

HIGHLIGHTS OF CRA'S REPORT ON SMALL AND RURAL CHARITIES

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A. INTRODUCTION

On June 27, 2008, Canada Revenue Agency ("CRA") released a significant 48-page report entitled *Small and Rural Charities: Making a Difference for Canadians* ("Report"). This Report is the result of consultations undertaken by CRA and is a collaborative effort by CRA and members of small and rural charities. These smaller charities are often located in isolated or rural communities and face a unique set of challenges that may make it difficult for them to meet their compliance obligations under the *Income Tax Act* (Canada) ("ITA"). In this Report, CRA has made specific commitments to small and rural charities in the hope of assisting them in meeting and reducing the compliance burdens on small and rural charities, as well as providing important information about the voluntary sector in Canada. This *Charity Law Bulletin* provides the key highlights and findings from this important Report. For more information, see *Small and Rural Charities: Making a Difference for Canadians*, available online from CRA's website at <http://www.cra-arc.gc.ca/E/pub/tg/rc4457/README.html>.

B. VOLUNTARY SECTOR IN CANADA

1. “Voluntary Sector”

Although the voluntary sector¹ consists of both non-profit organizations and registered charities (which are both distinct), the terms used in the Report to describe the “voluntary sector” include not only the non-profit and charitable sectors, but also the broader volunteer sector within community-based organizations. CRA states that the entities that make up the voluntary sector have the following characteristics:²

- They are non-governmental and institutionally separate from governments;
- They do not generate or distribute profit;
- They are self-governing, independent, and able to regulate their own activities;
- They are run by volunteers, and they benefit to some degree from voluntary contributions of time or money; and
- They are generally formally incorporated or registered under specific legislation with provincial, territorial, or federal governments.

The voluntary sector is made up of approximately 81,000 non-profit organizations and 83,000 registered charities. In addition, CRA reports that there are some 750,000 unincorporated community organizations that are not included in the voluntary sector count.³

2. Economic Contribution of the Voluntary Sector

CRA cites that the voluntary sector employs over 2 million full-time workers, which is equivalent to 7.2% of Canada’s total labour force. This ratio is roughly equivalent to Canada’s construction, mining, and oil and gas industries combined. Moreover, this figure does not include people who work in colleges, universities and hospitals, which also form part of the voluntary sector.⁴

¹ For more information on Canada’s non-profit and voluntary sector, see *Charity Law Bulletin* No. 57 dated October 2004, entitled “Highlights of the National Survey of Nonprofit and Voluntary Organizations” available at, <http://www.carters.ca/pub/bulletin/charity/2004/chylb57-04.pdf>.

² Statistics Canada. *Cornerstones of Community: Highlights of the National Survey of Nonprofit and Voluntary Organizations*. 2005.

³ Imagine Canada. *Investing in Citizens and Communities: A Submission on The Community Nonprofit Sector of Canada to the Blue Ribbon Panel on Grants and Contributions*. 2006.

⁴ Canadian Policy Research Networks. *Mapping of the Non-profit Sector*. 2005.

3. “Charitable Sector”

According to CRA, “charitable sector” means all registered charities. CRA reports that in 2007, there were over 83,000 registered charities in Canada. The Report states that approximately 40% of all registered charities fall under the advancement of religion head of charity. Charities advancing other purposes beneficial to the community account for 24% of all registered charities. These charities may include organizations that protect the welfare of animals and the environment, provide health care, and operate museums or public gardens. 20% of all registered charities engage in the relief of poverty through activities like operating food banks, providing shelter and clothing, and providing pro-bono legal advice.

4. Economic Contribution of the Charitable Sector

In the Report, CRA provides information regarding Canada’s charitable sector economic contribution based on data from registered charity information returns. CRA notes that in 2006, according to Statistics Canada, registered charities issued official donation receipts of \$13.3 billion. In recognition of the need for the services and programs that registered charities deliver, municipal, provincial, and federal governments contributed \$89.5 billion to registered charities for a variety of charitable programs. CRA reports that in 2006, registered charities employed 1.3 million full-time employees and 1.2 million part-time employees. These numbers include large charities and other entities that can issue official tax receipts for gifts, such as municipalities, universities, colleges, and hospitals.⁵ CRA further reports that in 2006, registered charities received a total of \$163.1 billion in total revenues, including \$2 billion in fundraising revenues. In the same year, registered charities spent \$111.8 billion in carrying out their charitable programs.⁶

5. Compliance Challenges

In the Report, CRA states that in the 2007-2008 fiscal year, 790 audits were conducted. The audit findings reveal other challenges facing registered charities, including:

- 89% were found to have incomplete or incorrect official receipts;
- 72% had incomplete T3010s;
- 71% had insufficient books and records;

⁵ Charities Directorate Statistical Report, based on 2005 T3010A information returns.

⁶ *Ibid.*

- 16% made gifts to non-qualified donees; and
- 13% carried out non-charitable activities including excessive amounts of resources being devoted to non-charitable activities (fundraising, political, or social activities).

Of the audits completed during this period, the results were as follows:

- 53% required education;
- 18.5 % resulted in compliance agreements;
- 17 % were compliant;
- 6.5% were revoked for cause; and
- 5% had other outcomes such as: voluntary revocations, annulments, pre-registration audits, Part V tax audits.

Issues regarding non-compliance with legislative and regulatory obligations are relevant to all registered charities. However, CRA has recognized that small and rural charities are particularly burdened as they face many unique limitations. As well, CRA has identified small and rural charities as important contributors to Canada's economic and social wellness. Accordingly, the balance of CRA's Report aims to address and relieve some of these concerns.

C. FINDINGS ON SMALL AND RURAL CHARITIES

For the purpose of CRA's small and rural charities initiative, small charities were defined as those that reported total revenue of less than \$100,000 on their annual information returns. Rural charities were identified by their postal codes. CRA reports that according to the 2006 – 2007 registered charity information returns filed, there were 83,372 registered charities in Canada, of which 54% represent small charities and 22% represent rural charities. Charities that were both small and were located in rural locations represent 14% of all charities. It was noted that registered charities are more prominent in many rural communities than they are in urban communities.

While small and rural charities represent a significant portion of the sector, they may face considerable challenges in carrying out their regulatory obligations. For instance, since small and rural charities have few staff, volunteers are primarily responsible for carrying out the activities of such charities. In many cases, such volunteers expressed a desire to work directly on charitable programming, but did not demonstrate interest or experience in the administrative, financial or accounting aspects of operating a charity. Therefore, small and rural charities may struggle to comply with the regulatory obligations that they must meet. Furthermore, the

Report indicates that some small and rural charities rely on communication methods, such as phone and regular mail because they may lack access to new communication technologies, either because of their cost or their availability. In addition, small and rural charities have difficulty creating and maintaining networks and communication with other sector organizations. While these networks can be very useful, since they allow charities to share best practices and experiences, small and rural charities do not have the resources to maintain these types of relationships and they may be geographically isolated. CRA's consultation process on small and rural charities aims to address some of these challenges.

D. CONSULTATION PROCESS

As part of the overall mission of CRA to promote compliance with the ITA, the Charities Directorate, in particular, is responsible for promoting compliance with the income tax legislation and regulations related to registered charities. To this end, throughout the fall of 2007, CRA met with small and rural registered charities from across Canada to engage in a consultation process to design ways of improving services and reducing the administrative burden for small and rural charities.

Phase I of the consultation involved workshops that CRA held during October 2007 in Toronto, Saskatoon, Lethbridge, Kelowna, Trois-Rivières, and Moncton. Representatives of small charities based in both urban and rural areas were invited to attend the workshops. The Report indicates that 87 individuals representing 71 different small and/or rural charities participated during the six workshops. Each workshop discussed the educational products available to charities, reporting requirements, and one of the following topics: service delivery, compliance, tools, rules, or registration. In addition, CRA also met with sector leaders, the Federal/Provincial/Territorial Network of Charity Regulators, and the CRA Technical Issues Working Group to discuss issues related to small and rural charities.

Phase II of the consultation entailed a panel of nine workshop participants ("Panel") reviewing and validating the outcomes and recommendations of Phase I. As a result, CRA and the Panel developed a collaborative joint action plan to improve services and reduce administrative burdens for small and rural charities.

E. JOINT ACTION PLAN

The following is a list of themes that the joint action plan aims to address:

- ◆ Provide tailored services for small and rural charities;
- ◆ Reduce the compliance burden;
- ◆ Improve awareness and access to information;
- ◆ Provide educational tools designed to meet the needs of small and rural charities;
- ◆ Lead collaborative initiatives with federal/provincial/territorial partners; and
- ◆ Advance sector roles and responsibilities.

CRA commits to implementing most of the various measures listed in the joint action plan by March 2010.

1. Tailored Services for Small and Rural Charities

For small and rural charities, CRA purports to provide services that do not follow a “one-size-fits-all” approach, but instead recognizes the unique needs and challenges of such charities. For instance, CRA plans to identify the training needs of front-line staff by conducting a client service survey to measure taxpayer satisfaction. In addition, CRA will respond to small and rural charities’ enquiries on the 1-800 number by providing standardized technical training for telephone agents. CRA has already made community-based, in-person service available for small and rural charities through the development of community partnerships.

2. Reducing the Compliance Burden

As the Report indicates, small and rural charities rely heavily on non-staff volunteers who want to assist in the delivery of the charities’ activities and programs. However, most of these volunteers do not want to be involved in the administrative aspects of ensuring charities’ compliance with various regulatory obligations. To assist small and rural charities with their compliance burdens, CRA has provided charities with a checklist of annual reporting obligations and timelines. In addition, CRA plans to directly communicate with a charity’s Board of Directors when its registered status is at risk. CRA recognizes that the reporting burden for small and rural charities needs to be simplified. Therefore, a simplified and shorter T3010A will be provided to reduce the amount of information small and rural charities have to report. Also, a new T3010B is expected to be released in January 2009. CRA has already identified questions frequently asked through the 1-800 number in order to improve CRA forms and publications and to produce a list of frequently asked questions (FAQs) to the sector. CRA also plans to develop and improve GST/HST information for charities by creating a checklist on GST/HST for charities outlining the implications, benefits, and need for GST registration.

3. Improving Awareness and Access to Information

Since small and rural charities generally have less resources and access to the Internet than other charities, they may have difficulty staying current with new or changing requirements. Moreover, some inexperienced volunteers may find information related to compliance obligations, often written in technical language, hard to interpret. To counter some of these obstacles, CRA has already started its shift toward using plain language in its compliance information publications. Furthermore, by 2010, CRA plans to address the educational needs of small and rural charities by developing and delivering specialized Roadshows (Charities Information Session) for them.

4. Provide Educational Tools Designed to Meet the Needs of Small and Rural Charities

One of the findings from the consultation process reveals that small and rural charity volunteers often lack experience and knowledge regarding the charity's legislative and regulatory obligations because of the limited time commitment from the volunteers and the relatively high volunteer turnover rate. In order to help small and rural charities, CRA is providing funding to various organizations to develop and deliver education and training on regulatory compliance for the charitable sector, which will include information that is relevant to small and rural charities.

5. Other Initiatives to Assist Small and Rural Charities in Complying with their Regulatory Obligations

CRA acknowledges that small and rural charities face difficulties in reporting to regulators at the federal, provincial and municipal levels. Therefore, in an effort to improve information sharing with all three levels of governments to simplify burdens of reporting and paperwork for small and rural charities, CRA has already developed the Federal/Provincial/Territorial Network of Charity Regulators.

CRA points out that because small and rural charities are often geographically isolated and serve specific community needs, it is difficult to share information and resources with and between them. CRA believes that umbrella organizations can be valuable resources to small and rural charities. CRA has defined "charitable umbrella organization" to be "one that works to achieve a charitable goal by supporting, improving and enhancing the work of groups involved in the delivery of charitable

programs”.⁷ As the federal regulator of registered charities, CRA has taken responsibility for leadership in helping umbrella organizations better understand the challenges that small and rural charities face.

F. CONCLUDING COMMENTS

Canada’s non-profit and voluntary sector has been noted as one of the largest and most vibrant in the world.⁸ Voluntary sector organizations also play a substantial role in contributing to the health of Canadian economy and society. As previously mentioned, small and rural charities comprise a significant part of the sector. CRA’s report entitled *Small and Rural Charities: Making a Difference for Canadians* represents CRA’s commitment to helping such charities thrive and continue to make a positive impact throughout Canada. Through the joint action plan, CRA hopes that it can lead and assist small and rural charities to overcome some of the obstacles that are specific to such charities, which present unique challenges in complying with their legislative and regulatory obligations.

⁷ For more information on charitable umbrella organizations, see *Charity Law Bulletin* No. 141 dated August 5, 2008, entitled “Update on Umbrella Organizations and Title Holding Organizations: Final Version of CRA’s Policy Recently Released” available at, <http://www.carters.ca/pub/bulletin/charity/2008/chylb141.pdf> and *Charity Law Bulletin* No. 78 dated October 12, 2005, entitled “New CRA Policy on Umbrella Organizations” available at, <http://www.carters.ca/pub/bulletin/charity/2005/chylb78.pdf>.

⁸ John Hopkins University, Imagine Canada and the Government of Canada. *The Canadian Nonprofit and Voluntary Sector in Comparative Perspective*. 2005.