



Philanthropic Foundations
Foundations Philanthropiques
Canada Canada

Submission in advance of the
2023 Federal Budget
to the
Standing Committee on Finance

SUMMARY

RECOMMENDATION 1 - Ensure supports for new qualifying disbursements and disbursement quota rules through resources, training and clarifying language about pooled funding

RECOMMENDATION 2 - Commit to regular reviews of the disbursement quota regime at least every 5 years

RECOMMENDATION 3 – Address the data deficit by overhauling the T3010 and tracking impact investment

RECOMMENDATION 4 - Designate a dedicated advocate or “home” for the non-profit and charitable sector within the machinery of government

CONTEXT

As PFC [shared publicly in April 2022](#), we were pleased by the Government's announcements in Budget 2022 to modernize aspects of the regulatory framework for the non-profit and charitable sector - most notably with an increase to the disbursement quota rate for charities with assets over \$1M, improving data collection from charities, including whether charities are meeting their disbursement quotas, and on investments and donor-advised funds, as well as its interest in supporting the important partnerships that charities have with organizations that advance social issues and deliver programs but are not qualified donees ("non-qualified donees" or NQDs).

The work already undertaken by government to implement those promises is commended. PFC was pleased and relieved that the government worked with the sector to revise aspects of the initial language in the Budget Implementation Bill 1.

We are at a watershed moment in Canada's history to take meaningful steps towards ensuring the realization of fairness, equity and equality of opportunity for all Canadians. Principles of equity and inclusivity continue to be undermined by shortcomings in the current policy regime itself, despite advances and investments.

For these reasons, PFC strongly urges the government to consider its recommendations for Budget 2023 and to continue working with the sector on modernizing the regulatory regime.

RECOMMENDATIONS

RECOMMENDATION 1

Ensure supports for new qualifying disbursements and disbursement quota rules through resources, training and clarifying language about pooled funding

At present, guidance is being developed for the new qualifying disbursements and disbursement quota regimes.

It is critical that government provides supports to ensure sector understanding and compliance. The vast majority of foundations in Canada are volunteer run, and it is essential that provisions being developed are practical for users to support learning and awareness.

In general, supports should include sufficient resources and training by CRA officials on the rules and guidance, as well as regular information sessions, developed in consultation with the sector, especially over the next year as the new rules come into force after the new guidance has been released.

PFC stands ready to support these educational efforts.

Disbursement quota

In August 2022, the Government of Canada announced draft legislative proposals to the Income Tax Act, including amending language to more clearly spell out that expenditures on administration and management of charities must be included in disbursement quota calculations. We recommend that guidance documents clearly explain how expenditures on administration and management of charities are defined by the Government of Canada, to ensure that they are properly accounted by charities.

We also recommend that annual statements are sent to every charity to help them understand their disbursement quota obligations and how they must expend, like the annual statements sent to individuals.

Qualifying disbursements

Legislation passed in bill C-19 regarding qualifying disbursements discourages charities from contributing to pooled funds supporting NQDs. This is because the legislation says that organizations jeopardize losing their charitable status for knowingly making gifts that will be dedicated to NQDs.

Our concern with this provision is that it creates risk to the charitable status of charities engaging in partnerships with NQDs, and as a result will discourage pooled funding partnerships.

Pooled funding allows one charity to raise funds from others for a common purpose and manage the relationship with grantees and other partners who have the best on-the-ground relationships and know-how to reach a community in need and deliver on a given initiative. This essential practice is used frequently, especially during urgent and quickly evolving contexts, as has been seen during war, natural disasters and the COVID-19 pandemic in Canada and globally.

Oftentimes those partners are NQDs, led by and serving Black, Indigenous and other marginalized communities in Canada – entities that generally have much less access to available charitable dollars than charities themselves.

We stand by our policy recommendation on directed giving and recommend that the government amend this provision.

In the meantime, as guidance documents are being developed, we recommend that they ensure strong accountability while still being consistent with the spirit of Bill S216, as promised in Budget 2022.

Guidance must provide the building blocks towards a level playing field for NQDs advancing social good, and removing barriers to access for NQDs and those charities that wish to partner with them, without creating new ones or recreating restrictions that appeared in the original legislation tabled in spring 2022.

Specifically, we recommend statements in the guidance that:

- a) recognize the legitimacy and importance of pooled funding initiatives as a good practice
- b) affirm that so long as NQD activities being funded are delivering on the charitable purposes of the charity and meet the other accountability criteria outlined in the rules, funding partnerships with the purpose of spending charitable funds on the activities of NQDs are permissible.

RECOMMENDATION 2

Commit to regular reviews of the disbursement quota regime at least every 5 years

Rising inflation and unstable markets in Canada today are major issues, which underscore PFC's important recommendation from its original [submission to the Government of Canada on its 2021 consultation on Boosting Charitable Spending in Our Communities](#) that regular reviews of the disbursement quota regime must be undertaken according to a data-driven formula that promotes philanthropic impact and precludes capital accumulation in endowments.

A periodic review, as promised in Budget 2022, should include an analysis of a rolling five-year average of inflation, and actual returns and liquidity for a responsible and balanced investment portfolio. As a floor for disbursing assets, the disbursement quota should reference long-term rates of returns for prudent and diversified investment practices by endowed foundations.

As such, the disbursement quota is best calculated on the basis of a formula that is revised and revisited on a reasonable periodic basis – minimally every five years but sooner if unstable markets and inflation continue. We encourage the federal government to consider a formula along these parameters: $DQ = \text{responsible investment indexed net returns} - \text{compounded inflation} - \text{reasonable operating costs}$.

RECOMMENDATION 3 Address the data deficit by overhauling the T3010 and tracking impact investment

Overhaul the T3010

PFC encourages the government to refurbish the T3010, the annual return to government that all charities must complete. They should engage the sector in its re-design so that data can be more effectively and usefully captured. Changes to the T3010 present a low cost way to improve compliance and accountability. In many instances, noncompliance can be attributed to poor understanding of the form used by charities to report their activities to the CRA and the flaws with the form itself.

We recommended changes outlined in detail, with rationales and precise sectional and line-item suggestions, in the annex of [our submission to the Government of Canada on its 2021 consultation on Boosting Charitable Spending in Our Communities](#). In sum they are:

- Improve clarity and tracking of DQ calculations
- Reduce ambiguity of reported information concerning charitable activity and social impact.
- Require reporting on donor-advised funds (DAFs)
- Provide for better reporting on work with NQDs
- Reduce ambiguous language and information
- Improve overall data integrity
- Require reporting on leadership diversity
- Include mechanisms for reporting on long-term investments

(NB: In Budget 2022, the Government promised to improve data collection from charities, including on investments and DAFs but they have not to date introduced

legislation to this effect. Including mechanisms for reporting on investments and DAFs in the T3010 would be a way to meet these commitments).

Impact investing can be incentivized through investment tracking

Impact, mission-related and program-related investing represent investments that deliver financial returns coupled with positive social and/or environmental outcomes. The assets that foundations and other charities invest can be powerful tools to achieve charities' missions and create positive impact beyond financial returns.

There are many in the sector leading the way, but there is not a robust ecosystem yet to further encourage this kind of investing at scale. The sector needs more investors to ensure success, as well as more capacity building for those offering investment opportunities. PFC applauds the government's large investments in these areas, such as the recently announced second round of the Investment Readiness Program, the long-awaited Social Finance Fund, and the National Housing Strategy, but government must also look to incentivize more of this activity.

PFC encourages the government to follow through on its promise in Budget 2022 on the improved collection of information from charities related to investments. To date there have been no details or policy proposals regarding this promise, nor how it might relate to impact investments in particular, but mandating transparency would be a straightforward way to help encourage more of this type of investing.

Impact investment should represent at least 10% of total assets managed by foundations as the 2011 the [Canadian Task Force on Social Finance recommended](#) and which PFC has continually endorsed.

RECOMMENDATION 4

Designate a dedicated advocate or "home" for the non-profit and charitable sector within the machinery of government

The government is poorly served by its lack of knowledge of the non-profit and charitable sector, a uniquely large and powerful element of the economy and society. A home within government would provide much-needed information and advocacy, and a platform for collaboration, greater efficiency, and strengthening the long-term resilience and ongoing impact of the sector.

Charities and non-profits have evolving revenue streams, cultures, and needs that are substantially different from other sectors. Policymakers across different departments who come to understand the roles, challenges and opportunities for the sector can better ensure that resources and policies address the issues they face.

The federal Advisory Committee on the Charitable Sector is housed in the CRA, and does not have a mandate to provide the CRA with advice on areas outside its jurisdiction. As currently constituted, it falls short of the kind of role required by

both the non-profit and charitable sector and the many departments within the federal government the sector works with and whose policies impact it.

As government considers matters of policy – such as the disbursement quota, qualifying disbursements, new government funding programs and many other initiatives that directly impact the sector - a home in government would facilitate a more useful, streamlined and transparent process, one that engages all stakeholders across the government and sector and that draws on up-to-date knowledge and data.

Along with international examples in Australia, New Zealand and the UK, BC and Quebec models provide important insights about the critical value of a secretariat able to advocate and liaise with other government ministries. We recommend these models be reviewed.

We support the recommendation for a dedicated secretariat tasked with

- Regularly convening an interdepartmental working group
- Convening federal/provincial/territorial meetings
- Creating policies that cultivate a strong and resilient non-profit sector
- Collaborating with Stats Canada on regular data products, including an annual report on the state of the sector

This secretariat can possibly be located at Innovation, Science, and Economic Development Canada (ISED). The convening and coordination mandate across government is the key.