

STRETCH TAX CREDIT FOR CHARITABLE GIVING

What is the stretch tax credit?

The stretch tax credit is a proposal to increase the federal charitable tax credit from 29% to 39% on all new giving that is over \$200 (i.e. giving that exceeds a donor's previous highest giving level).

Its purpose is to encourage individuals to give more and to increase the number of Canadians who give to charities.

How is this different from the current federal charitable tax credit for gifts over \$200?

The proposed stretch tax credit (39%) is 10 percentage points higher than the current tax credit (29%) for giving over \$200.

It only applies to new giving, over and above the donor's highest previous giving level.

It is capped at \$10,000 (all giving over this amount reverts back to the 29% credit), targeting its benefits primarily to working families and middle-income Canadians.

Why do we need a stretch tax credit?

The number of Canadian tax filers claiming charitable donations is declining – from 24% in 2007 to 30% in 1990.

We need to act now to renew Canada's charitable donor base by encouraging more Canadians to give and supporting those who do give to give more.

Research shows that over half of donors would increase their charitable giving if there were better tax incentives to do so.¹

Many charities are reporting increased demand for their services even as corporate and government funding have been cut back. A stretch tax credit would help them to attract greater investment from individual Canadians, enabling them to meet more individual and community needs.

How much will it cost?

Incremental costs will depend on how many people invest in charities as a result of the new credit and how much they increase their giving.

If Canadians responded in Year 1 by increasing their giving by \$200 million, the incremental cost to government would be \$20 million - a ten to one return on investment.

Unlike across the board rate increases, however, every dollar invested will yield a measurable return in new charitable giving, as the credit is only activated when Canadians give more than they did before.

¹ 2007 Canada Survey of Giving, Volunteering and Participating.

Who will benefit from this new credit?

A 5% increase in giving in the \$200-\$10,000 range would generate \$411 million in new investment in communities across the country, through the added capacity of charities to prevent and alleviate social problems, enhance quality of life, and support those individuals and families hardest hit by the recession.

Working families and middle-income Canadians will be able to give more to their charities of choice.

Charities of all sizes and in every region will benefit from greater support, but particularly charities that rely more on gifts of income than gifts of assets to fulfil their mission.

Isn't this just another tax benefit for wealthy Canadians?

Not at all – 32% of Canadians donate over \$200, accounting for 91% of all giving.

The stretch tax credit is aimed at average income Canadians who generally donate income and have benefited less from previous tax measures aimed at encouraging large gifts of assets.

The \$200 floor reflects the \$250 median donation level in Canada.² This median is considerably higher in some provinces.

How can I help promote the stretch tax credit proposal?

Write or talk to your local Member of Parliament to let them know how this proposal will help promote healthy and vibrant communities in which Canadians will want to live and work.

Tell opinion-leaders in your community how this proposal will help people Canadians care about, both at home and around the world, by explaining in concrete terms the impact an increase in charitable giving could have on your own organization.

² Statscan, *The Daily*, [Tuesday, November 4, 2008](#). Based on donations claimed in 2007.

HOW THE STRETCH TAX CREDIT WORKS

BASE YEAR

Claudia Tedesco is a 47-year old married woman with children living in Chilliwack, British Columbia. Because she believes in supporting her community, she makes charitable donations to a range of local community organizations and programs.

Claudia donates \$200 to charity in 2008. This costs her \$159.88, as she gets back \$40.12 (20.06%) in charitable tax credits.

15% federal charitable tax credit x \$200 = \$30.00

5.06% BC charitable tax credit x \$200 = \$10.12

Total charitable tax credit = \$40.12 or 20.06%

YEAR 1

In 2010, Claudia decides to give a bit more in response to the recession's impact on her community, knowing the cost will be partially offset by a new, more generous charitable 'stretch' credit of 39% for increased annual giving over \$200.

Claudia donates \$350 to charities in 2010. This costs her \$229.33, as she gets back \$120.67 (34.48%) through the old tax credits and the new stretch credit applied to her additional gift of \$150.

15% federal + 5.06% BC charitable tax credit x \$200 = \$40.12

39% federal stretch tax credit + 14.7% BC charitable tax credit x \$150.00 = \$80.55

Total charitable tax credits = \$120.67 (34.48%)

YEAR 2

With a new, higher paying job, a stronger economy, and the extra support of the stretch tax credit, Claudia decides that she can afford to give even more this year than last.

Claudia donates \$700 to charities in 2011. This costs her \$406.38, as she gets back \$293.62 (41.94%) in charitable tax credits.

15% federal + 5.06% BC charitable tax credit x \$200 = \$ 40.12

29% federal + 14.7% BC charitable tax credit x next \$150 = \$ 65.55

39% federal stretch tax credit + 14.7% BC charitable tax credit x next \$350.00 = \$187.95

Total charitable tax credits = \$293.62 (41.94%)