Association of Fundraising Professionals (AFP)

Submission
To the Senate Special Committee on the Charitable Sector

March 29, 2019

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Dear Senator Omidvar:

On behalf of the more than 3,500 Canadian members of the Association of Fundraising Professionals, I am writing to submit our response to your request for proposals to encourage smaller gifts to smaller charities, and specifically, the elimination of the capital gains tax on gifts of real estate and shares of privately-held stock.

Thank you for your request and for your work on the Senate Special Committee on the Charitable Sector. You have been a critical voice during the committee’s work, raising a number of key questions on different issues. We appreciated the conversations you had with our members when they appeared before the committee, and your discussions with the sector throughout this process.

We are addressing your question in two parts. The first part discusses the need for more smaller-level gifts to charities in general and what the government and the charitable sector can do to encourage these donations. The second part addresses the proposal to eliminate the capital gains tax on gifts of real estate and privately-held stock.

1. Increasing smaller-level gifts to smaller charities.

This is an issue of great concern to AFP because the fundraising profession continues to see giving rise, but often only because of major gifts.

One of the most powerful aspects of charitable giving is that it engages donors and supporters with their local community. In addition, the very nature of charitable fundraising rests on relationship-building and donor engagement. For example, there are many stories of a donor perhaps giving $50 or $100 at first, then making progressively bigger gifts as the relationship between the donor and the charity develops. Smaller-level gifts are the foundation of many charitable programs and much of our civic engagement.

Tax incentives can be of use for giving at this level, but these kinds of incentives are much more powerful as the size of gifts increase. The suggestion made by Ted Garrard of the SickKids Foundation to increase the tax credit for gifts of up to $200 is an interesting one that offers some potential. Based on our experience, giving at the $200 level and below is often driven by a donor’s interest in a cause, not necessarily tax benefits. AFP does not have specific research on the potential impact of this proposal on overall giving levels, but we believe it might merit some consideration. Smaller gifts would likely increase, and the possibility that additional donor-charity relationships would develop—leading to additional gifts in the future—leads us to believe that the tax credit would be very beneficial to the sector.

2. Elimination of the capital gains tax on gifts of real estate and privately-held company shares

The second part of our response addresses the proposal to eliminate capital gains on gifts of real estate and privately-held company shares. AFP, along with other like-minded organizations such as CAGP, has been advocating for this proposal for several years because we believe it will increase giving significantly. It is estimated that this proposal would enable the charitable sector to access an estimated $170 to $225 million of incremental funding from the private sector with a tax revenue cost to the government of only $50 to $65 million.

The federal government removed the capital gains tax on donations of securities to most charities in 2006, making these donations more attractive to potential donors than they had been previously. The
impact has been nothing short of spectacular. As Don Johnson noted in a recent op-ed in The Globe and Mail, since the capital gains tax was removed for these gifts, the charitable sector has received more than $1 billion in gifts of stock every year.

The role that tax incentives play on charitable giving, especially as the size of gifts increases, should not be discounted. The example of United Way Toronto is especially instructive. From 1955 to 1996, before the capital gains tax on donations of shares was cut by 50%, United Way Toronto received about $44,000 in such gifts—total!—over nearly four decades. Since 1997 when the capital gains tax was cut in half, United Way Toronto has received more than $200 million in gifts of stock.

There is every reason to believe that eliminating the capital gains tax on gifts of real estate and privately-held company shares will have a similar impact, as we’ve noted above. AFP would also emphasize that the provision will benefit all charities, regardless of their size.

Because the proposed law requires the donor to sell shares and make the gift to a charity within 30 days of the sale, there is not a significant amount of technical or legal expertise to maintain such a program. Unlike gifts of publicly traded securities, these transactions would be in cash. All kinds of charities, regardless of their size or expertise of their fundraising department, can talk with donors about making gifts using proceeds from the sale of private stock or real estate.

Small charities will also benefit from gifts of private stock or real estate when they receive funds from community foundations, donor-advised funds or, as in the example above, a United Way.

Eliminating the capital gains tax on these kinds of gifts will not likely increase smaller gifts in the same way that changes to tax incentives might. Gifts of real estate and privately-held company shares of gifts tend to be on the larger side—thousands of dollars, and often more. However, to use the adage that “a rising tide lifts all boats,” we believe that this proposal will have a strong, transformative impact on charitable giving in Canada. We urge you to push for passage of such legislation.

Canada has a tremendous culture of philanthropy—we have the second-largest nonprofit sector in the world. But there are signs that our philanthropic culture is fraying. Levels of donations are decreasing.

Addressing the goal of encouraging more funding to the charitable sector, especially in smaller-level donations, can be a complicated one. It is complex because people give to organizations for a variety of reasons. Perhaps they believe strongly in the cause. Perhaps a loved one or friend was helped by the organization. Perhaps they want to express their values or demonstrate the importance of giving to the children.

Nevertheless, we believe that there are some steps that the government can take to assuage public concerns and reverse the trends mentioned above. In addition to contemplating the two tax policy elements noted above, the government would greatly assist the nonprofit sector by designating the Ministry of Innovation, Science and Economic Development as having economic policy responsibility for the sector. Some of the issues faced are a result of the philanthropic sector not having a representation by a single federal department in the government. Having a charity representative or champion in the federal government would be an important first step, as would be having specific funds set aside for Statistics Canada to research and measure the dimensions and impact of the sector. Using the datapoints developed by that research, the ministry could also then launch public education and other
campaigns to discuss the importance of giving and fundraising, engagement in local communities and other critical issues.

Canada’s strong philanthropic sector evolved over many years into a critical element and tradition of the Canadian national identity. We believe government has a role to play, in partnership with the charitable sector, to continue to nurture and grow that part of our identity, whether it is the enactment of tax policies like tax credits for gifts up to $200 or the elimination of the capital gains tax on gifts of real estate and private company shares or other substantive steps like designating a federal department with economic oversight for the nonprofit sector and funding for Statistics Canada research to obtain essential data about the sector.

We look forward to working with you on these issues and any other issues impacting fundraising and the nonprofit sector.