

The Charity Report

Your independent news source in the charity sector

Where Wealth Resides

THE FUNDING OF PHILANTHROPY

Where Wealth Resides: The funding of philanthropy

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Intelligence Reports

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Where Wealth Resides

THE FUNDING OF PHILANTHROPY

An examination of how wealth
inequality is buttressed by
philanthropic structures.

A photograph of a woman with curly hair and sunglasses crouching on a city street to help a young child in a grey jumpsuit stand. The woman is wearing a dark jacket and blue jeans. The child is wearing tan shoes. The background shows a city street with buildings and parked cars.

INTRODUCTION

The impact of the global pandemic and persisting protests around issues of race in inequality has made apparent the fissures of inequity in Canadian societies and societies the world over. It is clear that a few people have much, and many are left to share what's left over.

A recent study by the Canada's Parliamentary Budget Office (PBO) revealed the "Top 1% of Canadian families shared 25.7% wealth (3 trillion), while the Bottom 40% share 1.1% of the wealth. (132 billion)."

The charity sector is not exempt from this hierarchy of wealth. For even in the midst of statements of generosity and intentions of altruism, questions are being raised about the amount of wealth being amassed in corners of the charitable sector, the tax policies that allow that wealth to accumulate, and the needs that go unmet because of what people like Edgar Villanueva, a U.S. author and philanthropic foundation executive, calls it the "hoarding" of wealth.

The background of the slide features a photograph of two individuals seated at a table, engaged in a discussion. One person, wearing a white shirt with black polka dots, is visible from the side. The other person, in a light-colored patterned shirt, is partially visible. They are looking at documents on the table. The image is partially obscured by a dark grey semi-transparent overlay on the right side, which contains the text.

In Where Wealth Resides, we examine:

- * The assets, spending and receipting practices of Canada's Top 250 private foundations, which accounts for the value of 96% of the Top 500 private foundations in 2018
- * A look at how much revenue could be generated by increasing the disbursement quota to 10%
- * A more detailed review of the governance, staffing and receipting practices of Canada's Top 20 private foundations, which accounts for 75% of the asset value of the Top 250 foundations in 2018
- * A review of the 175 community foundations in Canada
- * The Top 5 community foundations which hold 80% of total community foundation assets in 2018.
- * An examination of donor advised funds and their impact on the charity sector

Accumulated Assets: Canada's Private Foundations

THE TOP 245



There are approximately 6,000 private foundations in Canada. Private foundations have been growing at a higher rate than any other type of Canadian registered charity.

What we're looking at

- ▶ How much are private foundations holding in assets?
- ▶ How much are they giving away?
- ▶ Taking into account the cost to Canadian taxpayers of charitable tax credits, what is the next contribution of private foundations
- ▶ Is it time to review the regulation of private foundations in Canada?
- ▶ How much funding would an increase in the disbursement quota from 3.5% to 10% for five years generate?



The context

The past two decades has borne witness to a growing gap between the rich and poor, between the wealthy and the needs of civil society.

In the charity sector specifically, as the wealth of tax-payer subsidized private foundations amasses, our country and its people are weakened by homelessness, racism, poverty, violence against women, feelings of alienation among disenfranchised youth, lack of support for people experiencing mental illness, and the unanswered call for redress and ongoing support to our Indigenous communities.



The moment

The COVID 19 pandemic has stripped away the façade of equality and underscored the wealth gap.

Death and injury in police custody has highlighted the systemic racism in the Canada and the U.S. Societies all over the world are crying out for reform.

In the equity context, we examine the practice of tax-payer subsidized private foundations, and the tiny percentage of wealth they distribute each year, asking the question,

“Does the status quo represent the charity sector Canadians want?”



There are close to 6,000 private foundations in Canada.

About 95% of their total wealth is held by 5% of foundations.

ITA regulations hold that foundations must disburse 3.5% of their assets a year

We looked at the top 500 **private foundations** by assets and how much of their funds are being disbursed.



The top 245 private foundations accounted for 97% of the assets of the top 500 private foundations, so they were made the focus of further study.



The Question

How much additional funding could be generated over five years by having a 10% disbursement quota, specifically from private foundations?

The Analysis

1. Canada's 500 largest foundations were identified by the amount of their assets, as disclosed on their 2018 T3010s.
2. Reports from Philanthropic Foundations Canada (PFC) were reviewed.
3. Corporate, public and hospital (or specific purpose) foundations were omitted for the purposes of this report. They will be addressed elsewhere.
4. The top 245 private foundations accounted for 97% of the assets of the top 500 private foundations, so they were made the focus of further study.
5. The top 245 private foundations were then categorized by the percentage of their disbursements
6. Special note was made of total expenditures, amount disbursed to qualified donees, and amount of tax-creditable receipts issued over the past ten years.



Quick facts about the Top 245 Private Foundations

- ▶ Combined assets of 42 billion*
- ▶ Had 1.40 billion (3.34% of assets) in expenditures in 2018
- ▶ Disbursed 873.9 (2.08% of assets) to qualified donees in 2018
- ▶ Issued 557.8 million in tax creditable receipts in 2018
- ▶ Issued 6.7 billion in tax creditable receipts between 2009 to 2018

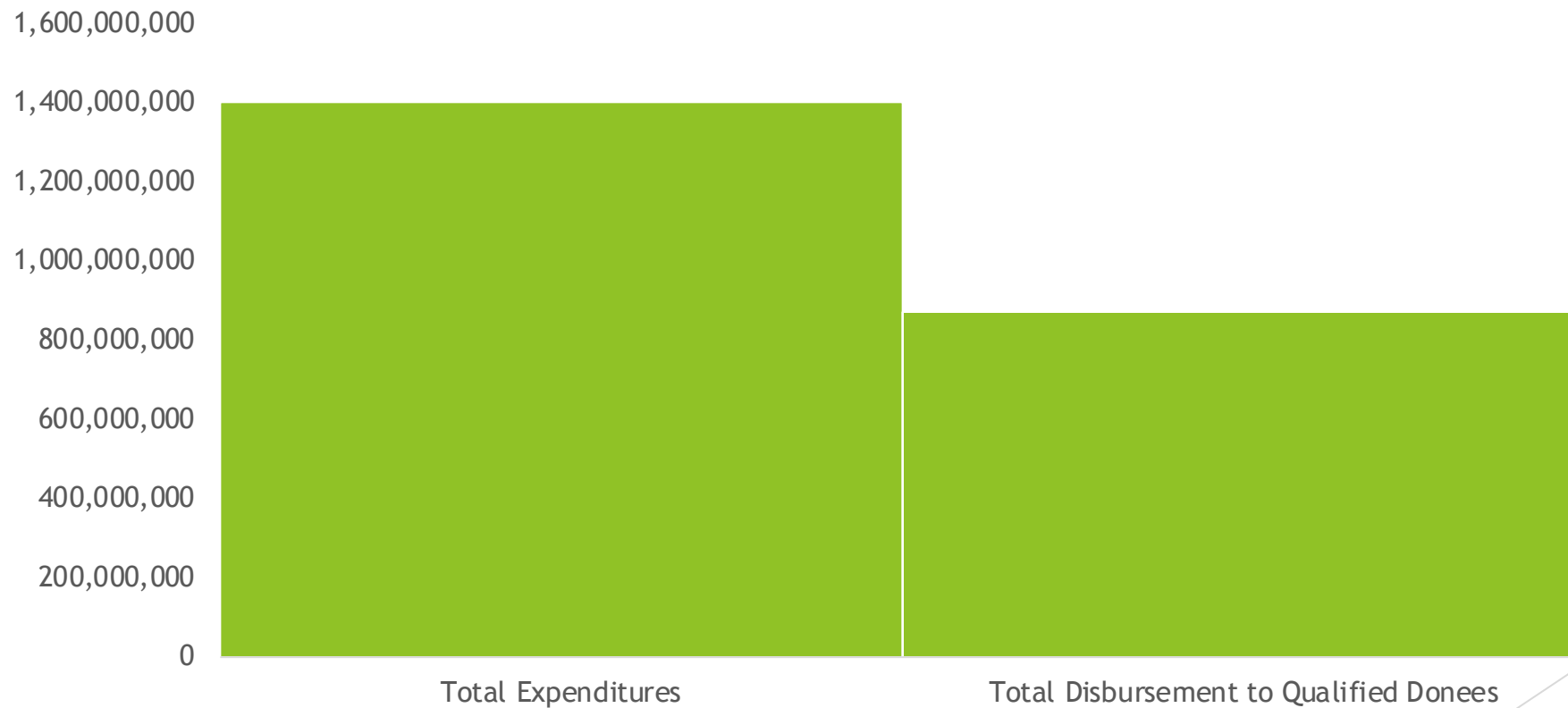
▶*The 2018 budgets of the four Atlantic provinces was 28.9 billion combined

▶**The term "at arm's length" describes a relationship where persons act independently of each other or who are not related. The term "not at arm's length" means persons acting in concert without separate interests or who are related. (Government of Canada)

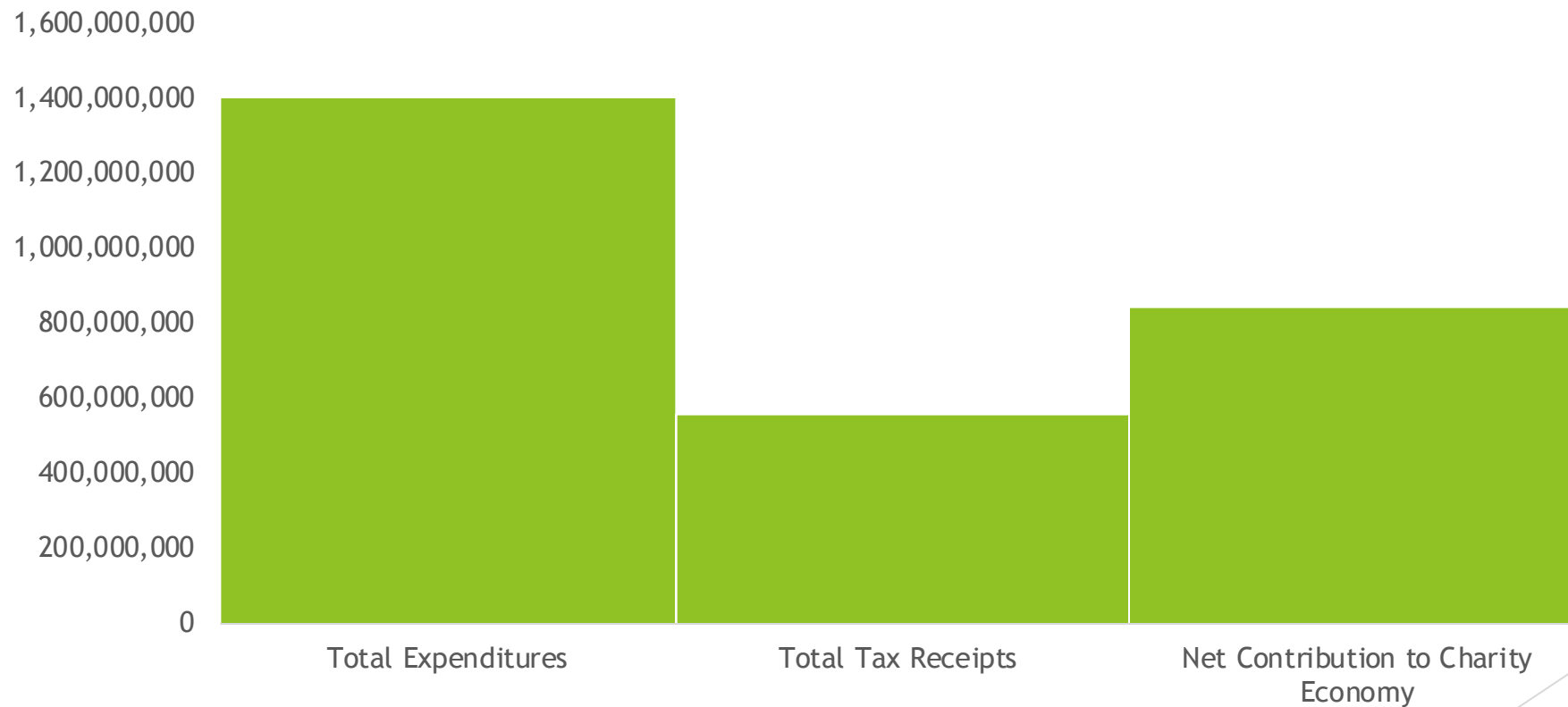
While the Top 245 private foundations spent 1.4 billion in 2018, 873.9 million of which was disbursed to qualified donees, they also issued 557.8 in tax credits, so their net contribution to the charity economy was 845.6 million or 2.01% of assets.



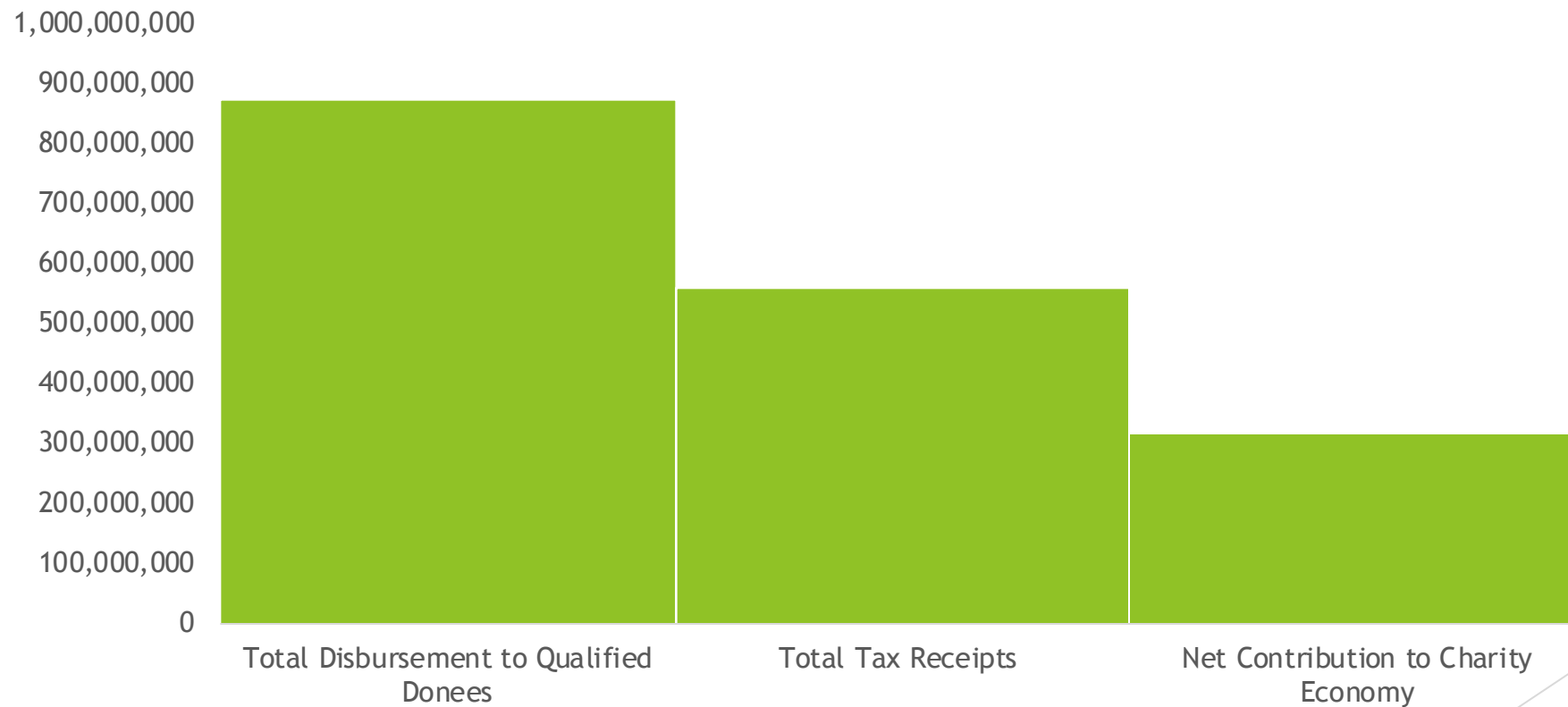
Of private foundations total expenditures,
62.3% were grants to qualified donees



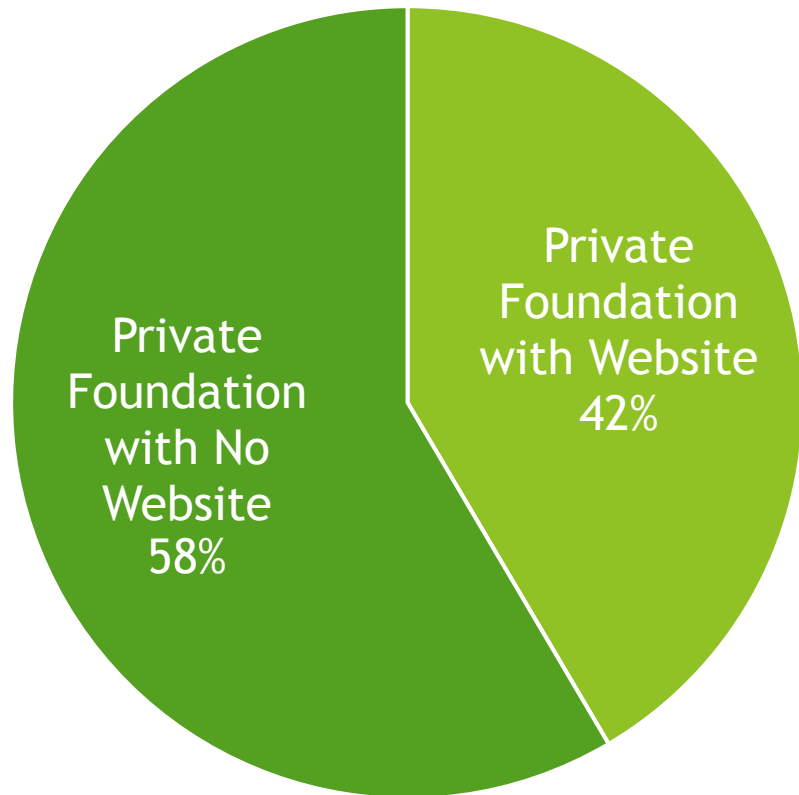
Private foundations: Total expenditures vs total tax credits issued



Private foundations: Total grants to qualified donees vs total tax credits issued

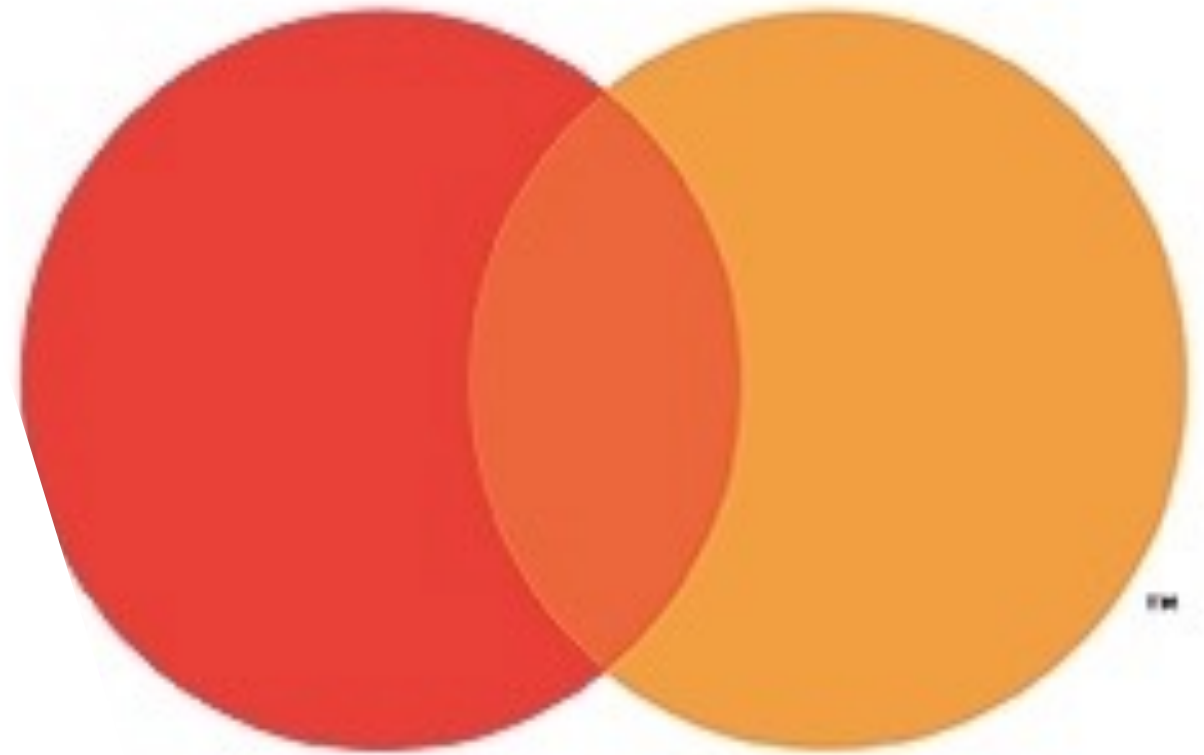


How public facing are the Top 245 private foundations?



The Outlier

- ▶ One foundation—the Mastercard Foundation—held 23.7 billion in assets and was set up in 2006.
- ▶ The Mastercard Foundation spent 1.63% of its assets in 2018 and disbursed 0.48% of its assets to qualified donees.
- ▶ At the time of its creation, researcher Victor Fleischer at the University of Colorado Law School said “the charitable foundation is an example of both regulatory cost engineering and branding. The foundation will hold a large block of MasterCard stock. Elements of the foundation's structure - its function as a corporate governance and anti-takeover device, and the limits on its ability to sell MasterCard stock or engage in charitable giving for several years - suggest that genuine altruism is an ancillary goal.” (JOUR, Fleischer, Victor, 2006/03/08, *The MasterCard IPO: Protecting the Priceless Brand*)
- ▶ At this moment, it is not clear to The Charity Report why the Mastercard Foundation is incorporated in Canada, but we are conducting further research.

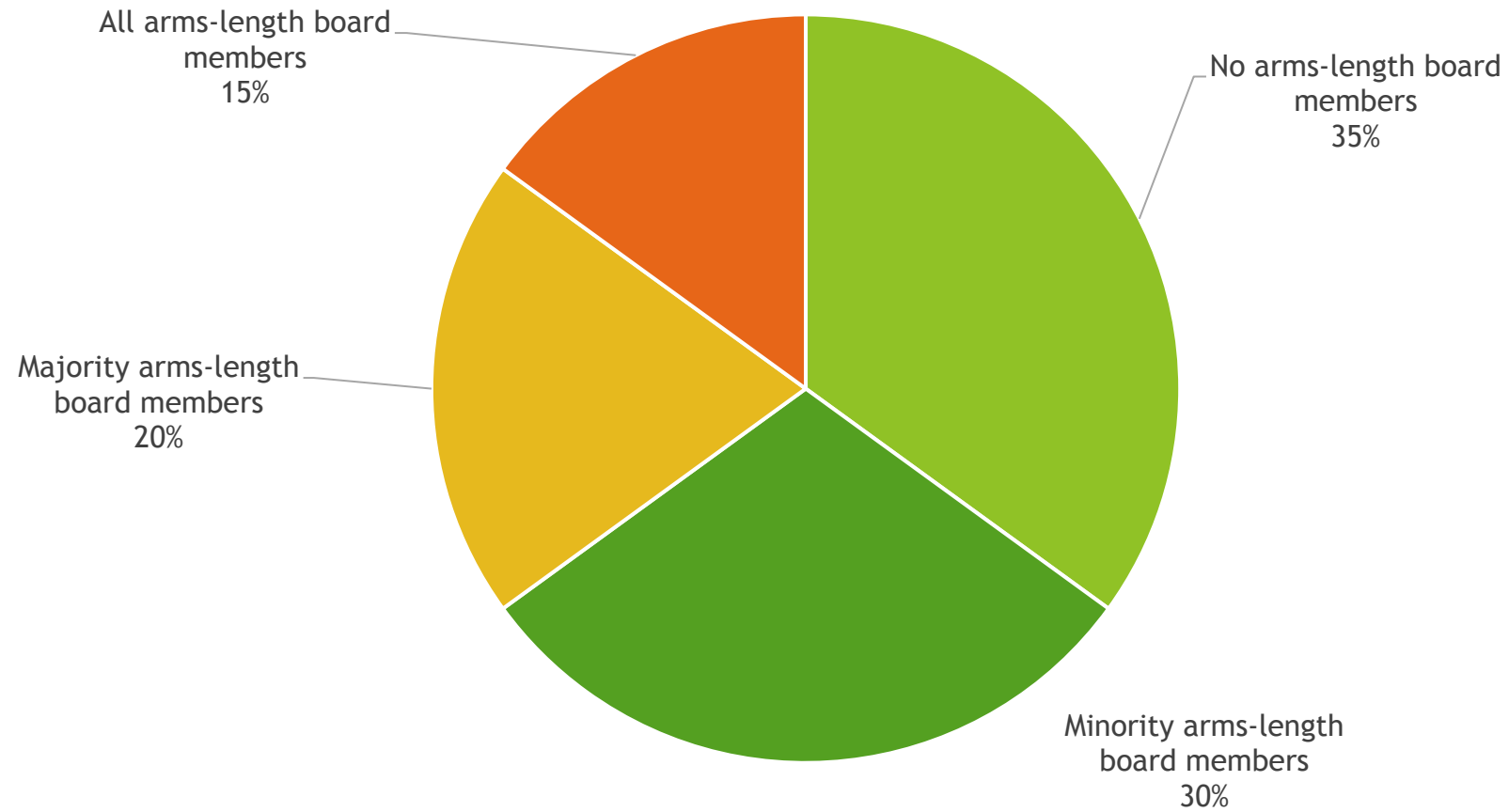


mastercard
foundation

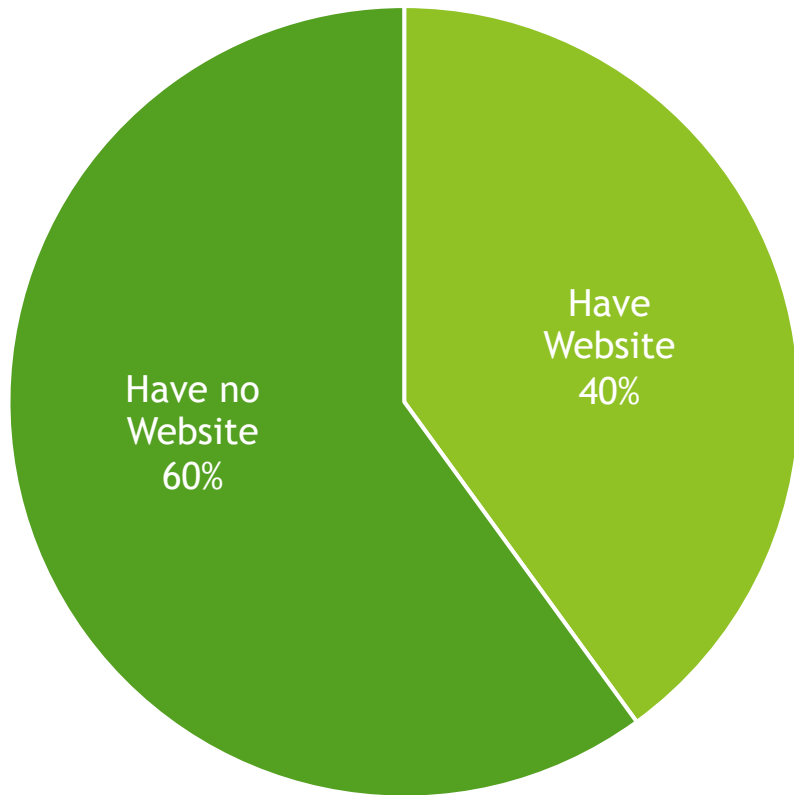
Top 20 Private Foundations

The background of the slide features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes create a dynamic, layered effect on the right side of the image, while the left side remains a plain white background where the text is located.

Top 20 Private Foundation Board Governance



How public facing are the Top 20 private foundations?



Summary:

Quick facts about the Top 20 Private Foundations


- ▶ Combined assets of 32.6 billion*
- ▶ Had 727.7 million (2.24% of assets) in expenditures in 2018
- ▶ Disbursed 369.4 (1.13% of assets) to qualified donees in 2018
- ▶ Issued 233.0 million in tax creditable receipts in 2018
- ▶ Issued 6.3 billion in tax creditable receipts between 2009 to 2018
- ▶ Members of the board of directors were almost entirely, homogeneously white
- ▶ 12 (60%) of the Top 20 private foundation have no website; 8 (40%) have a website
- ▶ 55% had no arms-length or minority arms-length boards

**The 2018 budgets of the four Atlantic provinces was 28.9 billion combined*

***The term "at arm's length" describes a relationship where persons act independently of each other or who are not related. The term "not at arm's length" means persons acting in concert without separate interests or who are related. (Government of Canada)*

Disbursement Quota

HOW MUCH REVENUE WOULD AN
INCREASE DISBURSEMENT QUOTA
GENERATE?



In a recent Ipsos poll, when specifically asked about raising the disbursement quota* for foundations to 10%, the vast majority (87%) of Canadians agreed with this idea, with just 13% disagreeing.

* Disbursement quota was defined for respondents. The disbursement quota is the minimum calculated amount that a registered charity is required to spend each year on its own charitable programs or on gifts to qualified donees, such as other registered charities. In Canada, the DQ is 3.5%.

*a definition of the disbursement quota was provided to respondents

The background of the slide features a close-up, slightly blurred image of a financial document. A silver pen lies diagonally across the page, which contains various numbers and text. A calculator is visible in the upper left corner. The text 'Balance Sheet' and 'ASSET' are partially visible in blue ink. The overall color scheme is green and white, with geometric shapes on the right side.

Quick Facts: Top 245

- ▶ Combined assets of the Top 245 were 42 billion in 2018
- ▶ Combined assets of the next 255 largest private foundations were 1.3 billion in 2018
- ▶ Top 245 spent 3.34% of the assets in 2018
- ▶ Top 245 disbursed 2.08% of their assets to qualified donees in 2018
- ▶ One foundation had assets of 23 billion in 2018
- ▶ The top 245 private foundations issued 7 billion in tax-creditable receipts between 2009 and 2018

Top 245 private foundations categorized by their expenditure behavior: summary

DISBURSEMENT CATEGORY TOP 245 PRIVATE FOUNDATIONS	NUMBER OF FOUNDATION S	COMBINED ASSETS	PERCENTAGE OF TOP 245 ASSETS
Private Foundations Currently Disbursing 0% - 3.5%	28	27,991,991,625	67%
Private Foundations Currently Disbursing 3.5% - 5%	76	8,367,891,883	20%
Private Foundations Currently Disbursing 5% - 10%	76	3,367,551,450	8%
Private Foundations Currently Disbursing 10% - 25%	65	2,241,933,091	5%
Totals	245	41,969,368,049	100%

Foundations currently disbursing less than 3.5% of assets

11% (28) of the top 245 private foundations disbursed less than 3.5% of their assets in 2018. Their assets accounted for 67% (28 billion) of the total assets of the top 245 foundations

This cohort disbursed a combined 1.8% (\$504 million) of their assets in 2018

33% of the cohort's expenditures was directed towards qualified donees; 67% was spent on their own charitable activities or management and administration

171 million in tax-creditable receipts were issued by this group in 2018, making their net contribution to the charity economy 333 million (or 1.1% of assets)

Raising the disbursement quota to 10% for the “less than 3.5%” cohort could inject an additional 11.5 billion from private foundations into the charity economy over five years.

Meeting the existing 3.5% disbursement quota could add 2.4 billion from private foundations for the charity economy over 5 years.



Foundations currently disbursing between 3.5% and 5% of assets

31% (76) of the top 245 private foundations disbursed between 3.5% and 5% of their assets in 2018. Their assets accounted for 20% (8.4 billion) of the total assets of the top 245 foundations.

This cohort disbursed an average of 4.3% (360 million) of their assets in 2018

82% of this cohort's expenditures was directed towards qualified donees; 18% was spent on their own charitable activities or management and administration

161 million in tax-creditable receipts were issued by this group in 2018, making their net contribution to the charity economy 199 million (or 2.4% of assets).

Raising the disbursement quota to 10% for the “3.5% to 5%” cohort could inject an additional 2.4 billion from private foundations into the charity economy over five years.



Foundations currently disbursing between 5% to 10% of assets

31% (76) of the top 245 private foundations disbursed between 5% and 10% of their assets in 2018. Their assets accounted for 8% (3.4 billion) of the total assets of the top 245 foundations

The cohort disbursed on average 6.9 % (232 million) of their assets in 2018

79% of the cohort's expenditures was directed towards qualified donees; 21% was spent on their own charitable activities or management and administration

147 million in tax-creditable receipts were issued by this group in 2018, making their net contribution to the charity economy 84 million (or 2.5% of assets)

Raising the disbursement quota to 10% for the “5% to 10%” cohort could inject 529 million from private foundations into the charity economy over five years.



Foundations currently disbursing between 10% and 25% of assets

27% (65) of the top 245 private foundations disbursed between 10% and 25% of their assets in 2018. Their assets accounted for 5% (2.5 billion) of the total assets of the top 245 foundations

The cohort disbursed on average 13.7% (307 million) of their assets in 2018

74% of this cohort's expenditures was directed towards qualified donees; 26% was spent on their own charitable activities or management and administration


87 million in tax-creditable receipts were issued by this group in 2018, making their net contribution to the charity economy 220 million (or 9.8% of assets)

Private foundations
currently disbursing
between 10% and 25%
would not be affected by
a DQ increase to 10%



Impact of a 10% disbursement quota over 5 years: summary

TOP 245 FOUNDATIONS: DISBURSEMENT CATEGORY	CURRENT ANNUAL EXPENDITURE	CURRENT ANNUAL EXPENDITURE OVER 5 YEARS	ADDITIONAL EXPENDITURE OVER 5 YEARS WITH 10% DQ	TOTAL NOTIONAL 5-YEAR EXPENDITURE WITH 10% DQ
Foundations Currently Disbursing 0% - 3.5%	504,174,375	2,520,871,875	11,475,123,938	13,995,995,813
Foundations Currently Disbursing 3.5% - 5%	360,286,734	1,801,433,670	2,382,512,272	4,183,945,942
Foundations Currently Disbursing 5% - 10%	231,573,527	1,157,867,635	529,461,505	1,687,329,140
Foundations Currently Disbursing 10% - 25%	307,444,638	1,537,223,188	0	1,537,223,188
Totals	1,403,479,274	7,017,396,368	14,387,097,714	21,404,494,082

A photograph of three women in profile, smiling and looking towards the right. The woman in the foreground is wearing a dark, textured sweater. The woman in the middle is wearing glasses and a dark hat. The woman in the background is wearing a dark top. The image is partially obscured by a dark blue overlay on the right side, which contains white text. The background of the entire image is a bright green geometric pattern.

A 10% increase in the
disbursement quota
could generate an
additional 14.4 billion
from private foundations
for the charity sector
over five years.

Canada's Community Foundations

The background of the slide is composed of several overlapping, semi-transparent green geometric shapes. On the right side, there is a solid, vibrant green rectangular area. To its left, a series of diagonal, overlapping triangles and polygons in various shades of green (from light lime to dark forest green) create a dynamic, layered effect. A thin, dark green line runs diagonally across the lower-left portion of the image, intersecting the geometric shapes.

How is a community foundation defined?

A community foundation is a registered charity and independent public foundation that has two areas of business:

1. Donors can set up funds within the foundation, receiving the charitable tax credit, but able to continue to direct the spending of the fund or deal with any administration.
2. Community foundations can also raise undesignated funds they are free to spend on areas of greatest need.

The first community foundation in Canada was The Winnipeg Foundation created in 1921.

The Boards of Directors of community foundations are typically made up of people who can help fundraise the donor advised funds, and people who can advise on community need.

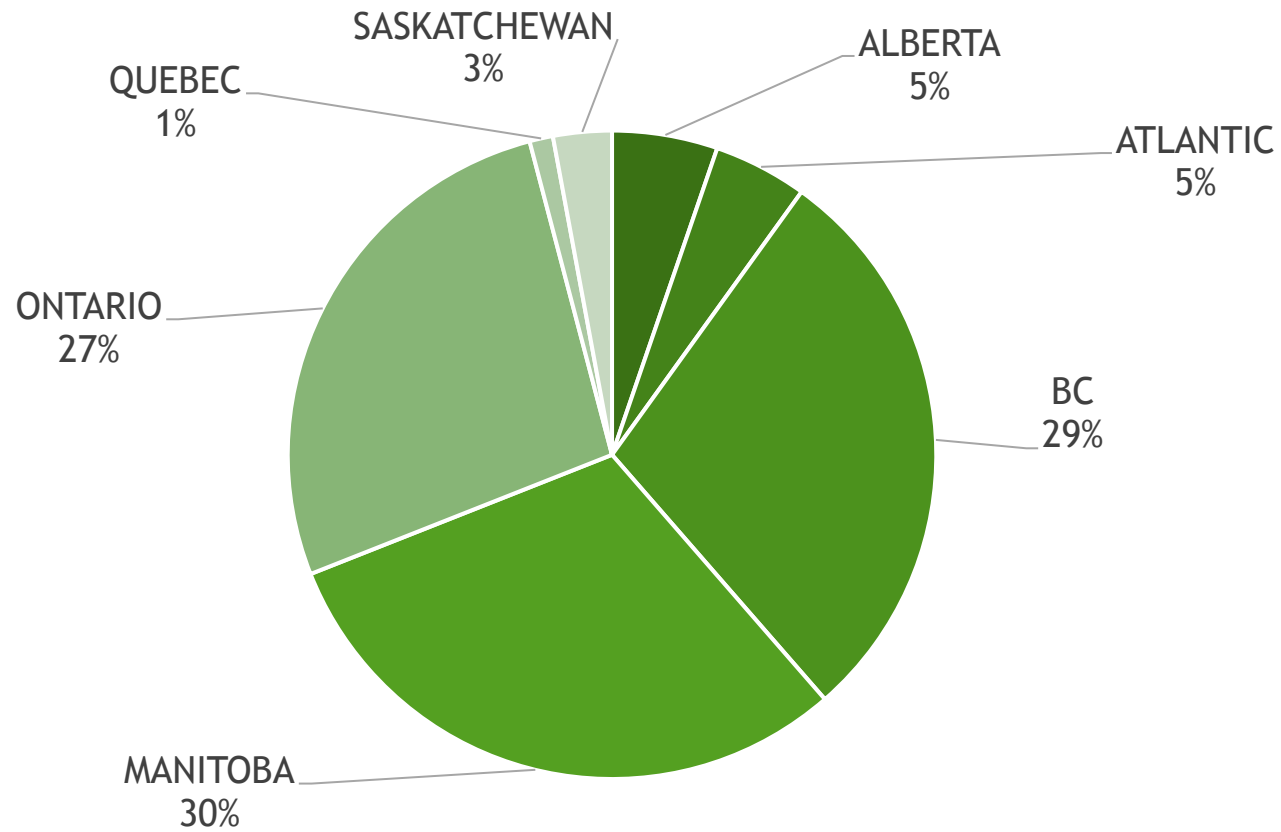


What we reviewed

- ▶ The Charity Report researched the T3010s, websites and, in some cases, the annual report of community 175 across the country.
- ▶ Several were appeared brand new and had not made their first tax return
- ▶ We ended up looking at 168 community foundations in terms of:
 - ▶ Location
 - ▶ Assets
 - ▶ Expenditures
 - ▶ Disbursement percentage
 - ▶ Amount disbursed to qualified donees
 - ▶ Amount of tax receipts issued between 2009 to 2018
 - ▶ Diversity of governance

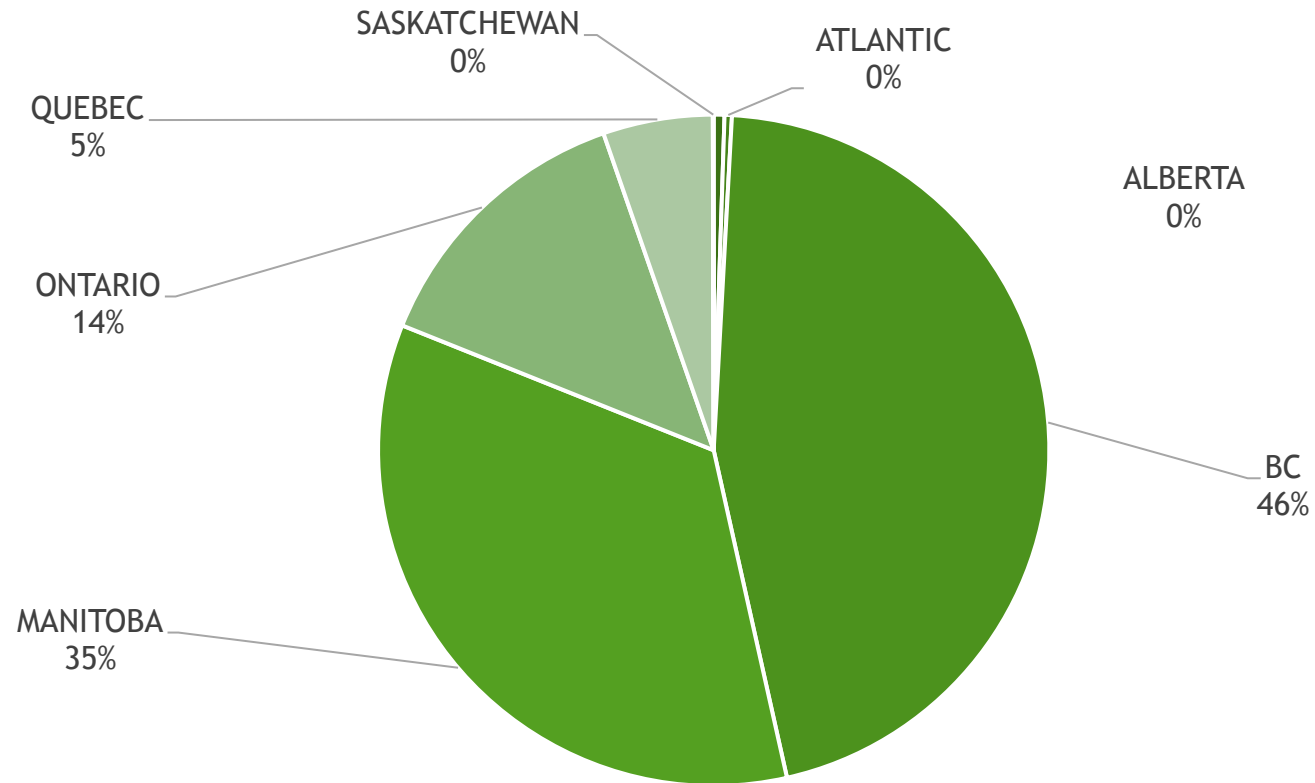


Where community foundations live

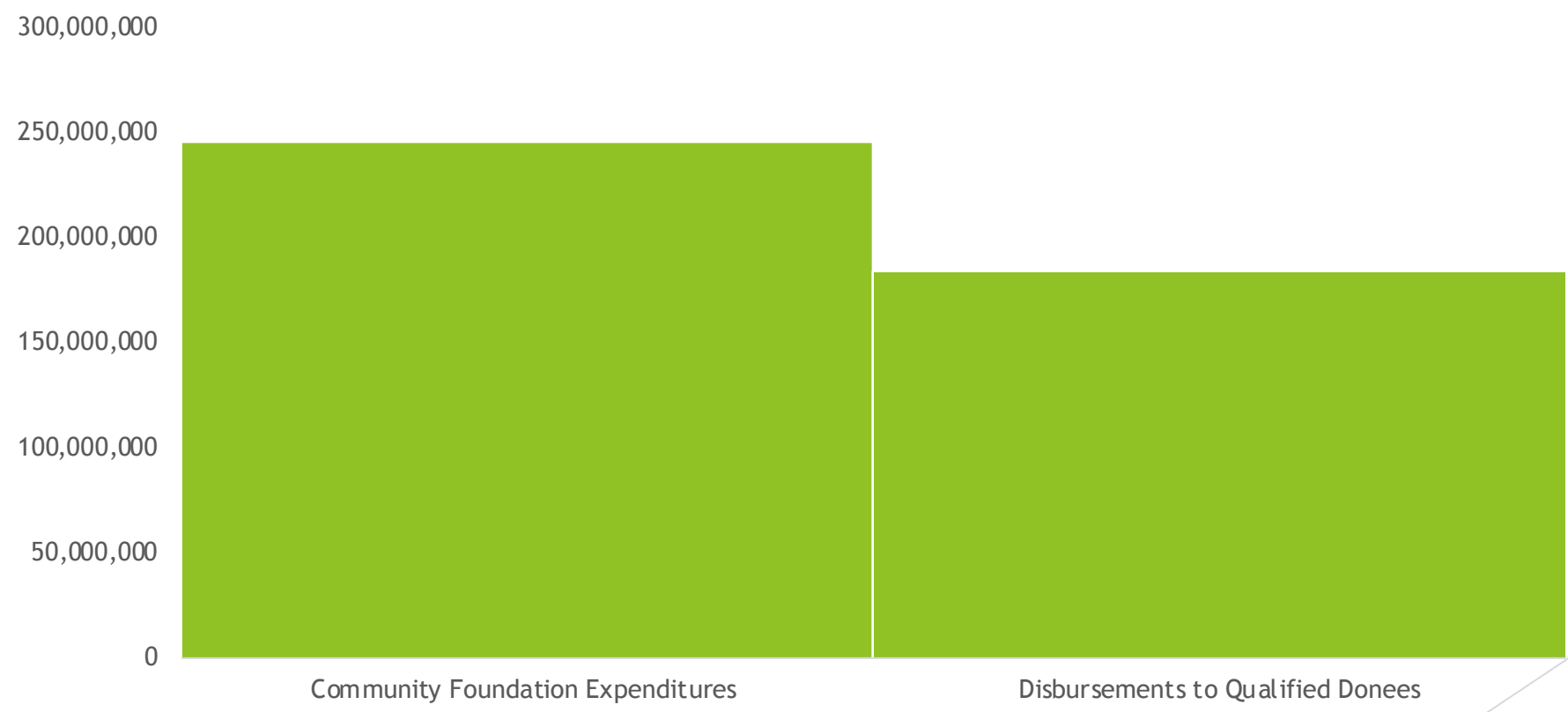


Where community foundations' assets live

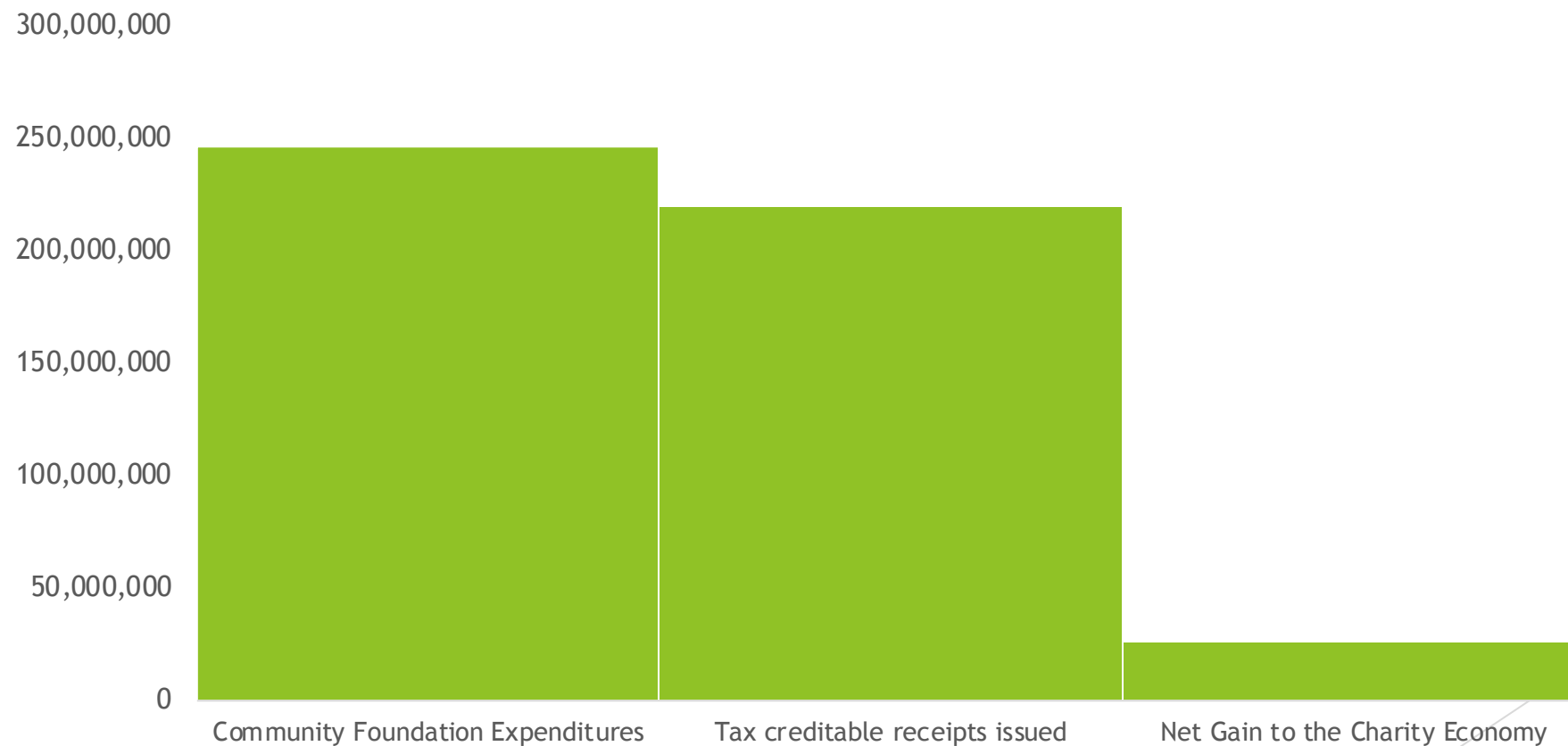
ASSETS - 3.76 BILLION



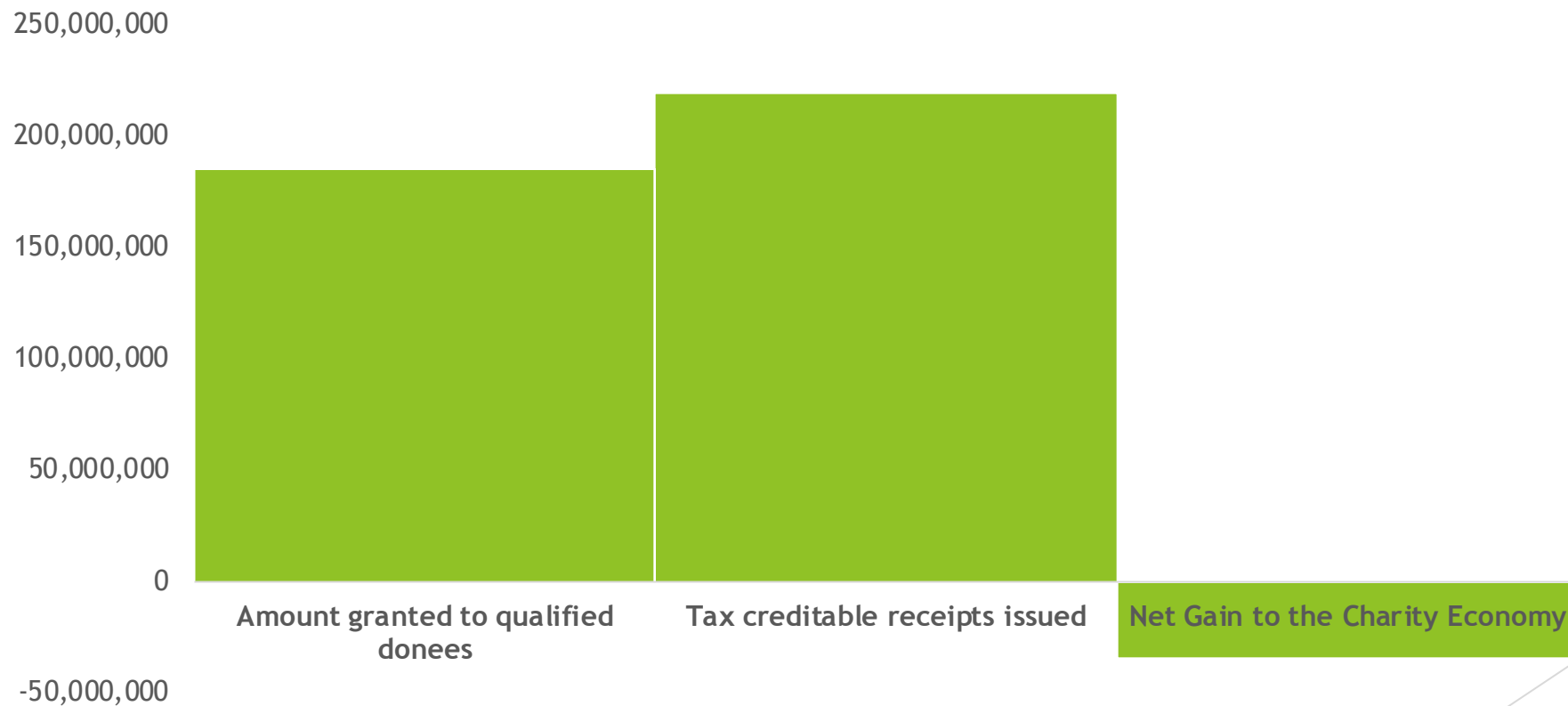
Of community foundations' combined expenditures, 75% were grants to qualified donees



The value of the tax credits issued by community foundations compared to the value of total expenditures



The value of the tax credits issued by community foundations compared to the value of gifts to qualified donees



Community foundations categorized by their expenditure behaviour: summary

EXPENDITURE CATEGORY COMMUNITY FOUNDATIONS	NUMBER OF FOUNDATIONS	COMBINED ASSETS	PERCENTAGE COMBINED COMMUNITY FOUNDATION ASSETS
Community Foundations Currently Spending 0% - 3.5% of their Assets	14	10,460,326	0.28%
Community Foundations Currently Spending 3.5% - 5% of their Assets	25	1,047,275,112	27.89%
Community Foundations Currently Spending 5% - 10% of their Assets	76	2,205,722,478	58.73%
Community Foundations Currently Spending 10% - 25% of their Assets	39	6,645,583	12.93%
Community Foundations Currently Spending 10% - 25% of their Assets	14	6,645,583	0.18%
Totals	168	3,755,645,812	100%



Summary:

Quick facts about community foundations

Of the 165 community foundations we studied*, in 2018 they:

- ▶ Had combined assets of 3.76 billion
 - ▶ Had combined expenditures of 246.3 million
 - ▶ 75% (184.9 million) of combined expenditures was disbursed to qualified donees
 - ▶ 219.5 million in tax receipts were issued
 - ▶ 81% of assets are in BC and Manitoba
 - ▶ 86% of community foundation disburse between 3.5% and 10% of their assets
 - ▶ All had community-facing websites
- ▶ **About a dozen community foundations we studied were newer foundations who had not submitted their first tax return or whose returns had irreconcilable errors*

The background features a series of overlapping, semi-transparent green triangles and polygons that create a dynamic, geometric pattern. The colors range from a light, pale green to a deep, forest green. The shapes are layered, with some appearing in front of others, creating a sense of depth and movement. The overall effect is modern and clean, typical of contemporary graphic design.

Top 5 Community Foundations

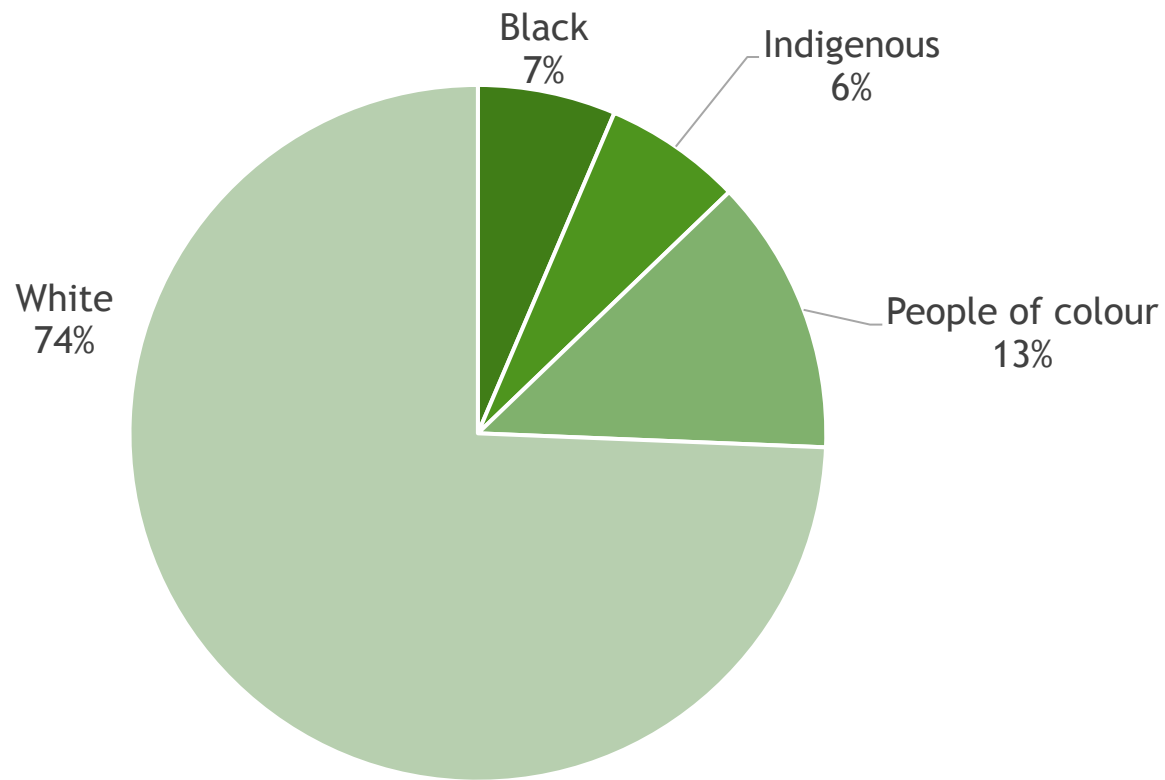
The Top 5
community
foundations
account for 80%
of total
community
foundation assets



Top 5 community foundations categorized by their disbursement behaviour: summary

TOP 5 COMMUNITY FOUNDATIONS	TOTAL ASSETS	AMOUNT OF ASSETS DISBURSED	% OF ASSETS DISBURSED	AMOUNT OF ASSETS DISBURSED TO QUALIFIED DONEES	% ASSETS DISBURSED TO QUALIFIED DONEES
Vancouver Foundation	1,203,087,272	76,576,779	6.37%	59,849,192	4.97%
The Winnipeg Foundation	946,611,551	37,804,662	3.99%	28,829,733	3.05%
Toronto Foundation	388,929,050	24,541,218	6.31%	18,972,521	4.88%
Victoria Foundation	280,584,528	32,518,239	11.59%	29,727,046	10.59%
The Foundation of Greater Montreal	193,698,879	11,480,155	5.93%	8,497,178	4.39%
Total Top 5	3,012,911,280	182,921,053	6.07%	145,875,670	4.84%

Top 5 Community Foundations: Demographic make-up of boards of directors



Urban Demographics: Percentage of Visible Minorities

- ▶ Victoria: 13.8%
- ▶ Vancouver: 45.2%
- ▶ Winnipeg: 26.1%
- ▶ Toronto: 51.5%
- ▶ Montreal: 34.2%





Summary:

Quick facts about the Top 5 community foundations in 2018

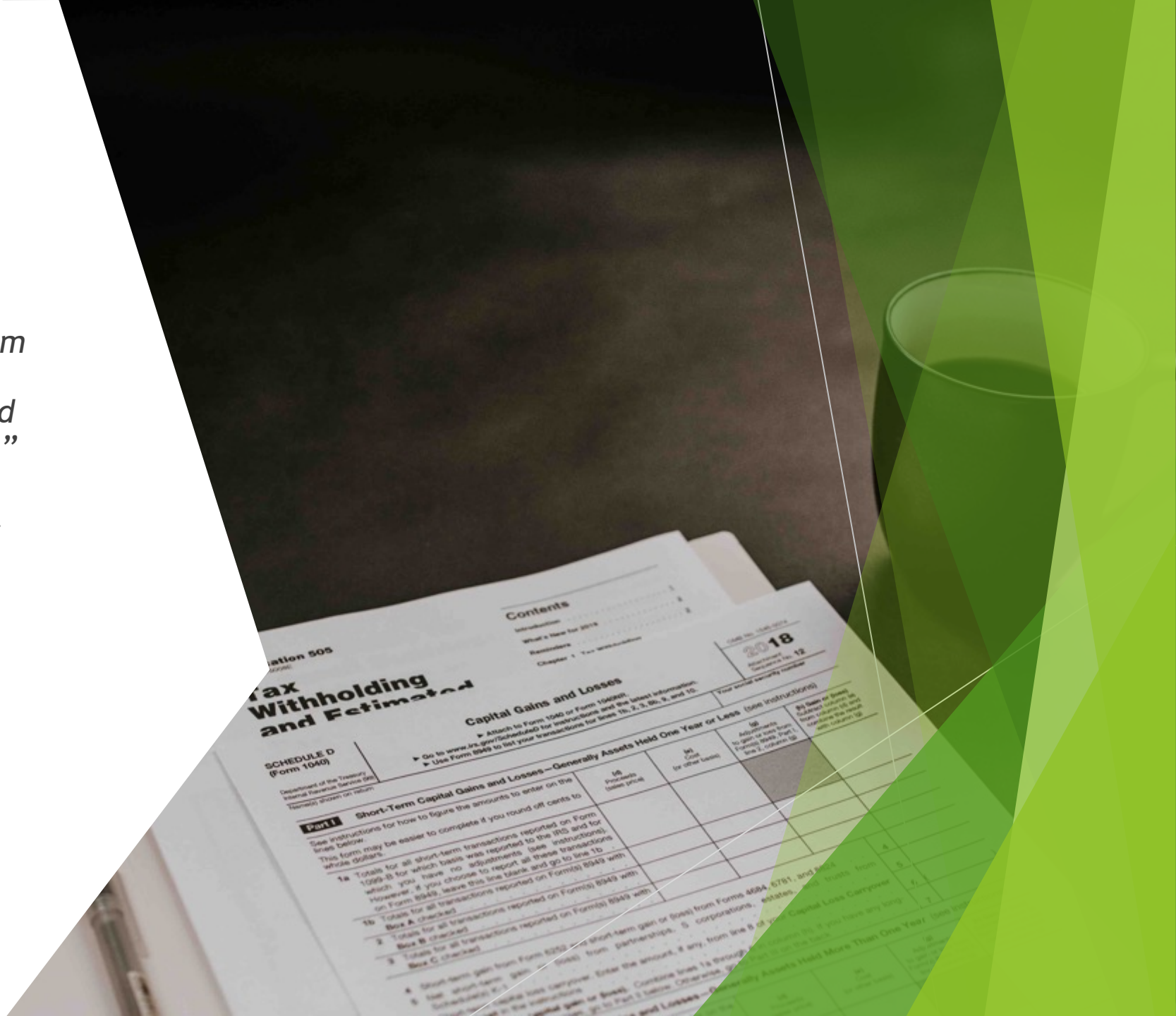
- ▶ Had combined assets of 3 billion
 - ▶ Had combined expenditures of 182.9 million
 - ▶ 80% (145.9 million) of combined expenditures was disbursed to qualified donees
 - ▶ 165.3 million in tax receipts were issued
 - ▶ 81% of assets are in BC and Manitoba
 - ▶ Spent 6.08% of their assets
 - ▶ Disbursed 4.84% of their assets to qualified donees
 - ▶ All had community-facing websites
 - ▶ 75% of board members were white
- ▶ **About a dozen community foundations we studied were newer foundations who had not submitted their first tax return or whose returns had irreconcilable errors*

Donor Advised Funds (DAFs)

What can a DAF do?

“If you’re facing a large tax bill from a windfall from the sale of your business, a donor-advised fund could be one way to offset some of that...”

To establish a donor-advised fund, a person can donate to a foundation that issues you a tax receipt for the initial amount. The money is then invested, and gains are sheltered from tax, while you direct where grants from the fund are made.



Where can I get one?

- Community foundations are set up to raise and collect them.
- All the major banks offer donor advised funds. The complications and level of transparency needed to establish a foundation, is often used by financial institutions as a reason to set up a DAF which requires no transparency or minimum disbursement.



The benefits to the owner of having a DAF

They are said to embrace a wide range of donors

It's possible to open an account through a current financial adviser who can establish one in a relatively straightforward manner

You can receive the immediate benefit have having the entire amount tax-credited, without being compelled to release any donations.

In that way you separate your tax planning event from philanthropic action.



Issues for society arising from DAFs

There are concerns about transparency, given the limited information and reporting requirements,


Sponsoring foundations are not required to disclose extensive detail about the donor-advised funds they hold.

There is clearly a delay between the tax benefit received by the owner of the DAF and the benefit to society through donations to charities

There is no minimum disbursement rate to individual donor-advised funds

The use of donor-advised funds could divert capital away from charities.





Estimated of the value of DAFs in Canada = \$3.3 billion

- ▶ “Community foundations hold slightly over half of the donor-advised fund assets in Canada, with total assets estimated in those types of accounts at \$1.7 billion.
- ▶ “Other sponsoring foundations, such as those associated with financial service institutions and financial firms, are estimated to have approximately \$1.5 billion in assets.”

Keith Sjögren, Managing Director, Consulting Services, Strategic Insight, in testimony to the Special Senate Committee on the Charitable Sector

► Given the increased awareness about donor-advised funds, the trends in the creation of ownership of wealth in Canada and the significant transfer of wealth projected for the next two decades, and the increasingly active role in retail philanthropy being played by financial institutions, we anticipate that assets held in donor-advised funds, and the flow of grants from donor-advised funds, will continue to increase over the medium term..

... It would not be unreasonable to expect the total assets in these types of accounts to reach approximately \$7 billion by the end of 2024

Keith Sjögren, Managing Director,
Consulting Services, Strategic Insight, in
testimony to the Special Senate
Committee on the Charitable Sector



In 2016, Fidelity Charitable U.S., a collection of DAFs worth more than \$17 billion, received more donations than the United Way.

The information available on donor-advised fund sponsors in the United States is far greater than it is in Canada.

Summary of areas suggested for foundation/DAF reform in the past two years

Reform to encourage spending by foundations and DAFs

- ▶ Give5 - Canadian effort to have foundations voluntarily raise their disbursement quota to 5%
- ▶ Giv3 - Canadian effort to raise DQ to 10% for 5 years
- ▶ Collaborative Foundation effort: An U.S. effort lead by the Wallace Foundation to increase DQ by 10% for three years
- ▶ 'HalfMyDAF' Movement: A U.S. effort aiming to spur a boost in donor-advised-fund grants
- ▶ Have a minimum DQ for DAFs

Transparency-related reform

- ▶ Have more publicly available information on DAFs




Summary of areas suggested for foundation/DAF reform in the past two years

Reform to offer more tax incentives to donors

- ▶ Eliminating the capital gains tax on charitable donations of private company shares and real estate, the last two major classes of capital property that do not have special donation incentive in Canada

Rechnically-focused reform

- ▶ Loosen the “rigid rules” governing financial relations between charities and non-charities
 - ▶ Review the Income Tax Act
 - ▶ Review the provision on maintaining direction and control of funds
- 

The background features abstract, overlapping green geometric shapes in various shades of green, creating a modern and dynamic feel. The shapes are primarily located on the right side of the page, with some extending towards the left.

The Charity Report

Your independent news source in the charity sector

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