IMAGINE CANADA

65 ST. CLAIR AVENUE EAST, SUITE 700 | TORONTO ON M4T 2Y3
T: 416.597.2293 F: 416.597.2294 | 1.800.263.1178

65, AVENUE ST. CLAIR EST, BUREAU 700 | TORONTO (ON) M4T 2Y3
TÉL. 416.597.2293 FAX. 416.597.2294 | 1.800.263.1178

Department of Finance Canada
Consultation-Legislation@fin.gc.ca

September 8, 2023

**Re: Measures to Close Tax Loopholes: The Alternative Minimum Tax for High-Income Individuals**

In its August 4, 2023 news release, the Department of Finance launched consultations to advance certain budget priorities including changes to the Alternative Minimum Tax (AMT). Budget 2023 proposed changes to the AMT that limit tax exemptions, deductions, and credits. Noteworthy changes for the charitable sector include adjusting the inclusion rate for capital gains resulting from the donation of publicly listed securities from 0 percent to 30 percent, and limiting by half (50 percent) the application of the charitable donations tax credit.

Canada's charitable sector contributes $192 billion in economic activity annually, representing 8.3% of our GDP. We employ 2.5 million people annually, with one in ten Canadians working for a charity or nonprofit. Our workforce is 77% women, 47% newcomers and 35% Indigenous and racialized people.

**Imagine Canada supports the government's efforts to ensure that wealthy Canadians pay their fair share of taxes.** Income inequality is a national concern, but one that will not be addressed through efforts that seek to limit the ability of charities to serve their communities. **The proposed AMT changes will reduce the incentive for a key category of individuals to maintain current donation levels to charities.** We appreciate the opportunity to communicate the following concerns about this tax policy commitment.

**Fewer Canadians give each year, except for those with higher income**
Canada's tax regime has a proud history of enabling a culture of giving, and the sector's funding ecosystem has evolved with and relies on this culture. In recent years, Stats Can data consistently shows us that the number of individuals reporting donations decreases. According to some estimates, the proposed AMT changes to the value of donations will disincentivize the only category of donors whose contributions reliably fill the gaps left by those who are no longer able to give.

Preliminary T1 data indicates that Canadians claimed $11.8 billion in charitable donations in 2021. Overall, Canadians gave more in support that year compared with 2020, but the number of taxfilers claiming donations decreased by 165,000, a worrisome decline of 3.2%. Paralleling the decline in the number of taxfilers claiming donations in 2021, average donations jumped to $2,377 from $2,063 year prior. These figures from the 2021 T1 data are consistent with the long term-trend; donations are coming from a declining donor base that is on average higher income. (Imagine Canada analysis of Statistics Canada preliminary data)

Imagine Canada members are already hearing from donors who are seeking to renegotiate pledges. Drawing on the above figures and not accounting for inflation, even if the impact of the AMT changes (by conservative estimate) amount to a 5% reduction in overall donations, charitable sector revenues will decline by over half a billion dollars. This is enough to ensure many organizations will cut programming or close their doors, Canadians will lose meaningful jobs, and communities will face the loss of vital services.

The timing of these anticipated sector losses is not good. Faced with rising inflation and a challenging labour market, charities have been dealing with the increased costs of delivering services and paying competitive wages. According to the most recent Canadian Survey of Business Conditions, organizations are worried about the rising cost of insurance, a trend that is further constraining their ability to operate sustainably and meet demand.

**Charities deserve supportive & coherent public policy**

The federal government recently invested resources to increase the disbursement quota (DQ) of foundations so that more funds are released to communities through grants to charities. The proposed changes to the AMT that target charitable giving contradict the objective of the DQ changes currently being implemented, which are meant to “boost charitable spending in our communities”. If adopted, the AMT changes will come into effect one year after the federal government implemented the delivery of $400 million to charities and nonprofits through the Community Service Recovery Fund. This fund was created to help replace the loss of the unrestricted revenues that donations provide.

While the proposed AMT changes will help the government retain some tax dollars, we are concerned this is largely a tax efficiency effort that is being delivered in part on the backs of charities. While the government spent billions of dollars helping organizations in crisis sustain operations through the wage subsidy program only two years ago, it is now - with intention - constraining the ability to draw funds from our most reliable donors.

These contradictions are suggestive of a lack of clear and consistent policy strategy for the charitable sector by our government. What is more, policy measures that will intentionally limit donations to charities are not supported by Canadians. A recent Ignite poll commissioned by Imagine Canada (data to be released to media mid-late September 2023), revealed the following:

- Over 80% of respondents say that current macro forces such as pandemic, inflation and climate changes have created more demand for the services provided by these charitable and nonprofits across Canada.

- 76% of respondents support current tax incentives for charitable giving.
- 94% say the federal government's support of the sector is very (62%) or somewhat important (32%). This support is across party lines.
- A majority of Canadians believe the federal government is **not doing enough** to support the work of our sector, particularly in mission areas where respondents are most passionate: sheltering of unhoused populations, decreasing of polarization, addressing food insecurity, fighting climate change, and meeting the health care needs of underserved Canadians.
- When asked which sector respondents trust to confront these issues, charities were rated highest at 86%, while the federal government scored 62%.

In limiting the tax incentives for donations to charities, the government will hinder efforts to ensure more funds are delivered in pursuit of the public good, and by organizations that Canadians trust to do the work they care about most.

RECOMMENDATIONS:

1. Release government projections done to estimate the impact of the proposed changes to the AMT calculation on charitable sector revenues. Include the anticipated impact on donor behaviour per income category.
2. Maintain the current 0% inclusion rate for capital gains on donations of publicly listed securities.
3. Maintain 100% of the charitable donation tax credit in the calculation of the Alternative Minimum Tax.

Please contact us to discuss any questions or comments.

Sincerely,

Bruce MacDonald
President & CEO, Imagine Canada