

## Business Support for Charities and Nonprofits

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Many corporations clearly understand the benefits of providing donations, grants, sponsorships, and in-kind gifts and services to charitable and nonprofit organizations. Members of Imagine Canada's Caring Company program, for example, agree to donate at least 1% of their pre-tax domestic profits to the cause of their choice. Very little, however, is known about how much corporations donate, which industries and corporations are most likely to donate, or which organizations are most likely to benefit from corporate support.

This bulletin presents the first-ever analysis of charitable donations claimed by Canada's business enterprises and the types of organizations that benefit from business support.<sup>1</sup> The data on corporate donations and pre-tax

profits come from Statistics Canada's Annual Financial and Taxation Statistics for Enterprises database.<sup>2</sup> To determine beneficiaries of corporate donations, grants, and sponsorships, we use data from the National Survey of Nonprofit and Voluntary Organizations (NSNVO).<sup>3</sup>

Our research shows that 3% of businesses claimed just over \$1 billion in charitable donations on their 2003 tax returns. Although this is a significant amount of money, it represents less than 1% of the pre-tax profits of these companies, and only about 15% of the \$6.5 billion in donations claimed by the 25% of individual Canadians who claimed donations in 2003 (Conn & Barr, 2005). Most of the money donated by businesses goes to organizations with annual revenues over \$1 million and to organizations operating in

the areas of Sports and Recreation; Grantmaking, Fundraising and Voluntarism Promotion;<sup>4</sup> and Arts and Culture.

### HIGHLIGHTS

- 3% of Canada's businesses claimed a total of just over \$1 billion in charitable donations on their 2003 tax returns.
- More than half of all donations claimed by businesses came from two industries: Finance and Insurance (32.1%) and Manufacturing (19.4%).
- 84% of corporate donations went to the 7% of charitable and nonprofit organizations that reported annual revenues of more than \$1 million.

<sup>1</sup>We use the terms corporation, company, and business interchangeably in this bulletin to refer to business enterprises.

<sup>2</sup>This database includes incorporated for-profit business enterprises (98%), as well as incorporated government business enterprises and incorporated nonprofit organizations (2%). In this bulletin, we have excluded government business enterprises and nonprofit organizations wherever possible. Corporate tax returns capture only financial donations to registered charities and organizations that qualify under the Income Tax Act.

<sup>3</sup>The NSNVO includes corporate donations, grants, and sponsorships to registered charities and incorporated nonprofit organizations. See Hall et al. (2005).

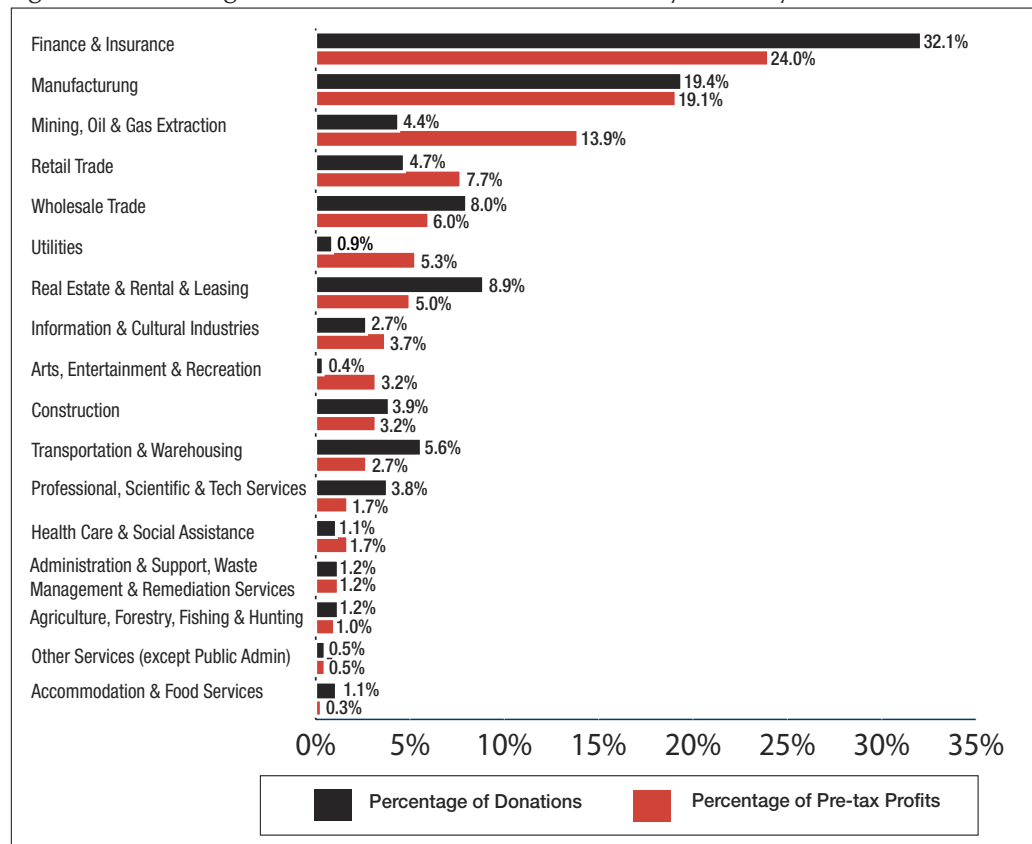
<sup>4</sup>This category includes private, corporate, and community foundations; organizations whose primary objective is to promote and support voluntarism (e.g., volunteer centres); and collective fundraising organizations (e.g., United Way).

### Who Gives and How Much?

In 2003, more than half of all corporate donations came from two industries: Finance and Insurance (32.1%) and Manufacturing (19.4%, see **Figure 1**). This is not surprising because these industries also accounted for nearly half of all pre-tax profits reported by corporations in 2003. However, not all industries that reported significant pre-tax profits gave as much as other industries. For example, the Mining, Oil and Gas Extraction industry accounted for only 4.4% of all charitable donations, despite accounting for 13.9% of all pre-tax profits.

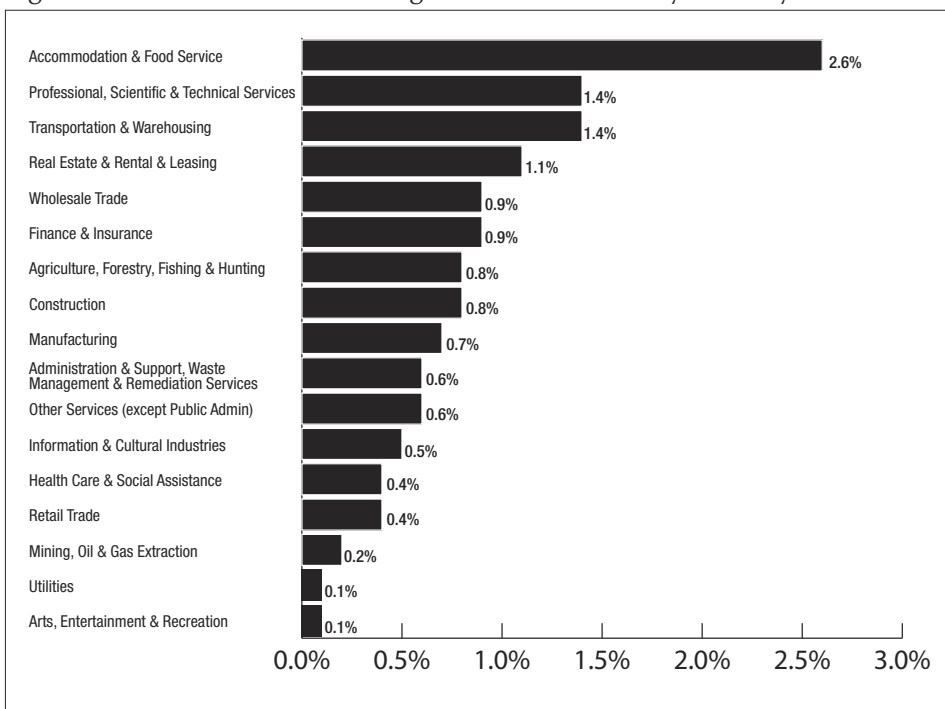
Although Finance and Insurance and Manufacturing companies donated the largest absolute amounts, Accommodation and Food Services companies gave the largest percentage of their pre-tax profits (2.6%, see **Figure 2**). In contrast, many industries gave significantly less than

Figure 1. Percentage of Donations and Pre-tax Profits by Industry



Note: Adapted from Statistics Canada, Special custom data, Financial and Taxation Statistics for Enterprises 2003. Excludes education enterprises.

Figure 2. Donations as a Percentage of Pre-tax Profits by Industry



Note: Adapted from Statistics Canada, Special custom data, Financial and Taxation Statistics for Enterprises 2003. Excludes education enterprises.

the all-industry average of 0.75%, including Arts, Entertainment and Recreation (0.1%); Utilities (0.1%); and Mining, Oil and Gas Extraction (0.2%). Corporate donations also vary by the size of the company's annual revenues (see **Figure 3**). Specifically, the likelihood of claiming a charitable donation increases as the company's revenues increase. Only 1.7% of businesses with annual revenues under \$1 million claimed a donation in 2003. This increases to 40.3% among businesses with annual revenues over \$25 million. Corporations with annual revenues over \$25 million also contributed the largest percentage of total donation dollars (60.8%).

If we look at donations as a percentage of pre-tax profits, however, we find that businesses with annual revenues between \$5 and \$25 million are the most generous. As a group, these companies contributed 1.9% of their pre-tax profits to charity. In comparison, companies with annual revenues over \$25 million donated

only 0.6% of their pre-tax profits. If businesses with annual revenues over \$25 million had donated the same percentage of their pre-tax profits as those that earned less than \$25 million, corporate donations in 2003 would have almost doubled, providing more than \$1 billion in additional support to Canada's charities and nonprofits.

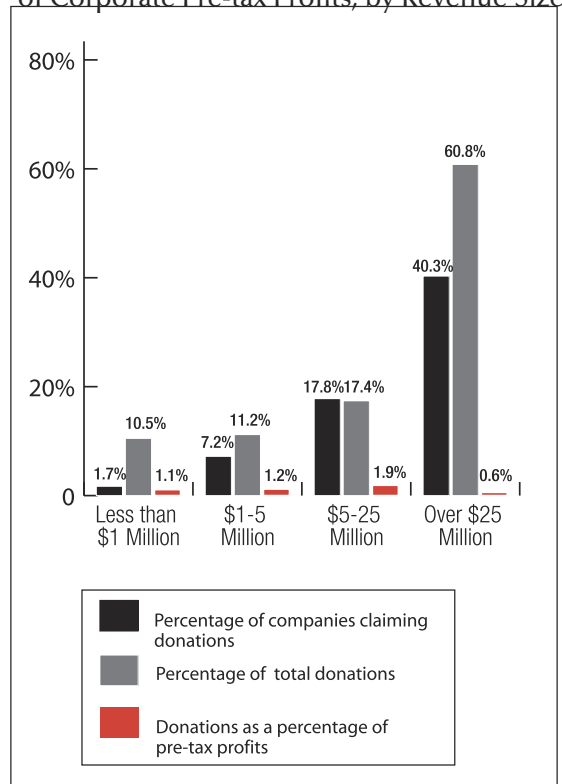
### Which Organizations Benefit Most

Some charitable and nonprofit organizations benefit more from corporate donations than others, and certain types of organizations are more attractive to corporate donors. According to the NSNVO, only 20% of Canada's 161,000 charitable and nonprofit organizations reported that they received corporate donations, grants, or sponsorships in 2003. The

majority (58%) of financial support from businesses was directed to three subsectors: Sports and Recreation (33%); Grantmaking, Fundraising and Voluntarism Promotion (15%); and Arts and Culture (10%, see **Figure 4**). While Social Services, Environment, and Development and Housing organizations account for 23% of all organizations in Canada, they received just 9% of all corporate donations.

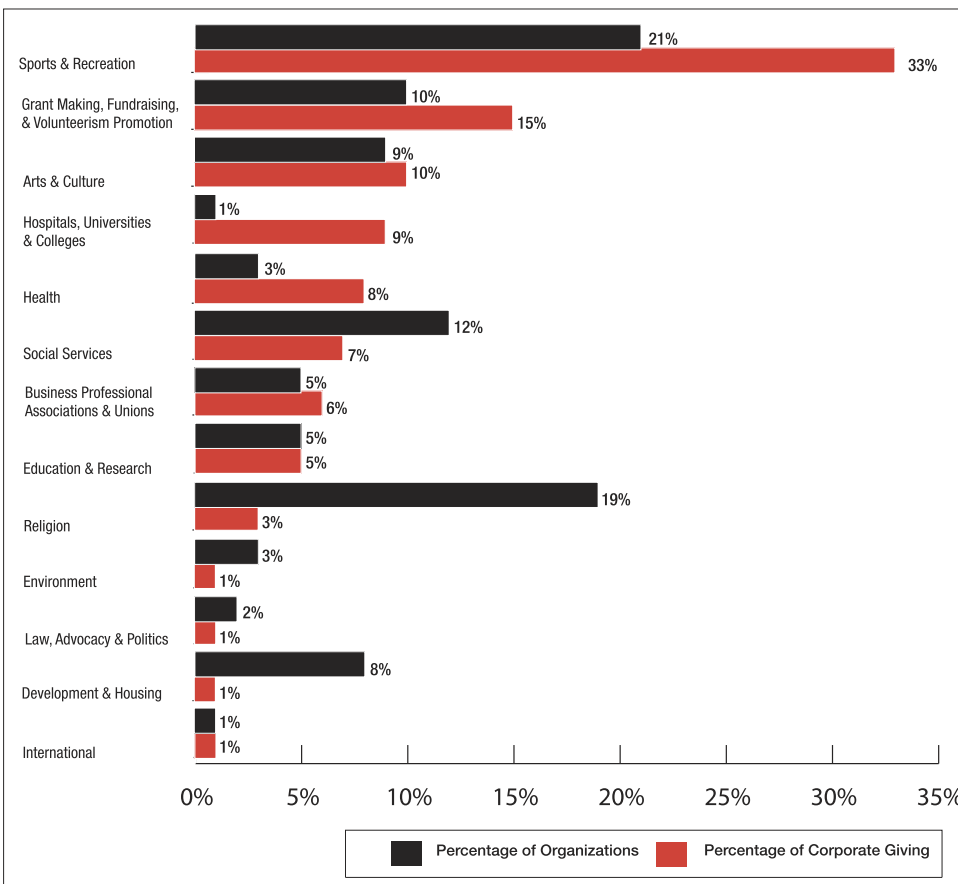
Organizations that report higher revenues tend to attract the most support from corporations. The results of the NSNVO indicate that 84% of corporate giving goes to the 7% of organizations with annual revenues of more than \$1 million. The remaining 93% of organizations receive just 16% of corporate donations (see **Figure 5**).

Figure 3. Percentage of Business Enterprises Claiming Donations, Percentage of Total Donations, and Donations as a Percentage of Corporate Pre-tax Profits, by Revenue Size



Note: Adapted from Statistics Canada, Special custom data, Financial and Taxation Statistics for Enterprises 2003.

Figure 4. Percentage of Charitable and Nonprofit Organizations & Corporate Giving by Activity and Pre-tax Profits by Activity Area



Note: Data are from the National Survey of Nonprofit and Voluntary Organizations

There are several reasons for the narrow focus of corporate giving. Pinney and Elliott (2004) argue that companies lack information about the needs and potential of charitable and nonprofit organizations and the possibilities for corporate support and partnerships. Many organizations lack the organizational capacity to negotiate and build effective partnerships with the private sector (see Hall et al., 2003). As well, the accountability and reporting requirements of many corporations may make it difficult for smaller charities and nonprofits to manage the administrative aspects of partnering with businesses (Pinney and Elliott, 2004). This may make financially well-resourced organizations more attractive to corporate funders.

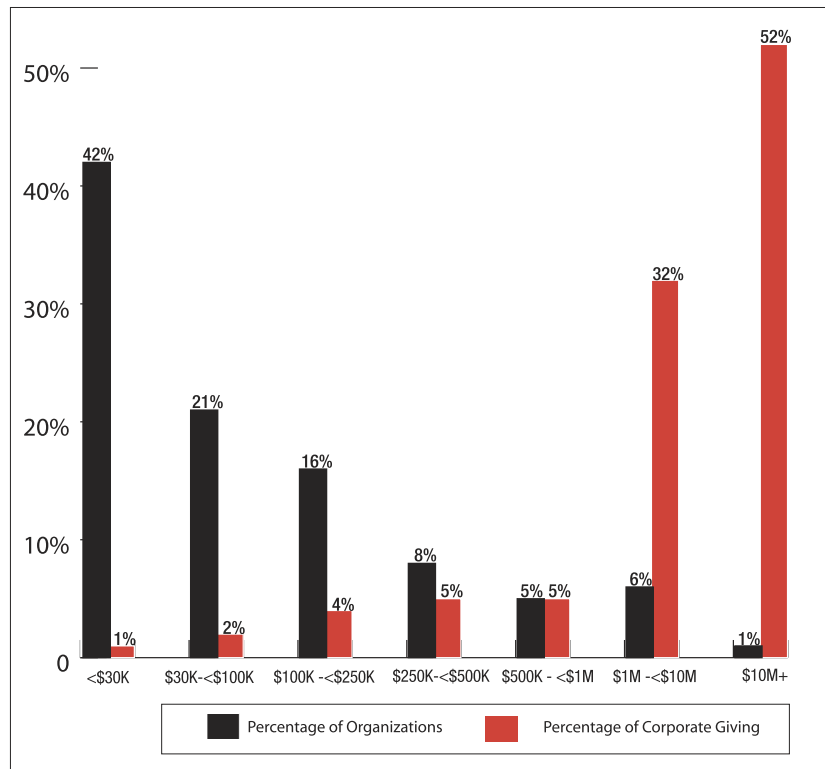
## Conclusion

Canada's businesses claimed just over \$1 billion in charitable donations in 2003. Finance and Insurance companies and businesses with annual revenues over \$25 million accounted for most donation dollars. However, Accommodation and Food Services companies and those with annual revenues between \$5 and \$25 million contributed the largest percentage of their pre-tax profits. The results of the NSNVO indicate that corporate giving tends to be focused on financially well-resourced organizations and organizations in certain sub-sectors (e.g., Sports & Recreation).

In light of these findings, some companies may wish to re-examine the level of support they provide to charitable and nonprofit organizations. Companies with annual revenues over \$25 million, for example, contribute a much lower percentage of their pre-tax profits than companies with lower revenues. The same is true for Arts, Entertainment and Recreation companies; Utilities; and Mining, Oil and Gas Extraction companies. Businesses may also want to consider supporting organizations working in areas that attract less corporate support (e.g., Environment, and Development and Housing). This would not only provide much-needed assistance to these organizations, but offer companies a distinctive way to demonstrate their commitment to community.

Given that the likelihood of obtaining corporate support is clearly higher for some organizations than for others, charities and nonprofits need to carefully consider whether they wish to invest their resources in the pursuit of this support. If they decide that they do wish to make this investment, they can use these

Figure 5. Percentage of Charitable and Nonprofit Organizations and Corporate Giving, by Revenue Size



Note: Data are from the National Survey of Nonprofit and Voluntary Organizations

findings to target their efforts. For example, they might decide to approach several small- and medium-sized companies (e.g., those with annual revenues under \$25 million) for small donations, rather than focusing their efforts on obtaining one big donation from a large company.

Finally, it is clear that there is a need to develop a better understanding of the various ways in which businesses invest in the nonprofit sector; how and why they invest; and how such investments serve their interests.

## References

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