CHARITIES, CITIZENS, AND THE FEDERAL GOVERNMENT:

A PARTNERSHIP TO BUILD STRONGER, MORE PROSPEROUS, AND MORE VIBRANT COMMUNITIES

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

August 6, 2014

Recommendations

1. **Building on the First-Time Donor's Super Credit announced in 2013, implement the Stretch Tax Credit for Charitable Giving to promote a culture of long-term and incremental giving.**

2. **Take action to reduce merchant fees paid when credit cards are used to make donations to, or purchase goods or services from, registered charities, to ensure donors' dollars go to charitable causes rather than to credit card companies.**

3. **Continue to expand charities' and nonprofits' access to federal business development services to enhance their capacity to generate earned income and serve their communities in a financially sustainable way.**

More than 86,000 registered charities make significant contributions to every community in Canada. In areas like health care and research, postsecondary education, the arts, amateur sport, the environment, social services, and religious observance, charities contribute enormously to Canadians' quality of life. By volunteering and giving, Canadians contribute directly to their own communities, support the domestic and international causes in which they believe, and foster local solutions to local issues.

Charities and nonprofits are significant economic contributors, employing more than **two million** people, harnessing **13 million volunteers**, and generating more than **8.1 percent** of Canada's GDP. The wages paid, goods and services purchased, and investments made, resonate in communities both large and small, throughout Canada. Vibrant educational, cultural, and sporting opportunities – and of the quality of life in general to which our sector contributes – make Canada a more desirable destination for human and financial capital in an increasingly competitive world.

Charities work hard meeting growing and changing demands in their communities. They face significant challenges, though, including longer-term financial sustainability. Governments at all levels are exercising restraint and, according to Statistics Canada, 2012 saw an absolute decline both in the number of Canadians making charitable donations, and the total value of charitable donations. Neither trend reflects a declining commitment by Canadians, but rather the economic uncertainty that families and governments have faced in recent years.

The federal government can create a climate enabling charities to become more financially sustainable and engage in new ways with donors, volunteers, and communities. Implementing our recommendations would help communities served by charities by strengthening philanthropy, reducing administrative costs, and supporting entrepreneurial activity by a wider array of organizations. These recommendations also contribute to the government's jobs and growth agenda by creating new and sustained jobs in the charitable sector spread across all age cohorts; providing better services and supports for Canadians and more prosperous and welcoming communities to attract and retain global talent; and delivering broad-based tax relief.

1. **Building on the First-Time Donor's Super Credit announced in 2013, implement the Stretch Tax Credit for Charitable Giving to promote a culture of long-term and incremental giving.**

Many Committee members are familiar with the Stretch Tax Credit, which Imagine Canada first proposed five years ago and which has been steadily gaining support. During the Committee's hearings on tax incentives for charitable giving, more than 70 percent of charities appearing recommended the Stretch Tax Credit. The Committee's January 2013 report recommended serious consideration of the Stretch Tax Credit. The First-Time Donor's Super Credit was a direct response towards achieving one of the Stretch Tax Credit's goals: encouraging Canadians to give for the first time. The second and equally important goal, encouraging those who already give, to stretch their giving year over year, still needs to be addressed.

The Stretch Tax Credit's premise is simple. It would add ten percentage points to the charitable tax credit for amounts exceeding an individual's highest previous annual claim. This builds on the temporary First Time Donor's Super Credit and recognizes the efforts of Canadians who are already donors, helping them to "stretch" their giving year over year.

The Stretch Tax Credit is an effective way for the federal government to achieve a number of goals: creating a culture of incremental and long-term giving; advancing the federal government's jobs and growth agenda; strengthening charities' broad-based engagement with and ability to serve their communities; and delivering broad-based tax relief to Canadians making increased personal investments in their communities.

Because the Stretch Tax Credit recognizes cash donations at any level, its benefits will be broadly felt by taxpayers. In addition, because the full range of donations an individual makes – whether large or small, to one charity or to many – would be eligible, all causes Canadians support would benefit. By encouraging charities to engage with donors of all age groups and income levels in new and ongoing ways, the Stretch will promote the broadest base of engagement between charities and the communities they serve. Only the Stretch Tax Credit can achieve this benefit.

Our Chief Economist has studied the impact of the Stretch Tax Credit – on both giving and federal tax revenues – under a number of scenarios. Our most conservative estimate is that the Stretch Tax Credit could induce new and increased giving of $234 million per year (over and above any "natural" growth that would have occurred in its absence). The incremental cost of the Stretch Tax Credit, calculated as Finance Canada costed the Super Credit, would be $40 million. If the full cost to the Treasury, including the base credit that new donations would attract even without the Stretch, is considered, this rises to $108 million.

The figures cited above assume a Stretch Tax Credit with no limit on annual giving. We have in the past suggested that costs could be reduced by limiting the Stretch Tax Credit to donors whose annual donations have yet to reach a threshold of $10,000. This would, however, also limit the anticipated benefits of the Stretch Tax Credit and could make the marketing effort more complex as donors who have previously given more than $10,000 would not be eligible.

2. **Take action to reduce merchant fees paid when credit cards are used to make donations to, or purchase goods or services from, registered charities, to ensure donors' dollars go to charitable causes rather than to credit card companies.**

Canadians increasingly use credit cards to make donations to, or to purchase goods or services from, registered charities. Registered charities incur a fee every time they accept a donation or payment by credit card. Fees charged to Canadian merchants, including charities, are among the highest in the world. Charities are further affected by surcharges imposed on "card not present" transactions, despite the low probability of fraudsters making charitable donations with stolen information.

Unlike other merchants, charities cannot simply pass along all of these costs. When an individual makes a $100 donation, the charity may only receive $95. This means:

- donors seldom realize that their entire donation is not going to the charity;
- charities must report the fees as administrative costs, although never handling the money, at a time of increasing concern about efficiency; and,
- the federal government provides a tax credit based on the entire donation, even though a portion of that donation does not go to the charity.

Numerous international precedents exist for action on credit card transaction fees. Australia has, for example, regulated all such fees for several years, including a zero rate for charities as merchants. Recent European Union legislation will require member countries to achieve an average fee of 0.3 percent of transaction value, compared to the Canadian average of more than three percent.

Economic Action Plan 2014 indicated federal government interest in lowering credit card costs for merchants. The Senate Standing Committee on Banking, Trade, and Commerce recently undertook study of Bill S-202, which proposes regulating such fees and eliminating them for registered charities.

Exact figures for the cost of these fees to charities are difficult to compile, partially because many agreements that individual charities have with credit card providers require confidentiality. Considering the full range of transactions charities offer – including donations, membership fees, purchase of goods and services, and ticket sales – and the volume of business carried out, the impact is likely in the tens of millions of dollars annually, if not more. This is a significant amount of money that is not being used to serve Canadians and their communities.

The federal government can help charities address this issue through regulation. While we are well aware of the impact that government regulation can have even on large businesses, in this instance, action is warranted given the significant costs that charities, donors, and the Treasury (through the charitable tax credit) are forced to bear each year. Key comparator nations have recognized that charities and their donors should not be forced to pay high credit card fees. It is time for Canada to free up these resources for direct investment in communities and ensure that all of the donors' dollars actually reach Canadian charities.

3. **Continue to expand charities' and nonprofits' access to federal business development services to enhance their capacity to generate earned income and serve their communities in a financially sustainable way.**

In Economic Action Plan 2014, the government reaffirmed its commitment to explore social finance and social innovation. Charities and nonprofits are at the forefront of this innovation. One way that charities and nonprofits embrace social innovation is through the development of social enterprise and earned income activities. Earned income (the sale of products, goods, and services) is the sector's primary revenue stream, alongside philanthropy and government grants and contributions. An increasing number of organizations are looking to earned income activities to diversify and sustain their revenues in order to deliver on their missions.

As organizations look to develop or expand such activities, they require a broad range of skills and advice not always available in-house. Like small and medium-sized businesses, they may need assistance writing business plans, identifying financing opportunities, developing new technology solutions, and assessing new and current markets. The federal government has numerous business development programs to assist private entrepreneurs. Many of these remain closed to charities and nonprofits, presenting a barrier to organizations successfully pursuing revenue streams in support of their missions.

In Economic Action Plan 2014, the federal government recognized the importance of federal business development services for the sector by expanding eligibility to Mitacs programs to charities and nonprofits. **We recommend that the federal government continue this work through a government-wide commitment in Budget 2015 to open up all of these services and supports to charities and nonprofits**. Some departments are already making efforts to improve access to programs under the Canada Business Network umbrella. These efforts would benefit from government-wide commitment and support.

In particular, the government should expand eligibility to advisory services offered by the Business Development Bank of Canada (BDC). The BDC helps create and develop Canadian businesses through financing, venture capital and consulting services, focusing specifically on small- and medium-sized enterprises. These services would be extremely useful to charities and nonprofits looking to develop or expand earned income activities. However, BDC staff have indicated that their mandate precludes charities and nonprofits from accessing these services.

We believe that the *Business Development Bank of Canada Act* (the "Act") is being administered narrowly. To the best of our understanding, the *Act* does not explicitly preclude the BDC from offering its services to charities and nonprofits. As such, legislative change may not be required to open up charities' and nonprofits' access to the BDC. If this is the case, we recommend that the federal government provide administrative direction clarifying that charities and nonprofits are eligible for BDC services. This would not require significant new investment by the federal government, beyond funds to equip program officers with the tools and knowledge necessary to serve charities and nonprofits effectively.

Conclusion

As Canada approaches its 150th anniversary, Canadians are justifiably proud of everything we have built together. Charities and nonprofits embody our commitment to communities both here and around the world. At a time of ever-changing challenges and opportunities, the federal government can be a real catalyst in strengthening the relationships that Canadians have with each other, their communities, and the organizations that serve them, all the while advancing its economic growth and job creation agenda. The recommendations we make will help to achieve these complementary goals.