

■ The Changing Face of Charitable Funding in Canada

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Municipal, provincial, and federal governments have historically been the largest contributors to Canadian charities, and in 2008, the different levels of government provided 67 per cent of total funding to this important sector. Because many charities have traditionally been funded by government, Canadians do not always make personal contributions to charitable and not-for-profit organizations—in fact, if one looks at the Fraser Institute’s generosity index, Canadian taxpayers donated less than their American counterparts in 2007 (0.73 per cent of aggregate income compared to 1.6 per cent).

Providing charitable funding via tax receipts is more efficient than direct funding from government. Such a funding model also reduces the burden on government’s budget, as its contribution goes from 100 per cent of direct funding to 43.7 per cent. To provide an incentive for Canadians to increase personal charitable contributions, government has provided greater tax benefits and continues to look for new ways to encourage giving.



For example, since 2006, capital gains have not been levied on gifts of listed securities to charities. And recently, the charitable sector has put forward a new proposal, commonly referred to as the Stretch Tax Credit, which the federal government is considering. The sector would like to increase the available tax credits by another 10 per cent (to 53.7 per cent in BC) in instances where donations exceed the donor’s previous giving level.

Why are such tax incentives so important, and why now? The recent financial crisis, recession, and resultant government stimulus packages have stretched budgets to the breaking point. In addition, large charitable foundations that rely on investment returns to provide funding to various charities saw their funds diminish due to the market meltdown. Consequently the amount that they have been able to allocate to charities has declined. And in 2008, donations by individuals dropped by \$400 million.

In these uncertain times, it is more important than ever that charities diversify and attract a variety of sources for revenue. One such promising source is the baby boomer generation; over the next 20 years they will orchestrate the greatest transfer of wealth in North American history. Many charities who wish to maintain their financial viability must position themselves to receive a fair proportion of this wealth, which will come from estate planning and planned giving.

Already, many of the super rich in the United States have increased their personal philanthropy. It is reported that Warren Buffett will donate 85 per cent of his worth (\$44 billion) to five foundations, with the bulk of it going to the Bill & Melinda Gates Foundation. And Bill Gates has already committed the bulk of his fortune to his foundation. They join more than 40 U.S. billionaires who have signed the “Giving Pledge”, and plan to give away at least 50 per cent of their wealth. Closer to home, Jimmy Pattison, the well known businessman and philanthropist, shares this philosophy, and has stated his intention to flow the bulk of his net worth to charities.

By incorporating contributions to charitable causes into their financial planning strategy, Canadians will maximize their tax effectiveness, and also ensure that excess money, over and above that required by family and personal needs, is channeled to worthwhile causes. For this reason, charitable giving should be part of everyone's investment and estate planning strategy.

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