

POLICY BRIEF: INCREASING ONTARIO'S CHARITABLE TAX CREDITS

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ISSUE

The nonprofit sector in Ontario (including non-profit organizations and charities) makes a 7.9 percent or \$65.4 billion contribution to Ontario's GDP. According to research from Imagine Canada and the Ontario Nonprofit Network, the sector as a whole employs 844,000 people in the province.¹ While the contributions of charities in Ontario and across Canada are significant, charities are facing a dual-challenge. Given current economic trends, 26 percent of Canadians anticipate they will access or are already accessing the services of charities in 2022. At the same time, 25 percent of Canadians anticipate that they will be donating less this year than they did in 2021.² Demand is rising while donations are decreasing.

RECOMMENDATION

Given the current challenges facing the charitable sector, and the rising need for their services, the Government of Ontario should increase the generosity of their charitable tax credit. Combined with the federal benefit, these credits play a part in motivating donors to give. Currently, Ontario's charitable tax credit rate is one of the lowest in the country. The province should increase the credit to the same level as Alberta at 10 percent on the first \$200 (an increase from the current 5.05 percent) and 21 percent on amounts over \$200 (an increase from the current 11.16 percent). This change, coupled with a public awareness campaign, has the potential to incentivize giving from current, lapsed, and new donors in Ontario. Consequently, the increased rates would help support the charitable sector at a time of great need without any upfront costs to the treasury.

BACKGROUND

Ontario's Giving Trends

Based on tax data, the giving gap in Canada is growing. This gap refers to a trend in which

1 Imagine Canada, "Get to Know Ontario's Nonprofit Sector," 2021, <https://www.imaginecanada.ca/sites/default/files/Datasheet-ON-2022.pdf>.

2 CanadaHelps, "The Giving Report 2022: Giving at a Crossroads," 2022, <https://www.canadahelps.org/en/the-giving-report/>. See p. 6.

fewer people are donating while those who are donating tend to be older. Giving rates have also been steadily declining across most age groups under 55 from 2006 compared to 2019.³ However, a study by CanadaHelps found that across all age categories, receiving tax credits for donations is a motivator for Canadians. The study found that 48 percent of those under 25, 48 percent of those between 25-39, 36 percent of those aged 40-54, and 34 percent of those aged 55+ said that being able to receive tax credits made them more likely to donate.⁴

Based on tax filing data from Statistics Canada, Ontario is heavily reliant on a relatively small percentage of people who donate to charities. The table below shows that from 2016 to 2020, only between 19 percent to 21.5 percent of Ontarians actively supported the charitable sector through donations.⁵ This suggests that there is tremendous room to grow in terms of encouraging the financial generosity of Ontarians.

Year	2016	2017	2018	2019	2020
Number of tax filers	9,946,210	10,150,710	10,437,530	10,336,660	10,681,210
Number of charitable donors	2,135,570	2,122,600	2,125,020	2,048,780	2,026,440
Percentage of donors compared to filers	21.5%	20.9%	20.4%	19.8%	19.0%

Source: Statistics Canada, “Tax filers with charitable donations by income”; calculations by author.

Comparing Charitable Tax Credit Rates

The charitable tax credit is issued for donations made to registered charities over a certain amount (minimum thresholds for receipts may vary based on the organization).⁶ These credits reduce the amount of income tax payable for donors. Charitable tax credits recognize the work charities do for the common good and reward taxpayers for supporting charitable work. However, Ontario’s charitable tax credit rate is one of the least generous in the country. The table below illustrates how Ontario’s rates compare to other provinces in 2021:⁷

3 CanadaHelps, “The Giving Report 2022: Giving at a Crossroads,” see p. 9.

4 CanadaHelps, “The Giving Report 2022: Giving at a Crossroads,” see p. 12.

5 Statistics Canada, “Tax filers with charitable donations by income,” April 12, 2022, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110000301&pickMembers%5B0%5D=1.16&cubeTimeFrame.startYear=2016&cubeTimeFrame.endYear=2020&referencePeriods=20160101%2C20200101>. Note that this data exclude donations that were not claimed or that did not receive a tax receipt.

6 Government of Canada, “Gifting and receipting,” October 13, 2020, <https://www.canada.ca/en/revenue-agency/news/cra-multimedia-library/charities-video-gallery/cra-charities-communications-gifting-receipting.html>.

7 TaxTips.ca, “2021 Donation Tax Credit Rates,” November 8, 2022, <https://www.taxtips.ca/filing/donations/tax-credit-rates-2021.htm>.

Rank	Province	First \$200	Province	Amount over \$200
1	QC	20.00%	QC	24.00%
2	MB	10.80%	AB	21.00%
3	SK	10.50%	NS	21.00%
4	AB	10.00%	NL	18.30%
5	PE	9.80%	NB	17.95%
6	NB	9.40%	MB	17.40%
7	NS	8.79%	BC	16.80%
8	NL	8.70%	PE	16.70%
9	YT	6.40%	SK	14.50%
10	NT	5.90%	NT	14.05%
11	BC	5.06%	YT	12.80%
12	ON	5.05%	NU	11.50%
13	NU	4.00%	ON	11.16%

Source: TaxTips.ca, “2021 Donation Tax Credit Rates”; rankings by author.

The following table shows the difference between Ontario’s current rate compared to those of the top five most generous provinces. Amongst the top five in the “First \$200” category, the average rate is 12 percent and the median rate is 10.5 percent. In the “Amount over \$200” category, the average rate is 20 percent and the median rate is 21 percent. To bring itself in line with some of the most generous provinces in Canada, Ontario should raise its current rates to match those of Alberta at 10 percent on the first \$200 and 21 percent on amounts over \$200. This would move Ontario from having one of the least generous rates in the country to being in the mid-range of the most generous provinces:

Province	First \$200	Province	Amount over \$200
QC	20.00%	QC	24.00%
MB	10.80%	AB	21.00%
SK	10.50%	NS	21.00%
AB	10.00%	NL	18.30%
PE	9.80%	NB	17.95%
ON	5.05%	ON	11.16%
Average	12.00%	Average	20.00%
Median	10.50%	Median	21.00%

Source: TaxTips.ca, “2021 Donation Tax Credit Rates”; calculations by author.

POLICY DETAILS

Based on data from Statistics Canada, the total median donation amount for Ontarians between 2016 to 2020 ranged from \$370 to \$440. In 2020, around 1 million Ontarians made a total donation of \$440 or less.⁸ This means that changing the tax credit rate for amounts under \$200 *and* amounts over \$200 would be beneficial for the majority of Ontarians who support the charitable sector. This change has the potential to recruit new or lapsed donors, and to increase the donation amounts of existing donors. Beyond the tax benefit, new and increased donations ultimately mean that more Ontarians are supporting the good work of the charitable sector.

Using the median rate for 2020 (\$440), the table below illustrates the impact of increasing Ontario’s tax credit to the same level as Alberta. It also takes into account the federal charitable tax credit. If Ontario adopts the same rate as Alberta, the combined federal and provincial tax credit for a \$440 donation would be \$160, representing a \$31.55 increase from the current rate:

Current Rates		Combined Federal and Provincial Rate			Impact of Combined Federal and Provincial Rate		
Jurisdiction	First \$200	Amount over \$200	First \$200	Amount over \$200	First \$200	Next \$220	Total impact for \$440
Federal	15.00%	29.00%					
Ontario	5.05%	11.16%	20.05%	40.16%	\$ 40.10	\$ 88.35	\$ 128.45
Alberta	10.00%	21.00%	25.00%	50.00%	\$ 50.00	\$ 110.00	\$ 160.00

Additional Considerations

Any changes to the charitable tax credit rate should be accompanied by a broader public awareness campaign in partnership with the charitable sector as they navigate the rising demand for their support and services.

⁸ Statistics Canada, “Tax filers with charitable donations by sex and age,” December 6, 2022, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110000201&pickMembers%5B0%5D=1.16&cube-TimeFrame.startYear=2016&cubeTimeFrame.endYear=2020&referencePeriods=20160101%2C20200101>.

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