

Where Wealth Resides: The Funding of Philanthropy

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Where Wealth Resides: The funding of philanthropy

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Where Wealth Resides

THE FUNDING OF PHILANTHROPY


A woman with curly hair and sunglasses is crouching on a city street, adjusting a grey hooded jumpsuit on a small child. The child is wearing tan boots. The woman is wearing a black jacket, blue jeans with a tear, and a red bag. The background shows a city street with buildings and parked cars.

INTRODUCTION

The impact of the global pandemic and persevering protests addressing systemic racism have made apparent the fissures of inequity in Canadian society and in 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. Even among statements of generosity and intentions of altruism, questions arise 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 the "hoarding" of wealth, as it is described by people like Edgar Villanueva, a U.S. author and philanthropic foundation executive.

The background of the slide features a photograph of two individuals seated at a table, likely in a meeting or collaborative work environment. One person, wearing a white shirt with black polka dots, is visible from the side, leaning forward. Another person, wearing a light-colored patterned shirt, is partially visible behind them. The scene is dimly lit, with a focus on the subjects. The slide is framed by a green geometric pattern on the right side and a dark grey semi-transparent area where the text is located.

In Where Wealth Resides, we examine:

The assets, spending and receipting practices of Canada's top 250 private foundations, which account for the value of 96% of the Top 500 private foundations in 2018

Revenue generated if the disbursement quota was increased to 10%

The governance, staffing and receipting practices of Canada's top 20 private foundations, which accounted for 75% of the asset value of the Top 250 foundations in 2018

Most talked about reforms

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 are we 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 net 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 **have** borne witness to a growing gap between the rich and poor, **and** between the desires of the wealthy and the needs of civil society.

in the charity sector specifically, as the wealth of taxpayer-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 for 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 have highlighted systemic racism in Canada and the United States. 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 became 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.



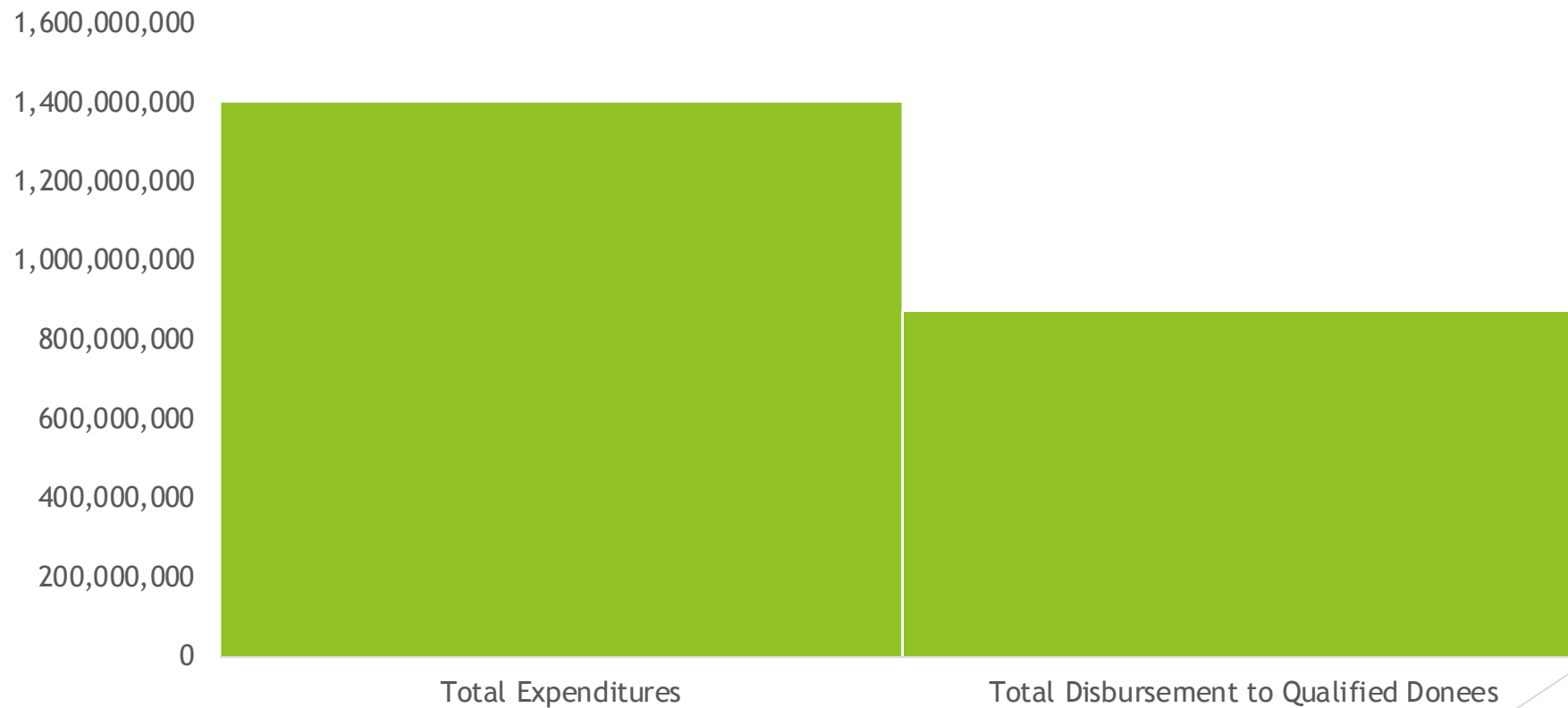
Quick facts about the top 245 Private Foundations

- ▶ 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

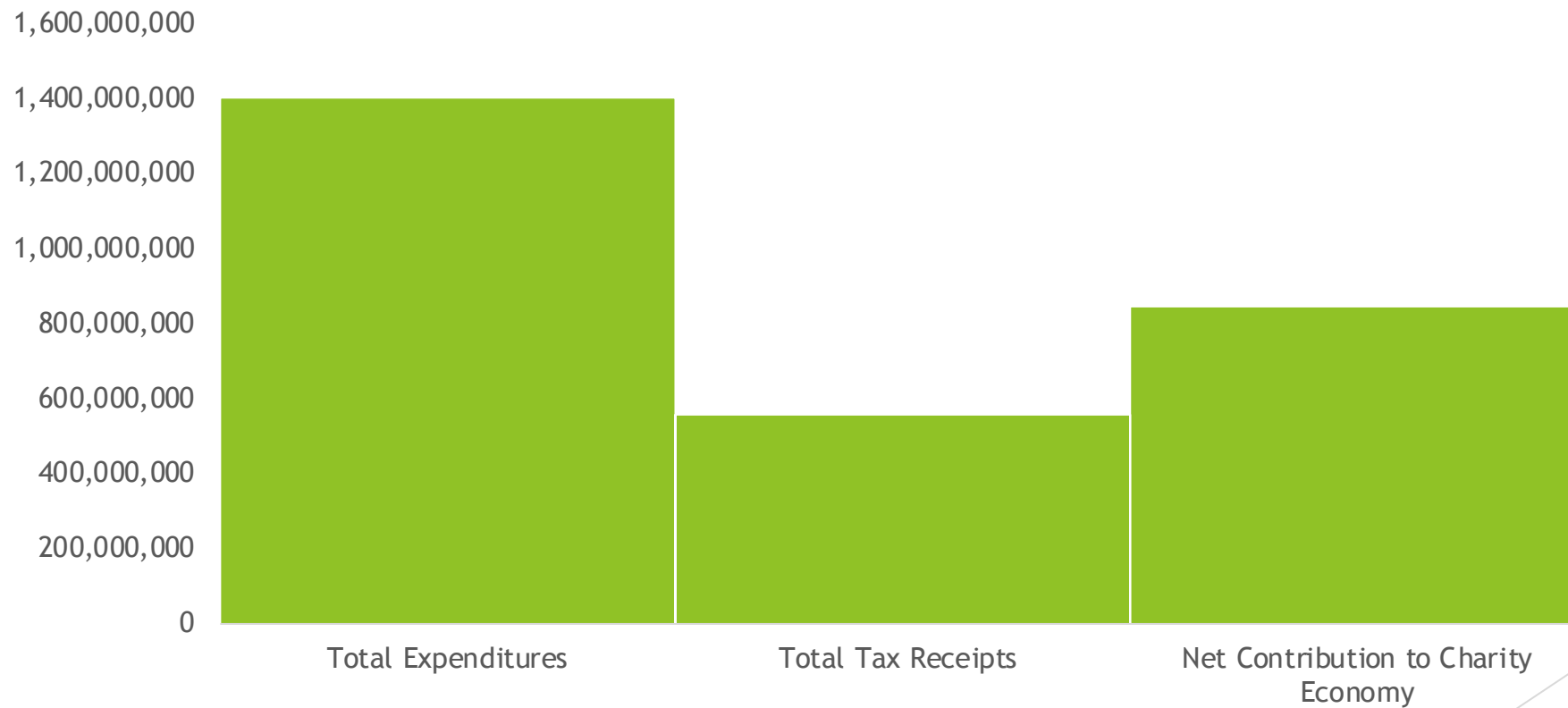
While the top 245 private foundations spent 1.4 billion in 2018, 873.9 million of which was disbursed to qualified donees, they also issued 557.8 in tax credits, so their net contribution to the charity economy was 845.6 million or 2.01% of assets.



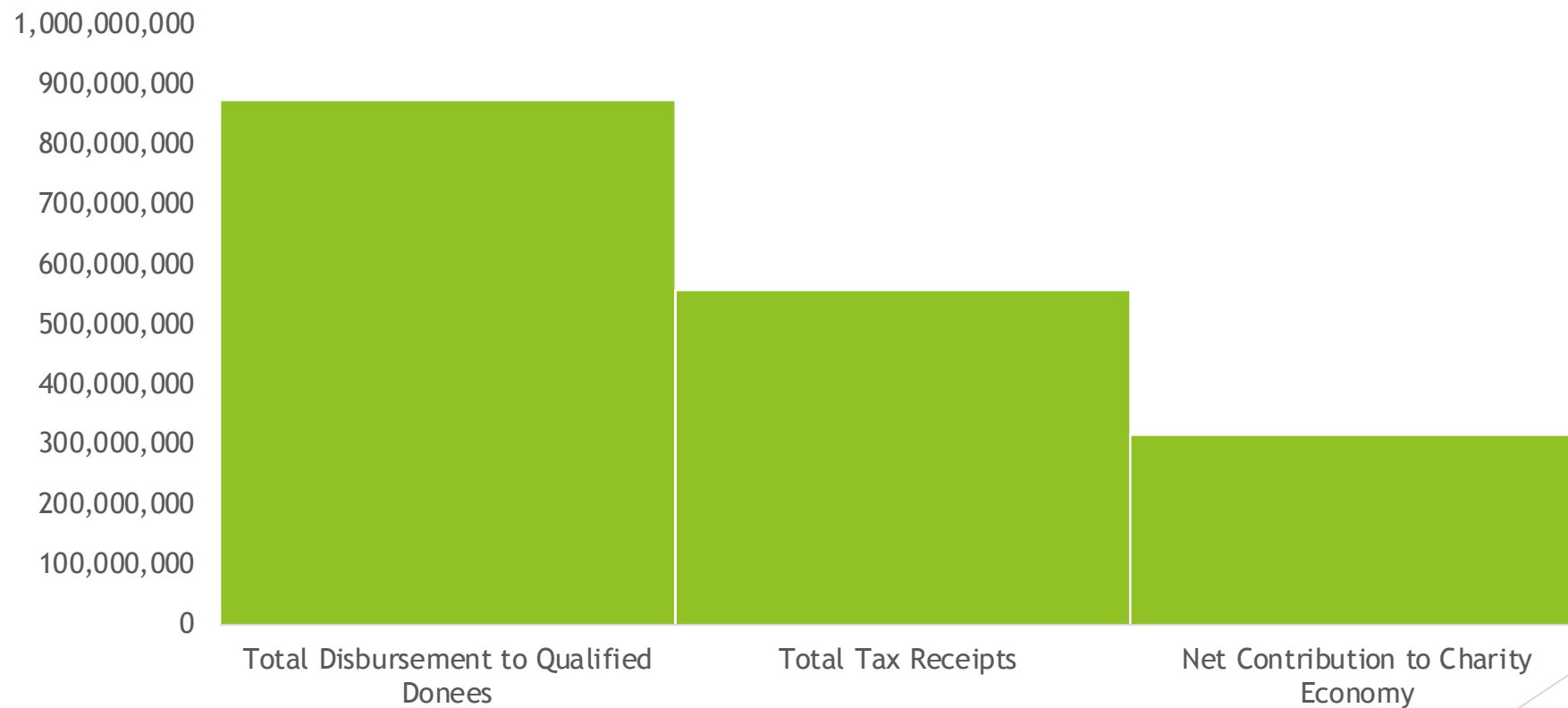
Of private foundations total expenditures,
62.3% were grants to qualified donees



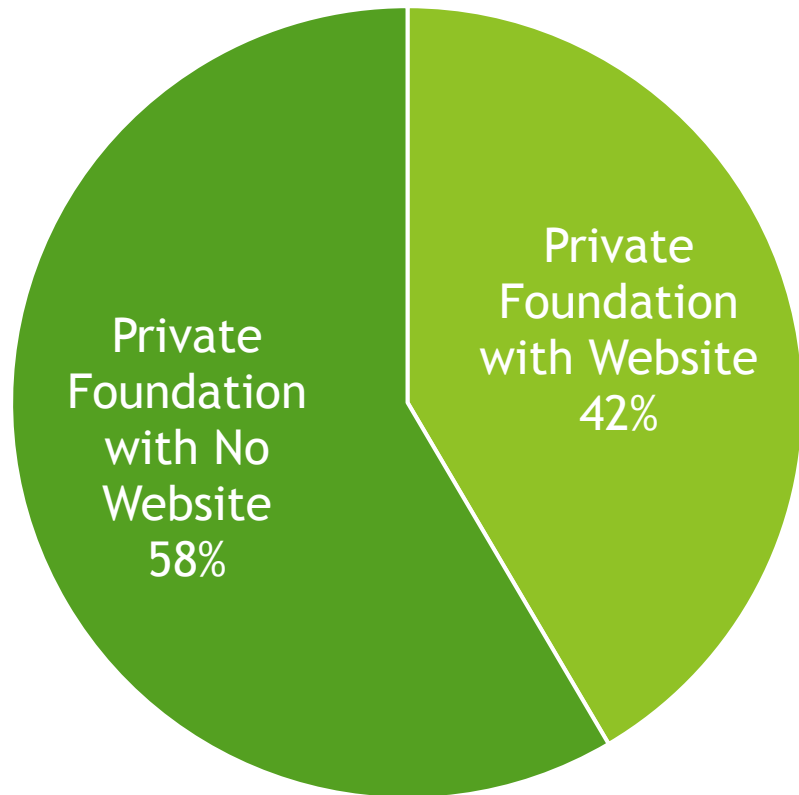
Total expenditures vs total tax credits issued



Total grants to qualified donees vs total tax credits issued

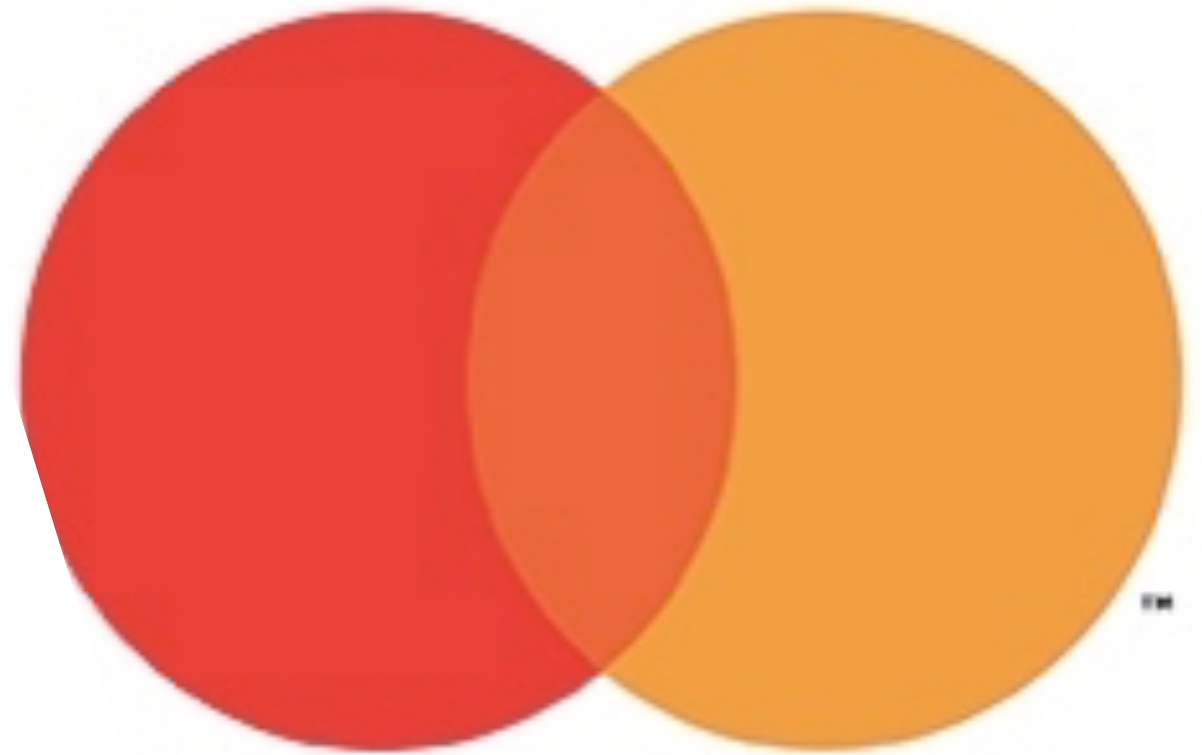


How visible are the top 245 private foundations?



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 us why the Mastercard Foundation is incorporated in Canada.

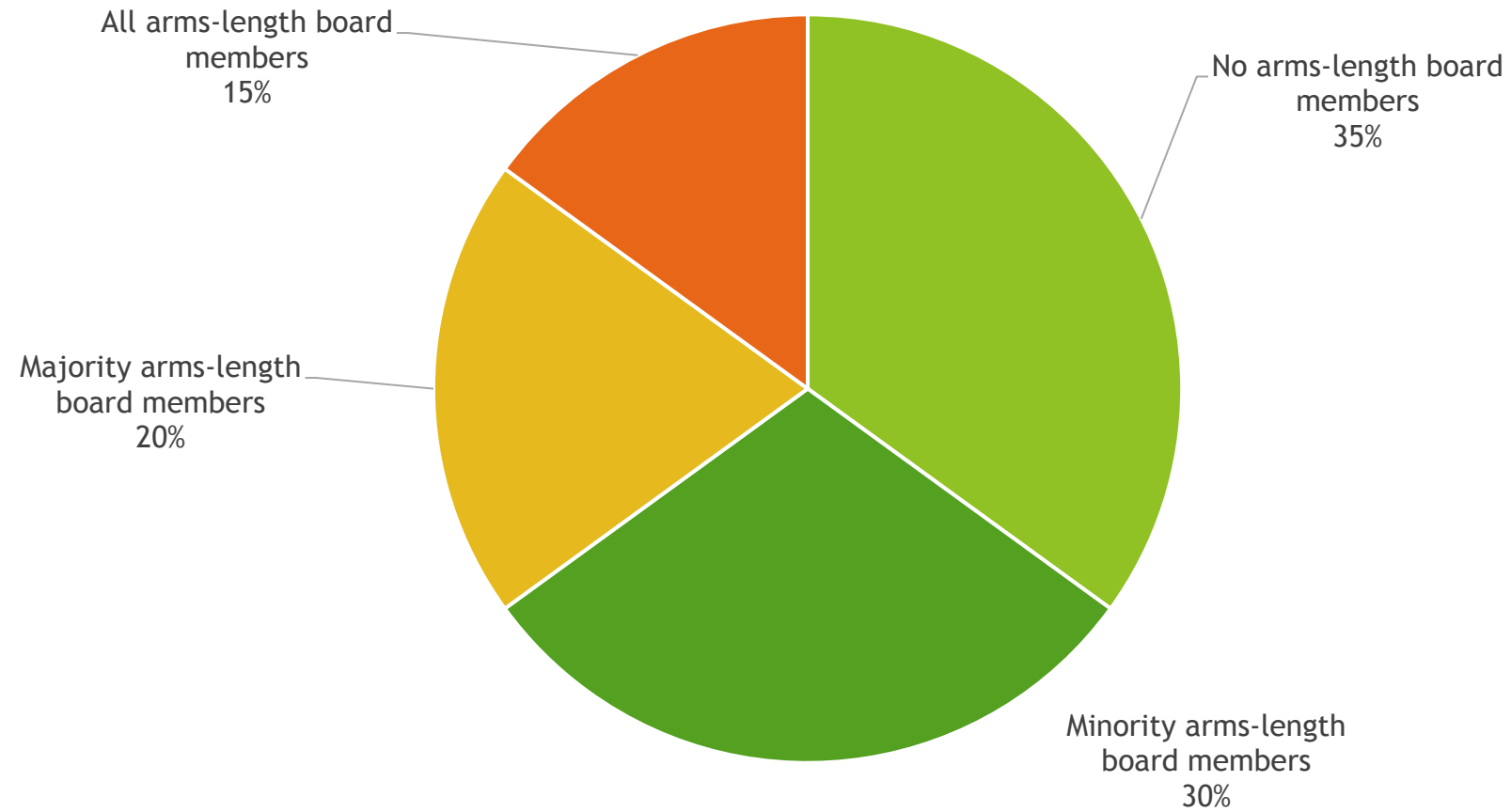


mastercard
foundation

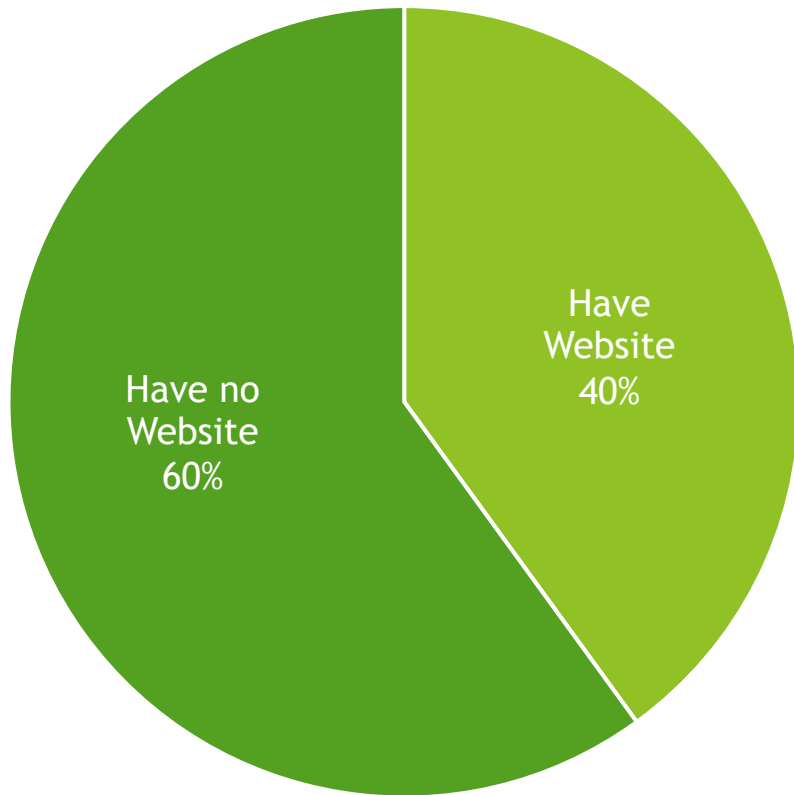
The background features a series of overlapping, semi-transparent green triangles and polygons that create a dynamic, abstract pattern. The colors range from a light lime green to a darker forest green. The pattern is concentrated on the right side of the image, with some elements extending towards the center.

Top 20 Private Foundations

Board Governance: Top 20 Private Foundations'



How visible 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
INCREASED 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



Quick Facts: top 245 Private Foundations

- ▶ 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 FOUNDATIONS	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 internal charitable activities, and 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

This 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

This 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 light-colored 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.

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

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