

IN DEPTH: CHARITIES AND ADMINISTRATIVE COSTS

The Whirlwind Campaign in Mariposa to rid the Church of England of its massive debt seems focussed on anything but fundraising. The “plan that they set in motion” is that:

Each day the crowd would all agree to meet at some stated place and eat lunch together, – say at a restaurant or at a club or at some eating place. This would go on every day with the interest getting keener and keener, and everybody getting more and more excited, till presently the chairman would announce that the campaign had succeeded and there would be the kind of scene that Mullins had described. (87)

There is little focus on actually fundraising. With everybody on the committees, “it is awfully hard to try to find men to canvass” (93). In the end “the crowd began eating into the benefactions, and it got more and more complicated whether to hold another lunch in the hope of breaking even, or to stop the campaign” (93).

The campaign ends with the church only getting a \$100 donation from Mullins. This is the result of so little effort being put into fundraising, and because the organising committee spends the donations they do receive on meals for themselves.

The failure of the campaign raises questions about charity work in general. In particular, it raises questions about how much money charities spend on their programming, and how much money they spend on fundraising, management, and administrative functions.

WHAT IS A CHARITY?

The Oxford English Dictionary defines a charity as “a bequest, foundation, institution, etc., for the benefit of others, especially of the poor or helpless.” Charities are mainly funded by grants from charitable foundations, grants from the government, and private donations from individuals and corporations. The Salvation Army, the Public Legal Education Association of Saskatchewan, and the Society for the Prevention of Cruelty to Animals are all examples of Canadian charities that are registered with the Canada Revenue Agency (CRA).

When a charity is registered with the CRA, it receives special tax treatment. Generally, registered charities are exempt from income tax. As well, people who donate money or property to registered charities receive tax credits for their donations. Because of these tax implications, the CRA follows certain guidelines to determine what kinds of organisations can become a registered charity.

Canadian law has no specific definition of charity. Instead, what constitutes a “charity” has largely been defined through court cases. Courts have identified four broad categories of charitable activities. If an organisation is engaged in any of these activities, it can apply to be registered as a charity:

- relief of poverty
- advancement of education
- advancement of religion
- certain other purposes that benefit the community in a way the courts have said is charitable

All of an organisation's resources and activities (funds, personnel, and property) must be devoted to further its charitable purposes in order to be eligible for registered charity status.

In addition to being involved in any of the above activities, the CRA has a two-fold "public benefit test" required of charities:

- its purposes and activities provide a measurable benefit to the public; and
- the people who are eligible for benefits are either the public as a whole, or a significant section of it. The beneficiaries cannot be a restricted group or one where members share a private connection—this includes social clubs and professional associations.

If charities cannot meet these requirements, they cannot have registered status.

WHEN IS A CHARITY NOT DOING CHARITABLE WORK?

If a charity spends too much of its time and resources on fundraising and administrative activities, it risks losing its charitable status. This is because administrative work and fundraising activities do not directly benefit the public, so they are not considered charitable work. A few high-profile cases in recent years have shed light on registered charities that have not been sufficiently focussed on charitable work:

- In 2011 the Canada Revenue Agency stripped the Organ Donation and Tissue Transplant Association of Canada of its charitable status after it spent \$1.3 million of its \$1.8 million in cash donations on fundraising and administrative activities.
- Pediatric AIDS Canada/USA lost its charitable status in 2011 for having spent \$3.26 of its \$5.26 million in donations on fundraising and administrative activities.

As well, a 2016 report by CBC News raised questions about the salaries of administrators at large charities in Ontario. They found twenty people at charities who earned over \$250,000 per year.

In an effort to ensure accountability of charities, the Canada Revenue Agency publicly reports the financial details of every registered charity in the country. Revenue and expenses—including a breakdown of how much money it spends on charitable programming, how much money it spends on management and administration, and how much money it spends on fundraising—are posted online. These reports include a general breakdown of its employees' salaries. Information on every charity in Canada can be found at www.cra-arc.gc.ca/chrts-gvng/lstngs/menu-eng.html



HOW TO JUDGE A CHARITY'S WORK

Having a general idea of how much of a charity's resources are dedicated to charitable work can be helpful information. This is especially true for people who donate money to a charity and want to be confident that their donations are being put to good use. Yet, as the saying goes, a little information can be dangerous. The information reported to the public by the Canada Revenue Agency does not reveal much about any particular charity. It only reveals some general information about the charity and numbers without context. Information on the CRA website does not tell us:

- Exactly what kind of charitable programming a charity does
- How organisational and community challenges shape a charity's fundraising costs
- How similar jobs are compensated in the public and private sector

Every charity faces different circumstances and different challenges. Numbers alone do not reveal the specific context of each charity's work, and the appropriate amount for that charity to spend on management, administration, and fundraising activities.

Mark Blumberg—a lawyer who advises charities—perhaps best describes the way to determine the effectiveness of a charity. According to Blumberg:

Unfortunately, despite what some people say, there is no easy way to determine what is an efficient and effective charity. One suggestion: instead of fixating on ratios, pick one or two organizations that you care about and help them by volunteering. There is nothing like volunteering to see whether a charity is effective and actually making a real difference in people's lives.⁶⁰

By gaining first-hand information about the charity and by giving your time to help further their purpose, you can both contribute to the well-being of your community and gain a better understanding of the work that the charity does. It will tell you much more than a few numbers on the CRA website.

DISCUSS

1. Why must charities be able to fairly pay their employees for their work?
2. Over 40% of Canadians volunteer, and over 80% of Canadians donate to charity. Young people are the most engaged volunteers in Canada, with two-thirds of people aged 15-19 volunteering.
 - a) Have you volunteered for or donated to a charity?
 - b) What did you learn from the experience?
3. Re-examine the rules for gaining registered charity status in Canada.
 - a) Would the Whirlwind Campaign in Mariposa be able to register as a charity?
 - b) What lessons does this chapter provide for people involved in charities?

⁶⁰ Blumberg, Mark. "How Much Should a Canadian Charity Spend on Overhead?" globalphilanthropy.ca, p. 5. www.globalphilanthropy.ca/images/uploads/How_Much_Should_A_Canadian_Charity_Spend_on_Overhead_in_The_Canadian_Donor_Guide.pdf