

Source: [Creation of Endowments | Give Green Canada](#)

Creation of Endowments

An endowment is an investment fund set aside for the long-term support of a charity. The principal remains invested. Only the income, or a portion of the income, is spent. The income is used for purposes set by the donor or as the organization's board decides.

Endowments must be established with regard to the charitable disbursement requirements contained in section 149.1 of the Income Tax Act. As indicated earlier, all charities (including public and private foundations) must disburse for charitable purposes 80% of receipted donations received in the preceding year, excluding gifts received from an estate, gifts subject to the donor's direction that they be held in trust for at least ten years and donated property accumulated upon written approval of the Federal Minister of National Revenue. Public and private foundations are subject to additional disbursement requirements.

The effect is that a charity will not be subject to the 80% disbursement rule if:

- it receives a bequest, or
- the donor in a letter or in an endowment agreement stipulates that the donated property, or property substituted for it, be held for a period of at least 10 years.

Most endowments are built through planned gifts, often through bequests and gifts made subject to a 10-year donor direction.

Endowments commonly fall into the following categories:

1. General. Undesignated bequests, endowment contributions not designated for a named fund or specific program and memorial gifts are often placed in the charity's general endowment. A donor may contribute any amount.
2. Institutional restricted. These endowments fund specific permanent ongoing programs. A donor may contribute any amount to the organization's endowment targeted to a specific program or program area.
3. Named. These endowments are named for the donor, a loved one or a friend. They are usually created for specific purposes or to support specific programs, with a minimum initial contribution (often \$10,000 or more) required to create the named endowment.

Creation of an Advised Fund at a Public Foundation

Another option would be to create a donor advised fund at a public foundation. While donations to the fund become the property of the foundation the donor retains the ability to make recommendations to the foundation for grants to be made from the capital of the fund or if it is set up as an endowment from the earned interest. The foundation is responsible for the management of all forms of gifts and the subsequent investment of the capital in the fund. Advised funds at public foundations relieve the receiving charity of the burden of managing complex gifts and investments. Community Foundations are public foundations that offer these arrangements for donors. Tides Canada is an example of a national public foundation offering similar services, and many financial institutions have set up public foundations to assist their clients with philanthropy.

Benefits to the donor

- A named endowment provides a form of immortality for you, preserving your name or the name of a loved one, and standing as a permanent expression of your values. You will receive a deep sense of satisfaction in setting up a fund that will last forever, has lasting significance for the charity and will outlive you. You will have left a permanent imprint that will have a lasting and ongoing impact.
- You will receive an immediate donation receipt for all contributions made to endowment(s) during your lifetime. Your estate receives a donation receipt for an endowment established and funded through your will.
- Endowments are ideal if you do not want to fund current needs, but rather wish your gift to be preserved and used long after you are gone, to assure a perpetual income stream that will support your area(s) of interest, create a lasting legacy and make a statement about what is important to you.
- Subject to the charity's mission and policies, you receive the satisfaction of being able to direct that endowment income be used to accomplish purposes important to you.

Who can give?

- General endowments. Anyone with an interest in the organization and its future.
- Named endowments. Middle to upper-income donors with an interest in the charity and its future. Service clubs and associations may also find named endowments appealing.

How is this done?

Donors may establish endowments directly with an organization or may fund charitable work through an endowment established with a community foundation or other foundation. Many donors create an endowment while alive. The donor and the charity sign a simple endowment agreement describing the endowment, its purposes and how it will be funded.

A donor may establish an endowment upon death by including appropriate language in his or her will. Donors may establish endowments directly with an organization or may fund charitable work through an endowment established with a community foundation or other public foundation such as Tides Canada or financial institution-based public foundations.

Endowments may be funded in any of the following ways:

- outright donation of cash or other assets,
- gift in the donor's will,
- death benefits or cash surrender value of life insurance,
- remainder interest of a Charitable Remainder Trust,
- residual interest when the donor retains use of a principal residence or other property,
- gift element of a gift annuity,
- proceeds received when a strip bond matures, or
- retirement funds designated for the charity.

Important Considerations

Endowment gifts are irrevocable. The donor cannot get the funds back.

Endowment agreements and bequest language should provide for the possibility of changed circumstances in the future. Changing conditions and scientific/technological advances may make the original program funded by the endowment obsolete.

The gift will have a more enduring long-term benefit if stated in general terms rather than being too narrowly restricted. An endowment to fund polio research would have been valuable in the past. But polio has been conquered in the developed world. An endowed fund for research into infectious diseases could address such current problems as AIDS.

The charity through its policies may set minimum amounts required to create named endowments. A \$10,000 minimum is the most common. Anything less becomes too expensive and administratively onerous to maintain. Some individuals may not be able to contribute \$10,000 in one lump sum. Some charities will accept smaller contributions over a period of time (for example, up to five years) under an agreement to invest the contributions in a holding account until the minimum necessary amount is reached. If contributions do not reach the required minimum within the agreed period, no named fund is created and the contributions become part of the general, unrestricted endowment.

Donors and advisors considering endowment gifts should satisfy themselves that the charity is well-managed and stable enough to operate over the long term. Think decades into the future.

When considering an endowment, check with the charity regarding its mission, endowment giving options and minimum requirements, endowment acceptance policies and procedures, and endowment investment policies.

Planned gifts can provide beneficial results for a donor but, in order to ensure that all relevant issues have been considered and addressed and that all Income Tax Act, Canada provisions and regulations are met, prospective donors should seek qualified legal and accounting advice.

Give Green Canada acknowledges and thanks Lorna Somers and Frank Minton for pre-approving the use of their book *Planned Giving for Canadians* as the basis for the information provided about different types of gifts.