

**THE CANADIAN CLUB**

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**PRIVATE GIVING AND PUBLIC GOOD**

**UNLEASHING PRIVATE WEALTH**

**By:**

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The Senate of Canada - Website

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## **PRIVATE GIVING AND PUBLIC GOOD**

### **UNLEASHING PRIVATE WEALTH**

Good afternoon ladies and gentlemen, honoured guests.

I am privileged to share this head table with so many outstanding Canadians from every sphere of our civil society who have donated so much of their time for charitable causes, large and small.

Thank you for taking the time to talk about charitable giving in Canada, especially while we continue to bear witness to the transformational aftermath of the Tsunami.

It is a distinct privilege to address the Canadian Club. May I thank Michael MacMillan, your President and Ms. Verity Dimock your Executive Director for their work in organizing today's luncheon. I would be remiss as well if I did not single out Don Johnson who, as you all know, is one of Canada's champion advocates for charitable giving in this country.

Don has been a one person lobby to modernize our tax structure - to galvanize greater giving. It was his efforts, in part, that inspired the Senate Banking Trade and Commerce Committee, which I now chair, to study charitable giving in Canada.

We completed the first phase of the study entitled "Private Giving and Public Good" and tabled our Report last December 15<sup>th</sup> before the overwhelming experience of the Tsunami.

Of course, may I acknowledge the dedication of the Committee's Deputy Chair, my colleague Senator David Angus from Montreal, along with the Senators on the Committee who represent each and every region of Canada? We worked quickly and diligently to review evidence we received from charities and experts and members of the public to complete our report and recommendations in record time last fall.

Many representatives of Canada's charitable sector are here today. Charitable organizations, volunteer staff and professionals together are the unsung mechanics who knit together our Canadian fabric and energize our civil society.

May I reflect for a moment on the role of the Canadian Club in our society? The first Canadian Club was founded over a hundred years ago, in 1893 to be precise, in our sister City of Hamilton. The Canadian Clubs sprouted up across the country and were ultimately incorporated in a Special Act of Parliament in 1939. What has been a particular interest to me have been speeches given to the Canadian Clubs.

Almost a hundred and one years ago on January 18, 1904 at the Annual Banquet of the Canadian Club in Ottawa, Sir Wilfrid Laurier was the guest speaker.

A little known labour researcher, one William Lyon MacKenzie King, was the First Vice President.

King introduced Sir Wilfred. An unknown opposition M.P. by the name of R. L. Borden also spoke. At that meeting both Laurier and Borden were inducted as the First Honourary Members of the Canadian Club. All three made brilliant and eloquent speeches but it was Sir Wilfrid Laurier who made one of Canada's most celebrated speeches. There he asserted the claim that the 20<sup>th</sup> Century belongs to Canada. Well, he was partially right.

I believe, especially when we witnessed the reaction of individual Canadians to the Tsunami that the 21<sup>st</sup> Century will provide a renewed opportunity to demonstrate that the 21<sup>st</sup> Century will indeed belong to a distinctive society we all know as "Canada".

Prime Minister Pierre Trudeau once said to us, whenever Canadians move toward a great cause they are quickly followed by a "coalition of the anti's", people that will find fault, people will be "nay" sayers, people who will sit on the sideline and criticize. We are told that extraordinary efforts by individuals and the government on the Tsunami relief will displace the pressing needs here in Canada. We are told that donor fatigue will hurt ongoing efforts of charitable giving in education, arts, health, the poor, research and so on.

I flatly disagree. Canadians are extraordinarily generous. Our study discovered that in 2003, 25% of all Canadians obtained an average charitable receipt of \$140.00. Most donations were \$100 or less.

Francis Lankin told me this morning that the United Appeal that raised almost a record 90 million dollars this year, contributed by 150,000 donors, still less than 5% of the total GTA population.

Last Friday, we learned from an authoritative poll that 53% of all Canada had given to Tsunami relief before the January 11<sup>th</sup> cut-off. 37% were contemplating giving. Only 18% said they refused to give to Tsunami. That's extraordinary. It reminds me when I was young, each of us were urged to buy war savings stamps and we all did!

Our Senate Report was unanimous, representing both parties, and an independent Senator. What is interesting is that each and every Senator has direct and personal experience as a volunteer in the charitable sector. They came to the Committee bent on considering the evidence but brought their own personal experience to bear as well.

The Committee's Report made seven recommendations. All were designed to enhance charitable giving in Canada.

Our civil society, whether its neighbourhood or religious groups, cities or interests, like ecology, cultural institutions or national causes or global disasters or health or

educational institutions or the needy, all share one common organizing principle. This principle lies at the heart of every religion - helping others who cannot help themselves.

Two key elements convert this core principle into action. First, - volunteerism. Every person in this room knows what it takes to make a charity or charitable campaign successful.

It means the coming together of inspired volunteers prepared to spend countless hours and selflessly donating their time and their energy in helping others.

We have not been able to tabulate the number of hours that Canadians annually contribute their time, energy or experience but we believe it aggregates in the millions of hours.

I know from our family and friends alone, they spend much more than 20% of their time in charitable endeavours and we are not unique! This is just one facet of volunteerism.

The donation of money or gifts is the other face of volunteerism. In real life and real time, our civil society, - both are essential. According to Canada Revenue Agency (now called Canada Customs) there are over 80,000 registered charities in Canada with 14 billion dollars in donations, still less than 2% of our GDP. While the first phase of our study focused on modernizing the tax structure of charitable giving.

Our second phase will study the responsibilities and accountability of charities.

What we did confirm is something that you all know. The needs of civil society are intense, pressing and growing. Health care, senior citizen care, heritage preservation, ecology, education, research, cultural activities, the list is endless. The real needs far exceed the current means to provide them.

We are all conscious of the limitations of a government revenue. Historically, the gap, and it is growing, - between available government funding and genuine needs has been addressed only partially by private charitable giving. Yet the gap is widening for all programs, services, building facilities and maintenance, especially as our society ages and as our society becomes more complex.

There is a need to unlock more of our increasing personal wealth across middle and upper income levels. The Committee studied whether or not new or enhanced policies could be taken to more effectively bring more revenue streams for programs, institutions and services to the benefit of Canadians everywhere. Could we unleash more private money for charities?

Let us look at the Tsunami experience more closely. Everyone has been overwhelmed by the spontaneous generosity of individual Canadians. Two major factors should be considered that I believe, provided incentives for greater giving.

1. The Government promise of matching money for individuals and
2. Extending the deadline for 2005 donations for the taxation year 2004.

Let's make a comparison of individual giving of other countries. This is not to say that Canadians are not generous but it is always useful to do a comparative analysis. This data is for the year 2003 well before we and these countries were overwhelmed by the Tsunami. It is indicative of our daily per capita giving compared to some other countries. These numbers, I stress are for the year 2003. These numbers compare government aid to private giving. All these countries have encouraged charitable donations through tax deductions and credits.

**2003**

<b><u>Country</u></b>	<b><u>Government Aid per capita daily</u></b>	<b><u>Private Giving per capita daily</u></b>
Canada	.17¢	.02¢
Norway	\$1.02	.24¢
Switzerland	.35¢	.07¢
Ireland	.28¢	.06¢
United States	.13¢	.05¢
The Netherlands	.57¢	.04¢
Australia	.14¢	.03¢
France	.25¢	.01¢

So, what are we to conclude? There is ample room for Canadians open their purses wider if cost effective incentives are deployed.

You will recall that in 1997 there was a reduction in capital gains for security donations to charities from 50% to 25%. Witnesses have told us that at least one and a half billion dollars in additional charitable giving could be attributed to these measures alone. This was introduced in 1997 on an experimental basis. After a five year study, this measure was made permanent. This weekend we read of the motivation of Canada's largest donor with 1.4 billion dollars. He was quoted as saying that the capital tax reduction, as an incentive in part, inspired him to make such a generous donation.

Let me turn to our Report.

Let me just highlight seven of the recommendations in the Committee's Report.

**Eliminate the capital gains tax on donations of listed securities and ecologically sensitive lands to registered public charities.**

The initial reduction in the capital gains rate from 50% to 25% resulted in a huge increase in donations of listed securities. Witnesses told us some \$1.5 Billion in additional charitable giving since 197 was attributable to this measure. The committee is of the opinion that eliminating the capital gains tax altogether will have an additional stimulating effect on giving by both individuals and corporations

**The capital tax should only be eliminated if mechanisms are developed to ensure that proper valuations occur, eliminate the capital gains tax on donations of real property to registered public charities;**

The Committee believes that charities have two main needs – funds to distribute to those in need and the resources to carry out their activities. This includes office space, warehouse space and so on. By extending the capital gains exemption to all real property, charities could then receive land which they could use for their office or distribution space or could sell to raise funds. Broadening the categories which receive preferential tax treatment gives charities more flexibility to deliver the goods to those in need.

**If the appropriate governance and monitoring systems are in place to ensure that private foundations are clearly operating in the public interest and that self-dealing will not occur, eliminate the capital gains tax on donations of listed securities, ecologically sensitive lands or real property to private foundations on a temporary basis for five years, with a review after that time to determine whether the provision should be made permanent;**

There has been a legitimate concern in the past that many private foundations were set up simply as a tool for tax avoidance. The Department of Finance described the problem as “self dealing” – that is where the donor and the director of the foundation were one and the same person. The Committee is of the opinion that by and large private foundations have cleaned up their act. Further we believe that with the proper governance structure and monitoring systems in place, concerns about self dealing will be dealt with. We will study governance and accountability in Phase II of our study.

**Allow donors to carry back unused charitable receipts for three years and to carry forward unused charitable receipts indefinitely.**

This is a common tax treatment for other types of deductions. We felt this provision would help those donors in middle and lower tax brackets who may not have capital gains or other income to off set in a given year. By allowing them the flexibility to make the claim for the tax year they feel is most beneficial to them, we again increase the incentives to give.

#### **WHAT CAN BE DONE NOW?**

**“Allow donors to make charitable contributions for 60 days beyond the end of the calendar year for inclusion in that year’s income tax return.”**

The Committee believes that charitable giving should be accorded the same flexibility as RRSP contributions. Very often a tax payer will not know their full situation for a given until early in the New Year. Much as we allow RRSP contributions for an extra 60 days, the Committee believed this enhanced flexibility would stimulate some additional contributions, particularly when donations are cyclical.

The federal government has already gone part way towards following our advice, stating that donations made to Tsunami disaster relief efforts by January 11, 2005 will be deductible for the 2004 tax year. So why not immediately adopt the Committee's recommendation and extend that deadline for all charities to March 1, 2005? If the government can give that treatment to RRSP contributions, surely it can do the same for charitable donations, particularly given the current crisis.

I would urge the government to implement this recommendation on an experimental basis now, study its impact, after an experimental period, and then decide whether to make it permanent. I firmly believe the benefits will far outweigh the costs.

The United States Congress has just approved a similar measure. The legislation is on President Bush's desk awaiting his signature.

**“Eliminate the requirement for charities to issue charitable receipts for donations of less than \$250, unless specifically requested by the donor” and**

**“Eliminate the requirement for taxpayers to file charitable receipts if the charitable donations they are claiming do not exceed \$250, provided cancelled cheques, credit card receipts or other supporting documentation is provided”.**

The first benefit of these recommendations is to ease the administrative cost and burden on charities. Of particular concern are those smaller charities who receive a high volume of smaller donations, in the \$1 to \$50 range. The Committee heard anecdotal evidence that a charity's administrative cost of issuing a receipt is between \$25 and \$35. This is prohibitive when dealing with small donations. There are better ways for charities to spend the funds and time that people contribute.

Most charities, particularly the smaller ones, depend on volunteers to perform tasks such as issuing receipts. Volunteers are a finite resource. They come and go. New ones need training. Their time might be better spent in carrying out the purpose of the charity rather than issuing receipts.

There is also a benefit to the tax payer. They are not at the mercy of the charity, waiting for their receipt to come in the mail. If they have their cancelled cheques or credit card receipts, they would have all the proof they need for taxes.

We viewed this recommendation as more evolutionary than revolutionary.

It would be only an extension of the laws that are in effect today, not a new way of doing business.

The Canadian tax system is largely based on trust.

The government trusts the tax payer to self report. For years now, Canadian taxpayers who electronically file their tax return have not had to submit receipts. Receipts only become an issue if there is an audit. To me this is an acceptance of the basic honesty of Canadians.

Our recommendation simply extends this treatment to all tax filers, particular those who make small charitable donations, not merely those who e-file. At the same time, by requiring some form of proof, our recommendation gives peace of mind to those who may still be concerned about fraudulent activity.

May I take this occasion to again urge the federal government to announce that they will immediately adopt these recommendations? I am sure the benefits to society of increased donations will far outweigh the cost of the non refundable charitable tax credit claimed by Canadians.

## **CONCLUSION**

The tragic events in Southeast Asia have illuminated the best in Canadians. The Committee's report provides the Federal Government cost effective tools to unleash even more charitable giving at home, too.

The Committee is confident that implementation of these seven measures, identified in our report, will result in greater charitable giving, to all types and sizes of charities and by individuals and corporations at all levels of income and profitability. As a consequence, private giving will magnify public good.

I wish you all the best of this New Year and end with this thought. We discovered for a few weeks that it is more blessed to give than to receive. We will see in the year ahead if that fine idea continues to inspire us.

I urge you to join the Banking Committee in persuading the Minister of Finance to adopt these measures in the coming Budget. It is simple to do your civic duty! Send him, the Cabinet and your M.P. a letter or e-mail today to demonstrate your support and urge your volunteer friends to do so as well.

Each person's support counts. A majority opinion starts with one – you!

We are reminded that Sir Winston Churchill spoke to the Canadian Club twice, once in 1929 and in 1954 when he was 75 years old.

Sir Winston Churchill once said that we work to live but we live to give!

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