



**Stimulating Canada's Charitable Sector:
A Tax Incentive Plan for Charitable Food Donations**

January 2012

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Summary:

There is currently no tax incentive, at the federal or provincial level, recognizing charitable donations of food by manufacturers, importers, distributors or retailers to food banks in Canada. Unsold food is treated the same, from a taxation perspective, whether it is thrown into a landfill or donated to a food bank.

This document lays out a simple tax proposal that will remedy this situation and stimulate charitable donations of essential food to food banks across Canada – increasing the amount of food available to the 900,000 Canadians accessing food banks each month.

Plan: Create a tax incentive to stimulate charitable food donations to Canada's food banks.

Proposal: Allow food manufacturers, importers, distributors and retailers to deduct from taxable income the production cost of food donated to food banks, plus one half of the unrealized appreciation (with a maximum deduction of twice the production cost).

Potential Foregone Revenue: Up to \$15,000,000 per year

Why is this proposal necessary?

In March 2011, 851,014 separate individuals were assisted by a food bank in Canada. Food bank use in 2011 remained essentially unchanged from 2010 and was 26% higher than pre-recession levels. Food banks in Canada have served over 700,000 individuals every month for the better part of the last twelve years.¹

Food banks acquire and share more than 90 million kg of food to those in need every year. While this is a significant amount of food, it accounts for only 0.4% of the value of food products manufactured in Canada annually.² The majority of food banks provide 3 to 5 days' worth of food, once per month, to the households they assist.

¹ Food Banks Canada (2011). *HungerCount 2011*. Toronto: Food Banks Canada. All figures from the Food Banks Canada *HungerCount* survey unless otherwise noted.

² Canadian Council of Grocery Distributors, Canadian Federation of Independent Grocers & Food and Consumer Products of Canada (2006). *State of the Food and Consumer Products Industry*.

Due to the drastic increase in food bank use as a result of the recent recession, 35% of food banks currently do not have enough food to meet the need in their communities, 30% lack adequate funding, and 50% are forced to give less to each household than during the pre-recession period. Regardless of the health of the economy, food banks have struggled for years to bring in enough food and funds to fill the gaps in family food pantries.

Nearly half of food banks are completely volunteer-run, and the majority – 70% – receive no government funding. Less than 5% of food banks receive funding from the federal government, and the majority of food banks receiving provincial government funding are located in only two provinces, Quebec and New Brunswick.

Food banks are there for Canadians in need and there is very little government support for the work they do. Their lifeblood is donated food, yet there is no legislative support to encourage in-kind donations.

The following examples are taken from the Canada Revenue Agency, and demonstrate that there is no financial benefit for the donation of food to a food bank – donated and disposed food is treated the same.

EXAMPLE ONE: DONATION OF SURPLUS BREAD

Giovanni’s Bakery gives bread with a fair market value (FMV) of \$1,000 to a local food bank that is a registered charity. The cost of the bread to the company is \$500, half its sale price. The charity gives the business a tax receipt for \$1,000.

Calculation of taxable income

| | |
|--|------------------|
| Sales of bread | \$ 50,000 |
| Plus the FMV of bread donated to charity | <u>+ 1,000</u> |
| Income | \$ 51,000 |
| Less production costs | <u>- 25,500</u> |
| Net income | \$ 25,500 |
| Less tax deduction for donated bread | <u>- 1,000</u> |
| Taxable income | \$ 24,500 |

EXAMPLE TWO: DISPOSAL OF SURPLUS BREAD

Giovanni’s Bakery bakes \$51,000 worth of bread. It sells \$50,000 worth of bread, and throws out its surplus inventory worth \$1,000.

Calculation of taxable income

| | |
|-----------------------|------------------------------|
| Sales of bread | \$ 50,000 |
| Less production costs | <u>- 25,500</u> |
| Taxable income | \$ 24,500³ |

³ Canada Revenue Agency. *Tax advantages of donating to charity*. Ottawa: Government of Canada.

Currently, donors can deduct the fair market value of a food donation from taxable income, while reporting the fair market value of the donation as income. We propose that the Income Tax Act be changed to:

- Allow food donors to report only the cost of goods as income
- Allow food donors to deduct the cost of goods of donated items, plus one-half the unrealized appreciation, not in excess of twice the cost of goods

The following examples further illustrate how the changes would work.

A. SOUP DONATION UNDER CURRENT PRACTICE

A food manufacturer gives soup with a fair market value (FMV) of \$218,000 to a food bank that is a registered charity. The cost of the soup to the company is \$0.30 per can, or \$60,000 total. The charity gives the business a tax receipt for \$218,000.

Calculation of taxable income

| | |
|--|---------------------|
| Sales of soup | \$ 1,962,000 |
| Plus the FMV (@ \$1.09 per can) of donated soup | <u>+ 218,000</u> |
| Income | \$ 2,180,000 |
| Less production costs | <u>- 600,000</u> |
| Net income | \$ 1,580,000 |
| Less tax deduction for donated soup | <u>- 218,000</u> |
| Taxable income | \$ 1,362,000 |

B. SOUP DONATION WITH PROPOSED CHANGES

Calculation of taxable income

| | |
|---|---|
| Sales of soup | \$ 1,962,000 |
| Plus the cost of soup donated to charity | <u>+ 60,000</u> |
| Income | \$ 2,022,000 |
| Less production costs | <u>- 600,000</u> |
| Net income | \$ 1,422,000 |
| Less tax deduction for donated soup | <u>- 120,000</u> (limited to 2x the cost) |
| Taxable income | \$ 1,302,000 |

Support for this plan

“This tax plan will help more Canadians in need. It will encourage those companies already supporting food banks to increase donations to feed the hungry. It will also provide an incentive to food companies not currently supporting food banks to consider becoming involved in the cause. While donating companies and local food banks will both benefit, those who will benefit most are the hundreds of thousands of Canadian families who turn to food banks every month.”

- Darryl Rowe, President, McCain Foods (Canada)

“The proposed tax plan provides businesses with a valuable incentive to increase food donations to charity. It will keep thousands of additional tonnes of usable food out of landfill, bring more large donors on board, and help food banks serve more families in need.”

- Garth Whyte, President and CEO, Canadian Restaurant and Foodservices Association (CRFA)

Our members donate millions of pounds of groceries to food banks each year and certainly a tax incentive to recognize those already donating would be welcomed and encourage others to join in. Food Banks Canada does important work supporting Canadians and FCPC members support their policy to drive greater food donations to help those in need.”

- Nancy Croitoru, President & CEO, Food & Consumer Products of Canada (FCPC)

Evidence of Success

Evidence compiled in the United-States supports the premise that a similar tax incentive in Canada would provide a direct stimulus on charitable food donations.⁴

According to the Food Donation Connection, the amount of companies donating food almost doubled from 2005 to 2008 due to similar tax incentives implemented in the United States. As well, the total pounds of food donated per year doubled during this period.⁵

By virtually every measurable indicator, similar tax incentives in the U.S. have proven to significantly increase the amount of food donated to charitable food providers.

⁴ Congressional Research Service, *Report for Congress - Charitable Contributions of Food Inventory: Proposals for Change*, January 16, 2008.

⁵ Food Donation Connection, *Good Sam Hunger Relief Tax Incentive Impact*, presented to the Senate Finance Committee, September 29, 2010.

Beneficiaries

This deduction will recognize donations to food banks that are registered charities, from incorporated food manufacturers, importers, distributors and retailers. The deduction will not be available to individuals donating food to a charitable organization. It will not extend to “reclamation” products, i.e. retail goods deemed unsalable by retailers and returned to the manufacturer or distributor.

Use of Donation

The organization receiving the food donation must be a registered charity engaged in the distribution of food without charge; and the food that is donated must be provided to the recipient without charge.

Potential Foregone Revenue

Each year, approximately 90 million kg of food are acquired and shared by food banks in Canada. This food comes from a variety of sources, including donations from food manufacturers, distributors and retailers, community food drives, reclamation companies, and food bank purchasing programs. We estimate that approximately 25% of the food acquired and shared by food banks – about 23 million kg of food – could be eligible for a charitable deduction.

Food bank donations have traditionally been valued at \$5.5 per kilogram; therefore 23 million kg @ \$5.5/kg equals a total value of \$126,500,000 – about 0.1% of the \$86 billion worth of food manufactured in Canada each year.⁶ A substantial portion of this amount is currently being deducted from taxable income as a business-related loss by food manufacturers and distributors. Even providing that eligible food donations will grow thanks to the new incentive provided by our proposal, we predict that it is unlikely that the total decrease in taxable corporate income would exceed \$100 million per year.

A decrease in taxable income of \$100 million, at a tax rate of 15%, would result in potential foregone revenue of \$15,000,000 per year.

Conclusion

The Tax Incentive Plan for Charitable Food Donations will increase the amount of food donated to Canada’s food banks and will recognize the important contribution made by Canadian food manufacturers, importers, distributors and retailers to individuals and families in need.

⁶ Canadian Council of Grocery Distributors, Canadian Federation of Independent Grocers & Food and Consumer Products of Canada (2006). *State of the Food and Consumer Products Industry*.

About Food Banks Canada

Food Banks Canada is the national charitable organization representing and supporting the food bank community across Canada. Our Members, Affiliate Member food banks, and their respective agencies serve 85% of people accessing emergency food programs nationwide. We continue to work to find short term and long term solutions for the 900,000 Canadians who are assisted by a food bank every month.

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