Philanthropic Foundations Canada
Fondations Philanthropiques Canada

Overhauling the T3010

Reworking the annual return charities submit to the Government of Canada for transparency and accountability

Position Brief
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EXECUTIVE SUMMARY

In this brief, PFC outlines recommendations to the Federal Government of Canada to enhance the utility and impact of the T3010, the annual return to the government all charities must complete. We advise that they engage in its re-design so that users better understand what is being asked of them and that data can be regularly captured and tracked more effectively. These changes will increase trust, and better decision-making and accountability.

We recommend that the Government consult with the sector to overhaul the T3010 in the following ways:

1. Improve clarity and tracking of DQ calculations
2. Provide for better reporting on work with non-qualified donees (NQDs)
3. Require reporting on leadership diversity
4. Reduce ambiguity of reported information concerning charitable activity and social impact
5. Include better mechanisms for reporting on investments
6. Require reporting on donor-advised funds (DAFs)
7. Reduce ambiguous information
8. Improve overall data integrity

INTRODUCTION AND BACKGROUND

Data matters. It is used to tell stories, answer questions, understand change over time, and influence behaviour. It has the power to enable individuals and organizations to make better decisions, design better programs and deliver more effective and efficient services. Across all industries, data is becoming an increasingly important factor in all decision-making processes. But this wealth of information can only be truly beneficial if we know that it's reliable and correct.

Indeed, data can improve trust and promote accountability, which is increasingly an absolute necessity, as the growth of information availability and public expectations of transparency intensifies. In the nonprofit and charitable sector, there is more and more demand for data to help guide our work - yet much of that needed data is not being captured, not available, and not accurate.

For all these reasons, fixing the sector's data deficit has long been a priority for PFC.

Today neither the charitable sector nor the government has the data or the effective tools to gather information that provides a reliable picture of sector activities, trends or impacts. For the nonprofit and charitable sector, the lack of adequate data presented significant challenges during the COVID-19 pandemic for how it could respond to community needs. For the government, the absence of data has meant that understanding and effectively administering regulations such as the disbursement quota or granting to non-qualified donees fall short. Yet, the government has committed on numerous occasions to improve its quality-of-life measures and the availability of disaggregated data.

PFC believes that there are straightforward solutions to address the data deficit. The short-answer is that the government needs to invest more resources to this issue.

There have been numerous government, advisory committee and cross-sectoral reports and recommendations over the years to this effect, all of which PFC has supported. Here is just a selection:

- 2019 report from the Special Senate Committee on the Charitable Sector
- The Disaggregated Data Action Plan announced in Budget 2021 through Statistics Canada and the CRA
- Directives in Budget 2022 for CRA to improve the collection of information from charities, including whether charities are meeting their disbursement quota and on information related to investments and donor-advised funds held by charities.

In short, more research on what the government needs to do is not needed. The time for action and investment is now.

While there are many opportunities to enhance data collection and dissemination, with the recent changes to the disbursement quota and rules for charities providing funding to non-qualified donees, updates to the T3010 are necessary now. While not a silver bullet to solve the larger issue, overhauling it at this time does represent a logical, opportune and excellent step for the government to follow through on its commitments to address the data deficit facing our sector. As the annual return to government that all charities must complete, it provides the best opportunity for consistent, regular data capture to share with not only regulators, but also researchers and the general public. Overhauling it will support greater transparency, better data and more impactful philanthropy overall.

We understand that the Canada Revenue Agency recognizes this opportunity as well, and we are pleased that they have begun significant work to review the T3010 and begin the overhaul. Below, we lay out in detail our recommendations on how to accomplish this.

BETTER DATA ABOUT THE NON-PROFIT AND CHARITABLE SECTOR

PFC has several recommended changes, many of which we previously outlined in detail in the annex to our submission to the Government of Canada on its 2021 consultation on Boosting Charitable Spending in Our Communities as well as in our Budget 2023 submission to the Standing Committee on Finance.

They draw on findings from the most extensive consultations undertaken in PFC's 20-plus-year history in 2021 on boosting charitable spending, including research conducted by and input from Dr. Nathan Grasse (Associate Professor at Carleton University's School of Public Policy and Administration), Dr. Elizabeth Searing (Assistant Professor of Public and Nonprofit Management at the University of Texas at Dallas), as well as multiple sector focus groups, webinar discussions, and surveys with PFC members, partners and other experts, in addition to work it commissioned from PwC.

i) Improve clarity and tracking of DQ calculations

In many instances, disbursement quota noncompliance can be attributed to a poor understanding of the form used by charities to report their activities to the CRA and the flaws with the form itself.

It is strongly advisable that the government use software that can handle the direct upload of the T3010 (in electronic form) and process it in a way that does not allow copy errors. In addition to ensuring more accurate data, this will also facilitate more expedient availability, and subsequently more responsive research and policy.

A lack of clarity regarding DQ calculations on the form itself also hinders reporting quality and disbursement compliance. Guidance on how to perform the necessary calculations should be reproduced in the T3010. This applies particularly to lines 5900 and 5910. Currently, guidance on performing these calculations can only be found on the CRA's website, the Guide T4033, and on a supplementary schedule for the T3010. Containing this information within the form directly could expedite and reduce errors in reporting. It could also allow for charities to calculate their disbursements for the following year and better manage their resources and assets to meet their charitable mandates.

Additionally, there is a need for clarity in Sections C8 and C9 in terms of compensation for directors/trustees, officers, persons not at arms-length, and employees of a charitable foundation. In particular, Section C8 does not offer any breakdown of compensation amounts and the purposes for compensation, while this is required for employees under Section C9 and Schedule 3. Mirroring C8 and C9 could help make things more understandable and for parity.

It can be added that assets accumulated beyond the disbursements during a taxation year can also be reported to show its different sources. This could provide analysts with a better understanding of the source of accumulated capital. It would also be useful to be able to track initial investment costs, as distinct from investment returns.

ii) Provide for better reporting on work with NQDs (non-qualified donees)

With the announcement in Budget 2022 of the new qualifying disbursements regime involving charities being able to grant to NQDs, which was passed into legislation in 2022, the T3010 is being revised to better facilitate the disclosure of all types of partnerships of charities and non-qualified donees. As it exists, there is a lack of opportunity for such disclosure.

Non-qualified donees are simply not-for profit entities without charitable status (or non-charities). There are many organizations that are doing wonderful work even if they don't have charitable status. Often, charities want to work with these groups. One of the major reasons is because the partnering organization has expertise or connections to a community or an issue that the charity lacks. Working with these groups allows the charity to further its mission more effectively and efficiently.

Previous to the new rules announcement, registered charities that wanted to provide funding to NQDs were made to work through fee-for-service contracts, in trusteeship and shared platforms arrangements. They also provided investments to NQDs. However, even when the activity conducted by the NQD is charitable in nature, it is not always reflected in the reporting of the charity's activity spending. Often, funds to NQDs flow through qualified donees, and are reported in the latter's tax filings as donations, or potentially as salaries in the case of service agreements. However, this process is not transparent with regard to where the funds are spent.

It is important to be clear about what is to be collected on the T3010 and what is to be collected on the T1236 and T1044. For baseline information we'd need to see the same information for non-qualified donees as is gathered on the T1236 (name, city, province/territory, country, non-cash and cash amounts), with the addition of the purpose or taxonomy of each qualifying disbursement. Ideally we get consistent

T1236 data distinguishing between qualified and non-qualified donees in the same way that the T1236 distinguishes between associated and non-associated charities.

On the T3010, requesting the number of gifts and the aggregate amount given to non-qualified donees as a cross-check on the accuracy of the T1236 data would be ideal.

Other details should be collected in free text in the description of the gifts and guidance should specify what should be reported on, such as:
- Where the charity invested in or contributed resources to a joint venture or similar arrangement with a non-qualified donee during the taxation year or contract a non-qualified donee to carry out charitable activities on its behalf
- If YES, whether this is an investment of the charity or a charitable program-related arrangement.
- If YES to a charitable program-related arrangement, provide details on the nature of the arrangement, charitable purpose that the amounts contributed fulfil, if any.
- If YES to a social impact investment, provide details on the nature of the investment, and charitable purpose that the amounts invested fulfil, if any.

iii) Require reporting on leadership diversity

The T3010 should also capture whether registered charities and their grantees have target beneficiaries in its leadership. This would improve transparency and accountability, and enable donors to better identify the organizations that are best suited to meet the needs of the target group. As part of the T3010, registered charities should identify the beneficiaries of charitable programs (by identifiable group), and whether the recipients of funding are also led by the target beneficiaries.

At a minimum, senior staff and board of directors should all be included. There could also be an opportunity to provide qualitative aspects of programming. The output would not be a prescriptive definition of an equity organization, but it would provide open data to better understand equity in the charitable sector. This could reveal gaps in how social support is provided, identify underserved groups, and stimulate donations to charities addressing specific issues.

It should be noted that there are currently activities underway in the Senate to make reporting on diversity in leadership mandatory spearheaded by Senator Ratna Omidvar. By collecting basic diversity information, Canadians could better understand to what extent the charitable sector represents the diversity of the population, and how that may change over time.

iv) Reduce ambiguity of reported information concerning charitable activity and social impact

Information requested on charitable activity and social impact can be ambiguous or lacking. Currently, the T3010 only includes data on aggregate expenditures by business number. As such, the only measure of impact is the monetary amount spent by a charity. The T3010 could be amended to collect data that better assists the government, funders and the wider nonprofit and charitable sector to understand how money is being invested back into community. Size of the area served for example could be reported. Other considerations include utilizing an expanded taxonomy that reflect data sets being used internationally.

v) Include better mechanisms for reporting on investments

The T3010 lacks reporting around long-term investments. The lack of disaggregated data concerning investments (by geography, class, purposes, and others) can lead to several problems. Inputs from the T3010 cannot easily be used to calculate unused assets. To facilitate the easy calculation of unused assets, Line 4140 can be broken down into asset classes, such as publicly-listed securities (held as investments only), program-related securities, social impact securities, non-qualifying securities, and other assets.

Furthermore, the aggregate data does little to show market fluctuations, or how the DQ could be adjusted accordingly. Section D and Schedule 6 could specify disclosure of unrealized gains and losses on invested assets held by charities at the taxation year-end. This would indicate the change in market value and volatility of invested assets held by charities while also providing greater transparency and the opportunity for periodic adjustments to the DQ rate in accordance with market conditions and investment risk profile.

Clarity could also be provided on the degree and nature of charities' investments that have a social purpose, including socially responsible investments (SRIs), mission-related investments (MRIs), program-related investments (PRIs). Presently, Line 4400 of Section D and Line 4130 or 4140 of Schedule 6 make no distinction between sometimes lower-yield PRI and market rate of return MRIs. Greater specificity could allow for greater transparency. However, clear definitions and legal standards will be key.

The assets that foundations and other charities invest can be powerful tools to achieve and accelerate charities' visions and missions and create positive impact beyond financial returns.

There is a significant and growing number of foundations that have a social purpose in their investment strategy. PFC reported in 2021 a significant increase towards alternative investments as compared to previous years across our membership, but also noted that impact investing is still an emerging space in Canada, accounting on average for 7.9% of total portfolio assets for foundations surveyed.

A specific action PFC encourages the government to follow through on is its promise in Budget 2022 on the improved collection of information from charities related to investments. To date there have been no actual details or policy proposed regarding this promise, nor how it might relate to social impact investments in particular. Tracking the allocation of endowments through different asset classes would help us better understand if the sector approaches the 10% target for impact investment recommended in 2011 by the Canadian Task Force on Social Finance and endorsed by PFC. Meeting – let alone exceeding – the recommended minimum 10% goal would eventually bring billions of new investments to public and community priorities, including affordable housing, childcare, clean energy, green bonds and more. While the 10% target should be voluntary, reporting could become mandatory – alongside any and all investments of assets – through the collection of relevant data via the T3010. We suggest that CRA use emerging Canadian and international taxonomy to define different investments.

vi) Require reporting on donor-advised funds (DAFs)

While there are directives in Budget 2022, there are currently no specific reporting requirements for DAFs. DAFs are a charitable vehicle that allows donors to give money or assets (like stocks, bonds, and real estate) to a charity who disperses the donations over a specified period time to charitable causes. DAFs can offer a tax advantage to donors by allowing them to claim an immediate deduction for the full value of their donations while spreading out the disbursement of funds over many years. Likewise, DAFs can be used to minimize capital gains tax by permitting donors to directly transfer assets (like stock) without having to first liquidate them. DAFs are also appealing for their flexibility, ease of setup, the ability for anonymization, and typically low administrative costs.

However, charities are currently not compelled to report on their DAFs in the T3010. Why is this an issue? Many donors use DAFs for traditional individual and family giving, and an increasing number have adapted DAFs to facilitate workplace giving programs, online fundraising platforms and other models that expand philanthropy.

But DAFs also have been criticized for the secrecy and lack of transparency they afford donors, and for what those funds are used for – yet charitable donations are essentially public assets once given away to a charity in exchange for tax credit.

In Budget 2022, the Government of Canada promised to improve data collection from charities, including reporting on DAFs. The addition of new reporting requirements could improve transparency, as well as provide the public and charity regulators with better insights as to how DAFs are managed and how funds are increasingly being deployed into the nonprofit and charitable sector.

The information collected by the T3010 on DAFs could include:

- total DAF endowed asset value (fair market value) at end of a taxation year and at the end of the immediately preceding taxation year
- aggregate value of DAF contributions received in a taxation year
- aggregate value of grants/gifts to qualified donees and NQDs from DAF accounts during a taxation year
- number of DAF accounts at the end of a taxation year
- how many DAF accounts received donations and how many made gifts over a fiscal period, along with the average and/or median payout
- aggregate value of endowed contributions received in a taxation year

- total DAF account value at the end of the taxation year and end of the immediately preceding taxation year
- aggregate disbursements of net income arising from endowed funds during a taxation year

vii) Reduce ambiguous information

Much of the publicly available data collected through the T3010 is difficult to understand. This is an impediment for those trying to analyze the data, CRA included, and all data-driven policies derived from findings using T3010 data.

For example, there is no distinction between an incomplete entry and entering a zero, which limits studies of the distributional characteristics such as means and medians. Revenue thresholds – which determine whether Section D or Schedule 6 is filed – are unclear. This can be handled in a number of ways, including having the charity indicate the revenue threshold up front so they are presented with the appropriate form and don't need to find it themselves there. Asking for "gross revenues" is a term not used elsewhere in the form.

Similarly, charities are not required to report unused assets if they fall below the threshold listed at the top of Section D. An incomplete Schedule 6, or having Section D also being completed, makes it unclear if charities are below the threshold or simply did not understand or respond to the question properly.

Line 5900 and Line 5910 require references to Income Tax Regulations 3701 and 3702 for proper computation of the average value of assets not used in charitable activities or administration in the preceding 24 months. A supplementary schedule to assist with computation would improve the quality of information and compliance with the conditions set forth in the Income Tax Act.

It should also be noted that in December the government passed legislation that included an amendment to the Income Tax Act regarding expenditures on administration and management and how they are not considered qualifying expenditures toward a charity's disbursement quota. Budget 2022, where this policy was introduced, frames this change as a clarification to what has always been the rules on this. Our understanding is that any management and administrative expenses directly related in meeting the DQ requirement should be an allowable expense. However, in its guide 'Completing Form T3010 Registered Charity Information Return', CRA states that "some expenditures can be considered partly charitable and partly management and administration, such as salaries and occupancy costs." Once guidance documents are finalized that clearly explain how expenditures on administration and management of charities are defined by the government to ensure that they are properly accounted by charities, this should be made clear in the T3010. See the US' Form 990 for examples – statement of functional expenses, for instance.

Finally, it can be noted that the two foundation indicator questions A3 are unclear, and have no clear relation to the questions in Schedule 1. Requesting a yearly update as to whether the charity is an operating charity, a public foundation or private foundation would be valuable for data quality.

viii) Improve overall data integrity using the form itself

The data provided by the T3010, although valuable, is not always credible and usable for research purposes. Confusing phrasing, as well as lack of clarity on formulas and calculations, results in incorrect information being reported unintentionally. The following outlines the sections of the T3010 that should be remedied if the data gained from the form is to be more useful.

Integrating the DQ formula within T3010 or on a supplementary schedule - once Line 5900 and Line 5910 are computed - would allow the charity to understand the amounts of required disbursements for the current year and following year and what expenditures are qualifying expenditures for the following fiscal year.

The form should also include a place where net assets can be listed, allowing the balance sheet figures to form the fundamental equation of accounting so that it can doublecheck itself (assets = liabilities + net assets). See the US' Form 990 balance sheet for example. This can potentially improve the error rate when filing the T3010. Line 4166 could also be changed to add clarity, either noting in the document that amortization should be represented as a negative number that offsets the capital assets, or by making the calculation automatically as a deduction.

Checkboxes could also be very useful, for example to help an organization determine if it would be filling out Section D or Schedule 6 (both of which should also have their variables harmonized, as with the line on government subtotals, or types of revenues). This would allow for a smoother imputation of zeros. Checkboxes could also be included to clarify whether the return is amended, and a stub accounting period or partial return.

Similarly, reporting on volunteer activity could provide an understanding of cash versus in-kind contributions to a registered charity. Separate column offsets for numbers that need to be treated differently, such as negatives, could also provide clarity as to how the DQ is calculated.

For section D, more information on the assets and liabilities of smaller organizations could also be required. Guidance should be provided for what does and does not constitute a fundraising expense, setting out a clearer standard, as is also the case for the section on amortization.

More information could also be required on liabilities. Even in Schedule 6, it is unclear whether a charity is taking on a line of credit or mortgage or both having different implications for future financial health. Q&A assurances should be offered for issues such as the fact that the two foundation indicator questions do not match.

When calculations are incorrect, they should be automatically be flagged in the T3010 so that users can make corrections. And to mitigate this, advanced instructions should be provided to charities.

Finally, and perhaps most importantly, the CRA must also be equipped to be able to be more proactive in charity support and follow-up when it comes to reporting. For example, when a charity's 5900 submission in a given year doesn't match last year's 5910, or when there are zero revenues reported on line 4700, but revenues on 4500 through 4650, these instances should trigger a follow-up. Interventions around the online form can only go so far. Greater oversight and support from the regulator are essential.

CONCLUSION

A more useful, inclusive and transparent annual reporting system to collect and draw on up-to-date information would provide a much more accurate understanding of our sector, and it could assist government tremendously, as it considers important matters of policy relevant to our work.

That said, while the T3010 is a critical tool (hence this paper) it is not the only one. Statistics Canada and independent surveys by umbrella organizations, sector networks, and researchers also can provide greater depth and timely data about the sector in Canada data eco system.

However, improving the T3010 will lead to better data. Canadian funders and the charitable sector at large are grappling with complex, continually evolving, and urgent issues. Overhauling the key mechanism the government uses to collect data on our sector annually is an obvious – and tremendous – opportunity for organizations to improve their operations, better communicate their value and contribute towards collective strategies to better understand the communities they serve.

About Philanthropic Foundations Canada

Canada's national network for grantmakers

A registered charitable organization, we strengthen organized philanthropy — in all of its diversity — in partnership for a just, equitable and sustainable world. We are an enabler for the common good, working in collaboration with the private sector, governments, and other civil society actors. For more than 20 years, we have been bringing grantmakers together to connect, learn, and advance the best solutions for change on the issues that matter.

Our members are Canadian grantmakers – private and public foundations, corporate giving programs, charitable organizations, and nonprofits. Over $50 Billion are collectively managed by our members, representing close to 50% of all assets of all foundations in Canada. Our members support issues and communities across the country and internationally, and range in asset size, geography, and funding areas.