From the Editor...

We are pleased to publish a spring issue of The Philanthropist after a two year absence. I am sure that you will be delighted to learn that the former editor, Bertha Wilson, was appointed a Justice of the Court of Appeal for Ontario in December, 1975. Although it was some time ago, we extend our congratulations to her at this time and thank her for her great contribution to the establishment and growth of The Philanthropist. We only hope that future issues of the magazine will not fail to meet her high standards.

In this issue, Samuel A. Martin's book, *Financing Humanistic Service,** is reviewed. The book poses many thought-provoking questions concerning the regulation, taxation and control of health, educational, welfare and cultural services, which, more and more, are becoming impatient of solution. The importance of these questions is highlighted by the recent decision concerning the passing of the accounts of The Canadian Foundation for Youth Action which is discussed by Professor M. C. Cullity** in this issue. While government regulation has, we frequently reflect, grown to insupportable levels during the past three decades, and we generally discourage the expansion of government intervention in essentially private matters, it is evident that the area of private philanthropy is a matter of public concern which must be regulated. If it is considered desirable that individuals retain a sense of responsibility for their fellow men and that it is desirable to encourage individuals, foundations and corporations to continue to take an active part in supporting educational, cultural, health and welfare services in Canada, it is essential that individuals retain confidence that the time and money spent by them will assist those they are intended to assist. It is therefore necessary that the regulation of fund-raising activities be more vigorously pursued to ensure appropriate application of funds. We therefore welcome recent amendments to the Income Tax Act of Canada which are designed to curb some of the more obvious abuses which afflict charities although we question whether reform should be instituted through the Income Tax Act.

**See* Case Comment *p. 41*
**See* Bookshelf *p. 40*

In the case of public organizations and foundations, as pointed out by The Canadian Foundation for Youth Action case, a major abuse relates to the large proportion of receipts by charitable organizations and foundations which are not disbursed for charitable purposes but are expended on administration and other expenses. Until the amendments to the Income Tax Act which came into force on February 24, 1977, and except to the extent that the Income Tax Act required expenses to be reasonable in the circumstances, there were no statutory or common law requirements respecting that portion of a charitable organization's receipts which had to be spent for charitable purposes as opposed to costs of administration. We suggest that many of the problems were allowed to continue and grow because Revenue Canada was not sufficiently diligent in reviewing annual filings by charitable organizations. In the future, however, the abuses should be substantially curbed since the amendments to the Income Tax Act require charitable organizations and public foundations to spend not less than 50% in 1976, increasing to not less than 80% in 1979, of the gross funds for which they have issued receipts in the immediately preceding year on charitable activities carried on by them and as donations to "qualified donees" under the Income Tax Act in order to maintain their tax-exempt status and remain registered as charitable organizations under the Income Tax Act.

Private foundations are not subject to the rules regarding the expenditure of a specified proportion of monies raised on charitable activities. New rules, however, have been introduced which affect private foundations and are designed to curb abuses which were apparent in that area. For example, it was found that donors were obtaining generous tax deductions for monies and assets which were given to family foundations and which frequently generated little or no income for the charitable purposes for which such organizations ostensibly existed. It is hoped that this will be sufficiently cured by the amendments to the Income Tax Act which provide that private foundations must expend their "disbursement quota"* in respect of charitable activities carried on by the foundations themselves and/or as donations to "qualified donees" under the Income Tax Act.

While the recent amendments to the Income Tax Act are welcome, abuses arising in connection with charitable organizations cannot be wholly remedied by Revenue Canada. We are inclined to agree with Judge Cornish, who delivered the reasons for judgment in The Canadian Foundation for Youth Action case, and with Professor M. C. Cullity, that a more efficient system of supervising the expenditure of charitable funds should be found.

Mary Louise Dickson

**The disbursement quota of a private foundation is essentially 90% of its income derived from "qualified investments" plus the greater of 90% of its income from non-qualified investments and 5% (3% for 1977 and 4% for 1978) of the fair market value of all capital properties of the foundation at the end of its previous fiscal year excluding qualified investments, properties used directly by the foundation and any other property accumulated for specific purposes with the consent of the Minister.*