



Association of Fundraising Professionals (AFP)

Pre-Budget Consultation Brief

**To The House of Commons
Standing Committee on Finance**

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Background/Executive Summary

The Association of Fundraising Professionals (AFP) is a professional association representing individuals responsible for generating philanthropic resources for charitable and public service organizations. AFP is the largest association of fundraisers in the world, representing more than 30,000 practitioners across the globe, including 3,100 members in 16 chapters across Canada.

AFP sets the highest standards for ethical behavior in the fundraising profession. AFP members are required annually to sign our *Code of Ethical Principles and Standards*, which was first developed in 1964 and is one of the few codes that is enforced. The AFP *Code of Ethics* has provided the basis for subsequent codes of conduct for fundraising in different countries around the world, including Canada. AFP also instituted a credentialing process in 1981, which was designed to identify for the giving public fundraisers who possess the demonstrated knowledge and skills necessary to perform their duties in an effective, conscientious, ethical and professional manner. More than 4,000 fundraisers around the world have earned the CFRE (Certified Fund Raising Executive) and ACFRE (Advanced Certified Fundraising Executive) credentials.

Recommendations

AFP has presented comments before the Standing Committee on Finance every year since 2000, and we very much appreciate the consideration the committee has given to the charitable fundraising profession and Canada's voluntary sector. This year, AFP asks that Parliament:

1. Increase the flow of charitable funds in the wake of the recession and encourage Canadians to enhance their charitable giving by establishing a "stretch" charitable tax credit.
2. Eliminate the disbursement quota regime governing charities under the *Income Tax Act* and work with charities to develop a new regulatory approach that will strike a better balance between public accountability for tax expenditures and flexibility for donors and charities to effectively advance their charitable work.
3. Extend the exemption from capital gains tax to charitable gifts of land and real estate.

The State of the Voluntary Sector in Canada

The voluntary sector in Canada is made up of more than 161,000 organizations with over 1.2 million paid staff and 6.5 million volunteers (Voluntary Sector Awareness Project). The total amount of yearly charitable giving by Canadians increased by \$1.1 billion from 2004 to 2007, reported the Canadian government agency Statistics Canada in June 2009. Canadians donated a total of \$10.0 billion in 2007, up from \$8.9 billion in 2004. In 2007, the average donation was \$437, compared with \$400 in 2004.

With this funding, charitable organizations help millions of Canadians in countless ways every day. In fact, it is no stretch to say that every Canadian has been affected by the work of the voluntary sector in some way. And with recent government initiatives such as the Voluntary Sector Initiative, Voluntary Sector Awareness Project and these Pre-Budget Consultations, the voluntary sector has been able to develop best practices, create standards and use new research that helps to strengthen its capacity and provide more and more effective programs and services to Canadians.

Challenges Facing the Sector

However, even with charitable giving growing consistently, it should be noted that Canadian charities face many challenges. For example, Canadian charitable organizations face more intense competition for the charitable dollar compared to charities in other countries. For instance, while the United States has more than 1.1 million charities (Internal Revenue Service data), overall giving exceeded \$300 billion in 2007 (Giving USA Foundation), meaning that there was, on average, more giving per charity in the United States than in Canada. In addition, Australia, closer in population to Canada, possesses approximately 20,000 organizations with Deductible Gift Recipient status, and saw nearly \$11 billion in charitable giving (*Giving Australia, Research on Philanthropy in Australia*, 2005 figures). Again, these figures reveal that there was more giving per charity in Australia than in Canada. These are, of course, rough approximations, but they illustrate the competition for the charitable dollars that exist in Canada.

While Canadians are generous and giving has increased every year, there is clearly a need for new incentives to spur additional giving to charitable organizations, particularly in this economic climate. The government and the nation's economy both benefit when the voluntary sector receives the necessary resources it needs. Private donations can help leverage the impact of government investments and allow charities to provide the programs and services that do much to augment the work of the government. Accordingly, AFP encourages the committee to examine and approve the following recommendations that will encourage more robust private giving to, and support for, the voluntary sector.

Recommendation #1: Increase the flow of charitable funds in the wake of the recession and encourage Canadians to enhance their charitable giving by establishing a “stretch” charitable tax credit.

To further stimulate a national culture of giving, AFP supports the recommendation from Imagine Canada that proposes a stretch tax credit that would apply to donated amounts above \$200 that exceed a donor’s previous highest giving level. This new measure would be based on an individual tax payer’s best previous year of giving using 2008 as a baseline. It would provide a stretch tax credit of 39 per cent on these new donations – 10 percentage points higher than the current level of tax credit on donations above \$200. To continue benefitting from the stretch tax credit in subsequent years, tax payers would need to continue to increase their levels of giving over their 2008 and previous year’s baselines. This measure is intended to encourage all Canadians, but particularly middle-income earners, who wish to give for the first time or to give more in response to current needs up to a maximum of \$10,000.

The maximum benefit would be \$980 if used in one year (i.e. a one-year increase from \$200-\$10,000 in giving), though it is likely that for many, the increased benefit would be incrementally achieved over several years. The stretch tax credit would benefit charities of every size and in every region and should, over time, broaden the base and increase the giving levels of Canadians across the country. It would also complement recent incentives encouraging gifts of assets aimed primarily at higher income Canadians with an initiative that is less exclusive and recognizes that most Canadians donate income rather than assets.

In order for this money to flow quickly and to encourage greater giving, it will be important for the Government of Canada to be proactive in publicizing this new tax credit. A high-profile and sustained public education campaign led by the Government of Canada in partnership with charities should be developed immediately following the announcement of this new measure. The effectiveness of this tax credit should also be publicly evaluated after five years to ensure that it is meeting public policy objectives. If successful, however, this measure could contribute significantly to creating a stronger base of financial support to meet a growing demand for the services and support provided by charities and nonprofits across the country.

Recommendation #2: Eliminate the disbursement quota regime governing charities under the *Income Tax Act* and work with charities to develop a new regulatory approach that will strike a better balance between public accountability for tax expenditures and flexibility for donors and charities to effectively advance their charitable work.

As defined by the Canada Revenue Agency (CRA), the disbursement quota (DQ) is a specific amount that a registered charity must spend each year on its charitable activities or as gifts to qualified donees. This amount varies according to a charity’s designation.

The stated purpose of the DQ is to ensure that charities use the bulk of their tax receipted gifts for charitable work. It is also intended to limit charities’ fundraising expenditures

and to discourage excessive accumulation of funds. However, the current legislative regime is not achieving its core purpose and, consequently, is not serving the interests of Canadians, the government or charities.

Charities, like businesses, benefit from simple regulatory regimes. Burdensome administrative requirements severely limit charities' flexibility to deploy their revenues and capital for the purposes for which they were intended – advancing their charitable objectives in a sustainable manner. This is particularly true in the wake of an economic downturn, as charities seek to provide timely, effective support to Canadians as they confront the social and economic consequences of a recession.

The current disbursement quota measures impose an unduly complex and costly administrative burden on charities – particularly small and rural charities. They also make arbitrary and excessive capital disbursement demands that ignore the harsh realities of the investment market. Moreover, they are neither equitable nor enforceable, undermining the government and sector's shared goal of an accountable and transparent regulatory regime.

AFP supports the position advocated by Imagine Canada and the National Charities and Not-For-Profit Law Section of the Canadian Bar Association that urges the government to move quickly to eliminate the disbursement quota and then work in consultation with charities to develop a new regulatory approach that will be both effective in advancing accountability and transparency and practical for all charities – large and small – to implement. The process recently used to develop and refine CRA's fundraising guidance is an excellent example of government and the sector working together to create a regulatory framework that advances accountability without unduly handicapping the operation of charities.

The elimination of the disbursement quota entails no costs for the Government of Canada and yet would have significant financial benefit for charities in that it would enable them to more effectively manage their cash flow amidst economic volatility. This regulatory change would be very well-received by charities from coast to coast and would improve the sector's ability to serve the millions of Canadians who benefit from its programs and services. The National Charities and Not-For-Profit Law Section of the Canadian Bar Association has had a longstanding interest in this issue and has developed a working paper on workable alternatives to the current regime.

Recommendation # 3: Complete elimination of the capital gains tax on gifts of appreciated land and real estate to charities.

AFP believes that eliminating the capital gains tax on gifts of appreciated land and real estate to charities would strengthen the capacity of Canada's voluntary sector to better serve Canadians and contribute to the country's economy.

Donors are interested in giving all types of wealth, and the two most common ways individuals are acquiring and accumulating wealth are through securities and real estate.

The government has already eliminated the capital gains tax on gifts of securities, and we encourage it to now turn its attention to land and real estate.

As was the case for gifts of securities, contributions of land and real estate are currently stymied by a tax system that makes such giving too burdensome and not attractive to most donors. Eliminating the capital gains tax would remove a huge barrier to these types of gifts and make it far more likely and appealing for donors to give land and real estate to charity.

At the same time, there is significant potential and interest from Canadian donors for these gifts. Land and real estate are not just owned by the very wealthy. According to the *Survey of Financial Security* (2005), the single most important asset for all Canadians was their principal residence, which accounted for one-third of the \$5.6 trillion in total assets surveyed. In addition, a significant change in the composition of assets from 1999 to 2005 consisted of growth investments in real estate such as cottages, timeshares, rental properties and other commercial properties. The aggregate amount of investment in this type of real estate was \$481 billion in 2005, roughly 1.8 times what it was in 1999, in constant 2005 dollars. This asset category exhibited by far the largest rate of growth of any asset type.

Much of the rationale for eliminating the capital gains tax on gifts of land and real estate is very similar to those for eliminating the tax on gifts of appreciated securities. Therefore, it's important to examine the effect of the elimination of the capital gains tax on gifts of securities to see if the incentive is indeed increasing charitable gifts.

The initial evidence is quite strong. Research conducted by Imagine Canada and supported by AFP found that the number of stock donations doubled from 2005 to 2006. In addition, the value of those gifts more than doubled, and the average value of donations to securities, expressed as a percentage of organizational revenues, almost doubled as well. All of this evidence points to the increasing importance of these gifts for many organizations and that the provision is working as intended. It should also be noted that just 50 percent of organizations in the survey had marketed the new incentive or otherwise tried to educate donors about the elimination of the capital gains tax on gifts of appreciated securities. Thus, there is still significant donor education to be done about the provision, which will in turn lead to additional gifts in the future.

Both the Finance Committee and the Standing Senate Committee on Banking, Trade and Commerce have already recommended that the capital gains tax be eliminated for gifts of land and real estate to charities.

Conclusion

Charitable organizations need the support of government in order to better serve all Canadians. These three recommended policy changes will go a long way towards strengthening the capacity of the voluntary sector to provide critically needed programs and services.

AFP appreciates this opportunity to submit recommendations for the Standing Committee on Finance. Should members of the committee have questions about these proposals, please contact AFP at (613) 236-0658 or paffairs@afpnet.org.