

PRIMER

TOPIC: EARNED INCOME FOR NONPROFIT ORGANIZATIONS

DEFINITION

The term earned income is used to refer to a “direct exchange of product or service for monetary value.”¹ Further, “Earned income for a charity or nonprofit includes such things as tuition payments, the sale of products or services, government only contracts, consulting fees, membership dues (when dues purchase tangible benefits), sale of intellectual property, agreement to use the nonprofit's identity, royalties, ticket sales, property rentals/leases, and so on. Earned income does *not* include such things as corporate or foundation grants, government grants and contributions or subsidies, financial contributions from individuals, or in-kind donation of products or services.”¹ Since there are no shareholders in a charitable or nonprofit organization, revenues are utilized to cover costs and repay borrowed funds, and any resulting profit from these activities is re-invested into advancing the organization’s mission. Many government, charitable and nonprofit, and academic leaders also refer to organizations or programs that engage in significant earned income activities as “social enterprises.”

DATA: CURRENT CIRCUMSTANCES

- **Earned income is a significant component of charitable and nonprofit revenues.** The majority of revenues for Canadian core charitable and nonprofit organizations come from a variety of sources, including earned revenues (45.1 per cent), government revenues (20.9 per cent) and contributions from households and businesses (13.3 per cent).ⁱ
- **Earned income activities are growing.** The proportion has grown from 41.6 per cent to 45.1 of total income since 1997, and in real numbers, earned income has grown by 135.5 per cent during that same time frame.ⁱⁱ We are quickly approaching the status of other nations that are well-recognized for social enterprise activities, such as the United Kingdom, where earned income represents over half of income coming to charities (50.3 per cent).ⁱⁱⁱ

KEY CHALLENGES OR ISSUES

- **Earned income activities will be important in the face of declining government contributions and a constrained environment for individual and corporate donations.** Charities and nonprofits run the risk of reductions in contributions from various levels of government in the face of deficit reduction measures. For example, the federal government will undergo a five per cent reduction in spending annually from 2011-12 to 2014-15, or \$4 billion per year.^{iv} Although average donations have grown significantly (66.6 per cent) since the early eighties, the relatively small but steady donor pool has shrunk over time, from 30 per cent of tax filers in 1990 compared to 23.1 per cent of tax filers in 2009.^{v,vi} In addition, we have also seen a decline in total donations.^{vii}
- **There is significant interest in expanding earned revenue activities.** According to a recent study, nearly one third (32 per cent) of charities and nonprofits that are not currently operating social enterprises are interested in starting one within the next two years.

¹ The Institute for Social Entrepreneurs, USA. <http://www.socialent.org/beta/definitions.htm>

- **Despite interest, many charities and nonprofits struggle to integrate earned income activities into their operations without an enabling and supportive environment.** In a recent study, over 50 per cent of nonprofit organizations in Ontario indicated that the current legal and regulatory environment was a barrier to engaging in social enterprise activities.^{viii} There are also challenges for those seeking supports: according to the same study, 45 per cent of all charities and nonprofits report that lack of business development support for social enterprises is a very important barrier to social enterprise activity.^{ix}

EXISTING RECOMMENDATIONS

Recommendations with broad support amongst networks, community organizations, and government commissions include:

- **Modernize regulations for earned revenue activities.** To enable charities and nonprofits to undertake revenue generating activities more effectively, regulators and policy makers need to modernize their frameworks. Policy makers should also explore the need for new hybrid corporate forms for social enterprises.
- **Increase access to business supports for nonprofit organizations.** To strengthen the earned income capabilities of charities and nonprofits, the eligibility criteria of government sponsored business development programs targeting small and medium enterprises should be expanded to explicitly include the range of social enterprises. Where eligibility already includes the sector, increased capacity to support effective support services should be provided.

RESOURCES

- B.C.-Alberta Social Economy Research Alliance. As found on: <http://www.socialeconomy-bcalberta.ca/>.
- Carleton Centre for Community Innovation (3ci). As found on: <http://www3.carleton.ca/3ci/>.
- Enterprising Nonprofits (ENP). The Social Enterprise Guide. As found on: http://www.enterprisingnonprofits.ca/projects/the_guide.
- Treurnicht, Ilse. Mobilizing Private Capital for Public Good: Report of the Canadian Task Force on Social Finance. Toronto: Social Innovation Generation, December 2010. As found on: <http://socialfinance.ca/taskforce/report>.
- Imagine Canada. Pre-budget Brief to the HoC Standing Committee on Finance. As found on: http://www.imaginecanada.ca/files/www/en/publicpolicy/imagine_canada_prebudget_submission_summer_2011_en.pdf
- Ontario Nonprofit Network and the Social Venture Exchange (SVX), an initiative of Social Innovation Generation (SiG) at MaRS. Social Finance Census 2010. As found on: <http://www.marsdd.com/news-insights/mars-reports/social-finance-census-2010/>.

ⁱ Statistics Canada. "Satellite account of non-profit institutions and volunteering." The Daily. December 17, 2010. These figures represent the core nonprofit sector, excluding educational institutions and hospitals.

ⁱⁱ Statistics Canada. Table 388-0001 - Production, income and outlay accounts of nonprofit institutions and volunteering, annual (dollars)

ⁱⁱⁱ Pharaoh, Cathy. Charity Market Monitor 2008. Waterlow Professional Publishing, 2008.

^{iv} Government of Canada. The Next Phase of Canada's Economic Action Plan: A Low-Tax Plan for Jobs and Growth. Ottawa: Ministry of Finance, June 6, 2011, 182.

^v Lasby, David. Trends in Individual Donations: 1984–2005. Ottawa: Imagine Canada, 2007.

^{vi} Lasby, D. Imagine Canada. 2010a. "Statistics Canada Releases Most Recent Charitable Donor Stats, Table 1: Charitable donation statistics, 2009." *Blog@Imagine Canada*, Dec 6, 2010).

^{vii} Lasby, D. Imagine Canada. 2010a. "Statistics Canada Releases Most Recent Charitable Donor Stats, Table 1:

Charitable donation statistics, 2009." *Blog@Imagine Canada*, Dec 6, 2010).

^{viii} Social Finance Census 2010.

^{ix} Social Finance Census 2010.