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

By: GIV3, August 4th, 2020

Recommendation 1: Increase the required Distribution Quota for Canadian foundations to disburse **10%** of assets, annually, for charitable purposes (instead of the current 3.5%).

The COVID-19 Crisis Demands a Higher Distribution Quota for Charitable Foundations (Which Will Also Help Our Economy)

Canadian taxpayers are not so informed about the growing charity gap in Canada, nor the struggles of charities. They also do not realize that charitable foundations have accumulated over $80 Billion in assets, using taxpayer's money via charitable tax credits. And once people are informed, as shown in our survey (via Ipsos Canada), they overwhelmingly feel our tax policies need to be changed, forcing more of foundations' billions of dollars be used to help our struggling charities. And the COVID-19 crisis demands it, now.

Growing Charity Gap

For several years, Canada has been facing a growing 'charity gap'. There is a financial gap between the services required to maintain civility in our communities (i.e. social services for those experiencing homelessness, hunger, abuse, and in support of the elderly, animal welfare, environmental health, medical research, etc.), and the necessary funding to meet the growing needs. And it is being exacerbated by COVID-19, with a negative impact on charity revenue, made worse by an increase in demand for greater charitable social services.

Governments cannot pay much more

We cannot simply expect our governments to fill in the expanding charity gap. Practically all levels of government have deficits and carry significant debt (which is increasing exponentially due to the COVID-19 crisis). They cannot responsibly raise taxes to spend more on the charity gap without negative consequences. Raising taxes chases away wealth, investors, business, and weakens the economy necessary to generate the tax base the government needs in the first place.

Charities and foundations exist as an extension of government

Instead of being solely responsible for providing all social services, our governments have outsourced part of their responsibility, by appointing charities and foundations to be their "agents". These organizations have been allowed to exist, with preferential tax treatments, to help provide social services on behalf of governments. To help ensure their success, policies have been established to offer charity tax credits to donors (from the taxpayers' public purse) to incent charitable giving to these organizations. ***In turn, these organizations are accountable to voters and taxpayers.***

Foundations have accumulated over $80 Billion

The current policies regulating foundations are <u>not working as well as they should</u>. The most recent reported data indicates over $80 Billion of financial assets have been accumulated within foundations, more than <u>doubling in the past 6 years</u>. Their assets have been growing at about 10% a year for the past decade, well above inflation and the growth in our GDP. Clearly, foundations have chosen, on their own accord, to accumulate assets rather than disburse more money to charities.

A main reason why policies regulating foundations have not been made better appears to be that *Canadians are unaware of what is happening with foundations* thus allowing the status quo to continue:

- In a recent Ipsos Canada poll (April 23-26, 2020), only 12% of Canadian adults claim to be aware that foundations have accumulated over $80 Billion in assets.
    - Report here: https://sector3insights.com/products/canadians-understanding-and-opinions-of-charitable-foundations/
- In contrast, ***when made aware of the $80 Billion accumulation, 47% of Canadians felt this was unacceptable (+40% who felt it was just "somewhat" acceptable).***

We have drifted away from the original intention

The disbursement quota (DQ) is defined as the amount that foundations must disburse, annually, from their assets either to qualified registered Canadian charities, or to their own charitable programs. The original DQ requirement in the 1950s called for foundations to disburse 90% of the donated funds in the following year. Over time, the federal government was convinced to reduce the DQ to 5.0%, then to 4.5%, and then again to the current 3.5% of accumulated assets.

Much of the argument seemed to be based on the performance of the financial markets and the need to preserve capital in the foundations. ***And this is where our policies lost sight of the purpose of foundations and their duty to taxpayers***. Foundations do <u>not</u> exist to outperform the financial markets nor to accumulate money on the sidelines. They exist as 'agents' of the government (you and me) to provide social services and charitable good, leveraging our tax dollars by way of charity tax credits. In turn, I believe it is fair to expect that our 'public purse' money is <u>used relatively quickly to benefit the same generation of taxpayers that are providing the charity tax credits.</u>

The case for foundations (but with stronger policies)

To be clear, foundations play an important role because they can act independently of government bureaucracy, make decisions free of the politics of elected officials, take risks government departments avoid, address problems which may not be politically popular, and think about longer-term solutions which extend beyond the next election cycle.

- From the same Ipsos poll, 81% agree that foundations play an important role

However, we need our governments to exercise stronger controls to ensure these 'agents' are meeting the needs and wishes of the electorate, in a timely manner.

- The Ipsos poll shows that a significant 87% of Canadians agree that *"there should be greater oversight, accountability and transparency to taxpayers and voters about how donations are made, to which charities, how much, and so on".*

Raising the Disbursement Quota to 10%

Raising the minimum disbursement requirement in Canada to 10% would offer a balance between accomplishing greater good, sooner, while also allowing some longevity to foundation capital.

A 10% DQ would quickly redirect billions of additional dollars, annually, to the aid of charities without cost to our government budgets. It would help alleviate the massive funding pressure so many charitable organizations are currently experiencing. The money is already present in the foundations. We just need stronger policies to ensure foundation leaders are disbursing more of it sooner.

While I appreciate that increasing the disbursement requirement would result in foundation endowments eroding over time, a 10% DQ offers longevity of the foundation capital for about 25+ years (based on typical financial markets). This is likely long enough to make a lasting impact as a legacy gift, and perhaps is longer than the remaining life span of most donors. And clearly, the original donor and/or the next generation of family members can add more money over time to replete the coffer.

The concern of future philanthropy should not be a reason to delay a greater good, now

Every generation creates both new wealth and new philanthropist. Just witness the rapid accumulation of assets in foundations over the past decade. This is not due to the existence of old foundations. It reflects a recent phenomenon of new and/or living philanthropists. Furthermore, as Baby Boomers continue to age, there is a significant amount of money likely to be donated over the next 10 to 30 years. And if there are no future philanthropists, then this is the shortcoming of future generations, and not something current taxpayers should be disadvantaged by.

A proposed 5-year Pilot Test in response to the COVID-19 crisis

In appreciation of the significant impact of COVID-19 on charities, lets see a **five-year pilot test with an increased distribution quota of 10%.** These are unprecedented times, and there is a need for 'all hands on deck'. All possible solutions need to be evaluated, and one of the easiest, most affordable, and widely supported by Canadians is the requirement for more immediate access to foundation assets. A five-year window would also provide for several years for things to return to normal. As the data comes in, the policy can be reviewed again.

- In the same Ipsos Poll, a significant ***87% of Canadians agree: "Canadian charitable foundations should be required to distribute more money to Canadian charities than the 3.5% level (such as 10%)*** *because their investment endowments represent taxpayer funds, and should be applied to the same generation of taxpayers which gave up the tax money in the first place".*
- And a similar majority (87%) felt *"there should be greater oversight, accountability and transparency to taxpayers and voters about how donations are made, to which charities, how much, and so on.*

IN SUMMARY: A Significant Impact to the Charitable Sector (and our Economy), Welcomed by Voters, Without Any financial Cost to the Public Purse.

- ✓ The research insights show that once Canadians become aware of the wealth accumulation in foundations, they strongly agree that policies need to change.
- ✓ Increasing the DQ to 10% will trigger about $5 billion more, annually, and
- ✓ No cost to the federal budgets since the money in foundations has already been receipted.