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Submission for the Pre-2024 Budget Consultations

By Philanthropic Foundations Canada

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SUMMARY

MAXIMIZE CONTRIBUTIONS BY THE NON-PROFIT AND CHARITABLE SECTOR FOR A PROSPEROUS, RESILIENT AND INCLUSIVE SOCIETY

RECOMMENDATION 1 – Deepen public benefits from non-profit and charitable sector: ensure adequate supports for new regulations on qualifying disbursements, as well as administration and management reporting, through clarifying guidance, and sufficient resources and training.

RECOMMENDATION 2 – Safeguard sustainable financing: begin activities to ensure promised review of the disbursement quota by FY 2027, and commit to a regular review.

RECOMMENDATION 3 – Address the data deficit: overhaul the T3010 and improve transparency on CRA website.

RECOMMENDATION 4 – Unlock the power of philanthropy to invest for financial returns coupled with positive social outcomes.

RECOMMENDATION 5 – Ensure strategic partnerships with the charitable and non-profit sector: create a home in government for the non-profit and charitable sector.

CONTEXT

Philanthropic Foundations Canada (PFC) recommends that the government fully implement its policies and commitments from over the last few years to modernize the regulatory framework for the non-profit and charitable sector - most notably related to the increase to the disbursement quota rate for charities with assets over \$1M, as well as the new qualifying disbursements regime, which permits granting to non-qualified donees.

This modernization is imperative in making our country more inclusive, more resilient and more prosperous in a world threatened by the climate crisis, conflicts, and persistent and growing inequalities.

PFC is optimistic that the government will ensure sufficient supports for new regulations, and follow through on its promises from Budget 2022 to put into place an adequately resourced regular review mechanism for the disbursement quota.

We also are optimistic that the government will improve data collection from charities, including whether charities are meeting their disbursement quotas, and on investments and donor-advised funds. Overhauling the T3010 is the ideal way in which the government can meet this need. In addition, we encourage the government to unlock the power of philanthropy to make impact investments, and move towards ensuring a home in government for our sector – given how central an economic power and social underpinning it serves for communities in Canada, particularly the most vulnerable.

We are at a watershed moment in Canada's history to ensure greater realization of principles of inclusion and equity, which we know are priorities for this government. As Canada's non-profit and charitable sector is fundamental in that work, PFC strongly urges the government to continue working with the sector on modernizing the regulatory regime and consider our recommendations for Budget 2024.

RECOMMENDATIONS

1

Deepen public benefits from non-profit and charitable sector – Ensure adequate supports for new regulations

Qualifying Disbursements

At present, guidance is being finalized for the new rules on qualifying disbursements, which permit gifts to qualified donees and grants to non-qualified donees (NQDs). This new framework represents historic efforts by government and civil society to ensure a level playing field between charities and non-profits that provide public benefit and often serve communities inadequately supported by philanthropy.

It is critical that government provides sufficient supports to ensure sector understanding and compliance. The vast majority of foundations in Canada have zero staff and are volunteer run, so it is essential that provisions are developed which are straightforward and practical for all users to support learning and awareness.

In general, supports should include sufficient resources to the Charities Directorate at the CRA to ensure understanding of the rules and guidance, as well as regular information sessions, developed in consultation with the sector. This is urgent as the new rules are already in force. PFC stands ready to support these efforts.

Guidance must advance a level playing field for NQDs advancing social good, and support the removal of barriers to access for NQDs and those charities that wish to partner with them - without creating new barriers or recreating restrictions that appeared in the original legislation tabled in spring 2022.

We stand by our [recommendations shared with the government](#) for its consultation on the guidance earlier this year.

In particular, we recommend an affirming general statement in the guidance verifying 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.

Administration and Management

In 2022, the Government of Canada announced legislative changes to the Income Tax Act which included amended language spelling out that expenditures on administration and management of charities cannot be included in disbursement quota calculations.

We recommend that the government create and disseminate guidance that clearly explains how expenditures on administration and management are to be determined by charities, to ensure that they are properly accounted by charities. We recommend clarity that reflects the expertise, and diverse needs and impacts of the sector, and the importance of using charitable resources for transparency, accountability, and good governance.

2 Safeguard sustainable financing - Begin activities for promised review of disbursement quota by FY 2027, and commit to a regular review

Persistent inflation and unstable markets in Canada today are major issues, which underscore PFC's important recommendation from its submission to the Government of Canada on its 2021 consultation on *Boosting Charitable Spending in Our Communities*. Our recommendation was 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 review after five years, 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 government to consider a formula along these parameters: $DQ = \text{responsible investment indexed net returns} - \text{compounded inflation} - \text{reasonable operating costs}$.

A review of the rate will be due by 2027, which is five years after royal assent of Bill C-32, when the new disbursement quota rate was legislated. To ensure this deadline is met, the government must dedicate resources and begin preparations to capture the necessary data now.

3

Address the data deficit - Overhaul the T3010 and improve transparency on CRA website

PFC encourages the government to dedicate adequate resource to refurbish the T3010, the annual return to government that all charities must complete.

The government promised in Budget 2022 to improve data collection from charities, including whether charities are meeting their disbursement quotas, and on investments and donor-advised funds. The T3010 is the most logical and useful tool to do so.

Moreover, changes to the T3010 present a low-cost way to improve accountability. In many instances, noncompliance can be attributed to flaws with the form itself and a lack of clarity from government on what must be reported and how. The government should engage the sector in a re-design so that oversight can be more effective, and data more usefully captured. PFC has recommended changes, outlined in detail with rationales and precise sectional and line-item suggestions, most recently in our paper, [Position Brief: Overhauling the T3010](#).

The system used to capture the T3010 data itself also requires a serious overhaul. It is clear that the *My Business Account* framework was not developed with charities in mind. As a result, it is so onerous and tedious for users that paper submissions are still the dominant method being used. We have heard from numerous experts and users on this, and strongly recommend a complete revamp.

The [List of charities and certain other qualified donees](#) on the Government of Canada website also requires updates. PFC suggests adding a disbursement quota calculation feature.

More broadly, the Charities Directorate at the CRA is clearly under-resourced. PFC recommends the directorate be allocated greater resources to ensure it is able to sufficiently support our sector.

Given the substantial economic and social impact of Canada's non-profit and charitable sector, and the vital importance of government oversight and data capture, it is imperative the government prioritize these recommendations.

4

Unlock the power of philanthropy to invest for financial returns coupled with positive social outcomes

Impact, mission-related, and program-related investments are investments that deliver financial returns paired with positive social and/or environmental outcomes. The assets that foundations and other charities invest can be powerful tools to achieve charities' missions. In philanthropy, there is a growing interest in this type of investing, but there are many barriers. Many in our sector are helping lead the way, but the whole ecosystem needs more government attention and support for success.

Mandate investment transparency and reporting

Policy mechanisms can incentivize this type of investing. 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 regarding this promise, nor how it might relate to impact investments in particular, but mandating transparency would be a straightforward way to encourage more of this type of investing.

Seed Funding for Non-Market Housing

Non-market housing in particular is an ideal entry-point for philanthropic impact investing. Affordable housing is a massive and growing issue facing every community, and it is an investment opportunity with tangible social outcomes understandable for even the most inexperienced investors.

Echoing leaders like Social Innovation Canada, we recommend the government provide seed capital to establish a national revolving fund that can distribute affordable, flexible financing to facilitate the acquisition, development and maintenance of non-market housing. This seed capital would leverage philanthropic capital, provincial governments, private investment and institutional investors to bridge gaps so that projects can access CMHC and traditional financing.

5 Ensure strategic partnerships with Canada's non-profits and charities - Create a home in government for our sector

Time and time again, our sector sees evidence and bears the brunt of the fact that government is poorly served by its lack of knowledge of the non-profit and charitable sector. Charities and non-profits have evolving needs, responsibilities, revenue streams and cultures that are substantially different from business and government. Policymakers who come to understand the roles, challenges and opportunities for our sector can better ensure that resources and policies address the issues they face. 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.

As government considers matters of policy – such as the disbursement quota, new government funding programs that rely on charity partners, and many other initiatives that directly impact the sector – a home in government will vitally facilitate a more useful, streamlined and transparent process. It should engage all stakeholders across government and our sector, and enable government to draw 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 areas of government. We recommend these models be reviewed.

PFC supports a dedicated secretariat tasked with:

- Regularly convening an interdepartmental working group
- Convening federal/provincial/territorial meetings
- Creating and ensuring government policies that cultivate a strong and resilient non-profit and charitable sector
- Collaborating with Statistics Canada on regular data products, including an annual report on the state of the sector, like the National Survey of Nonprofit and Voluntary Organizations

The key is that the secretariat possesses a strong convening and coordination function across government, with the resources to deliver on its mandate.

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