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CHARITIES:

THE INFRASTRUCTURE OF COMMUNITY

A brief to the

Standing Committee of Finance

of the House of Commons

by

The Muttart Foundation

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Investing in Communities for 50 Years

Established in 1953 by Merrill D. Muttart and Gladys E. Muttart

EXECUTIVE SUMMARY

Throughout Canada, charities exist to serve the needs of Canadians and to improve the quality of life of all of us. They are as important a part of the infrastructure of communities as are roads and bridges. Indeed, one could argue that they are even more important. Because charities are formed by people in the community to serve the community, they represent the most important form of grassroots democracy. Stimulus to charities requires more than just funding from government: it requires a regulatory framework and tax measures that make it possible for charities to serve their clients effectively. The government could contribute to that package of stimulative measures by:

- (a) eliminating the disbursement quota provisions of the Income Tax Act related to charitable organizations prior to the end of 2009, and work with charities to develop an appropriate system of transparency measures to replace the mandatory rules on spending;
- (b) introducing a “stretch tax credit” for an initial five-year period, to attract new donors and to encourage current donors to increase the amounts of their donations; and
- (c) expediting implementation of the recommendations of the Blue Ribbon Panel on Grants and Contributions, and specifically the recommendations related to multi-year funding, full-cost recovery and a reduction in the administrative burden involved in applying and accounting for grants and contributions.

INTRODUCTION

The Muttart Foundation is a registered charity, but as a private foundation, it neither engages in fundraising nor does it receive government funding. The Foundation works with hundreds of charities; as a result, it has the ability to observe trends and commonalities among different types of charities.

It is not difficult to discern trends these days. Charities are hurting. They are as affected by the global financial turmoil as any other type of organization, no matter what sector that organization is in. Many charities are disproportionately affected: while demand for many goods and services go down during a financial crisis, the demand for services from charities goes up, both in volume and in complexity. Accompanying this increased demand is often a decline in donations as supporters – governments, businesses, foundations and individuals – all deal with their own problems resulting from the downturn.

Charities exist in virtually every city, town and village in this country. They do not exist for their own sake. They exist to serve Canadians and to improve the quality of life of all of us. To assist charities is to assist Canadians.

In many cases, charities are the vehicles through which governments choose to deliver programs. If some of these charities cease to exist because of funding crises, governments will have to find alternative delivery mechanisms, or return to delivering the programs themselves. This would not only likely result in increased costs, but would also serve to remove the community shaping of those programs and the grassroots information government officials receive from charities who are meeting with clients. Both of these likely results would be harmful to governments and to the communities they seek to serve.

The Muttart Foundation suggests that the Finance Committee recommend three ways in which the Government of Canada could assist charities and, through them, ensure continuation and improvement of services to Canadians. They are low-cost but high-impact ways to provide stimulus to a critical element of our society and to ensure a sustainable future.

Recommendation 1 – Disbursement Quota

In the 1970s, a disbursement quota was introduced into the Income Tax Act, setting out minimum amounts of money that charities must spend each year. The purpose of the disbursement quota was stated to be two-fold: to limit the amount of money that charities could spend on administration and fundraising and to prevent undue accumulation of resources.

The rules are complex, inconsistent, difficult to apply in practice and difficult to supervise. Some aspects – particularly those related to fundraising – have been superseded by guidelines issued by the Canada Revenue Agency, which monitors registered charities. Other provisions, related to administration and undue accumulation, reduce flexibility and create administrative burden that could be relieved simply by ensuring greater transparency.

The most recent amendments, introduced in 2004, created an anti-accumulation rule for charitable organizations that can, in some cases, conflict with other obligations that charities have to donors or to funders. Thus far, it has applied only to charities registered since 2004; this year, it will apply to all charitable organizations.

Imagine Canada, a national umbrella group for the voluntary sector, has asked the Minister of Finance to announce, before year-end, that the disbursement quota for charitable organizations (but not for foundations) will be repealed. It has called upon the Minister to work with the charitable sector to develop, instead, a series of regulatory and policy measures that will reduce the administrative burden, while ensuring that donors have accurate information about how a charity operates and uses donated funds. These additional rules regarding transparency would simply augment information that is already publicly available about charities.

The Muttart Foundation supports this proposal by Imagine Canada, and encourages the Finance Committee to include a recommendation to that effect in its report. It is important that the announcement be made prior to the end of the year, to ensure that charitable organizations do not have to comply with the 2004 regime. Again, we emphasize that we are proposing no change to the disbursement-quota rules for foundations, either private or public.

There is no cost to the federal government of adopting this proposal. The existence of a disbursement quota is not likely to have any impact on government spending, and it has no impact on revenue. Yet it would be a move consistent with the government's desire to eliminate unnecessary "red tape."

The Muttart Foundation encourages the Standing Committee on Finance to recommend that the Minister of Finance eliminate the disbursement quota provisions of the Income Tax Act related to charitable organizations prior to the end of 2009, and work with charities to develop an appropriate system of transparency measures to replace the mandatory rules on spending.

Recommendation 2 – "Stretch" Tax Credit

The percentage of Canadians claiming the charitable tax credit has been decreasing. Equally important, the significant percentage of older Canadians who are giving substantial sums is a cause for concern: if those donors are not replaced by new donors, Canadians will suffer because the charities that serve them will not have the funds they need. This gap in donors will happen just at the time when those older Canadians no longer able to contribute are most likely to face increasing needs for the services that charities provide to the senior population.

The Muttart Foundation believes an appropriate stimulative measure would involve an incentive that both encourages new donors to begin giving and encourages existing donors to give more. It asks the Committee to recommend a variation of the existing tax credit.

Under our proposal, 2008 would be established as a base year for a taxpayer's charitable donation. If a taxpayer exceeded the donations made in the base year, the tax credit on the increased amount would be 10% higher than the existing tax rates – 25% for the first \$200 and 39% for any amount over \$200. The increased amount would then become the taxpayer's base for the following year, and so on. The Foundation proposes that this incentive remain in place for five years, following which it would be evaluated by government and the charitable sector. This would be consistent with the measures that accompanied the introduction of rules related to gifts of appreciated capital property.

The financial impact of this proposal is difficult to estimate, since it is entirely dependent on the behaviour of taxpayers who claim the charitable tax credit. Any impact on government revenue may be partially offset by increased support of individuals and corporations.

The Muttart Foundation encourages the Standing Committee on Finance to recommend that the Government of Canada introduce a "stretch tax credit" for an initial five-year period, to attract new donors and to encourage current donors to increase the amounts of their donations.

Recommendation 3 – Grants & Contributions

The Muttart Foundation congratulates the federal government for adopting the recommendations of the Blue Ribbon Panel on Grants and Contributions, and for the work it has accomplished to date in reforming the system through which billions of dollars flow to charities and others.

While progress has been made on implementing these recommendations, it has been much too slow. Faster, wider-ranging action is required. We do not, in these economic times, have the luxury of slowly rolling out new rules and procedures across a few government departments at a time. While the Centre of Excellence that has been established is a very positive step, the introduction of government-wide reforms must be a priority established by Cabinet.

This commitment to expediting reforms must begin with an understanding that grants and contributions to charities are critical to ensuring Canadians receive the services they need. Decreases in grants and contributions cannot be made up by individuals, corporations and foundations. But as much as the amounts involved are important, the administration of the government's grants and contributions system is what will ensure the greatest impact for the government's investment. The moves toward full-cost recovery, multi-year funding and a more efficient mechanism for applications and accounting must be implemented now, and across all government departments.

Multi-year funding would reduce administration time and costs for government and recipient charities. It would also tend to eliminate situations like that disclosed in a recent meeting hosted by the Foundation, revealing that an applicant was told that a renewal agreement would be delayed and he should take out a personal loan to keep the charity afloat until a final decision was made in Ottawa. The Foundation does not suggest that every grant recipient should automatically receive multi-year funding. But where a grantee demonstrates trustworthiness, everyone benefits from multi-year agreements.

As a matter of principle, government should be committed to paying charities the full cost of delivering services for which the government has contracted. Currently, there is a wide variation in what costs are acceptable, and which are not. The Foundation believes that Canada should adopt the approach taken in England in which government pays for the actual costs of contracted services.

Finally, given the government's legitimate interest in ensuring effectiveness of programs it funds, it should be a fundamental principle to provide sufficient funding to allow for meaningful evaluation. In this respect, the Foundation suggests government examine the work of the Canadian Outcomes Research Institute and consider supporting its further development across the country.

The Muttart Foundation encourages the Standing Committee on Finance to recommend that the government expedite implementation of the recommendations of the Blue Ribbon Panel on Grants and Contributions, and specifically the recommendations related to multi-year funding, full-cost recovery and a reduction in the administrative burden involved in applying and accounting for grants and contributions.

CONCLUSION

The Muttart Foundation welcomes the opportunity to offer proposals for consideration of the Committee.

Many Committee members have had years of experience as volunteers with charities of various kinds. As a result, they know full well the reliance that people place on charities, in good times and in bad.

Many charities are hurting. Many are reporting increases in demand and decreases in donations. This is a combination that bodes ill for Canadians, putting at risk everything from recreational programming to disaster services.

Governments have recognized the need to provide targeted assistance to various parts of the economy. They have been proactive in investing in infrastructure. Thus far, there has not been a significant recognition of the needs of charities. The time for that recognition is now. Canada's charities are the "social glue" of our communities. They are a critical part of the infrastructure that ensures quality of life.

The three recommendations outlined in this proposal would provide stimulus to this social infrastructure and thus operate to the benefit of all Canadians. The elimination of the disbursement quota can (and should) be implemented quickly. It results in no increased costs and no decreased revenue, yet allows charities to operate in a way that makes economic sense given the particular nature of the charity. The introduction of a time-limited "stretch" tax credit would, we hope, lead to new and increased donations. The expedited implementation of the recommendations of the Blue Ribbon Panel on Grants and Contributions – recommendations that have already been adopted by government – will reduce administrative burden and reflect good grantsmanship on the part of government.

The Muttart Foundation encourages the Standing Committee on Finance to include each of these recommendations in its report.