

**Written Submission for the Pre-Budget Consultations  
in Advance of the 2021 Federal Budget**

Submitted by: Imagine Canada

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**Recommendation 1** – The extension and adaptation of emergency supports (CEWS, CERS, CEBA, and RRRF)

**Recommendation 2** – Core operating funding for organizations

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Canada's 86,000 registered charities – and a similar number of nonprofit organizations – have been hit hard by the COVID-19 pandemic. Nonetheless, they continue to deliver vital services to Canadians.

Charities, nonprofits and social enterprises are vital to a sustainable, equitable, economic and social recovery for Canadians. Among the factors that need to be taken into account when crafting this budget:

- 68% of charities have seen a decline in donations since the onset of the pandemic. Given the narrow margins that organizations sustain, this figure indicates loss of vital program capacity in communities across Canada.<sup>1</sup>
- Sector Monitor survey data shows that charities are focusing on immediate challenges over work that would build or maintain organizational capacity. Organizations are currently less focused than usual on staff development, revenue generation, and fundraising.
- Of those organizations experiencing a decline in revenues, the average shortfall is a 43% decrease in operating budget. Without profit margins by design, this funding shortfall translates directly to unmet needs in communities.
- The diversity of the sector is under threat: Larger organizations are more likely to be innovating or experimenting to develop new means of carrying out their mission, while smaller organizations are more likely to temporarily cease operations. Organizations that serve smaller localities are facing comparatively higher challenges.
- Close to 80% of the sector's labour force is women<sup>2</sup>, and the communities served by our sector tend to be those hardest hit by both the economic and public health effects of the pandemic. On the other hand, the number of organizations reporting that demand for services provided by charities and nonprofits continues to rise; from 35% in the spring to 46% in November. As a result, 38% of sector organizations have seen an increase in the size / scope of the populations they serve.
- Despite increased demand and tremendously reduced capacity, 79% of charities and nonprofits have innovated to develop new means of reaching people and carrying out their mission.

The first three recommendations constitute what we refer to as the “three-legged stool” of direct investment in our social sector infrastructure. Organizations stand to benefit from extended, augmented emergency supports to cover fixed staffing and rent costs, core operational support to invest in operational capacity, and lastly, a donations matching program to involve Canadians in the rebuilding effort. The remaining three recommendations are public policy measures<sup>3</sup> that, if implemented, will lead to significant shifts in our infrastructure, contributing to a stronger and more resilient charitable and nonprofit sector in the long term while costing very little. In other words, our recommendations will have a high return on investment.

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<sup>1</sup> Imagine Canada. (2021). Sector Monitor.

<sup>2</sup> ONN. (2019). Decent Work for Women Working in Ontario's Nonprofit Sector.

<https://theonnc.ca/wp-content/uploads/2019/03/DWW-Findings-and-Solutions-Summary-2019-ONLINE-JAN-2019.pdf>

<sup>3</sup> A number of recommendations (#4, #5, #6) brought forward in this brief are included in the Senate Special Committee on the Charitable Sector's [Catalyst for Change](#) report.

## Recommendation 1 – The extension and adaptation of emergency supports

Organizations across the country have benefitted from access to the emergency supports made eligible to charities and nonprofits. Our survey data shows us that these funds have helped organizations recognize a steady rise in demand, supplement lost donations and fees for goods & services revenues, and maintain their workforce. Our research tells us that these supports have enabled sector leaders to “double down” on their missions, heightening focus on program development to sustain their work in communities. At the same time, our research tells a story of organizations focused on meeting immediate need at the expense of activities that would lead to longer term sustainability. While these supports have contributed to improved capacity in the sector since April, the current strain on organizations is concerning.

Imagine Canada has been gathering feedback from charitable and nonprofit organizations to understand how federal COVID-19 supports – mainly the Canada Emergency Wage Subsidy (CEWS), the Canada Emergency Rent Subsidy (CERS), and the Canada Emergency Business Account (CEBA) – could be improved, and what resources and initiatives would help more organizations access much-needed relief. As a result, we’ve developed the following recommendations for the federal government:

- **Extend the CEWS, CERS, CEBA, and RRRF until September 2021.** Recovery cannot begin until the crisis is over. The immunization of all Canadians that want a vaccine by September 2021 may signal the shift from crisis to recovery. Until then, emergency supports should remain in place. Additionally, details about these supports should be communicated to potential applicants with as much advance notice as possible, rather than last minute or after the fact; this will help organizations better plan and better navigate the challenges ahead.
- **Establish charity- and nonprofit-specific helpline to streamline communications about emergency supports.** Many charities and nonprofits tell us they have a difficult time getting clear and timely answers to their questions about emergency supports. Organizations have to speak with multiple government employees about their inquiries. It is challenging to receive written responses, and responses they do receive can be contradictory. We recommend establishing a centralized helpline with dedicated staff that are knowledgeable about emergency supports and about charities and nonprofits to assist them with understanding and applying for financial assistance.

### Canada Emergency Wage Subsidy (CEWS)

- **Add third reference period for comparison for claim period 11.** As a result of recent changes to the CEWS, the reference periods for comparison under the general year-over-year approach and the alternative approach for claim period 11 are the same as for claim period 10. This suggests that organizations that have seen their revenue drop in January 2021, but not in December or November 2020, will not be able to receive the subsidy for claim period 11. Given that many organizations will likely see their revenues drop in January 2021 due to the implementation of restrictive public health orders across the country to deal with increased COVID-19 cases, one solution could be to add “January 2021” as a third reference period for comparison for claim period 11. **To the extent that the recent changes result in similar issues in subsequent claim periods, we suggest the addition of third reference periods for comparison as immediate fixes until the claim periods and the reference periods are re-aligned.** *Please note that this issue also*

*affects the Canada Emergency Rent Subsidy (CERS), given that the procedures to calculate revenue drops are identical.*

- **Raise maximum base rate and lower its revenue decline threshold.** The Government has increased the maximum subsidy rate to 75% for December 20, 2020 to March 13, 2021. However, the revenue decline threshold to receive the maximum subsidy rate is 70% or greater – this is in sharp contrast to the 30% threshold to receive a subsidy rate of 75% in April, May, and June 2020. To ensure greater coverage, increase the current maximum base rate (i.e., 40%) and lower its revenue decline threshold, which is currently at 50% or greater.
- **Allow independent contractors to be covered.** Due to the sometimes precarious funding environment of charities and nonprofits, many organizations rely on independent contractors. Yet, these costs are not covered by the CEWS. Coverage should be broadened to include these workers.
- **Allow for greater flexibility in revenue calculations.** Charities and nonprofits do not always receive/earn revenues the same time each year, which can make month-to-month comparisons across two years challenging and delay access to funds. It is recommended that there be greater flexibility afforded in terms of forecasting revenue declines across many months and/or excluding restricted contributions from calculations.
- **Allow for temporary use of newly opened payroll accounts.** There is an expectation that newly opened payroll program accounts continue to be used for future payroll remittances. But this does not take into account why organizations have third party payroll administrators in the first place. Organizations should be able to access much-needed relief without having to disrupt established administrative practices.

#### **Canada Emergency Rent Subsidy (CERS)**

- **Lower the revenue decline threshold for maximum base rate.** The revenue decline threshold of 70% to receive the maximum base CERS rate of 65% should be lowered to ensure more adequate coverage of organizations' expenses.
- **Provide additional retroactive support.** It is recommended that additional retroactive support be provided for organizations that were unable to access the CECRA program despite demonstrating significant need.
- **Make Lockdown Support more accessible.** The Lockdown Support is not available to organizations that are able to carry on activities, even if at a significantly reduced capacity, in response to a public health order (it is only available where an order leads to closure or cessation of certain activities accounting for 25% of pre-pandemic revenues). The Support could be remodelled after the CEWS top-up subsidy, which is contingent on achieving a certain revenue decline threshold.
- **Accept documentation of regular rent payments in lieu of formal agreement.** Eligible expenses must be paid or payable under a written agreement in place before October 9, 2020. However, there are organizations that do not have a formal agreement, but have documentation establishing a pattern of regular rent payments – these organizations should be eligible for the subsidy.

## Canada Emergency Business Account (CEBA)

- **Guarantee CEBA for those with smaller paid employment income.** Charities report being turned away by financial institutions despite meeting the CEBA eligibility criteria. They are told they are not eligible for the Non-Deferrable Expense Stream. The main issue is that charities' T3010s are not accepted as valid tax filings (for at least some organizations). Access to this stream should be guaranteed for eligible charities and other not-for-profit organizations encountering similar obstacles.

## Regional Relief and Recovery Fund (RRRF)

- **Broaden eligibility criteria to allow more charitable and nonprofit organizations to apply.** Charities and nonprofits are having difficulty finding emergency supports that comprehensively cover operating expenses. Fixed costs in particular have been a substantial challenge for the sector. Allowing charities and nonprofits - regardless of their relationship to local for-profit businesses - to apply for the RRRF across all Regional Development Agencies (RDAs) offers a sensible approach to filling in gaps left by other emergency measures.
- **Increase funding envelope to accommodate increased demand.** Broadening eligibility to allow more charities and nonprofits to apply will result in increased demand, which may exceed current levels of program funding. Drawing inspiration from the Fall Economic Statement 2020, one consideration could be to earmark a minimum percentage of all the Fund's resources (once topped-up) for charities and nonprofits.
- **Expand "non-repayable contributions" option across all RDAs.** While some RDAs appear to offer funding in the form of non-repayable contributions, this does not appear to be an option at other RDAs. Many sector organizations lack the capacity to access and repay a loan, and recent survey data from Imagine Canada indicates that there is a lack of willingness among charities to take on debt. Therefore, repayable contributions will not always be an appropriate funding mechanism, and non-repayable contributions should be available.

## Recommendation 2 – Core operating funding for organizations

**The most direct and effective way to support the sector's sustainability challenge is financial investment for nonprofit and charitable organizations in the form of one or more federal granting programs.** This will ensure organizations can carry on their work, effectively transition programs and business models to meet needs in the "new normal", and prepare organizations to take advantage of future financing, funding and fundraising opportunities. The sector has advanced a number of such proposals; it is important that a grant program be available to both nonprofit and charitable organizations, and delivered based on need.

## Recommendation 3 – Matching fund initiative to incentivize donations

**We are calling on the federal government to establish a 1:1 Matching Fund Initiative for Canada's Charitable Sector, where the federal government aims to match private donations on a 1:1 basis up to \$1.5 billion.** Once organizations are able to access funds required to retain staff and cover fixed costs, sustain fundraising and communications capacity in equal measure across the sector, and refocus on

revenue generating activities, a donations incentives program may benefit many charities looking to engage Canadians in the rebuilding effort.

## Recommendation 4 – A home in government for the nonprofit sector

Recent events tied to the COVID-19 pandemic have revealed the depth of need for a “home in government” for the charitable and nonprofit sector. Such an entity would be responsible for ensuring the long-term health of our sector while strengthening its relationship to government and policymakers.

Since the pandemic began, a number of policy measures extended eligibility to charities and nonprofits after they were conceived of and designed for other industries. To ensure that resources, both public and charitable, are spent effectively and efficiently, it is crucial that the unique characteristics and revenue models of charities and nonprofits are understood by policy makers and accounted for in the policy design process.

For sector organizations, it has been costly and inefficient not having one place in government to have conversations about sector-wide policy; we believe it is also costly and inefficient for government to be approached through multiple channels, and for government departments to develop programming and policy responses without a complete and thorough understanding of the organizations that advance many federal priorities. The Advisory Committee on the Charitable Sector, housed in the Canada Revenue Agency, has a limited mandate to provide the CRA with advice on areas within its jurisdiction. It does not, as currently constituted, play the kind of role required by either the sector or the federal government.

**We reiterate our longstanding recommendation that the federal government establish a “home” for the sector within the permanent machinery of government, in accordance with the recommendations brought forward by the Special Senate Committee on the Charitable Sector.** This would place nonprofits and charities – which generate 8.5% of GDP and employ 2.4 million people<sup>4</sup> – on a more even footing with other economic sectors.

## Recommendation 5 – An investment in nonprofit and charitable sector data

Imagine Canada and others have also long been concerned about the lack of economic and employment data collected by the federal government about our sector. Once again, the pandemic has highlighted the challenges governments face when they need to make significant and far-reaching policy decisions in a data vacuum. Statistics Canada has the ability and willingness to collect, analyze, and share data that would benefit decision making in jurisdictions across the country, but it needs a clear mandate and resources.

Our ask responds to three related issues. First, there is no comprehensive data source that lists all incorporated nonprofits in Canada and related data, leading to serious gaps in our knowledge about these organizations (e.g., what they do, who they serve, where they operate). Second, critical human resources data on both charities and nonprofits is lacking, leading to an inability to conduct labour force planning and understand basic facts related to skills, compensation and workforce composition. Finally, the federal government has not done annual updates to the Satellite Account of Nonprofit Institutions

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<sup>4</sup> Statistics Canada. (2017). The Daily — Non-profit institutions and volunteering: Economic contribution, 2007 to 2017. Retrieved from: <https://www150.statcan.gc.ca/n1/daily-quotidien/190305/dq190305a-eng.htm>

and Volunteering since 2008.<sup>5</sup> This has left policymakers and industry actors across the country without essential macroeconomic sector data.

**In accordance with the recommendations brought forward by the Special Senate Committee on the Charitable Sector, we ask that the federal government provide Statistics Canada with a clear mandate to collect comprehensive economic and employment data about our sector, and funding of \$1 million a year to do so. By way of priorities, we recommend that the federal government:**

- I. **Engage with the provinces to unlock data on incorporated nonprofit organizations, and ensure this information is comparable and publicly accessible;**
- II. **Develop a national statistical apparatus to provide similar data about our sector as is provided for other industries, which would allow us to understand more about the sector’s labour market inputs and outputs; and**
- III. **Commit to annual updates to the Satellite Account of Nonprofit Institutions and Volunteering.**

### **Recommendation 6 – Support social enterprise activity**

Incredibly, 41% of nonprofits and charities’ revenues come from earned income activity.<sup>6</sup> These revenue streams draw from diverse sources: theatre tickets, thrift store merchandise, catering and food services, cleaning and construction, clothing manufacturing, to name a few. Network development and knowledge sharing, social procurement, access to business skills, and social finance mechanisms that are designed for organizations’ needs, are critical to social enterprise success. In addition to funding the work of nonprofits and charities in nearly every corner of our sector, this kind of earned income activity often helps individuals overcome employment barriers, can facilitate greater independence and flexibility in addressing local needs, and contributes to more inclusive and resilient community economies.

**We recommend that the federal government implement the remaining recommendations of the Social Innovation and Social Finance Co-Creation Steering Group’s report [‘Inclusive Innovation: New Ideas and New Partnerships for Stronger Communities.’](#)**

### **Recommendation 7 – Qualified donee reforms**

The response to the pandemic has made increasingly clear the need for partnerships between charities, nonprofits, governments, and the private sector, to effectively respond to urgent community needs.

Current *Income Tax Act* rules on qualified donees and direction and control make it exceedingly difficult to form such partnerships in a way that puts the needs of communities first. Principles of equity and inclusivity are underserved by the current policy regime, as marginalized communities and Indigenous communities remain unable to benefit from charitable funds to the same degree as more privileged demographics.

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<sup>5</sup> In 2019, Statistics Canada released an update to the Satellite Account of Non-profit Institutions and Volunteering covering the years 2007 to 2017. This was a one-time update only and there is no funding nor plans for future updates.

<sup>6</sup> Satellite Account of Nonprofit Institutions and Volunteering. Statistics Canada (n.d.), Table 36-10-0613-01 Production, income and outlay accounts of non-profit institutions (x 1,000,000). Ottawa, CANSIM (database).



**We recommend that:**

- I. The “own activity” test in the ITA that requires registered charities to devote all of their resources to charitable activities carried on by themselves be replaced with a regime that permits registered charities to operate in furtherance of their charitable purpose; and**
- II. The administrative requirements around direction and control be replaced with a requirement for registered charities to establish reasonable and practical parameters for ensuring resource accountability when working to achieve a charitable purpose through a third party that is not a qualified donee.**