



**SUPPORTING INNOVATION AND RESILIENCY
IN THE CHARITABLE AND NON-PROFIT SECTOR**

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

August 2010

Imagine Canada, a national umbrella organization representing the interest of Canadian charities and non-profits, welcomes the opportunity to participate in the House of Commons Standing Committee on Finance's pre-budget process. The recent economic downturn put a great deal of strain on many charities and non-profits, which saw revenues decline while the demand for services increased. Charities and non-profits will continue to face challenges in the years to come and are identifying innovative ways of dealing with a changing world. The Government of Canada will remain an important partner but the likely focus on deficit reduction in the near future means finding innovative and cost-effective ways of supporting charities and non-profits. With this in mind, Imagine Canada makes the following recommendations, which will be expanded on below:

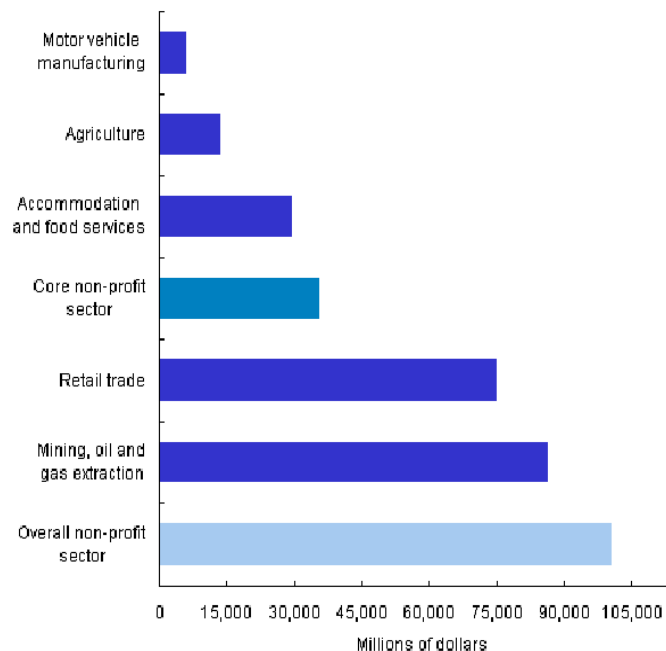
- 1. Broaden the base of charitable giving and encourage Canadians to enhance their community support by establishing a stretch tax credit for charitable giving.**
- 2. Remove barriers to the eligibility of charities and non-profits to existing federal business development programs and access to capital services by (i) clarifying operational policies and procedures, (ii) publicizing the eligibility of charities and non-profits and (iii) ensuring that, where existing mandates discriminate against charities and non-profits, they be extended to include these organizations.**
- 3. Amend the Income Tax Act so that appeals of charitable status registration or revocation be moved, in the first instance, from the Federal Court of Appeal to the Tax Court.**

Canada has one of the largest charitable and non-profit sectors in the world. More than 160,000 charities and non-profits help to address some of the most intractable economic, social and environmental challenges Canada faces. They engage and empower citizens, provide communities with vital social, family and community services, and contribute to quality of life through such pursuits as sport and recreation, arts and culture, and religious practice. They also embody Canadians' commitment to the world around us, working to improve conditions around the globe. In doing so, they enhance Canada's international reputation and reach.

The sector is a significant economic force and key contributor to the labour force. It is also an important partner for governments; in 2009, more than \$3 billion worth of federal government programs were delivered by non-profits.

Like all economic sectors, non-profits were affected by the economic downturn. As Canadians felt the effects of the recession, non-profits were increasingly called upon to provide vital assistance and services. Almost 50 percent of the organizations surveyed by Imagine Canada last winter in its first

Gross domestic product: non-profit sector and selected industries, 2006



Sector Monitor reported an increased demand for their services during the recession.

At the same time, charities face a decline in revenue generated from donations. While figures are not yet available for 2009, tax-receipted donations totalled \$8.2 billion in 2008. This was a decline of more than \$400 million compared to 2007. While there were many factors at play, the recession had an impact. Of the organizations surveyed by Imagine Canada, more than one-third reported a decline in donation revenue in 2009.

Despite these challenges, non-profit leaders surveyed for the *Sector Monitor* were determined to carry out their mission despite difficult economic circumstances and to meet increased demand without cutting service levels. They also displayed a remarkable resilience and optimism for the future. Indeed, the years ahead present the non-profit sector with many opportunities to be seized. Canada's changing demographics – including the ageing of our population and the tightening of the labour market – provide overarching context to seven key drivers of change that Imagine Canada has identified as the biggest challenges and opportunities facing our sector. These are:

1. the increasing importance of social innovation;
2. structural shifts in the revenue base that supports the work of the sector;
3. the attraction and retention of talent to strengthen and lead the sector;
4. new means of broadening and strengthening the engagement of volunteers;
5. increased demands for transparency, accountability and the demonstration of impact;
6. transformative partnerships among charities and with other sectors; and,
7. the use of new technologies and social media for community engagement, reaching out to young people, and networking.

The sector is charting a course to maximize its contributions to citizens at home and around the world over the next decade. This includes assessing how best to work in partnership with governments, businesses and communities to find and implement timely, practical and high-impact solutions to both long-standing and emerging challenges. In this sense, we are encouraged by the government's recognition of and strong support for the sector's role in tackling local challenges in the most recent Speech from the Throne.

Nonetheless, we recognize that the federal government faces difficult choices in this budget. The Government of Canada's commitment to deficit reduction means that there will not be much scope for new investment. That is no reason not to consider new ideas, particularly those aimed at helping the sector increase its revenues and use its resources more effectively in order to better support Canadians and communities.

Recommendation #1

Broaden the base of charitable giving and encourage Canadians to enhance their community support by establishing a stretch tax credit for charitable giving.

The charitable sector benefits from the support of individual Canadians, who collectively contributed some \$8.2 billion to charitable organizations in 2008. As noted above, though, this figure is well below the amount contributed in 2007. This decline in donations comes as demand for services is growing and as charities are working diligently to solidify their revenues.

Charities are also relying on the generosity of a shrinking pool of tax filers. In 1990, some 30 percent of tax filers claimed a charitable donation tax credit; by 2008 this had declined to 24 percent. This trend is worrisome as it predates the recession. Charities thus have two donor-related challenges: increasing support from existing donors, and expanding the base of donors for the future.

In the 2007 Statistics 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 encouraging increased giving – both by Canadians who already give, and by those who have not yet done so – would help place charities on a firmer financial footing, ensuring that they are able to continue providing vital services to Canadians.

To encourage behavioural changes in giving, Imagine Canada proposes a stretch tax credit that would apply to amounts that exceed a donor’s previous highest giving level, using 2009 as a baseline. This would add ten percentage points to the tax credit for the eligible portion of donations – the 15 percent credit would be boosted to 25 percent and the 29 percent credit to 39 percent – but only for the portion of donation that exceeded previous giving levels. Once an individual reached \$10,000 in annual donations, no enhanced credit would be offered.

The stretch tax credit would send a message to Canadians that anyone can be a philanthropist, not just the wealthy. By making the first dollar of additional donation eligible, the stretch tax credit would recognize the important contribution made by all donors, irrespective of their giving level. This would complement recent incentives encouraging gifts of assets, which have benefitted primarily higher income earners. The broadened donor base and increased levels of giving would have a sustained impact as charities of all sizes and rural, urban and remote communities would benefit from this joint government – citizen investment in quality of life.

The stretch tax credit is an innovative approach that has not, to our knowledge, been tried in any other country. As such, costing the stretch tax credit is a difficult exercise because there is no past experience on which to base projections. On the one hand, a very simple calculation can be made: if giving increased by \$200 million, the direct incremental cost of the stretch tax credit would be \$20 million for that year. This calculation is complicated by the fact that some would argue that insofar as the stretch tax credit encourages additional giving, the entire cost of the charitable tax credit on that increased giving should be attributed to this new initiative. Even if this is factored into the proposal costing, the stretch tax credit remains an extremely efficient way to maximize federal investment in vital community services and increase the number of Canadians actively engaged in communities.

Recommendation #2

Remove barriers to the eligibility of charities and non-profits to existing federal business development programs and access to capital services by (i) clarifying operational policies and procedures, (ii) publicizing the eligibility of charities and non-profits and (iii) ensuring that, where existing mandates discriminate against charities and non-profits, they be extended to include these organizations.

Earned income is becoming an increasingly important source of funds for charities and non-profits to carry out their missions in communities across Canada. Across the sector, almost 50 percent of the funds available for providing services to Canadians are generated through earned income activities. Some organizations generate more than two-thirds of their income from these activities.

The Speech from the Throne recognized the importance of communities working together to tackle their common challenges, and the vital role that charities and non-profits play in this. It is worth quoting the Throne Speech at some length: *“...the best solutions to the diverse challenges confronting Canada’s communities are often found locally. Every day, the power of innovation is seen at work in communities across this country as citizens, businesses and charitable groups join forces to tackle local problems. Too often, however, grassroots efforts are hobbled by red tape. Too often, local solutions are denied access to government assistance because they do not fit the bureaucratic definition of the problem. Too often, the efforts of communities falter not on account of a lack of effort or heart, but because of a lack of expertise to turn good ideas into reality.”*

While governments will need to continue providing grants and contributions, deficit reduction efforts at all levels may limit the funds available. Hence, earned income will become even more important for the non-profit sector. As organizations seek to become more entrepreneurial in order to stabilize and expand their revenue base, they will face many of the same challenges as private entrepreneurs: the need for business planning assistance; the need for advice in identifying and exploiting new opportunities; the need to develop and adapt new technology; and difficulty accessing conventional financing sources.

The Government of Canada has many initiatives that provide advice and assistance to SMEs. Canada Business Service Centres provide one-stop shopping to help private entrepreneurs access government programs. The Business Development Bank of Canada provides start-up and market development expertise and advice as well as assistance in accessing financing. The National Research Council’s Industrial Research Assistance Program helps in the development of new technologies. Community Futures Development Corporations (CFDCs), in the parts of Canada in which they operate, provide a similar suite of services to those provided by the BDC.

In most cases, despite having similar opportunities and facing similar challenges to their for-profit counterparts, charities and non-profits are discriminated against. In some cases, for example with some CFDCs, “social entrepreneurs” may be eligible for assistance; however, it is not clear whether charities and non-profits fall under this umbrella, and CFDCs do not cover all areas of Canada. There is no justification for this discrimination against one of the largest economic sectors in the country – particularly when government is encouraging non-profits to be more innovative and entrepreneurial, and when non-profits need to develop their income generating activities.

Imagine Canada believes that the federal government should take steps to end the discrimination against non-profits that is inherent in many of its business development and assistance initiatives. This could be achieved with little or no additional investment in these programs, except for ensuring that staff members are adequately equipped to provide services to non-profits and that the appropriate awareness campaigns are put in place. Opening up eligibility for these programs would be a simple, cost-effective way of addressing the challenge identified in the Speech from the Throne.

Recommendation #3

Amend the *Income Tax Act* so that appeals of charitable status registration or revocation be moved, in the first instance, from the Federal Court of Appeal to the Tax Court.

If an organization is refused registration as a charity or the Canada Revenue Agency (CRA) revokes a charity’s registration, its first level of court appeal is the Federal Court of Appeal (FCA). This is an

expensive and cumbersome process, well beyond the means of most organizations that are or want to be charities. The only other type of CRA appeal that goes to the FCA are decisions related to registered pension plans, where the appellants' resources are generally not an issue.

The Joint Regulatory Table recommended in 2003 that appeals from refusals or revocations be heard, in the first instance, by the Tax Court. Both the Federal Court of Appeal and the Supreme Court of Canada have commented that a hearing at Tax Court would be preferable, since it would allow for testimony by witnesses, and greater detail than an FCA hearing which is conducted on the basis of documentary evidence that has already been prepared by CRA and the organization involved. At the time of the Joint Regulatory Table recommendation, the Tax Court indicated that it would be able to take on the additional responsibility without having to add more resources. The Canadian Bar Association has also written to the Minister of Justice requesting this change.

As charities seek to increase their earned income activities, there may be cases where the limits of the current regulatory regime governing their engagement in these activities require clarification from the courts. Shifting the primary level of appeal to the Tax Court would not represent a cost to the federal government, and would improve the development of charity law by making the judicial system more accessible to those who may require its intervention. In addition to the reduced financial burden on organizations, Tax Court is more accessible geographically as it sits in more centres than does the Federal Court of Appeal.

Conclusion

As countries emerge from the recession, many people are still feeling its effects and governments at all levels and around the world are taking steps to restore fiscal balance. In Canada, the charitable and non-profit sector has stepped up to the plate and met the needs of individuals and communities during these challenging times. In order to keep meeting demand, at a time when all public expenditures are under review, the sector needs to be able to expand its revenue base and work within a more supportive regulatory environment.

The recommendations outlined in this submission are realistic and achievable. They contribute to the goals outlined in the Speech from the Throne and they would come at a minimal cost to the federal government – particularly considering the alternatives. Imagine Canada appreciates the opportunity to put forward these recommendations and is committed to working with the Government of Canada and all parliamentarians to ensure the swift and successful implementation of the measures proposed.