



Pre-Budget Brief submitted by Imagine Canada
to the
House of Commons Standing Committee on Finance

November 2013

Recommendations

On behalf of Canada’s charities, Imagine Canada presents three recommendations for consideration by the Commons Standing Committee on Finance with regard to the 2014 federal budget:

- expand access to existing federal business development support services to facilitate income-generating activities, with equitable access to the Mitacs Accelerate internship program as an immediate step;
- build on the First-Time Donor’s Super Credit announced in the 2013 federal budget, by working towards and announcing a timeline for full implementation of the Stretch Tax Credit for Charitable Giving; and,
- reduce red tape surrounding the administration of grant and contribution programs by fully implementing recommendations made by the Independent Blue Ribbon Panel on Grant and Contribution Programs.

Earned income

Recommendation: Expand access to existing federal business development support services to facilitate income-generating activities, with equitable access to the Mitacs Accelerate internship program as an immediate step.

Earned income, that is to say, the sale of products, goods, and services, is one of the sector’s three main revenue streams, alongside philanthropy and grants and contributions. An increasing number of organizations are looking to these activities, as public funds and philanthropy remain constrained in the aftermath of the economic crisis, to diversify and sustain their revenues. Some organizations have been involved in these activities for quite some time, and derive a large portion of their revenues therefrom, while others are looking to engage for the first time. Regardless of where organizations sit on the spectrum, they have need of a broad range of skills and advice – for example, writing business plans, identifying financing opportunities, exploring new technology development and assessing new and current markets – to which many do not have in-house access.

The federal government has numerous initiatives to assist private entrepreneurs who find themselves in a similar situation. For example, through the Business Development Bank of Canada, people with a business idea can access advisory services to help them turn that idea into a reality; BDC staff have indicated to us that their mandate precludes nonprofit entities from accessing these services. In other cases, charities and nonprofits may be technically eligible but awareness of that fact (both externally, and among those administering the programs) is lacking. There are some initiatives underway within some departments to catalogue eligibility for charities and nonprofits to programs under the umbrella of the Canada Business Network, which will give us a better idea of where the specific gaps lie, but these efforts are in their early stages of implementation and would benefit from a government-wide commitment to opening up these services and supports.

Charities are appreciated for the services they deliver and the role they play in every community in Canada. The recent *Talking About Charities* report represents the most comprehensive and up-to-date snapshot of Canadian public opinion about charities. Some 93 percent of Canadians agree that charities are important, and 88 percent believe that charities make a positive contribution to our quality of life. What is often overlooked in the discussion, however, is the enormous economic contribution made by the sector. Charities and public benefit nonprofits provide jobs for some two million Canadians, in every community across Canada. The sector accounts for more than seven percent of GDP – a larger share than the automobile industry, oil and gas, mining, or forestry, to name just a few. Measures that improve the sector’s financial capacity – whether through earned income activities or through philanthropy – will allow it to create even more jobs and economic activity and opportunity throughout Canada.

Talking About Charities reports that 90 percent of Canadians agree that running a business is a good way for charities to raise money to deliver on their missions. Indeed, four-fifths of Canadians believe that charities should be allowed to run any kind of business they like as long as the proceeds go to their cause, as opposed to the current requirement that business activities be “related” to charitable activities. At the same time, two-thirds of Canadians are concerned about the prospect of charities losing money through their business activities. Canadians are thus extremely supportive of the sector’s efforts to achieve diversified and sustainable funding streams, and recognize that charities need access to the appropriate people and skills to maximize the likelihood of success.

One specific example of how expanded access to support could be achieved, which we mention in our recommendation, is the Mitacs Accelerate program. This initiative, funded by a wide range of partners but most significantly Industry Canada, matches highly-skilled graduate and post-graduate students with businesses that can benefit from their skills. Companies benefit in that they gain access to talent which they might otherwise not be able to attract, and the individuals benefit by being exposed to employers and by having the opportunity to apply their skills in real-world situations.

While Mitacs, as an independent nonprofit corporation, is largely able to establish its own policies, its funding agreements with Industry Canada specifically limit it to working with for-profit entities. This seriously limits the flexibility that Mitacs has in administering its programs and in supporting the full array of organizations that could benefit from its initiatives. Utilizing the funds that it has available from other sources, Mitacs has entered into a limited number of partnerships with charities and nonprofits; however, a number of these funding streams (for example, through the federal regional development agencies) are coming to an end. Industry Canada funding, with its onerous limitations, will represent an even greater proportion of Mitacs’ financial resources for the foreseeable future.

At a recent roundtable hosted by the Governor General, Mitacs representatives expressed keen interest in making their services broadly available to charities and nonprofits; for our part, we are aware of significant interest on the part of organizations looking to access this kind of talent. Immediately ending the limitations inherent in current Industry Canada funding for Mitacs – without increasing that investment – would be a significant step forward.

Philanthropy

Recommendation: Build on the First-Time Donor’s Super Credit announced in the 2013 federal budget, by working towards and announcing a timeline for full implementation of the Stretch Tax Credit for Charitable Giving.

The Finance Committee held extensive hearings on the topic of tax incentives to promote charitable giving, issuing a comprehensive report earlier this year. We were encouraged by the Committee’s recognition of the challenges facing philanthropy in Canada – in particular, the stagnation of overall giving levels (total charitable donations in 2011 remained, in real terms, below the pre-recession level recorded in 2007), and the shrinking of the donor base as measured by the proportion of taxfilers claiming the charitable tax credit each year. The Committee heard a number of proposals, and in its report gave prominence to the Stretch Tax Credit for Charitable Giving proposed by Imagine Canada and supported by the vast majority of witnesses representing charities.

While the Committee has been extensively briefed on the Stretch Tax Credit proposal, in brief, it would add ten percentage points to the charitable tax credit for the amount of annual donations exceeding the highest claim an individual had previously made. In order to minimize the cost to the federal Treasury, minimize the likelihood of abuse, and maximize the impact on donations, individuals would only be able to claim the Stretch Tax Credit in the year a donation was made, and only the individual making the donation (not their spouse) would be eligible to make the claim. As well, once an individual reached an annual level of \$10,000 in donations, they would no longer be eligible for the Stretch, building in a lifetime cap and ensuring that benefits would not disproportionately benefit high-income Canadians.

The intent of the Stretch Tax Credit is twofold: to encourage new donors, and to encourage those who already give, to give a bit more year over year. Polling conducted by Ipsos Reid has found that a vast majority of Canadians support the concept of the Stretch Tax Credit and would like to see it implemented regardless of the fiscal situation.

Committee members are well aware of the First-Time Donor’s Super Credit announced in the 2013 federal budget. This is a significant and welcome investment – the budget documents indicate a federal commitment of \$100 million over four years – in expanding the donor base. The attention the Committee brought to the challenges surrounding charitable giving, through the extensive hearings it held and the comprehensive report it issued, played a significant role in the development of this measure.

While we welcomed the announcement of the Super Credit, we noted that the budget committed the federal government to continue to “work with the charitable sector, including Imagine Canada, to encourage more donations by a greater number of Canadians.” The Super Credit provides significant support for new donors. Finance Canada, in testimony before the Senate, indicated that approximately 600,000 families and individuals would be eligible for the Super Credit. As many of these will be younger Canadians just entering their taxpayer years, we are encouraged that the *Talking About Charities* report found that, while charities are extremely well-regarded by Canadians overall (as a sector, only small business enjoys higher levels of trust), younger Canadians are even more likely to trust them. This is despite the image often painted of younger Canadians as distrustful of established institutions. We have been working with charities, elected officials, and our corporate partners to raise awareness of the Super Credit in order to maximize its impact.

The Stretch Tax Credit would go beyond the Super Credit in that it would also encourage existing donors to be even more generous. Millions more families and individuals would be eligible, providing a much more broadly-based incentive and deepening the ties between Canadians and the organizations they support.

Charities would welcome the immediate implementation of the Stretch Tax Credit for Charitable Giving. It would give them an effective tool to seek increased support, which would contribute to their financial sustainability, their ability to deliver on their missions, and their ability to increase their economic impact. In recognition of the federal government’s fiscal priorities – namely, the priority that has been placed on balancing the budget – Imagine Canada is recommending a firm commitment to a timeline for implementing the Stretch Tax Credit, avoiding any immediate impact on the fiscal framework.

Red tape reduction

Recommendation: Reduce red tape surrounding the administration of grant and contribution programs by fully implementing recommendations made by the Independent Blue Ribbon Panel on Grant and Contribution Programs.

Given the federal government’s general focus on red tape reduction – as embodied by the red tape reduction commission announced for the SME sector – and the Committee’s focus on the issue, we believe it is appropriate to draw attention to recommendations made by the Independent Blue Ribbon Panel on Grant and Contribution Programs several years ago. As Committee members may recall, the Panel made recommendations in areas such as risk management, full cost recovery, simplified financial reporting, and multi-year funding, that would reduce administrative costs for both funders and recipients.

For those organizations that receive funding through federal grants and contributions – many of which are delivering services on behalf of the federal government – streamlining administration and reducing the associated costs would free up more resources for actually delivering services. While some departments have made progress since the Panel’s report (for example, HRSDC has been piloting on-line applications and simplified financial reporting), implementation of the Panel’s recommendations has been inconsistent across government. This is a lost opportunity for both departments and recipient organizations to realize savings and efficiencies.

Committee members may recall that during the hearings on tax incentives for charitable giving, the issue of administrative costs, and the need to keep them as low as is reasonably possible, was raised on several occasions. Indeed, the Committee’s recommendations included one that “the federal government continue to explore ways to reduce the administrative burden or ‘red tape burden’ on charitable organizations.” Reducing administrative costs is also a priority of Canadians, almost three-quarters of whom believe that those costs are too high.

We would draw the Committee’s particular attention to the Blue Ribbon Panel’s recommendation that “funding levels for programs delivered through a third party should reflect the full cost of program delivery.” When the federal government contracts organizations to carry out work on its behalf, but does not recognize or fund legitimate delivery costs, these costs must be met by utilizing the organization’s other financial resources. Donor dollars are diverted to support federal government programming, and the organizations’

other activities are negatively affected. When a private sector company is contracted to provide a good or service to the federal government, it is not expected to do so at a loss; a similar principle should apply to not-for-profit entities in similar contractual arrangements.

Overall, a reduction in red tape along the lines of the Blue Ribbon Panel recommendations, would result in long-term administrative savings for both the federal government and for the organizations with which it enters into contracts.

Conclusion

We believe that the recommendations we have made to the Committee are reasonable and timely. In each case, they will strengthen the ability of our sector to contribute to quality of life in communities here at home and around the world, and to be an even stronger contributor to jobs and economic growth. And this could be achieved without entailing federal financial commitments at a time when the government is focussed on balancing the books.