, receipting over \$3 billion last year.

Governments have a role to play in fostering philanthropy. A number of policies are in place, primarily through the tax system, to offer incentives and to acknowledge philanthropic support. Tax benefits are an appropriate method to encourage greater levels of giving and to motivate higher rates of citizen and corporate participation. Moreover, the provision of these benefits provides a significant return to society on the investment.

The Finance Committee's review on tax incentives for charitable donations is timely. With the number of registered charities increasing to meet societal needs, individuals, businesses and governments are finding it more challenging to respond. Recent amendments to tax legislation that changed the tax treatment for donations of securities, has triggered a rise in these types of donations to charitable organizations, including universities. The government has an opportunity to build on this successful measure and further stimulate giving. The University of Manitoba recommends the federal government:

- Increase the federal tax credit on giving that exceeds a donor's previous highest giving level. Such a "stretch tax credit" would increase the number of donors who give to charities and to motivate a higher level of donations; and,
- Provide further exemptions on gifts of assets by eliminating the capital gains tax on gifts to registered charities of privately held shares and real estate.

It is anticipated that the adoption of these two favourable tax measures would provide additional encouragement and flexibility to the donor community and lead to a significant increase in the number and value of donations to charitable organizations, including universities.

Introduction

Established in 1877, the University of Manitoba was the first university in Western Canada and has a 135 year history of producing leaders and conducting world class research. The University has over 28,000 students enrolled in 20 faculties. It is one of Canada's leading research/doctoral universities with sponsored research income in excess of \$164 million and has one of the country's most successful commercialization programs. The University is a member of the U15 group of Canada's top research universities and is internationally renowned for its work in a number of fields. As an indicator of academic strength, the University of Manitoba has produced more Rhodes Scholars (96) than any other university in Western Canada. The University of Manitoba contributes \$1.8 billion to the economic vitality of the province in annual economic activity. Its impact is felt in every corner of Manitoba, nationally, and in key global areas.

Philanthropy at the University of Manitoba

Philanthropy is central to Manitoba's culture and has played an important role at the University of Manitoba since 1885, when our first donation was received from Alexander Kennedy Isbister, a Metis of Cree and Scottish descent, who was born in the Red River settlement and was a firm believer in the value of higher education. Educated in law at universities in Scotland, he gifted the University of Manitoba \$83,000, which would be valued today at over \$1M in today's dollars. The condition of this bequest was that the gift was to be used for scholarships and prizes for those who merited them, regardless of sex, race, creed, language or nationality - quite a visionary statement at the time. Since those early days, the University of Manitoba has continued to rely on the generosity of its alumni, staff, faculty, students, parents and friends, cumulatively attracting almost \$550M since keeping records. Within the last five years, nearly 20% of University of Manitoba alumni have made philanthropic donations to their alma mater.

The University of Manitoba continues to be both visionary in its approach and a trailblazer in attracting the resources necessary to be a global leader in teaching, learning, research, and community engagement. The University of Manitoba ran the largest capital campaign ever in the history of this province, with over \$237M in new funds raised from over 36,000 donors from 2001 – 2004. Exemplifying the positive role government can play in fostering philanthropy, the Province of Manitoba helped launch this campaign with a \$50M gift which leveraged an additional \$187M in private sector support, or a 4.75 multiplier. These funds were used to create and support scholarships, fellowships and bursaries, new teaching and research infrastructure, and for research chairs and professorships. The University of Manitoba is now in the early stages of planning its next campaign for community support

Positive impact of previous changes

Research demonstrates that philanthropy is driven by an understanding of need and by a deep commitment to causes that are close to a donor's heart. While most donors are driven by non-monetary considerations, incentives like matching programs or favourable tax treatment allow donors the opportunity to leverage additional support and maximize the impact of their contributions. These measures impact not so much whether one gives, but more how much one gives.

Governments have a role to play in encouraging and recognizing Canadians' philanthropic activity. The federal government's policies, particularly those with respect to tax incentives, offer important fiscal incentives. Experience has demonstrated that enhancements to the tax treatment afforded to philanthropic donations will result in increased contributions to charitable organizations and will broaden the donor base. For example, the recent elimination of the capital gains taxes on gifts of appreciated publicly traded securities, an initiative passionately advanced by University of Manitoba alumnus, businessman, and philanthropist Donald K. Johnson, has been important in stimulating increased donations to registered charities. At the University of Manitoba, we have seen the number of these types of gifts increase by as much as four times since the introduction of this change in 2006.

Continuing the momentum

Elimination of capital gains taxes on gifts of appreciated publicly traded securities has been a success. With this example before us, the opportunity now exists for the government to extend this exemption to also apply to gifts of privately held shares and personal and commercial real estate.

When equities markets are high, charities see a corresponding increase in the number of outright gifts of shares received. However, with the volatility of the equities markets, we have seen an overall reduction in these types of gifts, with the exception of gifts in wills. The volatility in equities has made real-estate more attractive to investors. In addition, with the start of the intergenerational wealth transfer, a percentage of the assets being transferred are in the form of real-estate such as family cottages or farms. A favourable tax incentive to donate these assets would lead to a similar influx of gifts of this nature that was seen with the enhancement of gifts of public securities.

To this end, the University of Manitoba recommends the government extend the tax treatment provided to gifts of publicly traded equity to privately held equity and to real estate.

As well, increasing the overall level of tax credits available for donors would encourage new participation and would provide motivation for those who already contribute to augment their gifts. As Imagine Canada reports, *The Canada Survey of Giving, Volunteering and Participating*, found that a significant majority of Canadians would give more if better tax incentives were in place. More recently an Ipsos Reid survey found 82% of Canadians in favour of an enhanced tax credit. From a university perspective, this measure would build the donor base as new alumni come on board. Over time this tax incentive would have a significant multiplier effect by growing the donor base and encouraging increased contributions. 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.

To this end, the University of Manitoba recommends that the government introduce a “Stretch Tax Credit” that would increase the federal tax credit on new donations that exceed a donor’s previous highest giving level.

Conclusion

As Imagine Canada states, “an increase in donations would generate new investment in communities across Canada, helping charities prevent and alleviate social problems and greatly enhancing quality of life through increased access to cultural, learning and sporting activities. Charities of all sizes and in every region would benefit from greater support, particularly those that rely more on a large number of smaller donations to fulfil their missions.”

The University of Manitoba thanks the House of Commons Standing Committee on Finance for providing us with this opportunity to submit our position on this study. We look forward to hearing the results of your review.