



CONTRIBUTIONS TO COMMUNITY

A SUBMISSION TO THE STANDING COMMITTEE ON FINANCE ~ PRE-BUDGET CONSULTATIONS ~ AUGUST 15, 2008

Imagine Canada works on behalf of Canada's charities and nonprofit organizations. Its members include over 1000 Canadian charities and nonprofits in every region of the country. Canadian businesses support its mission by participating in its Imagine Canada Caring Companies Program. This Brief has been formally endorsed by a broad cross-section of Canada's national, regional and community-based charities. For particulars on each, see the Appendix hereto.

- ❖ Canadian Association of Food Banks
- ❖ Canadian Associations of Gift Planners
- ❖ Canadian Conference of the Arts
- ❖ Canadian Environment Network (CEN)
- ❖ Causeway
- ❖ Community Foundations of Canada
- ❖ Imagine Canada
- ❖ National Charities and Not-for-Profit Law Section Canadian Bar Association
- ❖ National Gallery of Canada Foundation
- ❖ Salvation Army
- ❖ Sport Matters Group (SMG)
- ❖ The Toronto Community Foundation
- ❖ The United Church of Canada
- ❖ Toronto Public Library Foundation
- ❖ Volunteer Toronto
- ❖ United Way of Canada-Centraide Canada

Recommendation: An examination of policy options that will stimulate business contributions to community and increase the flow of investment capital from private sources to the charitable sector.

Imagine Canada

130 Albert Street, Ste. 1705, Ottawa Ontario K1P 5G4

Ph: (613) 238-7555 x225 Email: tkirk@imaginecanada.ca

CONTACT: Teri Kirk

Executive Summary

Imagine Canada works on behalf of Canada's charities and nonprofit organizations to identify issues and opportunities of common concern or benefit to these organizations and the communities that they serve. Imagine Canada often works closely with the Government of Canada at Budget time to identify and report back on fiscal measures that stimulate giving and ensure a strong charitable sector in Canada. Canada has invested in fiscal measures that ensure high levels of giving by individual Canadians. Canadian charities have, in turn, invested in improved systems of accountability to individual donors and public funders. However, limited work has been undertaken on business contributions to community. We urge the Government of Canada to work with Canada's charitable sector to examine new sources of funding from the business sector for Canada's charities. We recommend that the Government of Canada initially convene a Task Force or Blue Ribbon Panel to identify optimal measures. Research by *Imagine Canada*, *Philanthropic Foundations Canada* and the *C.D. Howe Institute* referred to below will provide important benchmark information and leverage and complement an examination by government of public policy measures to stimulate business contributions to community and increase the flow of investment capital from private sources to the charitable sector.

❖ Background

Charitable donations and government grants and contributions are a vital part of the financing that enables the work of Canada's charities, both domestically and abroad. Needs and expectations of Canadians for programs and services provided through charities are growing in response to an aging population and other demographic shifts. To help address these increasing demands and expectations, charities have pursued two parallel paths: they have worked successfully with the Government of Canada to identify new tax incentives for giving by individual Canadians and they have invested in improved governance and accountability measures given high levels of donor and public funds.

By contrast, very little work has been undertaken in Canada on identifying and stimulating business contributions to communities. Canadian tax policy allows for limited deductibility of charitable donations. Further, there are considerable regulatory barriers that inhibit the flow of investment capital from private sources to the charitable sector in Canada. *Philanthropic Foundations Canada* has provided thoughtful research into these barriers and called for an examination of appropriate changes in its own Brief to the Standing Committee. We urge

the Government of Canada to collaborate with the charitable and business sector to undertake an examination of policy options that will stimulate business contributions to Canadian communities and increase the flow of investment capital from private sources to the charitable sector, as a way to address the emerging demands and expectations on Canada's charities.

❖ **Financing Charities and Nonprofits at a Glance**

Total revenues of Canada's charities and nonprofits are \$112B/ year. As in many developed countries, about half (49%) comes from private and half (51%) from public sources.¹ Private sources of funding are overwhelmingly earned revenues, such as membership and service fees, and donations by individual Canadians. Corporate donations account for only 3% of total nonprofit sector revenues². Canada's businesses claimed just over \$1B in charitable donations on their tax returns in 2003³. Only 20% of Canada's 161,000 charities and nonprofits report receiving donations, grants or sponsorships from businesses⁴.

❖ **Recent Tax Incentives for Individual Canadians to Donate to Charities**

Tax incentives for charitable donations by individual taxpayers have been part of the fiscal framework in Canada since 1917. In 1988, the tax deductions became a tax credit and, while some updating may be appropriate, this tax credit continues to be very successful in stimulating giving by individual Canadians. Today, the CRA database confirms that 25% of all Canadian taxfilers – 5.8 million Canadians - claim charitable donations under the *Income Tax Act* for a total of \$8.5B per year⁵. Recently, the Government of Canada supplemented income tax credits for individuals with tax measures that stimulate gifts of capital by individual taxpayers. Over the years, these measures have been extended to different types of capital, from select types of land to artworks and, most recently, to gifts of stock. Tax measures are a proven incentive for giving: a recent Imagine Canada study of 245 charities

¹ Hall, M. H., Barr, C. W., Easwaramoorthy, M., Sokolowski, S. W., & Salamon, L. M. (2005). *The Canadian nonprofit and voluntary sector in comparative perspective*. Toronto, ON: Imagine Canada.

² Hall, M. H., de Wit, M. L., Lasby, D., McIver, D., Evers, T., Johnson, C., et al. (2005). *Cornerstones of community: Highlights of the National Survey of Nonprofit and Voluntary Organizations*. (No. Catalogue No. 61-533-XPE). Ottawa, ON: Statistics Canada.

³ Easwaramoorthy, M., Barr, C., Gumulka, G., & Hartford, L. (2006). Business Support for Charities and Nonprofits. *Research Bulletin*, 13(2). Toronto, ON: Imagine Canada. Based on 2003 CRA data.

⁴ Ibid. Based on 2003 National Survey of Nonprofit and Voluntary Organizations data.

⁵ Statistics Canada. (2007). Charitable donors, 2006. *The Daily*, November 1, Retrieved August 5, 2008 from <http://www.statcan.ca/Daily/English/071101/d071101c.htm>

found that the number of donations of securities doubled and the total value of donated securities more than doubled as a result of the new capital gains exemptions in Budget 2006.⁶

❖ Recent Investments in Governance and Accountability

Canada's charities have greatly appreciated and benefitted from federal fiscal measures and have complemented them with improved systems of governance and accountability for donor and public funds. Recent investments in improved governance and accountability systems among Canada's charities include the following:

Collaboration with CRA: Charities collaborate with CRA to improve reporting practices and support investigative and prosecutorial measures.

Ethical Code Programs: Imagine Canada and the Association of Fundraising Professionals (AFP) operate Ethical Code programs and encourage compliance by charities and their fundraising professionals to ensure high levels of accountability to donors.

Standards and Self-Governance: Imagine Canada and AFP have received a mandate from charitable leaders to begin work toward the establishment of an independent standards body to further develop and oversee the adoption of self-regulatory standards among Canada's charities.

Governance: The National Sector Task Force on the modernization of Not-for-Profit Corporations Law has worked closely with the Government of Ontario on its current modernization initiative. We wholeheartedly congratulate the Government of Canada on its recent introduction of Bill C-62, the *Canada Not-for-profit Corporations Act*, aimed at modernizing the governance structure for charities and nonprofits, and reducing the red tape on these small enterprises. The Task Force, which is convened by Imagine Canada, looks forward to working with the Government toward a timely passage of this important Bill.

❖ What are Businesses doing to support Communities?

A review of the literature on business contributions to community in Canada underscores the limited understanding of this important aspect of the Canadian economy and culture. The charitable tax credit for individual taxpayers and related CRA database forms the basis of much of our understanding of giving by individual Canadians and can make us proud of

⁶ Lasby, D. M., & Hall, M. H. (2007). *Charitable Gifts of Securities: Implications for Canadian Organizations*. Retrieved 08/05/08 http://nonprofitscan.imaginecanada.ca/files/en/other_research/gifts_of_securities_080612.pdf

our culture of giving and the strength of this widespread economic activity. Because many contributions to community are treated as marketing or promotion expenditures⁷, rather than charitable, estimates of business contributions vary widely depending on what is being measured and in which industry. For example, is distributing your company's doughnuts at the hockey arena a charitable donation or a marketing activity? Without clear data, there are few reliable or scholarly articles on point, and research undertaken in other countries does not translate well -- community investment decisions by businesses are very tied to particulars of the culture, the economy and that country's fiscal framework.

Imagine Canada has recently completed the first stage of a comprehensive study on "*Business Contributions to Community*"⁸. This first stage includes a literature review and roundtable discussions with 47 representatives of Canadian businesses actively engaged in community investment. Some of the findings from the Imagine Canada Report include:

- Philanthropic commitment to community is the primary reason that many businesses cite for making contributions,
- Cash donations are often not tallied and non-cash contributions such as employee volunteering, pro-bono services and in-kind donations were reported to be difficult to track, and
- Better measurement and evaluation systems would be welcome by many businesses to assist them in making informed decisions about community investments and donations.

In addition to this informative research, the C.D. Howe Institute has recently announced its new study on '*Strengthening Canadian Charities and Non-Profit Organizations*' to "investigate ways in which public policy might better support Canada's not-for-profit sector". The investigation is expected to include an examination of Canadian corporate philanthropy and include findings and recommendations on associated public policy and tax measures.

⁷ Supra, Footnote 3. Charitable donations are deductible under s110.1 of the *Income Tax Act* but are subject to caps and eligibility criteria such that many corporations treat community contributions as marketing expenses.

⁸ The study is the first stage of a multi-year research initiative that Imagine Canada is undertaking with funding from EnCana Corporation. The roundtable consultations will be followed by a survey of 2,500 Canadian businesses. The report (Hall, M. H., Easwaramoorthy, M., & Sandler, W. (2007). *Business Contributions to Canadian Communities: Findings from a qualitative study of current practices*. Imagine Canada) http://nonprofitscan.imaginecanada.ca/files/en/misc/business_contributions_en.pdf.

❖ What new policies and tax measures are required?

Leaders of Canada's charities from across the country recently convened a Task Force to identify their top priorities for a federal Election Platform. Copies of Election Platform 2008/09 were distributed to all political parties in spring 2008 and attracted genuine interest among Party leaders. The Platform cites the positive role of our national government in stimulating private investment in a strong charitable sector and calls for further tax incentives to stimulate giving. It notes that current levels of charitable giving may be at risk and questions whether corporate Canada, in particular, will continue to invest in the domestic and international work of Canadian charities at current levels.

We urge the Government of Canada to undertake an examination of business contributions to community and to identify public policies that would stimulate new sources of funding for Canada's charities. We recommend that the Government of Canada initially convene a Task Force or Blue Ribbon Panel that brings together knowledgeable representatives from government, business and the charitable sector to make recommendations. Research underway at *Imagine Canada*, *Philanthropic Foundations Canada* and the *C.D. Howe Institute*, financed through private donations, will be highly applicable to such an enquiry.

❖ What are other countries doing to increase business contributions to community?

Among other policies to stimulate business contributions to community, the UK and the US recognize charitable donations and provide tax benefits to stimulate such giving⁹. With Canadian businesses contributing only 3% of the revenues to Canada's charities, there is room for new approaches to corporate giving in Canada, including an understanding of the merits of associated public policy and fiscal measures.

❖ Costs of this Recommendation

There are no significant immediate costs of this recommendation. We recommend a modest investment in examining public policies that stimulate business contributions to community, and this examination would include an assessment of the costs and benefits of such measures.

⁹ Supra at Footnote 2