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

By Philanthropic Foundations Canada
April 2026

Summary

RECOMMENDATION 1 – Launch the disbursement quota review by 2027, as committed in Budget 2022, and conduct it as a public consultation to ensure transparency and broad sector input.

RECOMMENDATION 2 – Leverage foundation capital for economic and social good by co-investing in projects that meet the government economic and social impact goals, and directing the CRA to create specific guidance on Program Related Investments (PRIs).

RECOMMENDATION 3 – Make a technical amendment to the Income Tax Act to remove unnecessary regulatory barriers and enable efficient, accountable charitable funding.

RECOMMENDATION 4 – Designate the Tax Court of Canada as the primary appeals reviewer of CRA decisions to help charity law evolve in a deliberate and transparent way that keeps pace with societal change and emerging needs.

Introduction

Canada has entered a turbulent geopolitical and fiscal period. This environment places a premium on regulatory efficiency, clarity, and the strategic use of capital already present within the charitable and nonprofit sector.

The federal government has set clear priorities including strengthening national and economic security, expanding affordable housing, accelerating climate-ready infrastructure, improving productivity, and supporting youth employment. These priorities, combined with a commitment to fiscal discipline, create a policy landscape where cost-neutral reforms have particular relevance.

At the same time, Canadians continue to experience mounting social pressures, and nonprofits are absorbing increased demand. These organizations remain essential delivery partners for policies that improve community resilience and advance inclusive economic growth.

Charitable foundations play a central enabling role in this system. They steward \$135 billion in assets and provide more than \$10 billion in grants each year, supporting essential services and contributing to long-term community development. Their ability to deploy capital efficiently depends on modern, fit-for-purpose policy frameworks. The scale of need facing communities cannot be met by philanthropic resources alone, but modest, targeted adjustments can significantly increase the sector's capacity to complement federal objectives.

Our proposed policy priorities align with the government's focus on efficient expenditure, regulatory modernization, and growth-oriented public policy:

1. Implementing a public review of the disbursement quota in 2027 would ensure that the policy regime continues to be evidence-based and calibrated to current economic conditions.
2. Expanding the policy space for impact investment would mobilize additional mission-aligned capital toward federal priorities such as housing and climate resilience.
3. Making a technical amendment to the Income Tax Act, consistent with the Canadian Bar Association's recommendations, would clarify that qualifying disbursements are exempt from the anti-directed giving rule, enabling accountable collaboration, reducing unnecessary regulatory friction, and restoring Parliament's original policy intent.
4. Designating the Tax Court of Canada as the primary venue for appeals of CRA decisions would enhance fairness, reduce delays, and create a more predictable, efficient and rational compliance environment to reflect the realities of charities and needs of the people they serve.

These reforms remove barriers, align the regulatory framework with contemporary practice and the working realities of the sector, and enable greater participation from organizations that are already delivering critical outcomes consistent with federal priorities.

In a period when economic resilience and fiscal restraint are both essential, these recommended measures offer practical, low-cost policy solutions to strengthen Canada's social and economic infrastructure while supporting the government's overarching policy agenda.

Recommendations

1. Launch the disbursement quota review by 2027, as committed in Budget 2022, and conduct it as a public consultation to ensure transparency and broad sector input.

The [disbursement quota](#) rate (the minimum amount set by the government that a charity is required to spend on charitable activities each year), was raised to 5% for assets over \$1 million in 2022. PFC recommended and supported that decision. The revised evidence-based rate helps prevent capital accumulation, while also preventing erosion of charities' endowments so they can invest them to get the necessary returns to grant or spend on charitable activities and meet the growing needs of underserved communities.

In Budget 2022, together with the new disbursement quota rate announcement, a review after five years was promised. **To ensure this deadline is met, PFC calls on the government to begin preparations for an evidence-based consultative process.**

The rate should continue to be 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 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 be based on long-term rates of returns for prudent and diversified investment practices by endowed charities. We encourage the government to consider a formula along these parameters: $\text{disbursement quota} = \text{responsible investment indexed net returns} - \text{compounded inflation} - \text{reasonable operating costs}$.

2. Leverage foundation capital for economic and social good by co-investing in projects that meet the government economic and social impact goals, and directing the CRA to create specific guidance on Program Related Investments (PRIs).

Social finance mobilizes capital to deliver both social value and financial returns. It strengthens the Canadian economy by directing investment toward areas such as housing, workforce development, climate solutions, and community infrastructure, while enabling social purpose organizations to grow and become more financially resilient.

The Government of Canada has demonstrated important leadership in this space through initiatives such as the Social Finance Fund. This commitment sends a valuable signal to the market and has helped build momentum and confidence among investors interested in aligning capital with public priorities. Yet, as Canada needs more domestic investment to support resilience and inclusive growth, there is an opportunity to further reduce barriers to philanthropic and charitable investment aligned with government priorities.

Most foundations are interested in investing for both social and financial returns, but participation remains uneven. Investment committees are often constrained by fiduciary concerns, disbursement quota requirements, limited capacity, and a lack of suitable products aligned with their risk and return profiles. Canadian impact investing data shows a wide range of return outcomes, with many investments meeting or exceeding market benchmarks, demonstrating that impact investing can be a credible component of a diversified investment strategy.

What remains insufficient is choice. Foundations vary widely in mandate, time horizon, liquidity needs, and risk appetite. Yet the current market offers too few well structured social finance investment vehicles across the risk spectrum. As a result, many willing investors remain on the sidelines. The federal government can play a catalytic role by facilitating the development of a broader range of investable vehicles that accommodate different foundation risk profiles.

One of the most effective ways to do this is through the strategic deployment of public capital across a range of catalytic instruments, including first loss and subordinated positions, underwriting support, and co-investment vehicles. While some of these approaches should absorb or share early-stage and downside risk, others should be designed to improve market confidence, reduce transaction friction, or enhance overall deal viability. Taken together, they can materially strengthen the profile of opportunities and make participation more attractive to a broader spectrum of foundations alongside institutional investors. Expanding the use of diverse mechanisms would bring more private and philanthropic capital while enabling more tailored participation aligned with varying risk appetites, ultimately accelerating investment into initiatives that deliver both economic and social outcomes.

In parallel, it is important that the CRA's Charities Directorate has sufficient resources to develop specific clear, practical guidance on Program Related Investments (PRIs). Many foundations remain unfamiliar with PRIs, despite their potential to generate meaningful social impact while also counting toward a

foundation's disbursement quota when structured appropriately. Clear guidance and education would increase confidence, reduce compliance concerns, and help unlock more charitable capital for impact investment.

By continuing to demonstrate leadership in social finance and supporting the development of diversified, investable products aligned with public priorities, the government can unlock more foundation capital for impact in Canada. PFC stands ready to support these efforts.

3. Make a technical amendment to the Income Tax Act to remove unnecessary regulatory barriers and enable efficient, accountable charitable funding.

In 2023, a new regime was established called 'qualifying disbursements' permitting charities to make [grants to non-qualified donees](#) (NQDs).

This framework reflects a significant effort by government and civil society to modernise the charitable regulatory environment and establish a more level playing field between registered charities and non-profit organizations that provide clear public benefit but are not themselves registered charities. It recognizes that effective delivery of public good frequently depends on collaboration, local expertise, and flexible funding models.

While PFC strongly supports this important reform, there remain serious legislative and implementation challenges that warrant government attention. The anti-directed giving provision creates a material barrier to effective collaboration. By jeopardizing charitable status when a charity knowingly accepts funding intended to support NQDs, the rule discourages pooled and partnership-based funding approaches. These approaches are essential during rapidly evolving and high-risk contexts such as conflict, public health emergencies, and humanitarian crises. They allow capital to be mobilized quickly and deployed by organizations with on-the-ground capacity, reducing duplication and maximizing results per dollar.

The provision also undermines Canada's attractiveness as a jurisdiction for international charities with significant assets and skilled workforces. While other peer countries have modernized their charitable frameworks to support cross-border collaboration and innovation, Canada continues to rely on rules that are widely viewed as outdated and overly restrictive.

We do not believe it was the government's intention to impede accountable collaboration or reintroduce administrative burdens that Parliament sought to eliminate. As the Canadian Bar Association noted in its February letter to Minister

Champagne and in its 2026 Pre-Budget submission, the policy concern is that the current wording of the anti-directed giving rule goes beyond what is necessary to address this risk and undermines the intended benefits of the qualifying disbursement regime.

Consistent with the CBA's recommendation, this concern can be addressed through a targeted technical amendment that carves out qualifying disbursements from the application of the anti-directed giving rule. This approach is aligned with existing CRA administrative guidance and would allow charities to accept gifts directed toward programs involving non-qualified donees, provided the charity retains ultimate authority and accountability over the use of its resources and the activities remain charitable in law.

Such an amendment would preserve regulatory integrity while enabling charities to deliver public benefit more efficiently. It would support community-led solutions, reduce unnecessary regulatory friction, and allow charitable and philanthropic capital to be deployed in ways consistent with Parliament's original intent.

Given the current economic and geopolitical environment, ensuring that Canada's charitable framework is coherent, credible, and fit-for-purpose is essential. PFC stands ready to support the government in advancing a timely solution consistent with expert legal advice and sector experience.

4. Designate the Tax Court of Canada as the primary appeals reviewer of CRA decisions to help charity law evolve in a deliberate and transparent way that keeps pace with societal change and emerging needs.

Canadian charity law is largely rooted in common law principles that evolve through judicial interpretation. This evolution depends on accessible and effective appeal processes.

Currently, most charity appeals proceed through the Federal Court of Appeal, a forum that is costly, procedurally constrained, and reliant primarily on written records. By contrast, the Tax Court of Canada offers a more accessible process, sits in more locations, permits oral testimony, and allows fuller evidentiary development. Designating the Tax Court as the primary reviewer of CRA decisions, including registration refusals and revocations, would improve fairness, reduce cost and delay, and support the development of a more coherent and contemporary body of charity law.

This reform has been recommended repeatedly, including in the Senate's report [*Catalyst for Change: A Roadmap to a Stronger Charitable Sector*](#). It would help ensure that charity law evolves in step with societal change and operational reality.

[Philanthropic Foundations Canada \(PFC\)](#) is the national network for grantmaking foundations, representing a diverse community of funders working together towards a more just, equitable and sustainable world.