



## **Association of Fundraising Professionals (AFP)**

### **Pre-Budget Consultation Brief**

### **To the House of Commons Standing Committee on Finance**

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## Executive Summary

AFP appreciates the opportunity to once again provide our recommendations to the Standing Committee on Finance. We are grateful for the federal government's support of the charitable sector, which in the past has included the elimination of the capital gains tax on charitable gifts of listed securities, as well as the permanent recognition of National Philanthropy Day.

This year, the Committee has asked Canadians for their ideas about productivity and competitiveness, especially as they relate to federal measures that would help our citizens and businesses be more productive and/or competitive.

Our comments and recommendations derive from the significant role that the charitable sector is playing in Canada, and the importance that Canadians place on giving, volunteering and social engagement. The sector has a considerable economic impact on Canada, employing more than two million Canadians and contributing 10.5% of our labour force and 8.1% of our Gross Domestic Product. Federal measures that improve the work of charities and nonprofits improves the productivity and general economic health of our entire country.

Canadians are also very committed to helping their fellow neighbours and citizens through philanthropy and charity. AFP and Ipsos-Reid have collaborated on a series of surveys (*What Canadian Donors Want*) about views on giving, volunteering and charity. The latest survey highlights this continued commitment by our citizens.

Two-thirds of Canadians say they've made a financial donation to a charity or nonprofit in the past twelve months. In addition, donors are giving more, an average of \$924 in 2015 compared to \$726 in 2013. One-third of Canadians volunteered an average of 110 hours of their time to a charity or nonprofit in the past 12 months.

But even more importantly, 76% of the general population charities play an important role in addressing needs not being met by government or the private sector. Confidence in the charitable sector is significantly higher than that for the private and public sector (73% very/somewhat confident versus 63% and 62%, respectively). Public trust in Canadian charities has increased overall by six percentage points since 2011, with more Canadians believing charities are well-managed and act responsibly with the donations they receive.

Finally, AFP would note that there is increasing research which shows that employee engagement—a critical factor in productivity, innovation, competitiveness and loyalty/retention—increases through philanthropic activity. Studies from the Harvard Business Review, Northwestern University, Hewitt Associates Canada, and Canadian Business for Social Responsibility show that corporate social responsibility can improve a company's bottom line, in part by giving the most engaged employees a reason to stay and work harder for you. Philanthropy is not just a “feel-good” effort anymore—it results

in some very positive and tangible benefits for employees and ultimately a business's output and operations.

The connections between the charitable sector, government and business are growing more intertwined, with the growth of each one impacting the other two. Accordingly, we call on the Standing Committee on Finance to continue to support charities and philanthropy in innovative ways in order to better support business, government and our citizens. This year, we recommend that the government:

1. Name a Minister responsible for the charitable and nonprofit sector.
2. Designate a federal department to have economic policy responsibility for charities and nonprofits.
3. Permanently eliminate the capital gains tax on charitable gifts of private company shares and real estate.

## **Background**

The Association of Fundraising Professionals (AFP) represents 33,000 individual fundraisers and charities that raise more than \$115 billion annually for charities around the world—equivalent to nearly one-third of all charitable giving in North America. In Canada, AFP's 3,500 members in 20 chapters work for more than 1,800 charities across the country and raise billions of dollars every year.

These dollars are not raised in a vacuum but in accordance with AFP's *Code of Ethical Principles and Standards*—first developed in 1964 and one of the few ethical codes that is enforced. Our code, which sets the highest standards for ethics in fundraising, has been used as the foundation for subsequent codes of conduct in many different countries around the world. AFP also has convened more than 30 national fundraising associations from across the globe to draft the *International Statement of Ethical Principles*, an additional series of values and standards for the international fundraising community.

AFP helped institute a credentialing process in 1981, which was designed to identify 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.

**Recommendation 1: Name a Minister responsible for the charitable and nonprofit sector.**

**Recommendation 2: Designate a federal department to have economic policy responsibility for charities and nonprofits.**

The federal government has not examined the role, structure and impact of the charitable sector in a comprehensive manner since the Volunteer Sector Initiative concluded more than a decade ago. Since that time, the sector's size and influence has increased dramatically, as we noted in our executive summary, and not just in terms of programs, but in overall economic impact on our country.

Although the federal government has been supportive of the sector in many different areas over the years (and we are appreciative of this), changes and policies have not been made consistently and have not always reflected the true size, impact and operation of the sector. As a result, the relationship between the government and the sector is outdated, and the sector's ability to effectively maximize its programming and impacted is limited.

We are pleased that the Canadian Revenue Agency has recently looked to revise and modernize its rules and regulations regarding political activity by charities. This was an important first step in recognizing the role that charities play in society and their knowledge and expertise on many key issues. But there is still much more to do. The sector needs a more effective relationship with government to ensure that charities and nonprofits have the ability and capacity to serve all Canadians.

A critical step is to bring responsibility for charities under one coordinated agency or department, with a lead minister responsible for the sector. The fact is that the sector, which raises billions of dollars every year and accounts for millions of jobs across the country, has neither a champion in Parliament nor a specific governmental body that can use its expertise to collect up-to-date, comprehensive data about the sector and develop policy decisions for the sector that are evidence-based. A significant part of our country's economy is governed by rules from across several different departments and agencies depending on the issue. There is often lack of clarity or overlap in the responsibility and role of different bodies regarding the sector.

This is no longer a tenable situation given the growth of the sector and its impact on communities across Canada. It would be unthinkable for any other major economic sector to not have a proper home in the federal government.

Canada would benefit from having a federal department or minister tasked with overall responsibility for creating an enabling environment for charities and nonprofits. This move alone would be a huge step in demonstrating to the public just how important philanthropy and the charitable sector are to Canada. The department and minister could also play a key role in encouraging corporate social responsibility and philanthropy, which are key factors in increasing employee engagement and productivity.

### **Recommendation 3: Permanently eliminate the capital gains tax on charitable gifts of private company shares and real estate.**

The 2015 Budget included the elimination of the capital gains tax on charitable gifts of private company shares and real estate with an effective date of Jan. 1, 2017. However, this provision was not included in the Budget Bill passed in June 2015, meaning an important and powerful incentive for giving that had garnered significant support has still not been enacted into law.

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. AFP encourages the federal government to now turn its attention to private company shares, appreciated land and real estate. This provision had widespread support throughout the nonprofit sector and received strong support from all parties in the 2015 Budget.

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 private company shares, land and real estate to charity. In fact, there is significant potential and interest from Canadian donors for these gifts.

It has been 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. This recommendation would exponentially leverage the programs and services provided by Canada's charities.

As was the case for gifts of securities, contributions of private company shares, appreciated land and real estate are currently stymied by a tax system that makes such giving too burdensome and not attractive to most donors. It is, therefore, instructive to examine the effect of the elimination of the capital gains tax on gifts of securities to learn more about the potential positive impacts of similarly eliminating the capital gains tax on gifts of land and real estate.

## **Conclusion**

The relationships between government, business and the charitable sector grow stronger and more connected. A healthy charitable sector can help drive Canada's economy and increase our engagement, productivity and competitiveness in the world. But to be effective, the charitable sector needs a stronger and modernized relationship with government so it can be empowered to serve more Canadians.

The recommended policy changes in AFP's brief will help not only encourage additional giving to Canada's charities, but create the foundation for an even stronger sector moving into the future. By working to enact long-needed systemic changes and reforms within the sector, we will ensure that charities will have the capacity to provide more critically needed programs for all Canadians for many years to come.

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 (416) 941-9212 or [jlee@afpnet.org](mailto:jlee@afpnet.org).