

Obligations of Registered Charities

Presentation for Support4Communities

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The focus of this presentation is to highlight the responsibilities that accompany registered charity status:

1. Difference between registered charities and NPOs
2. Devotion of resources (funds, personnel, and property) to charitable purposes and activities
3. Maintaining adequate books

4. Filing of the T3010 Annual Information Return
5. Fee-based Programming/Related Business
6. Fundraising
7. Receipting for Gifts

Registered Charity vs. Non-profit Organization

Registered charities:

- must be established and operate exclusively for charitable purposes
- must apply to CRA for registration as a charity

Non-profit organizations:

- can operate for social welfare, civic improvement, pleasure, sport, recreation, or any other purpose except profit
- cannot operate exclusively for charitable purposes

Key difference:

- charities are under a higher and public benefit purpose-based level of external scrutiny by regulators
- over \$100 billion of government funding and donations annually (not including hospitals and universities)

Registered charities

- are charitable organizations, public foundations, or private foundations
- use their resources exclusively for charitable activities and have charitable purposes that fall into one or more of the following categories:

1. Relief of poverty (food banks, soup kitchens, and low-cost housing units)
2. Advancement of education (colleges, universities, and research institutes)

3. Advancement of religion (places of worship and missionary organizations)

4. Purposes beneficial to the community (animal shelters, libraries, and volunteer fire departments)

Devotion of Resources to Charitable Purposes and Activities

A registered charity's purposes must be exclusively charitable and define the scope of the activities engaged in by the organization.

Charitable activities are those that directly further the charitable purposes for which the charity was registered.

All of the organization's resources must be devoted to these activities.

A registered charity may only use its resources (funds, personnel, and property) inside or outside Canada in **two** ways:

1. It can carry on its own charitable activities. These activities are conducted under the charity's direction and control. Such activities may be carried out by the charity's employees or volunteers, or by its intermediaries (agents, contractors, or partners).

2. It can make gifts to qualified donees (usually other registered charities). Individuals and most organizations outside Canada, such as foreign charities and international aid agencies, are **not** qualified donees.

Also includes NPOs without charitable status.

- gifting to a **non-qualified donee** will put the registered status of the charity in jeopardy

Other Acceptable Activities

Activities such as business, social, and fundraising are permitted within certain limits.

Maintaining Adequate Books

A registered charity must keep adequate books and records. A charity's books and records must allow CRA to:

- verify revenues, including all charitable donations received
- verify that resources are spent on charitable programs
- verify that the charity's purposes and activities continue to be charitable

Books and records include:

- Governing documents (incorporating documents, constitution, trust document)
- bylaws
- financial statements
- copies of official donation receipts
- copies of annual information returns (Form T3010)

- written agreements
- contracts
- board and staff meeting minutes
- annual reports
- ledgers
- bank statements
- expense accounts

- inventories
- investment agreements
- accountant's working papers
- payroll records
- promotional materials
- fundraising materials

Where should books and records be kept?

Books and records must be kept at the Canadian address that the charity has on file with CRA.

- includes all books and records related to any activity carried on outside Canada

How long must a charity hold on to its books and records?

Copies of official donation receipts - a minimum of two years from the end of the calendar year in which the donations were made

Records for 10-year gifts & Minutes of meetings of the directors/trustees/executives

- as long as the charity is registered and for a minimum of two years after the date the registration of the charity is revoked

General ledgers or other books of final entry containing summaries of year-to-year transactions and the accounts necessary to verify the entries

- kept for six years from the end of the last tax year to which they relate, while the charity is registered, and for two years after the date the registration of the charity is revoked

Financial statements, source documents
and copies of annual information returns
(T3010 forms)

- kept for six years from the end of the last tax year to which they relate or, if the charity is revoked, for two years after the date of revocation

Can books and records be kept in electronic format?

- same rules and retention periods
- created and maintained in electronic format must be kept in an electronically readable format
- source documents created, transmitted, or received electronically, they must be kept in an electronically readable format

Note: Records kept outside Canada and accessed electronically from Canada are not considered to be records in Canada

Filing of the T3010 Annual Information Return

Charities are required to File Form T3010, *Registered Charity Information Return*, each year, no later than six months after the end of their fiscal period.

- must attach financial statements when you file your T3010 annual information return

Note: CRA recommends for charities with income over \$250,000 to have financial statements professionally audited.

Financial reporting common errors:

- not re-categorizing expenses into one of the “SUMMATIVE LINES” (the 5000 series lines)
- reporting all compensation on Line 5010
- reporting expenses without allocation to programs or fundraising on Line 5010
- reporting net, rather than gross, proceeds from fundraising activities
- reporting significant amounts on Line 5040

Checklist

- ❑ use the correct form to file your return
- ❑ file a complete return every year
- ❑ file your return even if your charity was inactive during its fiscal year
- ❑ describe your charitable activities, not your fundraising activities, in Section C2

Fee-based Programming

What is **Fee-based Programming**?

Using a fee-based model (i.e. charging a user fee) to deliver a program or service that has a charitable or public benefit intention.

Program fees

- charged in the context of many charitable programs
- does not necessarily mean that a program is non-charitable
- two essential characteristics of charity—altruism and public benefit

A fee-based program can provide for many social needs such as:

- healthcare
- accessible transportation
- affordable housing
- further education (e.g. tuition, museum fees, theatre tickets)

What is a business?

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

Are charities allowed to operate business activities?

Yes, charities are allowed to carry on business activities that accomplish or promote their charitable purposes (Related Business).

There are two kinds of related businesses:

1. Businesses that are run substantially by volunteers (i.e. weekly bingos, church bazaars).
2. Businesses that are linked to a charity's purpose and subordinate to that purpose.

Examples of Related Business

- hospital parking lot, museum gift shop
- rental of assets when not used for programs
- sale of crops from a heritage farm
- sale of items that promote the charity or its objects

CRA's Fundraising by Registered Charities Guidance

When is fundraising not acceptable?

- is a purpose of the charity
- delivers a more than incidental private benefit
- is illegal or contrary to public policy
- is deceptive
- is an unrelated business

Fundraising expense ratio

The fundraising ratio is determined by dividing fundraising expenditures by fundraising revenue

Does not include revenue from government, grants from other registered charities, or revenue generated from the sale of goods and services as part of a charity's activities

To calculate the ratio add the revenue amounts from lines 4500 and 4630 and divide the total expenditure amount on line 5020 (fundraising expenses)

Generally, a charity's fundraising ratio is an indicator of how the CRA is likely to approach a charity's fundraising:

Ratio of costs to revenue over fiscal period – under 35%

This ratio is unlikely to generate questions or concerns by the CRA.

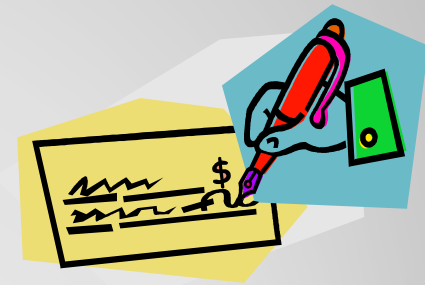
Ratio of costs to revenue over fiscal period – 35% and above

The CRA will examine the average ratio over recent years to determine if there is a trend of high fundraising costs.

Ratio of costs to revenue over fiscal period – above 70%

This level will raise concerns with the CRA.

- the ability to issue official donation receipts to donors helps charities
- Income Tax Act and CRA
- error-free receipting practices are an ongoing challenge for many charities



Issuing Tax Receipts

1. Issue receipts only for gifts
2. Types of receipts/Required information
3. Control of receipting processes

1. When is a donation considered a gift?

- ✓ property such as cash, computers or equipment
- ✓ voluntarily given to your charity
- ✓ can be determined who the true donor is
- ✓ transferred over to the charity
- ✓ Fair Market Value of the gift can be determined
- ✓ gift is below the donative intent threshold of 80%

Erroneous Receipting

- basic admission fee to an event or a program
- purchase of goods
- purchase of a lottery ticket or some chance to win prizes
- membership fees

- a business receiving significant advertisement
- gifts from other registered charities
- to a person other than the donor
- the purchase of goods or services from a charity

2. There are four different types of receipts:

- For cash donations (with no advantage and with an advantage)
- For non-cash donations (with no advantage and with an advantage)

CRA information on issuing receipts:
<https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/operating-a-registered-charity/issuing-receipts.html>

Official donation receipt for income tax purposes

Receipt # XXXXX



Charity or qualified donee name

Address

Charitable registration #: 000000000 RR 0000*

Receipt issued ____ DD/MM/YYYY

Location issued ____ City, Prov.

Donated by _____
(First and last name, and initial)

Address _____

Donation received _____ Amount of gift _____
(Date or year)**

Eligible amount of gift

Authorized signature: _____

Canada Revenue Agency - canada.ca/charities-giving

3. Control of receipting processes

- a registered charity is responsible for all tax receipts issued under its name and number
- registered charity should not lend its registration number
- internal controls

A charity must be able to account for every official tax receipt it issues. This includes a paper trail of the donation being received and deposited.

Recommended internal controls:

- secure place for physical receipts
- restricting access to receipting software
- limiting the number of individuals authorized to issue receipts
- assigning responsibility for receipts and banking duties to different individuals

Obligations of a Registered Charity

QUESTIONS?