Give and Take

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There has been a considerable lobby in recent months by the Committee of National Voluntary Organizations to amend the provisions of the *Income Tax Act* relating to the deduction by taxpayers of contributions to charities. The Act currently permits taxpayers to deduct in computing their taxable income gifts to charitable organizations up to a maximum of 20% of income in a year, or to claim a standard $100 deduction covering both charitable donations and medical expenses. The proposal, called the "Give and Take" proposal, is that the *Income Tax Act* be amended to eliminate the standard $100 deduction insofar as it relates to charitable donations, and that a credit against tax be introduced of an amount equal to 50% of all amounts donated to charity by a taxpayer in a year. The proposal is that the credit be introduced as an alternative to the present deduction system and that taxpayers be given the right to elect to deduct the full amount of charitable donations up to the 20% maximum in computing their income subject to tax, or to deduct from tax payable an amount equal to 50% of all amounts donated by the taxpayer to charity in the year.

The proposal grew out of the recognition by a large number of voluntary organizations that government participation in many areas formerly entirely looked after by private charity had grown substantially in recent years, and the further recognition that private philanthropy should be encouraged to balance government intervention in many areas which can be served equally as well by private volunteer-controlled endeavours.

The proponents of the Give and Take proposal consider that the requested amendments to the *Income Tax Act* would have the effect of increasing individual interest and participation of the citizens of Canada in a broad range of activities including, for example, the environment, recreation, community improvement, the arts, alternatives to traditional education and special health programmes, and lessen the voluntary sector's dependence on government.

As noted above, there are two main facets of the proposal, one the elimination of the standard deduction, and the other the introduction of a tax credit.

Elimination of Standard Deduction

The Committee of National Voluntary Organizations considers that, under the present income tax rules, an individual taxpayer must choose between the standard $100 deduction and the presentation of receipts to substantiate claims in excess of the standard deduction. The Committee has concluded that the majority of individual taxpayers choose the standard deduction and that for these taxpayers, there exists no incentive to give to voluntary organizations. In

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fact, it was concluded that the standard deduction constitutes a disincentive to make charitable contributions.

This proposal was debated in the House of Commons on June 9, 1980 when Mr. Douglas Roche (Edmonton South) moved that the government amend the present $100 standard tax deduction for medical and charitable purposes to apply only to medical expenses. The government's position as stated by Mr. John Evans (Parliamentary Secretary to Deputy Prime Minister and Minister of Finance) and supported by Mr. Jim Peterson (Willowdale) seems to be that, because few taxpayers have allowable medical expenses that they can claim, the existing standard deduction is really an allowance for charitable donations alone. A standard $100 deduction for medical expenses would therefore mean a new deduction for almost all taxpayers and would cost federal and provincial treasuries about $250 million while not assisting charitable organizations. It is understood that the Committee of National Voluntary Organizations challenges these government figures.

Introduction of Tax Credit

Support of the proposal to introduce a credit against tax for contributions to charitable organizations is also not unanimous. There are two definite opposing points of view.

Arguments in Favour of Tax Credit

The following excerpt from the notes of Andrew Cohen, Chairman, Tax Reform Committee, National Voluntary Organizations, given in Ottawa on March 27, 1979, summarizes the arguments of the Committee of National Voluntary Organizations which supports the introduction of the proposed credit:

> "Say, for example, you are considering giving $100 to the Winnipeg Symphony because you heard it is in financial difficulty. Because the Symphony is a registered charity, it will issue you a receipt for your donation, and you can deduct the $100 you donate from your taxable income. So you are faced with a choice—you can either give $100 to the Symphony, or you can keep it yourself. If you decide to keep it, you will have to pay taxes on it, and if your income is $15,000, your tax rate is around 12%. So you would pay about $12 in taxes on that $100. If you give the $100 to the Symphony, you can deduct $100 from your income, which would reduce your tax by the same $12. So, in that case, you will receive a $12 tax reduction for giving $100 to the Winnipeg Symphony, making the actual cost of giving $88.
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> But not all taxpayers are taxed at the same rate. We have a progressive tax system, which means that the more you earn, the higher your tax rate is. So if you earn $25,000, and are faced with the same decision about the Winnipeg Symphony, your tax reduction will be closer to $30, if you make the donation, making your actual cost of giving $70.

Whether it costs you $88 or $70, though, the Winnipeg Symphony still gets $100. The point is, that in a progressive tax system like ours, just as the tax rate increases with income, so does the value of a deduction. The result is that the less money you make, the more it costs you to make a charitable donation. If you earn $15,000 per year, a $100 donation is going to cost you $88 in lost income. If you make $25,000 per year, the same donation is going to cost you only $70

In looking at all of this, the NVO Committee felt that a relatively simple change in the Act might be the answer we were looking for.

1. to provide a positive incentive for Canadians to support their own organizations;
2. to make the cost of giving roughly equal for all taxpayers.

The goals of our proposed change are two-fold:

We wanted to find a way to increase the opportunity for people to have more direct control over their institutions, and to increase responsibility of the organizations directly to their constituents. In addition, as I have already mentioned, we didn't view increased dependence on direct handouts from the government as a solution to anybody's problems. What we are proposing, then, is a tax credit.

As I'm sure you already know, a tax credit is deducted directly from your tax payable, and is not connected in any way to your tax rate—marginal or otherwise. What we are suggesting then, is that 50% of the charitable donations made by a taxpayer in a given year be allowed as a tax credit. To use my earlier example, with a tax credit system, anybody who gives $100 to the Winnipeg Symphony would be allowed to deduct 50% of their gift, in this case $50, from their tax payable, meaning that it would cost everybody $50 to give $100. We are further suggesting that the $100 standard deduction be eliminated for charitable giving, although it could be retained for medical expenses, so that in order to claim a benefit, a taxpayer would be required to give a donation. That would bring back incentive which is missing in the current legislation.

This could have the effect of increasing the capacity of all organizations to raise funds. Again, let's go back to the earlier example of the person who makes $15,000 per year. Remember it cost him $88 to make a donation of $100. If he were still prepared to spend $88 on the Winnipeg Symphony, he could write them a cheque for $176. With a tax credit of 50% he gets to deduct half of his donation—$88—from his actual tax payable, and it still ends up costing him the same $88 as before. So what's the difference? $76 to the Winnipeg Symphony is the difference. They get $176 instead of $100 and Mr. Taxpayer still only actually pays $88.

This is all getting pretty complicated, and many people wonder where the catch is. Who pays the $76, for example? Is it pulled out of a hat? Does the NVO Committee pay it? No, the government pays it. Because what happened is that the taxpayer got to send his money to the Winnipeg Symphony under the new system instead of sending it to the government under the old one.

Why should the government be interested in letting this particular taxpayer send his money to the Winnipeg Symphony instead of sending it to Ottawa? After all, isn't that going to cost some money in foregone revenue? Yes it is. But every dollar of foregone revenue will be matched by the individual donation of an individual taxpayer to a charitable institution which has proved itself worthy of community support and which the government recognizes, through the granting of a charitable registration number. So the government, with this system, becomes a partner with an individual taxpayer to help an enterprise whose goals and methods they both support.

For the individual taxpayer, this is an opportunity to make some personal decisions about which institutions he wants to support, and how he wants some of his tax money to be spent. It is very different from the current system of having the money sent in as taxes, and letting government decide who is most worthy. It introduces the element of individual choice and personal responsibility to each community member, which will ultimately strengthen community participation in the organizations themselves. In addition, of course, it will save money for most taxpayers, and we are gambling that their increased interest will prompt them to pass some of those savings along to the organizations they support.

For the organizations themselves, there is, of course, both a benefit and an increased responsibility. First of all, they will have an opportunity to get more money. But for this to happen, we will have to do a better job of involving the communities we serve, and proving ourselves more responsive to their needs and more worthy of their support. Surely we are better off being responsible to our constituents directly. When we decided as a group some time ago to go forward with this proposal, we recognized that challenge, and we are happy to accept it.

One of the results of implementing this proposal would be an infusion of funds into the country's charitable institutions. As is well known, such organizations are labour-intensive. It follows that new funds would mean the creation of new jobs. Not only would these jobs be beneficial in themselves for the country and the economy, they would be in areas where jobs—and work—are most needed. Voluntary organizations hire a large number of part-time employees, they hire people to do things which have tremendous potential social benefit for the community, and they are traditionally great training grounds for young people. In addition, many of these organizations tend to be most active where the social need is greatest, and where the effects of both the employment created and the content of that employment are most likely to be beneficial. Most organizations I know spend somewhat in excess of 70% of their budgets on staff. So, any new funds are likely to be used—at least 70% of them—to create these jobs."

Another advocate of the introduction of a tax credit for charitable contributions is Professor Wayne R. Thirsk of the Department of Economics, University of Waterloo, Ontario. In an article *Giving credit where credit is due: the choice between credits and deductions under the individual income tax in Canada*, Canadian Tax Journal, Vol. 28, No. 1, p. 32, Professor Thirsk points out on page 37 that "Under the present system, the price of charitable donations is significantly cheaper if made by a wealthy donor rather than a poor one. Consequently, the charities favoured by the rich receive greater encouragement than those patronized by the poor. Moreover, if the benefits of charitable activity accrue to everyone in the economy, there is little justification for relying upon regressive financing to pay for their provisions".

Arguments Against Tax Credit

Those who oppose the introduction of a credit against tax for donations to voluntary charitable organizations question the validity of the assumption that the introduction of such a credit will inspire persons to give more to charity than they presently give and consider that there is no empirical evidence that this will be the result. They consider that, from a philosophical point of view, contributions to charities should not be subject to tax at all and that the present system which allows charitable contributions to be deducted in computing income subject to tax is the fairest system.

The advocates of the introduction of the credit propose that the credit be made an alternative to the present system, so that taxpayers may elect the treatment of his contributions to charities which are most beneficial to him. It seems clear that the credit will be most beneficial to those whose top marginal rate of income tax is less than 50%, and that the deduction will be most beneficial to those taxpayers whose top marginal rate is more than 50%. The critics of change consider that the legislators will not provide the credit as an alternative to the present system but, if they made changes, will eliminate the present deduction in favour of a credit against tax. This criticism received support in the comments of Mr. Evans, Parliamentary Secretary to Deputy Prime Minister and Minister of Finance, the House of Commons on June 9, 1980 when he said that optional tax treatment for charitable giving would result in increased complexity in income tax returns and would be a real option only for the well-to-do.

The critics consider the amendment will be a serious disincentive to large donors,* and suggest that, instead of introducing a credit, the present system be retained and the 20% maximum limit be increased. This would be important to those taxpayer-donors who wish to make large contributions to charity in a year that their income is sheltered and to taxpayer-donors who wish to make large contributions to charity in the year of their death or effective on death.

At the time of writing this review, amending legislation has not been introduced, though the issue was debated in the House of Commons on June 9, 1980 when Mr. Douglas Roche (Edmonton South) moved that "the government should consider the advisability of amending the *Income Tax Act* in order to give individual taxpayers the option of claiming charitable gifts as deductions from taxable income or of deducting 50% of the value of charitable gifts from income tax payable. . . ." While many points of view were expressed during the debate, no further action was taken. To the disappointment of the Committee of National Voluntary Organizations, a committee of government was not formed to study the proposal.

The ultimate resolution of the controversy will be watched with interest.

*See, for example, Wolfe D. Goodman, Canadian Tax Journal, Vol. 28, No. 3, pp. 399-400.