



**FOR CANADIANS AND THEIR COMMUNITIES:
SECURING A BETTER FUTURE**

**Pre-budget brief submitted by Imagine Canada to
the House of Commons Standing Committee on
Finance**

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Executive Summary

Imagine Canada, a national umbrella group which facilitates interaction among, and speaks in concert with, more than 1200 charitable and nonprofit organizations across the country, proposes the following three recommendations to help Canadians through both the short and longer term effects of the recession. These recommendations will help create and sustain a more prosperous future for all Canadians by enabling the charitable and nonprofit sector to assist and engage communities and individuals from coast to coast, in a more timely and effective way.

- 1. Increase the flow of charitable funds in the wake of the recession and encourage Canadians to enhance their charitable giving by establishing a “stretch” charitable tax credit.**
- 2. Eliminate the disbursement quota regime governing charities under the *Income Tax Act* and work with charities to develop a new regulatory approach that will strike a better balance between public accountability for tax expenditures and flexibility for donors and charities to effectively advance their charitable work.**
- 3. Accelerate reforms to the federal grants and contributions policy framework to ensure predictable, sustainable and full cost funding and enhance support for those grants and contributions that are responding to the increased needs of communities and individuals most affected by the downturn.**

Pulling through the recession: new opportunities to work together

The worldwide economic downturn has generated significant consequences which will continue to challenge governments, businesses and charitable and nonprofit organizations long after the recession has ended. Despite Canada’s relatively strong economic performance among G-8 countries, Canadians too have been fundamentally affected by the global downturn. Disruptive economic periods, however, also create unprecedented opportunities to reach out across social, cultural, geographic and other divides to form partnerships, support common causes and unite our voices in new and compelling ways.

Whether the global downturn continues for only a few more months or reverberates for years to come, few believe that the world will simply return to business as usual. No one can define precisely what the “new normal” will look like or how profoundly the downturn will affect our quality of life and prosperity. What is certain is that a concerted, focused and partnership-based effort will be required moving forward to find innovative solutions to increasingly complex and global issues. Against this backdrop, Canada’s charitable and non-profit sector has a critical role to play with government and business to soften the recession’s impacts, accelerate our shared recovery, and chart a more prosperous and inclusive future.

Some of Canada’s key competitive and collaborator nations are already identifying new ways to more fully engage community organizations in the process of rebuilding their economic and social foundations. In the US, President Barack Obama has established the *White House Office of Social Innovation and Civic Participation* to

catalyze cross-sector partnerships, support evaluation and scaling up of innovative ideas, and engage youth and others in ways that are transforming communities. Similarly, UK Prime Minister Gordon Brown recently launched *Real Help for Communities: Volunteers, Charities and Social Enterprise*, a multi-faceted plan to assist the charitable and nonprofit sector to respond to increased demand and modernize its structures and services. Canada, too, has the opportunity to define new avenues and mechanisms to fully harness the significant contributions that the charitable and non-profit sector makes to citizens' quality of life and prosperity.

A distinctly Canadian advantage: a strong charitable and nonprofit sector

Canada has one of the largest charitable and nonprofit sectors in the world. Our charities and nonprofit organizations engage and empower citizens and contribute to improved quality of life in communities by providing social, family and community services, as well as important opportunities for self-expression and fulfillment through sport and recreation, arts and culture, educational, environmental and philanthropic pursuits, and religious practice. Canada's charities and non-profit organizations are present in every corner of the country – from urban centres to rural areas to our northernmost communities. They also contribute to Canada's international presence and reputation, working in partnership with countries and organizations around the globe.

The sector contributes significantly to Canada's productivity and prosperity, accounting for \$86.9 billion dollars or 6.8 percent of Canada's GDP in 2005. Charitable and nonprofit organizations employ over 1.5 million Canadians (full-time equivalents) and mobilize more than 1 million volunteers annually. They are also the primary delivery agent for many federal government programs and services and work with businesses and philanthropists to respond to needs that fall outside the traditional purview of government. As a whole, the sector derives close to half of its funding from government and the other half from a combination of earned income and donations.

Three measures to contribute to a more prosperous future for all

Recommendation #1

Increase the flow of charitable funds in the wake of the recession and encourage Canadians to enhance their charitable giving by establishing a "stretch" charitable tax credit.

The charitable sector benefits from a core base of support from individual Canadians who collectively contributed more than \$8.6 billion of their after tax dollars to charitable organizations in 2007. However, many organizations are facing higher than usual demand for their services as a consequence of the recession. This, at a time when their ability to meet demand is challenged by government funding constraints, increased difficulty in accessing money from other sources, and steep declines in the value of foundations' endowments which support their efforts.

Despite growing demand for charities' services and supports, data from Statistics Canada and the Canada Revenue Agency suggests that only 24 per cent of all Canadian tax filers claimed charitable donations in 2007 as compared to 30 per cent in 1990. This trend is particularly worrisome in that it pre-dates the recession and that the number of donors who claim charitable receipts is declining even as the

number of income tax filers is growing. Conversely, in the 2007 Canada Survey of Giving, Volunteering and Participating, more than half of all donors indicated that they would increase their charitable giving if there were better tax credit incentives to do so. Incentives to encourage more Canadians to give, and to support those who do give, to give more, could herald a new era of charitable giving.

To further stimulate a national culture of giving, Imagine Canada proposes a stretch tax credit that would apply to donated amounts above \$200 that exceed a donor's previous highest giving level. This new measure would be based on an individual tax payer's best previous year of giving using 2008 as a baseline. It would provide a stretch tax credit of 39 per cent on these new donations – 10 percentage points higher than the current level of tax credit on donations above \$200. To continue benefitting from the stretch tax credit in subsequent years, tax payers would need to continue to increase their levels of giving over their 2008 and previous year's baselines. This measure is intended to encourage all Canadians, but particularly middle-income earners, who wish to give for the first time or to give more in response to current needs, up to a maximum of \$10,000.

The maximum benefit would be \$980 if used in one year (i.e. a one-year increase from \$200-\$10,000 in giving), though it is likely that for many, the increased benefit would be incrementally achieved over several years. The stretch tax credit would benefit charities of every size and in every region and should, over time, broaden the base and increase the giving levels of Canadians across the country. It would also complement recent incentives encouraging gifts of assets aimed primarily at higher income Canadians with an initiative that is less exclusive and recognizes that most Canadians donate income rather than assets.

In order for this money to flow quickly and to encourage greater giving, it will be important for the Government of Canada to be proactive in publicizing this new tax credit. A high-profile and sustained public education campaign led by the Government of Canada in partnership with charities should be developed immediately following the announcement of this new measure. The effectiveness of this tax credit should also be publicly evaluated after five years to ensure that it is meeting public policy objectives. If successful, however, this measure could contribute significantly to creating a stronger base of financial support to meet growing demand for the services and supports provided by charities and nonprofits across the country.

Recommendation #2

Eliminate the disbursement quota regime governing charities under the *Income Tax Act* and work with charities to develop a new regulatory approach that will strike a better balance between public accountability for tax expenditures and flexibility for donors and charities to effectively advance their charitable work.

The disbursement quota is the minimum amount of certain income (primarily income for which a receipt has been issued under the *Income Tax Act*) and accumulated capital that a registered charity is required to spend each year on its own charitable programs, or on gifts to qualified donees, such as other registered charities. The stated purpose of the DQ is to ensure that charities use the bulk of their tax receipted gifts for charitable work. It is also intended to limit charities' fundraising expenditures and to discourage excessive accumulation of funds. However, the

current legislative regime is not achieving its core purpose and, consequently, is not serving the interests of Canadians, the government, or charities.

Charities, like businesses, benefit from simple regulatory regimes. Burdensome administrative requirements severely limit charities' flexibility to deploy their revenues and capital for the purposes for which they were intended – advancing their charitable objectives in a sustainable manner. This is particularly true in the wake of an economic downturn, as charities seek to provide timely, effective support to Canadians as they confront the social and economic consequences of a recession.

The current disbursement quota measures impose an unduly complex and costly administrative burden on charities – particularly small and rural charities. They also make arbitrary and excessive capital disbursement demands that ignore the harsh realities of the investment market. Moreover, they are neither equitable nor enforceable, undermining the government and sector's shared goal of an accountable and transparent regulatory regime.

Imagine Canada therefore urges the government to move quickly to eliminate the disbursement quota and then to work in consultation with charities to develop a new regulatory approach that will be both effective in advancing accountability and transparency, and practical for all charities – large and small – to implement. The process recently used to develop and refine CRA's fundraising guidance is an excellent example of government and the sector working together to create a regulatory framework that advances accountability without unduly handicapping the operation of charities.

The elimination of the disbursement quota entails no costs for the Government of Canada and yet would have significant financial benefit for charities in that it would enable them to more effectively manage their cash flow amidst economic volatility. This regulatory change would be very well-received by charities from coast to coast and would improve the sector's ability to serve the millions of Canadians who benefit from its programs and services. It is a change supported by the *Canadian Bar Association (CBA) – Charities and Not-for-Profit Law Subsection* which has had a longstanding interest in this issue and which has developed a working paper on workable alternatives to the current regime.

Recommendation #3

Accelerate reforms to the federal grants and contributions policy framework to ensure predictable, sustainable and full cost funding and enhance support for those grants and contributions that are responding to the increased needs of communities and individuals most affected by the downturn.

Every year, the federal government flows \$27 billion to businesses, research institutions, charities, non-profit organizations, and communities through federal grant and contribution programs. HRSDC and Service Canada have the second largest grants and contributions portfolio in the Government of Canada with over \$3 billion in funding supporting social services ranging from early childhood development to skills and learning, employment and retirement. In December 2006, an independent Blue-Ribbon Panel appointed by the Government of Canada made extensive recommendations to improve the administration of grants and contributions programs, including expediting timelines for funding decisions and

covering the full cost of project and program delivery. While some departments are beginning to implement some of the recommendations, Canada cannot afford to postpone the most urgent changes required on a government-wide basis.

A January 2009 Ontario Trillium Foundation survey of more than 100 non-profit organizations confirmed that at least one-third of organizations were experiencing increased demand for social services such as food banks and employment and credit counseling as a result of job loss, declining family income and other pressures. The survey also suggested that many long-term funders such as the United Ways, Community Foundations and family foundations were likely to reduce their granting programs in 2009 and 2010. Moreover, the survey found that non-profit and charitable endowment funds had been severely affected by stock market declines, and that many corporate donors and sponsors were not able to renew their support for programs.

These findings are reinforced by reports from the Salvation Army that demand for its services has grown by 10-30 percent in virtually every province. Similarly, Food Banks Canada is reporting a 20 percent increase in the number of Canadians who require monthly recourse to a local food bank. The Quebec Breakfast Club has also seen an unprecedented 10 percent increase in the last few months in the number of grade school children seeking out its services.

The federal government currently offers a range of programs that support the work of the charitable and nonprofit sector in responding to increased needs in communities across the country. However, the often lengthy timelines for funding approval and payments, limited availability of multi-year funding, burdensome administrative requirements and the failure to cover the full cost of project and program delivery are compromising the sector's ability to provide Canadians with vital supports and services in a timely and effectively way, particularly during this period of acute need.

Imagine Canada therefore urges the Government of Canada to accelerate implementation of government-wide policies that will be immediately enacted by all departments and that will eliminate those roadblocks that most significantly hinder the successful deployment of federal grants and contributions. Full and immediate implementation of the recommendations of the Blue Ribbon Panel on Grants and Contributions, in partnership with grantees, is one clear way that the government can get its economic stimulus measures working more effectively and efficiently for Canadians. Assuming these reforms are implemented swiftly and effectively, the Government is also encouraged to enhance its support for federal grants and contributions programs that are best positioned to help Canadians through the aftermath of the recession. Enhanced funding for these programs would provide urgently needed resources for homelessness, employment and skills training and family supports to communities hardest hit by the recession.

Imagine Canada appreciates the opportunity to put forward these pre-budget 2010 recommendations for new tax and program measures that will contribute to a sustainable and improved economic and social future for all Canadians. We are committed to working with the Government of Canada and all parliamentarians to ensure the swift and successful implementation of the measures proposed.