# Advantages and Disadvantages of Charitable Organizations Establishing Separate Foundations

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## Preface

On November 12, 1981 the Minister of National Revenue introduced to Parliament a Budget which substantially changed the tax rules as they relate to charities in Canada. The wording of these rules is very general and it is difficult to assess their full impact and meaning until the actual bill which will set out the changes in detail is available. Accordingly, this paper should be used only as a review of the current tax status of this topic, and not as a source of tax planning which will require the knowledge of the final law arising from the November 12, 1981 Budget.

In order to enable the reader of this paper to evaluate the proposed Budget changes as they affect the existing rules, footnotes have been used to annotate the text which is based on the pre-November 12, 1981 rules. The detailed footnotes are found at the end of the paper.

The purpose of this paper is to review the advantages and disadvantages of a charitable organization establishing a separate foundation. For various reasons this procedure has become very popular in recent years.

## Categories of Charities

Before embarking on a review of the advantages and disadvantages of establishing such an entity we should review the principal tax rules relating to active and passive charities.

Certain organizations, such as hospitals, qualify as charities legally under common law. As such, in order to be exempt from taxation under the Income Tax Act, they must be registered by the Minister of National Revenue. This registration is also necessary so that the charities may issue receipts to donors which permit a donation to be deducted for tax purposes.

For tax purposes, charities are divided into two major categories: charitable organizations and charitable foundations. Charitable organizations are fundamentally those charities which carry on active charitable endeavours. These are charities which in fact carry out one of the four purposes of charity:

(i) advancement of religion;
(ii) alleviation of poverty;
(iii) advancement of education; and
(iv) advancement of other purposes of a charitable nature beneficial to the community.

Items (i) to (iii), must also benefit the general public.

A charitable foundation is generally a passive charity which receives funds by way of gift and donation and then makes donations to other charities which, in fact, carry out the active charitable work. Charitable foundations are further divided into two sub-categories: public foundations and private foundations. Public foundations are those foundations which receive less than 75% of their capital from one person or group of related persons and whose board of directors or trustees is not controlled by one person or a related group of persons.

It is important to note that the tax classification into which a particular charity falls for any particular year is determined by the manner in which it carries on its operations in that year; that is, how it expends its funds. A charity which qualifies under one category in one year, may, because it changes its mode of operations, qualify as a different type of charity in the following year.

The major test in the Income Tax Act to establish the category into which a charity falls is a test based on how the charity expends its income. If the charity expends more than 50% of its income by way of gift or donation to other registered charities then, in general, it will qualify as a charitable foundation. If it expends 50% or less of its income on donations to other registered charities, it will qualify as a charitable organization. As you can see this is a very arbitrary test which may be utilized to manipulate the tax category of the charity in a particular year.[1]

**Expenditure Tests**

The category into which the charity falls for tax purposes is important since it establishes which expenditures test the charity must meet.[2] A charity which is a charitable organization is required to expend in its fiscal year 80% of the receipts which it has issued for donations in the immediately preceding taxation year. It should be noted that this is a gross revenue test and does not include a requirement to expend funds for which a tax-deductible donation receipt has not been issued.[3] For example, it does not include government grants. However, it does include donations subject to a trust or direction which must be held for at least 10 years and for which a tax-deductible receipt has been issued. It is understood that the Minister of National Revenue permits such donations received, subject to the trust or direction that they be held for at least 10 years, to be retained and not subjected to the charitable organization's relevant percentage test in the belief that to expend these funds would contravene common law.

A public foundation is subjected to a test that requires it to expend in its fiscal year the greater of:

1. the relevant percentage test as discussed above with the exception that, unlike the charitable organizations, donations subject to a trust or direction which must be held for at least 10 years may be excluded;[4] and
2. 90% of income.[5]

As can be seen, the public foundation's expenditure test is more demanding than the charitable organization's expenditure test.[5]

The most demanding expenditure test of all is that of the private foundation.[5] The private foundation is required to expend in its fiscal year the greater of:

A. (i) 5% of the fair market value of all capital property owned by the charity at the beginning of the year[6], excluding:

(a) qualified investments (basically investments acceptable for deferred profit-sharing plans);

(b) capital properties used in charitable activity or administration of the foundation;

(c) property accumulated for a specific project with the consent of the Minister; and

(ii) 90% of the income[5] for the taxation year from all capital property in (i) except excluded property.

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B. 90% of the income[5] for the taxation year from qualified property, that is, property in (a), (b) and (c) above.

The above rule basically ensures that private charities expend 90% of the income of qualified property and the greater of:

(i) 90% of the income of non-qualified investments; and
(ii) 5% of the fair market value of all non-qualified properties at the beginning of the year[6].

The expenditure tests for charitable foundations (both public and private) are based on income. However, a charity reserve is a permitted deduction from income. This charity reserve effectively provides a two-year period over which the income must be expended.[7]

**Considerations**

Certain charitable organizations have had separate foundations established for many years. Recently, however, there has been an increase in the number of such separate foundations established by charitable organizations, such as hospitals, museums, schools and other entities. Prior to 1977 when the new rules were introduced into the Income Tax Act, the establishment of such a separate foundation was inhibited by the fact that the rules at that time prohibited an active charity, which was a charitable organization as defined under section 149(l)(f) under the old rules, from donating funds to other charities.

The considerations and reasons on which the representatives of a charitable organization will base a decision to establish a separate foundation fall under two principal headings: operating considerations and tax considerations.

**A. Operating Considerations**

Let us turn first to a review of the operating considerations for establishing a separate foundation. For the last few years, certain charitable organizations, especially hospitals, have been concerned that the possession by them of large amounts of unused funds held in the form of investments, that is to say "a nest-egg", might reduce their government funding. This would cause them to have to dip into the nestegg and reduce this legacy of past generous donors, hardworking fund raisers and careful operating and administrative personnel. In an

attempt to remove these funds from the purview of such government bodies, the excess funds are donated to a separate foundation established by the charitable organization.[8] The separate foundation would, of course, be controlled by the charitable organization through an interlocking board of directors with the membership in the foundation limited to a few people closely connected with the charitable organization, such as directors and employees and other interested parties.

Such a procedure could certainly be utilized by any organization seeking to remove funds from the view of a government or other funding body. It is, however, unclear whether a government body would accept the existence of the foundation as a valid, independent and separate charity or rather consider it a "sham" established to avoid the funding and granting requirements as set out in, or under, the applicable statute or its regulations.[8]

A separate foundation might be established with the objective of separating the fund-raising activities from the normal day-to-day operation of the charitable work carried on by the charitable organization. This would remove the necessity of having operating personnel, including senior personnel and even directors, interrupt their efforts directed towards the operation of the active charity. Such a separate foundation also makes it possible to have people involved in fund raising with different skills and interests. Those people who are skilled in operating an active charity and furthering the fundamental interest of the charity may not necessarily be those people who are interested, or capable, in the area of fund raising. A separate foundation, therefore, enables the two functional groups to work together side by side. As has been discussed previously, it is of course necessary that there be cross-pollination between the two charities as well as fundamental control of the foundation by the charitable organization which might otherwise lose control of its fund-raising arm or even its source of funds.

It may also be advisable to separate the charity's "pocketbook" by putting the funds into a separate foundation in order to isolate them from the main fund. Such a separation may be for psychological reasons or simply for bookkeeping, accounting and other practical reasons. In certain circumstances it may be desirable to establish a separate foundation to receive a specific large bequest or endowment. Certain endowments can be troublesome if maintained in the main charitable organization, especially if the conditions of the endowment do not always arise thus prohibiting expenditure of the endowment fund. This results in the charity not always being able to meet the requirements of the endowment because of provisions under the common law and the requirements of tax legislation.

## B. Income Tax Considerations

### (a) General

Because of the recent interest in having charitable organizations establish separate foundations, it is frequently asked whether there are any significant tax advantages in establishing a separate charitable foundation. The answer to this question is that, in general, no tax advantages exist. However, there may be certain specific tax-planning considerations if circumstances are appropriate and it is desirable for other reasons to establish a separate foundation. Some of these tax-planning techniques

were probably unintended when the tax law was drafted and probably do not have the sanction of Revenue Canada or the Department of Finance.[9]

As noted previously, prior to 1977 the tax rules for active charities (charitable organizations) prohibited them from donating funds to other charities since they had to devote all their resources to charitable activities. Certain administrative practices were utilized to get around this where it was reasonable and accepted that funds should be moved from one charitable organization to another.

From 1977 onwards, active charities were permitted to donate to other charities because of changes in the tax rules. Accordingly, the use of separate foundations controlled by charitable organizations became possible especially if the charitable organization wished to transfer an accumulated "nestegg" to a separate foundation as discussed previously.

Both charitable organizations and charitable foundations, under the 1977 tax rules, are subject to expenditure tests.[5] In fact, the expenditure test for charitable foundations, 90% of income, is more onerous than the expenditure test for charitable organizations — 80% of the issued receipts of the preceding year. Thus in moving accumulated funds from the charitable organization to a separate foundation, all, rather than only a portion, of the income will be subject to the expenditure test. Therefore, for example, investment income would be caught in the expenditure test of the separate foundation (as a charitable foundation), whereas in the charitable organization test, investment income would not be included as that test only relates to receipted donations of the preceding year. Accordingly, moving funds from the charitable organization to a separate foundation would do nothing to increase the accumulation of the investment income on those funds, but rather, the income from the transferred funds would end up back in the charitable organization because the separate foundation would have to donate the funds to the charitable organization in order to meet the applicable expenditure test.[10]

The separate foundation may be used only as a "pocketbook" to retain and invest these accumulated funds or it may be used as the fund-raising entity. It may also serve both these functions.

Various accumulation techniques could be employed to retain the donations received and/or earnings on the transferred funds in the separate foundation,[10] including:

(i) accumulation of one year's income through the use of a charity reserve[7] if the separate foundation is a charitable foundation;

(ii) accumulation of funds in excess of the expenditure test requirements; and

(iii) application to the Ministry of National Revenue for permission to accumulate for a specific project.

It must be remembered, however, that at best any of these procedures either gives the separate foundation a similar status to that of a charitable

organization or is available to the charitable organization in the first instance.

Some consideration will be given later to whether or not the original donation made by the charitable organization to the separate foundation can be retained by it and not subjected to the expenditure test.[10] At this stage, it need only be pointed out that such a donation would be included in the income of the separate foundation and, unless some way can be found to treat it as exempt from or excludable from such income it would be subjected to the expenditure test of the separate foundation which would normally qualify as a charitable foundation.[11]

If care is not taken, the separate foundation may be, or may become, a private foundation rather than a public foundation. As a result, it may be subject to the most restricted expenditure test, that is the 90% test applicable to private foundations. Such a situation could arise if the separate foundation receives one extremely large donation or bequest in a year from a single source. As a result of such a donation, the separate foundation might not qualify as a public foundation and the expenditure test applicable to a private foundation would have to be adhered to, including limitation in the type of investments which could be held.[1,5]

It must be remembered that the tax rules for charities were designed to cause them to use donated funds and investment income as soon as possible and not accumulate funds for long periods of time. Accordingly, except for the limited accumulation procedures available under the rules in the Act, available to both the charitable organization and charitable foundation, there is no intention that any category of charity be able to accumulate a separate fund of working capital or a "nestegg" for the future. Certainly in the case of accumulations of working capital, I believe that this is appropriate and that like any business a charity should be able to accumulate sufficient funds so that it can operate on a reasonable and business-like basis without having to rely unduly on donation levels in any one particular year. This might be accomplished by permitting charities to make application for permission to accumulate funds of working capital of a specified amount or a percentage of expenditures, particularly those which relate to active charitable endeavour.

(b) **Transfer of Accumulated Funds of Charitable Organization**

A separate foundation may have been established with the objective of transferring funds already in the charitable organization and removing them from the "view" of the governmental authority responsible for granting funds to the particular charitable organization.

The charitable organization would transfer the excess funds by a donation to the foundation which would subsequently invest them and possibly undertake the future fund-raising activities for the charitable organization. Care must be taken that the charitable organization by making such a transfer, does not change its status by donating in the year of such a transfer more than 50% of its net income, thus qualifying as a charitable foundation and finding it necessary to meet the applicable charitable foundation expenditure test.[12]

The recipient foundation must also consider whether or not the receipt of a large donation from the charitable organization causes it to become a private foundation and thus have to meet the most restrictive expenditure test. This may be overcome by seeking designation as a public foundation by the Minister of National Revenue pursuant to section 149.1(13). In the event that it is impossible to avoid the classification as a private foundation, it will be necessary to meet the expenditure test and other related rules of a private foundation in the year of transfer at least.[5]

If the charitable organization does establish a separate foundation, consideration should be given to requesting the Minister of National Revenue to designate the two charities as associated. This should not be difficult as usually the two charities have similar objectives. Once this is accomplished, the charitable organization can donate the funds to the separate foundation and have this donation considered for tax purposes to be an outlay on account of charitable activities and not a passive donation. Accordingly, the charitable organization would continue to qualify as such, even if more than 50% of its income were donated to the separate foundation that year.[13]

For the separate foundation, one of a number of approaches[14] may be used to overcome having such a donation fall into its expenditure test immediately and thus having to be returned to the charitable organization thereby minimizing or negating the objectives of establishing the separate foundation:

(i) Since such a donation would be received by the separate foundation from another charity, and provided the donation was a donation out of capital by the charitable organization, it need not be included in the income of the separate foundation. Accordingly, it would not be included in the 90% income test.

(ii) If the funds were donated by the charitable organization subject to a trust or direction that they must be held for at least 10 years by the separate foundation, the fund would also not be included in income by the separate foundation. These funds would not be subject to the expenditure test and thus could be retained and invested in the separate foundation.[15] This poses the disadvantage that these funds would not be readily available to the charitable organization should it require them during the 10-year period.

(iii) The third approach utilizes an unintended advantage in the tax law related to charities. The funds would be donated to the separate foundation but on receiving them it would not donate any funds, or at least not more than 50% of its income, to any other charity including the parent organization in that year. It would then qualify as a charitable organization and be subject to the relevant expenditure test only.[16] Since in its first year of operation it has not issued any receipts for income tax purposes in the preceding year, it does not have to expend any funds and, accordingly, can accumulate those funds which have been transferred.

There is some question as to whether or not this approach would be acceptable to a government authority which is granting funds to the charitable organization. The main purposes of such a strategy would have to be to circumvent the accumulation rules within the Income Tax Act. This in itself may cause Revenue Canada to seek to deregister the separate foundation on the grounds that it is a "sham".

(c) **Ongoing Fund Raising**

Should the separate foundation be the fund raiser on an ongoing basis, it would have to meet the appropriate expenditure tests depending on its tax classification in the particular year for any future funds received, as has been discussed previously, even if it does not have to expend the initial donation received from the charitable organization based on the reasoning set out above. In general, on an ongoing basis a separate foundation established for fund-raising purposes would qualify as a charitable foundation, most likely a public foundation.

As discussed in (b) above, if the charitable organization and separate foundation have been designated by the Minister of National Revenue as associated charities, all the amounts donated by the foundation in the future to the charitable organization will be considered outlays on account of active charity. Accordingly, approach (iii) as outlined in (b) above can be continued on an ongoing basis by having the fund raising carried on by the charitable organization itself and having the funds donated to the foundation. Under the same reasoning, the foundation would continue to qualify as a charitable organization until it donated more than 50% of the income in any one year back to the charitable organization which established it.

Thus, if the separate foundation becomes the future fund raiser for the charitable organization, it will be subject to the relevant percentage test as was the charitable organization. As a result the separate foundation would be in no worse position than the charitable organization from the point of view of the expenditure test.[17]

**Conclusion**

Whether or not the separate foundation is being established by the charitable organization for business reasons or to obtain some tax advantage, consideration must be given to methods of retaining control of the funds and fund raising by the charitable organization. It must also be remembered that tax and other applicable legislation changes from time to time. Planning advantages can be eliminated by such changes and thus expensive advice, planning, and complicated legal and tax arrangements can become obsolete, often overnight. Therefore, I would recommend that a charity contemplating the establishment of a separate foundation for itself should discuss the matter with its tax and legal advisors and be sure that all relevant considerations have been examined carefully and that the blessing of the revenue authorities be obtained where appropriate.

## FOOTNOTES

1. Under Resolution 81 the November 12, 1981 Federal Budget (the Budget) a charity registered after November 12, 1981 will be registered by the Minister of National Revenue (MNR) as either a charitable organization or charitable foundation. Any charity registered prior to this date will be designated by the MNR as a charitable organization or charitable foundation. This will be subject to some appeal procedure as yet to be explained in detail. As a result the organization will no longer be able to change or manipulate its tax status by its mode of carrying on its operations.

2. The Budget proposed in Resolution 138(c) that for taxation years commencing after November 12, 1981 any registered charity which does not meet its required expenditure test will be subject to a special refundable tax equal to the unexpended portion of the amount required to be expended. In a press release on April 21, 1982, the Minister of Finance revised this proposal. A charitable foundation which fails to disburse the amount required under the expenditure test will now be subject to a non-refundable tax of 15% of the deficiency. If the foundation has not expended this amount within a specified period of time after having received a notice of deficiency, an additional tax equal to 100% of the deficiency will apply.

3. The Budget proposed in Resolution 139(c) that registered charities which receive gifts from, and make gifts to, related charities after November 12, 1981 only be permitted to recognize as "gifts . . . to qualified donees" the net amount; that is, the amount by which such gifts donated exceeds such gifts received. The term "related charity" is a new term and its exact meaning cannot be determined until its definition in the new law is available to be examined.

4. The Budget contains in Resolutions 138(a) and (b) proposed new rules which will be exceptions to this general rule for taxation years commencing after November 12, 1981:

   (a) gifts (other than gifts out of capital) received in the immediately preceding year from non-related charities will have to be included in the receipts of a charitable organization or public foundation subject to the relevant percentage test; and

   (b) registered charities (both charitable organizations and charitable foundations) which receive gifts (other than gifts out of capital) from related charities must expend such gifts on charitable activities or as gifts to qualified donees (in general other registered charities) before the end of the year of receipt.

5. Resolution 139(b) of the Budget proposed that if a registered charitable foundation disposes of a capital property after November 12, 1981 the full amount of capital gain or loss be included in its income. In the April 21, 1982 Release revising the budget rules relating to charitable foundations, the Minister of Finance now withdraws his Budget rule on capital gains and proposes to introduce rules which would require all types of foundations to expend at least 4.5% of the fair market value of all their investment assets. These new rules replace the present disbursement tests for foundations based on 90% of income. These new rules will come into effect for fiscal years beginning in 1983. Until that time the pre-Budget rules will apply. Any foundation which claimed a charity reserve in the fiscal year under these pre-Budget rules will be required to disburse an amount at least equal to one-tenth of this reserve over the next 10 years. These new rules are intended to cause a charitable foundation to disburse for charitable purposes an amount which will

reflect both income and capital gains without resulting in attrition of the capital base which supports its charitable purposes.

The above new rules will replace the 90%-of-income test for public and private foundations and apply to all investment assets. Further there will be special new rules for non-qualified investments which will be defined and will include assets for which there is a potential for self-dealing between the foundation and a related person. On non-qualified investments which are loans to related persons a rate of interest at least equal to the prescribed rate (the rate charged by Revenue Canada on tax arrears) must be charged. On non-qualified investments which are shares of related corporations dividends must be paid at a rate of at least two-thirds of this prescribed rate. In the event these requirements are not met by the foundation and the related person a special penalty will be imposed. Special transitional provisions will apply to existing non-qualified investments held by foundations.

6. Resolution 138(d) of the Budged proposed for taxation years starting after November 12, 1981 to change this 5% rate calculation to 10% of the greater of the fair market value of non-qualified investments and the cost of those investments. As a result of the new rules in the April 21, 1982 Release (see footnote 5 *supra*) these special rules for private foundations will no longer apply.

7. As pointed out in footnote 5 *supra* the charity reserve will no longer be applicable to the new disbursement test for charitable foundations set out in the April 21, 1982 Release and any charity which has claimed this reserve in its last year under the pre-Budget rules will be required to disburse for charitable purposes at least one-tenth of the reserve each year over the next 10 years. The charity reserve was the mechanism under the pre-Budget rules for providing foundations with a two-year period over which to expend their income. Under the proposed new rules the two-year period will be perpetuated since the 4.5% test will be applied in general to an average fair market value of the investment assets held at the beginning of the foundation's taxation year.

8. In Ontario effective March 31, 1982 hospitals must now obtain approval of the Minister of Health before funds are transferred from the hospital to a charitable foundation.

9. As a result of the Budget and the April 21, 1982 Release those tax planning opportunities which did exist have been severely curtailed. The Department of Finance clearly saw certain planning opportunities as offensive and in fact appears to have found the use of separate foundations which retain the same tax status as the charitable organization unacceptable.

10. Because of the proposed new rules set out in Resolution 138(b) of the Budget it is unlikely that a separate foundation (which will probably qualify as a related charity) will be able to retain and accumulate such donations. As discussed in footnote 4(b) this resolution will require that such donations be expended as donations to qualified donees i.e., other registered charities, (presumably the organizations from which they have come) for use in charitable activities. As a result if any accumulated funds in a charitable organization are transferred to a separate foundation, they will have to be donated to another registered charity, presumably the charitable organization from which they have come, and the transfer to the separate foundation will have been ineffective.

11. As discussed in footnote 1, Resolution 81 of the Budget proposes that a charity be registered as a charitable organization or charitable foundation. It can be expected that most likely such a separate fund-raising charity would be registered as a

charitable foundation. If the separate foundation is already in existence the Minister of National Revenue will most likely designate it to be a charitable foundation.

12. Since under the proposed rules in the Budget as discussed in footnote 1, a charity will be registered as, or if already registered, designated as a charitable organization or charitable foundation, it can be expected that the 50% of income disbursement rule pursuant to paragraph 149.1(6)(b), discussed previously, will no longer permit a charity to change its tax classification from one type to another. In fact, it may be possible that under the proposed new rules a charitable organization which disburses more than 50% of its income to qualified donees (other registered charities) will not be "devoting its resources to charitable activities carried on by it". Accordingly, it would not meet the definition of a charitable organization under paragraph 149.1(1)(b) and the Minister of National Revenue may be able to revoke its registration under paragraph 168(1)(b).

13. Once the proposed new rules of the Budget are in place and for the reasons set out in footnote 12 regarding tax classification, it is unlikely that this procedure will continue to be sanctioned by the Minister of National Revenue in these circumstances. This tax-planning procedure has been utilized to permit the charitable organization to transfer accumulated funds to the separate foundation without endangering its tax classification and to permit the separate foundation to retain these transferred funds and qualify as a charitable organization. Accordingly, the separate foundation has been required only to meet the charitable organization expenditure test and thus has been able to accumulate not only the transferred funds but also the investment income which is not included in the relevant expenditure test. The intent of the proposed new rules appears to be to cause the charitable organization to retain accumulated funds and have them expended by that charity on active charitable endeavours as soon as possible. The transfer to, and accumulation by, a related charity of such funds is obviously viewed as undesirable by the Department of Finance.

14. These approaches no longer apply and separate foundations cannot accumulate by this means for two reasons. First, as set out in footnote 5 *supra,* income is no longer the basis for the disbursement test of the charitable foundation and, since the funds transferred may be included in the proposed new 4.5% test in the following year if retained by the separate foundation, some portion of these funds would be disbursed over the subsequent years. Second, the separate foundation will probably qualify as a related charity and, accordingly, the separate foundation will be required to meet the related-charity expenditure requirements set out in footnote 4(b) *supra.*

15. It has not been specifically stated in the Budget whether related charities will be able to avoid the requirement to expend these transferred funds in the current year by placing a 10-year trust or direction provision on them. However, it seems unlikely that this will be permitted to related charities because capital donations from one related charity to another have been specifically exempted from the proposed related-charity expenditure rule and, if it were the intention of the Department of Finance to exempt such donations subject to a 10-year trust or direction, they also would have been referred to in the Budget.

16. This approach is no longer valid since a charity is to be registered, or designated, by the Minister of National Revenue as a charitable organization or a charitable foundation (see footnotes 1 and 11 *supra*). As such it will not be possible to switch from one type to another by simply disbursing more-or-less than 50% of income to other

registered charities. In fact a charitable organization which gives away more than 50% of its income may be subject to deregistration.

17. Separate foundations established as fund-raising entities on an ongoing basis for charitable organizations will be substantially affected by the Budget. As discussed in footnote 11 *supra*, it is extremely likely that the Minister of National Revenue will register them, or designate them, as charitable foundations. Therefore, they will be subject to the more stringent expenditure tests as charitable foundations. As a result funds raised from the public by the separate foundation, in general, will have to be passed on within two years to the charitable organization. This, of course, will be subject to the continuing accumulation procedures including application to the Minister for permission to accumulate for a specific project, receipt of a donation subject to a trust or direction that it be held for 10 years and exclusion of donations received for which no tax deduction has been claimed by the donor.

    If the separate foundation receives a donation of funds from another charity and if that charity is non-related and provided this donation is not out of capital, the proposed new rules will require that such a donation be expended within two years, assumedly by transferring it to the charitable organization. If the other charity is a related charity, the funds must be expended on or before the end of the year.

# Public Foundations: The Operating Experience

*The foregoing paper was delivered at the November, 1981 Charities Conference of The Canadian Centre for Philanthropy. Following Mr. Coombs' presentation, Claus Wirsig, President of The Hospital for Sick Children Foundation, outlined the practical experience of his organization. The following represents a brief summary of his views.*

CLAUS WIRSIG

**Factors Contributing to a Perceived Need for a Parallel Foundation**

Charities are frequently supported with public monies and may therefore be subject to strict regulations which may make it difficult to accumulate and apply freely the funds voluntarily given. This is particularly so if a need arises outside the mandated role of the charity.

As public money becomes less available, there is a temptation for government to expect voluntary funding obtained by charities to fill the gaps caused by budgetary restraints. This limits their ability to achieve new social goals. It may also inhibit voluntary giving.

The Hospital for Sick Children had accumulated substantial endowment funds and had a capacity to raise more voluntary funding on a scale which suggested a need for special efforts to apply such funding resources carefully in a co-ordinated and effective program to improve child health.

In effect, the parallel foundation provides a vehicle through which the broader role and objective of the operating charity can be met.