

Ottawa, January 22, 2014

Hon. James Flaherty, PC, MP  
Minister of Finance  
House of Commons  
Ottawa, ON K1A 0A6

Dear Mr. Flaherty:

I am writing to you on behalf of Imagine Canada with regard to the upcoming 2014 federal budget.

Last summer we submitted a response to the questionnaire issued by the House of Commons Standing Committee on Finance, outlining charities' priorities for the budget. In November we were invited to appear in front of the Committee and to submit a more detailed brief.

Recognizing that the federal government's priority is to restore fiscal balance by 2015, but also cognizant of the priority that you and your colleagues have placed on supporting Canadians' charitable endeavours (through measures such as the First-Time Donor's Super Credit, the elimination of the 80/20 disbursement quota rule, and the extensive attention paid by the Finance Committee to the issue of tax incentives for charitable giving), we focussed on three areas where federal action could have a significant impact at little or no cost to the federal government. These were:

- helping charities expand their earned income activities by clarifying and, where necessary, expanding access to federal business development initiatives, with an immediate focus on removing barriers to charities' and nonprofits' participation in the Mitacs Accelerate program;
- providing a firm commitment to work towards implementation of the Stretch Tax Credit for Charitable Giving, building on the achievement of the First-Time Donor's Super Credit and in line with the commitment in the 2013 Economic Action Plan to work with charities to encourage more Canadians to give more; and,
- implementing more comprehensively the recommendations made by the Independent Blue Ribbon Panel on Grant and Contribution Programs.

With regard to the first, we have had substantive discussions with Mitacs officials, who have indicated that they would like to increase their efforts working with charities and nonprofits. While Mitacs has been able to use some sources of funding, from provincial governments and from federal regional

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development agencies, to support partnerships with charities and nonprofits, the bulk of Mitacs funding is governed by a contribution agreement with Industry Canada that explicitly excludes nonprofit organizations. As funding to Mitacs from regional development agencies sunsets, this Industry Canada funding will represent an even greater portion of the resources available to Mitacs.

There is significant demand on the part of charities and public-benefit nonprofits to work with Mitacs, and to engage highly-skilled individuals in a broad range of areas. Mitacs itself wants to facilitate this, and officials there have indicated they can do so without requiring any additional funding. The contribution agreement with Industry Canada is the only barrier.

While the Finance Committee did not include a recommendation on this issue in its report, I would note that during our appearance at the Committee in November, your colleague Mr. Keddy indicated his agreement that “we should pair our charities with bright minds and our universities.” While a positive resolution of the Mitacs issue would not require any legislative or regulatory change, or require any new investment, we believe that mentioning it as a budgetary measure would send a strong and positive signal to our sector.

With regard to the Stretch Tax Credit, I know that you and your staff are fully aware of the details of what we have proposed for a number of years. We saw the announcement of the First-Time Donor’s Super Credit last year as a positive development, and a very significant incremental step towards achieving the Stretch Tax Credit. The Super Credit represents a significant investment on the part of the federal government, and charities themselves are making significant investments to reach out to new donors. The Stretch Tax Credit would help to build on these efforts by providing incentive for both new and long-standing donors to increase their giving from year to year.

I should emphasize that, while we would welcome such a development, we are not seeking implementation of the Stretch Tax Credit in the 2014 budget, given your focus on balancing the books before any significant new investment is made. This said, the Stretch Tax Credit remains charities’ number one priority to strengthen the base of charitable giving. As such, a signal towards 2015, when all indications are that the federal government will have greater flexibility to make such investments in communities, would, once again, send a strong and positive signal.

With regard to the Blue Ribbon Panel’s recommendations, we see this as part of a broader effort to ensure that charities are able to carry out their activities in as efficient a manner as possible. As you are aware, donors have an extremely high level of trust in charities – as was confirmed by the release of the *Talking About Charities 2013* survey – but remain concerned about the proportion of donations going towards the cause, versus administration. Of course, much of what is considered administrative is vital, be it facility costs, information technology, governance, or strong financial management and control. While the onus is rightly on charities to control these costs and achieve savings where possible, federal government policies and procedures can add a significant burden for those organizations that enter into grant and contribution agreements to deliver services on behalf of the federal government.

The Blue Ribbon Panel made a series of recommendations to improve the management and administration of grant and contribution programs, but the adoption of these recommendations has been uneven across government. One area of particular concern is full cost recovery in funding agreements. In many cases, federal departments disallow “administrative” costs when entering into agreements, forcing charities to draw on other revenue sources – including donor dollars – to cover incremental costs associated with IT, facilities, and meeting federal reporting requirements. The Blue Ribbon Panel made a recommendation with regard to full cost recovery. In the United States, the Office of Management and Budget has recently finalized new regulations that will make it mandatory for all grant and contribution agreements utilizing federal dollars (including those entered into by state and local governments) to include a minimum percentage to recognize these costs. We would encourage you to use the budget platform to signal the federal government’s commitment to reducing red tape and unnecessary costs, along the lines of what the Blue Ribbon Panel recommended.

I would also like to mention one further item, which was not included in our pre-budget submission but which has been a topic of discussion with officials, that being automation and on-line filing of the T3010 return that all charities file with the Canada Revenue Agency each year. The T3010 returns provide a rich source of data and information about the sector, but they are prone to error – either by charities making mistakes filling them out, or in the process of transcribing them once they are submitted. While the T3010 Quick Prep tool available on Imagine Canada’s CharityFocus portal can eliminate errors in preparing the T3010, current systems do not allow for on-line submission – meaning that charities must still fill out a hard copy that is then transcribed by CRA. Your support for automating the process would reduce administrative costs to charities and to the CRA. We look forward to ongoing conversations with both the CRA and your department as to how we could accomplish this while maintaining the integrity of the data that is so critical to our understanding of the sector.

Thank you in advance for your consideration of the issues we have raised. Once again, we greatly appreciate the progress that has been made in recent years, and we are confident that what we propose this year will allow us to build on that in a responsible manner.

Please do not hesitate to be in touch should you have any questions or comments, and please accept our best wishes for the new year.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Marcel Lauzière', with a stylized flourish at the end.

Marcel Lauzière  
President & CEO