

Tax Credit Incentives for Volunteer Participation

A White Paper Supporting the Policy

Developed by the Students of the Course TRMT 312 – F10N01, Issues in Non Profit Management, Vancouver Island University, Nanaimo, BC; participation of some students was funded by the BC Centre for Non-Profit Development, University of the Fraser Valley, Abbotsford, BC

This white paper does not reflect the opinions of Vancouver Island University, Nanaimo, BC, or the BC Centre for Non-Profit Development, University of the Fraser Valley, Abbotsford, BC

About the Authors of this White Paper

This paper was produced by the students of TRMT 312 F10N01, Issues in Non-profit Management and the instructor, Georg Stratemeyer. Students of the class stand for a diverse cross section of the sector representing social service, health, arts and culture, women, and tourism organizations, as well as students enrolled in the Tourism and Recreation Management Program of Vancouver Island University. Students reflect various levels of work volunteer experience in the sector, from no experience to 25 years. Students also had extensive work experience in the private sector, 2 to 30 years, and in government, 2 to 20 years. Seven students have international experience. The educational background varied from high school diploma to post graduate degrees. Demographically, the group ranged in age from 21 to over 50 years with representation of language, visible and disabled minorities.

The common thread in this diverse group is the heart and passion for the voluntary sector and the organizations within it.

We are the people that comprise this sector

Recognition of Donations of Volunteer Time

Canada has a number of statutes and regulations recognizing donations, gifts of money or gift in-kind. A significant contribution to charities is also made by volunteers in the form of time, commonly referred to as volunteering. Volunteering is defined not only as the act of giving time to a cause. According to the International Association for Volunteer Effort, www.iave.org,

volunteering is a fundamental building block of civil society. It brings to life the noblest aspirations of humankind – the pursuit of peace, freedom, opportunity, safety, and justice for all people... Volunteering – either through individual or group action – is a way in which:

- *Human values of community, caring and serving can be sustained and strengthened;*
- *Individuals can exercise their rights and responsibilities as members of communities, while learning and growing throughout their lives., realizing their full human potential; and*
- *Connections can be made across differences that push us apart so that we can live together in healthy, sustainable communities, working together to provide innovative solutions to our shared challenges and to shape our collective destinies.*¹

In recognition of the contributions made by volunteers to our society, this paper recommends the acknowledgement of volunteer time utilizing the same mechanisms developed for donations to charitable organization.

Background

Canada has the second largest voluntary sector in the world, following the Netherlands, measured by workforce (both paid staff and volunteers) as a share of the economically active population². 12.5 million or 46% of Canadians aged 15 and over volunteered during the year preceding the survey *Caring Canadians, Involved Canadians*³. According to *Cornerstones of Community: Highlights of the National Survey on Nonprofit and Voluntary Organizations, 2003*⁴, organizations draw on 2 billion volunteer hours, the equivalent of 1 million full-time jobs. Revenues exceed \$112 billion (excluding hospitals, universities and colleges revenue is reported as \$75 billion) and the contribution to Canada's GDP was 7%⁵.

¹ Universal Declaration on Volunteering, retrieved from <http://www.iave.org/content/universal-declaration-volunteering> November 22, 2010.

² The Canadian Nonprofit and Voluntary Sector in Comparative Perspective, retrieved from http://library.imaginecanada.ca/files/nonprofitscan/en/misc/jhu_report_en.pdf November 22, 2010

³ *Caring Canadians, Involved Canadians: Highlights from the 2007 Canada Survey of Giving, Volunteering and Participating*, 2009, Statistics Canada, Ottawa

⁴ *Cornerstones of Community: Highlights of the National Survey of Nonprofits and Voluntary Organizations, 2003 revised*, Statistics Canada, Ottawa

⁵ *Satellite Account of Non-profit Institutions and Volunteering 2007, 2009*, Statistics Canada, Ottawa

However, while the overall numbers are impressive, more detailed analysis highlights some disturbing trends. *Caring Canadians, Involved Canadians* points to the fact that the top 25% of volunteers who volunteered the most hours gave 78% of the total committed volunteer time. This is a clear indication of how the volunteer contribution is concentrated among a few individuals. 56 – 58% of organizations report difficulty recruiting volunteers, and 48 – 49% report problems retaining volunteers.

Interestingly, 84% of Canadians give money while only 46% give time. In addition, we know from *Caring Canadians, Involved Canadians*, that pro-social behaviours such as volunteering have a positive influence on other pro-social behaviours such as giving or participating in community. The top 25% of donors who also volunteered accounted for 14% of the population and contributed 59% of total donations and 40% of volunteered hours. Efforts to broaden the volunteer base have focussed on building better volunteer recruitment and retention strategies. *Caring Canadian, Involved Canadians* points to another strategy, to recognize the donation of time in the same way as the donation of money and gifts in-kind.

Call to Action

We propose amending current legislation to symbolically recognize time donated to charitable organizations, registered with the Canada Revenue Agency (CRA), by issuing charitable receipts that the donor may choose to report on their Annual Income Tax Return.

Implementation

In a process internal to participating charitable organizations utilizing volunteers, good volunteer management practice requires charitable organizations to maintain a record of volunteered hours. Utilizing this information, with a minimum of 100 volunteer hours per year recorded, a volunteer can request to have a receipt issued in the value of donated time, rounded to full hours, multiplied by the current minimum wage as regulated by the Province in which the volunteer resides. The charitable receipt for volunteer time must meet the same statutes, regulations and policies as the charitable receipt issued for donations.

Charitable organizations could elect to participate in the program. Tracking volunteered time is an integral part of recognized volunteer management programs, so systems are already in place with most volunteer organizations. In addition, relevant data could be collected through the Information Return required to be completed by Canadian charities. The information gathered through this process can be evaluated in terms of the premise that recognition of volunteer time in the form of a tax credit has an impact on volunteer recruitment and retention. Subsequent analysis would be available for knowledge transfer, encouraging volunteer organizations to develop better volunteer management programs. This policy could be further supported through appropriate training utilizing existing national and provincial organizations that support the voluntary sector.

Interpretations

Charitable Organizations – registered non-profit organizations recognized by Canada Revenue Agency

Record of Volunteer Hours – documented hours worked by a volunteers and approved by a supervisor

Minimum of 100 Volunteered Hours – establishing a minimum level of hours to ensure that the contribution in time is significant

Minimum Wage – a number of different economic evaluation methods have been developed to assign an economic value to volunteer time. The purpose of this policy is not to establish an economic value, but rather to symbolically recognize the contribution made by a volunteer.

Charitable Receipt – the intention is to highlight that this receipt should be treated in the same manner for income tax purpose as a charitable donation receipt.

Volunteer Management Program – the consensus is that volunteer management programs recognize the importance of recruitment, screening, orientation and training, supervision, evaluation and recognition of volunteers. The activity of tracking volunteers is part of the supervision process, issuing a charitable receipt for time volunteered is a form of recognition.

Justification

A number of strong arguments support this policy.

- Participating organizations are likely able to recruit and retain more volunteers, according to *Caring Canadians, Involved Canadians*, as the consequence of stronger volunteer management programs both in terms of appropriate tracking and stronger recognition of volunteers;
- Involving more volunteers will have a positive impact on the capacity of charitable organizations to fulfill their mandates, resulting in healthier communities;
- The incentive of a charitable deductible receipt as a recognition option for volunteers positively impact volunteer commitment. The charitable organizations would be given a choice to participate. The *Canadian Code for Volunteer Involvement*⁶ recognizes that volunteers have responsibilities and rights, including proper recognition;
- Offering non-traditional incentives will help broaden the narrow demographic of the current volunteer base;

⁶ The Canadian Code For Volunteer Involvement, retrieved from <http://volunteer.ca/files/CodeEngJune2006.pdf> November 22, 2010

- Providing the opportunity for volunteers to request a charitable receipt will encourage volunteer organizations to pursue charitable status and therefore be subject greater accountability;
- Canada is only second to the Netherlands in the non-profit and organizational workforce as a share of the economic population. Volunteering is culturally specific to Canadians and part of the Canadian identity. This policy represents an opportunity for Canada to take a leading role;
- The data collected through this process will help to develop a more accurate view of the voluntary sector.

Responses to Common Counter Positions

The topic of whether tax credits for volunteers have an impact on promoting volunteerism has become an important topic at national and provincial levels⁷ as stated in *The Potential Impact of Canadian Federal and or Provincial Tax Credit Incentives for Volunteer Participation* and further discussion is required to develop consensus on the topic.

Some have challenged the importance of tax credits as a motivational factor for volunteering, identifying altruism as the exclusive motivator. *Caring Canadians, Involved Canadians* lists a number of motivational factors that cannot be described as altruistic behaviour on part of volunteers, for example learning job skills and meeting people. In other words, volunteers are motivated by altruistic values as well as reasons relating to personal benefit. Regardless of the motivation for the individual volunteer, participation is optional and becomes a personal choice.

Questions raised include how volunteer time should be evaluated. The recommended policy does not intend to engage in the discussion by setting a nominal value at the minimum wage as regulated by the province in which the volunteer resides. Another question raised is the cost of administering a volunteer time tracking system, reframing the investment in a sound volunteer management program as a burden to the organization. This policy is building on existing volunteer management practices. Engaging in sound volunteer management practices will increase an organization's volunteer retention capacity, a benefit more significant than volunteer recognition through charitable tax credits.

Another question raised is the economic impact as measured in reduced revenue to federal and provincial governments as a consequence of the additional tax credit. An equally interesting question raised is the benefit to federal and provincial governments derived from the value generated by

⁷ The Potential Impact of Canadian Federal and or Provincial Tax Credit Incentives for Volunteer Participation, Clifford L. Spyker, CA, PhD., John Peloza, PhD. , n.d., Volunteer Alberta, Edmonton, AB, retrieved from <http://volunteer.ca/files/Volunteer%20Tax%20Credit%20Report%20Final%20-%20Screen%20Version.pdf>, November 22, 2010

additional volunteer time, particularly if the cost is measured by a tax credit based nominally at a minimum wage rate, and the benefit can be measured by standard models such as local averages, opportunity cost and replacement cost (*The Potential Impact of Canadian Federal and or Provincial Tax Credit Incentives for Volunteer Participation*). Alternately, what will be the cost in federal and provincial governments to replace the services provided currently by volunteers given that a trend indicating a long term reduction in volunteers?

The dominant dialogue are repeated calls for tax reduction to individuals, for example Maxime Bernier, PC, MP, is quoted as stating at the Montreal Economic Institute, November 22, 2010, that “*the population is ready to support politicians who clearly say what they think, who recognize that there are difficult choices to be made instead of promising heaven and earth.*” This line of argument contrasts tax cuts with the ability to provide services. This policy offers an alternative: a tax credit for volunteer hours combines increasing resources to volunteer organizations with a reduction in personal income taxes.

Appendix

Estimation of Size of Tax Credit

Assumptions:

- Minimum wages range from \$8.00 per hour in British Columbia to \$10.25 in Ontario. The calculation estimates a mean of \$8.70; however, the mean should be weighted by provincial contributions in volunteer time.
- All participants in the study *Caring Canadians, Involved Canadians* are entitled to claim the volunteer time for a tax credit and all organizations have elected and qualify to issue tax deductible receipts; however, this appears to be unlikely due to
 - o the minimum requirement of 100 hours per year per volunteer proposed in this policy,
 - o not all volunteers report taxable income or taxable income at a level that would allow them to benefit from a tax credit, and
 - o not all volunteer organizations are charities and not all charities will elect to participate.
- The tax credit equals 17% of the value of the receipt

Estimation of the maximum impact based on *Caring Canadians, Involved Canadians*:

Total number of volunteer hours:	2, 067 million
Mean Minimum Wage:	\$8.70 per hour
Maximum value of issued receipts:	\$17,983 million
Tax Credit:	\$3,057 million

Conclusion:

The estimated maximum possible impact is \$3 billion. This number speaks powerfully to the contribution volunteers make to Canadian society. More realistically, the tax implication should be estimated at a much lower value. However, even this number is significantly smaller than the \$20 billion estimated by the some commentators (*The Potential Impact of Canadian Federal and or Provincial Tax Credit Incentives for Volunteer Participation*). The possible reason is the much lower evaluation.