Why The Proposed Stretch Tax Credit for Charities Should be Rejected

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Evolving Public Policy Debates Re Charitable Finance

Themes of Recent Public Policy Debates Re Charity Finance:

- Excess wealth
  - tax subsidy is abused by charities accumulating excessive wealth
  - forced expenditure requirement briefly mooted in the U.S. in late 2007
  - Canada went the opposite direction:
    - anti-accumulation rules were substantially relaxed in 2010
      - Disbursement quota overhaul
      - Charities exempted from Ontario's *Accumulations Act*

- Excess subsidy
  - tax subsidy is excessively generous to high income earners
  - Obama administration has repeatedly proposed capping deductibility of charitable donations

Evolving Public Policy Debates Re Charitable Finance

Themes of Recent Public Policy Debates Re Charity Finance:

- Declining donations in Canada (Statistics Canada)

Year	**Total Donations**
2009	$7.8 billion
2008	$8.2 billion
2007	$8.6 billion
2006	$8.5 billion

Evolving Public Policy Debates Re Charitable Finance

Themes of Recent Public Policy Debates Re Charity Finance:

- Declining Percentage of Taxpayers Claiming Charitable Gifts in Canada (Statistics Canada)

Year	**Percentage Claiming Charitable Gifts**
2009	23.1%
2008	24.1%
2007	24%
2006	25%

So What To Do?

- Motion 559 passed on March 2, 2011
- Instructs the Standing Committee on Finance to study ways of encouraging greater charitable giving, including:
  - Changes to charitable tax credit amount
  - Exempting gifts of private company shares and real estate from cap gains tax
- But → minority Conservative gov't defeated on a vote of confidence
- Motion 559 passed (again) as part of Spring Budget in June 2011

So What To Do?

- Do Nothing
  - “It’s the economy, stupid!”
  - Declining donations in a severe economic downturn reflect…the economy

- Tax Reform
  - “It’s the tax concession, stupid!”
  - Declining donations reveal that tax concession is ineffective as an incentive

Tax Reform Proposals

Capital Gains Tax Reform:

- Gifts of publicly traded securities are currently capital gains tax exempt

- Submissions to Standing Committee on Finance recommend extending cap gains exemption to:
  - gifts of land
  - gifts of private company shares

Tax Reform Proposals

Stretch Tax Credit:

- Submissions to Standing Committee on Finance recommend an enhanced tax concession for charitable gifts:
  - Imagine Canada
  - Association of Fundraising Professionals
  - CanadaHelps Foundation
  - Canadian Association of Gift Planners
  - Muttart Foundation
  - Philanthropic Foundations Canada
  - Professional Association of Canadian Theatres

Stretch Tax Credit

Technical Details:

- Current tax law provides for 2 stage charitable tax credit:

Donation Amount	**Current Tax Credit**
$1 - $200	15%
$201 onward	29%

- Stretch credit would enhance incentive by 10% for qualifying donations:

Donation Amount	**Stretch Tax Credit**
$1 - $200	15% + 10% = 25%
$201 onward	29% + 10% = 39%

Stretch Tax Credit

What donations would qualify for the stretch tax credit?

- Stretch tax credit only available for enhanced giving

- Donations up to historical levels of giving ineligible

- Donations exceeding historical baseline level of giving qualify

  – *i.e.,* only that portion of total annual donations representing enhanced giving would qualify

Stretch Tax Credit

What donations would qualify for the stretch tax credit?

- Stretch tax credit requires identification of baseline level of giving:
  - 2010 and 2011 have been proposed as baseline years
  - One version of proposal provides that total donations must reach at least $200
- Baseline continually adjusted upward as donations rise
- Stretch tax credit exhausted once baseline reaches $10,000

Stretch Tax Credit

Is the stretch tax credit time limited?

- One version of proposal limits it to 5 years

Policy Argument for Stretch Tax Credit

<u>Key Arguments Raised by Advocates of Stretch Tax Credit:</u>

1. Desperate Times – Desperate Measures Argument

2. Efficiency Argument

3. Not Your Typical Tax Expenditure Argument

- these arguments will be described and then critiqued

Desperate Times – Desperate Measures Argument:

- advocates of stretch tax credit emphasize two trends:
  - declining donations but rising demand for charitable goods / services rising
  - declining %age of taxpayers donating but rising numbers drawing on charities
- since times are desperate, the charitable sector needs an enhanced donation incentive, or so the argument goes

Efficiency Argument

- advocates of stretch tax credit contend that it is an efficient way for the government to fund the charitable sector

- What do they mean by "efficient"?
  - efficiency argument contemplates an implied comparison between funding the charitable sector through donation incentives versus direct government transfers
  - donation incentives are efficient relative to direct transfers if each dollar of foregone tax revenue is offset by more than one dollar of induced charitable giving
  - if donation incentives cost more than they generate in terms of new giving, then it would be comparably more efficient to fund the sector through direct transfers

Efficiency Argument

- advocates of stretch tax credit point to two sources to buttress their efficiency claims:

  (1) Survey Data

  – "In the 2007 Canada Survey of Giving, Volunteering and Participating, more than half of all donors indicated that they would increase their charitable giving if there were better tax credit incentives to do so." (Pre-budget brief submitted by Imagine Canada to the House of Commons Standing Committee on Finance.)

  (2) Stretch Tax Credit Estimate (prepared by Parliamentary Budget Officer)

  – Parliamentary Budget Officer ("PBO") estimates that between 30% – 45% of tax revenue losses will arise from induced donations *(A Cost Estimate of Proposed Amendments to the Income Tax Act to Provide an Enhanced Tax Credit for Charitable Donations* (August 12, 2010)).

Not Your Typical Tax Expenditure Argument:

- common critiques of tax expenditures include:
  - Equity: tax expenditures disproportionately favour the wealthy and the charities preferred by the wealthy
  - Transparency: tax expenditures mask government spending
  - Efficiency: tax expenditures incentivize behaviour that to some extent is unresponsive to incentives

- while advocates of stretch tax credit make no claims re transparency, they argue that it is both efficient (discussed above already) and equitable

Not Your Typical Tax Expenditure Argument:

Equity Considerations:

- tax concessions for charitable donations could be said to be inequitable b/c:
  - they disproportionately benefit the wealthy;
  - they disproportionately benefit the charities favoured by the wealthy;
  - tax concessions are inherently regressive (*e.g.,* tax credits are worthless to taxpayers with no taxable income)
- recent changes to charitable tax concessions disproportionately benefit the wealthy
  - *e.g.,* exempting gifs of public securities from capital gains tax is of the greatest benefit to the wealthiest donors

Not Your Typical Tax Expenditure Argument:

Equity Considerations:

- stretch tax credit is targeted at middle class donors and thus less vulnerable to attack on equity grounds

- targeting of stretch tax credit is achieved by the $10,000 ceiling (above which the stretch tax credit does not apply)

So Is the Stretch Tax Credit Good Policy?

- in my view, “No”

- Two fundamental “talking points”:

  (1) Arguments of Stretch Tax Credit Advocates are Contestable

  (2) Stretch Tax Credit Could Bode Adverse Side Effects

Scrutinizing the Arguments of Stretch Tax Credit Advocates

<u>Desperate Times – Desperate Measures Argument</u>:

- What is the true scope of “the problem” faced by charities?
  - statistics somewhat misleading b/c at least some of the decline in donations reflects crackdown on abusive tax shelters

- it is not obvious that “the problem” (whatever its true scope) has a tax solution
  - “it’s the economy, stupid” versus “it’s the tax concession, stupid”

- do desperate times necessarily call for desperate <u>*tax*</u> measures?

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Desperate Times – Desperate Measures Argument:

- tax concessions might not be the answer

- we have already liberalized tax concessions for charitable donations over the last several years

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Scrutinizing the Arguments of Stretch Tax Credit Advocates

<u>Desperate Times – Desperate Measures Argument</u>:

- reducing lowest personal income tax rate from 17% to 15% reduced the value of the charitable tax credit, but the general trajectory of tax reform over the last several years has been to liberalize charity tax concessions:
  - e.g., annual donation ceiling was raised in the late 90s
  - e.g., definition of "gift" was (slightly) broadened with split-receipting rules
  - e.g., gifts of publicly traded securities exempt from capital gains tax

- if we arrived at the current situation notwithstanding our having already liberalized charity tax concessions, then perhaps further liberalization is not the answer?

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Desperate Times – Desperate Measures Argument:

- Further, comparative tax data drawn from comparator jurisdictions should be compiled and analyzed before proceeding with stretch tax credit

- Specific issues to explore in a comparative context:

  – How have Canadian donations fared relative to countries with more / less generous tax concessions for charitable donations?

  – Have jurisdictions with more generous donation incentives fared any better? If not, then what is the stretch tax credit going to do for us?

  – Conversely, have jurisdictions with less generous donation incentives fared any worse? If they haven't, then, again, the case for the stretch tax credit is weakened.

Scrutinizing the Arguments of Stretch Tax Credit Advocates

<u>Efficiency Argument</u>:

- As a preliminary observation let me emphasize that I do **<u>not</u>** believe that a donation incentive is justifiable only if it is efficient
  - i.e., a donation incentive may be justified even if each dollar of foregone tax revenue results in less than one dollar of induced donations
- Recall that efficiency analyses essentially compare the cost effectiveness of funding charities indirectly through donation incentives versus directly through government transfers
- The comparison assumes that these funding models each yield the *same* charitable goods and services
- If this assumption is correct, then efficiency should be a decisive factor in the design of an ideal funding regime for charities

Scrutinizing the Arguments of Stretch Tax Credit Advocates

<u>Efficiency Argument</u>:

- BUT → direct and indirect subsidization will NOT result in the same charitable goods and services

- Indirect subsidization offers a number of advantages:
  - *e.g.,* greater diversity and pluralism of goods and services due to competition for donations from taxpayers
  - *e.g..,* better cost allocation between the state and individual citizens who consume charitable goods / services
  - *e.g.,* democratic renewal
  - etc

- An inefficient tax subsidy could be justified on the ground that it is the only way to yield these (and other) benefits exclusive to an indirect state subsidy of charity

Scrutinizing the Arguments of Stretch Tax Credit Advocates

<u>Efficiency Argument</u>:

- Stated otherwise, an indirect state subsidy delivered through a donation incentive **cannot** be inefficient relative to a direct subsidy funding model
- Why? B/c the indirect subsidy yields **different** (and in some ways, superior) charitable goods and services than a direct subsidy
- The tax revenues foregone through a donation incentive represent the cost of **those** enhanced charitable goods and services.
- Direct subsidy *might* cost less but it will yield different (and at least in some ways inferior) charitable goods and services

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Argument:

- that said, efficiency is an important consideration for the stretch tax credit if only b/c it is being advocated on the ground that it *is* efficient
- There are good reasons to question whether the stretch tax credit will be as efficient at inducing new donations as its advocates claim
- Most that can be said is that the stretch tax credit has the *potential* to be efficient

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #1:

- As indicated above, advocates of stretch tax credit are relying (in part) upon survey data to buttress the efficiency of the stretch tax credit

- Survey data is not an especially reliable proxy for efficiency

- Previous studies suggest that survey data overstates the efficiency of donation incentives

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #1:

- According to John Peloza and Piers Steel:
  - "An examination of the elasticities based on tax-filer data and survey data indicates that consumers appear to overestimate the effects of changes in tax deductibility on their willingness to increase donations…On average, survey data reports elasticities that are approximately 20% greater than those found in tax-filer samples." (J. Peloza and P. Steel, "The Price Elasticity of Charitable Contributions: A Meta Analysis" 24:2 Journal of Public Policy and Marketing 260-272 at 268.)
- So efficiency claims based on survey data need to be interpreted with caution

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #2:

- advocates of stretch tax credit are quoting the PBO Report for the proposition that between 30% – 45% of tax revenue losses arising from the stretch tax credit will result from induced donations

- Is this efficient?

- Since PBO modelling assumes that stretch tax credit only applies to new donations over $200, we know that the model assumes that all induced donations qualify for a total tax credit of 39% (29% existing tax credit + 10% stretch tax credit)

- We can use this information to draw conclusions regarding the efficiency of the stretch tax credit

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #2:

- PBO's estimate that between 30% – 45% of tax revenue losses arising from the stretch tax credit will result from induced donations means the proposed stretch credit **may or may not** be efficient

- 30% means 30 cents of each $1 of foregone tax revenue derives from induced giving
  - Given a 39% federal tax credit for induced donations, 30 cents of foregone tax revenue corresponds with 76.92 cents in donations (30/76.92 = 39%)
  - ∴ the government would forego $1 of tax revenue to yield only 76.92 cents in induced donations

- 45% means 45 cents of each $1 of foregone tax revenue derives from induced giving
  - Given a 39% federal tax credit for induced donations, 45 cents of foregone tax revenue corresponds with $1.15.38 in donations (45/115.38 = 39%)
  - ∴ the government would forego $1 of tax revenue to yield approx $1.15 in induced donations

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #2:

- In short, the PBO cost estimate supports the following conclusion:

- For each $1 of tax revenue foregone as a result of the stretch tax credit, new donations of between approx 77 cents and $1.15 will be induced

- So the stretch tax credit may…but may not be efficient

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #3:

- there are reasons to speculate whether the PBO cost estimate is optimistic
- in other words, we may in reality tend toward the less efficient end (and perhaps worse) of the PBO forecast
- Why?

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #3:

- PBO cost estimate does not take account of “tax planning” that might render the stretch tax credit inefficient to one degree or another

  Examples:

(1) Taxpayer A might qualify for the stretch tax credit simply by reporting on her tax return the donations of her spouse (this is currently allowed). To the extent that this occurs, tax revenues will be foregone with no offsetting increase in cumulative donations.

(2) Taxpayer B might qualify for the stretch tax credit by increasing donations threefold…but then only donate once every three years. Again, to the extent that occurs, tax revenues will be foregone with no offsetting increase in cumulative donations.

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #3:

- anti-avoidance rules could be easily developed to foreclose this kind of planning

  - *e.g.*, include the donations of Taxpayer A's spouse in the calculation of Taxpayer A's baseline level of giving

  - *e.g.*, average Taxpayer B's annual donations over, say, 3 years to determine when Taxpayer B has indeed donated in excess of her baseline

- But such anti-avoidance measures will further frustrate the efficiency of the stretch tax credit

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Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #3:

- Efficiency of the stretch tax credit will presumably be positively correlated with its simplicity
    - i.e., as it gets more complicated for a taxpayer to identify and understand her baseline level of giving above which the stretch tax credit applies, the incentive effect of the stretch tax credit will presumably be diminished
    - i.e., conversely, the easier it is for a taxpayer to identify and understand her baseline level of giving above which the stretch tax credit applies, the more likely it is that the stretch credit could attract new donations
- Simplicity is especially important given that qualifying donations will presumably entail a low incidence of professional planning
    - Limited involvement of tax professionals follows from the stretch tax credit being targeted at middle class donors not donating above $10,000 per year

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #3:

- So one of two things could very well happen:

  1. Stretch tax credit rules are left simple but vulnerable to being gamed

  2. Stretch tax credit rules are complicated by anti-avoidance measures and the resulting complexity reduces the incentive effect of the stretch tax credit

- Both possibilities introduce the prospect of inefficiency

- None of this appears to have been factored into the PBO cost estimate

Scrutinizing the Arguments of Stretch Tax Credit Advocates

<u>Efficiency Concern #3</u>:

- Further, the PBO cost estimate is based on historical economic studies re the elasticity of demand for charitable donations (i.e., the responsiveness of charitable giving to tax incentives)

- Reasons exist why the data sets relied upon by the PBO may have resulted in the PBO cost estimate being overly optimistic

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #3:

- First, the elasticity data relied upon is not specific to a recessionary economic climate
- How, if at all, does a recessionary environment impact the inducement effect of donation incentives?
- This warrants dedicated research given that the very purpose of the stretch tax credit is to induce donations in a recessionary environment

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #3:

- Second, the elasticity data relied upon is based on studies of tax incentives distinguishable from the stretch tax credit
    - e.g., charitable tax deduction in the U.S.
    - e.g., two stage charitable tax credit in Canada
- Stretch tax credit is more difficult to understand in some key respects
    - e.g., unlike the existing two stage charitable tax credit in Canada, the donation threshold for the stretch tax credit is different for each taxpayer
    - e.g., stretch tax credit may be more difficult to understand than even deductibility in U.S.
        - » All a taxpayer needs to know in order to calculate the after tax cost of donations in the U.S. is his or her marginal tax rate
        - » Identifying the baseline level of giving above which the stretch tax credit applies could be far more involved

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Efficiency Concern #3:

- Bottom Line:
  - Given the differences between the stretch tax credit, the existing two stage charitable tax credit and the charitable gift deduction in the U.S., elasticity data specific to the latter two may not be readily transferable to the stretch tax credit

- Again, this complicating issue does not appear to have factored into the PBO cost analysis

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Not Your Typical Tax Expenditure Argument:

- Advocates of stretch tax credit are correct that the targeted nature of the stretch tax credit makes it less vulnerable to attack on grounds of equity

- However, transitioning to a targeted tax concession for charitable donations itself raises a series of concerns discussed below

Scrutinizing the Arguments of Stretch Tax Credit Advocates

Overall:

- The various arguments advanced by advocates of the stretch tax credit are contestable
- Will move next to other concerns raised by the stretch tax credit

Evaluating the Stretch Tax Credit

- How does the stretch tax credit stack up against the ideal tax subsidy for charities?

- I have some concerns that the stretch tax credit falls short of the ideal, could bode negative implications for the charitable sector and is not altogether consistent with the tax policy behind tax concessions for charitable donations

Characteristics of an Ideal Charity Tax Subsidy

Stable Funding:

- bottom line economics
- ideal tax subsidy yields stable funding from a non-shrinking donor base

Stable Subsidy:

- partisan politics ≠ stability
- ideal tax subsidy is an accepted feature of the income tax landscape
- immune to the politics of campaigns and annual budget preparation process

Stable Sector:

- important characteristics of charitable sector are preserved
- independent and unfragmented
- Private in the separate from government sense
- Socially and culturally relevant definition of “charity”

Evaluating the Stretch Tax Credit

- Stretch tax credit arguably falls short when evaluated in light of the characteristics of an ideal charity tax subsidy
- See the discussion above re efficiency for concerns related to stability of funding
- But lets accept for the moment that the stretch tax credit will provide a remedy to declining donations. At what cost?
- 2 possibly side effects of enacting the stretch tax credit:

1. Stability of existing charity tax subsidy could be threatened
2. Stability of charitable sector could be threatened

Destabilized Charity Tax Subsidy

- Edward Zelinsky distinguishes two discrete categories of tax expenditures "Are Tax 'Benefits' Constitutionally Equivalent To Direct Expenditures?" (1998) 112:2 Harv. L. Rev. 379

Category	**Identifying Characteristics**
Classic Tax Expenditure	• permanent or long standing • available to broad class of taxpayers
Rifle Shot Tax Expenditure	• time limited • targeted at a narrow class of taxpayers

Destabilized Charity Tax Subsidy

Are Existing Tax Concessions for Charities Classic or Rifle-Shot?

- charitable tax deduction formerly in existence was clearly a classic tax expenditure
- current charitable tax credit is classic (with subtle targeting)
- stretch tax credit is much more targeted
- a move away from classic end of spectrum signals some possible challenges for charities

Destabilized Charity Tax Subsidy

Category	**Characteristics**
Classic Tax Expenditure	• highly stable • generally immune to annual appropriations process (Obama administration notwithstanding) • viewed as an apolitical feature of tax law • almost like structural income tax provisions
Rifle Shot Tax Expenditure	• highly unstable • up-for-grabs every appropriations process • no less political than any other spending initiative • vulnerable to constant tinkering and re-targeting

Destabilized Charity Tax Subsidy

- Adopting the stretch tax credit would not simply represent a new charity tax measure but rather a potential shift in tax policy vis-à-vis charities

- Targeted tax expenditures invite continual re-targeting

- With this comes reduced stability

Destabilized Charitable Sector

- the shift to a more targeted tax policy vis-à-vis charities could in time destabilize the charity sector

- 3 possible consequences to consider:

  (1) Fragmentation of charitable sector

  (2) Constitutional scrutiny of charity tax policy

  (3) Frozen definition of charity

Fragmentation of Charitable Sector

- income tax law currently fails to differentiate between charitable purposes
  → each head of charity enjoys the same income tax concession
  → donations to all charitable purposes treated identically

- tax concessions for charities are currently "all or nothing"

- Would this remain the case if the stretch tax credit is enacted?

- Fragmentation of the charitable sector under tax law seems a potential if not likely consequence of moving toward a targeted charity tax policy

Fragmentation of Charitable Sector

- stretch tax credit signals a policy transition in favour of targeting
  → Maybe some charitable donors are more responsive to incentives than others
  → But why just target donors? Why not also target donees?
  → Maybe some charitable purposes are more underfunded than others
  → Maybe "charity" is deficient as a fiscal concept as Calum Carmichael has recently argued (C. Carmichael, "Charity Misplaced: The Formation in Common Law of a Deficient Fiscal Concept", 13:1 Charity Law and Practice Review (Spring 2011) 1.)

- Calum Carmichael argues:

  > "a government could raise social welfare by using its fiscal tools to increase or re-allocate financial resources across the [charitable] sector: adding them where the marginal benefits are highest; removing them where they are lowest."

- In other words, some heads of charity could and should be treated more preferentially under tax law than others

Fragmentation of Charitable Sector

- Some would applaud the fragmentation of the charitable sector
- What this ignores is that “charity” is a philosophical concept (not a tax concept) with coherent content
- Even though there are 4 heads of charity there is arguably a singular state interest in supporting “charity”
- fragmentation of charity under tax law runs contrary to this reasoning

Constitutional Scrutiny and Charities

- How, if at all, does the *Charter* inform or restrict charity law?

- Current law generally fixates on two considerations:

    1. Are charities "government"? If so, the *Charter* applies in the ordinary course.

    2. Are charities "public"? If so, *Charter* values may play an indirect role in informing and restricting the boundaries of "charity".

- State sponsorship of charities through tax concessions has not itself been viewed by Canadian courts as constitutionally reviewable state action

Constitutional Scrutiny and Charities

- Would this change if the stretch tax credit were adopted?

- Transitioning toward a more targeted tax concession for charities *could* strengthen the constitutional argument

- Targeted tax concession is a more intimate form of state sponsorship than the classic non-targeted tax expenditure currently in existence

- Some might applaud an enhanced role for *Charter* values in charity law but undermines the “separate from government” nature of “charity”

Frozen Definition of Charity

- Stretch tax credit gives greater emphasis to the fiscal aspect of legal charity

- Could bode adverse and unintended consequences for legal definition of charity

- Consider the fiscal consequences test applied by the S.C.C. in *Amateur Youth Soccer Association v. Canada Revenue Agency* [2007] S.C.J. No. 42 (see A. Parachin, "Legal Privilege as a Defining Characteristic of Charity", (2009) 48:1 Canadian Business Law Journal 36-75)

- The more the fiscal component becomes pronounced, the more difficult it can become for new purposes to be considered charitable and the less culturally and socially relevant is the legal definition of charity

Tax Policy Considerations

Is the proposed stretch tax credit consistent with tax policy behind tax concessions for charitable gifts? (See A. Parachin, "Reforming the Meaning of 'Charitable Gift': The case for an Alternative to Split Receipting" (2009) 57:5 Canadian Tax Journal 787-838.)

Policy Perspective	**Applicable to Stretch Tax Credit?**
Income Defining: Donations are not "income"	No → 3 stage charitable tax credit inconsistent with income defining theory.
Horizontal Equity: Treat Property Donors Same As Service Donors	No → stretch tax credit prefers property donors over service donors
Reward for Generosity	No → stretch tax credit arguably gives the greatest reward to those least inclined to give (i.e., those who *need* an enhanced subsidy to donate)
Subsidy Theory: Donation incentives help fund "charity"	Yes → stretch tax credit is one way to subsidize charities. BUT → Is this a sensible way to subsidize?

Why Subsidize Charities Through Tax Concessions?

- some but not all reasons in support of an indirect state subsidy delivered through tax law apply to the stretch tax credit

- Consider the following arguments in support of a tax subsidy:
  - Efficiency (discussed above)
  - Pluralism
    - Stretch tax credit could engender greater pluralism by inducing donations from middle class donors (reduce the disproportionate influence of wealthy donors)
  - Saul Levmore "Taxes as Ballots" thesis
    - Donation incentives allow donors to essentially "vote" how government money is spent by directing revenues to charities chosen by taxpayers
    - Stretch tax credit gives more votes to those least inclined to give (does this make sense?)
  - tax subsidy allocates most of the cost of programming to taxpayers valuing it
    - Under current tax law the donor pays the largest proportion of the donation
    - This makes sense b/c it is the donor who most values the goods / services offered by the charitable donee
    - Stretch tax credit disrupts this cost sharing by increasing the government's proportionate contribution

Conclusion

- Proposed stretch credit raises some significant concerns
- The arguments advanced in favour of the stretch tax credit are contestable
- Most significantly, the stretch credit may not be as cost effective as it is being projected to be
- Even if it is cost effective, it could have some significant and unintended side effects