



Association of Fundraising Professionals (AFP) Canada
Government Relations Committee Policy Working Group
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Background

AFP Canada advocates for an environment that strengthens effective and ethical fundraising to encourage giving. Our vision is that more asking will lead to more giving and greater impact for the causes we serve. As part of its 2021 mandate, AFP Canada's Government Relations Committee developed policy positions for key issues of interest to AFP members in Canada.

The Issue

AFP believes that the disbursement quota should be raised from the current 3.5% to unlock funding and meet the charitable intent behind which these investments were made.

Our fundamental purpose as fundraising professionals is to connect donors with causes and organizations to achieve social good. Professional fundraisers face increasing pressure in their roles to achieve higher fundraising goals as their organizations face critical resource shortages. As the voice for fundraisers, AFP believes we could alleviate financial pressures of both nonprofit organizations and the fundraisers that work for them by requiring greater accountability to disburse the funds already donated—and tax receipted—to foundations.

Recommending a fixed percentage increase to the disbursement quota is challenging for many reasons. The Advisory Committee on Charitable Sector in Canada recently noted how reporting and data discrepancies in charitable tax return data are misleading, making it difficult to base disbursement quota decisions on these findings.¹ We also recognize that many charitable foundations already meet and exceed the disbursement quota.

AFP supports an **equitable disbursement policy**, based on the individual foundation's activities and investment returns, while ensuring that nonprofit organizations across the sector can equally benefit from an increased disbursement quota (not just the largest beneficiaries).

¹ Advisory Committee on the Charitable Sector Submission to Finance Canada on Disbursement Quota Reform – August 31, 2021; <https://www.carters.ca/pub/article/charity/2021/ACCS-Submission.pdf>

Benefits of Increasing the Disbursement Quota

AFP and its members believe that the donor's philanthropic intent is important, and we work with donors to ensure that their goals for current giving and vision for their legacy can be realized based on what is known at the time they make their gift arrangement. When a foundation is established, the board decides whether to provide only investment income for charitable purposes or to include a portion of the fund's capital to meet their philanthropic goals. Often the idea of the foundation living on in perpetuity takes precedence over creating the most impact in the present.

In this time of **unprecedented investment returns**, AFP believes that increasing the disbursement quota alone would make more funds available to charities today, without encroaching on investment capital, but would also challenge foundations to consider the idea of whether they should live on indefinitely while disbursing only a minimum amount of accrued interest. While investments (and the foundations that hold them) prosper, they could share that wealth in a way that is proportionate with the nonprofit sector, whose needs are great and continuing to grow. (The responsibility of the nonprofit sector to deliver critically needed services and programs is great and continues to grow—why wait to do the most good?)

Issue Background

On June 20, 2019, the Special Senate Committee on the Charitable Sector released its report *Catalyst for Change: A Roadmap to a Stronger Charitable Sector*.² The report was the culmination of 18 months of public hearings from 150 witnesses spanning the breadth of the charitable and nonprofit sector in Canada. It outlines 42 recommendations for the federal government to implement to strengthen the nonprofit sector.

Recommendation 36 addresses an issue that AFP, as well as individual Canadian charities and nonprofits have raised for several years. It states that *the Government of Canada direct the Advisory Committee on the Charitable Sector to study the advantages and disadvantages of amending the disbursement quota for registered charities; and the advantages and disadvantages of setting the disbursement quota in regulation, rather than statute.*

² Senate of Canada (2019). Catalyst for Change: A Roadmap to a Stronger Charitable Sector; <https://sencanada.ca/en/info-page/parl-42-1/cssb-catalyst-for-change/>

Why Increasing the Disbursement Quota is Important for the Nonprofit Sector

1. Foundations in Canada have doubled their financial assets over the past six years, from \$40 billion to over \$80 billion dollars in 2020.³ This represents an average of 12% growth annually, which is well above inflation and the growth of Canada's GDP. **Over the same period of time, the ratio of money granted from foundations to charities has decreased year-after-year.**⁴
2. Changes to the disbursement quota are long overdue and have been called for by sector leaders and experts in charitable policy for many years.⁵ Given that the last changes to the disbursement quota took place close to two decades ago⁶, we can safely say that changes to this type of fiscal policy are slow and should not be seen as a temporary measure in response to COVID-19 recovery. The nonprofit sector needs long term investment and stability, not quick fixes.

Latest Updates

The government has committed to consulting on this question because during the pandemic many were calling on charitable foundations to grant more than just 3.5%.

³ Policy Options (2020). Unlocking the expanding wealth of charitable foundations; <https://policyoptions.irpp.org/magazines/may-2020/unlocking-the-expanding-wealth-of-charitable-foundations/>

⁴ Increase the Grants. A movement to require greater granting from Canadian charitable foundations; <https://www.increasethegrants.ca/>

⁵ The Charity Report (2021). Calls to increase the disbursement quota growing louder: 'Foundations are hoarding wealth'; <https://www.thecharityreport.com/features/calls-to-increase-the-disbursement-quota-growing-louder-foundations-are-hoarding-wealth/>

⁶ Department of Finance Canada (2021). Backgrounder for Disbursement Quota Consultation; <https://www.canada.ca/en/department-finance/programs/consultations/2021/boosting-charitable-spending-communities/backgrounder-disbursement-quota-consultation.html>

Quick Facts

- The disbursement quota, introduced in 1976, was intended to ensure that a significant portion of a charity's resources were devoted to its charitable purposes. At the time, the disbursement quota included both an obligation for charities to expend a minimum amount for which the charity had issued official donation receipts in the immediately preceding year (80% for charitable organizations and 90% for foundations) and a minimum expenditure requirement of 5% for private foundations based upon the value of any property not used in charitable programs or administration (which was subsequently lowered to 4.5% and extended to public foundations in the 1980s).⁷
- In 2004, as part of a broader reform of the Income Tax Act rules regarding charities, the disbursement quota was reduced from 4.5% to its current level of 3.5% (a 3.5% return being considered “typical” for an investment portfolio held by a registered charity).⁸
- The government estimates that increasing the quota and updating the CRA’s tools could potentially increase disbursements by between \$1 billion and \$2 billion annually.⁹
- A raised disbursement quota is most applicable to Canada’s 20 or 30 largest charitable foundations that dwarf the other approximately 6,000 foundations in terms of gross asset value.¹⁰

For more information visit the [AFP Canada website](#).

⁷ Ibid.

⁸ Ibid.

⁹ Federal Government Budget (2021). A Recovery Plan for Jobs, Growth, and Resilience; <https://www.budget.gc.ca/2021/pdf/budget-2021-en.pdf>

¹⁰ The Charity Report (2021). As the disbursement quota consultation begins, the hoarding of money goes under the microscope; <https://www.thecharityreport.com/features/as-the-disbursement-quota-consultation-begins-the-hoarding-of-money-goes-under-the-microscope/>