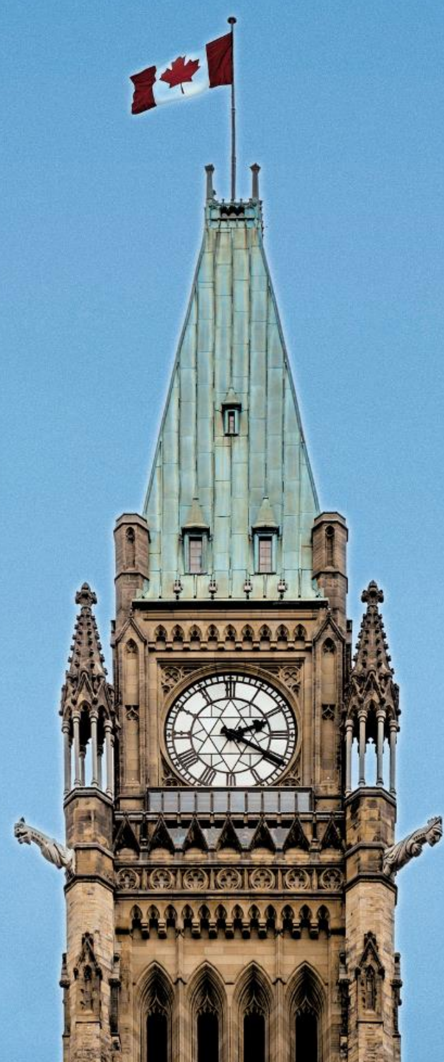
Philanthropic Foundations Canada
Fondations Philanthropiques Canada

Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget 2025

August 2, 2024



SUMMARY

RECOMMENDATION 1 – Develop an evidence-based regulatory framework: follow-through on the Government's Budget 2022 commitment and plan for a review of the disbursement quota rate by 2027, and commit to a regular review.

RECOMMENDATION 2 – Create a level playing field between charities and non-profits providing public benefit: attend to serious lingering challenges of the Qualifying Disbursement Regime by making a technical amendment to the Income Tax Act to ensure charities can pool funds and grant to NQDs, and help interested charities facilitate changes to their charitable purposes so they can grant to NQDs.

RECOMMENDATION 3 – Incentivise impact investment: issue guidance for charities on making Program Related Investments.

RECOMMENDATION 4 – Fix the data deficit: share annual data analysis about our sector through the T3010, task Statistics Canada to carry out the nonprofit module of the Canadian Survey of Business Conditions every year, and establish a permanent unit at Statistics Canada focused on the non-profit and charitable sector.

RECOMMENDATION 5 – Continue and strengthen the critical partnership between the Federal Government and the non-profit and charitable sector.

RECOMMENDATIONS

1 Develop an evidence-based regulatory framework: follow-through on the Government's Budget 2022 commitment and plan for a review of the disbursement quota rate by 2027, and commit to a regular review.

PFC supports the disbursement quota rate (the minimum calculated amount set by the government that a registered charity is required to spend each year) which was raised to 5% for assets over $1 million in 2022. The rate helps prevent capital accumulation while also maintaining endowments for investing and granting into the community.

In Budget 2022, together with the new disbursement quota rate announced, a review after five years was promised. This means a review of the rate is 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, PFC reiterates its recommendations from its 2024 pre-Budget submission that the government dedicate resources and begin preparations to ensure it is capturing the necessary data today.

Moreover, PFC also reiterates its recommendation that the government commit to the rate being regularly reviewed, and determined according to a data-driven formula that promotes principles of both philanthropic impact and preclusion of significant endowment capital accumulation or erosion.

PFC strongly recommends that reviews should include analyses 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. We encourage the government to consider a formula along these parameters: DQ = responsible investment indexed net returns – compounded inflation – reasonable operating costs. The disbursement quota is best calculated on the basis of a formula that is revised and revisited on a reasonable periodic basis.

2 Create a level playing field between charities and non-profits providing public benefit: attend to serious lingering challenges of the Qualifying Disbursement Regime by making a technical amendment to the Income Tax Act to ensure charities can pool funds and grant to NQDs, and help interested charities facilitate changes to their charitable purposes so they can grant to NQDs.

In 2023, a new regime was established called 'qualifying disbursements' that permit charities to make 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 that are inadequately supported by philanthropy but are not registered charities or other qualified donees.

While PFC is very pleased in general with this historic change, there remain serious challenges with the legislation as well as the implementation that require immediate government attention. This is urgent as the new rules have been in force for over 18 months already.

Make a technical amendment to the ITA to ensure charities can pool funds and grant to NQDs

The directed giving stipulation in the legislation says that organizations jeopardize losing their charitable status for knowingly accepting gifts conditional on them going to NQDs. This provision creates risk to the charitable status of foundations and other charities engaging in partnerships with NQDs, and as a result may discourage pooled funding partnerships – an essential practice used regularly, especially during urgent and quickly evolving contexts, as has been seen during war, natural disasters and the COVID-19 pandemic in Canada and globally.

We do not believe the government had the intention to discourage this good practice. PFC recommends that the legislation be corrected with a technical amendment to the effect of what is written in the guidelines for granting to NQDs - that gifts can be accepted by a charity for programs that support non-qualified donees, so long as the charity qualifies that ultimate authority on the use of resources rests with the charity.

Issue guidance about acceptable language for charities' charitable purposes so that charities can grant to NQDs

A critical issue that is lingering for many foundations related to granting to non-qualified donees is around charitable purposes. Some foundations have purposes that specify their purpose is granting to qualified donees. Because a grant to a non-qualified donee must further the charity's purpose, those with such purposes are at odds with making grants to non-qualified donees, and are thus unable to do so. This issue has created legal headaches and expensive legal fees for many foundations. It remains a most frequently asked question of PFC from across our network.

A simple solution that would reduce the burden of administrative and legal expenses would be for the government to issue sample acceptable language for these types of foundations to utilize for their revised objects. PFC recommends the government do so straightway without delay. PFC stands ready to support these efforts.

3 Incentivise impact investment: issue guidance for charities on making Program Related Investments.

Social finance is an approach to mobilizing private capital that delivers a social dividend and an economic return to achieve social and environmental goals. Mobilizing capital for social good creates opportunities for investors to finance projects that benefit society, for social-purpose organizations to access capital, all while receiving a financial return.

We believe the Government of Canada is deeply interested in encouraging social finance, as evidenced by its numerous initiatives in this space, including the $755M Social Finance Fund, which was fully launched last year.

While increasingly interested in it, most foundations don't know much about social finance (sometimes called impact investing), and feel confused or unsupported by the lack of knowledge and other impediments that exist currently in this burgeoning field.

As indicated in PFC's most recent Investment Survey (2018-2020) of the network, "Survey participants highlighted a need for education on Responsible Investing/Impact Investing… to be better equipped to activate the value that their investment strategy can bring to advancing their mission… They are looking for practical tools and pragmatic guidance on how to do so efficiently and without straining resources."

Luckily, program-related-investing (PRI) is a tested, legal pathway already in place to engage charities in social finance. PRI is a type of lower-cost financing that is structured as investment rather than a grant, but is primarily focused on advancing a charitable mission.

This type of investing (in the form of below market rate loans, loan guarantees or share purchases) can be charitable when they further a charitable purpose -- yet they have had little regulatory recognition other than in a CRA policy guidance document on community economic development (CG-014) last revised in 2017. This guidance is in need of updating, and does not reflect new important regulatory changes, such as new qualifying disbursements rules.

This is low-hanging fruit that we believe could help open the door to major changes in the way that foundations invest, which is a cornerstone of what foundations do. The AUM has grown significantly for foundations in Canada in the last ten years (to $135B in 2021, up from $35B in 2001).

What's more is that creating such guidance is an extremely low-cost intervention. We recommend the Government of Canada create new guidance to support charities in making Program Related Investments. PFC is prepared to help the team develop and promote the guidance as needed, with the sector.

4 Fix the data deficit: share annual data analysis about our sector through the T3010, task Statistics Canada to carry out the nonprofit module of the Canadian Survey of Business Conditions annually, and establish a permanent unit at Statistics Canada focused on the non-profit and charitable sector.

PFC applauds the government's investments in Statistics Canada which led to the release of data earlier this year on the nonprofit sector collected through a special module of the Canadian Survey of Business Conditions. This is the first time since the 2003 National Survey of Nonprofit and Voluntary Organizations (NSNVO) that Statistics Canada has conducted such a large-scale survey of the sector. This survey was conducted through an existing platform, making it cost-effective and fast. Now that the first survey has taken place, it will be easily replicable in future.

We also applaud other commitments and investments in data collection, such as updates - those executed and those still in the works - to the T3010, the annual reporting mechanism all charities must submit to government.

Basic, regular, essential information is vital to helping decision-makers understand key features of our sector and to making informed and efficient public policy and resource allocation decisions.

PFC encourages the government to continue with planned updates to the T3010, in consultation with the sector, for better data capture. We also recommend a more intentional, coordinated approach within Statistics Canada. We recommend the federal government provide Statistics Canada with a mandate to annually carry out the nonprofit module of the Canadian Survey of Business Conditions, and that it establish a permanent unit at Statistics Canada focused on the sector, to support regular, better coordinated data collection and analysis.

5 Continue and strengthen the critical partnership between the Federal Government and the non-profit and charitable sector.

From senior support services to community summer camps to animal shelters to mental health supports, charities and nonprofits are present and critical program and service deliverers in every community across Canada. They are also crucial experts and partners to government, businesses, and communities on issues we all care about, from long-term care to inequality to food insecurity to disabilities, and beyond.

The value of our sector is evidenced by our economic contributions: charities and nonprofits contribute $192 billion dollars in economic activity to Canada annually. We account for 8.3% of our country's GDP, and employ 2.4 million people - which is more than the mining, oil and gas sector, or agriculture, transportation and retail.

Indeed, charities and nonprofits are the bedrock of our communities - invisible champions keeping our economies and communities flourishing. They provide vital goods and services to individuals at minimal to no cost, such as places of worship, youth and family services, housing assistance, food banks, sports and recreation clubs, and museums. The are vital aids for business, from chambers of commerce to professional associations and beyond. And they help government deliver on their responsibilities efficiently and expertly, such as supporting services like hospitals, residential care facilities, and colleges and universities, and directly running all kinds of programs on behalf of government.

For the Government of Canada, the non-profit and charitable sector is an essential partner. Its delivery of policy of all kinds, and the effectiveness of its investments, including new and ongoing government funding programs, hinge on the relationships its holds with charity and nonprofit partners.

PFC encourages the Government of Canada to prioritize and to continue and strengthen its important partnership with charities and nonprofits.

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