

August 4, 2017

Hon. Wayne Easter, PC, MP
Chair, House of Commons Standing Committee on Finance
House of Commons
Ottawa, ON K1A 0A6

Dear Mr. Easter:

I am writing with regard to the Standing Committee on Finance's recent call for pre-Budget submissions.

We appreciate the challenge the Committee faces every year, and the fine balance that must be struck between too prescriptive an approach to submissions and the potential for a "free-for-all" in the submissions you receive. We also appreciate that, in the context of both the federal government's stated commitment to growth and productivity, and Canada's ongoing and well-documented challenges with productivity, the Committee wishes to focus this year on the issues of productivity and competitiveness.

Charities and nonprofits are a significant contributor to jobs and economic activity across Canada. The most recent data available shows that our sector employs some two million Canadians and generates more than 8 percent of GDP. Research carried out by the Chief Economist for the Charitable and Nonprofit Sector indicates that charities and nonprofits have been the fastest-growing segment of the Canadian economy in recent years.

Charities and nonprofits also make significant contributions towards achieving Canada's commitments under the UN Sustainable Development Goals. Economic growth and productivity figures are important, but they do not tell the whole story of an economy. Inequitable growth, where middle- and lower-income Canadians, or entire communities and regions, do not benefit, is as problematic as slow or non-existent growth. If Canada is to achieve its commitments under the Sustainable Development Goals, we need to focus increasingly on smart growth – that is, growth that is sustainable, equitable, and environmentally responsible. Broader economic and productivity growth are more important as tools towards achieving smart growth than they are as ends in and of themselves.

Our sector can do more, and would like to do more to increase our economic and social impact. However, the Committee has limited this particular consultation to ideas on how federal policies may help individual Canadians and businesses become more productive. This constrains our ability to make recommendations for Budget 2018 that do not fit within a narrow lens. Imagine Canada strongly encourages the Finance Committee to ensure that the questions governing future pre-budget submissions include those which will be directly relevant for both business and the charitable and nonprofit sector. Charities and nonprofits do not sit apart from the economy, but are an important part of it.

We are confident that individual charities and nonprofits from across Canada will contribute ideas as to how federal policies could assist the people they serve. However, as organizations and employers, charities and nonprofits operate under very different conditions than businesses; the solutions that would help us, as organizations, become more productive, innovative, and competitive may be very different than the solutions that may be of benefit to the private sector or directly to Canadians.

While the suggestions below may not fit cleanly within the parameters established by the Committee, we nonetheless want to take this opportunity to bring them to the Committee's attention. We request that the Committee:

Endorse reforming the Income Tax Act to focus on charitable purposes

The advisory panel that reported to the Minister of National Revenue on political activity by charities made several recommendations, including one that the *Income Tax Act* be amended so that regulation of charities is based on them fulfilling their purposes, rather than examining individual activities. Implementing this recommendation would be in line with mandate letter instructions provided to the Ministers of Finance, National Revenue, and Justice.

Under the law, organizations are granted charitable status based on their purposes, which are laid out in common law decisions based on the original 17th century Elizabethan statutes. The *Income Tax Act*, and Canada Revenue Agency administrative policy, have focussed increasingly on regulating individual activities. There is arguably no legal basis for this, and we struggle to understand how an activity can be deemed to be charitable or not charitable. For example, asking for money can only be defined as charitable or not charitable when the purpose and context are taken into account.

Implementing the advisory panel's recommendations would represent a significant step towards fulfilling the Prime Minister's commitment to a new legal and regulatory

framework for our sector. It would also complement the work being undertaken through Employment and Social Development Canada's Social Finance and Social Innovation Strategy. Among the benefits of *Income Tax Act* reform would be greater certainty and clarity as to the revenue-generating business activities that many charities already undertake. While there is arguably a productivity argument to be made here (time that is currently spent negotiating a maze of unclear and sometimes contradictory CRA policy statements could instead be spent furthering the work of the charity), such reform is necessary if charities and nonprofits are to be full participants in the government's skills and innovation plan.

Endorse measures to allow charities and nonprofits to be full participants in the government's innovation agenda

The federal government intends to promote greater use of social finance and social innovation, as numerous governments internationally have done, to tackle the longstanding challenges facing society. In many cases internationally, and in pilot projects across Canada, charities and nonprofits are expected to be active participants in new ventures – either as innovators themselves, service providers, project managers, or investors.

In addition to the regulatory issues noted above, charities and nonprofits face practical barriers in being full participants in this agenda. They often lack the skills to analyze or negotiate complex financial arrangements, and traditional capital markets are not structured in such a way as to allow them to access startup or venture capital. Funding arrangements often preclude necessary investments in, for example, evaluation and monitoring, core infrastructure, and research and development.

The federal government can assist in a number of ways. First of all, charities' and nonprofits' eligibility under federal initiatives such as the Business Development Bank of Canada should be clarified, so that assistance provided to other sectors is also available to charities and nonprofits. The Canadian Community Economic Development Network has made a number of excellent recommendations in this regard. Secondly, as per recommendations made by Philanthropic Foundations Canada, regulations that prevent foundations from making program-related investments in charities and nonprofits should be revisited.

Urge the federal government to prioritize economic data about the sector

The economic information about charities and nonprofits is increasingly less reliable. Statistics Canada no longer collects or publishes the range of information it once did. We

are thus faced with a situation where the federal government does not even know how many nonprofits there are across the country.

Productivity requires information. But the federal government is making economic and social decisions with insufficient information about one of the largest economic sectors in the country. This is not a solid foundation for good decision-making.

Statistics Canada has shown an interest in working with our sector to identify information gaps and develop a plan to address them. Indeed, there are a number of federal departments who are interested in accessing data about the charitable and non-profit sector. We would welcome a clear statement by this Committee that this information is vital towards fully understanding Canada's economy and for promoting evidence-based decision-making, and that funding to collect and disseminate this information should be restored.

We strongly believe in the pre-Budget consultation process, and in making positive contributions and suggestions to the federal government. As such, we would encourage members of the Committee to take a more holistic view of productivity and competitiveness in future consultative exercises. We appreciate the difficult balancing act between a broad and open dialogue on the one hand, and a focussed discussion on the other hand. But framing a discussion of economic competitiveness and productivity in such a way that – intentionally or not – leaves little room for one of the country's most important and vibrant economic sector to fully participate. For Canada to achieve its economic, social, and environmental goals, all sectors need to be at the table working together.

Yours truly,

A handwritten signature in black ink, appearing to be 'Bruce MacDonald', with a long horizontal line extending to the right.

Bruce MacDonald
President & CEO

cc: Clerk of the House of Commons Standing Committee on Finance
Members of the House of Commons Standing Committee on Finance