

Special Report

BMO Recommendation on Charitable Giving

ECONOMIC RESEARCH

1-800-613-0205 • www.bmocm.com/economics

Douglas Porter, Deputy Chief Economist
douglas.porter@bmo.com • 416-359-4887

According to the latest figures from Statistics Canada, fewer than a quarter of tax-filing Canadians claim deductions for charitable donations (23.4% of all filers in 2010, or 5.74 million people). Part of the reason for the relatively low reading reflects tax-planning strategies by couples, whereby the higher-earning spouse can earn a higher credit by combining the total donations in a family. Even so, the share of Canadians claiming for such donations has steadily drifted lower over the past two decades from 30% as recently as 1990. And, the share of filers donating is also below that in the U.S. (26.6% of Americans).

Moreover, the total value of charitable donations claimed has drifted lower in recent years. While donations did rise 6.5% in 2010 to \$8.25 billion, that was still below levels prevailing in 2006 and 2007 (each more than \$8.5 billion). Donations stood at just over a 0.6% share of total personal income in 2010. The actual amount of donations may in fact be somewhat higher, as charities reportedly issued more than \$13 billion of tax receipts that year, but that still represents a modest 1% of personal income. Again, this is well below the share donated by American tax filers (1.3% of personal income), who donate roughly twice as much as Canadians, on average.

One way to encourage more charitable donations by Canadians would be to extend the current 29% tax credit to all donations, and not just those above \$200. (Donations below \$200 currently receive a 15% credit.) While this would have little or no impact on large donors, it could encourage giving for more modest donors, as the marginal return would nearly double for gifts of up to \$200. And, the median claimed charitable donation in 2010 was \$260 (versus an average of \$1,437), suggesting that many donors could benefit from such a step.

The potential fiscal cost to Ottawa of such a step would include: 1) revenue losses on any donations that currently receive the lower tax credit, and 2) revenue losses on any credits for new additional donations. We estimate that the first part will cost roughly \$140 million to \$150 million annually in foregone revenue for Ottawa. The cost of the second part would depend on to what extent the new policy attracted new donors, which can only be roughly estimated. If the new policy eventually prompted enough donors to bring the share back to 1990 levels (i.e. 30% of tax filers), and the new donors claimed \$100 each, the cost of 2) would be less than \$50 million. Thus, the overall cost of this suggested step would be less than \$200 million, even if more than 1.5 million Canadians began giving more generously to charities. (This compares with recent estimates of a total cost of \$2.2 billion for the overall charitable tax deductions, increasing the total cost of the deduction to Ottawa by less than 10%.)

Given the projected fiscal cost, and the budget realities currently facing the federal government, we would recommend considering implementing this change only when the revenue situation is stronger and the fiscal position is closer to balance.

The information, opinions, estimates, projections and other materials contained herein are provided as of the date hereof and are subject to change without notice. Some of the information, opinions, estimates, projections and other materials contained herein have been obtained from numerous sources and Bank of Montreal ("BMO") and its affiliates make every effort to ensure that the contents thereof have been compiled or derived from sources believed to be reliable and to contain information and opinions which are accurate and complete. However, neither BMO nor its affiliates have independently verified or make any representation or warranty, express or implied, in respect thereof, take no responsibility for any errors and omissions which may be contained herein or accept any liability whatsoever for any loss arising from any use of or reliance on the information, opinions, estimates, projections and other materials contained herein whether relied upon by the recipient or user or any other third party (including, without limitation, any customer of the recipient or user). Information may be available to BMO and/or its affiliates that is not reflected herein. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice or as a recommendation to enter into any transaction. Additional information is available by contacting BMO or its relevant affiliate directly. BMO and/or its affiliates may make a market or deal as principal in the products (including, without limitation, any commodities, securities or other financial instruments) referenced herein. BMO, its affiliates, and/or their respective shareholders, directors, officers and/or employees may from time to time have long or short positions in any such products (including, without limitation, commodities, securities or other financial instruments). BMO Nesbitt Burns Inc. and/or BMO Capital Markets Corp., subsidiaries of BMO, may act as financial advisor and/or underwriter for certain of the corporations mentioned herein and may receive remuneration for same. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A. and Bank of Montreal Ireland p.l.c., and the institutional broker dealer businesses of BMO Capital Markets Corp., BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited and BMO Capital Markets GKST Inc. in the U.S., BMO Nesbitt Burns Inc. in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. in Canada, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are not directed at investors located in the U.K., other than persons described in Part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.