

# Federal Budget 2022

## Impact on Charities

July 2022

Finance Minister Chrystia Freeland presented her second Federal Budget (and first from the re-elected minority Federal Liberal government) in the House of Commons on April 7, 2022.

As reported in our publication, [2022 Federal Budget Review](#), of April 8, 2022, there were two main changes announced that will impact the charitable sector beginning in 2023:

- An increase in the disbursement quota (“DQ”) from 3.5 to 5 per cent; and
- Allowing charities to make disbursements to certain qualifying non-profit organizations that are not “qualified donees” as currently defined.

The new DQ of 5 per cent of the assets not used in running the charity, applies to public and private foundations and registered charitable organizations provided they have investment assets of more than C\$1MM. Budget 2022 proposed additional measures for clarifying expenditures for administration and management in calculating the required amount. Calculated on a rolling basis, the DQ is not without complexity, and as such there has been criticism in the sector of the minimum DQ given both the growth of assets now protected for charitable purposes – estimated to be over C\$100B in Canada – and the accuracy of data available on charitable activities as reported on charity tax returns.

### Who is impacted by the changes?

The change may impact some private family foundations choosing to disburse the minimum, while others may be completely unaffected. The new DQ takes effect for all charities whose fiscal period begins on, or before, January 1, 2023. It should be noted that the DQ applies to the foundation, and not to individual Donor Advised Funds (“DAF”) within public foundations, although these foundations

may choose to apply the DQ to their donors’ funds. Donors to the BMO Charitable Giving Program are currently not subject to the DQ as the governing public foundation that their Donor Advised Fund sits within takes care of ensuring the DQ requirement is being met for the foundation.

In response to public calls to expand the types of organizations that can receive qualifying disbursements from charities, Budget 2022 proposes to expand charitable partnerships. How it is to be administered is still to be determined. The pandemic placed tremendous pressure on many of the registered charities in Canada, many of whom experienced a drop in donations and increased demand. This was exacerbated for many non-profit organizations actively engaged in vital community work but not qualified to issue tax receipts. Many of these organizations lack the resources to apply for, and maintain charitable status, and many operate within the marginalized, Indigenous and Black communities. Within Canada, less than 1 per cent of charitable disbursements are made to either Indigenous or Black organizations and this change is seen as a potential means to address this inequity.

While Budget 2022’s [“Tax Measures Supplementary Information”](#), outlines some of the accountability requirements to enable foundations to support nonqualified donees, it remains to be seen if the organizations themselves, many of which are volunteer run, will have the capacity to be able to fulfil the granting charity’s obligation to be able to assess their activities and history, execute on a written agreement, and conform to the outlined record-keeping requirements.

According to a survey conducted by *Ipsos and Giv3* in 2020, 87 per cent of Canadians polled agreed it is “unacceptable for charitable foundations to hold tens of billions of dollars in assets and give only a tiny percentage away each year”. There are more than 86,000 registered charities in Canada of varying sizes, each with its own mission. Activities of these charities are vast with operations ranging from volunteer-driven grassroots initiatives designed to help just one person, to institutionalized programs leading to the creation of new societal norms. As such, donors have a variety of choices to make when it comes to contributing to this type of work within Canada. There is a lot to consider. A good place to start is by understanding the difference between charitable and philanthropic donations. Each is rooted in different philosophies, goals, and desired outcomes.

## Charity vs. philanthropy

Charity and philanthropy are often used interchangeably, but there is a genuine difference between these two acts of giving. Charity is typically an emotional response; a desire to help. Whether giving once or year-over-year, the intent is to bring (often time urgent) relief to a situation that requires it. You may give money to the Red Cross, for example, to support victims of the war in Ukraine. Or donate meals to the food bank during Christmas. You can also become a monthly donor at your local hospital as a thank you for the great care provided to a family member during a recent stay. Charity comes from the heart and can do a lot of good.

Philanthropy, on the other hand, dives into the root causes of society’s intractable challenges and tries to find solutions. It’s a reflection of a person’s values and aspirations and involves significant processes and engagement. It’s an expression of who you are and what you think is important, versus writing a cheque.

## Seek advice

BMO Philanthropic Advisory Services are specialists in charitable and philanthropic planning and can help develop and execute a strategy aligned to your giving priorities. Strategic granting advice can help ensure that your values and aspirations are developed into a customized granting program that delivers measurable results. If you’re interested in developing a strategic plan for your charitable and/or philanthropic giving, please speak with your BMO financial professional who can introduce you to a member of the BMO Philanthropic Advisory Services team.

**For more information, please speak with your BMO financial professional.**



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