

## **A foundation's practices are what determine its contribution to reducing inequality**

Paper submitted by the Lucie and André Chagnon Foundation to the *Collectif des fondations québécoises contre les inégalités* on the occasion of its consultation on tax incentives for foundations.

Adopted by the Board of Directors of the Lucie and André Chagnon Foundation, September 2019

**It is not the tax incentives that benefit foundations that increase or alleviate inequality. Rather, it is the specific missions and practices of each foundation that determine whether its contribution represents genuine added value in the interest of the common good and reducing inequality.**

### **Tax incentives for foundations**

The Lucie and André Chagnon Foundation is proud to be a member of the *Collectif des fondations québécoises contre les inégalités* (the Collective), which committed in 2015 to constructive participation in the public dialogue on reducing social inequality. In the interest of consistency, the Collective asked its members to look at the impact on inequality of certain tax measures that benefit foundations, including:

1. Tax incentives for charitable donations used to create the endowment funds of most private and public foundations, as well as for donations to charities
2. Tax exemptions on operating income and capital investments income
3. Obligation to annually pay out a percentage of their capital to qualified donees (this “disbursement quota” is currently set at 3.5%)

### **Criticisms of these measures**

Certain critics believe that tax incentives for foundations contribute to inequality by:

1. constituting a form of government subsidy that supports donors' private choices—seen as anti-democratic choices that reinforce inequality;
2. depriving the government of income needed to finance public programs that could help to reduce inequality;
3. allowing private foundations to maintain the value of their capital in perpetuity, affording them anti-democratic power and preserving that power.

## Questions raised by the Collective

In 2019, along with its fellow Collective members, the Chagnon Foundation conducted an in-house consultation process with its staff, executive committee, *groupe des Éclaireurs*<sup>1</sup> and Board of Directors in order to find answer to the following questions:

1. Do foundations' tax incentives increase inequality?
2. What steps could foundations take to reinforce their positive footprint and minimize their negative footprint in the fight against inequality?

## The perspective of the Lucie and André Chagnon Foundation

We salute the Collective's leadership in asking its members to strive for increased coherence in reducing inequality through their choices, their governance and their practices.

Since the foundation community is extremely heterogeneous, we in no way wish to imply that our practices and our choices should be adopted by all our counterparts. That said, however, we wish to share a few considerations drawn from our own consultation process, using examples and lessons learned to illustrate our conclusions:

1. **Charities and foundations play a role in furthering social development and reducing inequality that is distinct from and complementary to that of the state.** The state is the primary democratic actor that has, and must maintain, the capacity to have an impact on issues related to inequality and to provide universal responses to these issues.

Social projects and democratic life are not the concern of the state alone, however. It is foundations that increase and diversify the long-term financing of:

- a. organizations in disadvantaged communities
- b. innovative, research and development projects in the social sector
- c. initiatives that entail a certain degree of risk or that provide opportunities for learning
- d. initiatives that strengthen the representation and power to act of the most vulnerable beneficiaries and communities.

Moreover, the organizations supported by foundations and the foundations themselves provide the government with a unique point of view in the development of its policies and programs. For all these reasons, the government would do well to recognize their role and re-affirm the reasons that underlie the tax measures offered to charities and foundations, provided they respect fiscal regulations.

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<sup>1</sup> The Foundation's *groupe des Éclaireurs* is a consulting body that operates within the Foundation to provide objective, perceptive opinions on its major points of concern in its environment. Its members are drawn from the community, public and union sectors. The Group's meetings are also attended by the Chairman of the Board, the President and various Executive Committee members.

2. **Foundations' tax privileges are not anti-democratic in and of themselves, nor do they reinforce inequality.** In fact, a foundation can add private funds to public funds when the projects it supports actually reduce inequality. A foundation can also adopt practices that encourage citizen participation, volunteering and democratic life within the communities and organizations it supports.

Examples of practices espoused by the Chagnon Foundation:

- a. Concentrating on preventing poverty by focusing on the educational success of young people living in Québec. In so doing, it contributes to advancing the priorities that have been democratically reiterated by Québec society for decades in the context of legislative processes and electoral campaigns.
  - b. Adopting a funding framework that includes a period of dialogue to allow associations and organizations—whose in-depth knowledge of their communities is recognized by the Foundation—to consult the local population as well as their community and institutional partners. This process ensures a democratic response to the needs expressed by those who are directed affected and by the most vulnerable communities. This ensures that communities or organizations define their own visions, objectives, priorities, actions, etc.
  - c. Paying out, since its creation in 2000, some \$800 million in addition to the hundreds of millions of dollars contributed by other philanthropic, regional and government organizations.
  - d. Including representatives of civil society in its governing bodies. For example, of the nine directors who sit on the Board of the Foundation, five are from outside the Chagnon family, while the remaining minority of four are family members. The *groupe des Éclaireurs*, whose members are drawn entirely from civil society, was created to provide an objective opinion on the Foundation's orientations to ensure that they accurately reflect the priorities of communities and Québec society.
3. **A foundation's capital ceases to belong to the donors that created it.**

For example, the Chagnon family has relinquished the Foundation's capital. The entirety of the capital and its proceeds is dedicated to the Foundation's mission, creating **a tool that is collective rather than private**<sup>2</sup>, which justifies its tax-exempt status, as is the case for every charitable organization. Between now and 2028, the Chagnon Foundation has also decided to devote up to 10% of its capital (\$200 million) to investments related to its mission, connected to affordable housing, food systems, collective-owned real estate and employment integration. The performance objectives for these mission investments are naturally lower than those usually set for investments.

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<sup>2</sup> See the Chagnon Foundation's Commitment to Society: "The Lucie and André Chagnon Foundation contributes to the prevention of poverty by focusing on educational success—a priority continually reaffirmed by Québec society. Because of our philanthropic status, our resources are available for the community: we are responsible and accountable for our actions and the consequences of those actions. We believe that our contribution should complement, not replace, the essential and legitimate role of government. We listen to stakeholders and citizens, and are committed to involving representatives of civil society in our decision-making bodies and practices. Our objective is to provide long-term support for initiatives within and in support of Québec's social fabric." (Source: [fondationchagnon.org](http://fondationchagnon.org))

4. **The rapid disbursement of a foundation’s capital and preserving it over the long term both offer benefits. Rapid payout injects significant funds needed to respond to urgent social issues, while permanent support allows continuity, integration of lessons learned, sustainable transformation and a long-term commitment to issues that require it.**

There are several reasons for the Chagnon Foundation’s choice to maintain its capacity for long-term support while continuing to respect current disbursement quotas:

- a. Poverty and inequality are **social issues that transcend time and generations**.
- b. **A foundation can do more harm than good by paying out large amounts of money** over a short period to communities that are ill-prepared to receive them and then entirely depriving them of funding when they withdraw. A long-term perspective is one of the characteristics of foundation funding.
- c. Foundations, like all organizations, can take a decade or two to **reach maturity**. It might be wise for some to maintain activities that allow them to integrate and share lessons learned.
- d. Foundations that decide to preserve the value of their capital have a place in the philanthropic toolbox available to a collectivity. These foundations constitute **sustainable “collective savings” tools** that free a community from relying on its ability to raise funds for *ad hoc* or short-term needs. They also represent **a tool for equity and intergenerational transfer of philanthropic resources**.

#### **Conditions to ensure that foundations’ tax privileges help to reduce inequality**

Tax measures that benefit foundations encourage an increase in donations that complement public contributions to reducing and preventing inequality and reinforce a democratic culture, provided that:

1. Supported initiatives:
  - a. arise from the desires of citizens and affected communities
  - b. lead to long-term improvement of conditions that reduce inequality
  - c. support an increased empowerment and representation of more vulnerable beneficiaries and communities. (See example on the Chagnon Foundation website at <https://fondationchagnon.org/en/supported-initiatives/communities/>)
2. Foundations assign an important place in their governance to members of civil society to help ensure the development of collective, sustainable tools.
3. Foundations establish constructive relationships based on respect with the organizations and communities they support.
4. Foundations focus on:
  - a. support for looking for, rather than prescribing, solutions
  - b. learning rather than documenting isolated outcomes or those attributable to a sole source of philanthropic support.
5. Foundations manage their investments responsibly and earmark a portion of their capital for mission-based projects.

We believe the Collective plays—and must continue to play—an important role in promoting knowledge-sharing among foundations to ensure they continue to strive for increased coherence in preventing and reducing inequality. This kind of sharing would greatly benefit from the participation of representatives of the communities we support.

### **In the interest of the common good**

The Chagnon Foundation is convinced that since the government controls the legitimate, universal drivers of public policy and taxation, it should continue to play the predominant role in reducing inequality. The government should, however, maintain the tax incentives that encourage the existence and development of foundations, a philanthropic sector and a dynamic civil society.

**In short, the fiscal incentives that benefit foundations that demonstrate ethical, democratic and responsible practices generate significantly more donations that are managed for the public good, helping to stem the progress of inequality.**