



Generous tax credits make tax filers more generous in their giving

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Datasets used

Longitudinal
Administrative Databank

Policy areas this research can inform

Families, households
and marital status

Government

Income, pensions,
spending and wealth

Society and community

Context

The authors' work provides depth for our understanding of how government policy affects the charitable sector. First, they demonstrate that the rationale for the tax credit is to increase giving. Second, they show that while charitable giving has remained relatively constant over the years, during the same period there has been decreasing rate of tax filers claiming the charitable donations tax credit. Third, they review the evidence of estimating donor responses to tax credits, showing that the tax credit is effective in stimulating generosity.

Key finding

When governments increase tax credits available for charitable donations, the average tax filer becomes more generous.

Policy implications

Reported charitable giving in Canada fell 10 percent between 2008 and 2018. This work provides a rationale for increasing the generosity of the tax credits available to Canadian tax filers, which could help to boost donations. The current structure of donation tax credits in Canada gives small donors a lower credit than big donors despite the fact that there are more small givers than big givers. Research has found that higher tax credits lead to more donations, so increasing the credit for small donors would likely result in increased giving in Canada. Before implementation of such a policy, however, we would encourage provincial policy experimentation to test the efficacy of this approach, as Alberta is doing by increasing their credit for small donors to 60%.

Read the full article here

Hickey, R., Payne, A. A., & Smith, J. (2024). Policy Forum: Understanding the Efficacy of Tax Credits for Charitable Donations in Canada. *Canadian Tax Journal/Revue Fiscale Canadienne*, 72(2), 317–327.

<https://doi.org/10.32721/ctj.2024.72.2.pf.hickey>

Citation

Hickey, R., Payne, A. A., & Smith, J. (2024). Generous tax credits make tax filers more generous in their giving. *CRDCN Research-Policy Snapshots*, 4(2), 7.

