# The Potential Impact of Canadian Federal and/or Provincial Tax Credit Incentives for Volunteer Participation

Clifford L. Spyker, CA, PhD.(c)
John Peloza, PhD.

Volunteer Alberta
#217 Birks Building
10113 - 104 Street
Edmonton AB T5J 1A1

Toll-Free: 1-877-915-6336
Phone: 1-780-482-3300
Fax: 1-780-482-3310

volunteer Alberta
connecting the nonprofit/voluntary sector

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# Executive Summary

Over the past decade there has been increased discussion at the federal and provincial levels surrounding the introduction of a tax credit allowing individuals a tax deductible (non-cash) expense for personal time volunteered to registered charities (RCs).

The impact of donated time by volunteers to nonprofit organizations (NPOs) is staggering in scope. With over 1 billion hours estimated across Canada (Mook and Quarter 2006) even a conservative valuation would suggest over $20 billion in economic value. Therefore, the implementation of a tax credit policy may translate into hundreds of millions in lost tax revenue at the federal/provincial level directly impacting governmental transfers. As a result, any changes to tax policy concerning donations should be expected to positively impact donation levels to extent that they at least match tax revenues lost.

Even without this concern, the wide scale implementation of a tax credit policy for volunteer time donations is potentially problematic for both NPOs and the federal government. The critical concerns are as follows;

### *a) Economic value of donated time*
Although multiple models have been proposed, there is no consensus on the appropriate method for valuing the donations of time by volunteers on a wide scale.

### *b) Compliance issues of volunteer time donations*
The potential compliance conflicts between regulators, donors and NPOs are at this time unresolved.

### *c) Impact upon volunteer motivations*
The attachment of economic and specifically tax value to the "altruistic and egotistic donation" may in fact reduce the motivations of volunteers to participate.

### *d) Net economic effects of total donations*
Although charitable donations are in general responsive to reductions in tax costs, donations of time and cash are "gross compliments." Therefore, reductions in costs to volunteer donations may adversely affect other forms of donation (i.e., cash).

### *e) NPOs as consumer models*
Tax credit programs may shape the attitudes of donors and the public at large to view NPOs as extensions of the consumer model. Moving volunteerism further toward a classic marketing "exchange" may have adverse long-term effects on Canadian rates of participation and attitudes toward volunteerism.

# Rationale

In 2008, Volunteer Alberta commissioned a report to explore the potential impacts of federal and/or provincial tax credits on volunteerism. The impetus for this research stemmed from rising concerns voiced by nonprofit/voluntary organizations about the apparent declining rate of volunteerism in recent years.

In 2006, the federal government's Standing Committee on Finance issued a recommendation that 'the federal government study the feasibility of a tax measure that would recognize and reward the hours of volunteer activity.' Additionally, in September 2007, Alberta's Crime Reduction and Safe Communities Task Force recommended that 'the government look at the current requirements for charitable deductions and develop an appropriate mechanism for recognizing time spent on volunteer activities in addition to financial contribution.'

The issue of whether or not volunteer tax credits have an impact on promoting volunteerism has become an important topic of debate at both the national and provincial level. This 2008 report responds to and builds on the growing momentum to find solutions to the challenging issues of volunteerism. Volunteer Alberta, with support from the Muttart Foundation and Mount Royal College Institute for Nonprofit Studies, produced this report with the focus on providing in-depth analysis and empirical research to advance this debate in a timely and informed manner.

Volunteer Alberta invites comments and feedback on this report to **communications@volunteeralberta.ab.ca**.

# Introduction

There are more than 160,000 nonprofit organizations (NPOs) in Canada and roughly half of these 79,787 (in 2005[1]) operate as registered charities (RCs). This number compares with the 2,285,090 for-profit (FP) businesses in the same year (for a detailed discussion see Tal 2006). The registered charity (RC) plays an important role in both Canadian and Albertan society, providing social goods and services ranging from arts and cultural events to health care and senior services. The impact of the RC is felt from the smallest of rural community to the largest urban centre and across borders to foreign countries.

The objective of this report is to develop valuable insights into the potential impact of the implementation of a federal and/or provincial level income tax credit for individual volunteer activities. Over the past decade there has been increased discussion at the federal level surrounding a proposed introduction of a tax credit allowing individuals a tax deductible (non-cash) expense for personal time volunteered to RCs. The result would be a reduction of personal net income and income tax expense for the volunteering individual. This report is primarily a review of existing literature across multiple jurisdictions and disciplines, drawing upon the economic, accounting, nonprofit and tax disciplines to develop a common framework for discussion purposes.

Although this report is focused on the literature from the North American context, it also draws upon findings and suggestions from research from other jurisdictions such as Australia, New Zealand, the United Kingdom, and emerging economies such as Russia and Singapore, and additional jurisdictions as identified.

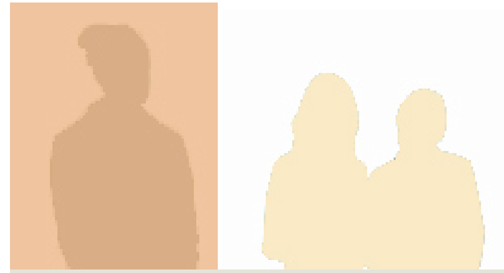
1 *For the year 2005, the Canadian Revenue Agency (CRA) received 79,787 T3010 annual returns as requirement of filing for registered charities in Canada.*

## Research Questions

There are three initial research questions that this study intends to explore;

1. **A brief identification of current volunteerism economic valuation models;**
2. **The impact of economic valuation models on tax credit models, and;**
3. **The potential impact of tax credits upon volunteer motivation.**

This report is structured as follows. Each of the three research questions is discussed with respect to current research, the major issues and concluding remarks. In addition the role and placement of charities in society (specifically in Canadian society) and final conclusions and position statement of this report serve as bookends around the previously discussed research questions structure. As such, section one is a brief framing of the role of registered charities in Canadian society, section two identifies the current economic valuation models of volunteerism, section three explores the impact of economic valuation models upon tax credit valuation models, section four explores the impact of tax credit models upon volunteer motivations, and section five provides the authors' position and concluding remarks.



***Volunteer Vignette: Helen***
***Valuing volunteer donations of time***

*Many professionals are active contributors to their local communities through board participation for a number of local charities;*

When first approached, Helen was honored and quite pleased to be able to join the board of her community based "distress centre".

The organization performed valuable work in Helen's mind from on-call telephone support for troubled adults and teens to emergency intervention for first night accommodation and counseling services. Helen was first in contact with the centre through a colleague in her small accounting practice. With her training and expertise in accounting and business experience she logically became the treasurer after her first year and continued to act in this capacity for over a decade. During her tenure she helped the organization navigate some fundamental shifts in provincial and municipal funding. It was a period that saw many dramatic changes in nonprofit social service providers and Helen took great joy in knowing that she was instrumental in assisting the centre to survive and ultimately prosper in the "new charity" landscape of the Alberta economy.

Helen's initial motivation to participate and volunteer both her time but more importantly her expertise was mixed. She envisioned some potential exposure and felt that actively participating at the board level would increase her own business profile and assist her new professional practice to grow, an inexpensive form of "soft marketing". Linked to this motivation was a sense of community and a feeling that the organization was undertaking some important local work to the benefit of those most in immediate need.

Helen saw her participation as a logical step in giving back, a "tithing" to her local community. As her participation enriched over the years she developed a real pride and commitment to the programs and roles of the organization and contributed both financially and professionally in both time and money.

Contradictory to her initial motivations, her participation in the organization became an increasing time commitment as her own business grew and her available time reduced. In her final years of involvement she was volunteering more time to the organization than she could really justify from any business perspective. Fortunately her sense of community commitment overrode her business economic perspective.

# 1. Role of registered charities in society

NPOs in Canada and the USA are defined under federal legislation, the Income Tax Act (ITA) section 149(1) and the Internal Revenue Code section 501(c)3 respectively. NPOs are distinguished from for-profit organizations (FPOs) as "subject to the non-[re]distribution constraint (which proscribes distributing net income as dividends or above-market remuneration) [and] they must serve one of several broadly defined collective purposes" (DiMaggio 1990 p. 138). As such NPOs are not allowed to "distribute or otherwise make available for the personal benefit of a member any of its income...".[2] This constraint is in contrast to FPOs which are specifically created for the purpose of re-distributed incomes or surpluses to their shareholders. In return for the non-redistribution, NPOs receive preferential tax treatment. Under Canadian and America tax law NPOs are not subject to net income taxation.

As a subset of NPOs, registered charities (RCs) have been granted an additional tax advantage in the "power to issue tax-deductible receipts for donations" (Kitching 2006 p.1 [3]) . This provision allows donors to fully deduct donations made to RCs as an expense against any other revenue, which can have the effect to reduce the donor's tax burden. Under Canadian tax law, RCs operate under the non-redistribution constraint and as a part of the overall nonprofit (NP) sector play a significant role in the social fabric through the provision of public goods and services. The NP sector in Canada can be described as follows;

*2 Canadian Income Tax Act (ITA) Section 149.1.d as discussed in IT bulletin IT-496R 2001.*

*3 As defined under the ITA s 149 1(1).*

*4 per Imagine Canada's website July 2008 (www.imaginecanada.ca)*

> …second largest in the world; the Netherlands is the largest; the United States is the fifth [per population]. There are approximately 2 million people employed within this sector representing 11.1% of the economically active population [workforce in Canada]. The sector represents $79.1 billion or 7.8% of the GDP (larger than the automotive or manufacturing industries) (Imagine Canada 2008 [4]).

World-wide this sector has much impact and is referred to as the voluntary or third sector in both the UK and USA respectively and the NP sector in Canada.

**We begin our examination of the sector by addressing the questions: "What are public goods and services?"; "How do NPOs provide these goods and services?", and "How did NPOs organizations arise? These are important first questions.**

A public good or service encompasses a wide range of goods including the classic national defence, public pathways and parks, roadways, canals, museums and legal systems. These goods display two features:

> 1) if provided for one person, there is no simple or cost-effective way to exclude another from consuming it (the "non-excludability" condition): and 2) costs no more to produce for many persons than it does for one (the "non-rivalry" condition). Public goods are generally not provided by a market system of production and distribution, since the rationally self-interested person has no incentive to pay for that which, without his paying, will either be provided to him anyway, or, if it is not provided to him, will not be provided to anyone. (McCamus, Des Rosiers et al. 1996 p.791).

This report has three objectives. The first is to examine the models used to value the volunteer contributions to charity. The second is to understand the impact of changes in the cost of donations on donor behaviour. The final objective is to explore the potential impact of tax credits upon volunteer motivation and the potential impact of implementing a tax credit system at the economic level. The pursuit of these objectives is within the context of volunteerism performed by individuals, and most often volunteerism performed by professionals who typically consider donations of expertise as part of their business philanthropy.

This context is unique in that it represents the intersection of what have typically been considered separate streams of research within professional and academic fields. For example, researchers have examined the impact of tax code changes on personal donations (e.g., Peloza and Steel 2005), and on corporate donations (e.g., Carroll and Joulfaian 2005). However, contributions made by self-employed professionals have characteristics of both personal and professional donation. They may be motivated by an individual's personal interest in a charity, but may also represent a business building opportunity through networking and skill development (Peloza and Hassay 2006).

Another way in which this report fills an existing gap is that although it considers the donation of time, from the prospective of the self-employed professional donating expertise, time is money. Although both forms of donation have been widely studied, this represents the first example where a donation is effectively viewed by the donor as both time and money at once.

This report takes each of these unique bodies of evidence – in corporate and personal philanthropy as well as the donation of time and money – to enhance our understanding of the philanthropy behaviour of the self-employed professional. This report provides guidance to those who seek to assign value to these donations, and to those who seek to understand the implications of changes in tax policy to encourage donation. Findings in each of these areas are now discussed in turn.

Figure 1.

### *Sources of Dollar Values for Volunteer Activity*[5]

**1. Local Averages:**

Prevailing wage rate for a province or metro area such as those provided by StatsCan.

**2. Opportunity Costs:**

Hourly rate received by volunteers at their place of employment, or their assessment of how much they should be paid for their volunteer work.

**3. Replacement Costs:**

The specific wage rates applicable to the volunteer task (e.g., NAICS rating).

*5 Mook et al. (2007) use an average of multiple measures to account for survey bias or other error. Several of the metrics offered here can be determined using a free calculator offered by Imagine Canada: http://volunteercalculator.imaginecanada.ca/eng/default.asp*

## 2. Current economic valuation models of volunteerism

It is estimated that over one quarter of all Canadians volunteer, and a recent estimate puts the total yearly contribution at over 1 billion hours (Mook and Quarter 2004). Yet at the charity level, calculations of the economic value of volunteers are rare. Relatively few charities (37%) keep accurate record of the number of volunteer hours contributed. Fewer still (7%) assign a financial value to volunteerism, and only 3% report this value in their accounting statement (Mook, Sousa et al. 2005).

However, Goulbourne and Embuldeniya (2002) point out that many funding organizations are now asking for charities to report the total value of their contributions, including donating volunteer time. They outline useful measures for valuing volunteer activity that currently isn't captured in most organizations. Broadly speaking the measurements suggested can be captured at three levels.

The first is, "human resource productivity measures" (p.4). Most of these measures are directly associated with the "dollar equivalent" of the time donated by volunteers. The simplest measure is a total of the number of volunteer hours multiplied by an appropriate hourly rate. A key challenge in this type of measure is the determination of the correct hourly rate. Ross (1994) reports on government statistics that show a difference of over 50% among the provinces and territories in Canada (yearly statistics are published by StatsCan). However, challenges to this type of calculation have been raised. Brown (1999) for example, argues that the true market value for volunteer services is typically well below the average wage rates in any given economy, and therefore argues that this calculation can overstate the economic value from volunteers. Conversely, for specialized volunteer activity (e.g., lawyers, accountants), clearly the average valuation rates used by StatsCan are inappropriately low and should be adjusted to a market value for the actual contribution activity. In their study of a hospital volunteer program, Handy and Srinivasan (2004) highlight a range of fine-grained measures (in addition to broad-based local averages) to calculate the dollar value equivalent for volunteer time: volunteer self-reported wage rates at their paid labour, volunteer expectations of market value, or replacement (i.e., market) costs based on a range of specific activities performed by volunteers.

An extension within this first category is the assignment of "true" economic value added which includes an hourly wage plus an additional allocation for benefits (Goulbourne and Embuldeniya 2002). This type of measure can also be expressed as a full-time employee equivalent that calculates the number of full time staff that would be required to cover all current volunteer work (Mook and Quarter 2006), or can include the addition of other expenses incurred by volunteers but not claimed as "in kind" donations (Mook, Handy et al. 2007).

This range of methods for calculating the value of volunteer time has implications for how specific donations are recorded and treated for accounting purposes by the donor. It is not clear whether the donor, if currently using an hourly rate for normal business, should apply that same rate to the donation; use a value based on actual work performed; or some broader average.

The second category of measures for valuing volunteer activity contains those that consider the impact of volunteers on the efficiency of the organization, "volunteer program efficiency measures" (Goulbourne and Embuldeniya 2002 p.4). These include ratios for number of volunteers relative to paid staff, or the amount of volunteer value (as calculated above) relative to the overall budget of the organization. These measures are useful for determining the importance of volunteerism to the operation of the organization overall. A related measure takes the economic value of volunteerism and divides by the investment in the volunteer program, which in effect provides a rough "ROI" calculation for the program (e.g., Handy and Srinivasan 2004).

The third category which is the most recent and perhaps the more controversial measure for the value of volunteerism is based on the amount of "value-add" they provide, "community support measures" (Goulbourne and Embuldeniya 2002 p.4). This model seeks to value volunteer contributions, and indeed nonprofits overall, in terms of value generated. The most prominent of these is the "socioeconomic impact statement" or "expanded value added statement" proposed by Mook and colleagues (Mook and Quarter 2006; Mook, Handy et al. 2007). Value created can come in the form of economic stimulus to the local economy in both public and private sectors. It can also come in the value of volunteer skill development which can be calculated, for example, using the equivalent college tuition (Mook and Quarter 2006). Brown (1999) echoes the importance of value attributed to volunteers themselves as an under-reported aspect of volunteer value. While the first two types of metrics focus primarily on valuing volunteerism as an input, this third category measures volunteer outcomes associated with individual specific value-added volunteerism. Therefore, this third type of value goes far beyond the traditional means of valuing volunteer labour.

## 3. Impact of economic valuation models upon tax credit valuation models

When donations to charity are made, it is impossible to determine if the donor is altruistically (i.e., wanting to help someone else) or egoistically motivated (i.e., wanting to help oneself). Although many researchers argue that both motives are present in the majority of donations, one way to change the cost/benefit relationship for donors interested in egoistic returns is to manipulate the tax incentives associated with donation. A recent estimate from the United States puts the value of this form of government "subsidy" for charity at $145 billion between 2001 and 2005 (Colombo 2005).

If tax policy is "treasury efficient" (Steinberg 1990) at increasing donation to charity, the net impact of a $1 tax credit will result in greater than $1 in donation value. If the relationship is greater than 1:1 the cost of donations is said to be elastic, and if the relationship is less than 1:1 (i.e., a reduction of cost by $1 results in less than a $1 increase in donations) the cost is inelastic. Studies of the elasticity of charity donations have spanned over four decades. A recent meta-analysis (Peloza and Steel 2005) concludes that the tax cost of charity donations are, on average, price elastic. Specifically, a $1 reduction in tax cost is expected to result in a $1.11 increase in donations to charity. Interestingly, this meta-analysis found a much higher elasticity for studies that used surveys to measure response as opposed to studies that used actual data, although both were negative. This finding highlights the importance of using behavioural data to assess the impact of tax changes since people tend to overestimate their generosity (Clotfelter 1985).

Although the meta-analysis provides compelling evidence across four decades, the majority of studies use American tax codes and data. Very few Canadian studies have been published with two notable exceptions, both of which found donations to be inelastic. Hood and colleagues (1977) found an elasticity of -.85, and Glenday and colleagues (1986) found an elasticity of only -.15 for wealthy individuals, and zero for all others. It's not clear whether these outliers are unique because they are Canadian examples, or whether the Canadian taxpayer is less elastic to price changes in the cost of donations. Further, these studies are quite dated and therefore may not reflect current tax legislation in Canada.

Beyond North America, very few studies of donation elasticity have been completed. In the United Kingdom, Jones and Posnett (1991) find virtually no impact from tax changes on the donations of citizens. However, Brooks (2002), in the first published study of donations among Russian citizens, finds elasticities highly efficient from a tax perspective (-6.62). Similarly, Chua and Wong (1999) find that donors in Singapore exhibit generally highly elastic (up to -6.15) donations in response to tax changes. These findings suggest that the tax efficiency of donations may decrease as a society matures towards the social safety net that is currently enjoyed in Canada and, to some extent, in the United States.

### *Corporate Donations*

Since the focus of this report is on donations made by professionals, the review of individual donations to charity is augmented by a review of the literature on donations made by firms. Navarro (1988) argues that although managers can act with altruistic intentions, control mechanisms of the firm direct their actions toward profit maximization as a goal. Therefore, reductions in the tax costs of giving will positively impact corporate giving. The history of research on the impacts of tax policy on corporate donations is much less robust than individual donations, and encompasses only data from the United States.

In the earliest study available, Schwartz (1968) conducts several tests to determine the price elasticity of corporate donations. His results were similar across all studies, yielding elasticities that range from -1.06 to -2.00 suggesting that corporate donations are elastic and responsive to price changes. This finding is supported by

Nelson (1970) who also finds only slightly tax-efficient elasticities (-1.03 to -1.18). This evidence suggests that donations by firms are motivated in part but not entirely by profit maximizing motives. Had the motives been entirely profit-motivated, the price elasticity would be exactly 1. This is supported by evidence that suggests that egoistic motivations (such as a tax deduction benefit) might serve as a "gateway" into a larger relationship with a charity (Peloza and Hassay 2006). The initial donation may be made for profit maximization, but subsequent involvement and support may be altruistically motivated as the donor identifies with the cause and the recipients of their support.

Interestingly, Schwartz (1968) finds that firms in the service industry are the one exception to the otherwise consistent findings, with a price elasticity that is slightly treasury inefficient (-.92). This means that firms in this category do increase donations in response to reductions in tax costs, but not enough to cover the government subsidy.
However, more recent research shows a cloudier picture of the efficiency of reductions in tax cost. Carroll and Joulfaian (2005) find elasticities in a range similar to those of previous studies (approximately -1.8), and Day and Devlin (using Canadian data) demonstrate that a 1% drop in tax costs result in a 1.5% increase in corporate donations. However, Clotfelter (1985) argues for a price elasticity of only -40. Similarly, Boatsman and Gupta (1996) find elasticities of virtually zero (ranging from -.04 to -.17) pointing to a lack of responsiveness in firm contributions to changes in the tax cost of donation.

One study that perhaps best bridges the gap between giving by individuals and by corporations is a study by Barbour and colleagues (2001). They studied the responsiveness of entrepreneurs to changes in tax costs of charity donation and find elasticities between -1.2 and -1.9 (depending on marital status). These estimates are very much in line with the majority of findings on corporate giving, suggesting that, on average, corporate donation is at least, if not more, responsive to changes in tax costs as individual donation.

## *Donations of Time versus Money*

Clotfelter (1985) points out that in the United States individuals have been prohibited from deducting the value of volunteer time from their taxes. Long (1977) argues that the inability to deduct donations provides tax neutrality for the donor, and uses the example of the donation of $10 worth of work given to a charity. He argues that the $10 can be paid and then donated to the charity, leaving the taxpayer with an equal deduction in either case. However, tax policy still has the potential to impact volunteerism as well as monetary donations. Many have argued that donations of time and money are complementary (e.g., Brown and Lankford 1992; Clotfelter 1985: Greene and McClelland 2001). Therefore, a decrease in the cost of monetary donations may lead to an increase in volunteerism.

A recent proposal by the government of New Zealand to allow tax credits for volunteerism has potential to guide Canadian policy according to a recent article (Canadian Tax Journal 2007). However, the challenges expressed are similar to the concerns about economic valuation outlined in part one of this report. Namely, what is the correct hourly wage rate and how should it be set? Should there be a limit of the number of volunteer hours that can be claimed?; Which organizations should be allowed to offer such a credit? And; should the credit be limited to certain types of volunteer activities?

It should be noted that donations in the form of time and money vary widely from one another. Volunteerism has the potential to deliver a much higher egoistic benefit than monetary donations, particularly if the volunteer activity is related to one's job. While monetary donations can be largely offset with tax deductions, volunteering can provide networking opportunities, skill development and organizational skills (Peloza and Hassay 2006). Therefore, the tax deductibility of volunteerism may play less of a role since self-serving benefits are offered through other means.

# 4. Impact of tax credit models upon volunteer motivations

"Giving and volunteering decisions are related" (Andreoni, Gale et al. 1996 p. 1). The donation of time (volunteering) and the donation of cash are complementary and substitutive in nature. For example individuals that donate their time to a specific charity often also donate cash. Tax policies can influence charitable giving and it has been suggested that reducing the tax deductibility of cash donations would reduce cash gifts by 5.7 percent (Andreoni, Gale et al. 1996) while gifts of time would fall 0.7 percent (Andreoni, Gale et al. 1996). In comparison to reducing tax deductibility, it is suggested that increasing tax deductibility increases cash donations by 3.0 percent and increase volunteer time donation hours by 0.6 percent. Randolph (1995) suggested that individuals shift their donations to take advantage of temporary changes in their personal tax rates. He suggests that the effects of permanent income elasticity are small but negative (-0.5 percent) as individuals smooth their donation patterns relative to changes in income.

Menchik and Weisbrod (1987) suggest that "people may view volunteer labor as a consumption good or as an investment that improves job skills and contacts". They further suggest that volunteer labor is inversely related to net tax personal wages, positively related to decreasing personal income and negatively related to the net after tax cost of cash gifts.

Brown and Lankford (1992) found that women and men expressed differing volunteer labor elasticity when substituting labor for cash donations. For men it was -1.1 and for women it was -2.1. These results have been interpreted as suggesting that these goods, cash and labor donations are gross complements (Dye 1980; Clotfelter 1985). The suggestion of cash and time donations as "gross compliments" would suggest that as cash donations decrease time donations increase and vice versa. The result is that the sum total of donation is the same.

If cash and time donations are in fact "gross compliments" as suggested then the issue of which is preferred by the charity time or money becomes central to the implementation of tax credit policies. In a number of very brief telephone conversations with the executive directors (ED) of six NPOs in Western Canada the response appears extremely clear. Senior management of NPOs would much prefer cash donations to time donations. As one ED noted that "cash is king" and that with cash he "could decide how to spend it".

Andreoni, Gale et al (1996) present an interesting model that suggests that individual donations of time versus cash are dependent upon the value of that activity to the charity. For example professionals providing catering services are "warm-glow altruists" in comparison to when they are acting in their professional capacity in their volunteer activities. They receive greater satisfaction when providing "higher-value" services which they perceive is of greater value to the charity. Therefore, any instrument designed to increase volunteerism must take into account the ability of a given charity to accommodate the volunteer with an opportunity to engage in meaningful work relative to their expectations. Peloza and Hassay (2006) present similar findings on corporate volunteerism programs, and suggest that the ability to practice a job skill or acquire a new skill related to employment are significant predictors of volunteer participation.

If donated cash and labor are gross complements then tax policies may in fact impact total donations to the charities. This

***Volunteer Vignette: Joseph***
***Motivations of volunteers not financial in nature***

*Anyone who has a child who participates in community based sports activities will recognize the following parent . Joseph's son plays peewee hockey for his local community.*

The lack of local facilities meant that the team played at all hours of the morning and night with practices and games three to four times a week. The driving between rinks meant lots of hours spent in the van and many hours tying up skates and cleaning uniforms and equipment.

One of the minor frustrations was trying to get quality skate sharpening at reasonable prices as needed. At the home rink Joseph discovered an old skate sharpening machine under the bleachers and arranged to move it to his home. During one off-season Joseph labored to refurbish the machine.

After evenings of practice and a series of courses Joseph became the best skate sharpener in town, a local legend. His services became quite the story and for over ten years he sharpened skates at least once a week for every member of his son's team and many community players. His services were quite sought after and while offered at no charge he was the acknowledged best skate sharpener in Southern Alberta.

After a decade of four times weekly visits to the rinks of his surrounding towns, two Suburban trucks and untold miles of icy roads, Joseph's son "retired" from midget hockey.

is especially true it appears as individual net incomes fluctuate over time. This specific issue may have immediate impact in the current economic environment such that donors may naturally be motivated to make less cash donations and greater time donations if they experience reductions in personal income even over the short term. The issue may be further increased if donors perceive that they can trade time for dollars thus satisfying their personal desire to contribute without impacting their own personal income.

As NPO endowments are impacted directly by decreasing portfolio returns any potential reduction in cash donations would have tremendous negative impact on NPOs that are already struggling with economic conditions.

Joseph continued to sharpen skates but within a year his visits to the rink stopped and his once vaulted status as "skate sharpener extraordinaire" eroded and faded and he too "retired" undefeated.

Joseph never saw his involvement from any other vantage than his love of sports and his own commitment to supporting his son's childhood experiences

## 5. Conclusions

The impact of donated time for NPOs is staggering in scope. With over 1 billion hours estimated across Canada (Mook and Quarter 2006) even a conservative valuation would suggest over $20 billion in economic value. The implementation of a tax credit policy could translate into hundreds of millions in lost tax revenue at the federal and provincial level. For a change in tax policy to have the intended effect the resulting change in consumer behaviour in the form of donations would need to at least equal this reduction in government revenues. However, one could speculate that the NP sector would be no further ahead since any change in tax policy might also be accompanied by a reduction in government funding directly to the sector.

Even without this concern the wide scale implementation of a tax credit policy for volunteer time donations is potentially problematic for both NPOs and the government. The critical components to the implementation of a tax credit system to capture volunteer activities are as follows;

a) **valuing the donated time,**
b) **potential conflicts of compliance issues of volunteer time donations,**
c) **impact upon volunteer motivations,**
d) **the net economic effects of total donations,**

and finally

e) **long-term impacts on consumers' attitudes toward volunteerism.**

### *a) Economic value of donated time*

Although multiple models have been proposed, there is no consensus on the appropriate method for valuing the donations of time by volunteers on a wide scale. Targeted specific programs such as the existing firefighters program potentially work because of the restricted application to a single donation objective. Donors appear to be motivated to donate more when they feel their "value added" donation impacts the charity.

### *b) Compliance issues of volunteer time donations*

Compliance is a critical issue for both funding and regulatory bodies alike. The potential for areas of conflict between regulators, donors and NPOs is at this time unresolved. Donors would be clearly motivated to overvalue their donated time while NPOs may have conflicting objectives. On the surface their desire to satisfy donors and report "high value" time donations may position them well within the community at large. However if the potential negative impact to direct cash donations exists, than it would be likely that NPOs would be negatively motivated. Regulatory and the tax agency (CCRA) would face excessive administrative costs with respect to compliance.

### *c) Impact upon volunteer motivations*

The motivations of volunteers to "donate" their time may not be shaped nor directed by the "value" of their donation. The principal motivations are altruistic and egotistic in nature. The attachment of economic and specifically tax value to the "altruistic donation" may in fact reduce the motivations of volunteers to participate. In addition the attachment of economic and specifically tax value to the "egotistic donation" would have no effect on donation motivations and may in fact further entrench the economic impacts of the donation in the donors' mind resulting in reduced motivations to participate.

### *d) Net economic effects of total donations*

The overall objective of implementing a formal tax credit system must in part be motivated to increase the total donation package to nonprofit organizations. There is economic evidence suggesting that a marginal return in donated time may occur due to the reduction in "cost" based on tax deductibility by the donor. However if donations of time and cash are "gross compliments" such that individual donors total donations are constant and the mix of donated time and cash may be affected by tax "costs." Then the implementation of a tax credit program would negatively impact cash donations. The resulting impact would not be favourable for the interests of NPOs at this time.

### *e) NPOs as consumer models*

Of unspecified but greater concern are the potential attitudinal shifts of donors that may result from the implementation of a tax credit program for donated volunteer time. Since the 1980s there has been an ongoing shift to view public services as consumer transactions. This has impacted the healthcare industry which is currently struggling to deal with "consumer" models of service provision. The introduction of tax credit policies may shape the attitudes of donors and the public at large to view NPOs as extensions of the consumer model. This may occur as a result of the economic translation of donated time into cash deduction equivalents which in turn creates a consumer behaviour view of NPOs. Moving volunteerism further toward a classic marketing "exchange" may have adverse long-term effects on Canadian rates of participation and attitudes toward volunteerism.

*Clifford L. Spyker, B.Comm., CA, PhD.(c)* is an instructor at Mount Royal College, Calgary, Alberta and a student at the University of Calgary, Calgary, Alberta. He can be contacted at cspyker@mtroyal.ca.

*John Peloza, B.Bus.Admin, PhD.* is an Assistant Professor at Simon Fraser University, Vancouver, British Columbia. He can be contacted at peloza@sfu.ca.

*The vignettes are based on the real experiences of volunteers with minor changes to provide anonymity for the individuals discussed.*

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