BRIEFING MEMO to the Special Senate Committee on the Charitable Sector - Charitable Donation Tax Credit Increase

ISSUE
Canadian registered charities and non-profits are seeing increased demand for services and a looming social deficit that will manifest itself over time in unmet needs, longer waiting lists, reduced social services and the general erosion of the quality of life in Canada. If charities are to continue to meet the needs of those they serve, changes need to be made to incent Canadians’ personal philanthropy and keep funds flowing to organizations.

RECOMMENDATION
It is recommended that:
An Amendment to the Income Tax Act with respect to Charitable Tax Credit be introduced as follows:

Increase the federal charitable donation tax credit rate for donations over $200 from 29% to 33% for all donors.

RATIONALE
A key component of the tax-based assistance provided by governments in Canada to the charitable sector is the Charitable Donation Tax Credit. Canadians who donate to registered charities and other qualified donees can claim a non-refundable credit in respect of their charitable donations on both their federal and provincial personal income tax returns. By lowering the after-tax cost of giving, these credits encourage people to donate more to charities and support the financing of the charitable sector.

One of the ways in which the Federal government can support the work of charities and address the social deficit is to optimize the charitable tax credit for individuals to attract, retain, and increase the volume and value of personal donations. The intention of this amendment is to encourage more, and larger, donations to charitable organizations by providing a larger reduction of income tax payable.

Under amendments to the Income Tax Act (ITA) introduced in 2016, the tax brackets were adjusted from four tax brackets to five brackets. The intention was to reduce the income tax rate for middle class earners (defined as those earning $44,701 - $89,401 annually) to 20.5%, and to introduce a new high income ($200,000+ annually) bracket at 33%.

In prior years, increases in tax rates resulted in a simultaneous increase in the tax credit for charitable donations to the highest percentage tax level. When the highest tax bracket was 29%, all Canadians were eligible to claim charitable tax credits at 29% regardless of income level.

Under the new (2016) ITA the charitable tax credit increase to 33% is only for those income earners over the $200,000 threshold. This increase does not match the prior practice to offer one tax credit percentage applied to all income levels. Technically, the Income Tax Act states that the donation credit rate for amounts over $200 in a given year “is the highest percentage ... that applies in determining tax that might be payable ... for the year.” In seeking the above noted amendment, you can ensure that donors, regardless of their tax bracket, continue to obtain the highest percentage credit possible once they exceed the $200 donation threshold. Relatively few donors are subject to the highest personal income tax rate of 33%, which implies that most donors who donate over $200 can obtain, for the amount that exceeds $200, a credit that more than offsets the federal tax payable on the income that financed that portion of their donations.
In keeping with the goals of the Finance Department, the core policy objectives guiding this amendment request are stability, efficiency and utility. The intention is to ensure stability in the social sector by giving greater incentive for Canadians to make charitable donations. Efficiency is optimized by having only one percentage figure to use in calculating the charitable credit, and the federal government is able to utilize the fiscal tools at its disposal to influence Canadian’s altruistic behavior towards providing support for the needs of their fellow citizens through the work of charities and non-profits.

Also in keeping with the Departments’ goals, the intention of this amendment is to promote a healthy economy by providing supports for a strong and growing middle class; many of whom are both donors and program and service recipients.

The Canadian Charitable Tax Credit is a polarizing issue and research evidence is available both in support of charitable tax credit reform and against tax credit reform. Registered charities count on the generosity and donations from individuals to achieve their charitable mission. Individuals make charitable donations to support the mission of registered charities, and they may wish to reduce their personal tax burden by receiving credit for the donations. Charities promote the tax credit as a means to acknowledge the governments’ role in supporting the sector and to attract and retain donations from individuals. Research indicates that although Canadians primarily give for altruistic motives, tax incentives affect donor decisions about whether and how much to donate. CanadaHelps stated that a survey of its donors showed that 42% would donate more if there was an increase in the tax credit rate.

However, there are also many people who are not in favour of increasing tax credits; some even go as far to say the credit should be abolished altogether. The income tax gathered from Canadians is used to achieve government policies and budgets and is distributed by government towards programs and services which support the wellbeing of all Canadians. In removing a portion of the income tax payable from the system some programs and services may be affected. Seen from this perspective, the charitable tax credit is an expense to the federal government and a tax credit to one person puts the burden of that person’s donation on to the rest of Canadians.

In preparing for this request to amend the Income Tax Act, I considered other options that would incent Canadians’ personal philanthropy and keep funds flowing to charitable organizations to meet their social mission and mandates. The work being done by Imagine Canada (as representatives of the charitable sector) is of particular interest, as is their Personal Philanthropy Project which will focus on creating an environment and interest for Canadians to give more to charities. This work would be a great compliment to a government announcement of an increased tax credit for donors.

Other options include the stretch credit to incent donors to achieve increasingly higher donations and there is merit in this approach. But the threshold of stretching to $1,000 in donations is restrictive. Donors need to be enabled to give to the maximum they wish to give without a ceiling.

Tax deductibility has long been recognized as a motive, over and above the altruistic motives noted above for individuals to give charitable donations and the most effective way to increase giving is increasing the charitable tax credit to 33% for all donor at all income levels.

**CONSIDERATIONS**

The Charitable Tax Credit is a non-refundable tax credit. As such, it can only be used to reduce tax owed; if a person doesn’t owe any tax, they don’t get a refund. Generally, the tax savings will be equal to the
amount of the charitable tax credit calculated, but this concept may be lost on Canadians without proper communications. There may be backlash in the press from those who are not in favour of charitable tax credits, or who have other agendas but these can be addressed by preparing and distributing targeted communications materials.

We will need to acknowledge that tax credits are treated as deviations from the benchmark tax system and additional resources may be required for further research and the creation of data sets for finance committee review.

We will also need to ensure that everyone recognizes that this policy change will not produce results in the short term. We know the tax benefit from this measure can be obtained in a taxation year other than the year during which it accrues (donations can be held for 5 years prior to claiming on income tax), but we must hold to the intention to create a stronger charitable sector to address the looming social deficit in the coming years. Overall, this should be seen as a very positive and supportive measure to reward those individuals who make a financial contribution to the social health of their community.

IMPLEMENTATION PLAN
This policy change should be rolled out as part of Budget 2019 and in conjunction with other budget considerations and incentives. This change will have minimal impact on the overall budget and if the Minister of Finance agrees to move the request forward, should not require significant internal resources other than the preparation of documents. Working backward from a potential March 2019 announcement the following timeline should provide guidance for activities.

- June 2018 – Tax Policy Branch and the Intergovernmental Tax Policy, Evaluation and Research Division to create research and data sets on the impact of a change in tax credit rate
- July 2018 – Tax Policy Branch to present recommendation to Minister for potential inclusion in Budget 2018 planning package
- July 2018 – Sept. 2018 – develop communications strategy and materials and rollout discussions with Canada Revenue Agency personnel and a charity sector representative group (Imagine Canada).
- Oct. 2018 – January 2019 – prepare and present any documents to appropriate committees
- February 2019 – finalize any materials for Budget 2019
- March 2019 – Budget announcement
- April 2019 – Roll out communications strategy and materials to agencies, professional association, and to the general public

COMMUNICATIONS PLAN
The overall strategy is to add the charitable tax credit increase to other announcements being made in Budget 2019. Focus will be on the federal government and the charitable sector working together to incent Canadians to higher levels, and more consistent and thoughtful charitable giving. The amendment on its own would not be sufficient to attract media attention and should be used to highlight the changes made to the income tax to strengthen the charitable sector that serves the social interests of Canadians.

There are three target audiences to be addressed in the communications – with variations in messaging for each:
• Personal finance professionals. Depending upon their personal situations, individuals consult with many different people about their finances including investment advisors, financial planners, financial advisors, accountants, and estate lawyers. Individuals may be looking to plan for expenses, to plan for additional income, or to acknowledge lifestyle changes.
  o Communications messaging for this group to focus on utilizing the increased tax credit as part of a planned, financial approach to managing income, savings, retirement, and giving. This approach would provide guidance and coaching that can lead to a more intentional, informed giving commitment to charities and will improve the financial literacy of Canadians. It will also be important to provide seniors with appropriate materials to manage their financial affairs as the over 65 population will represent approximately 20 per cent of Canadians by 2023.
  o Communications will be directed to the professional associations for further dissemination
• Charitable sector professionals. Leaders in this sector are focused on attracting and retaining investment to support their agencies mission.
  o Communications messaging for this group will reinforce that government is an active partner in supporting the sector; and that charitable giving is altruistic but can be enhanced by informed and planned engagement with donors using both mission-driven empathic goals and financial instruments including the charitable tax credit.
  o Communications will be directed to the professional associations for further dissemination
• Canadian donors. Donors are at the heart of the charitable tax credit increase as their donations enable charities to achieve their mission.
  o Communications messaging to Canadians will focus on appreciation and impact and emphasis that donors have the means and power to create social change and innovation and this work is supported by government. Messaging should be clear and visual highlighting the collective impact to society as a whole while elevating the actions of donors and aspire them to increase donations and maximize the charitable tax credit incentive. The concept of tax credits is not well understood by many Canadians so additional effort will be placed on education about the tax deduction and credit incentives.
  o Communications will be through the CRA website, through Budget announcements and through media

Core messages:
• Government values the charitable sector and supports its work
• Government values charitable donors and encourages individual Canadians to give
• Government provides tax benefits in the form of federal non-refundable tax credits and has increased the % of charitable tax credit to the highest level of tax rate, and
• All Canadians will find benefits in this arrangement. Governments benefit when charities produce programs and services that would not be offered otherwise. Canadians benefit when the community is enhanced and protected at a minimum cost. Everyone benefits when our neighbors are supported and innovation that prepares us for the future is funded.

SUBMITTED BY Cindy Amerongen, Executive Director, Northern Lights Health Foundation
Fort McMurray, AB T9H 1P2  (780) 791-6178  cindy.amerongen@ahs.ca