

STRETCH TAX CREDIT FOR CHARITABLE GIVING

What is the Stretch Tax Credit?

The stretch tax credit would increase the federal charitable tax credit on giving that exceeds a donor's previous highest giving level. The tax credit would increase from 15% to 25% for eligible amounts below \$200, and from 29% to 39% for eligible amounts above \$200. This would encourage donations from those who have not given in the past – particularly younger families and those just starting their careers, and help those who already give to give more.

Why do we need a stretch tax credit?

The proportion of Canadian tax filers claiming charitable donations is declining. We need to renew Canada's donor base by encouraging more Canadians to become philanthropists and supporting higher donation levels. Research shows that more than half of donors would increase their giving if there were better tax incentives. By encouraging more Canadians to become donors, the Stretch Tax Credit would also help strengthen communities. We know that donors are more likely to be involved with charities in other ways, including volunteering; thus, encouraging more donors could lead to higher levels of volunteerism in communities.

How much will it cost?

The Stretch Tax Credit is an innovative approach that has not, to our knowledge, been tried anywhere else, making exact costing difficult. However, the Parliamentary Budget Office recently prepared an analysis based on implementing the Stretch Tax Credit on donations above \$200. The PBO estimated that after three years, the incremental cost to the Treasury in foregone revenue would be between \$10 and \$40 million a year. Within three years, the PBO estimates that there would be up to 600,000 new donors, and that median donations would increase by up to 26%. The Stretch Tax Credit would be an extremely efficient way to maximize and leverage federal investment in vital community services.

Who will benefit from this new credit?

An increase in donations would generate new investment in communities across Canada, helping charities prevent and alleviate social problems and greatly enhancing quality of life through increased access to cultural, learning and sporting activities. Charities of all sizes and in every region will benefit from greater support, particularly those that rely more on a large number of smaller donations to fulfill their mission.

Previous changes to charitable tax credits, such as those encouraging large donations of shares and securities, have primarily benefited wealthier Canadians. The Stretch Tax Credit will enable working families and middle-income Canadians in particular to give more to their charities of choice. A \$10,000 cap on eligibility for the Stretch Tax Credit would target it towards individuals or families who donate cash and have not benefited from previous tax measures that encourage large gifts of assets. Because there is no floor on the stretch tax credit, even those who can only afford to make smaller donations will benefit.

January, 2012