

# The Charities File:

## Ten Practices for Managing your Charitable Status

Ten practices that charities should integrate into their organizational culture to ensure they are acting in a transparent, accountable and efficient manner.

## Participant Workbook

A joint project of the Canadian Federation of Voluntary Sector Networks and the Centre for Voluntary Sector Research and Development with website hosting provided by the Community Services Council Newfoundland and Labrador

The material contained in this workbook is **for information purposes only** and should not be taken as advice.

[www.thecharitiesfile.ca](http://www.thecharitiesfile.ca)

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Canada

### **Our goals are to:**

- Increase awareness among charities about annual compliance requirements of the Government of Canada.
- Provide training on how to complete and submit accurate information returns, on time.
- Develop and post learning resources on completing the Registered Charity Information Return and on practices to assist a registered charity to manage their charitable status.

### **We are:**

Calgary Chamber of Voluntary Organizations

[www.calgarycvo.org/](http://www.calgarycvo.org/)

Centre for Collaboration, United Way of Regina

[www.unitedwayregina.ca](http://www.unitedwayregina.ca)

Centre for Voluntary Sector Research and Development

[www.cvsrd.org](http://www.cvsrd.org)

Community Services Council of Newfoundland and Labrador

[www.envision.ca](http://www.envision.ca)

Edmonton Chamber of Voluntary Organizations

[www.ecvo.ca](http://www.ecvo.ca)

Fédération des centres d'action bénévole du Québec

[www.fcabq.org](http://www.fcabq.org)

Niagara College Centre for Community Leadership

[www.communityleadership.net/](http://www.communityleadership.net/)

Ottawa Chamber of Voluntary Organizations

[www.cvsrd.org/eng/ocvo/index.html](http://www.cvsrd.org/eng/ocvo/index.html)

Pillar Non Profit Network

[www.pillarnonprofit.ca](http://www.pillarnonprofit.ca)

Policy Link New Brunswick

[www.policylink.nb.ca/](http://www.policylink.nb.ca/)

Recreation Nova Scotia

[www.recreationns.ns.ca/](http://www.recreationns.ns.ca/)

Social Planning Council of Winnipeg

[www.spcw.mb.ca/](http://www.spcw.mb.ca/)

The Centre for Sustainability

[www.centreforsustainability.ca/](http://www.centreforsustainability.ca/)

The Voluntary Sector Portal Gateway

[www.voluntarygateway.ca](http://www.voluntarygateway.ca)

United Way of Greater Toronto

[www.uwgt.org/](http://www.uwgt.org/)

United Way of Windsor-Essex County

[www.weareunited.com/](http://www.weareunited.com/)

Voluntary and Non-Profit Sector Organization of Manitoba Inc.

[www.voluntarysector.mb.ca/](http://www.voluntarysector.mb.ca/)

Voluntary Sector Consortium of British Columbia

[www.volunteerbc.bc.ca/newsroom/vocbc.html](http://www.volunteerbc.bc.ca/newsroom/vocbc.html)

Volunteer Centre of South-Eastern New Brunswick

[www.volunteergreatermoncton.com](http://www.volunteergreatermoncton.com)

Volunteer Thunder Bay

[www.volunteerthunderbay.ca/](http://www.volunteerthunderbay.ca/)

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## Ten Practices for Managing your Charitable Status: Introduction

### Module Outcomes

After completing this module, participants should have a better understanding of:

- Ten practices that charities should integrate into their organizational culture to ensure they are acting in a transparent, accountable and efficient manner.
- How to utilize these practices to complete their T3010A information return in an accurate and timely manner to ensure their compliance with CRA guidelines about charitable status.
- How CRA works with registered charities to help improve their compliance to these guidelines, thus increasing the confidence of the Canadian donor in the appropriate use of their support.

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### Focus of this Module

#### IS GENERAL INFORMATION...

- Terms and Definitions
- Examples and Descriptions

#### IS NOT...

- Advice (CRA is the expert and professional expertise is often required for more complex issues)
- Provision of specific information that may only be relevant to one organization
- Information pertaining to provincial or territorial legislation, acts, or requirements for societies and non-profit organizations

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### Privileges of Charitable Status

#### Three important privileges:

- Exemption from paying income tax
- Ability to issue official tax receipts for gifts received, thereby reducing payable income tax for individuals and taxable income for corporate donors
- Ability to receive funding from other registered charities because the organization is officially recognized as a "Qualified Donee"

#### But with these privileges come responsibilities

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### Responsibilities of Charitable Status

#### Registered charities are required to:

- Demonstrate that they are devoting substantially all their resources to the charitable purposes they were registered to do
- File the T3010A Information Return
- Carry out other obligations under the *Income Tax Act*

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#### Other topics covered:

- Importance of completing T3010A information return accurately and on time
- Understand relevant CRA terms
- The consequences (sanctions, fines and penalties) for non-compliance
- Common problems that organizations have in completing the T3010A information return
- Suggestions and strategies to assist organizations with challenge of task
- CRA as wealth of information and resources – potential partner and expert
- Positive impact of effective monitoring – improve efficiencies and credibility of sector

#### Providing general information not advice

- Module will focus on *general information* about relevant issues related to T3010A information return completion, it is not our intention to give *advice*
- CRA is the expert about these issues and should be consulted to ensure correct interpretations
- Some specific issues are quite complex (e.g. enduring property) and require professional assistance
- We will provide summary of resources to assist organizations – CRA and Information Resource Packages

#### Special Status of charities – Income Tax Implications

- Allows for cost efficiencies
- Harness volunteer support – expand impact

#### Responsibilities that come with the privileges

- Devoting resources to charity;
- Continuing to meet all other requirements of registration;
- Filing T3010A, the Registered Charity Information Return, with CRA within six months of its year end

#### Charities Directorate is the division of CRA that has specific responsibilities for monitoring the Charitable sector.

- Stringent criteria to ensure credibility
- Monitors activities to ensure directing resources properly
- Ensure Canadian public confident in sector

#### T3010A information return is an essential tool in monitoring process

- Only specific task required to maintain charitable status

#### Loss of charitable status would mean that organization would lose three privileges mentioned earlier – e.g. exemption from paying income tax

## Impact of Non-Compliance

- Public **Embarrassment**
- Loss of **Reputation**
- Hurts **Credibility** of the Voluntary Sector
- **Range of Sanctions** from CRA
  - Financial penalties
  - Removal of privileges until corrective action taken
- **Revocation**
  - Unable to issue tax receipts for donations
  - Loss of status as a Qualified Donee
  - No longer tax exempt

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There are a range of sanctions from CRA – The specifics of these sanctions will be discussed later in the presentation

**If a charity is revoked an important consequence to mention is the charity is not able to issue receipts and if they do, the receipts most likely will be disallowed at the local filing office. Also, they are no longer tax-exempt.**

**Once a charitable status is revoked, an organization must start the whole application process again.**

- In fact, in 2005 almost 500 organizations re-applied for registered status. This is a time-consuming process (often six to eight months) with financial implications.
- There is a \$500 fine late-filing penalty that is applied when a charity makes application to re-register.

**However, the significant impact of losing registered status is much deeper than this, such as:**

- The loss of reputation and credibility—both to the organization and to the sector in general.
- The need for re-building confidence in those who had supported the charitable activities of the organization.
- The removal of services to clients (who may not have other options).

**These issues have much more of an impact**

## Ten Practices

1. Ensure responsible governance of charity
2. Ensure involvement in approved charitable activities
3. Respect guidelines related to non-charitable activities
4. Maintain and manage books and records
5. Maintain appropriate financial information
6. Direct resources to approved charitable activities
7. Use receipting practices that respect CRA guidelines
8. Transferring assets between charities
9. Complete the T3010A information return in an accurate and timely manner
10. Utilize expertise of Canadian Revenue Agency (CRA)

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## Practice One: Ensure Appropriate Governance

**Practice One:  
Ensure Responsible Governance of Charity**

The Board of Directors is the legal entity that has ultimate authority and accountability as the official governing body of a charity. They:

- Are accountable for competent, conscientious and effective management
- Must govern affairs within relevant legislation and regulations
- Ultimately have sign-off authority and responsibility

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See [Info Sheet 2: CRA Obligations for Board Members](#) for additional information on this Practice

**Practice One:  
Ensure Responsible Governance of Charity**

**Independent Governance**

Charitable organizations and public foundations governed by a Board of Directors or Like Officials **must be at arm's-length from each other**

**Arm's length** describes a relationship where **persons act independently** of each other or who are not related

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### Board Governance

- Ensure organization is efficient professional entity
- Develop strategies to ensure Board members are fully aware of matters relating to legislative compliance
- Ensure clear understanding of responsibility with respect to Board accountability i.e. include in orientation of new Board members
- Fully discuss decisions that might impact the organization's credibility or compromise their ability to comply with the limitations of charitable status - especially with respect to meeting Disbursement Quota requirements and the need to focus on defined charitable activities that are related to charities objects (these topics are discuss later in detail later).

### Registered Charities and Public Foundations must be governed by a Board of Directors or Like Officials that are at arms-length from each other (50% minimum)

- Arm's length – acting independently/not related
- There is a interpretation bulletin [IT-419](#), Meaning of Arm's Length
- Information about a charity's Board of Directors is specifically asked for in the T3010A package

### Decisions need to occur in a transparent manner without undue

**influence/bias** by individuals, groups, or businesses that might personally or professionally benefit from these decisions.

- Donations to a charitable organization or public foundation must be less than 50% from one donor – to reduce influence of financial backing and ensure that the board has complete decision making powers and that there is not a control issue
- Organizations can apply to CRA to change its designation to a private foundation if they find themselves in position of receiving more than 50% of donations from a single donor. If after a charity was registered and finds themselves receiving a substantial gift (e.g. a onetime gift and over the life time of the charity this gift would not influence the board e.g. not a control issue), then CRA would not necessarily require the charity to apply for re-designation

**Private Foundations are designated as such, and therefore are in position to receive more than 50% of their funding from one source or they can have a related board.**

**FYI – Under the Income Tax Act, organizations in the three different designation categories (charitable organization, public foundation, and private foundation) face different requirements relating to the acceptance of donations, and the distribution of income related to its charitable purpose.**

However, all three types of organizations fall under provisions of the Federal *Income Tax Act* addressing such issues as: the tax treatment of gifts to charities; the reporting requirements and disbursements quotas for charities; and the concept of “qualified donees”

## Practice Two: Ensure Involvement in Approved Charitable Activities

### Practice Two: Ensure Involvement in Approved Charitable Activities

#### Expectations within original application process

#### Approved Charitable Purposes - 4 categories

- Relief of Poverty
- Advancement of Education
- Advancement of Religion
- Purposes beneficial to the community, in a way that the law regards as charitable

#### May use pre-approved objects

#### Purposes must be specific, not general

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The original application process used by organizations requesting charitable status from the Charities Directorate clearly **outlines the four categories of approved charitable purposes** that must be used in the application. In addition, the Charities Directorate has identified pre-approved objects that provide the specific framework for charitable activities within these four categories.

An organization applying for registration may use these pre-approved objects to ensure their activities are acceptable and merit consideration for approval. There is also recognition that non pre-approved or non-standard objects may be used. However, there may be **other approval processes that must occur prior to the Charities Directorate giving consideration**. (For example, in Ontario an application must be made to and approved by the Office of Public Guardian and Trustee before the Ontario Ministry of Government Services will consider approval for the not-for-profit incorporation status required for the Charities Directorate consideration).

In addition, the *Income Tax Act* requires that each applicant identify **very specific (rather than general) charitable activities** so the public can clearly understand the intended impact and services the charity will provide for their target clients. This information is required in the original application process and is **the foundation for the initial agreement between the CRA and the organization** receiving registered charitable status.

## Practice Three: Respect Guidelines Related to Non-Charitable Activities

### Practice Three: Respect Guidelines Related to Non-Charitable Activities

**CRA provides guidelines to assist charities in devoting adequate resources to charitable activities.**

**They define three basic categories of activities:**

**1. Permitted Charitable Activities**

Approved and appropriate – connected to mandate of charity

**2. Permitted but restricted activities**

Charities can direct some resources within defined limitations

**3. Prohibited Activities** – outside mandate of charity

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See [Info Sheet 15: Political Activities](#) and [Info Sheet 5: What is a Related Business](#) for additional information on this Practice

### Practice Three: Respect Guidelines Related to Non-Charitable Activities

**CRA guidelines limit the use of resources for permitted political activities**

Under the *Income Tax Act*, a registered charity must devote **substantially all** of its resources to charitable activities.

**CRA policy statements** help clarify situations and identify acceptable/unacceptable practices

**A permitted political activity must be:**

- Ancillary and incidental to the objects of charity
- Presented in an informative, accurate and well-reasoned way to enable society to decide for itself what position to take

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**Primary importance to the CRA is that the registered charity is devoting its resources to charitable activities as outlined in their governing documents**

CRA assists charities in understanding these parameters by defining three basic categories of community activities

- Activities that are within the mission and mandate of the charity and as such are approved and appropriate
- Activities that permitted but restricted – e.g. some types of political activities
- Activities that are outside the approved mandate of the charity are prohibited – e.g. running a non-related business
- However, if a charity's mandate changes they can provide amended governing documents to the CRA for approval but should not engage in the new activities until they are approved by the CRA

**Both the common law and the Income Tax Act allow registered charities to conduct political activities.**

- Recognizes the historical and continuing role of register charities in providing informed contributions in the development of public affairs and policy

**However, CRA identifies limits**

- Charities cannot be politically active entities
- In most cases, maximum of 10% of charity's resources (this includes financial, physical, and human resources) can be used (some variation with smaller charities)
- Resources used towards permitted political activities are not applied to meeting a charity's disbursement quota

**CRA Guidelines for acceptable political activities are that they must be ancillary and incidental to the charity's charitable purpose. These include:**

- Communicating a call to political action
- Communicating to public that a law, policy of any level of government should be retained, opposed or changed.
- Stating in materials (internal or external) that intention of activity is to incite or put pressure on elected/public officials to change law/policy

**Examples of acceptable charitable political activities are the following:**

(however, they must be presented in an informative accurate and well-reasoned way to enable society to decide for itself what position to take)

- Distributing the charity's research on a particular topic relevant to its charitable purpose
- Releasing and distributing a research report to election candidates
- Publishing a research report online
- Buying a newspaper advertisement to pressure the government
- Organizing a march to Parliament Hill

**CRA Guidelines for unacceptable or prohibited political activities include:**

- Activities that are partisan in nature
- Activities that do not relate directly to the purpose of the registered charity (non-related issues)

- “Substantially all” is defined by the CRA as 90% or more, meaning that a charity may not devote more than 10% of its total resources per year to political activities

**Examples of prohibited political activities:**

- Supporting an election candidate in the charity’s newsletter
- Distributing pamphlets that underline the government’s lack of contribution to charity’s goals

**Practice Three: Consideration  
Involvement in a Related Business**

**COMMERCIAL ACTIVITY either**

- Related to charity’s purpose or
- Substantially run by volunteers (90% rule)

**Related to:**

- Usual and necessary supplement to charitable programs
- An off-shoot
- Use of excess capacity
- Sale of items promoting charity

**Subordinate to:**

- Receives minor portion of charity’s attention and resources
- Integrated into charities operation, not self-contained
- Charitable goals dominate decision-making
- No element of private benefit

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**Related businesses:**

Registered charities designated as charitable organizations and public foundations can carry on businesses that accomplish or promote their charitable objective.

- A related business is a commercial activity (i.e., revenue-generating) that is either related to a charity’s purposes, or substantially run by volunteers.
- For more information, see CRA Policy Statement [CPS-019](#), *What is a Related Business?*

The Income Tax Act says that charities can lose their registration if they carry on an unrelated business. By implication, the law allows them to carry on a related business.

- Charities designated at private foundations are an exception – they can lose their registration if they carry on any type of business, related or unrelated.

**Key point:**

**The fact that the profits from a business are applied to a charitable purpose in not sufficient to constitute the necessary linkage. Instead, it is the nature of the business and whether it has some direct connection to the charity’s purpose that determines whether it is a related business.**

**Specific examples for the above listing are the following:**

**Related to:**

- Usual and necessary supplement to charitable programs – gift shop for use of visitors to charity
- An off-shoot – church provides recordings of Sunday service for nominal fee
- Use of excess capacity -rents out parking spots on weekend
- Sale of items promoting charity – items bought by those wanting to support

## Practice Four: Maintain and Manage Books and Records

**Practice Four:  
Maintain and Manage Books and Records**

**A charity must have adequate books and records to demonstrate responsible governance and that most resources; human, financial and physical, are used for charitable purposes.**

**CRA must be able to ascertain:**

- That the Board of Directors are fulfilling their responsibilities
- That all income and expenditures are identified
- That the records verify all official receipts issued
- That there is evidence to establish the activities of the organization are charitable

**Books and Records must be kept at a Canadian Address**

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See [Info Sheet 7: Books and Recordkeeping](#) for additional information on this Practice

**Records Management is a serious responsibility for charities, both staff and directors.**

- Ensure that complete, accurate and coherent books and records are kept
- Nothing makes an audit by the CRA go more smoothly than properly maintained financial books and good quality minutes, key correspondence and other records of decision-making.

**Remember, CRA must ensure that charities are directing their resources to charitable activities. Thus, their primary concerns are:**

- That the records verify all official receipts issued
- That all income and expenditures are identified
- That there is evidence to establish that the activities of the entity are charitable

### [Newsletter # 26 - Spring 2006 \(Books and Records\)](#) – Question 9 on Adequate Records

A charity must keep adequate books and records (located at a Canadian address we have on file) so that CRA can verify official donation receipts issued, as well as income received and expenses made. Also, the Income Tax Act requires charities to keep information in addition to their books and records so that we can determine whether their activities continue to be charitable. This additional information will vary from charity to charity but should include, for example, copies of minutes of meetings, correspondence, publicity brochures or advertisements, and details of charitable program activities including program reports.

### [From CRA Newsletter #26 – Spring 2006 \(Books and Records\)](#) – Questions 7 on location of Books and Records

A registered charity's books and records must be **kept at a Canadian address it has on file with the CRA**. This includes all books and records related to any activity carried on outside Canada. The charity's books and records cannot be kept at a foreign address. More information for charities that operate outside Canada, including information on maintaining books and records, is available in Registered Charities Newsletter No. 20

**Practice Four:  
Maintain and Manage Books and Records**

**Recordkeeping Guidelines**

**Books and Records such as**

- Summary of year-to-year transactions and accounts
- Minutes of executive, Board, and members
- Governing documents and bylaws

Minimum of 6 years from end of fiscal period to which they relate

**Duplicates of receipts**

- Minimum of 2 years from end of calendar year in which were received

**If Charitable Status Is Revoked**

- Minimum of 2 years after date the registration of the charity is revoked

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**FYI - Charities Directorate states that the Charity should retain its books and records as follows:**

- **Duplicates of receipts must be retained for a minimum of two years** from the end of the calendar year in which the donations were received
- **Books and records**, together with accounts and vouchers, containing the summaries of year-to-year transactions of the charity, must be held for a minimum of six years from the end of the fiscal period to which they relate
- When a registered charity loses its registration, the books and records must be retained for a minimum of two years after the date the registration is revoked.

## Practice Five: Maintain Appropriate Financial Information

**Practice Five:  
Maintain Appropriate Financial Information**

**Shows the sources of revenue and how the money was spent**

- Statements of assets and liabilities (Balance Sheet)
- Statement of revenue and expenditures (Income Statement)

**Accounting consistency** – either way acceptable:

- **Cash:** record only revenue or expenditures the charity actually received or paid during the fiscal period
- **Accrual:** immediately recognizes income earned and expenditures incurred

**Approved and signed** by the Board's Treasurer and/or an authorized Director or Trustee

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It is critical to use consistent reporting procedures for financial statements; either

### CASH

- Identifies all revenue that comes into the organization and all expenditures that occurred during the fiscal period
- These assets must actually trade hands during the fiscal period – any revenue or expense that doesn't physically enter or leave the organization during the fiscal period cannot be counted in the fiscal report

### ACCRUAL

- Identifies assets or liabilities that were incurred during the fiscal period, even if they were not actually transferred during the fiscal period.

### EXAMPLE:

If a charity accepts a donation from a supporter who uses a credit card, cash and accrual methods will view transaction differently.

- **Under the cash method**, the charity will not recognize the donation as revenue until the credit card company makes its transfer, a process that could take the charity into the next month, or even the next year
- **With accrual accounting**, however, *it is likely, if not certain* the charity will receive the donation at some point in the future, because the transaction, for all intents and purposes, is complete. Therefore, an accrual accounting method recognizes the donation immediately; it is considered revenue at the point the donor offers the gift. Even though "cash" isn't yet in the bank, the donation is posted to what is known in accountant-speak as AR, or "accounts receivable".
- Conversely, with cash accounting an outgoing payment will not be recognized as a debit until the payment is actually withdrawn from the charity's bank account, rather than showing as an immediate debit (e.g. AP, or "accounts payable") on the date the cheque is written.

**Practice Five:  
Transfer of Financial Information to T3010A**

- Generally accounting packages use categories that do not directly match the T3010A reporting categories
- Organizations should look at ways of recording revenue and expenditures to ease transfer of information – for current and future reporting
  - As per example on next slide
- Obtain advice re: confusion over categories (CRA, professionals)

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### Transfer of information from records to T3010A forms

- Set up financial categories to facilitate easy transfer the T3010A form
- Create separate spreadsheets to track important issues –e.g. enduring property received, transactions with non-arms length personnel

### See sample financial statement below

This demonstrates how each accounting line is connected to the reporting line for the T3010A.

This matching helps to facilitate easy transfer from existing financial records to CRA reporting expectations.

**Pink Elephant Theatre Society: Income Statement/Statement of Operations**  
**At December 31, 2006**

<b>Revenues</b>	<b>Amount</b>	<b>T3010A Line #</b>	<b>T3010A Line Description</b>
Box Office Sales	\$ 163,234	4640	Total revenue from sale of goods and services (except to gov't)
Sponsorships - Received	\$ 20,000	4500	Total eligible amount of tax-receipted gifts
Sponsorships - Un-receipted	\$ 20,000	4530	Total other gifts
Grant Revenue - Federal Government	\$ 55,000	4540	Revenue from federal government
Grant Revenue - Provincial Government	\$ 99,367	4550	Revenue from provincial/territorial governments
Grant Revenue - Municipal Government	\$ 57,125	4560	Revenue from municipal/regional governments
Fund Development - Corporate Donations	\$ 29,181	4500	Total eligible amount of tax-receipted gifts
Fund Development - Private Donations	\$ 3,975	4500	Total eligible amount of tax-receipted gifts
Fund Development - Donations in Kind (if a receipt was issued the amount would be included on line 4500 and not 4530)	\$ 110,500	4530	Total other gifts
Other Revenue	\$ 148	4650	Other revenue
Other Revenue -Casino	\$ 78,365	4630	Total revenue from fundraising
Other Revenue - Theatre Rentals	\$ 1,600	4610	Rental income (land and buildings)
Interest Income	\$ 1,600	4580	Interest and investment income
Other Revenue - Loose Collection	\$ 1,925	4530	Total other gifts
Youth Program Sponsorships	\$ 40,000	4530	Total other gifts
Amortization of Deferred contributions	\$ 427	4650	Other revenue
<b>Total Revenues</b>	<b>\$ 682,447</b>	4700	Total revenue (add lines 4500, 4510, 4530, 4570, 4580, and 4600 to 4650)
<b>Expenses</b>			
Production Overhead - Production Office Supplies	\$ 3,810	4840	Office supplies and expenses
Production Overhead - Production Repair & Maintenance	\$ 494	4920	Other expenditures
Production Overhead - Supplies	\$ 1,835	4920	Other expenditures
Production Overhead - Vehicle Expenses	\$ 5,026	4810	Travel and vehicle
Production Overhead - Production Telephone	\$ 5,436	4920	Other expenditures
Production Overhead - Production Miscellaneous	\$ 379	4920	Other expenditures
Production Expenses - Actor Salaries	\$ 94,772	4920	Other expenditures
Production Expenses - Director Salaries	\$ 28,858	4920	Other expenditures
Production Expenses - Royalties	\$ 24,667	4920	Other expenditures
Production Expenses - Professional Production Fees	\$ 23,612	4920	Other expenditures

Production Expenses - Artist Travel / Accommodation	\$ 3,440	4810	Travel and vehicle
Production Expenses - Sets	\$ 8,723	4920	Other expenditures
Production Expenses - Props	\$ 1,585	4920	Other expenditures
Production Expenses - Costumes	\$ 2,997	4920	Other expenditures
Production Expenses - Wigs & Hair	\$ 262	4920	Other expenditures
Production Expenses - Delivery & Freight	\$ 195	4920	Other expenditures
Production Expenses - Sound	\$ 144	4920	Other expenditures
Production Expenses - Show Running Costs	\$ 713	4920	Other expenditures
<b>Total Production Expenses</b>	<b>\$ 206,947</b>	<b>C</b>	
<b>Rent</b>	\$ 123,814	C 4850	Occupancy costs
Operations Expenses - Maintenance & Repairs	\$ 726	4920	Other expenditures
Operations Expenses - Janitorial	\$ 3,181	4920	Other expenditures
Operations Expenses - Theatre Rental Expenses	\$ 738	4920	Other expenditures
<b>Total Operations Expenses</b>	<b>\$ 4,645</b>	<b>C</b>	
Administration Expenses - Staff Travel & Accommodation	\$ 4,916	4810	Travel and vehicle
Administration Expenses - Office Supplies	\$ 362	4840	Office supplies and expenses
Administration Expenses - Postage & Courier	\$ 2,074	4840	Office supplies and expenses
Administration Expenses - Bad Debt Expense	\$ 213	4840	Office supplies and expenses
Administration Expenses - Bank Charges	\$ 4,102	4820	Interest and bank charges
Administration Expenses - Interest Paid	\$ 430	4820	Interest and bank charges
Administration Expenses - Payroll Processing Fees	\$ 1,790	4820	Interest and bank charges
Administration Expenses - Accounting Fees	\$ 11,143	4860	Professional and consulting fees
Administration Expenses - Legal & Audit Fees	\$ 13,726	4860	Professional and consulting fees
Administration Expenses - Insurance - Liability	\$ 4,232	4920	Other expenditures
Administration Expenses - Photocopier	\$ 6,630	4840	Office supplies and expenses
Administration Expenses - Dues & Memberships	\$ 2,419	4830	Licences, memberships, and dues
Administration Expenses - Meetings Expenses	\$ 941	4840	Office supplies and expenses
Administration Expenses - Employee Development	\$ 1,717	4870	Education and training for staff and volunteers
Administration Expenses - Credit Card Fees	\$ 1,267	4820	Interest and bank charges
<b>Total Administration Expenses</b>	<b>\$ 55,962</b>	<b>A</b>	
<b>Amortization Expense</b>	\$ 681.00	A 4900	Amortization of capitalized assets
Payroll Expenses - Wages & Salaries	\$ 183,561	4880	Salaries, wages, benefits, and honoraria

Payroll Expenses - Employee Benefits	\$ 21,469	4880	Salaries, wages, benefits, and honoraria
<b>Total Payroll Expenses</b>	<b>\$ 205,030</b>	*	* Allocated based on % of time spent
Fund Development Expenses: General Fundraising Costs	\$3,990.00	F 4920	Other expenditures
Communications Expenses - Advertising	\$ 11,303	4800	Advertising and promotion
Communications Expenses - Printing	\$ 11,015	4800	Advertising and promotion
Communications Expenses - Photography	\$ 825	4800	Advertising and promotion
Communications Expenses - Website Maintenance	\$ 2,630	4800	Advertising and promotion
<b>Total Communications Expenses</b>	<b>\$ 25,772</b>	C	
Youth Program - Directors	\$ 3,626	4920	Other expenditures
Youth Program - Actors Fees	\$ 14,883	4920	Other expenditures
Youth Program - Commissions / Royalties	\$ 8,897	4920	Other expenditures
Youth Program - Honorariums	\$ 900	4920	Other expenditures
Youth Program - Travel & Accommodations	\$ 535	4810	Travel and vehicle
<b>Total Youth Program Expenses</b>	<b>\$ 28,842</b>	C	
<b>Total Expenses</b>	<b>\$ 655,684</b>	4950	Total expenditures before gifts to qualified donees (add lines 4800 to 4920)
<b>Excess of Revenues Over Expenses</b>	<b>\$ 26,763</b>		
C - Charitable Programs Expenditures	\$ 168,242	5000	Total charitable programs expenditures included in line 4950
A - Management & Administration Expenditures	\$ 25,429	5010	Total management and administration expenditures included in line 4950
F - Fundraising Expenditures	\$ 10,251	5020	Total fundraising expenditures included in line 4950

## Practice Six: Direct Resources to Approved Charitable Activities

**Practice Six: Direct Resources to Approved Charitable Activities**

**What is a Disbursement Quota?**

The **minimum amount** a registered charity has to spend on charitable activities or gifts to qualified donees to keep its registered status.

**Purpose of Disbursement Quota?**

- Ensure most of charity's funds used for charitable purposes
- To discourage charities from accumulating excessive funds
- To keep other expenses at a reasonable level

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**Disbursement Quota:** Basically a ratio that CRA calculates using a charity's financial information to ensure most resources are directed towards defined charitable activities

**Practice Six  
Meet Disbursement Quota Requirements**

Receipted Donations → 80% guideline

+

Other Assets held but Not used for charitable programs → Generally a 3.5% guideline - Calculation can be complicated

Gifts-in-Kind  
Enduring property  
Capital Assets

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See [Info Sheet 3: Disbursement Quota](#) for additional information on this Practice

**Practice Six:  
Bottom Line**

**Charities must meet their Disbursement Quota ratio of 80%**

- T3010A forms are designed to capture financial information to simplify these calculations and clearly identify
  - money spent on charitable activities
  - money spent on non-charitable activities
- Need to carefully evaluate resources directed to non-charitable activities and ensure that they don't exceed 20% of relevant revenue categories

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### Disbursement Quota (DQ) is basically an expenditure test

- Based on tax-receipted gifts and amounts received from other registered charities in the previous fiscal period.
- Also includes enduring property\* spent in fiscal period or transferred to qualified donees\*\*
- Charities that have expenditures that are unreasonable in non-charitable categories (e.g. administration costs) will have significant difficulty meeting their Disbursement Quota requirements
- Calculation of the Disbursement Quota differs if entity is a charitable organization, a public or private foundation

### FYI - The main difference in the Disbursement Quota guidelines for

**foundations are:** A public foundation has a Disbursement Quota of 80% of monies received from other Qualified Donees whereas a private foundation has a Disbursement Quota of 100% of monies received from Qualified Donees.

### Disbursement Quota calculation may be a relatively simple or complex process depending on the charity's sources of revenue.

- Focus on **general understanding of the concept** rather than delving into details and nuances
- Larger charities often need professional advice because they are dealing with a wide range of revenue sources that can complicate calculations—e.g. Enduring properties

### Private and Public foundations have always had more stringent

**Disbursement Quota guidelines than registered charitable organizations.** In the past, all three designations had to disburse 80% of received income towards their designated charitable activities - This expectation is still the same as in the past.

**Since budget 2004, a registered charitable organization must abide by two new guidelines that always affected foundations but did not formerly apply to registered charities; namely,**

A: They must disburse 80% of all funds received from another Qualified Donee (usually another Registered Charity) – excluding specified gifts & enduring property

B: They must disburse 3.5% of all assets held but not used on their charitable programs. Foundations were always subject to this guideline, however, the 2004 budget reduced their disbursement requirement from 4.5% to its current level of 3.5%

**Please note:** Charitable organizations that have an effective date of registration that is before March 23, 2004 will only be subject to the 3.5% disbursement quota requirement for their fiscal periods that begin after 2008

## Practice Seven: Use Receipting Practices That Respect CRA Guidelines

**Practice Seven: Use Receipting Practices that Respect CRA Guidelines**

**The total value of receipted donations received by a charity is the critical factor in the calculation of the Disbursement Quota for that charity**

**There are clear expectations about receipting practices**  
CRA provides specific direction for charities

**Split-receipting is required when the donor receives an advantage**  
Additional documentation required

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**Practice Seven: Use Proper Receipting Practices**

**General Receipting Guidelines**

- Prepare all official receipts in duplicate
- Retain copies of all receipts issued
- Ensure official receipts are individually numbered
- Make sure each receipt has authorized signature
- Retain copies for two years (except for receipts issued for ten year gifts)
- Receipts must contain all the required information, otherwise they may be disallowed at the local filing office.

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**Practice Seven: Use proper receipting practices**

**Receipts must include the following information :**

- The charity's name, address, BN/Registration #
- Date donation received
- Total amount received by charity
- Who it was donated by, address of donor
- Date receipt issued, location receipt issued
- Authorized signature of charity
- Listing of CRA charities website

**Some receipts must include other elements if they involve Non-cash gifts and valued added benefits that the donor received.**

- The Eligible Amount of Gift for tax purposes
- Description of property
- Value of advantage
- Appraised by, and Address of Appraiser

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**Practice Seven: Consideration Situations Involving Split Receipting**

Occurs when a donor receives a benefit or advantage - thus cannot be receipted for the total amount of the original donation

**Eligible Amount of the gift equals Donation – Value of Advantage\***

\*The advantage must be ascertainable and is subject to "de minimis threshold" calculation

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See [Info Sheet 13: Split Receipting](#) for additional information on this Practice

### All receipts must have designated elements.

- This is important because the Tax Services Office may disallow a receipt if it does not have all the elements on it as stated in Regulation 3501.

Specific information can be found at:

<http://www.cra-arc.gc.ca/tx/chrts/pbs/rcpts-eng.html>

### How do you replace a spoiled receipt?

The charity would issue another receipt indicating on that receipt that the receipt replaces the spoiled receipt and provide the receipt number it replaces.

### Key elements of concept

- Donor demonstrated clear donative intent (min 20%)
- Benefits received by donor clearly identified and the Fair Market Value of these benefits is ascertainable
- Consider 'de minimis threshold' in calculation

### Fair Market Value

- Highest price, expressed in dollar amount, that the property would bring, in an open and unrestricted market, between a willing buyer and a willing seller who are both knowledgeable, informed and prudent, and who are acting independently of each other"

### Fair Market Value (FMV) is important in receipting

- Applies to all non-cash gifts
- FMV is applied to date property is transferred to the charity.
- FMV must be accurate and supported by documentation
- Important in valuing gifts and advantages received by donor
- Valuation is charity's responsibility

**Practice Seven: Consideration**  
**Receipting for Gifts in Kind and Non-Cash Gifts**

**Gifts in Kind or non-cash gifts**

- artwork
- land and buildings
- equipment
- publicly traded securities
- certified cultural
- ecological property

**A contribution of service - time, skills or efforts**

- is not property and, therefore, does not qualify as a gift or gift-in-kind

**Establish Fair Market Value before receipting *any* gift-in-kind**

- receipt can be only for eligible amount

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See [Info Sheet 11: Gifts In Kind and Fair Market Value](#) for additional information on this Practice

**Practice Seven: Consideration**  
**Utilize professional advice for complex issues**

**Challenging to understand some issues**

- Capital gains, capital gains pool, capital gains reduction
- Disbursement Quota
- Enduring property (bequests, planned giving)
- Types of gifts (specific, exempted)
- Gifts in Kind
- Loan backs (reduction of Fair Market Value)
- Non-qualified investments and securities

**Registered Charities must meet their DQ**

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**“de minimis threshold”** – not deducted as an advantage where any benefit is either less than 10% of the value of the gift or \$75.00

**The disbursement of gifts-in-kind must be accounted for in the revenue of the charity.**

- Since tax receipts are issued for gifts-in-kind based on the fair market value of the gift, it is critical that a charity properly assess the value of these gifts (or have them appraised appropriately) because they will be responsible for counting this amount as part of their tax receipted revenue – a critical factor in the calculation of their Disbursement Quota.

**Smaller organizations might have a straightforward T3010A package, however this reality is changing as calculations around some donations and assets are becoming complex**

- E.g. many organizations are starting to receive donations of enduring property through planned giving programs
- Some donations required assessment of Fair Market Value and Capital Gains calculations which are complex

**The overriding concern for CRA is that registered charities devote a significant amount of their resources to their defined charitable activities and as such met their Disbursement Quota ratio.**

- Many of these items mentioned on this slide (e.g. types of gifts, calculation of Capital Gains Pool and Reduction **have a direct impact on the calculation of the Disbursement Quota** for the organization – and the information about these issues is complicated.
- It is important that charities do not get into a sanction situation because they were unaware of the impact of a financial issue

**The skills and knowledge required to understand these complex issues are often beyond expertise within organization**

## Practice Eight: Transferring Assets Between Charities

### Practice Eight: Transferring Assets Between Charities

**A Qualified Donee (QD) is an organization that the Income Tax Act allows to issue official receipts for income tax purposes.**

**If a charitable organization makes a gift/donation to a Qualified Donee, they must:**

- Attach list of gifts made to Qualified Donee (T1236)
- Identify if Donee is **ASSOCIATED** with charity
- List in descending order of value for each gift

**Amount gifted to a Qualified Donee can count towards Disbursement Quota Requirements**

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**Qualified Donee – Organizations that can, under the Income Tax Act, issue official tax receipts for gifts that individuals or corporations make to them.**

**They include:**

- Registered charities, registered Canadian amateur athletic associations
- Registered national arts service organizations, housing corporations in Canada set up exclusively to provide low-cost housing for the aged, the United Nations and its agencies
- Municipal or public bodies performing a function of government in Canada
- Universities outside Canada with student body that originally includes students from Canada
- Municipal or public bodies performing a function of government in Canada.

Charitable organizations outside of Canada to which the Government of Canada has made a gift during or immediately before fiscal period, the government of Canada, a province or a territory

### Practice Eight: Transferring Assets Between Charities

#### **Associated charity**

- Designation granted by CRA
- Can pass funds among associated organizations without affecting their designation
- Apply using Form T3011 and obtain written permission to become associated

#### **Specified gifts**

- Allow for transfer of gifts from one charity to another
- Amount not added to recipient charity Disbursement Quota
- Donor charity cannot use gift to satisfy own Disbursement Quota
- Specified if both charities recognize in their returns for the year

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#### **Associated Status**

- Status allows two or more charities to pass funds without being affected by the usual (50%) limitation placed on gifts by charitable organizations (i.e.: the Parish is required to send all income to Diocese for reallocation)
- **An organization must apply to CRA on prescribed form (T3011) for associated charity status**

### Practice Eight: Consideration Joint Ventures Between Registered Charities

#### **Joint Ventures between charities**

Two or more entities pooling their resources to accomplish a specified purpose or to establish and operate a charitable program

#### **CRA must receive complete details on:**

- how the project will operate
- how each of the registered charities will participate to achieve the common goal and the duration of project

**The designation as associated charities will be in effect for the duration of the joint venture.**

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#### **Policy was released in February 26, 2007 (Ref [CPC-028](#))**

- CRA must receive complete details on how the project will operate, how each of the registered charities will participate to achieve the common goal and the duration of project
- If the joint project is not completed within the time frame specified, the charities can request an extension to their associated status.
- If the joint project is completed prior to the expiration of the associated status, the charities should request revocation of their associated status

#### **What is the difference between a partnership and a joint venture?**

- A joint venture is not considered a “person” for registration purposes, whereas a partnership is. Therefore, a partnership can have a BN; a joint venture cannot.
- A joint venture is limited in scope; a partnership is generally an ongoing business relationship that exists between persons carrying on common business.

## Practice Nine: Completing the T3010A Information Return in an Accurate and Timely Manner

**Practice Nine: Completing the T3010A Information Return**

**A complete INFORMATION RETURN includes**

- Registered Charity Information Return (T3010A) which must include a Registered Charity Basic Information Sheet (BIS)
- Copy of the Registered Charity's Financial Statements
- List of Directors/Trustees or Like Officials with all required information (T1235)
- Qualified Donees Worksheet (T1236) if applicable

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See [Info Sheet 1: FAQs on the T3010A](#), [Info Sheet 14: Common Errors On T3010A](#) and [Info Sheet 4: Strategies for Improving Compliance with the T3010A](#) for additional information on this Practice

**Practice Nine: Considerations General Information About the T3010A**

- Must be filed within six months of fiscal year end
- Receive package in mail in the month following the fiscal year end
- Develop process to ensure completion, compliance and filing
- Release of financial statement to public
- Develop processes to capture information required for return

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### A complete Registered Charity Information Return has a minimum of 5 components

- Each component will be examined specifically to ensure a general understanding of the purpose and note special considerations related to that component.

### The Information Return package must be returned to CRA within 6 months of the fiscal year end

- e.g. year end is December, return is due by June 30
- Late filing is the NUMBER ONE compliance problem with charities and leading reason charities lose charitable status

### CRA has implemented a program of SANCTIONS (penalties) to ensure charities comply; the new sanctions apply to taxation years after March 22, 2004.

- Failing to file within 6 six months may carry a \$500 penalty – the amount is payable when the charity applies for re-registration.
- If lose status – no longer able to issue tax receipts for donations, lose income tax exemption and status as a qualified donee.
- Will be liable for payment of revocation tax equal to full value of any remaining assets

### What happens when you get the package in the mail?

- Someone must be designated to be responsible for completion of the T3010A package
- The Board should have processes for ensuring completion
- Don't lose your bar codes. They contain specific information about each charity (e.g. end of fiscal period, BN registration number, year of return) and CRA needs them to process your return. If you lose them, you have to ask CRA to send more.

### Financial statements now available to public on request.

- Do not include sensitive information such as bank account numbers.
- Ensure statements look presentable whether or not prepared by external accountant/auditor

Practice Nine: Consideration List of Directors/Trustees or Like Officials (T1235)	
Public	Confidential
<ul style="list-style-type: none"> <li>Posted on CRA website</li> </ul>	<ul style="list-style-type: none"> <li>Kept in CRA file</li> </ul>
<ul style="list-style-type: none"> <li>Names and positions of directors</li> </ul>	<ul style="list-style-type: none"> <li>Birthdates of directors</li> </ul>
<ul style="list-style-type: none"> <li>Arm's-length relationship information</li> </ul>	<ul style="list-style-type: none"> <li>Other private information about Directors such as home phone numbers and addresses</li> </ul>

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**Form (T1235) must be completed and filed with T3010A Package**

- T3010A is incomplete (subject to letter, fine, and ultimately revoked status) without this information

**CRA deems this information mandatory** to show donors & prospective donors the organization has accountable governance and a true “charitable” mandate – not a private fund disguised as a charity to dodge income tax

**CRA has an on-line information listing of all charities**

- Lists names of the Directors/Trustees or Like Official.
- CRA requires and makes public the director names in order to ensure transparency with respect to a Charity’s responsible governance.

CRA **does not post** directors’ confidential portion of the Directors Work Sheet such as birth-dates or personal information, however this information is required to complete the form

Practice Nine Consideration: Registered Charity Basic Information Sheet (TF725)	
<b>There are two sections to Basic Information Sheet</b>	
<ul style="list-style-type: none"> <li><b>Not changeable</b> without providing legal documents, such as incorporating documents or a prescribed form to the CRA (e.g. name and designation)</li> <li><b>Changeable</b> (e.g. logistics, primary areas of focus)</li> </ul>	
<b>Information posted on CRA website, Charities Directory:</b>	
<ul style="list-style-type: none"> <li>Promotion and Profiling</li> <li>Transparency</li> </ul>	

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**Section A of T3010A form: IDENTIFICATION**

- A charity is expected to forward any change to their governing documents and have changes duly authorized
- This includes any legal document which provides for any changes in the situation of the charity (e.g. now an internal division of another charity, merged or no longer in operation)
- CRA needs this information to ensure they have current and accurate information about each charity

**Organizations cannot change certain information such as their name or approved designation without permission from the CRA**

- Actions such as a name change or a request for re-designation cannot be processed by CRA until such time as they receive a copy of the legal documentation or prescribed forms along with the written approval of the authorized representatives of the organization.

**CRA recognizes that some variables change from year to year**

- The charity might move or become more familiar to the public by some other name.
- The charity might change program intensity or add related initiatives (as long as these are permitted charitable activities related to their identified objects)
- CRA needs to know what % of resources the charity is directing to its top three charitable initiatives

**This information is posted on Charities Directory of CRA website** – should be current and accurate.

- Excellent opportunity to market and promote charity.

**Practice Nine: Consideration  
Challenges and Trends for Charities**

**Common challenges:**

- Late filing of the T3010A Information Return
- Incomplete records and books
- Unrelated business
- Incomplete receipts/False information

**High number of charities revoked**

- Revoked 963 charities who did not file on time
- Revoked 438 charities at their request
- Revoked 11 for just cause

**Continual growth of the charitable sector**

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### Common Compliance issues

- #1 compliance issue is late filing
- Importance of accurate record keeping
- Receipted donations directly tied to Disbursement Quota (will speak to this concept later in presentation)

### Reducing number of revocations that occur each year

- Revocation is ultimate sanction - removes privileges.
- Major reason is not filing on time

### Finally, the sector is continually growing.

- In 2005, 4000 applicants for registered status and 3100 were approved.
- Instil professional approach - ensure sustainability of organizations

**Practice Nine: Consideration  
Implement Strategies To Ensure Compliance**

- Completing all forms accurately and correctly requires quality time
- Financial practices need to easily facilitate T3010A reporting expectations
- Ensure an "organizational memory" for future reporting – there is a significant learning curve

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**The ED/senior staff must ensure the Board of Directors, as the legal governing body of the organization, realizes the importance of this task and provides support for the time and human resources required to complete the T3010A properly.**

- The appendix has an information sheet outlining the importance of the T3010A information return
- Executive Directors can use this information sheet with their Board members to help them understand the reporting expectations of the T3010A information return and reinforce their need to provide appropriate resources to its accurate and timely completion.

### Focus on "good deeds" seen as a priority

- These reports often considered as secondary priority.
- Report is complex challenge - few shortcuts without compromising the quality of the end product.
- Task in smaller organizations often fall to Executive Director who is already busy and multi-tasking.

**Many accounting software packages do not easily migrate information into the categories required by the T3010A form**

- The transfer of financial information can be awkward
- Need for setting up categories/spreadsheets to easy task

### Ensure more than one person trained in task

- Significant learning curve completing forms correctly.
- Find ways of recording procedures or mentoring other staff/volunteers to ensure continuity over years.

## Practice Ten: Utilize Expertise of CRA and Other Professionals

**Practice Ten: Utilize CRA Support & Professional Expertise**

**A. Review the Guide to Completing the Charities Information Return**

**B. Ask for Clarification**

- Toll Free lines – phone, FAX, both languages
- Write for advice – rather than guess

**C. Visit Internet Resources on CRA website**

[www.cra.gc.ca/charities](http://www.cra.gc.ca/charities)   [www.arc.gc.ca/bienfaisance](http://www.arc.gc.ca/bienfaisance)

- All forms and publications
- Summary policies on all issues
- Information Letters on numerous topics
- **On-line Listing of Registered Charities**
- Registered charities newsletter – broad, specific (4X year)
- Electronic mailing lists – register to receive what's new

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See [Info Sheet 10: CRA Resources](#) for additional information on this Practice

**Practice Ten: Consideration Use Project Resources**

**Voluntary Gateway – Sector Portal**

[www.thecharitiesfile.ca](http://www.thecharitiesfile.ca)

**Charities File Website**

The Charities File  
Training and Resources  
to Complete the  
T3010A

**Additional module**

Completing the T3010A (accountants, bookkeepers)

**Other resources and tools (e-learning)**

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### Sign up for CRA Roadshow

- Register on-line only through CRA Website

### Online listing of Charities on the CRA website underscores need to ensure T3010A information return is properly done

- This information is available to the donating public and needs to accurately reflect the activities and financial realities of the organization.

### Samples of on-line resources are included in the appendix. This is an extensive resource of very practical material:

- [Policy summaries](#)
- [Policy commentaries](#)
- [Information letters on specific questions](#)
- [Downloadable forms](#)
- [Information booklets on all topics](#)
- [What's new](#)

### One other module in this series

#### Completing the T3010A Return

- Targeted at staff who are involved in the actual completion of the return and require a more detailed understanding of forms

**Voluntary Gateway** is a significant repository of resources that has been developed for voluntary sector organizations.

- These resources are designed to help organizations improve their capacity to function effectively and in turn provide better service to their clients through their charitable activities.
- Has relevant resources and e-learning modules available on line to assist organizations with training needs

**The Charities Files** has been designed to provide training and resources for completing the T3010A Information Return

**Canadian Revenue Agency**  
Working With Charities To Ensure Compliance

**CRA's new, progressive approach includes**

- ✓ Education (specific and general)
- ✓ Compliance Agreements
- ✓ Intermediate Sanctions
- ✓ Revocation (last resort)

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See [Info Sheet 6: Monitoring of Charities](#) for additional information

**Previously, CRA had only one sanction that they imposed with respect to non-compliance**

- Unfortunately, it was the ultimate sanction - **REVOCATION** - the loss of charitable status
- CRA did relatively few audits
- Audits generally reactive, not proactive
- Audits were performed by Consulting and Audit Canada, not CRA

**Currently, CRA is using a more progressive approach that might include the ultimate sanction of revocation, BUT**

- Only after CRA engages in a process of communication with the designated charity and
- CRA educates the charity and tries to work collaboratively with charity to identify the stumbling blocks to compliance and develops an agreement to strategies and timelines to prevent further sanctions.

**This newer direction of CRA is based on a graduated, educational approach to compliance**

- Was recommended by the Voluntary Sector Initiative Joint Regulatory Table report (VSI report) and has been implemented over the last few years– and made it necessary for CRA to increase their human resources to ensure this continuum of support

**Canadian Revenue Agency**  
Educating the Donor

**CRA has developed a comprehensive public education program designed to educate donors**

- Mail campaigns
- Brochures
- Posters
- Public notices in newspapers
- Website information
- Outreach at public events

**Website information**

- Giving to Charity: Information for Donors
- Listings of Charities – with publicly available information, listing revoked and suspended charities
- Donor alerts – e.g. Tax Shelters

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**The public education team of the Charities Directorate has developed a comprehensive plan to:**

- Raise awareness of registered charities and charity regulation
- Increase the profile of the CRA as a regulator
- Increase the public's ability to make informed donor decisions

**Giving to Charity: Information for Donors**

- Provides information about tax savings, donation receipts, the regulation of charities, and being an informed donor.

**Charity Listings:** Donors can search by charity name, location, category and registration status and once they find a charity that interests them, they can read all of the publicly available information on its Registered Charity Information Return.

**Donor Alert:** A new section on the website that provides information to help donors make good choices and protect themselves against fraud and donation schemes like tax shelters.

**In the end, with your help...**

We will have a sector that is

- More accountable
- More transparent
- More effective and focused
- More credible...



And a Canadian society that is enriched by the caring and support that comes from the passion of organizations committed to making a difference in our communities.

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**What is the T3010A?**

The T3010A is an annual information return that registered charities are required to file with the Canada Revenue Agency. It has several components and all of them must be submitted, with no missing information, in order to comply with the requirements of being a registered charity.

The form itself was introduced 25 years ago and has two main goals: to ensure that charities are complying with the relevant income tax laws and to increase transparency and public trust of charities by providing publicly available financial information on their operations.

**Who has to file a T3010A?**

Only federally registered charities need to file the return. Registered charities are organizations that have gone through an approval process with the Ministry of National Revenue; they may issue tax receipts to donors and are exempt from paying income tax.

**Where do we get this form?**

As a registered charity, the CRA will send you the form and remind you when it is due but you must ensure that the mailing address they have on file is correct and that it is the address where you would like to receive the material. Remember that they record 3 addresses for each charity: the mailing address (which may be a post office box, the home of the treasurer, a board member or the ED, etc.), the physical address, and the address of where the books and records are kept.

The mailing address on file could be the address of someone (the treasurer or a board member, for example) who is no longer with your charity. It is important that you make sure that the CRA has the correct contact information (and update them if that information changes). Although the CRA makes every effort to ensure that you receive the forms, the responsibility is yours. You can download the forms and resource materials from the CRA website.

**When do we have to file the return?**

Within 6 months of your registered charity's fiscal year end, you must file a complete return. A complete T3010A return includes at least four parts: the Registered Charity Information Return (form T3010A), the Registered Charity Basic Information Sheet or BIS (form TF725), the Directors Worksheet (form T1235, the list of directors/ trustees/ officials - complete with all required information - including postal codes) and a copy of your financial statements. If applicable, you must also send the Qualified Donees Worksheet (form T1236, the list of qualified donees - complete with all the required information – including BNs).

**What happens if we don't file a return or if our return is late?**

A charity that does not file its return can lose its registered status. After losing its registered status, a charity can no longer issue tax receipts for donations. Also, the charity will be liable to pay a revocation tax equal to the full value of any remaining assets.

Registered charities that are revoked for failure to file are liable for a \$500 penalty.

If a charity's registration is revoked, it can apply for re-registration by submitting a completed Form T2050, Application to Register a Charity Under the Income Tax Act, together with all the documents and information requested on the form. The charity must also pay a \$500 penalty and file all missing information returns. Re-registration will only be granted where the organization meets all of the current registration requirements.

**Is this something our auditors automatically complete with our audit?**

No; the T3010A is completed by your charity and is an indispensable part of your obligation as a registered charity. The specific individual responsible may vary in different charities - it may be your accountant, Treasurer, or ED for example.

**How does CRA use the form to determine if a charity is not complying with regulations?**

In exchange for their privileged status of being exempt from paying tax, registered charities are accountable to government and the public for the money they raise and how they use their resources.

The Canada Revenue Agency (CRA) regulates registered charities under the *Income Tax Act*. To keep their charitable status, charities must meet certain obligations and requirements. While charities on the whole vary a great deal, there should be some similarity in the returns of similar types of charities. If there is something on a return that is out of sync with the information expected regulators know to take a closer look at that charity. Usually the things that catch their attention are found to be acceptable or the result of human error - illegal, illegitimate or fraudulent activity is very rare. Their scrutiny preserves the good reputation of Canada's charitable sector.

In filing a complete T3010A return with the CRA, a charity is providing evidence that demonstrates that it is complying with the *Act*: operating for charitable purposes and public benefit (not private gain), devoting its resources to charitable activities and following the requirements of the *Income Tax Act* when issuing official donation receipts.

**Who will have access to the information we provide on the form?**

The Basic Information Sheet and part of the T3010A are available to the public online on the CRA website. While confidential information, such as Directors' birthdays and addresses etc. are not available online, it must be included in your return.

Sections of the return marked confidential are not released to the public but under the *Income Tax Act*, the CRA can share some confidential information with other government departments and agencies. The sharing of any confidential information provided by charities is subject to strict federal rules. The CRA may be required to release confidential information in connection with certain legal proceedings.

**Why does CRA post the form on the web?**

Canada Revenue Agency (CRA) is committed to providing information about legitimate charities to Canadians and promoting the transparency and accountability of registered charities in good standing.

## **What are the main problem areas with the T3010A Information Return?**

- You must include the Basic Information Sheet even if there are no changes. Ensure the addresses for Books and Records, Physical Location etc. are accurate and up to date.
- You must include Directors' birthdates, addresses (including postal codes) and information about whether Directors/Trustees are at arm's length.
- Check that numbers add up to the totals you give and that corresponding line items in different sections of the form are consistent (i.e. have the same number in them).
- Make sure that all the information is complete. If you indicate that you have programs, include program descriptions and expenditures; if you indicate that you have foreign programs, ensure you include the name of the country (spelled correctly) and foreign programs expenditures; if you indicate that you have paid staff, include wage expenditures (and vice versa).
- Ensure the BN/Registration # for the qualified donee is correct (and not left blank).
- Don't complete sections that do not apply to your charity (for example, only foundations should fill out the sections pertaining to foundations).
- Make sure you understand the rules around compensating directors, disbursement quotas, political activities and fundraising expenses.
- Remember to sign it!

## **What are the main things we can do to help us accurately complete the form?**

Know what you will need to know. The task of completing the return can be made much easier if you develop data collection systems and internal record keeping practices that ensure that all the information that you will need to complete the return is gathered in a consistent way throughout the year (and year to year, regardless of who is completing the return).

Start the process of completing the T3010A well in advance of the due date for your return. Consult the reference materials and online resources to ensure that you understand items that require interpretation and judgment. Recognize that sometimes there is a delay in receiving answers from the CRA to your questions. Keep notes year-to-year about what you've learned.

Plan to need *more* time than you might expect. People usually underestimate how long it will take them to gather all the information needed and to fill out all the forms and worksheets. Remember, you may need information from a number of different people in your charity and they may need lead-time to prepare it for you. Consider what financial resources may be required. You may need to consult a professional or hire an accountant, attend a workshop or training session for example.

Keep the dual purpose of the T3010A in mind. The information in the return demonstrates the legal compliance of your charity to government regulators AND serves to secure the public trust by showing transparently how donations are used to serve charitable ends.

## **Where can charities get help when they fill out the form?**

The Charities Directorate is committed to helping registered charities understand and comply with the rules and regulations of the *Income Tax Act*. They operate a free electronic mailing list that notifies subscribers to the Charities What's New list of additions to the Charities Web site, Charities Newsletters, policy statements and commentaries, new guidelines and new information about outreach activities like

the Charities Directorate Roadshow. The CRA website houses all forms, guides and publications as well as a glossary of terms used.

### **What are some significant changes coming our way from CRA?**

- Increasing audits. The CRA has been given more dedicated resources from the Treasury Board for auditing. In the past, there was only one kind of audit – the field audit. Now, audits can be completed for specific issues that can be resolved by correspondence.
- Increased attention to international and political activities. Because of new regulations and policies, and the high incidence of error in reporting on these activities, auditors will be paying close attention to these areas.
- Increased profile for donors of web forms. Because of public interest in transparency, accountability and informed giving, the CRA, as the regulator, has enhanced and is promoting the Donor section of their website.
- Intermediate sanctions. Rather than immediately revoking the charitable status of an organization that is non-compliant, intermediate sanctions for non-compliance issues like late or incomplete filing are expected.
- Move to predominantly electronic communication. Charities should subscribe to the CRA's electronic mailing list in order to stay informed.
- Revamped form by spring 2008. The CRA is currently reviewing the form.
- Electronic forms - not electronic filing.

## **Section One: Background Information**

The Board of Directors has ultimate authority and accountability as the official governance body of a charity. As such, the Board of Director is:

- Accountable for competent, conscientious and effective management of the organization
- Responsible for governing the affairs of the organization within relevant legislation and regulations.

This information sheet is designed to assist Board members with these responsibilities by providing an overview of the obligations that registered charities must meet to ensure they maintain their status as a registered charity.

**The Charities Directorate of the Canadian Revenue Agency (CRA) administers the Income Tax Act at it applies to registered charities.**

**There are three major advantages of being a registered charity;**

- The charity can issue official receipts for gifts received, thereby reducing income tax payable for individuals and taxable income for corporate donors.
- The charity is exempt from paying income tax
- The charity qualifies to receive funds from other registered charities as a “Qualified Donee”

**Once charities have been officially registered, they have the following obligations to CRA to ensure they maintain this special status; namely;**

- The organization must devote its resources to their designated charitable activities
- The organization must continue to meet the other requirements of registration
- The file Form T3010A, Registered Charity Information Return, must be completed within six months of the end of the fiscal period of the organization.

**Implications for Board Members**

- Board members need to ensure their organization devotes the majority of its resources to approved charitable activities related to their defined objects.
- Board members should be aware of CRA reporting expectations with respect to the T3010A tax package and oversee its accurate and timely completion
- Board members need to ensure that the organization has adequate resources and time to complete the T3010A tax package as required.
- The Board, as the official governance entity of the charity, needs to sign off and approve all materials that are forwarded to CRA with respect to these reporting documents.

**Failure of the organization to meet their obligations to CRA will trigger fines and sanctions from CRA and could lead to the revoking of charitable status.**

## Section Two: Specific information about obligations of charities to CRA

### First Obligation: The registered charity must devote its resources to approved charitable activities

Issue	Implications and CRA support
Organization identified specific charitable activities in their original application and need to focus their resources on permitted charitable activities relating to these objects	CRA identifies three types of activities to assist Boards with these decisions. <ul style="list-style-type: none"> <li>• Permitted activities—related to mission/mandate</li> <li>• Prohibited activities – outside mandate/mission</li> <li>• Permitted/prohibited political activities</li> </ul>
CRA expects that “ <b>substantially all</b> ” of a charity’s resources are directed towards charitable activities	If an organization is involved in permitted political activities, they must limit such involvement to less than 10% of their revenues, thus directing more funds to permitted charitable activities
CRA expects that charities spend a <b>minimum of 80%</b> of the designated revenue components on permitted charitable activities	CRA uses a measurement called “ <b>Disbursement Quota</b> ”* which is calculated by comparing certain revenue components of the charity (especially tax-receipted donations) to the expenditures directed towards permitted charitable activities. This ensures charities: <ul style="list-style-type: none"> <li>• Direct their revenue properly towards charitable activities</li> <li>• Do not accumulating excessive funds</li> <li>• Keep other expenses at a reasonable level.</li> </ul>

\***The Disbursement Quota** is calculated and forwarded to the charity by CRA, only after it has received and processed the return, on their **REGISTERED CHARITY INFORMATION RETURN SUMMARY (T1242)**

The calculation of a charity’s Disbursement Quota can be somewhat straightforward or complicated, depending on the range of revenue sources. For example, money from disbursement of enduring property can have capital gains/reduction implications. It is recommended that professional advice be secured for more complex situations to ensure that the charity meets its required Disbursement Quota.

- Organizations are provided worksheets to help them with Disbursement Quota calculations (Form T1259)
- Organizations are allowed to carry back excess Disbursement Quota one year to offset a shortfall in that period. A charity can also draw on an excess for up to five of its following fiscal periods to help meet its DQ
- Organizations can apply for a special reduction (Form T2094: Registered Charities: Application to Reduce Disbursement Quota).to the Disbursement Quota in exceptional circumstances. This approval must be obtained from CRA before this reduction is allowed.

### Second Obligation: The organization must meet other requirements of registration

The organization must ensure they respect two key expectations:

- Over 50% of those Board Members have an AT-ARMS-LENGTH RELATIONSHIP (this rule does not apply to private foundations)
- CRA expects to receive written communication and legal documentation about any changes to governing documents – e.g. changes to objects, constitution, name changes

**Third Obligation: Form T3010A, Registered Charity Information Return, must be filed within six months of the organization's fiscal year-end.**

Under the Income Tax Act, every registered charity must file a Registered Charity Information return each year and this return must be filed no later than six months after the end of the charity's fiscal period. A charity that does not file its return can lose its registered status and associated privileges.

**Section Three: Four Components of a complete Information Return**

- A: Registered Charity Information Return (T3010A)** – Details on next page
- B: Registered Charity Basic Information Sheet (TF725)**
  - Verifies key information about the charity – e.g. name, designation, fiscal period, registration number
  - Provides specific information about current status – e.g. logistics (address, and three primary areas of charitable activities for most recent fiscal period)
- C: List of Directors/Trustees or like officials with all required information (T1235)**
  - List of names, addresses, phone, birth date, position of each director
  - Identification of whether or not at arms-length from other governing members
  - Only **public information is available to public**. Confidential information is for CRA use only and is needed as means of identification for those responsible for the fiscal and governance accountability of the charity.
- D: A copy of registered charities own financial statements**
  - Must ensure accurate accounting practices/balanced books that are **signed off by an authorized Board Representative**.
  - Consistent use of either cash (actual money transferred during fiscal period) or accrual (revenue/expenditures occurring during fiscal period but not necessarily transferred)
- E: A complete list of Qualified Donees, with all required information – if applicable (T1236)**
  - Only applies if funding is transferred to a Qualified Donee (e.g. another registered charity). Impacts Disbursement Quota because CRA expects that money transferred to a charity is directed towards charitable purposes.

**Section Four: The Registered Charity Information Return (T3010A) is the main form that summarizes the information from the other components.**

This form is organized into the following sections:

- Section A:** Information related to **Identification** of organization – e.g. governing documents
- Section B:** **Directors/Trustees and Like Officials** – list of those involved in governance of organization
- Section C: Programs and General Information**
  - Specific program descriptions in and outside of Canada
  - Political activities (if any)
  - Fundraising methods – internal or external to organization
- Section D: Compensation** of employees of organization

**Section E: Financial Information:**

Allocation to appropriate categories (either Cash or Accrual)

- Assets and Liabilities
- Revenue and Expenditures

**Section F: Other required information critical to calculation of Disbursement Quota**

- Information on contracted fundraisers
- Tax-receipted donations, special situations

**Section G: For Foundations Only**

**Section H: Certification** – authorized signature for organization

**Section I: Confidential Data** – location of charity, books, records

**Section Five: Other**

**Assistance with completion of this Information Return**

- CRA is the expert and should be contacted to clarify any questions
- CRA has extensive on-line resource section that includes: summary policies on all issues, forms and publications, information letters, and regular e-newsletters updates on relevant changes.  
(<http://www.cra-arc.gc.ca/tx/chrts/menu-eng.html>)

**On-Line Directory of Charities**

- CRA provides an on-line directory of all charities in Canada on website.
- The public can access this information to be better informed about the specific activities of each charity and its financial realities. This transparency is intended to improve the credibility of the Sector and provide prospective donors with information to aid decision.

## **Section One: Overview**

In the Federal Budget delivered March 23, 2004, the government announced several new initiatives that affected the regulation of the charitable sector. These initiatives were designed to bring dynamic changes that will benefit the sector by continuing to build public trust and confidence in charities and in the Canada Revenue Agency (CRA) as a regulator. A critical component of these changes was the refinement and technical changes to the Disbursement Quota guidelines and extending the implications to all charitable organizations, not just foundations.

### **1. Rationale for use of a Disbursement Quota by CRA**

- To qualify for registration as a charity, a charitable foundation must be constituted and operated exclusively for charitable purposes. Charitable purpose includes the disbursement of funds to qualified donees.
- To ensure that registered charities use substantially all of their resources for charitable purposes, CRA introduced a measurement called the Disbursement Quota which is the minimum amount a registered charity has to spend on charitable activities or gifts to Qualified Donees (QD) to keep its registered status.
- CRA guideline is that a charity must spend 80% of their revenue on its charitable activity expenses.

### **2. Purpose of Disbursement Quota:**

- Ensure registered charities actively use tax-assisted donations to help others according to their charitable purposes.
- Encourage registered charities not to accumulate excessive funds
- Keep other organizational expenses at a reasonable level

**Thus, the disbursement quota is a specific amount that a registered charity must spend each year on its charitable activities or as gifts to qualified donees.**

### **3. A disbursement excess** is created when a charity spends more on charitable activities or by way of gifts to qualified donees, than it is required to by its disbursement quota for that year.

- An excess can be carried back one year to offset a shortfall in that period.
- A charity can also draw on an excess for up to five of its following fiscal periods to help it meet its disbursement quota.

### **4. A disbursement shortfall** is created when a charity spends less on charitable activities or by way of gifts to qualified donees, than its disbursement quota for that year.

- A charity can draw on previous years' excesses to cover a shortfall.
- If no excesses are available to draw on, a charity can try to spend enough the following year to create an excess that will make up for the shortfall.
- However, continuous shortfalls can lead to revocation of the charity's registration.

### **5. Actual calculation of a charity's Disbursement Quota**

- Officially calculated by CRA
- Forwarded to charities on the **REGISTERED CHARITY INFORMATION RETURN SUMMARY**

- Cumulative measurement that is dependent on what happened in previous years
- Helps provide charities with estimates for future expenditures
- CRA provides charity with DQ worksheet to help with calculations – Do not return to CRA

#### 6. What can a charity do if they cannot meet their disbursement Quota?

- A registered charity can apply to reduce its disbursement quota for a particular year by completing Form T2094, *Registered Charities: Application to Reduce Disbursement Quota*. The disbursement quota reduction is granted only under special or extraordinary circumstances. A charity must use its disbursement excesses from prior years before relief is granted.

### Section Two: Steps in Calculating Disbursement Quota: Use of Form T1259

The following is a summary of the steps outlined on Form T1259 for the calculation of Disbursement Quota

#### Step One: Calculating Capital Gains Pool and Capital Gains Reduction

If charity disposes of enduring property to meet Disbursement Quota – complete step one

Track capital gains realized and determine amount to claim as capital gains reduction

- Voluntary calculation – but preserves right to claim reduction in DQ in next FP
- Two parts - **Capital Gains Pool Calculation and Capital Gains Reduction Calculation**
  - Enter amount of capital gains realized from disposition of enduring property
  - Determine what amount of Capital Gains reduction to claim (line 11)
  - Transfers amount to Capital Gains Pool Calculation (line 4) → line 22
  - Calculating DQ requirement for FP → line 5740 in annual info return

#### Step Two: Calculating DQ requirement for fiscal period covered by the return

##### **First Part of Calculation:**

- Eligible amount of **tax-receipted gifts** in preceding Fiscal Period (FP)
- Amount deemed to be a tax receipted gift in preceding FP
- Enduring property spent in FP
- Enduring property transferred to qualified donees (QD) in FP
- Amounts received from other Charities in preceding FP

##### **Second Part of Calculation:**

- Based on charity's 3.5% DQ requirement on property held by charity that is not used for charitable activities or administration.
  - Only applies if value of property exceeds \$25,000
  - New guideline – applied to newer charities registered since March 23, 2004 and will apply to all charities during 2008 FP

#### Step Three: Calculating whether the registered charity met its DQ requirement

##### **Amounts a charity can include to meet its Disbursement Quota obligations include:**

- Amounts spent on charitable programs
- Gifts to qualified donees (QD)
- Enduring property transferred by way of gift to QD
- Amount of property accumulated during FP

- Special reduction amount approved for FP

A charity has met its DQ where it's charitable expenditures for FP meets or exceeds its DQ requirements (amount on line 48 exceeds amount on line 47)

Step Four: Estimating the DQ for next Fiscal Period

**First Part of Calculation**

- Determine eligible amount of tax-receipted gifts in current FP
- Amount deemed to be a tax receipted gift in current FP
- Amounts received from other registered charities in current FP

**Second Part**

- Only applies if value of property held by charity exceeds \$25,000 and 3.5% DQ requirement on property not used for charitable purpose
- Does not account for enduring property spent in next FP or transferred to QD

**DQ Excesses: Table used to help charity keep track of disbursement excesses.**

- Excesses by year in which they occurred (past) – first two columns
- Excesses charities needed to compensate for Disbursement shortfall - middle column
- Unused excesses still available for future – can be used for up to five years

**Section Three: Factors that can impact calculation of Disbursement Quota**

Factor	Impact of Factor	Notes
<b>Accumulated property</b>	<ul style="list-style-type: none"> <li>• Funds set aside for major expenditures</li> <li>• Saving funds rather than spending might complicate ability to meet DQ</li> <li>• Special provision allows amounts to be applied to DQ as they are saved rather than when spent.</li> </ul>	<ul style="list-style-type: none"> <li>• Must apply to CRA for permission – provide rationale</li> <li>• See Policy <a href="#">CPC-005</a> Accumulation of Property</li> </ul>
<b>Capital Gains</b>	<ul style="list-style-type: none"> <li>• Realized when capital property sold for profit (over adjusted cost base + outlays)</li> </ul>	<ul style="list-style-type: none"> <li>• Calculation of capital gains pool voluntary but preserves right to capital gains reduction that affect DQ in following FP</li> </ul>
<b>Capital Gains Pool</b>	<ul style="list-style-type: none"> <li>• Applies for purpose of defining DQ</li> <li>• Amount that capital gains from disposal of enduring property in FP exceeds amount claimed as capital gains reduction</li> </ul>	<ul style="list-style-type: none"> <li>• Applicable for FP (Fiscal Period) that begin after March 22,2004</li> <li>• Do not include disposition of bequest or inheritance&lt;1994</li> </ul>
<b>Capital Gains Reduction</b>	<ul style="list-style-type: none"> <li>• If amount on line 5900 for property not used for charitable purposes &lt;\$25,000 enter nil</li> <li>• If &gt;\$25,000, amount of CG reduction is</li> </ul>	<ul style="list-style-type: none"> <li>• Lesser of 3.5% of line 5900 or capital gains pool of FP</li> </ul>
<b>Enduring Property</b>	<ul style="list-style-type: none"> <li>• Includes gifts received by way of bequests or inheritance, beneficiary of life insurance, RRSP or RRIF, 10 year gifts and gifts from other registered charities subject to trust</li> </ul>	<ul style="list-style-type: none"> <li>• Gifts often excluded from DQ in year received – must be considered when they are spent or transferred for DQ</li> </ul>
<b>Official Donation Receipt</b>	<ul style="list-style-type: none"> <li>• Issued by registered charities to acknowledge gifts</li> <li>• these are different that receipts used to acknowledge acceptance of services or items not gifts (do not qualify)</li> </ul>	<ul style="list-style-type: none"> <li>• See Policy <a href="#">CPC-017</a>: Gifts of Service</li> </ul>
<b>Property</b>	<ul style="list-style-type: none"> <li>• For purposes of 3.5% DQ is property that was owned by charity at beginning/end of FP and not used directly in charitable programs or administration</li> </ul>	

<b>Qualified Donee</b>	<ul style="list-style-type: none"> <li>Organizations that can issue official tax receipts for gifts</li> </ul>	<ul style="list-style-type: none"> <li>A registered charity; a registered Canadian amateur athletic association; a housing corporation resident in Canada constituted exclusively to provide low-cost housing for the aged; a Canadian municipality; the United Nations and its agencies; a university that is outside Canada that is prescribed to be a university the student body of which ordinarily includes students from Canada; a charitable organization outside Canada to which Her Majesty in right of Canada has made a gift during the fiscal period or in the 12 months immediately preceding the period and Her Majesty in right of Canada or a province</li> </ul>
<b>Specified Gift</b>	<ul style="list-style-type: none"> <li>Transfer of gifts from one charity to another registered charity</li> <li>Amount not added to recipient's DQ and cannot be used by donor to satisfy its DQ</li> </ul>	<ul style="list-style-type: none"> <li>Gift must be considered by recipient when determining value of property not used for charitable activities/admin.</li> </ul>

#### Section Four: FAQ relating to Disbursement Quota

**Q1. How does working abroad affect the calculation of a charity's disbursement quota?**

- The disbursement quota requirement is the same whether or not a charity works outside Canada.
- Although the requirements are the same, calculating the amount that can be used to satisfy the disbursement quota can be more complicated for charities working jointly or in partnership with another organization, as is often the case for charities that work outside Canada.
- As described in Brochure RC4106, one acceptable approach in these cases is to assume a proportionate amount of overhead costs as is found in the project or program as a whole.
- For example, if 90% of a joint venture's resources were devoted directly to charitable work and 10% to overhead, a Canadian charity contributing to this project would use 90% of the amount it contributes towards meeting its disbursement quota.*

**Q2. On our Notice of Confirmation (NOC) it looks like our organization has a shortfall in its DQ, but I know that we have an excess from previous years. Why is this?**

- A NOC gives only the calculation of excess or shortfall for the current year.
- A charity may have a shortfall in a particular year, but due to excesses in previous years, still meet its DQ.
- In the future, the Canada Revenue Agency (CRA) plans to have the amount calculated, taking into account previous years' excesses or shortfalls. At present, we can only confirm the excess or shortfall during a particular year on the NOC that is sent to charities. However, it is possible to look at overall excesses and shortfalls internally, to ensure a charity meets the requirements of the ITA.
- Charities should also be aware that the NOC is based on the information provided by the charity. If the information a charity supplies to the CRA is incorrect or incomplete, the NOC

will reflect this. Charities are responsible for verifying the accuracy of their annual information returns. In particular, we have noticed that lines 5000, 5010, 5020, 5030 and 5040 are not completed by some charities.

**Q3. How does a charity calculate its disbursement quota if it has received a gift in kind?**

- An amount equal to 80% of all receipted amounts, other than a gift received from a registered charity, must be included in calculating the amount of a charity's disbursement quota.
- In this regard, an amount in respect of gifts of capital received by way of bequests or inheritance and "10 year gifts" are included only in the year they are expended.
- With regard to gifts, other than specified gifts, received from a registered charity, an amount equal to 100% and 80% of the gift is added to the disbursement quota of a private foundation and a public foundation, respectively. This is the case whether the gift is made in cash or in kind.
- In meeting a charity's disbursement quota, for gifts in kind, the CRA is prepared to accept that the necessary amount has been expended where the property is used directly by the charity in delivering its charitable programs. For example, paintings donated to an art gallery for use in its display would be considered to have been expended on charitable activities. On the other hand, gifts in kind for a fundraising auction or similar purpose would generally be considered to be expended when they are converted to cash and used by the charity in carrying on its charitable purposes or activities.

**Q4. Is the charity's disbursement quota affected if the charity receives less than the appraised value for the donated goods for which it has issued an official donation receipt?**

- A charity's disbursement quota is based, in part, on amount of official donation receipts that it issues
- Even if a charity does not receive the fair market value for goods donated for use in an auction, it is still responsible for an expenditure based on this amount. Therefore, receiving less than fair market value for donated goods can affect a charity's ability to meet its disbursement quota.

**Q5. Can we use a professional fundraiser to run our auction?**

- Yes. However, charities should be aware before entering such arrangements that high fundraising costs can affect their ability to meet their disbursement quota.
- For all types of fundraising, the Charities Directorate has concerns about compensation or incentive-based fundraising arrangements, because there is a heightened possibility of incongruous or disproportionate costs.
- Charities that are considering fundraising arrangements may wish to refer to the ethical codes that are available within the charitable sector.

**Q6. Do Disbursement Quota guidelines apply to all charitable organizations?**

- For charitable organizations registered before March 23, 2004, the 3.5% disbursement quota requirement on property held by the charity and not used directly in charitable activities or administration will apply for tax years that begin after 2008.

**Q7. How are transfers between registered charities affected by these guidelines? (other than specified gifts)**

- Transfer funds to charitable organizations will be subject to an 80 percent disbursement requirement

- Currently, funds received from other charities may be used to satisfy the DQ of the transferor charity.
- If the transfer is made to a registered charitable foundation, it is taken into account in calculating its DQ (at a rate of 80 percent for public foundations and 100 percent for private foundations). However, the receipt of these transfers is not taken into account when calculating the DQ of a charitable organization.

### Section Five: Formula for calculating Disbursement Quota

There are four elements to a registered charity's disbursement quota, namely: A + A.1 + B + B.1

- A: 80% of the eligible amount of tax-receipting gifts in the previous fiscal year  
(Excluding enduring property or amounts received from registered charities)
- A.1: 80% of the amount of enduring property spend in the fiscal period PLUS 100% of the fair market value of enduring property transferred by way of gift to a qualified donee in the fiscal period. (If a charity claims a capital gains reduction, the reduction applies to this amount)
- B: Amounts received from registered charities in the previous fiscal period excluding specified gifts or enduring property
- 80% for both charitable organizations and public foundations
  - 100% for private foundations
- B.1:  $3.5\% \text{ disbursement requirement} = C \times 0.035 (D - (E+F))/365$   
Where C = number of days in fiscal period  
D = average value of property owned by charity and not used directly in charitable activities or administration at any time in the last 24 months immediately preceding the fiscal period  
E = 100% of previous fiscal period's eligible amount of tax-receipts gifts (A) plus 100% of the fair market value of enduring property transferred or the amount spent in the fiscal period (A.1)  
F = 100% of amounts received from other registered charities in the previous fiscal period (B)

Note: The 3.5% disbursement quota requirements applies only if the average value of property owned by a registered charity and not used directly in charitable activities or administration exceeds \$25,000. Charitable organizations that have an effective date of registration that is before March 23, 2004, will only be subject to the 3.5% disbursement quota requirement for their fiscal periods that begins after 2008.

### **Section One: Strategies to help with compliance – Chart**

These strategies are divided into four topic areas related to the commitments required by registered charities with respect to T3010A Compliance. These four commitment areas are:

1. Responsible Governance
2. Ensure involvement with charitable activities
3. Meeting Disbursement Quota
4. Completing the T3010A Tax Package accurately and on time

The charts are designed to outline specific strategies that a registered charity could use/implement to improve compliance. The charts are divided into 5 sections

- What specific requirement would be met?
- What strategy could be used to meet this requirement?
- What resource could be used to assist with this strategy?
- When should this strategy be implemented?
  - ✓ Each organization could look at their calendar and build into work plan at relevant times.
- Who should be responsible

## Section Two: One page overview of suggested strategies

<b>Commitment #1: Responsible Governance</b>				
<ul style="list-style-type: none"> <li>✓ Board of Directors have ultimate authority and accountability as official governance body</li> <li>✓ Accountable for competent, conscientious and effective management of organization</li> <li>✓ Responsible for governing the affairs of the organization within relevant legislation and regulations</li> </ul>				
<b>Requirement</b>	<b>Strategy</b>	<b>Resource</b>	<b>Timing</b>	<b>By whom?</b>
Awareness of CRA Obligations for Charities	Review “CRA Obligations for Board Members”	<a href="#">Info Sheet 2</a>	Orientation of New Board	President ED
	Put <a href="#">Info Sheet 2</a> in Board Handbook – revise as required	<a href="#">Info Sheet 2</a>		
Approval of specific strategies to ensure obligations are met	Create a list of specific strategies linked to compliance requirements	<a href="#">Info Sheet 4</a> : Specific strategies linked to compliance	Initial Meeting of Board	
Awareness of legislation and regulations that might impact compliance	Sign up for CRA e-bulletin - provides regular updates and clarification of new issues related to compliance	CRA website	ASAP	
	Put standing item on Board meeting agenda that relates to CRA updates – provide new information and/or reports related to other compliance requirements		Ongoing responsibility	
Contact CRA about any changes to Board information	Ensure CRA is sent information about changes to Basic Information Sheet - Contact Information - Contact Person - Governing Documents		Forward to CRA after Board approval	
Contact CRA about any requests need to be approve before implementation	Ensure direct contact with CRA to clarify requirements and complete required form - Changes in Fiscal Period - Changes in Designation - Request to change Name - Request for status change E.g. internal division, merging, associated, no longer operating	CRA 1-800 number or website  Allied Professional	First - When considering changes to status Second- Forward forms to CRA after approval by Board	

<b>Commitment #1: Responsible Governance cont'd</b>				
<ul style="list-style-type: none"> <li>✓ Board of Directors have ultimate authority and accountability as official governance body</li> <li>✓ Accountable for competent, conscientious and effective management of organization</li> <li>✓ Responsible for governing the affairs of the organization within relevant legislation and regulations</li> </ul>				
<b>Requirement</b>	<b>Strategy</b>	<b>Resource</b>	<b>Timing</b>	<b>By whom?</b>
Contact CRA to clarify issues that are complicated and might affect compliance and/or ability of charity to meet its Disbursement Quota	Ensure understand of reporting requirements and financial implications of Enduring property and non-cash gifts with special emphasis on how this impacts ability to meet Disbursement Quota	CRA 1-800 number or website  Allied professional	When considering accepting such gifts and/or spending these items.	
Ensure adequate resources directed toward compliance requirements	Develop a specific work plan that identifies the requirements for compliance, timing, and projected resources needed.		During planning processes	
	Discuss resource implications of work plan and ensure adequate resources to manage requirements		Board	

<b>Commitment #2: Ensure charity is involved in designated charitable activities</b>				
<ul style="list-style-type: none"> <li>✓ Board should be aware of charitable objects of organization and program focus</li> <li>✓ Board should ensure substantially all activities of the organization align with charitable objects</li> <li>✓ Board should evaluate charities involvement in political activities and ensure any business initiatives are related to charitable objects.</li> </ul>				
<b>Requirement</b>	<b>Strategy</b>	<b>Resource</b>	<b>Timing</b>	<b>By whom?</b>
Ensure awareness of charitable objects of organization	Include information from the original patent application in board orientation manual – specifically the objects of charity	Excerpts from the original charitable status application	Orientation of new board members	
	Distribute copy of last year’s BIS – which identifies program focus and % of resources directed to top 3 charitable activities	TF725 Basic Information Sheet		
	Have Board members find the charity on the CRA website (Charities Directory portal) and review information on site.	CRA website “Charities Directory”		
Awareness of CRA regulations related to a charity’s involvement in political activities	Review CRA guidelines on prohibited and permitted political activities	<a href="#">Info Sheet 15</a>		
	Discuss initiatives that might be considered political to ensure they are permitted under CRA guidelines	Call CRA to clarify confusion with existing guidelines.		
Awareness of CRA regulations related to charity’s involvement in business activities	Review CRA guidelines on related business if charity is considering expanding from current initiatives	<a href="#">Info Sheet 5</a> What is a related business		

<b>Commitment #3: Ensuring the charity meets their disbursement quota ratio</b>				
<ul style="list-style-type: none"> <li>✓ Ensuring that the charity devotes adequate resources to their charitable activities</li> <li>✓ Evaluating amount of resources directed to non-charitable activities to ensure they are within allowances</li> <li>✓ Ensuring record keeping practices are appropriate for CRA to ascertain revenue and expenditure categories</li> </ul>				
Awareness of CRA expectations with respect to Disbursement Quota	Review new guidelines for Disbursement Quota with specific awareness of the implications of critical factors affecting its calculation	CRA website <a href="#">Info Sheet 3</a> Disbursement Quota		
Ongoing awareness of status of critical factors to ensure Disbursement Quota can be met by charity	Track the status of critical factors and provide the Board with an quarterly update on the status of these factors to ensure Disbursement Quota is achievable – make adjustments if required before end of fiscal period	Check Capital Gains and Disbursement Quota Worksheet (T1259) – create tracking sheets for critical factors		
Ensure expenditures on non-charitable activities is kept to a minimum	Track expenditures to non-charitable activities and report of board on quarterly basis.			
Awareness of practices required by CRA for receipting tax donations.	Implement tax-receipting practices that are consistent with CRA regulations.	Check CRA website and <a href="#">Info Sheet 7</a> Books and Records		
Ensure new initiative does not compromise ability of charity to meet its disbursement quota	Discuss the financial implications of any new initiative to ensure non-charitable expenditures will be reasonable and will not compromise ability of charity to meet its Disbursement Quota			
Ensure understanding of the financial implications of acceptance and disbursement of gifts-in-kind or enduring property	Read materials related to these topics and contact CRA to clarify any confusion with this complex issues that can impact a charities ability to meet its disbursement quota	Check CRA website and Info Sheets 12 and 11 on <a href="#">Enduring Property</a> and <a href="#">Gifts-in-Kind</a>		

<b>Commitment #4: Completing the T3010A Tax Package accurately and on time</b>				
<ul style="list-style-type: none"> <li>✓ Ensuring processes are in place to handle Tax Package from time of arrival to mailing by deadline to CRA</li> <li>✓ Ensure record keeping processes are in place to effectively track all information relevant to the Tax package</li> <li>✓ Ensure more than one person is trained in completing the T3010A package</li> </ul>				
Ensure all relevant information is easily accessible to charity	Set up a separate file for all T3010A correspondence with CRA – clarification of issues, letters, audit results, etc.			
Ensure all record keeping processes are compliant with CRA expectations	Review CRA expectations for books and records and ensure charity respects guidelines	<a href="#">Info Sheet 7</a> Books and Records		
Ensure T3010A is correctly filled out	Double check return information with special emphasis on common errors	<a href="#">Info Sheet 14</a> Common Errors in Compliance – including double check list		
Ensure more than one person for the charity is involved in completing the T3010A	Provide the opportunity for more than one person to be involved in the completion of the form – this will ensure appropriate succession without compromising quality of return.		Part of completion process	

### **Section Three: Key Strategies for improving compliance with T3010A reporting expectations**

#### **Awareness of T3010A reporting expectations by Executive Director or key official within organization**

- What are the timelines, forms required
- What strategies need to be implemented and approved by Board/Senior Staff/Like Officials to ensure awareness and support for meeting reporting expectations?

#### **Ensure other leadership personnel (Board Members) understand the requirements of the T3010A reporting expectation**

- Provide overview of CRA's reporting expectations in Board Handbook and review annually to ensure understanding
- Outline strategies required to ensure compliance
- Obtain Board approval for resources required.

#### **Set up financial accounts and spreadsheets to track information for categories required by T3010A tax package**

- Set up accounting categories to ensure easy transfer with reporting lines on the T3010A
- Set up separate spread sheets for categories that need special attention and can impact disbursement quota – e.g. enduring property, non-arm's length financial transactions.
- Ensure records management procedures are appropriate and conform to CRA expectations; especially tax-receipting documents and processes.

#### **Clarify complex issues early in fiscal period to ensure decisions are made with clear understanding of impact on ability to met disbursement quota**

- Issues such as disbursement of enduring property and non-cash gifts have FMV, capital gains reduction implications need to be clarified
- Contact CRA/professional experts to discuss implications and clarify impact on ability of charity to met disbursement quota target.

#### **Provide on-going reports to Board members of status of charity with respect to their DQ**

- Provide quarterly updates of critical factors that impact on Board's Disbursement quota; basically a overview of relevant revenue sources and expenditures to ensure 80% ratio target is attainable
- Discuss strategies for adjusting budget before end of year if target seems problematic

#### **Ensure non-charitable program expenditures are reasonable**

- Expenses directed towards management and administration, political activities and activities outside of charitable programs need to be minimal.
- Decisions about the role of fundraising and resources required, especially the use of third-party fundraisers, needs to be discussed thoroughly

#### **Discuss any new initiatives to ensure they conform to CRA's definitions of approved charitable activities**

- Make sure new initiatives are directly related to charity's objects.
- Carefully examine the financial implications of new initiatives to ensure expenditures do not compromise charity's ability to achieve its disbursement quota.

### What is a Related Business?

This information is designed to help registered charities understand:

- What is an acceptable business (a related one) for them to be carrying on and
- What is an unacceptable business (an unrelated one)

### Why is this important for registered charities to know?

- Charity law requires that charities have exclusively charitable purposes. Running a business cannot become a purpose in its own right—it must remain subordinated to the organization's charitable activities
- The *Income Tax Act* says that charities can lose their registration if they carry on an unrelated business – however, the law allows them to carry on a related business.
- Charities designated as private foundations are an exception—they can lose their registration if they carry on any kind of business, whether related or unrelated

### What is a "business"?

In general terms, a business involves commercial activity deriving revenues from providing goods or service undertaken with the intention to earn profit.

#### **Four criteria are used for determining whether an activity is a business**

1. ***The intended course of action*** – if goal is to generate a profit, then activity is likely a business.
2. ***The potential to show a profit*** – activity must be capable of earning a profit.
3. ***The existence of profits in past years*** - a history of profit implies that a business exists.
4. ***The expertise and experience of the person or organization that undertakes the activity***

#### **Some activities are intended to generate a profit but are not considered to be businesses:**

- ***Soliciting donations*** - not considered to be a commercial activity because donors do not expect any good or service in return for their contributions.
- ***Selling donated goods*** - the charity does not assume the costs or level of risk usually associated with running a business. Rather, it merely seeks to convert a donated asset into cash.

#### **Some indicators that a charitable program involving a fee is not a business:**

- The fee structure is designed to defray costs of the program rather than to generate a profit.
- The program does not offer services comparable to those otherwise available in the marketplace.
- The fees are set according to a charitable objective as opposed to a market objective. For example, they are designed to relieve poverty by being set in accordance with the users' means, or to promote broad public participation in an educational program, such as waiving admission charges to an art exhibit.

### **Examples of fees earned in the context of charitable programs**

- Rent in low-income housing programs, university tuition fees, and museum admission.
- Other examples of fully acceptable charitable programs are identified in *Registered Charities: Community Economic Development Programs*.

**Programs remain charitable as long as they manifest the two essential characteristics of charity**—altruism and public benefit. They can cease to be charitable programs and become businesses if these elements are lost.

### **There are two kinds of related businesses (and as such are acceptable to CRA)**

- A. Businesses that are run substantially by volunteers; and
- B. Businesses that are linked to a charity's purpose and subordinate to that purpose

#### **A. Businesses run by volunteers**

- The *Income Tax Act* defines related businesses as including those businesses that are not related to the charity's objects but which have substantially all those employed in the business serving as unpaid volunteers. **As a rule-of-thumb, "substantially all" means 90%.**
- The people "employed" in the business means the people the charity "uses" to operate the business. It includes those working for the charity under contract as well as the charity's direct employees.

#### **B. Businesses that are linked to a charity's purpose and subordinate to that purpose**

##### **B1. Four Factors that are considered for a business to be LINKED to a charity are:**

###### **i. A usual and necessary concomitant of charitable programs**

- Business activities that supplement charitable programs.
- Increases effectiveness of programs, or they improve quality of the service delivered

Example: a hospital's parking lots, cafeterias, and gift shops for the use of patients

###### **ii. An off-shoot of a charitable program – asset is a by-product of charity's program**

Example: A heritage village plants grain crops in fields surrounding the village. Flour is made from grain and sold at store in heritage village and in a for-profit grocery store in community.

###### **iii. A use of excess capacity - using a charity's assets and staff, which are currently needed to conduct a charitable program, to gain income during periods when they are not being used to their full capacity within the charitable program**

Example: A church has a large parking lot to meet needs of its Sunday-morning congregation. It can rent out its parking spaces during week as a related business.

- iv. The sale of items that promote the charity or its objects** – involves sales that are intended to advertise, promote, or symbolize the charity or its objects.
- Product may serve a promotional purpose by virtue of its design, packaging, or materials.
  - Usually, the items are bought by those who want to contribute to the work of the charity, and they do not compete directly with products produced and sold by for-profit entities.

Examples: pens, credit cards, and cookies clearly displaying the charity's name or logo, and T-shirts or posters depicting the work of the charity.

**B2. Factors that are considered for a business to be SUBORDINATE to a charity's purpose**

A business is subordinate to a charity's purpose if it remains subservient to a dominant charitable purpose, as opposed to becoming a non-charitable purpose in its own right. This requires looking at the business activities in the context of the charity's operations as a whole.

- Four factors need to be considered.
- No one factor is likely to be decisive; rather, the various factors and the strength of the evidence supporting each of them need to be weighed together.

The four factors indicating that a business is probably subordinate, and the types of evidence that could be relevant, are as follows:

**i. Relative to the charity's operations as a whole, the business activity receives a minor portion of the charity's attention and resources**

- What subjects dominate board meetings? How do managers allocate their time?
- In terms of expenditures, staffing, and assets such as buildings and vehicles, what proportion is applied to the business activity?
- If equipment or other resources are shared between charitable programs and business activities, how often are they used by the business?

**ii. The business is integrated into the charity's operations, rather than acting as a self-contained unit**

- To what extent is the commercial activity a stand-alone operation?
- In terms of its staffing, equipment, and physical location, how much is shared with the rest of the charity's operations?
- In its advertising, does the business make any reference to the charity and its purposes and programs?
- Could the business operate as easily outside the charity as within it?
- Is it of comparable size to for-profit companies providing similar goods and services?
- Are the goods and services it provides indistinguishable from those offered by for-profit companies?

**iii. The organization's charitable goals continue to dominate its decision-making**

- Has the charity risked the assets intended for charitable programs to support the commercial activity? For example, has it borrowed against resources used in its programs to finance the commercial activity?
- Are decisions being made on a bottom-line basis without regard to the organization's charitable purpose?
- Has consideration been given to a potential adverse impact on the charity's reputation from its commercial operations? Conversely, is there any evidence that the organization has rejected certain commercial activities because they were inconsistent with its charitable purpose?
- Who gets first call on the profits from the commercial operations—the charity's program areas or the business?
- What percentage of the gross commercial revenue is actually applied to charitable purposes?
- How much delay is there in applying business revenues to charitable purposes?
- Over time, have the charity's programs changed direction because of decisions made for the benefit of the business activity?
- Has there been a drop in the services provided by the charity or their quality, accompanied by an increase in business activity?

**iv. The organization continues to operate for an exclusively charitable purpose by, among other things, permitting no element of private benefit to enter in its operations**

- How many salaried employees does the commercial operation have?
- Are the salaries much higher than those for equivalent positions elsewhere?
- How much gross revenue is left after salaries are paid to the principals?
- Does the business activity involve the participation of for-profit firms?
- Did the initiative to set up the business activity come from inside or outside the charity?
- Are the for-profit firms at arm's length with the charity?

**Decision-tree for identifying an unrelated business**

An organization needs to ask two key questions:

- Is this activity a business (Part A),
- If it is a business, then is this business related to our charitable purpose? (Part B)

Use the following decision-tree to help decide on this issue for your charitable organization

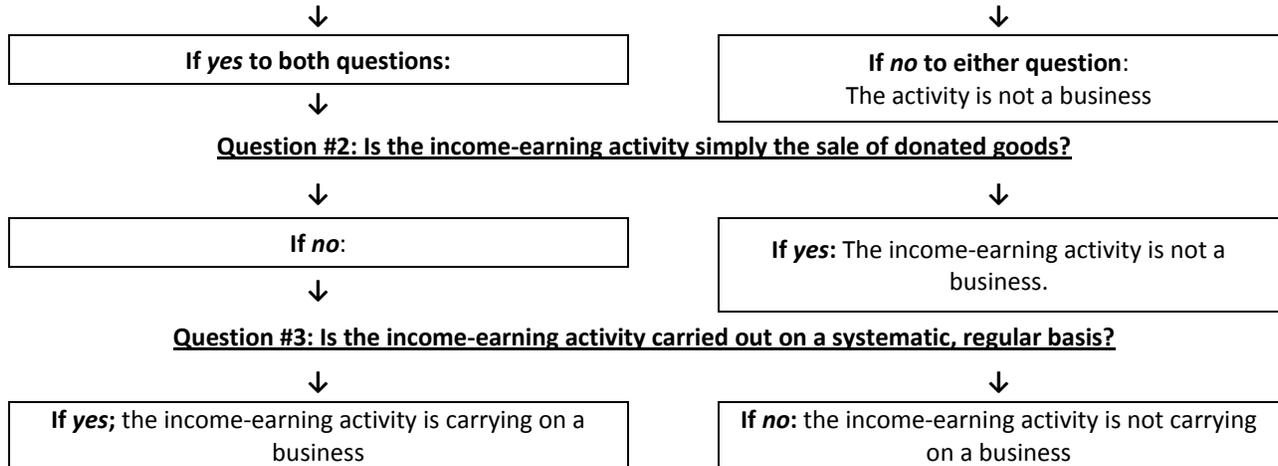
***PART A: Is this activity a business***

**Question #1: Is a particular activity a business carried on by the charity?**

- Is the activity commercial in nature—that is, does the charity derive revenue in consideration for the provision of goods or services?
- Does the charity intend to profit from the activity?

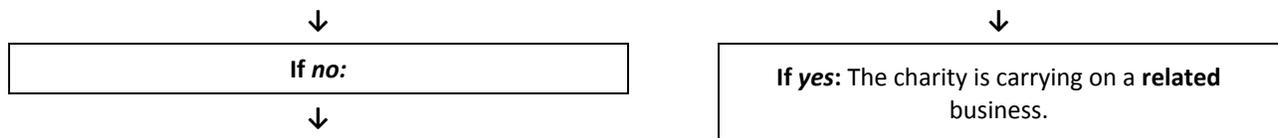
**Notes:**

- A history of profits suggests an intention to profit. However, this intention may still be present even if there are currently no profits.
- The mere presence of a fee charged to users of a charitable program does not confirm an intention to profit.

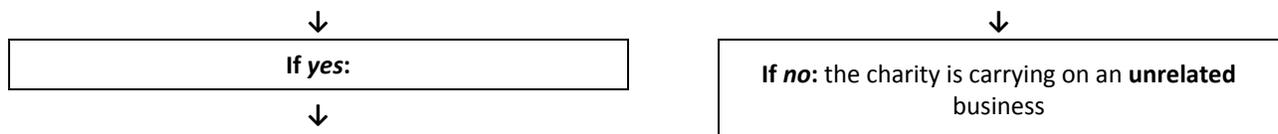


***PART B: Is the business of a charity an unrelated business?***

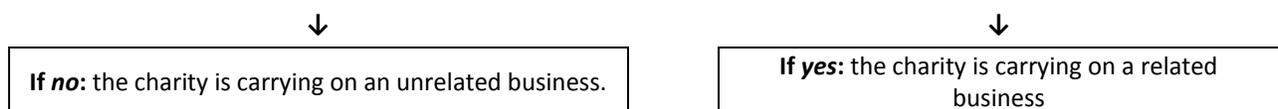
**Question #4: Are substantially all the people running the business volunteers?**



**Question #5: Are the business activities linked to the charity's purpose?**



**Question #6: Are the business activities subordinate to a dominant charitable purpose?**



## **What happens if a charity is involved in unrelated businesses?**

### **If an organization applying for registration is operating an unrelated business**

- Its application will be denied.

### **If a charity already registered is operating an unrelated business**

- It is in breach of the law and could have its registration revoked.

### **However, before proceeding to revocation**

- A charity should normally be invited to wind-up the unrelated business or to place it in a separate taxable corporation.
- The charity would be expected to rectify the situation within a reasonable timeframe.
- If it does not do so, and there are no extenuating circumstances, its registration should be revoked.

### **If the charity establishes a separate taxable corporation**

- It can invest in the corporation on the same basis that it can invest in any other for-profit business.
- The charity's directors/trustees would need to satisfy themselves that the investment represents a prudent use of the charity's assets.
- They also need to be alert to ensure no benefit of a private nature is conferred on the corporation.
- As long as its own governing documents and provincial legislation allow it to do so, the charity (if it is a charitable organization) can retain control over the taxable corporation through share holdings or a power to nominate the board of directors.
- However, the *Income Tax Act* does not allow a charity that is a foundation to acquire more than half of the voting shares of a taxable corporation, unless the shares are donated to the foundation

## **Section One: Guidelines for Applying the New Sanctions from CRA**

The purpose of a sanction is to encourage compliance with the requirements of the *Income Tax Act* (the Act).

Until recently, the only tool the Canada Revenue Agency (CRA) had to enforce these requirements for registered charities was to take away (“revoke”) a charity's registration. This was widely recognized as overly severe for many forms of non-compliance. The government and charity representatives who sat together on the Joint Regulatory Table recommended the introduction of less severe, “intermediate” sanctions.

- Amendments to the Act have now created a number of these additional sanctions. They apply to non-compliance occurring during a charity's fiscal period that began after March 22, 2004. (For example, a charity that started its fiscal period on April 1, 2004, could be subject to a sanction if it broke the rules on or after April 1, 2004.)

This document describes the types of non-compliance and the sanctions specified in the legislation but first let us look at how the Charities Directorate proposes to use the new provisions.

### **General approach of CRA**

Ranked in terms of their potential severity, the tools the Directorate can use to obtain compliance are:

**Education** (for example, by making written advice available in publications and on this Web site, answering questions from individual charities, offering advice during an audit, and holding seminars) - An audit may result in what is called an “education letter” that explains the rules to a charity.

**Compliance agreement** - Such an agreement is reached through discussion with and agreement from the charity. The terms of the agreement are spelled out in a formal document called a compliance agreement that is signed by both the charity and the CRA. The agreement identifies the problems, the steps the charity will take to bring itself into compliance and the potential consequences to the charity of not abiding by the agreement.

**Sanction** – A financial penalty, or a suspension of the charity's status as a qualified donee along with its ability to issue official donation receipts.

**Revocation** of the charity's registration.

### **As a general rule – Education methods first, progressing to more serious sanctions**

CRA intends to start with educational methods to obtain compliance, and then move progressively through compliance agreements, sanctions, and the ultimate sanction of revocation, if necessary. However, the Act allows CRA to select the tool appropriate to the circumstances. As such, in serious cases of non-compliance, we are prepared to move directly to a sanction or revocation.

### **Serious cases of non-compliance include those where:**

- The non-compliance reaches certain thresholds (either in absolute terms, such as the dollar value of expenditures on non-charitable activities, or relatively, such as the percentage of expenditures devoted to non-charitable activities);
- The non-compliance involves breaches of the *Criminal Code* (such as fraud or hate crime) or other quasi-criminal statutes;
- The non-compliance involves breaches of the core requirements of the *Income Tax Act* (such as the requirement that an organization be established for exclusively charitable purposes, as compared to a less central provision, such as that requiring charities designated as charitable organizations to concentrate on operating their own programs, rather than funding other charities); or
- The organization is not abiding by the terms of a compliance agreement.

### **In cases of aggravated non-compliance**

CRA will likely move directly to revoking the charity's registration; these include cases where one or more of the following factors are present:

- The organization has a previous record of serious non-compliance, and the current form of non-compliance is both serious and intentional;
- The non-compliance has resulted in a substantial adverse impact on others (beneficiaries, donors, or funders), particularly where the organization cannot or will not remedy the harm done; and
- The organization cannot or will not bring itself into compliance.

### **There are two other cases where we are likely to move directly to revocation.**

- **The first is when a charity does not file its annual return.** The Directorate will continue its zero-tolerance policy for non-filers - if a charity does not file its return after we have reminded it to do so, we will simply revoke its registration. In our view, filing is a fundamental obligation for all registered charities. In its annual return, a charity accounts to donors and Canadians generally for its tax-advantaged status. The return also provides the Directorate with key information needed to administer and enforce the legislation.
- **The second are serious cases for which there is no appropriate sanction,** such as engaging in non-charitable activities. However, we intend to exercise some discretion in these instances, as it is not our intention to move directly to revocation in those cases where it is possible and appropriate to work with the charity to get its operations back onside.

It is our goal, in cases where the non-compliance is less severe, to work with charities through a compliance agreement as a first measure.

### **This describes our general approach.**

- However, we know that exceptional circumstances arise, and we intend to allow for them. For example, we would be more likely to use a compliance agreement than a sanction for a case of serious non-compliance resulting from the unauthorized actions of a single employee, where the charity is ready to take steps to rectify the situation and prevent a recurrence.
- We also do not generally revoke a charity's registration if it is unable to file its return because of events beyond its control, such as a flood that destroyed its financial records.

## Section Two: Procedures used by CRA

The decision whether to **educate** or use a **compliance agreement** is made by individual auditors across the CRA. The auditor may discuss the matter with staff in the Charities Directorate and their subsequent decision requires the approval of their immediate supervisors. Auditors will then contact the charity to negotiate a compliance agreement or they will send the charity an educational letter.

- Decisions about **sanctions other than revocation** are first discussed between the auditor and his or her supervisor, and with Charities Directorate staff.
- The charity is given a 30-day period in which it can make representations to the auditor as to why it should not be subject to a sanction.
- If we do not hear from the charity or do not accept its representations, the Charities Directorate will make the final decision whether to apply a sanction.
- The Director General of the Charities Directorate will notify the charity if a sanction is imposed.
- The affected charity then has 90 days in which it can choose to file a notice of objection.
- If the charity files a notice of objection, the matter is no longer in the hands of the Charities Directorate. The charity will deal directly with the CRA's Appeals Branch, and further recourse will lie with the Tax Court of Canada.

### **Decisions about revoking a charity's registration follow a similar path.**

Before any decision is made, Charities Directorate staff will first give a charity the opportunity to explain why the CRA's views are incorrect or, if the charity agrees it has not been compliant, it may still wish to present reasons why its registration should not be revoked (for example, the non-compliance is being remedied).

- If the Directorate decides to revoke the charity's registration, the Director General (Charities Directorate) will notify the charity.
- As with other sanctions, the charity will generally then have 90 days to file a notice of objection, after which it will be dealing with the CRA's Appeals Branch.
- Further recourse on revocation decisions will lie with the Federal Court of Appeal.
- In extreme cases of aggravated non-compliance, the CRA will proceed to revoke after 30 days unless the charity files a stay with the Federal Court of Appeal.

## Section Three: The new sanctions

The *Income Tax Act* introduces two new types of sanctions:

- Financial penalties; and
- Suspension of the charity's right to issue official donation receipts for one year.

In most cases, the financial penalty will be the first sanction levied with charities generally being penalized more severely for repeat infractions. Repeat infraction means the charity has previously received a sanction involving the same type of non-compliance. For repeat infractions the penalty may be increased and, in some situations, the charity's receipting privileges may also be suspended. It is important to note, however, certain infractions invoke the suspension of a charity's right to issue official donation receipts or to accept gifts from other registered charities for one year as a first measure.

**Charities subject to one of these new sanctions will have the following information made public on the Charities Directorate Web site:**

- the name of the charity
- the particular sanction that is being applied (including the amount, as applicable)
- the effective date
- the reason for the sanction
- the appeal results (if the charity appealed)

**Financial penalties above \$1,000 may be paid to another qualifying charity an eligible donee, rather than to the Receiver General.**

When a charity has been sanctioned it must fulfill certain obligations to avoid a more severe sanction.

- For instance, while under suspension, a charity is obliged to inform anyone (including other registered charities) planning to donate to it of its suspended status.
- It can still receive gifts, but it cannot issue an official donation receipt for them.
- We intend to revoke the registration of any suspended charity that issues an official donation receipt for a gift made to it during the suspension period.
- If the suspended charity arranges for another charity to receive and receipt gifts on its behalf, we intend to suspend the other charity as well.

A charity that receives a sanction has 90 days to file a notice of objection. Additionally, a charity that has received a suspension can apply to the Tax Court for a postponement. The Court can grant the postponement if it considers that it "would be just and equitable to do so."

#### **Section Four: Specific Sanctions for non-compliance.**

##### **1. Business activities**

The penalty applies to a charitable organization or public foundation that carries on an unrelated business, and to a private foundation that carries on any business.

- Information about business activities and charities is available at: <http://www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-019-eng.html>
- As this document states, we would usually give a charity an opportunity to divest itself of the business, or unrelated business. Such cases would typically be the subject of a compliance agreement, with the sanction being applied only if the charity does not live up to the terms of the agreement.

For a first infraction, the penalty is 5% of the gross revenue from the business. For a repeat infraction, the penalty is 100% of the gross revenue, plus a year's suspension.

##### **2. Control of a corporation (foundations only)**

The penalty applies to a public or private foundation that acquires control over a corporation, unless the charity receives the controlling shares as a gift.

- Information about this requirement is available at: <http://www.cra-arc.gc.ca/tx/chrts/plcy/csp/csp-c28-eng.html>

- Usually, we would expect to enter into a compliance agreement with a charity before invoking this sanction, unless the infraction is serious.

For a first infraction, the penalty is 5% of the dividends the corporation pays to the charity in a year. For a repeat infraction, the penalty is 100% of the dividends.

### 3. Gifts to non-qualified donees

The penalty applies to a charity that makes a gift to a person who is not a qualified donee. (Qualified donees are the entities that can issue official donation receipts for the gifts they receive. The largest category is formed by other registered charities, but other categories include registered Canadian amateur athletic associations, municipalities, and the United Nations and its agencies.) Gifts made to individuals in the course of a charity's programs, such as a scholarship award, are not subject to this penalty.

- Usually, we would expect to enter into a compliance agreement with a charity that makes a gift to a non-qualified donee, but if the infraction is serious we may invoke this sanction or even revoke the organization's registration.

For a first infraction, the penalty is 105% of the amount gifted to a non-qualified donee. For a repeat infraction, the penalty is 110% of the amount.

### 4. Undue benefit

The penalty applies to a charity that confers an "undue benefit" on:

- A member of the charity or of its governing board;
- A person who has contributed more than 50% of the charity's capital;
- A person who is not **at arm's length** to a person:
  - who is a member of the charity or its governing board; or
  - who has contributed more than 50% of the charity's capital; or
- A person who is not at arm's length to the charity.

The undue benefit does not necessarily have to come directly from the charity. It can also come from a third party if the charity instructs or allows the third party to redirect an amount that is legally payable to the charity.

- A charity is **not** conferring an undue benefit if it makes reasonable payment for property or services it receives from one of the persons listed above.
- Thus, a member, who does work for a charity and is paid for it, is not receiving an undue benefit unless the amount paid is out of line with the usual rates for the work performed. Nor is it conferring an undue benefit if the person would be eligible for the benefit in the course of the ordinary operation of the charity's programs. For example, a hospital that sets the broken leg of a board member is not conferring an undue benefit on the member.
- Usually, we would expect to enter into a compliance agreement with a charity before invoking this sanction, unless the infraction is serious.

For a first infraction, the penalty is 105% of the amount of the benefit. For a repeat infraction, the penalty is 110% of the amount, plus a year's suspension.

## 5. False information on official donation receipts

The penalty applies to a charity or anyone else that issues an official donation receipt that contains false information.

This is the extreme end of improperly issued donation receipts covering the cases where a receipt is deliberately falsified, perhaps as to the date when the gift was received but more frequently as to the amount of the gift (for example, inflated value of receipt with respect to actual value of gift). If the person responsible is an officer, employee, official, or agent of a charity, the charity is subject to the penalty. But the penalty also applies to people who counterfeit the receipts of a legitimate charity; or issue false receipts on behalf of an organization that has no right to issue official donation receipts.

- In our experience, these cases typically form **serious incidents of non-compliance**.
- As a result, we anticipate that, faced with receipts containing false information, we will not use compliance agreements, but rather proceed directly to imposing a sanction, which may include revoking the registration of any implicated charity.

For any infraction, the penalty is 125% of the eligible amount of the gift as it appears on any false receipt, plus a year's suspension if the total of all such penalties exceeds \$25,000. If by issuing false receipts, the person is also subject to a penalty under section 163.2 of the *Income Tax Act* (the section that provides for penalties for those who help or encourage others to make false claims on their tax returns, usually as part of a tax-shelter promotion); the person is subject to whichever penalty is larger.

## 6. Incorrect information on official donation receipts

The penalty applies to a charity that issues an official donation receipt that contains incorrect information.

- This sanction targets all other errors on a receipt not amounting to false information.
- Incorrect information includes omitting information that should be on the receipt (for example, not including the CRA's Web site address).
- The information that should be on official donation receipts is listed in *Samples – Official Donation Receipts* found at <http://www.cra-arc.gc.ca/tx/chrts/pbs/rcpts-eng.html>.
- Generally, we would anticipate using compliance agreements before proceeding to one of the new sanctions unless the infraction is serious.

For any infraction, the penalty is 5% of the eligible amount of the gift as it appears on any incorrect receipt, or 10% for a repeat infraction.

## 7. Inadequate books and records

The penalty applies to a charity that does not maintain adequate books and records. It also applies to a charity that does not give an auditor access to its books and records or does not allow the auditor to copy them.

- Information about books and records can be found in Guide RC4108, *Registered Charities and the Income Tax Act*, at [www.cra.gc.ca/E/pub/tg/rc4108](http://www.cra.gc.ca/E/pub/tg/rc4108) and in Charities Newsletter #26 at [www.cra.gc.ca/E/pub/tg/charitiesnews-26/README.html](http://www.cra.gc.ca/E/pub/tg/charitiesnews-26/README.html).

- Inadequate books and records can range from minor oversights on the part of the charity, to very serious infractions including records that are deliberately altered, destroyed, hidden, or not collected in order to conceal non-compliance.
- While we will generally use compliance agreements first, in cases of serious non-compliance we will likely move directly to a sanction, and possibly even revocation of the charity's registration.

The penalty for any books and records infraction is a year's suspension.

### **8. Inter-charity gifting to delay expenditures**

The penalty applies to charities that exchange gifts as a way to delay expenditures required to meet their disbursement quota.

- Example: Two charities each have a disbursement quota of \$10,000. Charity A writes a \$10,000 cheque to Charity B, and Charity B writes an equivalent cheque to Charity A. Both claim to have met their disbursement quota on the basis of a \$10,000 gift to a qualified donee, but in reality neither charity has made any expenditure.
- In this type of abusive inter-charity gifting, we anticipate most cases will qualify as serious forms of non-compliance, and we would proceed directly to applying the new sanction.

Both charities involved are subject to a penalty equal to 110% of the amount exchanged. Usually, we would ask Charity A and Charity B each to pay half the penalty, but we have the discretion to assess the full penalty against either of them.

### **9. Not filing the annual return**

The penalty applies to charities that do not file their annual return on time.

The legislation allows for a \$500 penalty for failure to file the return on time. However, we intend, for the present, to apply this penalty only to charities that:

- Have had their registration revoked for not filing the annual return; and
- Apply for re-registration.

Organizations in this situation have to act quickly to avoid the revocation tax that the Act imposes on charities if they lose their registration. Within 12 months of the time we send the notice that we intend to revoke their registration, they will have to:

- Rectify their filing deficiency;
- Pay any outstanding penalties (including the \$500 non-filing penalty), taxes, and interest under the *Income Tax Act* and the *Excise Tax Act*; and
- Obtain re-registration.

One of the first things we will check in an application for re-registration is whether a cheque for the \$500 has been enclosed.

## **Section Five: Appeals Process**

There was no formal process for the internal review of decisions made by the CRA pertaining to registered charities. To ensure fairness, consistency, and transparency in regulatory decision-making, an independent unit has been established within the CRA's Appeal Branch to provide internal reconsideration of:

- Applications for charitable status that have been denied;
- Revocations or annulments of charitable registration; and
- Sanctions the CRA proposes to impose.

This will provide an initial means of review that is impartial, fast, efficient, and inexpensive. The result of the appeal will be communicated to the organization in writing and made public on the CRA’s website to ensure transparency.

**As discussed previously in this material, part of the reform process will involve introducing intermediate sanctions. The reform of the appeal process will reflect this change.**

- Appeals of taxes and penalties imposed by the CRA may be directed to the Tax Court of Canada.
- Appeals of decisions on registration and revocation of charitable status will continue to be directed to the Federal Court of Appeal.
- Appeals of decisions to annul the registration of a charity will also be directed to the Federal Court of Appeal.

This system will allow disputed sanctions to be handled quickly, while ensuring that the Federal Court of Appeal continues to deal with questions about what constitutes a charitable purpose or activity. Information about the Court’s decisions will be posted on CRA’s website.

**Section Six: CRA Penalties and Sanctions Chart – Reference CSP - S17 (Nov. 3, 2005)**

<b>Infraction</b>	<b>First Infraction</b>	<b>Repeat Infraction</b> (Repeated infractions will increase the probability of revocation)
Late filing of annual information return (T3010A)	\$500 penalty	\$500 penalty
Issuing receipts with incomplete information	5% penalty on the eligible amount stated on the receipt	10% penalty on the eligible amount stated on the receipt
Failure to keep proper books and records	Suspension of tax-receipting privileges	Suspension of tax-receipting privileges
Charitable organization or public foundation carrying on an unrelated business	5% penalty on gross unrelated business revenue earned in a taxation year	100% penalty on gross unrelated business revenue earned in a taxation year and suspension of tax-receipting privileges
Private foundation carrying on any business	5% penalty on gross business revenue earned in a taxation yr.	100% penalty on gross business revenue earned in a taxation year and suspension of tax-receipting privileges
Foundation acquires control of a corporation	5% penalty on dividends paid to the charity by the corporation	100% penalty on dividends paid to the charity by the corporation
Undue benefit provided by a charity to any person (e.g., a charity makes a cash gift to the director's son)	105% penalty on the amount of undue benefit	110% penalty on the amount of undue benefit and suspension of tax-receipting privileges
Generally making a gift to an entity other than a qualified donee as defined in the Act	105% penalty on the amount of the gift	110% penalty on the amount of the gift
Issuing receipts if there is no gift or if the receipt contains false information (where penalties in total <b>do not</b> exceed \$25,000)	125% penalty on the eligible amount stated on the receipt	125% penalty on the eligible amount stated on the receipt
Issuing receipts if there is no gift or if the receipt contains false information (where the penalties in total <b>exceed</b> \$25,000)	Suspension of tax-receipting privileges and 125% penalty on the eligible amount stated on the receipt	Suspension of tax-receipting privileges and 125% penalty on the eligible amount stated on the receipt
Gifts of property to another registered charity so as to delay expenditures on charitable activities	The charities involved are liable to a 110% penalty of the FMV of the property	The charities involved are liable to a 110% penalty of the FMV of the property

Books and Records – from CRA [Newsletter # 26 - Spring 2006](#)

*A registered charity must keep adequate books and records at a Canadian address it has on file with us, so that we can verify official donation receipts issued, as well as its revenue and expenditures. It must also include information that will enable the Minister to determine if there are any grounds for revocation. A charity must also keep source documents that support the information in the records and books of account.*

- Q1. On what basis can the CRA require that every registered charity and registered Canadian amateur athletic association keep records and books of its accounts?**
- The requirement for the proper maintenance of books and records is specified in subsection 230(2) of the *Income Tax Act*, which reads:
  - *Every registered charity and registered Canadian amateur athletic association shall keep records and books of account at an address in Canada recorded with the Minister or designated by the Minister containing*
    - a) *information in such form as will enable the Minister to determine whether there are any grounds for the revocation of its registration under this Act;*
    - b) *a duplicate of each receipt containing prescribed information for a donation received by it; and*
    - c) *other information in such form as will enable the Minister to verify the donations to it for which a deduction or tax credit is available under this Act.*
- Q2. Where can I find information on the retention and destruction of books and records?**
- IC78-10, *Books and Records Retention / Destruction*, deals with the retention and destruction of a charity's books and records. Within the *Income Tax Act*, this is covered under subsection 230(4) to (8) and Regulation 5800.
- Q3. How long must we keep books and records (retention period)?**
- Books and records must be retained for period(s) as provided in subsections 230(4) to (7) of the Act and *Regulation 5800*, or until the Minister gives written permission for their earlier disposal under subsection 230(8).
  - The length of time varies by the type of record. A table that outlines the length of retention for different types of records is available at:
- Q4. Do church offering envelopes need to be retained?**
- Yes. When the envelopes help verify donations, the retention period for church offering envelopes is two years following the end of the fiscal period for which they were issued, **unless** the individual donations are recorded from the envelopes directly into a ledger of some type. (See CIL - 2001 – 021, available on the CRA Web site at: <http://www.cra-arc.gc.ca/tx/chrts/plcy/cl/2001/cl-021-eng.html>)

**Q5. Does the six-year retention period mean that we can destroy all of our financial information every six years?**

- No. The six-year retention requirement does not mean that a charity can destroy its records every six years. It means that a charity can destroy this information only after six years from the end of the taxation year to which the records relate.

**Q6. What rules apply to electronic records?**

- Electronic records are subject to the same rules as paper records. Under subsection 230 (4.1) of the *Income Tax Act*, these records must be retained in an electronically readable format for the same retention period as that required for paper records.

IC05-1, *Electronic Record-Keeping*, provides information and guidance for persons who use electronic business systems and who are required by law to keep books and records in Canada according to section 230 of the *Income Tax Act*. A copy of this information circular is available on the CRA Web site at [www.cra.gc.ca/E/pub/tp/ic05-1/README.html](http://www.cra.gc.ca/E/pub/tp/ic05-1/README.html).

**Q7. Where does the CRA require your registered charity to keep books and records?**

- A registered charity's books and records must be kept at a Canadian address it has on file with the CRA. This includes all books and records related to any activity carried on outside Canada. The charity's books and records cannot be kept at a foreign address.
- More information for charities that operate outside Canada, including information on maintaining books and records, is available in Registered Charities Newsletter No. 20

**Q8. Does a charity need to keep more than one copy of its books and records?**

- No, but it may be prudent to do so.
- In the event of a fire or other disaster that destroys the charity's books and records, it may be useful to have a second set. We have helped some charities re-establish themselves after such a disaster by giving them copies of documents we hold in our files. However, this can only partly replace what may be lost.
- It may, therefore, be prudent to keep duplicates of key documents in a separate location. Storing data electronically can also increase the chances of retrieving information, as long as a regular back-up system is in place, and the back-ups are kept in a safe place

**Q9. What do we mean by "adequate books and records"?**

- As a general rule, the CRA does not specify the records to be kept. However, in accordance with subsection 230(3), the Minister may specify what records or books of account shall be kept when a person has failed to keep adequate records and books of account.
- Your charity must keep adequate books and records (located at a Canadian address we have on file) so that we can verify official donation receipts issued, as well as income received and expenses made.
- Also, the *Income Tax Act* requires charities to keep information in addition to their books and records so that we can determine whether their activities continue to be charitable. This additional information will vary from charity to charity but should include, for example, copies of minutes of meetings, correspondence, publicity brochures or advertisements, and details of charitable program activities including program reports.

**Q10. What happens if a charity's records are inadequate?**

- Under subsection 230(3) of the Act, "... the Minister may require the person to keep such records and books of account as the Minister may specify and that person shall thereafter keep records and books of account as so required." If a charity's records are inadequate, the Minister may:
  - a) Issue a requirement that adequate records be provided;
  - b) Suspend the charity's tax-receipting privileges; and/or,
  - c) Revoke charities that have not provided adequate records.

**Suspension is a new sanction.** Under new subsection 188.2(2), a charity may have its tax-receipting privileges suspended for a year if it contravenes any of sections 230 to 231.5 of the *Income Tax Act*, which include providing information as required. While we expect generally to use education and compliance agreements first, we anticipate instances where records are deliberately not compiled or are altered, destroyed or hidden, or in order to disguise a serious infraction. In such cases, we will move directly to an intermediate sanction or even revocation of the charity's registration.

**Q11. Our last treasurer has our books and records for the last fiscal period and refuses to pass them over. As a result, we cannot obtain the necessary information to file our T3010A. What should we do?**

- The charity remains responsible for maintaining adequate books and records and for meeting its filing requirements. It may wish to consider any legal means to obtain the documentation from the last treasurer. In such a case, the charity may want to keep the CRA informed of the steps it is taking.

**Q12. Our computer crashed and it appears that all our records may have been lost. What should we do?**

- The charity remains responsible for maintaining adequate books and records. As described in question 6, electronic records must be retained in an electronically readable format.
- The charity may be able to retrieve its records through the use of a computer specialist. If available, the charity may also be able to use its back-up files. It may also be able to reconstruct the files from the hard copies of documents retained by it.

**Q13. Should a charity keep its books and records in one of Canada's official languages even if it serves a population with another mother tongue?**

- Yes. We ask that these be kept in English or French. Books and records can be translated from the original, if these have been created in a language other than English or French. However, we recognize that for some small charities this may become a significant burden. We are willing to consider such situations on a case-by-case basis.
- Charities should be aware that under subsection 286(1) of the *Excise Tax Act*, persons, including charities, who carry on a business or are engaged in a commercial activity in Canada, who are required to file a GST/HST return, or persons who make an application for a rebate or refund, must keep adequate books and records in English or French in Canada. (See [www.cra.gc.ca/E/pub/gm/15-1/15-1-e.html](http://www.cra.gc.ca/E/pub/gm/15-1/15-1-e.html))

**NOTE:** Information specific to registered charities that operate outside Canada is available in the [Registered Charities Newsletter No. 20](#).

Type of Record	Description of Records	Retention period
<b>Records concerning gifts</b>	Duplicates of receipts for donations (other than 10-year gifts to registered charities)	<ul style="list-style-type: none"> <li>• 2 years from end of last calendar year to which the receipts relate</li> </ul>
	Records concerning 10-year gifts	<ul style="list-style-type: none"> <li>• 2 years after date the registration of the charity is revoked</li> </ul>
<b>Records of meetings</b>	Any record of the minutes of meetings of the directors/executive	<ul style="list-style-type: none"> <li>• 2 years after date on which the registration is revoked or, in the case of a corporation, 2 years after day the corporation is dissolved</li> </ul>
	Any record of the minutes of meetings of the members	<ul style="list-style-type: none"> <li>• 2 years after the date on which the registration is revoked</li> </ul>
<b>General Ledger</b>	The general ledger or other book of final entry containing the summaries of the year-to-year transactions	<ul style="list-style-type: none"> <li>• 2 years after date on which the registration is revoked or, in the case of a corporation, 2 years after day the corporation is dissolved and, for the business of a person 6 years after last day of FP in which business ceased</li> </ul>
	Any special contracts or agreements necessary to an understanding of the entries in the general ledger or other book of final entry	<ul style="list-style-type: none"> <li>• 2 years after date on which the registration is revoked or, in the case of a corporation, 2 years after day the corporation is dissolved and, for the business of a person, 6 years after last day of FP of person in which business ceased</li> </ul>
<b>Governing Documents &amp; by-laws</b>	All documents and by-laws governing a registered charity	<ul style="list-style-type: none"> <li>• 2 years after the date on which the registration is revoked</li> </ul>
<b>Other records and books of account</b>	Books and records, together with the accounts and vouchers, containing the summaries of the year-to-year transactions of the charity	<ul style="list-style-type: none"> <li>• 6 years from the end of the last taxation year to which they relate</li> </ul>
	For a revoked charity, records and books of account, other than those described in 5800(1)(d), and in respect of the vouchers and accounts necessary to verify the information in such records and books of account	<ul style="list-style-type: none"> <li>• 2 years after the date on which the registration is revoked</li> </ul>
	For a corporation that is dissolved, all records and books of account that are not described in 5800(1)(a) and in respect of the vouchers and account necessary to verify the information in such records and books of account	<ul style="list-style-type: none"> <li>• 2 years after the day that the corporation is dissolved</li> </ul>
<b>Other** *non-exhaustive list</b>	- Financial statements - Invoices/vouchers - T3010As	<ul style="list-style-type: none"> <li>• 6 years from end of last taxation year they relate or, if charity is revoked, 2 years after date registration is revoked</li> </ul>

## **Section One: Background information**

### **Canadian Statistics**

About 15% of registered charities (2002) reported carrying on programs outside Canada.

- Of these charities, 35.8% reported that they carried on their own programs outside Canada, and these expenditures exceeded \$1.4 billion
- The 10,792 charities that reported the region in which they did charitable activities outside Canada, reported as follows:

56% reported working in one area; 12% reported working in two areas; 9% reported working in three areas; 6% reported working in four areas; and 17% reported working in five or more areas.

- Charities reported activity in these areas of the world:

United States and Mexico-28%, Central America, Caribbean, and Antilles-24%, South America-22% Western Europe-14%, Central and Eastern Europe-19%, Australasia-9%, South Asia-16%, China-9%, Other Asian countries-18%, Eastern and Southern Africa-21%, Northern, Central, and Western Africa-22%, Middle East-14%

- There was no significant change over period for which this information was available (1997 to 2002).

### **Charities in the international context**

Canada's *Income Tax Act* requirements apply to Canadian registered charities no matter where they operate. These rules allow charities to operate either by engaging in their own charitable activities or by giving resources to qualified donees.

- Charities working abroad may face situations not faced by charities operating only in Canada. For example, they may operate in areas where the political atmosphere is uncertain, complex, or dangerous. As a result, there are additional issues that charities operating abroad need to consider when setting up their operations.
- The Charities Directorate published a brochure called *Registered Charities: Operating Outside Canada* (RC4106), to address the concerns of charities operating abroad.
- It is important that charities follow international standards of best practice to make sure their resources are used for charitable purposes. The paper called *Charities in the International Context* identifies many sources for such information. It outlines the steps Canada has taken in its commitment to best practices

### Categories of focus for work outside of Canada

The Charities Directorate examined the number of applicants involved in work outside Canada. The review showed that applicants working outside Canada tended to fall into four groups of approximately equal size with many operating under a structured arrangement of some sort.

- Economic/sustainable development;
- Health; and
- Religious organizations;
- Basic amenities of life,

**The review also revealed that the main issue in approving such applications is whether the organization maintains sufficient control over its resources.**

In many cases charities working outside Canada would be well advised to obtain professional advice to ensure that they are protected in their dealings.

### Section Two: FAQ's about charities working internationally

#### Board of Directors

**Q1. Does the requirement that a charity be resident in Canada require that a majority of its board of directors be Canadian residents for income tax purposes?**

- Section 248(1) of the *Income Tax Act* requires that a registered charity reside in Canada, and that it be created or established in Canada.
- However, how the rules concerning residency apply differs according to the way the charity has been structured. For example, whether it is incorporated or governed by a legal document that creates a trust or by a constitution, and whether it is "a branch, section, parish, congregation or other division of an organization".
- The residency requirement for charities and some other rules, notably those dealing with charities having to keep books and records in Canada or with restricting fund transfers to qualified donees only, suggest that registered charities ought to have a significant Canadian presence.
- However, in the case of corporations, the general provisions of the *Income Tax Act* concerning corporate residency (ss 250(4)) deem any corporation (charitable or not) to be residing in Canada simply if it was incorporated in Canada. If there is no incorporation, the requirements can be different.
- For example, in general, a trust is resident in the country where the majority of its trustees are resident. However, an unincorporated association is a "person" for the purposes of the *Income Tax Act*, and would likely be resident where its central management and control resides.

#### Purposes and activities

**Q2. What is meant by the requirement that a charity be "carrying on its own activities"?**

- This means the charity is an active and controlling actor in a program or project achieving a charitable purpose. For example, a charity is carrying on its own activities when it is: awarding a scholarship for a student selected through a program administered by the charity; providing medical services to the sick; or doing missionary work.
- These activities can be carried on by employees or volunteers directly funded by charity.

- They can also be carried on through intermediaries under some conditions, e.g., where the charity retains direction and control over the use of its resources through a formal structured arrangement with the intermediary.

**Q3. Is there a limit on how much activity a registered charity can carry on outside Canada?**

- No. However, regardless of the amount of activity a charity carries on outside Canada, it must be resident in Canada to be a registered charity.

**Q4. Are there activities that are charitable in Canada but not charitable abroad?**

- Yes. For example, reducing another country's national debt or supporting its armed forces is not charitable.
- As well, charities should be aware that some policies available through the Charities Directorate focus only on activities within Canada, or note additional restrictions where activities take place outside Canada or involve organizations outside Canada.

**Q5. When working in another country, do activities have to be charitable according to Canadian standards, or do the local standards apply?**

- Activities must be charitable according to Canadian standards.
- Generally, the purposes for which such an organization is created cannot conflict with the laws of the other country, and are considered charitable by that country.

**Q6. Can a charity be set up to benefit a community in another country?**

- Yes, on condition that its purposes are stated in its governing documents and its purposes and activities meet the requirements described in the CD's publications.

**Q7. Can a charity be set up to benefit a government in another country?**

- No. Registered charities cannot directly benefit other country's governments.

**Q8. Can a charity be set up to support an organization in another country?**

- A registered charity cannot be a conduit. That is, it cannot hand over its money or other resources to another organization that is not a qualified donee.
- It may not issue official receipts for income tax purposes for gifts it receives, and then simply forward those monies to an organization that is not a "qualified donee". A charity that acts in this way may be de-registered, and an applicant that proposes to operate in this way will not be registered. This is the case whether or not the proposed beneficiary resides in Canada.
- However, charities can work with others through joint ventures and similar arrangements, as described later in this newsletter.

**Q9. Are there any circumstances under which a Canadian registered charity can transfer property directly to a non-qualified donee?**

- As above, a charity cannot simply transfer funds to an organization that is not a qualified donee, since this does not qualify as carrying on its own activities.
- However, the Charities Directorate will consider a transfer of property reasonable where the nature of the property means that it can only be used for a charitable purpose. For example, it is generally reasonable to assume that a copy of the Bible will be used for religious

activities, medical equipment will aid the sick, and text books will be used for educational purposes in a school.

- In some cases, where the property could be used for something other than charitable purposes, it may none-the-less be unreasonable to expect the charity to maintain control of assets.
- The Charities Directorate will consider such situations on a case-by-case basis when requests are received in writing.

**Q10. Can building and maintaining a building used for charitable purposes be considered charitable?**

- If the Canadian charity is responsible for building a public facility and maintains title to the facility, and can make sure it is used only for charitable purposes, it has satisfied the requirements for the *Income Tax Act*. Public facilities generally include a library, bridge, or religious centre.
- On the other hand, if there are legal impediments to the Canadian charity constructing or holding title to real property in a foreign country, the Canadian charity should get a letter from the country's embassy or consulate to confirm the law in this matter.
- In such circumstances, the Charities Directorate will accept that title to the facility vests in a body other than the Canadian charity, if: it can be demonstrated that the facility is being built and will be used indefinitely for exclusively charitable purposes; and title to the facility vests either:
  - In a locally recognized charity (proven by a letter from the appropriate authority that regulates charities in the foreign country); or in a government body.
  - The written agreement implementing such a project should include a clause stipulating the title-holding arrangements for each capital property undertaking.

**Q11. Under what circumstances can a Canadian registered charity pay tithes, memberships, or similar fees to an organization that is not a Canadian registered charity?**

- Payments to related organizations are only acceptable where the amount paid by charity is proportional to the benefit it receives.
- For small amounts-that is, the lesser of 5% of total expenditures or \$5,000-we are generally willing to accept that the Canadian charity is receiving value for its payments. For more information, see RC4106 *Registered Charities: Operating Outside Canada*.

**Q12. Can trademark and/or copyright license agreements involve payments to a head organization outside of Canada that exceed the above-mentioned limits where the charity receives something of equal or greater value in return?**

- In all cases, the charity must be able to establish that the Canadian charity is receiving a benefit that is proportional to the amount it pays.
- The limit of the lesser of 5% of total expenditures or \$5,000 refers to the point at which we are generally willing to accept that a charity is receiving value for its payments without receiving further proof.

## Working with others

### Q13. Can charities employ local staff to work on projects abroad?

- In working on projects abroad, a charity may choose to send employees from Canada to engage in the work or employ local staff.

### Q14. How can charities work in partnership with others?

- A Canadian charity can work with a foreign organization but under the *Income Tax Act* it is not allowed to transfer funds wholesale to such an organization.
- The Canadian charity needs to retain control and responsibility over the funds in question.
- Sometimes it is not practical for a charity to use its own employees or volunteers to carry out these activities abroad. In such a case, a charity can work through other organizations providing it employs certain structured arrangements that allow it to retain direction and control over the use of its resources.
- A charity's activities outside Canada are often necessarily carried out through local partners or local workers. If a charity uses such third parties or intermediaries to deliver its programs, it must exercise sufficient control to meet the *Income Tax Act* requirements. Generally speaking, it cannot simply transfer money outside Canada.

### Q15. What are some examples of intermediaries?

- There are many types of arrangements through which a charity may act with an intermediary. For example, the charity may work with:
  - Agents** - In which case an agency agreement is generally required. Charities should be aware that they may expose them to significant liability.
  - Contractors** - To whom the charity should provide precise instructions.
  - Joint ventures** - organizations pool resources.
  - Co-operative partnerships** - each partner takes responsibility for parts of project.

### Q16. Are there other arrangements whereby charities can carry out charitable activities jointly other than through joint ventures and co-operative partnerships referred to in Brochure RC4106?

- Yes. For example, some religious charities work through a joint ministry agreement.
- The key is that the charity must be able to ensure that all its resources are devoted to charitable purposes.
- Charities considering arrangements other than those mentioned in Brochure RC4106 can contact the Charities Directorate to be certain that such an agreement allows the charity to meet the requirement that it be an active and controlling participant.

### Q17. What factors should a charity consider when choosing the type of arrangement it has with another organization? Can registered charities be held liable for the acts of their agents?

- Arrangements differ in the amount of control they give a charity.
- The charity must maintain sufficient control to ensure that its resources are devoted to charitable purposes.
- The amount of control will vary by the nature of the resources being used, and the characteristics of the foreign organization. More information on these considerations is available in Brochure RC4106.

- Charities also need to recognize that under some of these arrangements, they may find themselves liable for the actions of employees, agents, or partners.

**Q18. Are there steps that charities can take to reduce their exposure to liability when becoming involved in an agency relationship?**

- Charities can seek legal advice on steps that can be taken to reduce this risk.
- Charities may want to consider risk management procedures such as indemnification provisions, as well as reviewing the adequacy of general liability and director and officer liability insurance where such insurance is possible

**Financial controls - Books and records**

**Q19. Are there special requirements for books and records where a charity operates outside Canada?**

- The minimum requirement is that they contain enough information for us to determine if the charity is operating according to the *Income Tax Act*.
- Project reports should be supported, for example by: copies of written agreements, copies of deeds, financial statements, copies of invoices, photos, minutes, advertising
- Books and records must be kept at the Canadian address.

**Q20. Are there other financial controls or record-keeping requirements for charities working outside Canada through organizations that are not qualified donees?**

- Our brochure, *Registered Charities: Operating Outside Canada*, RC4106, describes the additional financial controls and record keeping requirements for charities operating outside Canada.
- If a registered charity carries out its own charitable activities through an intermediary, it must be able to demonstrate that it keeps **direction** and **control** over the use of its resources. It is generally preferable for the charity to have a formal written agreement with the intermediary.

**Q21. How often should progress reports be sent?**

- The frequency of filing progress reports depends, in part, on the frequency with which funds are transferred.
- Payments made by instalments should be made after confirmation of reasonable progress and that the resources provided have been applied to the activities outlined in the agreement. Many charities have these reports filed quarterly.

**Q22. Should a charity keep its books and records in one of Canada's official languages even if it is working through an intermediary that does not work in either English or French?**

- Yes. Whether or not it works outside Canada, a charity has to keep adequate books and records at a Canadian address, so that we can verify official donation receipts issued, as well as income received and expenses made. We ask that these be kept in English or French.
- Books and records can be translated from the ones received from the intermediary if they were presented in a language other than English or French.
- However, we recognize that for some small charities this may become a significant burden. We are willing to consider such situations on a case-by-case basis.

**Q23. How does working abroad affect the calculation of a charity's disbursement quota?**

- The disbursement quota requirement is the same whether or not a charity works outside Canada. A description of amounts that can be included in charitable disbursements is included in Brochure RC4106.
- Although the requirements are the same, calculating the amount that can be used to satisfy the disbursement quota can be more complicated for charities working jointly or in partnership with another organization, as is often the case for charities that work outside Canada.
- As described in Brochure RC4106, one acceptable approach in these cases is to assume a proportionate amount of overhead costs as is found in the project or program as a whole.
- For example, if 90% of a joint venture's resources were devoted directly to charitable work and 10% to overhead, a Canadian charity contributing to this project would use 90% of the amount it contributes towards meeting its disbursement quota.

## The Charities File: Info Sheet 9 - Qualified Donee

Under the *Income Tax Act*, qualified donees are organizations that can issue official tax receipts for gifts that individuals and corporations make to them.

### They include:

- Registered charities
- Registered Canadian amateur athletic associations
- Registered national arts service organizations
- Housing corporations resident in Canada constituted exclusively to provide low-cost housing for the aged;
- Municipalities in Canada
- The United Nations and its agencies;
- Universities outside Canada with a student body that ordinarily includes students from Canada (listed in Schedule VIII If Income Tax Regulations)
- Charitable organizations outside Canada to which the Government of Canada has made a gift during the donor's taxation year, or in the 12 months immediately preceding the period.
- The Government of Canada, a province or a territory
- Under proposed legislation, for gifts made after May 8,2000 to municipal or public bodies performing a function of government in Canada

### What must registered charities do about involvement with Qualified Donees?

Registered charities can make gifts to qualified donees. Answer yes or no.

- ⇒ Check "No" if registered charity did not make a gift to any qualified donee.
- ⇒ Check "Yes" if the registered charity made gifts to qualified donees and do the following:
  - Attach a list with the name of each qualified donee stating whether or not it is an associated charity, its location, its BN/registration number, the total amount of the gift for the fiscal period, and the amount, if any, of specified gifts.
  - Enter this information, use the worksheet included in this guide or a separate sheet of paper with the same information using the same format and attach it to the return.
  - List the qualified donees in descending order of the total value of the gifts made from the largest value to the smallest.
  - Identify the qualified donee's location - must include the city and province or territory, if the qualified donee is located in Canada, and the city and country, if the qualified donee is located outside of Canada.
  - Report total number of the qualified donees to whom the registered charity made gifts.
  - Report on line 5050 - The total amount of all gifts to qualified donees(excluding specified gifts and enduring property)
  - Report on line 5060 - The total amount of enduring property transferred to qualified donees
  - Report on line 5070 - The total amount of specified gifts to qualified donees

## Special Situation concerning Qualified Donees

### Subject

Whether the disbursement of funds to a qualified donee includes the provision of goods and services to a qualified donee

### Purpose

To clarify the Directorate's policy regarding the registration of organizations established to fund qualified donees.

### Commentary

1. The phrase "disbursement of funds to qualified donees" in subsection 149.1(1) of the *Income Tax Act* ("charitable purposes") is intended to include the transfer of any property in kind.
2. The term "fund" is a generic, non-specific term. In the plural, this word has a variety of slightly different meanings, as follows: moneys and much more, such as notes, bills, checks, drafts, stocks and bonds, and in broader meaning may include property of every kind.
3. There is little difference between a registered charity giving money to a qualified donee to enable the latter to acquire property it needs, and a registered charity purchasing the property itself and then donating the property to a qualified donee.
4. Although "funds" is a broad term, it does not extend beyond property to include services. Therefore, an organization established to provide services to qualified donees cannot take advantage of the deeming provision in subsection 149.1(1). For example, a registered charity could not hire architects and instruct them to draw up plans for a qualified donee's new building, but it could provide funds to the qualified donee to hire architects.
5. The provision of services to registered charities can be a charitable purpose at common law. Accordingly, where an organization's main purpose is to promote the efficiency and effectiveness of other registered charities, the organization can qualify for registration.

## The Charities File: Info Sheet 10 - Resources on CRA Website

The CRA website (<http://www.cra-arc.gc.ca/tx/chrts/menu-eng.html>) has an extensive array of resources to assist organizations with day-to-day operational needs and CRA compliance expectations. Topics include:

### **Summary policies/Statements** (over 200 policies listed – organized alphabetically)

- Provides a general statement on a particular topic.
- Each summary policy includes references that link to other technical documents.
- These documents include the following: Summary Policies (CSP), Policy Statements (CPS), Policy Commentaries (CPC), Information Letters (CIL), Employee Speeches (CES), Forms and Publications, Case Law and Statute Law.

### **Forms and Publications** (over 50 individual items – organized alphabetically)

- All forms and publications related to CRA reporting expectations
- Significant number of forms related to the “day-to-day operations” of charities

### **Newsletters** (about 3 a year – archived for reference)

- Topics covered include: what’s new, issues, policies, court news, facts and figures about the sector, and in-depth focus on relevant policies.
- First page agenda of each newsletter provides overview with links to each topic
- Can be searched by topic (alphabetically)

### **Electronic Mailing List** (client can register to receive new information on identified topics)

- Mailing lists include What’s new, electronic filing for businesses, excise technical publications, forms 500, GST/HST news, Income Tax Technical Publications, Media, Tax Incentives, Registered plans – what’s new

### **Information Letters**

- CRA response to specific questions from the field – provides insight into rationale behind decisions – links to policy

### **Case and Statue Law**

- Extensive summary of cases and judgments related to policy issues

### **Charities Listing**

- Extensive list of all Canadian charities
- Searchable by name, BN/ Registration number, category code
- Provides summary of information from T3010A forms for each charity
- Provides list of newly registered, revoked, or annulled charities,

### **How to find a charity to support**

- Resources to assist donors to select appropriate charities to support

### **Opportunity to consult on policy formation**

- Formal request for specific policy under consideration (e.g. umbrella organizations)
- Requests within policy literature for input on issues (e.g. what is fair market value of recognition)

CRA Resource: [Newsletter 18, 2004](#) and [Newsletter 24, 2005](#)

## **Section One: Definitions**

### **What is a gift in kind?**

For tax purposes, for something to be a gift, there must be a voluntary transfer of property.

- A gift-in-kind is a gift of property other than cash.
- It includes numerous types of property, in particular inventory, capital property, and depreciable property.
- A charity that receives a gift-in-kind can issue a tax receipt for the eligible amount of the gift.

### **Services are not considered gifts-in-kind because they do not involve a transfer of property.**

- Sometimes the line between what constitutes a property and what constitutes a service is quite clear. If an individual or company creates a Web site for a charity, the individual or company is providing a service rather than a property and this cannot be receipted as a gift-in-kind.
- However, there are other scenarios that are less clear, either because it is not certain whether the scenario involves a service or property, or because it is uncertain whether the donor can be considered to have *transferred* property to a charity. The Income Tax Rulings Directorate is currently considering some of these situations. With regard to a Web site and software, a couple of key issues are: Can a Web site be considered property for the purposes of making a gift? Can a license to use software be the subject of a gift?
- At present, the Income Tax Rulings Directorate is considering such proposed transactions only on a case-by-case basis.

### **How should charitable gifts in kind be valued?**

- Gifts-in-kind must be valued on the basis of "fair market value".

### **Fair Market Value**

- The courts have defined fair market value as being, "the highest price obtainable in an open and unrestricted market between informed and prudent parties, acting at arm's length, under no compulsion to act, expressed in terms of money, or money's worth".
- If the value of the property donated is anticipated to have a fair market value greater than \$1,000, it is advisable to have an independent appraiser or valuator determine the fair market value of the items donated

## **Section Two: Gifts-in-Kind and Disbursement Quota**

### **How does a charity calculate its disbursement quota if it has received a gift in kind?**

An amount equal to 80% of all receipted amounts, other than a gift received from a registered charity, must be included in calculating the amount of a charity's disbursement quota.

- In this regard, an amount in respect of gifts of capital received by way of bequests or inheritance and "10 year gifts" are included only in the year they are expended.

- With regard to gifts (other than specified gifts) received from a registered charity, an amount equal to 100% and 80% of the gift is added to the disbursement quota of a private foundation and a public foundation, respectively.
- This is the case whether the gift is made in cash or in-kind.

**In meeting a charity's disbursement quota, for gifts-in-kind, CRA is prepared to accept that the necessary amount has been expended where the property is used directly by the charity in delivering its charitable programs.**

- For example, paintings donated to an art gallery for use in its display would be considered to have been expended on charitable activities.
- On the other hand, gifts-in-kind for a fundraising auction or similar purpose would generally be considered to be expended when they are converted to cash and used by the charity in carrying on its charitable purposes or activities.

### **Section Three: Appraisals**

- To determine the fair market value of the properties mentioned above, an individual requires knowledge of the property being appraised or valued and a specialized knowledge of the principles, theories, and procedures of real estate appraisal, business equity valuation, personal property, machinery and equipment valuation, or other valuation specialties.
- The appraiser or valuator is required to research the property and obtain market data in the appropriate market place(s). In the case of personal property, various market levels need to be analyzed to determine the most relevant market for the subject property. In estimating fair market value, this factor and others are considered by the personal property appraisers as they apply the correct principles, theories, and procedures.
- Another factor is the effective date of the valuation, which for all valuation disciplines is very important because economies, markets, and market levels change frequently and rapidly. For example, a price list for a print established by the publishers eight years prior to the effective date of valuation may not reflect the value at the date of donation.
- There are professional appraisers or valuers in these disciplines. It is important to obtain the services of a qualified individual in the appropriate specialty area to obtain a supportable, well-reasoned opinion of value.
- An accredited appraiser or valuator is required to follow the Canadian Uniform Standards of Professional Appraisal Practice, or the Practice Standards established by the Canadian Institute of Chartered Business Valuators, when completing a valuation of a gift-in-kind.
- An accredited appraiser or valuator will provide you with a professional report detailing their opinion of the fair market value and the support for their conclusions.
- CRA also utilizes the services of professional appraisers and valuers to ensure the fair market value of the property is appropriately stated.

## Section Four: Gifts-in-Kind and Receipting FAQ

**Q1. Do we have to have a professional appraiser determine the fair market value of property that is donated?**

- No. If the fair market value of an item can be reasonably determined, an appraisal is not required. Generally, if the fair market value of an item is less than \$1,000, a member of the charity with sufficient knowledge of the item can determine its value.
- However, if the fair market value is expected to be more than \$1,000, the Charities Directorate strongly recommends that the property be appraised by a third party (i.e., someone who is not associated with either the donor or the charity).
- The person who determines the fair market value of the property should be competent and qualified to evaluate the particular property being transferred by way of a gift.
- **Note:** If the property is appraised, the name and address of the appraiser must be included on the official donation receipt.

**Q2. Do higher-priced items (valued at more than \$1,000) have to be appraised by multiple appraisers?**

- No. However, the charity must be satisfied that the appraised amount is an accurate determination of the fair market value of the item.

**Q3. What if the fair market value cannot be determined?**

- If the fair market value of an item cannot be reasonably determined, an official donation receipt cannot be issued.

**Q4. Can property donated for sale at an auction be considered a gift?**

- Yes. In order for there to be a gift for the purposes of the *Income Tax Act*, there must be a voluntary transfer of property to the charity. How a charity uses donated property is generally not relevant in determining whether the donor has made a gift to the charity.
- A gift includes a gift in kind. However, services are not property. Therefore, a charity cannot issue an official donation receipt for a donation of services.

**Q5. Can a charity issue an official donation receipt when it receives a donation of a gift certificate directly from the issuer for the charity's own use?**

- The issuer is not entitled to receive an official donation receipt at the time of donation. The certificate in this case is similar to a pledge and, like a pledge, cannot be receipted.
- However, the issuer may be eligible for an official donation receipt when the charity redeems the certificate for property. In this case, to be eligible for an official donation receipt, redemption of the certificate must form a transaction that otherwise would have constituted a gift—the certificate must have been issued voluntarily, and the charity must redeem the certificate for some form of **property**.
- An official donation receipt may not be issued if the charity redeems the gift certificate for services. The receipt issued by the charity should specify the nature of the property it received in exchange for the gift certificate, the fair market value of the property, and the eligible amount of the gift.
- In this scenario, the issuer of the gift certificate will realize a gain equal to the difference between the value of the property gifted and the amount it paid for the property.

- Q6. Can a charity issue an official donation receipt when it receives a donation of a gift certificate directly from the issuer to be included as part of an auction?**
- If the issuer donates a gift certificate directly to a charity, and the charity sells the certificate to a third party, the redemption of the gift certificate by the third party does not entitle the issuer to an official donation receipt.
  - Honouring a gift certificate presented by a third party does not result in the transfer of property by the retailer (or other issuer) to the charity. The retailer will be entitled to deduct the cost of property transferred to the certificate holder in computing its income.
  - Our policy statement on gift certificates is available on the CRA Web site at: <http://www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-018-eng.html>.
- Q7. When we issue an official donation receipt for gifts in kind donated for use in an auction, what needs to be included on the receipt that would not be included in a receipt for a cash donation?**
- In addition to the requirements to receipt a cash gift, an official donation receipt for a gift-in-kind must include:
- Where applicable, the name and address of the appraiser;
  - A brief description of the property; and
  - The fair market value of the property when the gift was made.
- Q8. Can a charity still issue an official donation receipt if it has provided some form of recognition or other consideration to a donor?**
- Generally, any consideration received by a donor will constitute an advantage that will have to be taken into account in determining the amount that can be receipted (eligible amount).
  - [Registered Charities Newsletter 22](#) discusses questions that may be asked to determine if recognition is nominal (see *De minimis* threshold, below). Generally, receipts can be issued if the benefit received is not more than 80% of the fair market value of the property transferred to the charity. For more information on split-receipting, see *Income Tax Technical News #26* at [www.cra.gc.ca/E/pub/tp/itnews-26/itnews-26-e.html](http://www.cra.gc.ca/E/pub/tp/itnews-26/itnews-26-e.html).

***De minimis* threshold:** an administrative concession that allows advantages of insignificant (nominal) value to be excluded from the amount of advantage when determining the eligible amount of a gift.

Generally, the benefit is considered to be nominal if it's fair market value does not exceed the lesser of:

- (a) \$75.00; or
- (b) 10% of the amount of the fair market value of the property transferred to the charity.

## Property bought

**Q9. Can a successful bidder at an auction receive an official donation receipt for the amount in excess of the fair market value that he or she pays?**

- Yes. However, it must be possible to determine the item's value, and the value must be posted before the start of the auction. Also, the fair market value of the property the bidder receives should not exceed 80% of the amount paid.

**Q10. Can a charity issue an official donation receipt to the donor for the appraised value of donated goods if they are sold at auction for less than this amount?**

*Scenario: A registered charity holds a fundraising auction and receives donated goods from the general public. The charity issues official donation receipts to the donors of the goods based upon their appraised value. When the auction is conducted, the charity does not get a bid for the full market value of the goods being sold. Is the amount on the receipts still acceptable?*

- Yes, as long as the appraised value is an accurate reflection of the fair market value of the property at the time it is donated to the charity.
- The charity may issue official donation receipts to the donors in the amount of the appraised value of the donated goods, regardless of the price for which the goods are eventually sold.
- Furthermore, paragraph 4 of IT-297, [\*Gifts in Kind to Charity and Others\*](#), points out that generally the donor is deemed to have received proceeds of disposition equal to the fair market value of the goods donated and must therefore account for any income, capital gain, capital loss, or recapture of capital cost allowance.

**Q11. Does it make a difference for receipting purposes if the auction is a silent auction?**

- No.

**Q12. Is the charity's disbursement quota affected if the charity receives less than the appraised value for the donated goods for which it has issued an official donation receipt?**

- A charity's disbursement quota is based, in part, on the amount of the official donation receipts that it issues.
- Even if a charity does not receive the fair market value for goods donated for use in an auction, it is still responsible for an expenditure based on this amount. Therefore, receiving less than fair market value for donated goods can affect a charity's ability to meet its disbursement quota.

**Q13. Can we use a professional fundraiser to run our auction?**

- Yes. However, charities should be aware before entering such arrangements that high fundraising costs can affect their ability to meet their disbursement quota.
- For all types of fundraising, the Charities Directorate has concerns about compensation or incentive-based fundraising arrangements, because there is a heightened possibility of incongruous or disproportionate costs.
- Charities that are considering fundraising arrangements may wish to refer to the ethical codes that are available within the charitable sector.

**Q14. What is “certified cultural property”?**

- Certified cultural property is property that has been determined by the Canadian Cultural Property Export Review Board to be of “outstanding significance and national importance” to Canada and for which the Board has issued a tax certificate for the fair market value.
- Certified cultural property can include art, archival material, decorative arts, musical instruments, military objects, technological objects, etc.

**Q15. Does cultural property have to be certified by the Review Board to be considered a gift in kind?**

- No. For cultural property not certified by the Review Board, a charity receiving the property may still issue an official donation receipt.

**Q16. What are the benefits of having property certified as cultural property?**

- The *Income Tax Act* provides favourable income tax treatment for the disposition of certified cultural property to institutions and public authorities designated by the Minister of Canadian Heritage.
- This treatment includes a tax exemption for capital gains realized on the disposition of cultural properties to those designated institutions and, when disposition is by way of a gift to those institutions, a tax credit or a deduction to donors of up to 100% of their net income.

**Q17. Where can I find a list of the institutions and public authorities designated by the Minister of Canadian Heritage?**

- You can find these at [www.pch.gc.ca/progs/mcp-bcm/design\\_e.cfm](http://www.pch.gc.ca/progs/mcp-bcm/design_e.cfm).

**Q18. If a charity that is a designated institution disposes of cultural property other than to another designated institution, what are the tax implications?**

- The organization would be subject to a special tax equal to 30% of the fair market value of the property if the property is disposed of within 10 years of the time the property was first certified by the Review Board, unless the property is transferred to another designated cultural institution.
- More information on this is available in IT-407, [Dispositions of Cultural Property to Designated Canadian Institutions](#), paragraphs 15 and 16.

**Making cultural property available to other organizations**

**Q19. Will lending a certified cultural property to an organization outside Canada make a charity liable for tax in respect of the disposition of certain properties?**

- No. The tax only applies when the charity disposes of the property. When a charity lends cultural property, it is not considered to be disposing of this property.

**Q20. Is an agency agreement required when cultural property is loaned, for example to a museum in another country?**

- No. However, a temporary export permit may be required where the cultural property is over 50 years of age. For more information on controlled cultural property, see: [www.pch.gc.ca/progs/mcp-bcm/mcp\\_e.cfm](http://www.pch.gc.ca/progs/mcp-bcm/mcp_e.cfm).

- A loan is different from a permanent transfer of property. However, a registered charity in Canada can only use its resources to carry on its charitable purposes. Whether the cultural property is loaned to an organization in or outside of Canada, the charity must ensure it is being used for charitable purposes. This can be accomplished by having the terms of the loan require that the property be used for purposes that are consistent with the charitable purposes of the charity.

**Q21. Are there possible disadvantages to using an agency agreement?**

- Yes. An agency agreement might theoretically expose the Canadian body to liability for the acts of their agents.
- However, an agency agreement is also one way of establishing that the charity is carrying on its own activities and therefore can help to ensure that the charity does not jeopardize its registration.

**Appraisals**

**Q22. We received pieces of cultural property for which we have one valuation from an appraiser and a separate valuation (i.e., a determination of fair market value) from the Cultural Export Property Review Board. Which valuation should we use?**

- Regardless of which valuation is higher, the most recent evaluation done by the Cultural Export Property Review Board must be used for tax purposes if, at any time, the property is claimed for tax purposes as a gift of cultural property.
- Also, the most recent valuation by the Board must be used if the property is donated to a qualified donee within the two year period following the Board's determination and is claimed by the donor for tax purposes as a charitable gift (but not a gift of cultural property).

**Other scenarios related to Gifts-in-Kind**

**Q23. Are there any limitations that prevent donors from making a gift of time-shares or recreational properties? What are the tax considerations?**

- It is only possible to receipt the transfer of a time-share if ownership of the deed title is first transferred to the donor then transferred to the charity. Otherwise, there is no transfer of ownership, and a gift has not been made by the donor. Merely loaning property is not considered a gift for purposes of sections 110.1 and 118.1 of the *Income Tax Act*.
- Where a gift has been made, any capital gains realized at the time of the donation would be taxable in the donor's hands in the usual way. However, the donor may choose to reduce the value of the gift and the associated taxable capital gain by applying subsection 110.1(3) or 118.1(6) of the Act. Generally, the annual gifting limit is 75% of the donor's net income plus 25% of the taxable capital gain and recapture arising from the gift.
- If the donors were to dispose of the property themselves and then make a gift of the proceeds, the charity would not be required to establish a value for the time-share interest. The choice of which method to use is a matter for which the donors and the charity may want to seek independent advice from professionals in the field.
- Charities and their donors should be aware that the existence of other express or implied arrangements (e.g., where the donation is conditional on or made with the expectation that

the charity will buy the property from the donor) may disqualify all or part of the donation from being considered a gift.

- In evaluating the arrangement the CRA looks to not only the formal written arrangement but also any additional written or verbal agreements and assurances to determine whether a gift at law has been made. The CRA reserves the right to investigate transactions after the fact to ensure their legitimacy.

**Q24. Can businesses receive receipts for donations made out of their inventory?**

- Registered charities can issue official donation receipts for gifts that a business makes out of inventory, and the taxpayer can use these receipts to claim a charitable deduction.
- However, the business has to include in its income, the fair market value of any goods out of its inventory that it gives to a charity.
- The income of a business is increased because it must include the value of the gift. However, this increase is offset by the charitable deduction or credit. Where a transaction results in a material benefit to the business, the rules related to split receipting may apply, or the benefit may be such that no part of the transaction can be considered a gift.
- In cases where there is consideration, a business may claim these costs as promotional expenses, rather than seeking a charitable donation. Under some circumstances, it may be more financially advantageous to claim these costs as a promotional expense.

**Q25. Can shares or stock options be gifts?**

- One of the requirements necessary to the making of a gift for purposes of the *Income Tax Act* is the voluntary transfer of property.
- Where a corporation issues shares of its capital stock or grants a stock option, jurisprudence supports the view that there is no transfer of property by the corporation as the corporate assets are not reduced as a result of the issuance.
- As there is no gift in these circumstances, the charity should not issue a receipt notwithstanding that the shares or options will normally have value.
- On the other hand, if the donor is a person who has acquired shares or stock options, generally the charity may issue a receipt for the eligible amount of the gift.

**Q26. Can a charity issue a charitable receipt for a court ordered payment made to it?**

- No. Under charity law, to qualify as a gift a payment must be voluntary.
- A payment that results from a court order, even if the taxpayer was given a choice between making a payment and some other penalty, cannot be said to be voluntary.
- Therefore, if a company or individual is ordered by a court to give money to charity, the charity cannot issue an official donation receipt for the amount it receives.
- If needed, the charity can issue an ordinary receipt to acknowledge such a payment.

**Note on Charitable Donation Tax Shelter Arrangements (amendment on Dec. 5, 2003)**

- The value of a gift-in-kind may change.
- It will be limited to a donor's cost of the property, where the property is donated within three years of acquisition by the donor or is otherwise acquired through a gifting arrangement or in contemplation of donation.
- Generally gifts of inventory, publicly traded securities, certified cultural property, ecological gifts, or real property situated in Canada are exceptions to this rule.

CRA Resource: [CRA Newsletter 27](#) - Fall 2006

**Section One: What is included in enduring property?**

While there are specific exceptions, enduring property of a registered charity generally includes:

**A gift received by way of bequest or inheritance**

- May include direct distributions of proceeds to a registered charity that is the designated beneficiary of a life insurance policy, a registered retirement savings plan, or a registered retirement income fund

**A gift received by a charitable organization from another registered charity that is subject to a trust or direction to the effect that the property given, or property substituted for the gift,**

- Is to be held by the charitable organization for a period of not more than five years from the date the gift was received by the charitable organization, and is to be expended in its entirety over the period referred to in the trust or direction to acquire a tangible capital property to be used in charitable activities or administration; and/or in the course of a program of charitable activities of the charitable organization that could not reasonably be completed before the end of the first fiscal period following the fiscal period in which the gift was received;

**A gift received by a charity that is subject to a trust or direction to the effect that the property given, or property substituted for the gift, is to be held by the charity for a period of not less than 10 years (a “10-year gift”.)**

- The trust or direction may permit the charity to transfer the enduring property to another registered charity (the “transferee charity”), subject to the same terms and conditions of the original gift. It may also permit the charity, or the transferee charity, to expend such amount of the gift or the substituted property before the end of that period, to the extent necessary to meet the 3.5% disbursement quota requirement;

**A gift received by a charity from another charity** that was a bequest or inheritance of the other charity or a ten-year gift of the other charity, and in the case of a ten-year gift, it is subject to the same terms and conditions of the original gift.

**Section Two: General Guidelines with respect to Enduring Property and Disbursement Quota are the following:**

- Gifts of enduring property are generally excluded from the charity’s disbursement quota in the year they are received.
- However, the charity must consider these gifts when calculating the average value of property for its 3.5% disbursement quota requirement.

- When the charity spends or transfers some or all of the enduring property, 80% of the amount spent or 100% of the amount transferred must be included when calculating the disbursement quota requirement.
- Transfers from registered charities to charitable organizations were previously exempt from the recipient charitable organization's disbursement quota. Under the new disbursement quota rules, there are three types of property transfers between charities: specified gifts, enduring property and other gifts, which are each treated differently.

### **Section Three: FAQ's regarding Enduring Property**

**Q1. When are gifts of enduring property (excluding inter-charity transfers) included in a registered charity's disbursement quota?**

- Gifts of enduring property (e.g. bequests or 10-year gifts) are only included in the disbursement quota when a charity spends or transfers some or all of this enduring property. However, they must be considered when calculating the average value of property for a charity's 3.5% disbursement quota requirement.

**Q2. If a charity receives enduring property from a registered charity, is there a disbursement quota obligation for the recipient charity?**

- Enduring property (e.g. 10-year gift) received from another charity is generally excluded from the recipient's disbursement quota in the year it is received. When the recipient charity spends or transfers some or all of its enduring property, the amount spent or transferred must be included when calculating the disbursement quota (unless it was received as a specified gift.) The recipient charity must also consider enduring property when calculating average value of property for its 3.5% disbursement quota requirement.

**Q3. If a charity transfers enduring property which it received as a specified gift, is there a disbursement quota obligation for that donor charity?**

- No. Enduring property that was received as a specified gift is excluded from the donor charity's disbursement quota. There are errors in the (05) version of Form T3010A regarding the reporting of enduring property and specified gifts. Since Form T3010A is not being revised this year, Guide T4033A, *Completing the Registered Charity Information Return*, will be amended to instruct charities in such circumstance to include the amount on line 4920, Other expenditures, and on line 5000, Total charitable programs expenditures included in line 4950.

**Q4. If a charity transfers enduring property as a specified gift, is there a disbursement quota obligation for the recipient charity?**

- No. Enduring property received as a specified gift is excluded from the recipient charity's disbursement quota. The charity should include the amount on line 4510, Total amount received from other registered charities and on line 4520, Total specified gifts included in line 4510 of Form T3010A (05).
- The donor charity cannot use the specified gift to satisfy its own disbursement quota.
- Specified gifts should be identified as such in the books and records of the donor charity and recipient charity.

**Q5. What is a bequest?**

- A bequest is property that a registered charity receives from the will of a deceased person. Under the *Income Tax Act*, a bequest is a gift of enduring property. Bequests are generally excluded from a charity's disbursement quota in the year they are received. However, the charity must consider these gifts when calculating the average value of property for its 3.5% disbursement quota requirement. Also, bequests must be included in calculating the charity's disbursement quota in the year in which they are spent or transferred to a qualified donee.

**Q6. When an individual makes a gift through his or her will, when is the gift deemed to have been made?**

- Under subsection 118.1(5) of the Act "...where an individual by the individual's will makes a gift, the gift is, for the purpose of this section, deemed to have been made by the individual immediately before the individual died."
- For gifts in kind, the value of the gift is considered to be its fair market value immediately before death and not when the property is subsequently received by the charity.

**Q7. Can a charity issue a receipt prior to the transfer of property by the deceased's estate?**

- No. However, a donation tax credit can still be claimed on the deceased taxpayer's final return. Where the charity receives a letter from the estate advising of the gift and its value, the registered charity can issue a letter to the estate acknowledging the gift and stating that it will accept the gift.

**Q8. If a will allows trustees to decide on the way property is disposed of, either to a charity or to another organization, can a donation receipt be issued for the property that the trustees donate to a charity?**

- Yes. Where the trustees exercise their discretion to donate property to a charity, a receipt can be issued for the fair market value of the property and a donation tax credit may be claimed on the trust return filed by the estate.
- A donation tax credit can be claimed on the deceased taxpayer's final return where the terms of the will provide that a donation of a specific property, a specific amount or a specific percentage or part of the residue of the individual's estate is to be gifted to a charity.
- In a situation where the individual's will directs his or her trustee to make a donation to charity without identifying a particular charity, this, in itself, would not preclude the donation from otherwise qualifying as a gift by will.

**Q9. If the terms of a person's will specify that property is to be used to establish a charitable foundation, can a donation receipt be issued if the charity is registered?**

- Yes. The fact that the foundation did not exist at the time of the individual's death will not, in and of itself, preclude a donation from otherwise qualifying as a gift by will for the purposes of subsection 118.1(5) of the Act as long as the foundation is a qualified donee at the time the gift is completed. The completion of the gift should occur within a reasonable period after the date of death.

**Q10. Can a deceased individual obtain an official receipt for tax purposes when a charity has been designated as a beneficiary of a RRIF?**

- Yes. Under the *Income Tax Act*, a charitable donation tax credit can be claimed on a deceased individual's return for a donation of a direct distribution of proceeds to a qualified donee who is the designated beneficiary of a registered retirement savings plan (RRSP), a registered retirement income fund (RRIF), or a life insurance policy, provided certain conditions are met.

**General Introduction to Split-Receipting - [CRA Newsletter 26](#)**

Split-Receipting applies to situations in which the donor provides the charity with a gift but also receives some type of advantage or benefit in return.

**Section One: Key elements to interpretative approach are:**

- 1. There must be a voluntary transfer of property to the donee with a clearly ascertainable value.**
- 2. Any advantage received or obtained by the donor or a person not dealing at arm's length with the donor in respect of the transfer must be clearly identified and its value ascertainable.**
  - If its value cannot be reasonably ascertained, no charitable tax deduction or credit will be allowed.
  - In this regard, the donee will be required to identify the advantage and the amount thereof on any receipt provided to the donor in accordance with the proposed amendments to section 3501 of the *Income Tax Regulations*.
  - In respect of valuations, the donee should consider obtaining a qualified independent valuation of the amount of the advantage.
- 3. Consistent with the case law, in order for there to be a gift there must be a clear donative intent to enrich the donee.**
  - It is recognized that the determination of donative intent is a subjective determination that can be difficult to establish.
  - Thus, a transfer of property will not necessarily be disqualified from being a gift, provided the amount of the advantage does not exceed 80% of the value of the property transferred to the donee.
  - In exceptional circumstances where the amount of the advantage exceeds 80% of the value of the transferred property, the transfer may still nevertheless qualify as a gift under the proposed amendments, provided the donor is able to establish to the satisfaction of the Minister that there was an intention to make a gift.
- 4. Generally, the proposed definition of an eligible amount of a gift will be the excess of the value of the property transferred to the donee over the amount of the advantage provided to the donor.**
  - It is recognized that, whether in connection with fund raising events or direct gifts to a charity, a donor may be provided with some advantage because the donee wishes to provide the donor with a token of gratitude for making the gift.
  - It is further recognized that the appreciation of such gifts will vary from donor to donor.
  - Accordingly, the CRA defines a *de minimis* threshold that will simplify matters for both donors and donees where such advantages are of insignificant value. This **de minimis** threshold applies if the amount of the advantage received by the donor that does not exceed the lesser of 10% of the value of the property transferred to the charity and \$75.
  - Note that the revised *de minimis* threshold will not apply to cash or near cash advantages (e.g., this may include redeemable gift certificates, vouchers, and coupons).

## Section Two: General Guidelines for fund raising events or activities

The guidelines below have general application to all fund raising events or activities:

- The attendance of celebrities at fund raising events will not be viewed as an advantage per se. Any incremental amount paid for the right to participate in an activity with a particular individual (e.g., dinner, golf) would, however, not be viewed as a gift.
- The value of any complimentary benefits provided to all participants for attending the event (e.g., pens and key chains) and the value of door and achievement prizes that all attendees are eligible for by simply attending the event will be viewed as an advantage unless the aggregate value of such items, per ticket sold, does not exceed the lesser of 10% of the ticket price and \$75. For the purpose of establishing the eligible amount, and therefore the amount of the tax receipt, the value of door and achievement prizes will be aggregated and allocated on a pro rata basis to all participants.
- For the purpose of determining which items will be viewed as an advantage for purposes of applying the *de minimis* rule, the CCRA will adopt the position that the value of the activity that is the object of the fund raising event, while an advantage to be taken into account in determining the eligible amount, will not be included for this purpose (e.g., the value of a meal at a fund raising dinner, the value of a comparable ticket for a concert, the value of green fees, cart rental and meal at a golf tournament).

### Situation One: Fund Raising Dinners

The value of a comparable meal provided by a comparable facility will have to be ascertained. If the event were held at a restaurant, then the price the restaurant would charge a regular customer would be the comparable value. In this regard, it is acceptable to take into account group or banquet rates.

- Generally, the right to participate in an auction to be held at the dinner will not be viewed as constituting an advantage.

#### **Example:**

- A charity holds a fund raising dinner for which 500 tickets are sold at a cost of \$200 each.
- A comparable meal could be purchased for \$100, excluding GST, PST and gratuities.
- The door prizes are a trip having a value of \$3,000 and jewellery having a retail value of \$500 (\$3,500/500 or \$7 per attendee).
- Each attendee receives a logo pen and key chain with an aggregate retail value of \$10.

**Determination of eligible amount: Ticket Price \$200 less meal \$100 = Eligible Amt \$100**

- As a result of applying the *de minimis* threshold, the value of the door prizes and the complimentary items received by a donor will not be viewed as an advantage in determining the eligible amount, since the total value of such prizes and items is \$17 per donor, which is less than the lesser of 10% of \$200 (\$20) and \$75.
- In this case, the amount of the advantage is \$100, which is not more than 80% of the ticket price (\$160). Accordingly, a tax receipt may be issued for the eligible amount.

## Situation Two: Charity Auctions and Lotteries

Generally, it is CRA's position that there will not be an eligible amount with respect to items obtained at charity auctions on the basis that the bid determines the value of the various items put up for auction.

- However, where the value of an item is clearly otherwise ascertainable (e.g., there is a retail price for the item) and made known to all bidders in advance, an eligible amount would be present where the amount bid is in excess of the posted value
- Where donative intent can be established, which may be the case where the posted value of the item does not exceed 80% of the accepted bid, a tax receipt may be issued for the eligible amount.

### **Example:**

- A corporate retailer donates mountain bike to a charity and charity puts it up for auction.
- The value of the bike is \$400 and this amount is posted with the item.
- Any successful bid of \$500 or greater would entitle the bidder to a donation receipt equal to the excess of the bid price over \$400 (i.e., the eligible amount is the excess).

The retailer donating the bike will be entitled to receive a tax receipt for \$400. If this represents a gift on the part of the retailer, the retailer will have revenue of \$400 pursuant to section 69 and a donation deduction of \$400. If the bike cost the retailer \$250, the result would be a profit of \$150 for tax purposes

- It is CRA's opinion that with regard to certain personal items such as, but not limited to, the jersey of a hockey player, the right to play golf with a particular person, and the right to dine with a particular person, the value of the item will be the amount of the bid such that there will not be an eligible amount.

## **Lotteries**

It is CRA's view that participants in lotteries, while perhaps influenced in choosing which lottery they will participate in by identity of organizing charity, are primarily motivated by the chance to win the significant prizes that are offered. Therefore, in some cases, while there may be element of donative intent, in our view the amount of the advantage cannot be reasonably quantified.

- Accordingly, it continues to be CRA's view that no part of the cost of a lottery ticket is a gift that may be receipted for income tax purposes.

### Situation Three: Concerts, Shows and Sporting Events

While a particular event may be a charity fund raiser and all or a portion of the proceeds designated in favour of a charity, there will need to be clear evidence that the ticket price is in excess of the usual and current ticket price to allow a finding that there is an eligible amount.

- Where the amount of the advantage (including the usual and current ticket price) is 80% or less of the actual ticket price, a tax receipt may be issued for the difference.
- If there is no reasonably comparable event, then no portion of the ticket price can be viewed as an eligible amount.

#### **Example:**

- Tickets are sold for \$200 to a fund raising concert featuring Performer X.
- Each participant receives a Performer X t-shirt that normally sells for \$20 and a CD that retails at \$15.
- Performer X put on a similar concert in Ottawa 8 months ago as part of her regular tour and the ticket price was \$100.

**Determination of eligible amount: Actual ticket price \$200 less comparable non-charity ticket price of \$100 and advantage of \$35 , the eligible amount of receipting is  $\$200 - \$135 = \$65$**

- The value of the complimentary items is \$35, which exceeds the lesser of 10% of \$200 (\$20) and \$75. Accordingly, the complimentary items are regarded as an advantage and must be taken into account in determining the eligible amount
- In this case, the amount of the advantage is \$135. Since this amount does not exceed 80% of the actual ticket price (\$160), a tax receipt may be issued for the eligible amount (\$65).

### Situation Four: Golf Tournaments

The following indicates the CRA's view in determining the value of the various components that may be present at a fund raising golf tournament for the purpose of determining the amount of the advantage received by a participant.

#### **1. Green fees**

- Normal green fees that would ordinarily be charged to a non-member playing the course at the time of the event.
- No amount would be allocated to members where members are not required to pay green fees.

#### **2. Cart rental**

- Regular cost of a cart rental.

#### **3. Meals**

- Price that would be charged if the meal were purchased separately at the course.

#### **4. Complimentary items**

- Amount that would have to be paid to acquire the merchandise at the donating retail outlet or the outlet from which the merchandise was obtained.

## 5. Door and achievement prizes

- The retail value of all such prizes is to be aggregated and allocated on a pro-rated basis to all attendees.

## 6. Hole-in-one prize

- Given that the approximate odds of a hole-in-one for an average golfer on any given par-3 are over 40,000 to 1 and the fact that such prizes are not guaranteed to be given (in fact, they are rarely awarded), the CCRA accepts that for any particular participant the value of the chance to win the prize is nominal, and therefore can be ignored.

## 7. Raffle tickets

- Where the raffle is conducted separately, the cost of raffle tickets is not considered a gift (this is essentially a lottery), and the value of the various prizes that will be won is not taken into account in determining the amount of the advantage.
- Note that if participation in the raffle is included in the participation fee, the prizes will be treated as door prizes.

### *Example:*

- A charity holds a fund raising golf tournament with a participation fee of \$200.
- There are 100 participants in the tournament some of whom are members of the golf course.
- The regular green fee for non-members on that day is \$50.
- Members are not required to pay green fees.
- The cart rental (included in the participation fee) is normally \$20.
- Each participant receives golf balls with a retail price of \$15.
- The retail price of supplied food and beverage excluding GST, PST and gratuities is \$30.
- The retail value of door and achievement prizes is \$2,000 (\$2,000/100 or \$20 per participant).
- The raffle tickets for a chance to win a number of other prizes are sold separately (i.e., the purchase of such tickets is not required).
- The hole-in-one prize is the use of an automobile for one year.

### Determination of eligible amount

Participation fee		\$200
Less: Green fee	\$50	
Cart rental	\$20	
Complimentary items/door and achievement prizes	\$35	
Food and beverage	\$30	
Hole-in-one prize	\$ 0	
Advantage		<u>\$135</u>
Eligible amount (non-members)		<u>\$ 65</u>

The total value of the complimentary items and the door and achievement prizes of \$35 to each participant exceeds the lesser of 10% of the participation fee of \$200 (\$20) and \$75. Accordingly, such items constitute an advantage in determining eligible amount.

- In the case of non-members, the amount of the advantage is \$135 and a tax receipt may be issued for the eligible amount of \$65
- In the case of members, the eligible amount would be increased to \$115 by the green fee that they would otherwise not have been required to pay.

- If the golf course normally offers group rates this would be taken into account. In the above example, if the course offers a reduced green fee of \$40 for tournaments where there are more than 50 participants, then \$40 instead of \$50 would be used for non-member green fees, which would result in an eligible amount of \$75.

If the amount of the advantage exceeded 80% of the participation fee (\$160), a tax receipt could not be issued due to the absence of donative intent

**FAQ: Golf tournaments from [CRA Newsletter #23](#), June, 2003**

**Q1. Would a private foundation that held an annual golf tournament be considered to be carrying on a business for the purpose of subsection 149.1(4) of the *Income Tax Act*?**

- No. An annual golf tournament held by a charity is considered a fundraising event. It does not contravene the above-mentioned subsection of the Act.

**Q2. When a company sponsors a hole by transferring property to a charity can this be considered a gift?**

- Whether the fair market value of the property transferred to a charity to sponsor a hole is the eligible amount of a gift depends on whether the company receives an advantage as a consequence of the transfer of property to the charity.
- If the company receives nothing in return for its payment, it has made a gift and is entitled to a receipt.
- However, when a company sponsors a hole, it is the Charities Directorate's experience that this generally involves some form of recognition of that gift.

**It is the Directorate's position that providing simple recognition of a gift does not, generally, constitute an advantage to a donor.**

- In this context, naming a hole after a donor company and/or placing a small, discrete sign at the hole is not necessarily an advantage.
- **However, as the level of recognition increases** (e.g., volume and visibility of signage) it is likely that the company is receiving a benefit in the form of advertising. Although providing advertising services to a donor company is not prohibited, in order to issue a receipt, the value of this advantage must be calculated and this amount will reduce the eligible amount of the gift the company can claim as a tax deduction.
- A portion of the expenditure may qualify as a gift when the value of advertising and other considerations received is less than 80% of the fair market value (FMV) of the gift.
- If the FMV of an advantage cannot reasonably be determined, no receipt can be issued. The CRA's guidelines on split-receipting were published in *Income Tax Technical News* No. 26 on December 24, 2002, and are on the CRA Web site at:  
<http://www.cra-arc.gc.ca/E/pub/tp/itnews-26/README.html>

**Where a company is able to claim such amounts as an advertising expense, the charity will benefit because this payment would not be receipted and therefore would not be part of its disbursement quota.**

**Q3. Can a receipt be issued to participants in a fundraising golf tournament?**

- Part of the cost to participants may be considered a gift. For example, normal green fees that would ordinarily be charged to a non-member playing the course at the time of the event would be considered a benefit that must be taken into account in determining the eligible amount of the gift. However, no amount would be allocated to members if members do not have to pay green fees.
- *Income Tax Technical News* No. 26 (<http://www.cra-arc.gc.ca/E/pub/tp/itnews-26/README.html>) gives information about determining the value of the various components that may be present at a fundraising golf tournament.

**Q4. When calculating the eligible amount of the gift for participants at a golf tournament, is the calculation based on the number of participants or the number of tickets sold?**

- Base the calculation on the number of tickets sold.

**Q5. If a company buys a block of tickets for a golf tournament for its employees to participate, who gets the receipt for the part that is a gift?**

- The receipt for the eligible amount goes to the purchaser. In this case, the company.

**Q6. Can a charity have an organization carry on a golf tournament for it?**

- A registered charity can engage a third-party organization or retain a fundraiser as an agent or other contractor to organize a fundraising event such as a golf tournament. However, the charity should maintain control over all the monies that are received as part of the event, and over any receipts that are issued.

**In particular, if the charity does not run the event substantially by itself through its own employees or volunteers, it should:**

- Put in place a written agreement stating the modalities of the fundraising arrangement;
- Make sure that tax receipts are issued only for the eligible amount of any gift;
- Make sure its tax receipts are signed by an authorized individual in conformity with the *Income Tax Regulations*;
- Be able to give the CRA a full accounting of the monies or that part of the monies donated to it, and the receipts that were issued in return; and
- Be able to account to the CRA for the value of any benefits or potential benefits received by the participants in the golf tournament resulting from their participation in the event.

**Q7. An organization has told us that they held a golf tournament on our behalf. They have asked us to issue receipts to attendees. Can we do this?**

- No. As mentioned above, a registered charity can contract an organization to carry on activities on its behalf. However, when an activity is carried on that a charity is not aware of; it is not possible to say that this is an activity of the charity. So the charity cannot issue receipts.

**Situation Five: Membership Fees**

Whether or not there is an eligible amount associated with the payment of membership fees or other amount to a registered charity of which an individual is a member will be determined on the basis of whether the membership fee or other amount exceeds the amount of the advantage.

- If the amount of the advantage is 80% or less of the payment to the charity, a tax receipt may be issued for the eligible amount.

**Example:**

The purpose of the registered charity is the promotion of Canadian theatre. For a contribution of \$250, a contributor will receive the following:

- Recognition as a donor in the charity's newsletter;
- A subscription to the charity's quarterly newsletter (otherwise available free of charge);
- The right to attend annual meetings;
- A monthly calendar of performances (otherwise available free of charge);
- An advance invitation to certain performances;
- An invitation to dress rehearsals (open to the general public);
- A pewter key chain (normally sold for \$10);
- A discount for certain performances (value of \$40); and
- Parking vouchers (value of \$40)

**Determination of eligible amount**

Contribution		\$250
Less: Complimentary items		
Key chain	\$10	
*Discount	\$40	
*Parking vouchers	\$40	
<u>Advantage</u>		<u>\$ 90</u>
Eligible amount		<u>\$160</u>

Since the amount of the advantage (\$90) received by a contributor is less than 80% of \$250 (\$200), donative intent may be presumed and a tax receipt may be issued in the amount of \$160. *\*The onus is on the charity to provide a value for these items. The value must be reasonable, given the facts of the particular situation.*

**Situation Six: Charitable Annuities**

Where an amount is contributed to a charitable organization by a donor, and the advantage received by the donor is a stream of guaranteed payments for a period of time, the eligible amount will be equal to the excess of the amount contributed by the donor over the amount that would be paid at that time to an arm's length third party to acquire an annuity to fund the guaranteed payments.

**Consider the following comparative example:**

- A donor makes a \$100,000 contribution to a charitable organization.
- The donor's life expectancy is 8 years (assume the donor lives 8 years).
- The donor is to be provided annuity payments of \$10,000 per year (\$80,000).
- The cost of an annuity that will provide \$80,000 over 8 years is \$50,000.

**Tax treatment under current administrative practice:**

- The donor receives a tax receipt for \$20,000 for the year of donation.
- The donor receives in total \$80,000 in annuity payments tax-free.

**Tax treatment – proposed:**

- The donor receives a tax receipt for \$50,000 for the year of donation.
- The donor receives in total \$80,000 in annuity payments, of which \$30,000 will be included in income over 8 years.

**Situation Seven: Mortgaged Property**

Where property, subject to a mortgage, is transferred to a charitable organization as a donation, all relevant factors, such as encumbrances other than mortgages, will need to be taken into account in determining the value of the transferred property. With regard to determining the eligible amount, the terms and conditions of the mortgage must be taken into account in determining the amount of the advantage.

***Example:***

- A building is transferred to a charitable organization wherein the only advantage given by the charitable organization is the assumption of a mortgage placed on the building.
- The value of the building determined without reference to the mortgage is \$1,000,000.
- The amount of the outstanding mortgage to be assumed by the charitable organization is \$400,000.

In order to determine the eligible amount, it will be necessary to value the mortgage. If the terms and conditions of the mortgage (e.g., interest rate, term) were representative of the current market, the eligible amount in the above example would be \$600,000. If the terms and conditions of the mortgage were "unfavourable" (e.g., high interest rate) such that the mortgagor would have to pay a third party \$450,000 to assume the mortgage, the eligible amount would be \$550,000.

## **Section One: Major Issues with Compliance**

### **First Reminder to Charities: Use of CRA as a resource**

- Charities are encouraged to sign up for automatic email updates – keep informed
- Visit website for specific information about policy interpretations – extensive resource
- Contact the CRA 1-800 number for specific advice and clarification if confused.

### **Major Issues with Compliance**

#### **General Comments:**

- Public trust is the sector's greatest asset – this is assured by compliance with CRA oversight and monitoring.
- Filing the information return is the most basic component of compliance monitoring
- Charitable status is a privilege – CRA will not be as lenient in the future with charities that do not file as required.
- Charities should make sure they meet CRA requirements for filing as a priority – bottom line: Losing charitable status negates all positive initiatives of the charity so it must be done properly. Charities need to devote adequate time and resources to its completion
- CRA wants to see what the charity is really doing not what they think CRA want to see
- The information CRA is asking for is important for effective monitoring. CRA would not ask for it unless they need to know it.

#### **Specific Comments:**

- Not reading the guide – thus, having difficulty with interpretations of CRA definitions and explanations.
- The calculation of Disbursement Quota – the clarification of this measurement is an ongoing issue that will require constant focus over next few years
- Organizations are not reporting their political activities
- Organizations are not reporting their fundraising correctly (should be the gross amount not the net amount and the cost of fundraising is often incorrectly recorded as a charitable expense or activity)

#### **Other comments:**

- Approximately 3500 charity registrations are approved each year. About 1500 have their status revoked and of that 500 re-apply for status.
- Rate of non-filing seems to be decreasing in recent years. Last year there were 2000
- Seems like new charities are better at compliance than older – possibly due to personal investment of founders in retaining status and high rate of turnover of staff in older charities (not same level of investment to original vision)
- CRA will personally contact charities that do not file with a telephone call and 2 or 3 letters to remind them – however, it is important that charities make sure CRA has their correct contact information so this can occur.
- CRA has enhanced and actively promoting Donor section of their website – report over 160,000 hits on website and expect more traffic as public becomes more aware of Donor section – need to charities to use this section as a marketing tool in the future and put as much information as

they can on their forms – CRA encourages donors to check their website and compare charity's returns before they give.

## **Section Two: Comments about Audit Process of CRA**

### **Background**

- Prompted by random selection, by complaint and internal “file selection process” – have selection criteria that help to identify “different returns” that need auditing.
- There are specific mandatory fields that CRA looks at as indicators for whether a return is acceptable or not – but will not disclose what these are.
- Office audit is new – working from Ottawa via correspondence to resolve specific issues

### **Four possible outcomes to an audit**

- No change – everything is ok, original flagged issue found acceptable
- Information letter or education letter – small changes outlined in letter
- Formal Compliance Agreement – compliance problems exist, thus this is a formal process that outlines specific changes to operational practice or activities to ensure compliance and requires authorized signature by charity.
- Revoke status – when registered charity refuses to sign Compliance Agreement or refused/cannot rectify violation of the Act.

### **General results of audits**

- CRA knows that people are not trying to mislead them – maybe only 3% are trying to be deceptive.
- HIGH PERCENTAGE OF AUDITS RESULT IN NO CHANGE – once the area of confusion or concern is addressed, then CRA is satisfied with compliance
- High rate of error for sector includes all minor things like spelling and addition errors. These should be resolved when Netfile system implemented because it won't allow blanks on form and will automatically do math calculations
- About 10 charities per year lose status for JUST CAUSE – this will increase in future because of more audits being conducted

## **Section Three: Checklist of Common Errors**

CRA creates a summary of the flagged errors on the T3010A form. This provides information about common errors made by charities - based on analysis of the 2004 returns.

### **Overall Package**

- Did not return the BASIC INFORMATION SHEET with return

### **Section A: IDENTIFICATION**

- Line A3 – was charity linked in a subordinate way – if yes, need name of the organization that is charity is subordinate to, along with BN #

### **Section B: DIRECTORS/TRUSTEES AND LIKE OFFICIALS**

- Actually rate of errors decreased in this section over 2003 error rate
- Birthdays most frequently missing
- Whether Directors/Trustees are at arm's length needs to be identified

- Missing postal codes for Directors/Trustees

### **Section C: Programs and General Information**

- Active charities that reported no charitable program expenditures in Section E (line 5000) and/or no gifts to Qualified Donees (line 5050)
- Line C2 – did not provide program descriptions or (more often) did not provide the location of the program
- Lines C3 and C4 – Active charities that did not completing these sections
- Errors with foreign programs– most common was foreign programs specified but no amount given on line 5400 for expenditures
- Country names that CRA did not recognize – misspelled or using regions rather than country names (must use country name)

### **Section D: Compensation**

- Line D5 - Charities reporting that they were compensating directors/trustees
- Lines not adding up to total given
- In Section E – charities indicated they were paying salaries but did not complete D1 to D4 to indicate who was receiving the wages paid.

### **Section E: Financial Information**

- Line E1 – did not identify whether using cash or accrual
- Most errors related to lines not adding up to totals given or line items not being the same as corresponding line items.
  - Line 4200 not being equal to lines 4100 through 4170
  - Line 4950 not being equal to lines 5000 through 5040
  - Line 5100 not being equal to line 4950 plus 5050
- Qualified donees section - total amount of all gifts to Qualified donees not equal to line 5050 and not identifying BN # of Qualified Donee
- Line 4880 – salaries entered but no entries in section D1through D4 indicating staff

### **Section F: Other Required Information**

- Line F10 – average property not used for charitable purposes - because didn't enter amount on Line 5900 and 5910 and were not exempt

### **Section G: For Foundations Only**

- Charities that were not Foundations but reported in this section
- Charities completing information for private foundations that were not private foundations

### **Section H: Certification**

- T3010A were not signed

### **Section I: Confidential Data**

- Line I1 – physical address given inaccurate
- Line I2 – did not indicate the location of their books and records

#### Section Four: “Double Check-List”

This is a list of the most common errors on the T3010A information return. These areas should be “double checked” to ensure accuracy before forwarding return to CRA. This list is a summary of the information provided in Section C of this fact sheet

Section	Issue to check	OK
<b>General</b>	Did you return the BASIC INFORMATION SHEET with return?	
<b>A</b>	Line A3 – If your charity is linked in a subordinate way, did you answer yes and identify the organization that is charity is subordinate to, along with BN # of the linked charity?	
<b>B</b>	Did you include birthdays of individuals mentioned?	
	Did you indicate whether individuals were at arm’s length or not?	
	Did you put in the postal codes for each individual?	
<b>C</b>	If an active charity, there should be charitable program expense (line 5000) in Section E and/or gifts to Qualified Donees (line 5050)	
	Line C2 – Did you provide program details and the location of the program?	
	Did you complete line C3 and C4 if you were an active charity?	
	If you specified a foreign program, did you give an amount on line 5040 for expenditures?	
	Did you indicate an identifiable country name for your programs?	
<b>D</b>	Line D5 – Did you report all compensation to directors/trustees?	
	Did you re-add the totals given in this section?	
<b>E</b>	Line E1- Did you identify whether you are using Cash or Accrual accounting methods?	
	Did you check adding of lines 4100 through 4170?	
	Did you check adding of lines 5000 through 5040?	
	Does line 5100 equal line 4950 plus line 5050?	
	Qualified Donees – Does the total amount of all gifts to QD add up to line 5050?	
	Did you put the BN# on each Qualified Donee?	
	Line 4880 – Did you enter salaries here but did not indicate any staff in lines D1 to D4?	
<b>F</b>	Line F10 – Did you enter the value of average property not used for charitable purposes on line 5600 and 5910 if you were not exempt by CRA?	
<b>G</b>	Do not fill any information in this section unless you have a private foundation designation	
<b>H</b>	Did you get the T3010A signed by authorized personnel?	
<b>I</b>	Line I1 - Is this address correct?	
	Line I2 –Did your indicate the location of your books and records?	

## **Section One: General Information on Political Activities**

### **1. Policy Statement on Political Activities**

This policy statement replaces Information Circular 87-1, *Registered Charities — Ancillary and Incidental Political Activities*, and provides information for registered charities on political activities and allowable limits under the *Income Tax Act* (the *Act*).

It also provides a framework that explains how we distinguish between political and charitable activities. In addition, it seeks to clarify the extent to which charities can usefully contribute to the development of public policy under the existing law.

### **2. General Guidelines for registered charities**

Under the *Act*, a registered charity must devote all of its resources to charitable purposes and activities.

- Notwithstanding this general rule the *Act* allows a small amount of resources to be used for political activity.
- The information in this policy statement as a **general guide only**. In cases of appeal, a decision about an organization's activities will ultimately depend on how a court interprets the facts of a specific situation.

In order to serve the public, the information charities give on public policy issues should be presented in an informative, accurate, and well reasoned way to enable society to decide for itself what position to take.

- In addition, when charities choose to contribute to public policy debates, they are required by law to do so in a way that considers certain constraints.
- A charity cannot be established with the aim of furthering or opposing the interests of a political party, elected representative, or candidate for public office.
- Also, a charity cannot be formed to retain, oppose, or change the law, policy, or decision of any level of government in Canada or a foreign country.
- However, charities may choose to advance their charitable purposes by taking part in political activities if they are connected and subordinate to those purposes.

### **3. The difference between political purposes and charitable purposes**

All registered charities are required by law to have exclusively charitable purposes. Under the *Act* and common law, an organization established for political purposes cannot be a charity.

**The courts have determined political purposes to be those that seek to:**

- a. Further the interests of a particular political party; or support a political party or candidate for public office; or
- b. Retain, oppose, or change the law, policy, or decision of any level of government in Canada or a foreign country.

**The main reason why the courts rule out political purposes for charities is a result of the requirement that a purpose is only charitable if it generates a public benefit.**

- A political purpose, such as seeking a ban on deer hunting, requires a charity to enter into a debate about whether such a ban is good, rather than providing or working towards an accepted public benefit.
- It also means that in order to assess the public benefit of a political purpose, a court would have to take sides in a political debate. In Canada, political issues are for Parliament to decide, and the courts are reluctant to encroach on this sovereign authority

#### **4. Unstated purposes and devoting more than the allowable maximum of a charity's total resources to political activities**

When a charity focuses substantially on one particular charitable activity so that it is no longer subordinate to one of its stated purposes, we may question the legitimacy of the activity at law. This is because when an activity is no longer subordinate to a charity's purposes, it may indicate that the charity is engaging in an activity outside its stated objects, or pursuing an unstated:

Collateral political purpose, non-charitable purpose or charitable purpose

- In such circumstances, rather than just considering the explicit purpose of the activity in question, we will consider all the facts and determine whether it is reasonable to conclude that the charity is focusing substantially on a particular activity for an unstated political purpose.
- In addition, when a charity's purposes are clearly charitable, but it devotes more than the allowable maximum of its resources to political activities, we may consider that the charity is operating to achieve a political objective that is not stated in its governing documents, and it will consequently risk revocation.
- Finally, it is important to bear in mind that some purposes can only be achieved through political intervention and legislative change. For example, a purpose such as improving the environment by reducing the sulphur content of gasoline would very likely require changes in government regulations. Generally, any purpose that suggests convincing or needing people to act in a certain way and which is contingent upon a change to law or government policy (e.g., "the abolition of" or "the total suppression of animal experimentation") is a political purpose.

#### **5. What kinds of activities can a charity participate in?**

Although an organization established for a political purpose cannot be registered as a charity, a registered charity may take part in some political activities as a way of furthering its charitable purpose(s).

- However, charities do not have complete freedom to support any cause they like.
- Special legal rules apply to charities because of their charitable and tax statuses.
- A charity wishing to carry out activities that go beyond the limits permitted by the *Act* may establish a separate and distinct organization that will not be a registered charity and therefore not able to issue charitable receipts. No limitations are placed on the political activities of such a body; it has complete freedom within the law to support any cause it chooses. But the charity cannot fund that

separate organization or make resources available to it for any otherwise impermissible political activity.

**6. For the purposes of this policy, a charity's activities can be divided into three separate types:**

**a. Prohibited activities**

A charity may not take part in an illegal activity or a partisan political activity.

- A partisan political activity is one that involves direct or indirect support of, or opposition to, any political party or candidate for public office. When a political party or candidate for public office supports a policy that is also supported by a charity, the charity is not prevented from promoting this policy. However, a charity in this situation must not directly or indirectly support the political party or candidate for public office.

This means that a charity may make the public aware of its position on an issue provided:

1. It does not explicitly connect its views to any political party or candidate for public office;
2. The issue is connected to its purposes;
3. Its views are based on a well-reasoned position;
4. Public awareness campaigns do not become the charity's primary activity.

In addition, a charity in this situation is also subject to the restrictions this guidance places on non-partisan political activity, public awareness campaigns and communications with an elected representative or public official.

- Finally, a charity may provide information to its supporters or the public on how **all** the Members of Parliament or the legislature of a province, territory or municipal council voted on an issue connected with the charity's purpose. However, a charity must not single out the voting pattern on an issue of any one elected representative or political party.

**b. Political activities**

A charity may take part in political activities if they are non-partisan and connected and subordinate to the charity's purposes.

CRA presumes an activity to be political if a charity:

1. explicitly communicates a call to political action (i.e., encourages the public to contact an elected representative or public official and urges them to retain, oppose, or change the law, policy, or decision of any level of government in Canada or a foreign country);
2. explicitly communicates to the public that the law, policy, or decision of any level of government in Canada or a foreign country should be retained (if the retention of the law, policy or decision is being reconsidered by a government), opposed, or changed; or
3. explicitly indicates in its materials (whether internal or external) that the intention of the activity is to incite, or organize to put pressure on, an elected representative or public official to retain, oppose, or change the law, policy, or decision of any level of government in Canada or a foreign country.

## c. Charitable activities

See section 2 for details

### 7. When is communication a charitable activity?

In carrying out their mandate, registered charities often have to communicate with the public or public officials. The following sections outline when such communication activities are charitable and when they are not.

#### 7.1 Public awareness campaigns

A charity's public awareness campaigns aim to give useful knowledge to the public to enable them to make decisions about the work a charity does or an issue related to that work.

- When a registered charity seeks to foster public awareness about its work or an issue related to that work, it is presumed to be taking part in a charitable activity as long as the activity is connected and subordinate to the charity's purpose.
- In addition, the activity should be based on a position that is well-reasoned, rather than information the charity knows or ought to know is false, inaccurate, or misleading.
- Finally, although the CCRA acknowledges that material produced in support of a public awareness campaign may have some emotional content, it would be unacceptable for a charity to undertake an activity using primarily emotive material.

**Note:** Organizations that provide information or promote a point of view, as their sole or main activity cannot qualify as a charity under the head of advancement of education. There is an important difference between a charity educating people in a way that furthers an educational purpose and an organization merely circulating information to the public about its work.

#### 7.2 Rule about providing contact information during public awareness campaigns

Some media do not have much space for information or are time-limited (e.g., advertisements on buses or television). In these cases, the charity should ensure that the advertisement shows how interested parties can get background information. The charity's telephone number, mailing address, and/or Internet address should be provided.

#### 7.3 Communicating with an elected representative or public official

When a registered charity makes a representation, whether by invitation or not, to an elected representative or public official, the activity is considered to be charitable.

- Even if the charity explicitly advocates that the law, policy, or decision of any level of government in Canada or a foreign country ought to be retained, opposed, or changed, the activity is considered to fall within the general scope of charitable activities.

However, such activity should be subordinate to the charity's purposes and all representations should:

- Relate to an issue that is connected to the charity's purposes;
- Be well-reasoned (or where time constraints make this impractical, should be based on a well-reasoned position and such a position should be submitted in a timely manner to the elected representative or public official concerned); and
- Not contain information that the charity knows or ought to know is false, inaccurate, or misleading.

### 7.3.1 Releasing the text of a representation

Releasing the text of a representation before or after delivering it to the elected representative or public official will be considered a charitable activity provided the **entire text** is released and there is no explicit call to political action either in the text or in reference to the text (i.e., others should not be told to contact an elected representative or public official and urge them to retain, oppose, or change the law, policy, or decision of any level of government in Canada or a foreign country).

- The charity may issue the entire representation to the public by using a press release or its Web site.
- The charity may also explain in a newsletter that it intends to make, or has made, the representation and is willing to distribute the information to anyone who wants a copy. In all cases, the **entire** representation should be made available.
- Should a charity make an explicit call to political action in any part of this representation or in reference to it, the activities could be regarded as political activities and, as a result, all resources and expenditures associated with these activities could be considered to have been devoted to a political activities

## 8. Education as a charitable purpose and how it differs from public awareness

The courts stipulate that to qualify as a charity under the head of advancement of education, a targeted attempt must be made to educate others—there must be some structure. It is not enough to simply provide an opportunity for people to educate themselves by making materials available with which they may accomplish this but need not.

To advance education in the charitable sense means:

- Training the mind;
- Advancing the knowledge or abilities of the recipient;
- Raising the artistic taste of the community; or
- Improving a useful branch of human knowledge through research.

A charity whose object includes the advancement of education must take care not to disregard the boundary between education and propaganda. To be considered charitable, an educational activity must be reasonably objective and based on a well-reasoned position. This means a position that is based on factual information that is methodically, objectively, fully, and fairly analyzed. In addition, a well-reasoned position should present (i.e., address) serious arguments and relevant facts to the contrary.

- We all agree with the appellant that educating people from a particular political or moral perspective **may be** educational in the charitable sense in that it enables listeners to make an

informed and critical choice. However, an activity is not educational in the charitable sense when it is undertaken "solely to promote a particular point of view"

- The degree of bias in an activity will determine if it can still be considered educational. The materials of some organizations may have such a slant or predetermination that we can no longer reasonably consider them as educational.
- Also, to be educational in the charitable sense, organizations must not rely on incomplete information or on an appeal to emotions. Even in a classroom setting, promoting a particular point of view may not be educational in the charitable sense. As a result, courses, workshops, and conferences may not be charitable if they ultimately seek to create a climate of opinion or to advocate a particular cause.

## 9. What expenditure limits does the *Income Tax Act* impose on political activities?

When a charity takes part in political activities, the *Act* requires that **substantially all** of its resources must be devoted to charitable activities. The term resources is not defined in the *Act*, but we consider it to include the total of a charity's financial assets, as well as everything the charity can use to further its purposes, such as its staff, volunteers, directors, and its premises and equipment.

- We usually consider **substantially all** to mean 90% or more.
- Any charity using at least this amount of its various resources for charitable work can be assured that we will not revoke its registration on the basis that it is not devoting enough of its resources to charitable activities.
- Therefore, as a general rule, we consider a charity that devotes no more than 10% of its total resources a year to political activities to be operating within the **substantially all** provision.

However, we recognize that this may have a negative impact on smaller charities. In an effort to alleviate this hardship, we will exercise our discretion and not revoke the registration of smaller charities for the excessive use of their resources on political activities as long as they meet the following administrative guidelines:

- Registered charities with **less than \$50,000** annual income in the previous year can devote up to 20% of their resources to political activities in the current year.
- Registered charities whose annual income in the previous year was **between \$50,000 and \$100,000** can devote up to 15% of their resources to political activities in the current year.
- Registered charities whose annual income in the previous year was **between \$100,000 and \$200,000** can devote up to 12% of resources to political activities in current year.

### 9.1 Averaging a registered charity's political activities over a number of years

A charity risks revocation if it devotes more than the allowable maximum of its total resources in a fiscal year to political activities.

- However, infrequent, short-term, one-of-a-kind political activities in excess of this amount will not necessarily disqualify a charity under the **substantially all** test.
- For example, an environmental conservation charity may decide to mobilize public support in favour of an international environmental treaty by taking out a full-page advertisement in a national

newspaper (thereby devoting more than 10% of its total resources that year to political activities) because it reasonably considers that ratifying the treaty would help the charity achieve its goals.

- In such cases, when deciding whether to revoke the charity's registration, we will consider whether the resources of the charity are still **substantially all** directed toward its charitable objectives, and if there were unique one-time conditions that led the charity to devote an unusual amount of its resources to political activities.
- CRA will determine this by looking at the year under review and comparing it to the charity's past expenditure patterns and behaviour over one or more previous years. To allow it to overspend in one year, a registered charity can use the unclaimed portion of resources it was allowed to spend but did not spend on political activities from up to two preceding years.
- It is therefore extremely important that registered charities complete their annual return, the *Registered Charity Information Return* (form T3010A), as accurately as possible.

#### **10. Can a charity give its resources to another organization of individuals to conduct political activities on its behalf?**

Yes. A charity can hire others to conduct on its behalf any political activities that it is allowed to undertake itself. This includes hiring professional lobbying firms.

- If the other organization is also a registered charity, see the next section on how such expenditures affect the spending requirements (disbursement quota) of the two charities.

#### **11. What impact do political activities have on a charity's disbursement quota?**

While a registered charity can engage in political activities as described above, the *Act* limits its expenditures on these activities, not only through the **substantially all** test, but also through the operation of the charity's disbursement quota.

- To maintain their registration under the *Act*, charities are required to spend a certain minimum amount of receipted donations each year (the disbursement quota) directly on their charitable activities or on gifts to certain other organizations. These other organizations (qualified donees) are usually other registered charities.
- Charities cannot use the amounts they devote to political activities to help them meet their disbursement quota. Therefore, they should check to make sure they would have no difficulty meeting their quota before considering any expenditure on political activities.
- Sometimes charities support the political activities of other charities or pay them to conduct political activities on their behalf. The impact of these payments on a charity's disbursement quota depends on whether the payment represents:
  - A purchase of services; or
  - A gift to help support the other charity's political activities.

If the payment is a purchase of services, neither the paying charity nor the recipient charity can use the amount to satisfy their disbursement quotas.

If the payment is a gift, the paying charity can use the amount gifted to meet its disbursement quota (as a gift to a qualified donee). Since the recipient charity will be spending the gifted amount on its own political activities, it cannot use the amount it spends to satisfy its disbursement quota.

**NOTE:** Registered charities cannot make gifts to organizations that are not qualified donees.

## 12. What records should a charity keep?

An organization that is involved in political activities will be expected to identify any expenditures made on such activities in order to demonstrate that **substantially all** of its resources have been devoted to charitable activities.

- Where expenditures relate in part to political activities and in part to other activities, a reasonable allocation should be made and the methodology should be consistent from year to year.
- Where **substantially all** (90 % or more) of an expense is for charitable activities, then the whole expense should be considered a charitable expense.
- Similarly, if the expense relates substantially to a political activity, the whole expense should be counted as a political expense.
- In addition to its financial resources, any physical and human resources must be devoted substantially to its charitable purposes and activities.
- A charity should choose record-keeping methods suited to its operations provided that the method chosen is consistently applied, complies with the requirements of the *Act*, and is sufficient to disclose its position.

## 13. What are the filing requirements?

All registered charities must complete and file an annual return, the *Registered Charity Information Return* (form T3010A). Sections C7 and E5 of this Return asks for details concerning the charity's involvement in political activities.

### Section Two: Examples of activities undertaken by a charity

The following are hypothetical scenarios involving a charity called Healthy Retirement and. It was formed to promote the health of seniors in Canada. It has received a lot of media attention on its recently released, well-reasoned position on the hazards for seniors of using marked crosswalks. It concludes from its findings that a senior is four times more likely to be involved in a fatal accident with a car at a marked crosswalk than at an intersection with a stop sign or a light.

#### 14.1 Charitable activities – Scenarios that are ACCEPTABLE

##### 14.1.1 Scenario 1: Distributing the charity's research

Healthy Retirement distributes the results of its research to the media, its members, other charities that specialize in promoting the health and welfare of seniors, the general public, and anyone interested in its findings. It also publishes its report in medical association journals and on its Web site, and highlights its release in a newsletter sent to subscribers.

- In these cases, all the resources devoted to the research and distribution of the findings are considered resources devoted to charitable activities because:
  - the activities are connected and subordinate to the charity's purposes;
  - they do not contain a call to political action; and
  - they are based on a well-reasoned position.

#### **14.1.2 Scenario 2: Distributing the research report to election candidates**

Healthy Retirement decides to send its report to all candidates in a municipal election to inform them about the hazard marked crosswalks pose for seniors.

- This is a charitable activity because it is connected and subordinate to the charity's purpose. In addition, no one candidate is favoured over another.

#### **14.1.3 Scenario 3: Publishing a research report online**

A major finding of the report was that many motorists fail to respect the right-of-way at marked crosswalks. When Healthy Retirement publishes its report online, it highlights this fact and urges motorists to observe the law.

- This is still a charitable activity because it is encouraging people to respect the existing law on an issue that relates to its purposes.

#### **14.1.4 Scenario 4: Presenting the research report to a Parliamentary Committee**

The research director of Healthy Retirement presents the charity's findings to a Parliamentary Committee formed to hear representations on whether there should be stiffer penalties in the *Criminal Code* for dangerous operation of a motor vehicle. She ends her representation with a recommendation (based on a well-reasoned position) that a driver failing to observe the pedestrian right-of-way at a marked crosswalk should be automatically subject to a charge of dangerous operation of a motor vehicle, as a deterrent.

- Even though the charity explicitly proposed a political solution to the problem, this activity is charitable because it is a communication to an elected official based on a well-reasoned position.

#### **14.1.5 Scenario 5: Giving an interview about the research report**

Following her representation, as the research director of Healthy Retirement is leaving Parliament; she is stopped by the media and interviewed for television and radio about what she said and the report. She outlines her representation and repeats the conclusion that on the basis of the research the charity has done, the charity thinks that the number of pedestrian deaths involving seniors might be reduced if drivers that failed to recognize the right-of-way of pedestrians at marked crosswalks faced stiffer penalties.

- This interview is not a political activity because the research director did not arrange a media campaign to publicize the charity's conclusion that the law should be changed; she simply explained what she said to the elected representatives.

#### **14.1.6 Scenario 6: Distributing the research report to all Members of Parliament**

A bill is being debated in Parliament. The bill proposes a change to the *Criminal Code* that would allow a driver who fails to observe the pedestrian right-of-way at a marked crosswalk to be charged with dangerous operation of a motor vehicle. Healthy Retirement gives Members of the House, for use in

debate, a relevant well-reasoned position regarding how such a charge may encourage drivers to uphold the law and thereby save lives.

- This is a charitable activity because Healthy Retirement is informing elected representatives about its work on an issue that is connected and subordinate to the charity's purposes and based on a well-reasoned position.

#### **14.1.7 Scenario 7: Participating in an international policy development working group**

The research director of Healthy Retirement is asked to join a working group of the World Health Organization that is gathering together government policy makers, academics, and voluntary sector representatives from around the world to develop a charter to promote the health of senior citizens. Such an activity is connected and subordinate to the charity's purpose.

- Although the director is taking part in an initiative organized by an international body, this kind of activity is considered to be like communicating with a public official because government policy-makers are also invited (whether or not they actually attend). Therefore, as long as the director's contribution is based on a well-reasoned position, the resources of the charity devoted to developing such a charter are viewed as resources devoted to a charitable activity.

#### **14.1.8 Scenario 8: Joining a government advisory panel to discuss policy changes**

A provincial government launches a Health Sector Initiative to look at ways of improving its service delivery to residents of the province. Healthy Retirement is asked to join an advisory panel with other health charities and public officials to discuss possible policy changes. Based on a well-reasoned position, Healthy Retirement suggests that the province should increase its number of long-term hospital care beds for the elderly.

- Although the charity is recommending a change in provincial health policy, the charity's involvement in the advisory panel is a communication to a group of public officials based on a position that is well-reasoned. Therefore, the resources devoted to the activity are resources devoted to a charitable activity.

### **14.2 Charitable activities – Scenarios that are UNACCEPTABLE**

#### **14.2.1 Scenario 1: Supporting an election candidate in the charity's newsletter**

Healthy Retirement sends a newsletter to all its members that contain an editorial from the managing director of the charity conveying his views on the main issues it is currently facing. Just before an election, the director uses the column to give his personal support to the re-election of a candidate who happens to endorse a policy that the charity also supports. The director uses his personal funds to pay for that edition of the newsletter.

#### **NOT APPROPRIATE**

In this case, the charity is engaging in a prohibited partisan political activity because although the director paid for that edition of the newsletter, it is an official publication of the charity and is being used to promote a candidate for an election.

#### **14.2.2 Scenario 2: Distributing leaflets highlighting lack of government support for charity goals**

Healthy Retirement decides to distribute leaflets to members of the public during a federal election campaign. The leaflets highlight its research findings that drivers do not respect the pedestrian right-of-way at marked crosswalks. It also states that a private members bill that proposed to increase the penalties imposed on drivers failing to give the right-of-way to pedestrians at marked crosswalks did not become law because government-side Members of Parliament voted against it.

#### **NOT APPROPRIATE**

In this case, the distribution of the leaflets is a prohibited partisan political activity because it could mobilize public opinion against the current government for failing to enact the private members bill. Whatever the issue, a charity is not permitted to directly or indirectly support or oppose any political party or candidate for public office, at any level of government. Had the charity merely published a leaflet that showed how **all** the Members of Parliament voted on the private members bill, we would not have viewed this to be a partisan political activity.

#### **14.2.3 Scenario 3: Preparing dinner for campaign organizers of a political party**

During a provincial election campaign, Healthy Retirement invites, to one of its monthly "heart smart" dinners, all those involved in organizing the campaign for a political party that promotes policies targeted at increasing health spending on respite care for seniors. The campaign team is treated to a delicious three-course meal that is low in fat and salt, and they receive information about the charity's programs.

#### **NOTE APPROPRIATE**

This is a prohibited partisan political activity because the charity is providing direct support, by way of a free meal, to campaign organizers of a political party.

#### **14.2.4 Scenario 4: Inviting competing election candidates to speak at separate events**

Healthy Retirement invites a candidate in a municipal election, who is in favour of increasing the money available to deliver hot meals to seniors in poor health, to talk about a particular issue on the candidate's electoral platform that is consistent with the charity's goals at its well-attended annual fundraising dinner. At a later date, it invites the other candidate in the election to speak at its poorly attended annual general meeting.

#### **NOTE APPROPRIATE**

The charity does not endorse either candidate at either meeting and no political fundraising occurs. Nevertheless, as the charity is not giving an equal opportunity for candidates seeking the same office to speak, it is possible to infer that the charity is indirectly supporting a particular candidate for public office and is therefore engaged in a prohibited partisan political activity. To avoid this assumption, a charity must ensure that in such circumstances, they invite all the candidates in an election to speak at the same time. Furthermore, the charity must give the candidates an equal amount of time to speak on their general platform.

## **14.3 Permitted Political Activities**

### **14.3.1 Scenario 1: Buying a newspaper advertisement to pressure the government**

Healthy Retirement takes out a full-page "Save Our Seniors" advertisement in a national newspaper to promote the well-reasoned position it has taken in its recent research. The advertisement states that the federal government is devoting proportionately less resources to senior health care now than ever before, and urges it to reverse this trend.

- This is political activity because it is an explicit communication to the public that federal government policy on an issue that relates to Healthy Retirement's purposes should be changed.

### **14.3.2 Scenario 2: Organizing a march to Parliament Hill**

Parliament is debating the possibility of increasing the level of the Old Age Security benefits as a result of increases in the cost of fuel. Healthy Retirement has just published its research that sets out the well-reasoned position that 10% of seniors are malnourished because, once they have paid for fuel; they have little money to spend on food. The executive director of Healthy Retirement sends an email to the charity's staff asking them to organize a march to Parliament Hill to coincide with the debate. He indicates that the purpose of the march is to highlight the charity's recent findings and to put pressure on Members of Parliament to vote for increases in the level of the Old Age Security Pension. On the day of the march, Healthy Retirement gives participants placards that state, "Seniors cannot afford to eat" and the address of the web site of the charity where the report can be downloaded.

- As the executive director's internal email explicitly indicates that the purpose of the march is to put pressure on the government to change its policy on this issue, it is a political activity.

### **14.3.3 Scenario 3: Organizing a conference to support the charity's opinion**

Healthy Retirement organizes conferences and workshops to gain support for its point of view that penalties for motorists failing to observe the right-of-way for pedestrians at marked crosswalks need to be increased as a deterrent. It also advocates its well-reasoned position that all marked crosswalks should be updated to include a stop sign or light.

- A charity that organizes a conference or workshop that explicitly promotes its point of view on an existing or proposed law, policy, or decision of any level of government, in Canada or a foreign country that relates to the way it achieves its purposes is engaged in a political activity.

### **14.3.4 Scenario 4: Hiring a communications specialist to arrange a media campaign**

A driver that failed to observe the right-of-way at a marked crosswalk accidentally kills three seniors from the same seniors' residence. There is a public outcry about the accident and the safety of marked crosswalks. The provincial government where the accident occurs reviews its policy on marked crosswalks and holds consultations with stakeholders to get their views on the issue. Healthy Retirement is asked to present its well-reasoned position on the matter.

- The presentation is a charitable activity because Healthy Retirement is informing elected representatives about its work on an issue that is connected and subordinate to the charity's purposes and based on a well-reasoned position.
- However, following its representation, Healthy Retirement concludes that the elected representatives were not enthusiastic about its well-reasoned position that marked crosswalks should be banned. The charity therefore decides to hire a communications specialist to arrange a media campaign to highlight its view that marked crosswalks should be banned. Note that this is not the same as saying that crossing at a crosswalk is four times as dangerous as crossing at a traffic light. From this point onwards, we will view the activity to be a political activity because the media campaign will explicitly communicate to the public that the law should be changed so that crosswalks are banned.

#### **14.3.5 Scenario 5: Using a mail campaign to urge supporters to contact the government**

Healthy Retirement organizes a mail campaign by giving its supporters and members of the public a summary of its well-reasoned position on the dangers of marked crosswalks. The charity also encourages them to write to their municipal councillor and ask them to update the municipal marked crosswalks to include a stop sign or a light.

- Whatever level of government the charity is urging its supporters and members of the public to contact, on whatever issue, such a communication is a call to political action and therefore a political activity.

#### **14.3.6 Scenario 6: Organizing a rally on Parliament Hill**

Parliament is debating the possibility of increasing the penalties for offences in the *Criminal Code*. Healthy Retirement decides to organize a rally on Parliament Hill to coincide with the debate. When Healthy Retirement advertises the rally it invites the public to join it in sending a message to Ottawa that Canadians want drivers who fail to stop at marked crosswalks should be charged under the *Criminal Code* with the offence of dangerous operation of a motor vehicle.

- Explicitly communicating to the public that the law should be changed in this way is a political activity. It is also a political activity to organize a rally with the explicit purpose of pressuring any level of government in Canada, or a foreign country, to change the law.

#### **Definitions relevant to Political Activities**

**Advocacy:** Advocacy is demonstrated support for a cause or particular point of view. Advocacy is not necessarily a political activity, but it sometimes can be. Refer to the definition of political activities in **section 6.2 above**.

**Ancillary and incidental:** In this policy statement, ancillary is defined as connected and incidental is defined as subordinate to make these concepts more easily understandable.

**Call to political action:** A call to political action is an appeal to the members of the charity or to the general public, or to segments of the general public, to contact an elected representative or public official to urge them to retain, oppose or change the law, policy or decision of any level of government.

**Connected activity:** An activity that relates to and supports a charity's purpose(s) and represents a reasonable way to achieve them.

**Elected representative:** A person who is a member of the Parliament of Canada or the legislature of a province, territory, or municipal council. It also includes an elected member of a legislative body, a school board, or a ruling member of government in a foreign country.

**Factual information:** Information used or produced by a registered charity that is based on facts resulting from the charity's direct experience or research from a reputable source. Research should be methodical and objective.

**Political activities:** Our administrative interpretation of this term is set out in **section 6.2 above**.

**Political purpose:** The courts consider the following to be political purposes:

- To support a political party or candidate for public office; or
- To seek to retain, oppose, or change the law or policy or decisions of any level of government in Canada or a foreign country.

**Public official:** Any person employed by any level of government in any country that is responsible for the laws, policies, or decisions made in a given field.

**Subordinate activities:** Activities that are subservient to a charity's dominant charitable purpose or are a minor focus of the charity. To determine whether this requirement is met, the activity should be considered in relation to the charity's entire program of activities. If the activity becomes the main way of furthering the charity's purposes, it may no longer be a minor focus of the charity, but an end or unstated purpose in itself.

**Well-reasoned position:** A position based on factual information that is methodically, objectively, fully, and fairly analyzed. In addition, a well-reasoned position should present/address serious arguments and relevant facts to the contrary.

## Appendix 1: Additional Resources

In addition to the resources available at [www.thecharitiesfile.ca](http://www.thecharitiesfile.ca); the Canada Revenue Agency's Charities and Giving website (<http://www.cra-arc.gc.ca/tx/chrts/menu-eng.html>) provides additional reference sources to assist charities to govern the day to day activities of their organization.

These resources include:

- Registered Charities and the Income Tax Act  
<http://www.cra-arc.gc.ca/E/pub/tg/rc4108/rc4108-02e.pdf>
- Registered Charities: What's new? Important changes to the law affecting registered charities  
<http://www.cra-arc.gc.ca/E/pub/tg/rc4414/rc4414-07e.pdf>
- Basic Guidelines for Maintaining Charitable Registration  
<http://www.cra-arc.gc.ca/E/pub/xi/rc206/rc206-e.pdf>
- Registering a Charity for Income Tax Purposes  
<http://www.cra-arc.gc.ca/E/pub/tg/t4063/t4063-01e.pdf>
- Checklists for Charities  
<http://www.cra-arc.gc.ca/tx/chrts/chcklsts/menu-eng.html>
- Additional resources are also available on the Charities and Giving website to assist charities in completing the Registered Charity Information Return. These resources can be found at:  
<http://www.cra-arc.gc.ca/tx/chrts/prtng/rtrn/menu-eng.html>
- Related forms and publications can be found at:  
<http://www.cra-arc.gc.ca/tx/chrts/formspubs/menu-eng.html>

It is also highly recommended to register for the Charities and Giving - What's new electronic mailing list at <http://www.cra-arc.gc.ca/esrvc-srvce/mlst/sbscrbchrts-eng.html>.

To learn more about completing the Registered Charity Information Return (T3010A) visit the Legal Society of Nova Scotia's website at:

<http://www.legalinfo.org/index.php?option=content&task=view&id=172> to view their annotated T3010A Registered Charity Information Return and related forms.

The material contained in this workbook is **for information purposes only** and should not be taken as advice.