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## **Standing Committee on Finance**

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**EVIDENCE**

**Thursday, February 9, 2012**

**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Thursday, February 9, 2012

• (1530)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call this meeting to order, the 41st meeting of the Standing Committee on Finance.

The orders of the day, pursuant to Standing Order 108(2), are to continue our study of tax incentives for charitable donations. We have six presenters here today at this session.

[Translation]

We have Ms. Brigitte Alepin, a chartered accountant.

[English]

We have John Waters, vice-president of BMO Nesbitt Burns. We have Gregory Thomas, from the Canadian Taxpayers Federation. We have Adam Aptowitzer appearing as an individual, also related to the C.D. Howe Institute. We have Malcolm Burrows, head of philanthropic advisory services with Scotia Private Client Group, and we have Craig Alexander back at the committee from TD Bank Financial Group.

[Translation]

You have five minutes for your presentation.

We will begin with Ms. Alepin.

**Ms. Brigitte Alepin (Chartered Accountant, Tax Policy Specialist, Author, As an Individual):** Thank you, Mr. Chair.

Ladies and gentlemen, the tax regime applicable to charities has several flaws. For example, the 2010 Auditor General of Canada's report noted that, in 2010, out of 41,000 Canada Revenue Agency employees, only 40 auditors had been assigned to audit 85,000 charities across Canada. This seems extremely low compared to what we see in other sectors covered by the Canada Revenue Agency.

[English]

**Mrs. Shelly Glover (Saint Boniface, CPC):** I'm sorry to interrupt, but could we ask the witness to slow down? The translation cannot keep up.

**The Chair:** There's a problem with the translation?

Okay. We'll let you start again. I apologize for that. I guess there was a problem with translation.

[Translation]

**Ms. Brigitte Alepin:** Should I continue my testimony or start over?

**The Chair:** As you wish.

**Ms. Brigitte Alepin:** I shall continue.

The most obvious and most easily understood flaw with regard to the tax system for charities was highlighted in one of the comments in the 2010 Auditor General's report. That report indicated that there were only 40 auditors for the 85,000 charities across Canada, although CRA had 41,000 employees.

There are also other significant problems with the tax system for charities in Canada. Today I am going to identify a very specific problem. It concerns the tax regime applicable to private charitable foundations. This is a financial problem, and in times of crises or in times preceding crises, I think it becomes increasingly relevant to mention.

The problem stems from the fact that, essentially, the fiscal agreement between taxpayers and the founders of major private foundations is inappropriate, particularly during a crisis. Here is the agreement we are talking about. On the one hand, Canadian taxpayers give tax breaks to private foundations. This tax savings exceeds 50% of the capital of the donation in the first year following the registration of the private foundation.

On the other hand, the private foundation should invest significant funds into Canadian society, in the form of charitable activities, in order to ensure a balance of public finances. However, this is not the case. In reality, current tax law is such that, in our opinion, private foundations are forced to spend for charitable purposes the equivalent of 3.5% of the foundation's capital each year.

Let us take a concrete example. I invite you to note the fiscal deficit in the equation or the agreement referred to. What happens when a \$100-million donation is made? On the one hand, the private foundation and founder will receive, starting in the first year, tax savings totalling over \$52 million.

On the other hand, Canadian society only gets from the private foundation \$3.5 million in charitable contributions to society, since that is the minimum amount imposed through tax law and charitable foundations rarely spend more than these tax laws require them to spend for charitable purposes.

I would like to draw your attention to the fact that this minimum amount was at one time much higher in Canada. In 2010, it was reduced to 3.5% by the Harper government due to the drop in the rate of return on capital, in order to reflect the drop in the rate of return on capital.

In the United States, this minimum requirement mandatory threshold charitable spending is 5%. At present, the Obama government is studying how to amend this agreement which puts taxpayers at a disadvantage. Many lobby groups are studying the issue and proposing ways to resolve the issue by increasing the requirement on charitable spending per year.

In conclusion, if time permits, I would like to draw your attention to two issues. The rules are as follows, meaning that private foundations are being asked to spend only the return on capital to respect the wish of founders who want their major private foundations to last into perpetuity and for ever. During difficult times and prior to a crisis, I think that it is a good time to look again at this power we are giving to founders of major foundations.

• (1535)

Finally, given that, according to the latest Canada Revenue Agency statistics, about \$20 billion was tied up in private foundations in Canada, if the present annual spending obligation went from 3.5% to 8%—which has actually been done—we could inject annually up to \$1 billion in specific sectors like health and education.

Thank you.

**The Chair:** Thank you for your presentation.

[English]

We'll go next to Mr. Waters, please.

**Mr. John Waters (Vice-President, Head of Technical Expertise, Wealth Group, BMO Nesbitt Burns):** Thank you, Mr. Chairman.

On behalf of the BMO Financial Group, I'm pleased to join my colleagues here this afternoon to discuss the topic of tax incentives for charitable giving.

I come to the table this afternoon from two perspectives. One of them comes from working for a company, BMO, which donated over \$28.2 million to Canadian charitable organizations in 2011 and saw its employees donate nearly \$12.8 million in its annual employee giving campaign. Second, as a tax specialist within BMO Nesbitt Burns who supports our financial planning services, I help individuals and families with their own charitable-giving goals.

All of us here this afternoon share the objective of making charitable giving an easier proposition for Canadians, and BMO is pleased to offer its thoughts on how we might accomplish this through the tax system.

As many of us in this room are already aware, the share of Canadians claiming deductions for their charitable donations has drifted steadily lower over the past two decades, from as high as 30% in 1990 to just 23.4% in 2010. As a point of comparison, this figure is below the 26.6% we currently see in the United States.

Further, the total value of charitable donations claimed has gone down. While it's true that donations rose 6.5% in 2010, to \$8.25 billion, that figure is still lower than the level seen in 2006 and 2007. Each were more than \$8.5 billion. Donations stood at just over a 0.6% share of total income, and again we find ourselves trailing the Americans with their 1.3% share.

From my experience with clients, the current system can be somewhat confusing. Donations below \$200 receive a credit at one rate, while those above \$200 are subject to a different rate. At BMO we help people make the best financial decisions. For example, we have created programs such as BMO SmartSteps, and we are committed to improving the financial literacy of Canadians. Indeed, we were an active and enthusiastic supporter of Mr. Flaherty's efforts to establish November as financial literacy month.

For some time I have been of the view that a single rate would have the potential to simplify the tax implications of charitable giving, so I asked BMO's economics department to look at this issue. They agreed that while such a change would have little or no impact to large donors, it would help encourage giving for more modest donors, as the tax benefit would nearly double for gifts up to \$200. Not only would this result in greater parity for Canadians by providing a standard rate for all levels of charitable giving, it would also increase transparency and simplicity in the tax system.

Given that the median claimed charitable donation in 2010 was \$260, versus an average donation of \$1,437, we believe that many donors could benefit from levelling the playing field in this way. Obviously, such a change would result in a fiscal cost, including revenue losses on any donations that currently receive the lower tax credit and revenue losses on any credits for new additional donations.

Our economists estimate the overall cost would be less than \$200 million, even if more than 1.5 million Canadians began giving more generously as a result. One cannot underestimate the impact that increased charitable giving would have on the not-for-profit sector, particularly at a time when governments at all levels are monitoring their expenditures.

We recognize the government faces budgetary realities. We therefore recommend implementing this change only when the revenue situation is stronger and the fiscal position is closer to balance.

Mr. Chairman, we're pleased to add our thoughts to this important discussion, and I look forward to joining my colleagues at the witness table in this afternoon's dialogue.

Thank you.

• (1540)

**The Chair:** Thank you, Mr. Waters.

We'll hear from Mr. Thomas now.

**Mr. Gregory Thomas (Federal and Ontario Director, Canadian Taxpayers Federation):** Thank you, Mr. Chair and members of the committee.

On behalf of our 70,000 supporters from coast to coast, the Canadian Taxpayers Federation would like to thank you for inviting us to today's discussion on tax incentives for charitable donations. We're the largest and oldest taxpayers advocacy group in the nation. Over our 22-year history we have worked for lower taxes, less waste, and more accountability from government.

We support a longstanding policy that seeks to prevent government from taxing income that is donated to charity in the year in which it is taxed. We believe this policy will continue to achieve the most benefit for Canadians and receive the highest level of public support when its design is the most simple and the most fair. We advocate for a lower, simpler, and flatter tax system overall, with almost none of the exemptions, deductions, and credits that currently exist. We believe Canadians allocate charitable funds more efficiently and effectively than does government. We believe that none of the income donated to charity in a given year should be subject to income tax.

We note that the current system of charitable tax credits extends lesser protection against taxation for annual donations of less than \$200 for individual filers. The perverse result of that is that those who have little to give and who give little receive less encouragement proportionately than those who give more. There is less incentive to give and fewer Canadians are less encouraged to support charity. According to the parliamentary budget officer, fewer than 5.6 million tax filers claimed a charitable tax credit in 2009. With only 23% of tax filers, the average amount donated was \$389 and the average tax relief granted was \$58, resulting in a total tax reduction of \$323 million.

Clearly, high-income earners get the lion's share of protection from having income donated to charity taxed. We believe a single flat-tax credit rate at the highest level would achieve the best results for Canadians by treating all charitable donations equally with a simple formula that's easy to understand and easy to explain to potential donors. You might study the benefits of simply making charitable donations deductible, as opposed to employing a current tax credit approach. We congratulate government on its decision to phase out the vote tax, the per-vote financial subsidy to political parties. We encourage you to take the next step and reduce the tax credit for political donations to the same level as you extend to charities. It is absolutely disgraceful that someone can receive a \$75 tax credit for funding \$100 of attack ads and robo-calls when they only receive a \$15 tax credit for funding \$100 of cancer research.

We would like to comment briefly on tax treatment of deductions of real estate and shares of private corporations. We believe all types of charity should be encouraged and we believe that freely granted charities will create more social benefits than taxing the same funds and passing them through the apparatus of government on their way to the people who need them. That being said, we urge the committee to insist on cash money, arm's-length transactions to document the true value of these charitable donations. CRA has a long, unhappy, and costly history of chasing down fraudulent charity scams involving appraisals and assessments of non-cash donations.

Simply said, we believe a receipt should only be issued after a charity sells a charitable donation of real estate, private company shares, artwork, or what have you, to an arm's-length buyer in a properly documented transaction. Any other method leaves too much

wiggle room and too much temptation for shenanigans and brings the entire practice of extending tax protection to charitable donations into disrepute.

In closing, I want to tell the members that the Canadian Tax Federation is not a charity. We do not issue charitable tax receipts. We collect and remit GST and HST. We've never taken a penny of government money, we never will, and we're fine with that.

● (1545)

**The Chair:** Thank you very much for your presentation, Mr. Thomas.

We'll go to Mr. Aptowitz, please.

**Mr. Adam Aptowitz (Drache Aptowitz LLP):** Thank you.

Mr. Chairman and members of the committee, good afternoon.

I practice law with the law firm of Drache Aptowitz LLP. We are engaged in the practice of both charity law and tax law, and we are, on a daily basis, involved in minutiae and technical aspects of charity regulation and donations.

We also have an interest in public policy in the area, having studied and written on the topic of charity law for many years. We applaud Parliament's decision to examine the charity area, as historically Parliament has paid only scant attention to some aspects since special treatment of certain wartime charities was introduced in the Income War Tax Act of World War I.

We agree with previous witnesses from the Department of Finance that from a tax perspective the current system is quite generous, so we are not proposing any additional measures where the purpose is to increase the generosity of the tax credits. But fundamentally, there must be two factors present in any incentive system. The first factor is that Canadians must understand the system so that they can act accordingly. The second factor is that disincentives should be, to the extent possible, eliminated from the system. In this regard, the biggest disincentive to giving is the latent mistrust that comes with the charity sector, which is less than perfectly regulated.

In our written brief we make five suggestions to improve the incentive system and at the same time improve public trust in the regulation of charities. Specifically, our suggestions are as follows.

Our first suggestion is to introduce a single rate for the calculation of tax credits to replace the current two-rate system.

Our second suggestion is to move the deadline by which donors may take advantage of donation tax credits resulting from donations from December 31 to the end of February. By divorcing the tax deadline for gifts from the sentimental Christmas season of giving, charities could use the new deadline to campaign for new donations and to better educate donors about the tax incentives for giving.

Our third suggestion is to increase the maximum deduction or credit that can be taken on donations from 75% to 100%, in order to support social enterprise.

Our fourth suggestion is to legislate a definition of “charity” in order to ensure that charities can be created to meet the needs of modern society. We would point out that this issue was debated by Parliament in the 1930s and questioned in the Senate in the 1970s, but to our knowledge it has not been seriously studied since the current income tax system was implemented. The question of what qualifies as a charity is a fundamental concern to this country and should not be glossed over.

Our fifth suggestion is that the federal government should begin discussions with the provinces to bring them into the regulation of charities.

Of these five suggestions, I believe the fifth one requires the most additional explanation. It may surprise the committee to know that the constitutional jurisdiction to regulate charities belongs to the provinces, but because the provinces have effectively abdicated their authority, Parliament has used its taxing power to impose some level of regulation over the sector. Unfortunately, federal jurisdiction relating to charities is restricted to what can be reasonably justified to maintain an income tax, and Parliament is therefore quite limited in the types of rules it can impose. As a result, some parts of the sector are poorly regulated or are left unregulated.

For example, there is no statutory regulation of charity fundraising expenses, and the CRA recognizes, in its guidance to the sector, that it has no legal authority to do so even administratively. As the committee may know, controversy over fundraising costs receives media attention with some frequency, and the distrust caused by the lack of regulation of this, and of other areas, is a significant disincentive to charitable giving.

In our submission, the provinces, as those with the constitutional authority to govern charities, must be brought into a joint regulating body so that proper regulations can be drafted. This, of course, would apply equally to areas such as fundraising, transparency, and political advocacy by charities. I outlined in much greater detail the problems with the current regulatory structure and my proposed solution in a paper I wrote, which was published by the C.D. Howe Institute in 2009. The paper has garnered significant interest and support, but no solution to the problem of charity regulation is possible without parliamentary agreement. I have e-mailed a copy of the paper to the clerk of the committee for your review.

I'm happy to answer any questions you may have about our submission, but for now I confine my oral comments to the above.

Thank you.

• (1550)

**The Chair:** Thank you very much for your presentation.

We'll hear from Mr. Burrows now, please.

**Mr. Malcolm Burrows (Head, Philanthropic Advisory Services, Scotia Private Client Group, Scotiabank):** Thank you, Mr. Chair.

I'm Malcolm Burrows, and I'm head of philanthropic advisory services at Scotia Private Client Group, which is the arm of Scotiabank that deals with affluent clients. I'm a charitable planner. I'm also a charitable tax policy wonk, which I've been happy to contribute to over the last 15 years through a number of sector organizations.

I grew up in the charitable sector and worked there for 13 years before coming to Scotiabank, including at Imagine Canada, for the Canadian Association of Gift Planners—who you met earlier in the week—and for the C.D. Howe Institute.

I was very involved with the development of three proposals, including the stretch tax credit, that have been put forward by a number of groups. I chaired the committee at Imagine Canada that developed the stretch tax credit proposal. I also wrote a paper for the C.D. Howe Institute that outlined some of the basic principles proposed for the elimination of capital gains on gifts of private company shares and taxable real estate.

That being said, those proposals are quite well defined, so I want to confine my comments today to a bit of a framework for what constitutes good tax policy in the charitable space. I want to comment on the state of the Canadian system, the limits of tax support for donations, and finally, three factors for evaluating a good charitable tax incentive.

I want to start by saying that we have quite possibly the most generous tax system for the support of charitable donations in the world. There are three elements to this.

The tax credit, as has been mentioned by a number of witnesses, is very little understood, but it is very generous. Even at the first \$200 tier, it is a pure offset that donors, as taxpayers, get back in tax savings, even at the 15% rate. In B.C., if you have \$65,000 in income you're paying 20% in tax, and you get a combined rate of 20% back on the first \$200. Then it jumps to 43%. It's unlike the U.S. system, where you never go beyond your tax rate; it's a deduction system. So we already have a significantly more generous system than the U.S.

We have contribution limits, which are how much you can give and claim against your net annual income each year. We have the highest limits in the world. It's 75% of income during life and 100% at death. At death, you can eliminate taxes by giving enough to charity. This is unique in the world.

We also have extra incentives for donations of capital property. This is a regime that has developed over a number of years and has focused on gifts of public securities. It's been immensely important and has brought significant new dollars into the system. They are additional generous incentives.

We've been working at expanding this system over a number of years, particularly since the mid-nineties, and we are at the point where we have a very rich system. What more can we do?

I want to comment a little bit on the limits of tax incentives. We tend to look at taxes in Canada as the sole lever for donations. They are not. Donations are not primarily a tax transaction. We have to look at the role of altruism. A gift is something that's freely given without consideration. You are impoverished by giving a gift. You give it because you want to help society. If we inflate the tax system too much, one of the things that happens is that we diminish the role of altruism and philanthropy.

The other thing is donor motivation. As you heard last week from Professor Paul Reed, there are two types of tax incentive that help with certain types of donations and are less helpful with others. At the lower end, tax is a very low motivation. Most people don't know the tax incentives. Let's look at the transaction. If your ten-year-old niece asks you for a donation because she's doing an event, do you calculate the tax benefits? Heck, no.

The median gift is \$260. Most people don't think about the tax benefits at all. As a matter of fact, Alberta increased their tax credit amount to 50%, which is much higher than anywhere else in Canada. Their giving did not go up more than B.C.'s. Manitoba still has a higher rate of participation.

• (1555)

Where it does help is with gifts of assets, and this has been an important part of the system. So there are three factors we would look at. First, I think if we look at any incentive we have to make sure that the government is protected. Is more money coming into the system for the amount invested? Second, is there an incentive to the donor but not an unreasonable incentive? Third, are charities protected?

Picking up on Mr. Aptowitzer's comments, if we have incentives we have to make sure that charities can handle things like private company shares as well as taxable real estate. So I'm in support of all three proposals, but we have to look at the framework around them.

Thank you.

**The Chair:** Thank you for your presentation.

We'll hear from Mr. Alexander next.

**Mr. Craig Alexander (Senior Vice-President and Chief Economist, TD Bank Financial Group):** Thank you very much for the opportunity to talk to you today.

I think this is a very opportune time for the committee to be thinking about tax incentives for charitable giving. The simple reality is that demand on charities has been increasing in recent years but the financial capacity has not. Make no mistake, the Canadian economy has performed remarkably well through the recent financial crisis, recession, and recovery—better than most nations—supported by a very sensible monetary and fiscal policy. But at the end of the day, the recovery hasn't lifted all boats equally. The national unemployment rate today stands at 7.6%. It was 5.9% before the recession. There are 367,000 more unemployed than before the recession, and that makes a total of 1.4 million Canadians.

Labour force participation has dropped by a full percentage point, signalling that there are many Canadians who have given up looking for gainful employment. The average duration of unemployment has increased significantly. The number of people unemployed for more than 27 weeks has gone from 130,000 to 270,000. If you don't like economic numbers, which are stale and dry, you can look at the more salient social numbers that will show that provincial social assistance numbers are way up. Use of food banks has not declined to where it was before the recession.

Unfortunately, I hate to say that the prospects for economic growth in the near term are likely to be very modest. There is going to continue to be a lot of demand on charities to provide support.

On the other hand, on the fiscal side, the environment is challenging. Charities get more than 50% of their financing from governments, but governments in Canada at all levels are turning their attention to deficit fighting and fiscal rebalancing. This is absolutely the right thing to do. It is responsible fiscal policy, but it raises the possibility of reduced transfers to the charitable sector.

At the same time, it is surprising to many Canadians, when you ask them what percentage of their revenues charities receive from donations and gifts, that the answer is less than 20% of their revenues come from those sources. Obviously there is scope here for increased generosity on the part of Canadians. In 2010 the number of donors was below that of the level of donors in 2006. In terms of actual donations, from 2007 to 2010 donations were down 4.6%. When you strip off inflation to reflect what has happened to the purchasing power of those donations, in actual fact it's a decline of 14.2%. As already mentioned, in terms of taxpayers, only 23% of taxpayers are claiming on their income tax forms that they are actually making donations. That's down from 30% in 1990.

There is a body of research debating exactly how much impact changes to tax credits have in terms of boosting donations. For example, the national survey of giving, volunteering, and participating highlighted that only 11% of Canadians reported that they donated for the purpose of getting the tax credit. However, at the same time, the survey showed that one in three people indicated that they would give more if the tax credit were more generous, and 45% of top donors—who were actually responsible for more than 80% of donations—said they would give more if there were increased tax incentives.

I am an economist, I am not a tax expert. I understand that there are three policies the committee may be considering right now. That involves gifts of real estate, gifts of private company shares, and a stretch tax credit.

In my opinion, I would advocate for the gifts of real estate and private company shares simply because it makes an awful lot of sense to put them on the same basis as donations of public company shares. This is just a consistency issue. I would flag that there is some concern by groups about the fact that if we have the same tax treatment for real estate, it will raise the issue about the taxable treatment for ecologically sensitive land, because all of a sudden that advantage will disappear. I don't think this should be used as an argument not to widen the scope to all real estate, but it may be that consideration should be given as to what other incentive might be used to try to encourage the donation of ecologically sensitive land to things like land trusts.

• (1600)

In terms of the stretch tax credit, I have to be honest, in principle I like the idea of encouraging people to give more, but I think administratively it could be difficult to put the stretch target in place. Again, much like earlier comments, I would endorse the idea of eliminating the minimum \$200, or the first incremental tax treatment for the \$200. I suspect that fiscally it's too expensive at the moment.

So the question becomes that while the stretch tax credit is difficult to implement and might not be ideal, it may provide an incentive for increased giving at a time when other options are limited.

Sorry for running over my time.

• (1605)

**The Chair:** Thank you very much, Mr. Alexander.

We'll begin members' questions with Mr. Chisholm for a five-minute round.

**Mr. Robert Chisholm (Dartmouth—Cole Harbour, NDP):** Thank you very much.

Thanks to all of you for taking time to come here today and participate in our deliberations.

I'll start things off, but as we go through, each one of our members will be addressing different aspects of this. And once I've asked my questions, somebody might need to correct some of the things I say. We'll be coming at all of you in different ways.

It is a vexing issue, of course, how to strike the right balance in terms of perhaps encouraging: how much value is there in that, what can the government afford, how can it prevent abuse, how to best use tax dollars and tax measures, and so on. They're interesting questions. Certainly your presentations have been helpful.

I want to focus on a couple of points. One question is to Mr. Aptowitzer. I think there's some merit to the suggestion of provincial-federal coordination or a commission. I understand the provincial jurisdiction for regulation, but I'm sure you can appreciate the fact that the Supreme Court has recently said the federal government cannot set up its own national registry for securities.

I think there's merit to what you say because it is a matter of trust in many ways, and the provinces do have the role to play in their operations in monitoring charities.

Realistically, what do you think the possibilities are that we're going to get very far down that road of combining the provincial and federal responsibilities with respect to charities?

**Mr. Adam Aptowitzer:** First of all, I recognize and I think you're bang on when you say there's a certain symmetry between the charity issue and the securities regulator issue. I think the difference is between a federal regulator and a national regulator. A national regulator involving all the provinces, which by the Constitution have the jurisdiction to engage in regulation, is using their powers to regulate. The actual technical stuff can get worked through. The involvement of the provinces in that council is necessary to overcome some of the objections of the Supreme Court. I think you're right on when you say that involving the provinces is the answer rather than the question. So I think that's the way to go.

**Mr. Robert Chisholm:** So then it's just a question of bringing the provinces together, getting them to agree.

**Mr. Adam Aptowitzer:** That's right, and in fairness—

**Mr. Robert Chisholm:** I'm sorry I laughed.

**Mr. Adam Aptowitzer:** Yes, it sounds funny, but—

**Mr. Robert Chisholm:** No, it's difficult, not funny, that's all. That's my point.

**Mr. Adam Aptowitzer:** It's difficult, and I can tell you that since writing my paper I've had some talks with some of the provinces that are interested in what I have to say about it, so it might be a little easier than one might imagine.

The other factor, which I mention in my paper and which is somewhat contentious, is the fact that if the provinces have the power to determine what a charity is, which is the constitutional matter, then the Income Tax Act could be amended to say anything regulated or registered by this council of the provinces and the federal government together is deemed to be a charity under the Income Tax Act. That would mean that if a province is not participating in that council, then the charities in that province could not get registered under the federal Income Tax Act. That's not to say it's a hammer, but it is a strong incentive for the provinces to participate.

• (1610)

**Mr. Robert Chisholm:** That's a good point.

I also wanted to ask you this. I think your idea on the legislative.... Putting in the definition of charity and so on is important. Could you explain to me why that hasn't happened? It seems to make common sense.

**The Chair:** Just a brief response, please.

**Mr. Adam Aptowitzer:** Fundamentally, the answer is in Hansard of the 1930s. It was too politically sensitive a topic, so they left it to be decided by common law. Unfortunately, over the past 30-odd years, the evolution of common law in the area has stopped. So we are left with law that is quite old and is not evolving to meet our definition.



If I might add just one more thing, the U.K. had a similar issue—we've been relying on their case law—and they have actually legislated the definition.

So we're stuck.

**The Chair:** Thank you.

Thank you, Mr. Chisholm.

Ms. McLeod, please.

**Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC):** Thank you, Mr. Chair.

I'd like to also thank all of the presenters. I think as each session goes on we become a little more enlightened. It has been a very interesting study and I think a very important one.

First of all, I would like to perhaps ask Mr. Waters.... We've talked a lot about individual donations, but you alluded to some very generous giving by your company, so can we talk a little bit in terms of corporations? Have you done any thinking there? We know that some of the balance sheets are in good positions. Is there anything that we could or should be doing in that area?

**Mr. John Waters:** Thank you for the question, Mrs. McLeod.

I hadn't specifically thought about that. I think my focus for today's discussion was more on individuals and on encouraging individual donations.

As you are probably aware, the incentives that exist for corporations are very similar to those that are available to individuals in terms of the tax savings that can be achieved and, in particular, I guess, through the more recent incentives of the donating of publicly traded securities, for instance.

It's not something that I've particularly addressed or thought about in preparing for today. It's perhaps something that I could get back to you on. I could give that some more thought in terms of the corporate response, or some incentives from the corporate perspective as well, if you like.

**The Chair:** Mr. Aptowitzer.

**Mr. Adam Aptowitzer:** Yes, if I may, part of the issue with corporations giving, especially publicly listed corporations, is a fundamental philosophical discussion about how appropriate it is for corporations to be giving away revenue that would otherwise go to the shareholders. It might be that no matter what tax incentives you put in place, you're not going to be able to overcome that philosophical discussion as to what right they have to distribute money, when in fact it could go to the shareholders and back to the charity.

**Mrs. Cathy McLeod:** It looks like in many cases, though, that there has become what is a norm or an accepted amount with corporations among the shareholders, because certainly we do see some pretty generous support from our corporations.

Does anyone else have any comments on that?

**The Chair:** Mr. Alexander.

**Mr. Craig Alexander:** Yes, I think corporations actually have a very strong incentive to donate to charities. You can see that from the

donations that are already given under.... Basically, it falls under the agenda of corporate and social responsibility.

I would suggest that things like the reductions in the corporate tax rates that we've had in the past are actually supportive of increasing charitable giving—indirectly—because what it does is that it actually creates an incentive for companies to invest more in their corporate and social responsibilities.

Number one, I think there's a lot of pressure and there are a lot of expectations by Canadians that corporations will give back through corporate and social responsibility. I think the overall mix of the tax policy in Canada plays its part in providing financial capacity.

**Mrs. Cathy McLeod:** Good.

I certainly appreciate, Mr. Aptowitzer, your definition around charity. We also heard earlier that we need to do a better job at defining gifts. I think that was something else that we heard: that there are often challenges with what is the appropriate definition of gifts.

At this point, we've heard again about the stretch tax credit. I think we almost have a split in terms of the appropriateness of that particular measure.

I think, Mr. Thomas, that you wouldn't be in favour of it, and perhaps Mr. Waters....

For the people who don't believe that a stretch tax credit is a good idea, I wonder if you could share your thinking. Alternatively, we could let the debate go back and forth a bit.

• (1615)

**The Chair:** Could we have just a brief response from each, please?

Mr. Thomas, you're first.

**Mr. Gregory Thomas:** Recently we've done some work on employment insurance. There's a study out from the Mowat Centre for Policy Innovation graduate school, at the University of Toronto. They make the point that the most popular things the Government of Canada does are things from which all Canadians benefit equally. If you take maternity benefits, it doesn't matter where you live or what your postal code is or what province you're in or what the rate of unemployment is in your region, as long as you just became a parent you receive the same benefits.

Old age security—and I hate to touch the third rail there—is actually pretty popular, as is the Canada Pension Plan, because they're pretty straightforward programs. As Canadians, we all follow the same rules; we all put in the same amount of money, and we all get the same benefits.

You've all done political fundraising. You say, "Hey, buy this ticket to the dinner. It's \$100, and you get \$75 off your taxes." That makes it super-simple. Having a simple charitable thing that you can explain to someone in a heartbeat would be great.

**The Chair:** Thank you.

Mr. Waters, go ahead just briefly, as we are over our time here.

**Mr. John Waters:** We didn't comment on that directly. I'm certainly aware of the stretched tax credit. We were proposing, I guess, a simpler measure in terms of eliminating the discrepancy between \$200 and amounts above that. I'm certainly a proponent of anything that would increase the amount of charitable giving going on. Certainly the stretch tax credit would do that, I believe. Our methodology, our argument, was more based on just a very simple measure to eliminate discrepancies above and beyond \$200. I think it's something very palatable to the population.

**The Chair:** Thank you.

We'll go to Mr. Brison, please.

**Hon. Scott Brison (Kings—Hants, Lib.):** Thank you, Mr. Chair.

Thanks to each of you for appearing before us today.

The first question is on the proposal to eliminate capital gains on gifts of private company shares and real estate.

Mr. Waters, members of this committee have been dealing with Donald K. Johnson for about 12 years on the issue of eliminating capital gains tax on gifts of initially publicly listed securities and cutting it when our government started that process and reduced it. We believe that was the right thing to do. I'd appreciate your view on eliminating capital gains tax, giving an exemption for gifts of private companies and land.

**Mr. John Waters:** Mr. Johnson is certainly affiliated with our bank. The comments he was making in that regard were from his personal perspective. That said, again I'm very much a proponent of anything that would seek to increase the amount of charitable giving happening right now in Canada. Certainly there has been very significant success with the other proposals that he put forward 10 or 12 years ago.

**Hon. Scott Brison:** In addition to a single rate, you would advocate the elimination of capital gains on those gifts as well?

**Mr. John Waters:** Yes. There are obviously some practical implications there, particularly around evaluation—

**Hon. Scott Brison:** Yes, evaluation and—

**Mr. John Waters:** I know he's suggested some ways of dealing with those practical implications, but I think that would need to be worked out.

**Hon. Scott Brison:** Thank you very much.

I'd like each of you to opine on some of the recommendations from the Canadian task force on social finance and the whole emergence of this type of approach to social finance. I believe the Royal Bank recently put a \$25 million fund in place for this.

The task force has actually made some specific recommendations, including those regarding some tax reform measures around tax incentives: "to encourage private investors to provide lower-cost and patient capital that social enterprises need to maximize their social and environmental impact". They've cited some examples in the U.S. with the new markets tax credit. I'd appreciate your views on this. It seems like an exciting development within the philanthropic sector, and particularly the accountability and the milestones and the almost traditional term-sheet disciplined approach to giving.

I'd really appreciate your views, because we as a committee have not yet heard from the round table, but I'd pre-emptively like to hear from you today.

• (1620)

**Mr. Malcolm Burrows:** I think social finance impact investing represents a really important new trend and an opportunity for the sector. I personally believe it's going to take many years to develop. There have always been elements within society. For example, co-ops are a form of social finance. They're essentially businesses with a social purpose. So the big question is figuring out how much it can grow, how much we need to provide extra incentives, because at this time there's a lot of excitement without a lot of activity right now. So we're in that gap.

**Mr. Adam Aptowitzer:** If I may add, I've spent some time thinking about this issue as well. First of all, it's very attractive to say that a charity will be able to engage in business activities in order to either accomplish its objectives or to increase its revenue. But losses and funding and what happens in those circumstances are part of the problem—and this may not be limited just to charities. Of course a charity with registered charity status can keep giving out, can effectively subsidize a losing business with charitable donation tax credits.

The other problem is from a trust law and perhaps a confidence perspective. How confident do donors have to be, and what is the impact going to be on the donors when donations are given to these charities, which are then maybe lost in business?

**Hon. Scott Brison:** It's a complicated issue to give a granular opinion on in such a short time, but would you recommend to the committee that we study the issue of impact investing and potential public policy to catalyze impact investing as part of this study? Would you think it's meritorious as a proposal broadly for us to study it as a committee?

**Mr. Adam Aptowitzer:** I think the sector would be grateful if you would. As Mr. Burrows was saying, it's a very important topic in the sector right now, and if some guidance came from the committee and there were the opportunity to give submissions, I think most people would be very happy with that.

**The Chair:** Thank you, Mr. Brison.

We'll go to Mr. Van Kesteren, please.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you, Chair.

Thank you all for appearing before us.

Mr. Waters, the Prime Minister stated in his last throne speech that when we balance the budget he will allow split income to occur. In light of your comments, and you spoke about the fact that we have wage discrepancies within families, is that going to be an improvement in our charitable giving? Will we see a possibility that charitable giving will increase with that kind of a tax policy?

**Mr. John Waters:** I'm sorry, I was having trouble hearing you.

**Mr. Dave Van Kesteren:** I'm sorry.

The Prime Minister stated in his last throne speech that the intent to balance the budget will result in income-splitting for couples. In light of your comments, will that improve charitable giving?

**Mr. John Waters:** To some degree we have that already in the tax system with the ability to combine your credits with your spouse, and that tax credit could be taken by either spouse. Typically it would be the spouse who is paying the higher tax bill, although in a lot of cases it won't matter. If one spouse, for instance, is not taxable and the other is, then from a tax perspective it would be the person paying the tax.

In terms of being able to allocate the income, to split income between the two spouses in the couple, I don't know if that would necessarily impact the tax benefits of charitable donations. I say that because our system, at least above the \$200, provides the same level of tax credit or tax benefit for any taxpayer, regardless of what income level they are in.

• (1625)

**Mr. Dave Van Kesteren:** That's fine, okay. So you haven't done any studies in that regard.

Mr. Thomas, you've said we have steadily reduced taxes. In light of what Mr. Alexander said just a few moments ago, that the lowering of corporate taxes should have a positive effect on contributions by corporations.... We've lowered taxes and we've made that a priority. We've said too that we wouldn't grow the economy by.... We'll do it by keeping taxes low and finding other ways to reduce...for instance, by government spending.

Do you believe we'll have the same effect on charitable giving that Mr. Alexander believes corporate lower taxes will have on charitable giving?

**Mr. Gregory Thomas:** There's no question that lower taxes will have a salutary effect on charitable giving. It already has. There's no question that the tax regime in Canada, the tax reductions that have been implemented already, have done a tremendous amount to support employment and the ability of Canadians and Canadian companies to support charity, especially when you compare it with other countries in the G-7 and with the United States. We've done a lot better weathering the storm.

I return to our message of simplicity, though. As we've seen with the political tax credit, when you have a simple pitch that everyone understands it makes it easy for people to have the discussion about giving to charity: if we give  $x$  number of dollars, we get  $x$  off our tax. That's not something that's not widely understood. It's too complicated.

**The Chair:** Okay.

Mr. Van Kesteren, you have Mr. Burrows, Madam Alepin, and Mr. Alexander, who all want to comment. But it's your time, it's up to you. Do you want to—

**Mr. Dave Van Kesteren:** I had another question I wanted to ask Mr. Aptowitzer.

Does somebody want to make a quick comment? No?

**The Chair:** Let's have a brief response from each of you on Mr. Van Kesteren's question.

**Mr. Craig Alexander:** If I could go back to the first question about income-splitting, there are two offsetting effects. If the person is making donations in order to minimize his tax payments, reducing the tax paid by the one would actually be creating a disincentive. On the other hand, real household after-tax income would increase, and as a consequence it would create more income that would be available for donations. My intuition is that the second one would win out.

**The Chair:** Mr. Burrows, does that address your point, then?

**Mr. Malcolm Burrows:** No.

**The Chair:** I'm just trying to manage time here.

**Mr. Malcolm Burrows:** No, I'll let it go. It's all right.

**The Chair:** You're okay? Okay.

[Translation]

Ms. Alepin, very briefly, please.

**Ms. Brigitte Alepin:** We are talking about tax relief for businesses, more specifically lowering their tax rate. But, in those cases where there have been tax cuts, economic theories do not tell us clearly whether it is the shareholders, the employees or the clients who benefit. I have yet to see a study that establishes a direct link between lower tax rates and corporate giving. I think that for government to be truly efficient, we have to make sure that corporations pay their taxes and that the federal government has the money it needs to act.

**The Chair:** All right. Thank you.

[English]

Mr. Van Kesteren, please keep it brief.

**Mr. Dave Van Kesteren:** I have a quick comment to Mr. Burrows.

I guess we have altered the saying “Nothing is sure but death and taxes” in this country when we can eliminate taxes through death.

**Mr. Malcolm Burrows:** That's correct, yes.

**The Chair:** Okay, thank you.

On that note, Monsieur Mai, *s'il vous plaît*.

[Translation]

**Mr. Hoang Mai (Brossard—La Prairie, NDP):** Thank you, Mr. Chair.

I have several questions for Ms. Alepin.

In your brief, you stated that according to an OECD 2009 report, Canada could expect to lose up to \$200 million annually in taxes through tax evasion and fraud linked to the charitable sector.

Can you tell us what this substantial loss of funds is due to, what problems the loss causes and what Canada could do to prevent this?

• (1630)

**Ms. Brigitte Alepin:** With charitable organizations, there are technical issues linked for example to whether they are well run or not, or whether the rules are appropriate. We talked about that today. Because of all these technical issues, a good number of charitable organizations—and we have all heard of these cases—do not spend enough of the money that is given to them on charitable activities. The OECD and the Office of the Auditor General of Canada are the two main organizations that have looked into this issue recently. The OECD mentioned \$200 million. You know the schemes, for example selling tax receipts for donations. A \$10,000 tax receipt can be sold for \$2,000. As a matter of fact, I think that example is quoted in the study. We all know that when it comes to audits and efficiency, there is lots of room for improvement at the Canada Revenue Agency with regard to charitable organizations.

**Mr. Hoang Mai:** On that, you said there were only 40 auditors for all of Canada.

**Ms. Brigitte Alepin:** There are 85,000 charitable organizations and 40 tax auditors for all of Canada.

**Mr. Hoang Mai:** Would you recommend that the number of auditors be increased to address these issues?

**Ms. Brigitte Alepin:** Absolutely.

It is shocking that there are only 40 tax auditors. And I am not alone in saying this.

Charitable organizations are important in that they have the capacity of reducing what Canadians pay in taxes. For our system to remain on the up and up, as is the case now, Canadian taxpayers must have the impression that CRA is keeping a close watch on charitable organizations. It is a shortcut for these organizations. They have a tax shield that they can take advantage of for life and, by giving out tax receipts, they allow taxpayers to lower their taxes. It just does not make any sense to only have 40 auditors.

**Mr. Hoang Mai:** I would like to come back to this issue of 8% found in your main recommendation. Could you please tell us more? Would there be an impact on tax breaks per se or is this simply a way to ensure that charitable organizations spend where they should and therefore reinvest in the economy?

**Ms. Brigitte Alepin:** Actually as I was saying earlier, the rate is currently 3.5%. With that rate of compulsory expenditures for charitable purposes, if one compares the tax savings given to the founder of the foundation with what the foundation has to give back to society, one realizes that the Canadian government takes 20 years to replenish its coffers. In any case, it's a donation. Which means the donor wants it to be for charitable purposes sooner or later.

In order to ensure that the money is spent within a reasonable timeframe by determining a rate and an obligation to spend set at 8%, we ensure that the private foundation will require 10 to 15 years to spend the money it receives for charitable purposes. The private foundation is no longer a large bank account that is sheltered from taxes for ever. By increasing the rate to 8%, the foundation is forced to truly spend money every year for charitable purposes and not hang on to the capital in the name of some great founder until the end of time.

**Mr. Hoang Mai:** I see.

[English]

**The Chair:** Mr. Mai, you're almost out of time, but you will have another round.

Mr. Burrows has wanted to comment. Go ahead, Mr. Burrows.

**Mr. Malcolm Burrows:** I have worked extensively with private foundations.

First, the 3.5% is a minimum. Many spend much more. The endowment system is for long-term benefit. To give you an example, we had a foundation that was set up in 1950 with \$13 million. It's now \$110 million. It has given out over \$145 million to date. It's a long-term benefit for Canada.

• (1635)

**The Chair:** I'll go to Mr. Adler, please.

**Mr. Mark Adler (York Centre, CPC):** Thank you, Mr. Chair.

We just celebrated the sixth year of Prime Minister Harper taking power in Canada—of the first Conservative government being sworn in. Since that time, our government has introduced a number of measures that have supported charities. We've received a number of accolades from various charitable groups. I'll quote one of them from Philanthropic Foundations Canada. They said that these measures “will spur donations and enable private foundations to do even more for Canadian communities”. I would add that our friends opposite have opposed every measure we have taken to help charities.

I'll start off with Mr. Burrows. You mentioned that our current tax system in Canada is probably the most generous in the world when it comes to charitable giving and incentives. Could you compare that with the American tax regime? Notwithstanding all of that, why are Americans more generous than Canadians?

**Mr. Malcolm Burrows:** I think in a number of crucial measures we have a more generous regime, contribution limits being one. Their contribution limits are a maximum of gifts equal to up to 20% of their annual income, and up to 50%, depending on which charity it goes to. We have up to 100%. So that's significantly more generous. But it speaks to the issue that it's not just a tax expenditure.

If we treat charitable donations as just tax expenditures and don't look at underlying issues of faith, values, social connections—who asks whom.... There's a whole social dynamic around the support of charities that's immensely important, and that's a strong part of the American culture. Strong government influence in the post-war period in Canada has perhaps dampened that a bit here.

**Mr. Mark Adler:** So going forward, do you think that charities stand much of a chance in Canada, given government deficits? There will be less money to spend on philanthropy and charities. Are charities in Canada in jeopardy at all?

**Mr. Malcolm Burrows:** I think many parts of the sector struggle with severe resource constraints. But the philanthropic spirit is actually very large and strong in Canada. We're one of the leaders in the world in that as well. We compare ourselves to big brother America, but they set a very high standard. So I don't think it's a crisis.

**Mr. Mark Adler:** Are charities doing enough to create a culture of giving in Canada?

**Mr. Malcolm Burrows:** I think that has changed significantly over the last 15 to 20 years. Professional fundraising groups that appear before this committee did not exist 20 years ago, for example. There's a whole culture and professionalism to ensure that support is there for the charitable sector.

**Mr. Mark Adler:** Mr. Waters mentioned earlier that the Bank of Montreal had donated over \$28.2 million to Canadian charitable organizations. I know corporations are giving more and more, and the lowering of corporate tax rates by our government has certainly helped that.

Do you think we will see individual charitable donations going down and corporate ones going up?

**Mr. Malcolm Burrows:** No. According to the long-term trend for Canadian giving over a 15-year period, giving has actually gone up by 120% from 1995 to 2010.

**Mr. Mark Adler:** Is this individual giving or corporate giving?

**Mr. Malcolm Burrows:** It's individual giving. Individual giving is four times corporate giving in the system. So we focus on corporations, but the individuals are the lifeblood of the charitable sector in donations.

**Mr. Mark Adler:** When corporations give—in this case \$12.8 million—how much of that is actually from individuals within the corporation who give \$10, \$20, \$100, and then the corporation donates the money and benefits from the tax...?

• (1640)

**Mr. Malcolm Burrows:** I think in most cases the system captures direct corporate transfers, as opposed to community fundraising that goes out in the name of the corporation.

**Mr. Mark Adler:** So we're missing a whole bunch of individual giving, and it's really higher than it should be.

**Mr. Malcolm Burrows:** I don't believe so. It would be captured in the individual tax numbers if those taxpayers were reporting their donations.

**The Chair:** Thank you.

Thank you, Mr. Adler.

Monsieur Giguère, *s'il vous plaît*.

[Translation]

**Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP):** Mr. Chair, I'd like to thank all the witnesses for having come to speak to us and answer our questions.

Ms. Alepin, I noticed a little earlier that you wished to respond to Mr. Burrows. Would you like to finish your response?

**Ms. Brigitte Alepin:** Yes, thank you.

Mr. Burrows was saying that large private foundations were actually donating over 3.5%. I have no personal knowledge of any study on that subject. However, if we look at the annual reports produced by large private foundations, in almost every case, it's always roughly the equivalent of the disbursement quotas. If for example you look at the Fondation Lucie et André Chagnon, which is the second-largest private foundation in Canada, one can see they started out with \$1.4 billion and that today, they have a capital of \$1.5 billion. Large private foundations are set up so as to preserve the initial capital. In fact, the founders often recommend that the foundation ensure that it be able to last over time.

**Mr. Alain Giguère:** Thank you so much.

You have probably noticed that in the current economic context there are as many unemployed people as there were in 2008. This situation is particularly difficult for many Canadians who are suffering from this recession and have been for nearly four years now.

At this time, religious groups take up 46% of donations and their rate is actually the same as food banks. On that topic, I understood that you were just as favourable towards the idea of a single rate for donations lower than \$200 and those over \$200, but should we not consider the possibility of better targeting charitable organizations who truly help people who are in the most trouble? Food banks are truly essential for many Canadians. Mind you, one could say that certain organizations are not truly charitable organizations in the context of charitable donations. Which leads us to wonder about the way that charitable organizations are defined.

[English]

**The Chair:** Mr. Aptowitz? Who would like to respond?

**Mr. Adam Aptowitz:** First of all, I recognize this suggestion. I think there's a lot of compassion and a lot of sense in the suggestion. I think where it falls down is in some of the technicalities.

I deal with charities all the time, and plenty of churches have food banks and soup kitchens. What rate is applicable to them? There are plenty of organizations that do a lot of good work for Canada by spreading our good name abroad, by helping the poor abroad. How do you decide, and where do you draw the line?

I think it's an extraordinarily contentious topic. If you could find a way to make that kind of distinction, I think you would need Solomon. It's a very difficult proposition to make, but obviously one with a lot of propriety behind it.

[Translation]

**Mr. Alain Giguère:** Here is the problem. Some countries do not grant any tax credit for charitable donations. In those countries, certain charitable organizations still manage to amass large sums of money. Here in Canada, it seems the fiscal planning of donations is being promoted rather than the creation of a culture of charitable giving.

I would like to know how the countries where there are no fiscal incentives manage to ensure that their organizations are viable?

[English]

**The Chair:** Mr. Burrows.

**Mr. Malcolm Burrows:** I absolutely agree that getting the balance right.... There is a danger of overemphasizing the tax benefits. I think our system, for the most part, is appropriate. The question is, how much do we enrich it and at what cost to the government? Will it actually turn into greater benefit for charities, or is it going to end up costing the fisc more?

● (1645)

**The Chair:** Mr. Alexander.

**Mr. Craig Alexander:** Very quickly, I would say at the end of the day that Canadians are very generous, but as mentioned earlier we don't maybe have the same culture of philanthropy that some other places do, such as the United States.

It would be beneficial if we could create a culture that championed charitable giving much stronger, but there are limits to how quickly and how effectively you can change culture. As a consequence, I think this is where the role of government comes into play, to ask what sort of incentive we can give to try to encourage the sort of activity we want from the societal point of view. It's not perfect. It's just one approach.

I think there are challenges in identifying which charities should be singled out versus others. It's probably better to give the best backdrop and then let Canadians decide where to direct it. It's very democratic.

**The Chair:** Thank you very much.

We'll go to Mr. Jean, please.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Thank you, Mr. Chair.

And thank you to all the presenters today.

Mr. Thomas, I choked a bit when I heard one of your comments in relation to the situation with election financing, and I do want to talk about that a little bit—very briefly.

One of the first actions of our government was of course the Accountability Act. Now we've eliminated corporate and union donations, and most recently the per-vote subsidy.

I'm afraid of having Canadian politics become like American politics. After running four campaigns and being involved in both sides of it, I don't see any other option than what we are currently doing in the larger donations. People don't want to donate to political parties in any way, shape, or form, but I don't want to see government start paying for it. I don't think people's tax money should go towards political parties.

What would you recommend to make sure we stay away from the big union bosses and big businesses being involved in politics but at the same time being able to fund these campaigns marginally? Compared to the United States, and most democracies, frankly, we spend very little on campaigns. Could I have a very brief answer on what you would recommend instead?

[Translation]

**Mr. Alain Giguère:** Excuse me, Mr. Chairman, but we were dealing with the issue of charitable donations and not that of funding political parties. Could we please leave partisan debates aside and return to the purpose of this meeting, which is charitable donations?

[English]

**The Chair:** Mr. Jean, do you want to respond? His question is—

**Mr. Brian Jean:** I heard. The witness brought it up as evidence, and I would like to hear his response. Very briefly, it is a charity. At least it receives non-profit status and a bigger tax donation. I'm wondering if he has any suggestion.

Mr. Chair, if you don't want to, obviously I'd like this time not to come off my time. It's non-partisan because it deals with all of us. But I would like to hear an answer, and if he wants to give it to me separately that's fine as well.

**The Chair:** In the chair's view, it's outside the gamut, but as you all know I am quite lenient with members in terms of what they want to raise. I will allow the question if Mr. Jean wants it put, and Mr. Thomas can respond.

**Mr. Brian Jean:** Just be very brief, if you do have a better solution than what we currently have, because I am interested in it.

**Mr. Gregory Thomas:** Yes. Campaigns don't have to cost one trillion dollars. As we saw with the success of the NDP in Quebec, many of these members didn't spend a dime to be elected, but that's what the people of Quebec wanted. Maybe we don't need to spend money on robo-calls and polling.

**Mr. Brian Jean:** I'm just asking if you have another—

**Mr. Gregory Thomas:** I don't—

**Mr. Brian Jean:** To eliminate it altogether, is that what you're suggesting?

**Mr. Gregory Thomas:** Yes. Absolutely you shouldn't treat yourselves better than the Cancer Society.

**Mr. Brian Jean:** Okay. I understand. I thought maybe you had some other words of wisdom, and that's what I asked for.

The elimination of capital gains on private company shares is something I'd like to talk about, because I think it's a very good idea, for sure better in my mind than the stretch tax credit. I would like to say that there are some good papers in relation to the stretch tax credit. In particular I'd refer to *Why the Proposed Stretch Tax Credit for Charities Should be Rejected*, by Adam Parachin, associate professor, faculty of law, University of Western Ontario.

But I noticed one member here, I think it was Mr. Aptowitz, mentioned that the five-year monetization rule could be used and built on, and I am interested in some of the safeguards and how to keep it simple as well.

Maybe it was you, Mr. Burrows.

● (1650)

**Mr. Malcolm Burrows:** Very much so. These were proposals I was involved with. We need safeguards. There are existing safeguards in the system that date from 1997, which say that when there is a donation of essentially private company shares and the donor is not at arm's length from the charity, there can be no receipt until those shares are sold. It's a mechanism that's worked very well. It's provided clarity. Right now, when you donate those shares there are still capital gains payable. But there's clear valuation and it's an existing measure within the act.

**Mr. Brian Jean:** You believe those safeguards would be in place as well as keeping it simple enough to—

**The Chair:** You have one minute.

**Mr. Malcolm Burrows:** I do, and we may need additional safeguards of added valuation because there would be more of these donations if we eliminated capital gains.

**Mr. Brian Jean:** I heard this morning in the natural resources committee about disclosure for the CRA versus the U.S. counterpart, for non-profit organizations. The U.S. has far better transparency than Canada does in relation to non-profit organizations. I'll explain. In particular, they have to publish their ten highest-paid staff, including their names—in the U.S.—and the ten highest-paid contractors, including their names. That is not in Canada at all. In fact, we have the ten highest-paid individuals but no names at all.

What would you recommend in Canada to bring about transparency and accountability for these non-profit organizations?

**The Chair:** Just give a brief response, please.

**Mr. Malcolm Burrows:** Just to make the distinction between non-profit versus registered charities, you're talking about registered charities, are you?

**Mr. Brian Jean:** I'm talking about both, actually.

**Mr. Malcolm Burrows:** With non-profits we probably lack clarity. With registered charities there's a high level of clarity and a high level of public disclosure.

**Mr. Brian Jean:** That's not published, right?

**Mr. Malcolm Burrows:** It is published. It's on the CRA website. CRA is actually increasing and listing it, so it's on a little score chart that will be released later this year.

**Mr. Brian Jean:** Mr. Chair, a point of order. I hope I didn't have to have my time deducted as a result of an intervention.

**The Chair:** No, not at all.

**Mr. Brian Jean:** Mr. Aptowitzer wanted to make a comment as well.

**The Chair:** Okay. We're well over time here. Could we make it in a further round?

**Mr. Adam Aptowitzer:** Yes, it could wait.

**The Chair:** Thank you.

Monsieur Côté, *s'il vous plaît*.

[Translation]

**Mr. Raymond Côté (Beauport—Limoilou, NDP):** Thank you Mr. Chairman.

Ms. Alepin, it is with great pleasure that I read your brief and listened to you speak. I have long been concerned about the impacts various measures being taken are having on our democratic system. Tax issues have also been of great interest to me for some time now. In fact, I previously spoke with Ms. Carole Presseault, who is a CGA and has lobbied fiercely for the simplification of our income tax statements.

Your brief targets the potentially negative influence big money can have on the democratic process. I found it most interesting. On that subject, you suggest specifically that compulsory disbursement

quotas should go from 3.5% to 8% so that taxpayers' donations may be recovered more quickly. Quite recently, an evangelical website which had violated electoral law was discussed in the news. This could be considered a Trojan horse of sorts and one can suppose that the evangelical organization is benefiting from charitable donations.

So could you please explain to us how increasing that quota could potentially reduce a possible attack on democracy? The absolute power to spend is of course a power. So I'm wondering if the fact of increasing the level of disbursements would not end up creating a contradiction with this principle or if on the contrary, the fact of spending accumulated capital more quickly would allow us to fight against this threat to democracy.

**Ms. Brigitte Alepin:** We could talk about that for a long time. When we look at our democratic systems we can see that they are working. This is true and we can say so. If we look at the process from beginning to end, we can see that one thing leads to another and that all is well. A problem arises when wealth is so enormous—whether it be held by a private foundation or by an individual—that its holders have more power than elected officials over public issues, in financial terms. With respect to the capital gains exemption for private companies donating shares for example, the private companies' shares are often being transferred to private foundations. Public charitable organizations are rarely involved in such cases.

You should really listen closely to what I am suggesting here and ensure that you do not put into place a system for private foundations. You probably know that a private foundation is an organization controlled by a person or group of related persons, rather than being under public control. One must therefore be careful. If one creates a tax system under which money found in a private foundation mostly comes from taxpayer funds and if that private foundation is controlled by an unelected individual, we are playing with democracy. We are taking risks with public authority. Fortunately, the great founders of private foundations seem to be decent people.

In closing let me give you an example. In the U.S., where the charitable foundations system is similar to the one set up in Canada, \$600 billion will end up in the hands of 40 people because of the Giving Pledge initiative. This is a global initiative to deal with poverty and health issues. Six hundred billion dollars is an amount substantially higher than the World Health Organization's budget or that of the Quebec Department of Education. When it comes to private foundation systems, we must be cautious and avoid having a private foundation grant absolute power to one unelected person to deal with public issues and taxpayers' money.

•(1655)

**Mr. Raymond Côté:** Thank you, Mr. Chair.

Given this situation, do you think that our tax system should be far less generous and that that could help us put a stop to this established trend?

**Ms. Brigitte Alepin:** The solution to the problem is to avoid offending donors. It is not a good idea to fool around with tax credits for charitable giving. I have studied many different countries' systems. And in all my books, I have a chapter on private foundations. By increasing, on an annual basis, charitable spending obligations, foundations lose their financial power.

[English]

**The Chair:** Merci, Monsieur Côté.

We'll go to Mr. Braid, please.

**Mr. Peter Braid (Kitchener—Waterloo, CPC):** Thank you, Mr. Chair.

**The Chair:** I should note that it was your motion that started this process in the first place.

Thank you for being here.

**Mr. Peter Braid:** Thank you for mentioning that, and I'm very pleased to be part of this critically important study.

Thank you to all of the witnesses for being here today and for a range of excellent and very helpful presentations.

I have some specific questions for specific individuals.

Mr. Aptowitzer, I appreciated the way you framed your presentation into categories of incentives and disincentives. I was intrigued with one of your suggestions, and that was to potentially extend the deadline by which Canadians can make their charitable donations. You said until the end of February. That, probably not by coincidence, is the same deadline for RRSP contributions. There's probably some method to your madness there, I would suspect.

Could you elaborate a little bit on why you think extending that deadline would be helpful? Have you done any modelling in terms of what impacts may be in terms of giving?

**Mr. Adam Aptowitzer:** Thank you very much for asking that question.

I work with Arthur Drache. Arthur Drache was the gentleman who drafted many of the original proposals that are under examination today—the legislative provisions, that is. I asked him if there is any reason why the deadline is December 31. His answer was simply that no one ever thought about it.

I might turn the question back and say that I'm not sure I have modelling for the end of February, but I don't think any modelling exists for December 31 either. My thought in suggesting it really was that what we see from RRSP contributions is my friends over here, the witnesses, have taken a lot of time to educate donors on the tax aspects of contributing to your RRSPs. If we want people to understand the incentive program, which is critical if you're going to have an incentive, then we have to be better at educating them. Currently, if you have a deadline that coincides with the Christmas giving season, there's not a lot of emphasis on that education component.

The thought was more of a qualitative nature than a quantitative nature. I'm afraid I don't have any modelling, and I'm not sure that I'm in a position to have done it anyway, quite frankly. I find it's probably in a much better position.

**The Chair:** Mr. Braid, Mr. Alexander wanted to comment.

• (1700)

**Mr. Craig Alexander:** Very succinctly, I would heartily endorse extending the deadline for charitable giving. I think if you surveyed your own constituents and asked them what is the last day that they can make a donation for a tax receipt, I'll bet that the vast majority of them will not say December 31. I do presentations across this country, and when you do investment seminars, you very quickly learn that most Canadians aren't actually aware of the exact date of the deadline. Hence, they tend to start thinking about their tax returns in the new year, which happens to coincide also with the RRSP season. I think it would be an extremely good idea.

**The Chair:** Okay.

**Mr. Peter Braid:** My next question is for Mr. Burrows. I wanted to follow a line of questioning from Mr. Brison actually on the important issue of social finance.

My impression was that you seem to certainly support that concept. In fact, I wrote down what you said. You also indicated that although you supported it you thought it might take many years to develop. My question for you then is how might the federal government encourage or spur the development of social finance, social investment mechanisms? How can we help to create a platform to move that long?

**Mr. Malcolm Burrows:** Part of it I think lies with the federal government, and the report that Mr. Brison referenced I believe makes seven recommendations, which are all, in and of themselves, excellent. One of the big questions, though, is if we are going to have true enterprise, do we have the entrepreneurs? Is there going to be that community action?

To some extent, we have some, but to some extent there is a gap between wanting to do it and looking to the government for the rules. There's not currently enough existing activity, which is to me a disheartening sign, that we're looking for.... And from a practical perspective, in many basic things there is nothing holding it back, and it's only suitable in certain situations.

Mr. Aptowitzer has actually written on this.

**Mr. Adam Aptowitzer:** If I might add briefly, one of the additional points in my presentation was raising the limit for the charitable donation amount, the extent to which you obtain credits, from 75% to 100%.

The purpose, really, behind that is that social enterprise—social enterprise as distinct from social finance—can be pursued through a corporate entity owned by a charity, but currently there would be tax leakage because there is only so much that a corporation can take advantage of. The thought really is there.

That's one thing the government could do to help encourage this and see how that goes before maybe extending it further to look at social bonds and other elements of social finance.

**The Chair:** Okay, thank you.

Thank you, Mr. Braid.

We can go to Ms. Glover, please.



[Translation]

**Mrs. Shelly Glover:** Thank you to all our witnesses for coming today.

I would like to take a few seconds to say something to Mr. Braid.

[English]

Thank you very, very much for the motion you put forward. It's led to a tremendously interesting conversation here. We appreciate that you joined us at the committee today, Mr. Braid.

[Translation]

Now I would like to put a question to Ms. Alepin. I see that your assessments have been essentially carried out in the United States. Apart from the foundations and the data on the foundations that you have given us, do you think that Canada has better regulations to encourage charitable giving as compared to the United States? Is Canada better positioned than the U.S.?

**Ms. Brigitte Alepin:** I cannot really answer that question because I have not studied that area sufficiently. Since I have been in this field, I have concentrated my work on private foundations only. I can tell you a great many things about private foundations. There are many rules.

**Mrs. Shelly Glover:** I understand. Thank you.

I am going to ask the other witnesses the same question.

[English]

She said she hasn't compared, and yet, Mr. Burrows, you said very clearly at the onset that we have the most generous system in the world. I'd like you to expand upon that, but at the same time I would like you to tell us the consequences in the foundations world if we were to go to 8%. Again, I want you to take a moment to really explain why it's important to look at the big picture, not just one thing within a system.

**Mr. Malcolm Burrows:** There are a number of elements. First, the safeguards in the Canadian system.... There are a lot of restrictions on what private foundations can own, self-dealing rules. Sometimes there's a view in the charitable sector that they actually go too far, that they're limiting philanthropic contribution.

One of the factors with the disbursement quota is it can't, in many cases, be arbitrarily increased because of a conflict of laws. You end up having trust law. For example, I mentioned the foundation dating from the 1950s. Well, it was set up as an income-only structure, as opposed to using capital. So to get 8% you would have to use capital. There are complexities within the sector that perhaps prevent that.

The vast majority of modern private foundations are actually set up to go way beyond the 3.5%...huge grants of capital. I was recently involved with one that was essentially there for two years as it transitioned money and got it out into the community to wonderful charities. So you also see that extreme.

• (1705)

**Mrs. Shelly Glover:** This lends to your wanting to minimize the erosion of the word "gift", which is my concern as well. As we're doing this study, there are all these suggestions about how we might get the wealthy to further change behaviour, to somehow inject

more, but then "gift" is lost. We're trying to figure out ways so that we can incentivize those who may not give at all to start doing so and developing a culture, as Monsieur Giguère said. So I appreciate that.

I would like your opinion, though, Mr. Burrows, on another matter, which is the ecologically sensitive land issue. I want you to tell me what the consequences might be if we were to adopt the real estate measures that have been proposed. What would the consequence be? We did hear from an alliance member who was very afraid that it would have a severe consequence environmentally on those gifts in ecologically sensitive land. Please, would you respond?

**Mr. Malcolm Burrows:** I listened to the hearing on Tuesday and I heard the comments. I do not believe that the elimination of capital gains on taxable real estate will affect it. The way the conversation went on Tuesday was it seemed like we were talking about the same land, but let me give you examples of taxable real estate. Well, it could be a commercial property in Surrey. It could be a rental property in Toronto, a condominium in Florida. These are not ecologically sensitive. These donations are few and far between but represent significant wealth, particularly in smaller communities, whether they're in Canada or outside Canada. So they're having the broader benefit across the community. I'm a huge believer in the ecological gifts program and the importance of land conservation, but I think the greater benefit for the whole sector is unlocking this asset class.

**Mrs. Shelly Glover:** Does anyone believe it would have...?

Go ahead.

**The Chair:** Okay, but please be brief.

**Mr. Adam Aptowitzer:** Just very briefly, I would like to point out that the donation of a principal residence has the exact same tax treatment as what's being proposed here. Principal residences are owned by people all over this country, and yet we don't see a major impact on the donation of the ecological property.

So I empirically have some questions about the feeling that the land trust alliance might have.

**Mrs. Shelly Glover:** Thank you.

**The Chair:** Thank you, Ms. Glover.

We'll go to Mr. Chisholm, please.

**Mr. Robert Chisholm:** Thank you.

To Mr. Alexander, you talked about the concern that by making proposed changes by sweetening the deal, somehow we'd diminish altruism. I guess I appreciate that sentiment; however, having been somebody who worked in the community trying to raise money for very worthy causes, you kind of say, "But what does it matter? Whatever it is, whatever instrument that's going to work to raise the money so that our charity can do the work it does, that's what is important."

So I wanted to say that, and I also wanted to ask you to confirm, because I wasn't clear on it, your position on the stretch tax.

**Mr. Craig Alexander:** First, just to be clear, I don't recollect making any comment about altruism taking away the....

**Mr. Robert Chisholm:** No?

**Mr. Craig Alexander:** I think it was Mr. Burrows.

**Mr. Robert Chisholm:** Was it? Well, maybe he can answer next.

**Mr. Craig Alexander:** My view is that I would actually endorse all three of the proposals, the donations of real estate, the donations of private shares, and the stretch target. However, I want it to be quite transparent that there are issues around implementation regarding the stretch target.

• (1710)

**Mr. Robert Chisholm:** Yes, I got that.

**Mr. Craig Alexander:** The bottom line is that I would approve.

**Mr. Robert Chisholm:** Okay.

Mr. Burrows, do you want to respond on my comment with respect to altruism?

I'm getting old, you see, and I can't keep it straight.

**Mr. Malcolm Burrows:** Absolutely I can respond.

I think it's a core Canadian value. I'm also worried about, for example, eliminating the first tier. That's potentially \$100 million for existing behaviour. There's nothing new coming into the system for charities, and it's a \$100-million expense.

You combine the stretch and the two capital incentives in the cost, and the upside, well, it's about the same cost, only you're getting at least approximately \$500 million into the sector in new money.

**Mr. Robert Chisholm:** But the stretch would avoid that because it's new money, right?

**Mr. Malcolm Burrows:** The stretch addresses that. It's only for new behaviour as opposed to inflating the system with existing behaviour.

**Mr. Robert Chisholm:** Right.

You talked about the ecogifts and what you understood the discussion was on Tuesday. What I recall was the concern about the one affecting the other, that potentially a property that would be gifted as a piece of ecological property could be turned over to a developer instead.

**Mr. Malcolm Burrows:** Right. This could conceivably happen.

**Mr. Robert Chisholm:** That was a big concern.

**Mr. Malcolm Burrows:** It could conceivably happen.

I see it as sort of the 1% situation. The 99% benefit is much broader across the sector, and it's going to be different types of non-conflicting properties.

**The Chair:** You have a minute and a half left.

**Mr. Robert Chisholm:** Okay.

Go ahead, Mr. Mai.

**Mr. Hoang Mai:** Thank you very much.

Mr. Alexander, you mentioned the fact that as we go along, we'll be getting into budget austerity. Do you feel that the charitable organizations will have to take more on, in terms of service, in terms of having smaller programs, smaller funds, and having to do the work in the field?

**Mr. Craig Alexander:** I think what we've been seeing over the last several years, combined with the likely trend going forward, is that charities are going to have to become more efficient. They're going to have to become more productive. They're going to have to become more innovative. They're going to have to become more efficient with the money they have.

Just as governments are going to have to live within very tight budgets, so too are charities. At the end of the day, we need the social services they provide. I do think it's going to be a very tough world, but that's the reality.

[Translation]

**Mr. Hoang Mai:** Ms. Alepin, do you think that the fact that the government is withdrawing from some services means that it is making room for charitable organizations to do the work in its place?

**Ms. Brigitte Alepin:** Apart from the issue I already mentioned, I think we need a system that encourages people to give to charitable organizations. In the upcoming years, depending on whether the government withdraws from some services or not, charitable giving is going to become more and more necessary if we want everyone to make it in our society.

That said, among other things, we have to pay close attention to the social funding and social conscience of private foundations. We have to be vigilant because we must make sure that the big public issues remain the purview of our elected representatives.

[English]

**The Chair:** I'm going to take the next round.

I want to follow up on this debate on whether it's better to implement a stretch tax credit or whether it's better to move to one credit.

When I asked Imagine Canada about it, their response was essentially the same as yours, Mr. Burrows, which is that you're not going to incent any more behaviour, and you're going to add a lot of additional fiscal cost to the government.

In your statement, Mr. Waters, you clearly said that BMO's economic department has said that it would encourage giving from more modest donors. Are you sort of disagreeing with one another? Or are you saying that it would have some modest impact in terms of smaller donors but wouldn't have much of an overall impact in terms of changing charitable behaviour?

**Mr. John Waters:** Yes. What I'm getting at, focusing on some studies and some other comments that have been made in prior committees, is that tax incentives do provide some incentive to donate more. But I would focus more on the other benefits of eliminating the \$200 distinction, most notably the fact that it's a simpler system. People can understand that if you earn some income and you donate it to a charity, you're not paying any tax on it. That's currently not happening for many taxpayers in other systems. It's very simple. It's easy to understand. It's easy to comprehend and it's very palatable to the population.

The other comment I would make is that it makes every dollar of donation count the same, and I think that for modest, hard-working Canadians, every dollar of donation should be worth the same.

• (1715)

**The Chair:** I think the consensus would be, then, that if we were to do that, it should be based on fairness. It should be based on simplicity of administration and not necessarily on encouraging more donations.

**Mr. John Waters:** I think it might be a by-product of that. I respect Mr. Burrows' comment that probably a lot of people who are making \$10 donations to a child's Jump Rope For Heart are not thinking about the tax benefit. I think there could be a small by-product, but I would argue that the main benefit of changing the taxation for the under-\$200 level is more for simplicity and parity—the fact that it's the same for every taxpayer.

**The Chair:** Okay.

Mr. Burrows, do you want to respond briefly to that?

**Mr. Malcolm Burrows:** Indeed.

The charitable position is that we want to see more money in the sector, not just the benefit to the taxpayer. So \$100 million to \$200 million extra expenditure that does not guarantee anything more out there at this time just does not make sense.

**The Chair:** Okay.

I want to follow up. I appreciate the discussion with respect to the donation of land and property. I take your point with respect to a house in Surrey clearly not being an issue in terms of ecologically sensitive land.

**Mr. Malcolm Burrows:** It wouldn't be a house, a principal residence. It would only be taxable real estate. If it were a rental property and a secondary property, it could apply.

**The Chair:** That's a good point.

But if there is a situation in terms of the actual donation of land, which could either be one or the other, is that going to be an issue? It may not be an issue.

The alliance raised it as a concern. Are you saying that it's not a valid concern? Or is there a way to address their concern if we did it?

**Mr. Malcolm Burrows:** It's interesting. I have more faith in the intentions of the donor. The donors I have worked with who give ecologically sensitive land truly want the land preserved. What I'm hearing from the alliance is that it's about tax and not about the desire to preserve land.

**The Chair:** They talked about the relationship that has to be developed between the person encouraging that donation and the landowner.

**Mr. Malcolm Burrows:** It's true. It takes considerable time to develop those relationships and the trust to secure the land. But for the most part, taxable real estate isn't going to be raw land. It's going to be urban. It's going to be developed, industrial. That's the focus.

**The Chair:** Okay.

I have about a minute left for two more brief comments.

Mr. Aptowitz.

**Mr. Adam Aptowitzer:** If I may, I think there's an easy and obvious answer to your question.

Certainly there's a way to distinguish it. Instead of completely removing the tax on the donation of real estate, reduce it. Instead of to zero, reduce it to something less than that.

This was the situation with public securities prior to the complete removal of it under Prime Minister Martin. I think there's an obvious parallel. Eventually it was completely removed, and I think that was partially, I would imagine, a result of some study behind the scenes that said that was the right way to go.

**The Chair:** Okay, thank you.

Mr. Alexander, time for a brief comment.

**Mr. Craig Alexander:** I wanted to understand the concern before I came to committee. I reached out to a number of different groups that gave me a perspective on what happens in the United States. The response that came back from them was that, with respect to ecologically sensitive land being donated, local and public pressure prevented that land from being used for development purposes, except that, anecdotally, there were some instances when land donated to universities was subsequently developed.

The general feedback was that if we looked at the United States we might actually get some guidance as to what the risks are.

**The Chair:** Okay, thank you.

We'll go to Mr. Brison now, please.

**Hon. Scott Brison:** Thank you, Mr. Chair.

I'd like to seek your input on the true cost of the capital gains tax exemption on gifts of publicly listed securities, as an example.

Department of Finance officials who met with the committee in the initial meeting indicated that they attribute a cost of \$34 million, I believe, per year, and that is based on the assumption that the shares would have been disposed of in any case. When I asked them the question around their methodology, that if in fact there was no transaction, if in fact the owner of the bank shares that they had held onto for a long time did not sell them in order to make a contribution...that there would be no cost to the treasury. As such, I think it's possible that the cost the finance department is attributing to this may actually exceed the real cost to government.

This is important as we're discussing tax measures during tighter budget times. I'd really appreciate your views on this, because I have some concerns that we may be inflating the cost to the government through the tax expenditure approach. I'd appreciate your thoughts on that.

• (1720)

**Mr. Malcolm Burrows:** You've been very articulate throughout the hearing process on this point.

For the most part, capital property gets held as long as it can be held and it doesn't come into the tax system. Often a donation will trigger a tax expenditure when the alternative was that it would be continued to be held and held and held. So it's being brought into the system for public good, so is that a real tax expenditure?

With public securities working with donors I would say probably about 50% are expenditures that are going to happen anyway because they're rolling taxes, they're offsetting, there may be an M&A or something like that.

**Hon. Scott Brison:** Okay. So you'd say about 50% would be the real cost, from your experience?

**Mr. Malcolm Burrows:** In public securities, yes....

**Hon. Scott Brison:** Any other input or thoughts on that as we consider potentially extending the same tax treatment to gifts of private shares and land?

**Mr. Adam Aptowitzer:** Again, I would refer back to the situation that existed prior to the complete elimination of tax when publicly listed securities are donated to charity. Prior to that, in fact, if I recall correctly, it was a reduced tax on the donation rather than a complete elimination. So if I were the Department of Finance official, I might look at the fact that it's reduced on donation as probably the right stage to compare to the after the fact when it's completely reduced to see what the net effect was.

Other than that, as some guidance, I have no other comments, no knowledge.

**Hon. Scott Brison:** Okay.

[Translation]

**Ms. Brigitte Alepin:** I am wondering why a private foundation would do more charitable work if it were a shareholder in a private company. We have to ask ourselves that question. If shares are transferred from a private company to a private foundation, in what way would that allow the private foundation to do more charitable work?

**Hon. Scott Brison:** Do you have any concerns around the evaluation of private companies?

[English]

**Ms. Brigitte Alepin:** No, I don't think it's a question of evaluation, it's a question of what this private foundation will do with these shares of private companies in real life. So even if it's \$34 million we're talking about, or \$34 billion, if the organization won't do any charity with it....

**Hon. Scott Brison:** I have one other point on gifts of private companies. Throughout small-town Canada there are a lot of smaller companies, and quite wealthy people. The capacity to unleash that locally could make a big difference in a lot of smaller communities. In many cases, the principal asset of these small-town millionaires is the company they built. Any thoughts on that? Do you believe that to be accurate?

**The Chair:** Mr. Burrows.

**Mr. Malcolm Burrows:** I think it's a huge point of regional equity. With public securities, we've focused on big cities with head offices. Wealth is created in smaller centres through private companies and through real estate.

• (1725)

**The Chair:** Okay, thank you.

We'll go to the final round.

Mr. Jean.

**Mr. Brian Jean:** Thank you, Mr. Chair. I appreciate the opportunity to have one more round.

My question is taking into consideration what we heard last day, which was that 9% of donors give 62% of donations in Canada. I'm

interested in focusing on them because I think there's a large amount of untapped resource there. I think most people would give more if they had a larger incentive to give more, especially in these cases. I'm talking primarily about income, not even capital.

What opportunities do we have there? I looked at your briefs in relation to motivation. In essence, the incentive part that you suggested is that people don't look at that with an eye to a larger tax credit. I'm curious to know why they don't. I know a lot of people who give a lot of money and they all look at that exact thing. They plan it out on a year-to-year basis. They give it at the end of the fiscal year or at the end of December, and they do it based on the biggest advantage for them. That's why I don't necessarily think the stretch tax credit would be that good. I think it would manipulate giving and be inconsistent for charities.

But what ideas would you have on how we could get more money from those people—that 9%, so that instead of giving 62%, maybe they'd give 70% or 75%? How could we get more money out of those people?

Mr. Thomas.

**Mr. Gregory Thomas:** We deal with a large number of taxpayers who are vitally interested in the tax system. They give us millions of dollars to come here and represent them to you. Tax filers, taxpayers, are frustrated by the taxation system.

**Mr. Brian Jean:** You're saying keeping it simpler would be better?

**Mr. Gregory Thomas:** Yes.

**Mr. Brian Jean:** But that doesn't necessarily answer my question.

**Mr. Gregory Thomas:** It's a question of motivation. If you want to do some tax planning, some work with charitable donations, and the person with the money, let's say an elderly entrepreneur who's run a mill or a small business in a community, if that person's eyes glaze over and he goes "Oh, my head's going to explode"—

**Mr. Brian Jean:** Okay, but I'm from Fort McMurray and I have a lot of rich people who are young. They have a lot of money, a lot of income. I'm interested in ways to get more money from them and encourage more giving, because they want to give more.

**Mr. Gregory Thomas:** Make it understandable. Make it understandable on its face, so in a brief discussion—

**Mr. Brian Jean:** It's simple, and I agree with you 100%.

**Mr. Gregory Thomas:** —you can put it across to them. I think the principle is if you give the money to charity, that money won't be taxed. If you achieve that, then you make it much easier.

**Mr. Malcolm Burrows:** I don't believe it's a tax issue. I think it's a clarity issue. We don't communicate what the benefits are. Look at the T1 form—it only shows the federal, not the provincial.

But frankly, it's the Manitoba solution. Social cohesion, community development—these are grassroots things. It's the volunteerism. Those things translate into giving. It's not tax alone; it's about building healthier communities.

**Mr. Craig Alexander:** The national survey of giving, volunteering, and participating revealed that 45% of top givers said they would actually give more if there were a more generous tax incentive.

**Mr. Brian Jean:** How do we do that? Is there a progressive tax?

**Mr. Craig Alexander:** I'm not an expert on the tax incentive side of it. The stretch will only work up to a limited amount because it needs to be capped at \$10,000 through your lifetime. At the end of the day, it will help to encourage some additional donations.

**Mr. Brian Jean:** You have about 30 seconds.

**Mr. Adam Aptowitzer:** If you look at some of those numbers and break them down, I think you'll probably see that the largest amount came from the donation of shares. Maybe flow-through shares in Fort McMurray might be a big one. That was a special type of combining a double incentive that would encourage people to donate massive amounts of money. When the government first eliminated tax on donation of public securities, a philanthropist in Toronto stood up and donated \$50 million as an example to everybody else of what can be done. That's the way to go, unlocking that kind of value. It already exists. Unfortunately, the exemption was repealed, but it already exists in terms of telling them, and getting the money out of them. That's an educational component.

● (1730)

**The Chair:** Thank you, Mr. Jean.

I want to thank all of you for being with us here today.

[*Translation*]

Thank you very much for your presentations and your answers to our questions.

[*English*]

There's one thing further for Mr. Aptowitzer. If there's anything further you can submit to the committee on your definition of charity, we will look at this very interesting idea. If there's anything further on that you can submit, we would appreciate it.

If there is anything further from any of you, please submit it to the clerk. We will ensure everyone gets it.

Colleagues, just a brief note. You have a draft schedule. I have attempted to plot out our meetings as far as we can. It's a draft, so if there's something on here that needs to be changed, please let me know. We do have a Cisco meeting on Monday morning at 9:30. Please let the clerk know whether you will be able to attend.

Okay, thank you so much.

The meeting is adjourned.

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