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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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## Unrestricted versus restricted donations: What to consider when making your gift

Charitable giving can be a very personal experience, reflecting the cause(s) closest to your heart and/or your values. How you decide on which charity or charities best align with the kind of impact you want to have will be an experience unique to you.

When you're making a significant donation to a charitable organization, you may be asked by the charity to define the scope of your gift. Will these funds be restricted to cover specific costs or spent at the discretion of the organization?

Sometimes, donors will restrict their donations because they want to invest in the programmatic activities of the charity and the important outcomes those programs create. While that approach may come from the best of intentions, there are several important factors to consider before deciding whether or not to restrict your next gift.

### What are restricted and unrestricted donations?

**Restricted donation/gift:** Funds tied to a specific use and not available for the general purposes of the charitable organization.

**Unrestricted donation/gift:** Funds given to a charity for which no restrictions are placed on how they are spent. These gifts are sometimes referred to as, "general support grants."

Why might a donor restrict a donation? For some, this choice may stem from a lack of trust in the organization to spend the gifted funds wisely or not wanting to support the organization's overall operating costs. (If you'd like to learn more about the importance of a charity's administrative costs and how to effectively consider that aspect when conducting your due diligence, ask your RBC advisor for the article,



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

While there have been cases of improper allocations of donations, it's important to remember that the charitable sector is highly regulated by the Canada Revenue Agency (CRA) and any charity is subject to an audit of their files.

It's also important to conduct your own due diligence of a charity before considering donating to that organization. For example, you may want to look into the outcomes of their programming, as well as the experience of those in senior leadership and on the board of the organization. A key question to reflect on is, "Do I trust this organization to deliver on the outcomes they seek to create?"

If you can answer "yes" to that question, an important part of your decision is to trust that the organization will know how to apply your donation towards their strategic goals. This allows the organization to focus on fulfilling its overall mission and investing in all inputs necessary to achieve success. If your answer is "no," you should consider doing further research to source charitable organizations you feel you can trust.

### **Situations when restricting a gift may make sense**

The following sections explore a few reasons it may make sense to consider restricting your gift, even if you do trust the organization.

If you're considering a restricted gift, it's always recommended to have a conversation with the charity to ensure they're comfortable accepting your potential gift, and the accompanying restrictions, before making the donation.

#### **Supporting a particular part of the organization's work that you care most about**

Many organizations deliver different kinds of programming, all working to achieve the overall mission of the organization. For example:

- An international development organization might provide clean water and build schools in an underdeveloped country.
- An organization working with the insecure housing population might provide shelter services and economic mobility programming.
- A hospital might deliver various kinds of treatment to those in different age groups and for different conditions or diseases.

If you're drawn to one part of their programming, perhaps it's best to direct your gift to that program.

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#### **Supporting a particular geographic focus**

While some organizations focus in a particular geographic area, others may offer services across a region, province or territory; throughout Canada; or even across larger parts of the world. If you're invested in creating impact in a specific geographic region, it may make sense to reach out to the organization and see if you can restrict your gift for activities in that region.

#### **The organization is seeking funding for a particular activity or project**

There are times when charities themselves are seeking restricted gifts for a particular project or program. In that case, if it's what they've determined to be the funding priority, and it's an initiative that will help them succeed in accomplishing their goals, it's likely worth considering — as long as you've done your due diligence and it aligns with the impact you're aiming to create in the world.

Perhaps the organization is embarking on a capital campaign to refurbish an existing building or purchase a new one. Maybe they're looking to expand their programming into a new region or to support a new demographic. Perhaps there's been a recent emergency or natural disaster and they're looking for dedicated funds to respond accordingly. These could all be reasons for restricting a donation to a particular part of the organization's efforts.

#### **Approaches to restricting a gift**

If you conduct your due diligence and decide it's best to move forward with a restricted gift to a given charity, it will be important to consider just how many restrictions you place on that gift. There are two common approaches, but these fall on a wider continuum of options available.

The first is known as "unrestricted program funding." This approach may make sense if there's a given program you're most invested in but feel comfortable trusting the organization to otherwise spend your donation within the confines of that program.

Let's revisit the hospital example from earlier. You want to support your local hospital and care deeply about their pediatric services. While the hospital treats all kinds of patients, you choose to restrict the donation to their

pediatric work and leave it to the organization to decide if they should spend this donation on nurses' salaries, new beds and supplies, or to pay the electricity bill.

The second common approach is known as "project-based funding." This approach may make sense if you're working with the organization to uniquely fund a dedicated program and a dedicated budget is being created, as well as tracked against the initiative.

An example could be an organization that's been operating its programs in one community but wants to expand its programming to serve a similar demographic in a neighbouring community. You've engaged in dialogue with the charity about this possibility and are willing to fund the pilot program for this expansion. They outline indicators of success for this pilot and detail the budget for this initiative, providing reporting against this budget at pre-agreed upon intervals.

### **What kind of reporting can you expect?**

A last consideration when deciding whether to provide an unrestricted or restricted donation to a charity is whether you have certain expectations for the kind of reporting or updates you'll receive. These expectations may include frequency, length or detail of update and the kind of content included (e.g., stories, data, reflections on what's happened, and forecasting what's to come). These expectations are important to discuss with the charity before making any donation to ensure they're comfortable meeting these expectations throughout the duration of the commitment.

Often, when providing an unrestricted donation, you're more likely to receive general, organization-wide updates like the charity's annual report, as your donation helped the charity with its overall efforts and success. When providing a restricted donation, you're more likely to receive an update that's specific to the program or portion of the organization's work that you've supported. It may be unrealistic to expect to receive a detailed budget breakdown as part of this reporting unless you specifically agreed on it before making the donation.

It can be quite special when you identify a charity you trust to deliver high-quality programming and whose intended impact aligns with your vision for meaningful impact. This is why a thorough due diligence process is a vital component of anyone's charitable giving strategy. Once a charitable organization has been identified, it's important to consider your charitable goals and what kind of grant may be the right fit to achieve these goals. As discussed, there are moments when an unrestricted grant will best allow the organization to direct those resources where they'll be most effective, and there may be other situations when a restricted grant may make more sense.

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### **Additional resources**

[Funders' Perspectives on Unrestricted Funding in Canada – Imagine Canada](#)

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