



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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Considering a donation? Why charity overhead costs shouldn't be the sole measure in your decision-making

When you direct your hard-earned money towards something, you want to make sure those dollars are put to work in the best possible way. For example, you expect this of your investments and you expect this of your charitable donations. With your investments, you know where and who to turn to for measuring success, and the measurement factors are clear. With your donations, however, how do you make sure you're focusing your donation dollars in the right place or to the right charities? How do you measure the impact your donations are making?

Many individuals and families want to support charities that are creating more of a positive impact in their community and help the causes they care about. But, at the same time, they are concerned that the charity may have high operational and administrative costs, also referred to as "overhead costs". This usually comes from a place of concern that the charity may mispend their donated funds, or that their donated dollars will not directly benefit the cause they are wanting to impact.

With overhead costs, it's important to understand that they encompass ongoing expenses that can't be directly attributed to any specific

charitable activity, but may still be necessary for the charity to function. Similar to anything else you own or invest in, this may not be the sole measure to look at. For example:

- When making an investment in a for-profit tech company, would you solely look at the salaries of each of the scientists developing their latest tech gadget, or would you consider the investment return and other financial matrices as well? Or,
- When you buy a pair of shoes, do you ask how much of that cost is going towards marketing, sourcing products, or the human resources system of the company that made those shoes?

Similar to a for-profit company, a charity needs funds for day-to-day operations to ensure they're doing the best they can for their cause. For example, they need funds to:

- Screen volunteers and staff to deliver their services in a safe manner.
- Hire staff to run their programs (and pay them a living wage). Dedication to the cause is often not enough and people are more likely to stay with an organization if they are paid fairly.
- Purchase new equipment and train staff to properly run and maintain it.
- Pay planned giving staff to work with donors on making charitable gifts, providing donation tax receipts and applying for grants (from the government and foundations) to allow for additional funds to support their cause.
- Pay operational expenses like rent, utilities, insurance and their website.
- Pay their accountant to ensure financial statements are done in the appropriate manner, and that they have filed their information returns with CRA, etc.

These instances would all be considered overhead costs, but they are instrumental to allowing the charity to perform the impactful work they were created to do.

Considering different factors – An example

Let's look at two fictional charities in the same sector in the same city. Would you want to support a charity with a 30% overhead cost or a 10% overhead cost? If this was the only factor you considered, it's likely you would choose the charity with the lower overhead cost. However, if you did more research and found out what they were doing to affect the cause you cared about, and how they made change, you may have a different answer. And if you were to look deeper, the low overhead charity may have no financial reserves, may not be as effective, and/or may have morale issues with its paid staff. Whereas the high overhead charity may have a business plan in place

that showed how they could continue to provide and grow the services to a community over a 10-year period. With different or more factors in mind, which charity would you support?

Some charities have high overhead costs because they'll spend a lot of their funds on fundraising activities (e.g. formal galas, golf tournaments and gifts to donors) or their cause has a national or international scope. Similarly, there are other charities that have no overhead costs. Sometimes these charities are quite small, staffed with a dedicated group of volunteers, or sometimes they're larger with an affiliated for-profit company covering their administration costs. There are also charities with more mid-range overhead costs. Whether high, mid-range or low, it's important to recognize that each could have a similar benefit in the community or create less of an impact, depending on a number of other factors.

Rather than focusing solely on the charity's overhead costs, you may wish to look at the impact of the charity's work in the community. Ultimately, this may likely be a more effective indicator of whether the charity will spend your donation dollars effectively — is it going to support the intended impact you're seeking to create? Remember, a key aspect is that the organization's work resonates with you and aligns with your personal charitable giving strategy. You will need to decide, on an individual or personal level, what overhead rate you're comfortable with, or what indicators you're looking for in the organization's leadership. These answers will be different for everyone.

If you'd like more information on due-diligence methods that can be used to assess the charities you're interested in donating to, please ask your RBC advisor for a copy of the RBC Family Office Services charitable giving resource, *Setting a Charitable Giving Strategy: A guide for your charitable giving journey*. The due-diligence process is discussed more in-depth in Section 4 of that guide.

Additional resources:

- [Measuring impact, not administration: A primer on charity overhead | CharityVillage](#)
- [How much should a Canadian registered charity spend on administration 2018.pdf \(canadiancharitylaw.ca\)](#)
- [How to Decide Which Charity to Support? - Smart Giving](#)

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