

August 13, 2010

Via email to fina@parl.gc.ca

Standing Committee on Finance

c/o Jean-François Pagé, Clerk

Sixth Floor, 131 Queen Street

House of Commons

Ottawa, Ontario

K1A 0A6

Dear Sirs/Madams:

Attached is a submission to the House of Commons Standing Committee on Finance in response to the invitation for Canadians to submit their priorities for the 2011 federal budget. The focus of our submission is a recommendation that **the federal government create an additional category of credits for charitable donations such that donations over \$450 per taxpayer would receive a 42% tax credit.**

Last year's report of the Standing Committee on Finance indicated that various proposals had been made regarding the challenges facing the charitable sector and indicated that "the federal government has a role to play in encouraging charitable giving and in supporting charitable organizations . . . this support is needed in order to position charities and volunteers for the future role they can play in society and the contribution that they can make." The committee's recommendation to increase the tax credit rate was not incorporated into the government's 2010 budget.

Many valid arguments have been raised urging support for the charitable sector. These arguments point out the decline in giving during the recent economic downturn, the increase in demand caused by difficult economic times, immigration, urbanization, and demographics. They also note the significant efficiency with which the charitable sector provides value to government relative to the tax expenditure. Compared with other methods of delivering these services, the charitable sector is a great deal for Canadians. Cardus is supportive of these arguments generally. Our focus pays particular attention to Canada's critical reliance on the "civic core" of Canadians who provide the bulk of charitable donations and the volunteering on which our charitable sector relies. We need to find ways to support and foster growth in this sector.

Cardus' 2009 report, *A Canadian Culture of Generosity*, documented how demographic and cultural factors result in 29% of Canadians providing approximately 80% of our charitable giving, volunteering, and civic engagement. We are concerned that research indicates a decline in this group of 1-2% per year. Unaddressed, this trend implies that many of the services Canadians take for granted from the charitable sector may not be available in the near future. In February of 2010, Cardus released a report—*The Shifting Demand for Social Services*—which further documented the impact of demographics, urbanization, and immigration on Canadian society. Our conclusion is that these factors will combine to place ever higher levels of demand on charitable services. The decline of supply will coincide with an increase in demand for charitable services. Given these conditions and the trends that continue to fuel them, we are compelled to ask for due urgency in addressing this issue.

Cardus is a North American public policy think tank, equipping change agents with the best theories and practices of public life to renew North American social architecture. We are presently preparing an additional comprehensive research paper on the decline of Canada's civic core. We would welcome the opportunity to make a presentation to the committee at any of its public hearings in order to discuss this proposal further.

Respectfully,



Ray Pennings

Senior Fellow, Director of Research
Cardus
rpennings@cardus.ca
403.479.4590

Federal Pre-Budget Consultation Submission Ray Pennings, Director of Research

www.cardus.ca

Executive Summary

During the 2010 budget consultations, Cardus recommended a **29to42** strategy calling for the federal government to change the charitable tax credit for donations over \$200 from 29% to 42%. The motivation of the proposal was to stimulate and foster a healthy civic core through intelligent and simple adjustments in Canada’s tax law. This straightforward adjustment would foster growth in our culture of giving and volunteerism and encourage generosity as a civic responsibility (patterned after the Green movement or anti-smoking campaigns).

The **29to42** proposal was very well received in a diversity of influential settings but the Finance Department was concerned, in a difficult financial year, about what they estimated to be \$900M in lost revenue that the proposal implied.

For the 2011 budget, we recommend that a partial step be taken by adding an additional category to the charitable tax credit. Our proposal is to provide a 42% tax credit for charitable giving that exceeds \$450. This would leave the **29to42** strategy intact but would represent a significant reduction in estimated lost tax revenue of between \$300 and \$400M. Success with this intermediate step would also provide an important interim signal about the relative merits of the **29to42** approach for subsequent budgets aimed at civic core health.

This adjusted proposal would be a simple add-on to the existing tax policy and represents a beneficial adjustment for people who are already giving significantly. The most fruitful fundraising for charities is to grow people who already give. The increased tax credit for donations over \$450 would support such growth through encouraging a manageable step from the donation mean to the beneficial new tax credit amount.

Further adjustments to lost tax revenue could be realized through the introduction of a cap.

	\$0-199	\$200+	\$200-\$449	\$450+
Current	17%	29%	-	-
29to42	17%	42%	-	-
Proposed	17%	-	29%	42%

Rationale

In the past 20 years extensive research has examined the health of Canadian civil society and the charitable sector.¹ By means of rigorous social scientific surveys, researchers have identified and tracked trends in charitable giving, volunteering and civic participation. One important discovery has been that Canadians take part in “contributory behaviours” less frequently than has been generally assumed. To be more precise, researchers have learned that a small “civic core” in Canada—a dedicated minority of citizens—are responsible for the overwhelming majority of all charitable giving, volunteering and civic engagement.²

A very dedicated, and proportionally small group of Canadians carries the vast majority of civic core activity. They, and the organizations they animate, desperately need intelligent policy support.

Researchers have analyzed data from the *Canada Survey of Giving, Volunteering and Participating* (CSGVP) to define the demographics of who takes part in charitable, civic, and voluntary activities. Their findings are surprising. In Canada in 2000, 18% of adults were responsible for 80% of all money donated to charities. Six percent of adults were responsible for one out of every three dollars donated. Of all the volunteer work done in Canada, 80% of all volunteer hours committed were fulfilled by just nine percent of the population. One out of five adults accounted for nearly two-thirds of all civic participation. This pattern has remained unchanged in recent years.³

The great majority of Canadians donate very little or nothing throughout the year. A small fraction of the population, ten percent, is responsible for contributing the lion’s share, nearly two-thirds, of all charitable donations. Within the group of those who chose to make one or more charitable donations during 2007, half of the donors contributed less than \$120 in annual giving. For individuals with incomes over \$100,000, the median amount donated over twelve months was \$210.⁴ Interestingly, the federal government has reduced their estimated tax expenditure for the charitable tax credit by over \$600 million since 2008.⁵

The size of the core group of active donors, volunteers, and civic participants is surprisingly small relative to the proportion of total contributions they make to general civic well-being. Researchers estimate that the primary civic core is made up of approximately seven percent of the population—an additional 20% of the population make up a slightly less engaged outer or “secondary core.” Shockingly, just over one quarter of the population accounts for nearly three-quarters of all civic engagement in Canada.⁶

No single policy initiative can, by itself, counter these trends. In Cardus’ *A Canadian Culture of Generosity* study released last year, we made nineteen recommendations that outline vital and sound steps that charities, businesses, unions, the media, educational institutions, and philanthropists might take in addressing this issue. These specific budgetary and policy decisions can change the trend over time.

By increasing the tax credit for charitable donations, government would:

- Provide clear leadership on this issue through a “bully pulpit” approach. Political leaders from all parties and at all levels of government, including the municipal level, can build credibility by calling citizens to invest in charitable organizations and in the civic sector through financial giving, volunteering, and other civic engagement. As we saw in the recent Winter Olympics, Canadians can rise to more

1 Major research initiatives include: the National Survey of Giving, Volunteering, and Participating; more than 50 published studies and detailed analyses published by the Nonprofit Sector Knowledge Base Project at Carleton University; and additional research by Statistics Canada.

2 A helpful description of the size and structure of Canada’s civic core is presented in “The Civic Core in Canada: Disproportionality in Charitable Giving, Volunteering, and Civic Participation,” Paul B. Reed and L. Kevin Selbee, *Nonprofit and Voluntary Sector Quarterly*, vol 30, no.4, December, 2001, pages 761-780.

3 These measures are taken from “The Civic Core in Canada: Disproportionality in Charitable Giving, Volunteering, and Civic Participation.”

4 *Caring Canadians, Involved Canadians: Highlights From the 2007 Canada Survey of Giving, Volunteering and Participating*, Statistics Canada, Minister of Industry, June, 2009. pages 14, 15.

5 Please refer to the government of Canada’s “Tax Expenditure and Evaluations” 2008 and 2009 reports.

6 “Patterns of Civic Participation and the Civic Core in Canada,” Paul B. Reed and L. Kevin Selbee, Nonprofit Sector Knowledge Base Project, November, 2000.

active citizenship and renewed dedication to community and country. In particular, the Prime Minister, through speeches and key communication points, could call attention to research on Canada's civic deficit and issue a challenge to all Canadians to increase their charitable giving to organizations of their choice. Saying so while showing a change in the charitable tax would add significant impact to the message;

- Provide interim help to charities who are dealing with declines in giving as a result of the past few years of economic struggle. Just as in the economy as a whole, intervention before collapse is a much less costly proposition;
- Kick-start the “chicken-egg” process that exists with volunteering and giving, by showing the deep connection between the two. Significantly, a recent study published in the *American Economic Journal* has demonstrated that a decrease in the tax price of monetary donations “unambiguously increases gross amounts of time and money donations.”⁷ While it is true that money and time can serve as substitutes, very little in the way of economic modelling has been done to analyze exactly how these substitutions work. In the same study, author Naomi Feldman argues that conditional on a positive monetary contribution individuals are more likely to be asked to donate time and are more likely to respond affirmatively. The net results show that such substitutions of time and money are actually offset by an increase in both donations of time and money “as the availability of preferential tax treatment for monetary donations increases.”⁸ In sum, charities would gain an increase in financial donations and in volunteer hours (a non-deductible activity) as the tax-price of monetary donations falls. Provide incentives to those taxpayers who are most likely to be influenced by tax credit. Research has shown that “the small proportion of donors whose giving is planned, recurring, and in significant amounts, will be most likely to respond to incentives.”⁹

This policy will be seen as a compassionate and progressive idea in a time of heightened need for the most vulnerable members in society. Although the various proposals that have been suggested over the past few years concerning the charitable tax credit all have merits to commend them, the advantage of this policy is that it is simple to implement and easy to understand. The benefits of the estimated cost of \$300-400 million per year of foregone revenue will disproportionately go to that segment of Canadians who, by their past behaviour, have demonstrated their commitment to the charitable sector and are most likely to increase their support.

Adopting this proposal would represent an critical investment in Canada's essential social architecture. Canadians could lower their tax burden while simultaneously providing important services in this time of economic challenge. These actions would strengthen a diversity of institutions in Canada that reflect the diverse makeup and priorities of our unique civil society. It will also draw attention to the declining civic core in Canada and provide incentive for Canadians to become more involved in their communities.

7 Naomi E. Feldman, “Time is Money: Choosing between Charitable Activities” in *American Economic Journal: Economic Policy* (2010, 2:1, 103-130), 104.

8 Feldman, 129.

9 Paul B. Reed and L. Kevin Selbee, “The Social Dynamics of Contributory Behaviours: A Synopsis of Key Findings and Implications from a Multi-Year National Study” (Ottawa: Statistics Canada and Carleton University, 2006) p. 42.