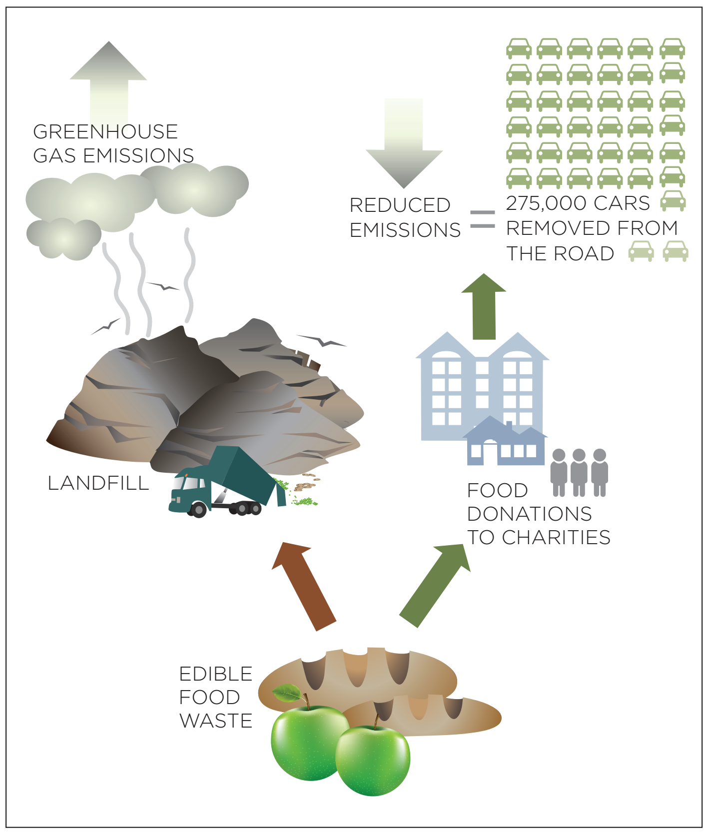
A TAX INCENTIVE TO PREVENT FOOD WASTE IN CANADA

ISSUES BRIEF | FALL 2015

Purpose: Provide a rationale for the federal government to introduce a tax incentive to divert thousands of tonnes of edible food away from landfills to food-insecure households.

Problem: About 170,000 tonnes of edible food—equivalent to about 300 million meals —wind up in Canadian landfills every year. Production, shipping and lost market value tied to this waste costs between $31–$107 billion.[1] Producers and suppliers account for half of the waste. These businesses often pay more to donate food than to throw it out. This hurts our economy, municipalities and the environment. Organic waste, largely food, produces 3% of Canada's greenhouse gas emissions—half that of the oil, gas and mining sector. The impacts of this waste are felt by food charities, which experience shortages, and those they serve, including, 1.1 million households with moderate to severe food insecurity.

Solution: Offer businesses a simple tax credit linked to the fair-market value of food donated to charities serving Canadian households in need.



How it works: The cost of manufactured goods is used as the basis for the tax incentive. Food donors report only the cost of goods as income. They are then permitted to deduct the cost of donated items, plus half the unrealized appreciation (mark-up based on fair market value), up to twice the cost of the food donated (see examples).[2] Eligible recipients of donations are charitable, food community organizations including food banks, shelters, community kitchens, etc.

Effectiveness and efficiency: According to the Conference Board of Canada, a tax credit based on the cost of food manufactured would be the most effective and efficient, as it would appeal to businesses and divert large volumes of food from the waste stream. Charities would ensure that the donated food reaches those in need.

Economic benefits: A recent study estimates that our food industry could reduce its operating costs by 15% – 20% by reducing food waste. Cities would cut food waste management costs by an estimated $41.5 million per year. Costs to the public purse would be lowered, as health and education outcomes associated with improvements to food security rise. The broader economy would also save money, owing to lower consumption of water and other resources, used in production and storage, and greater food security.

Environmental benefits: Improved land, air and water quality would result from reductions in leachate and greenhouse gas emissions, as more edible food is diverted from landfills. A Metro Vancouver study indicates that a tax credit for food donations would slash emissions by the same amount as removing 275,000 cars from the road.

Social benefits: Adults in food-insecure households are more inclined to suffer poor health, develop more chronic illnesses, and suffer mental illnesses; and their children do not perform as well at school as schoolmates with better nutrition. Food-insecurity afflicts 13% of Canadian households; so this proposed tax incentive would improve public health and education outcomes and reduce associated costs to the public purse.

Global alignment: Local and provincial Canadian governments are now banning organic waste from landfills. France has banned the disposal of edible food and, like the United States and Spain, provides financial incentives to boost businesses' donations of food. In 2015, the US also announced a first national food-waste reduction goal, calling for a 50% reduction in food waste by 2030. The EU has tabled a strategic proposal targeting food waste. The United Nations has called for an 'urgent response' to reduce the 10 billion tonnes of urban waste produced each year, including measures to "reduce waste at source, engage citizens, industries and other stakeholders [and] move from linear waste management to the circular economy."

Conclusion: Businesses already donate edible food. A tax deduction linked to the value of food donated would be attractive to businesses and would help divert larger volumes of edible food from waste. Well aligned with business practices and emerging legislation and global strategies, this incentive would benefit our economy, environment and society.

The **National Zero Waste Council** brings together leaders in government, business and community organizations to advance waste prevention in Canada.

Notes

[1] For brevity, this document does not offer references. For details, please email **james.boothroyd@metrovancouver.org** and **denise.philippe@metrovancouver.org**.

[2] For example, see the below calculation of current and proposed tax credit on a bread donation:

Bread Donation Under the Current Practice

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	+ 1,000
Income	$ 51,000
Less production costs	– 25,500
Net income	$ 25,500
Less tax deduction for donated bread	– 1,000
Taxable income	**$ 24,500**

Bread Donation with proposed tax reduction

Calculation of taxable income

Sales of bread	$ 50,000
Plus the *cost* of bread donated to charity	+ 500
Income	$ 50,500
Less production costs	– 25,500
Net income	$ 25,000
Less tax deduction for donated bread (limited to 2x the cost)	– 1,000
Taxable income	**$ 24,000**