
THE OTTAWA REGION
Charity & Not-for-Profit Law Seminar

Ottawa – February 2, 2012

Keeping on the Right Side of CRA


By Cathy Hawara, LL.B. - Director General
Charities Directorate, Canada Revenue Agency - Ottawa

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Cathy Hawara
Charities Directorate

Canada Revenue Agency / Agence du revenu du Canada



Charities Directorate: presentation overview

- Background: registered charities in Canada
- Charities Directorate's roles
 - Education and support
 - Enforcing compliance
- Keeping on the right side of CRA

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Background: registered charities in Canada

- There are over 85,000 registered charities in Canada
- While all registered charities must be non-profit, not all non-profit organizations (NPOs) are registered charities
- According to Statistics Canada, tax receipted donations totaled \$8.3 billion in 2010, up 6.5% from 2009 (following two years of 5% decreases).

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Background: registered charities in Canada

- “Charitable organizations” constitute 90% of all registered charities but account for:
 - 75% of donations and fundraising revenues; and
 - 99% of revenues from government.
- They include universities, school boards and hospitals which derive substantial revenues from government
- Public foundations account for a disproportionately higher proportion of donations since they include hospitals, colleges, universities, and community foundations

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Background: registered charities in Canada

- While approximately 40% of all charities are religious, this number has been in decline
- 80% of registered charities located in 4 provinces:
 - Ontario 36%
 - Quebec 19%
 - BC 14%
 - Alberta 11%

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Mandate of the Charities Directorate

- Reviewing applications for charitable registration;
- Developing policy and providing information, communication, and education programs for the charitable sector and for donors;
- Ensuring that registered organizations comply with registration requirements.

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Charities Directorate: education and support

- Providing information, guidance and advice on maintaining registered status through
 - Client service
 - Call centre
 - Written enquiries
 - Sector outreach
 - Information Sessions
 - Webinars
 - Electronic updates and newsletters

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Charities Directorate: education and support (cont'd)

- Public education program
 - *How to donate wisely: The Canada Revenue Agency and Registered Charities (RC 4407)*
 - The leaflet can be ordered online or by calling 1-800-959-2221
 - Available in English, French and 12 other languages
 - Videocasts
 - *Giving to Charity 101*

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Charities Directorate: enforcing compliance

- Charities Audit Program
 - Field audits
 - Desk audits
- Fiscal year 2011/12
 - 746 budgeted audits:
 - 646 Field audits
 - 100 Desk audits

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Charities Directorate: enforcing compliance (cont'd)

- The Audit Plan for 2011/2012:
 - High Risk files (461 files—62%)
 - Core Audit Program – Random (125 files—17%)
 - Restricted Books/Records Review (80 files—11%)
 - Compliance Agreements Review (60 files— 8 %)
 - Exploratory Audits (20 files—2 %)

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Charities Directorate: enforcing compliance (cont'd)

- Issues frequently discovered through the audit process:
 - Incorrect issuance of donation receipts;
 - Inadequate books and records;
 - Gifts to non-qualified donees;
 - Failure to maintain direction and control;
 - Failure to file the Charities Annual Information Return (T3010)

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Charities Directorate: enforcing compliance (cont'd)

- Audit Results for 2010/2011
 - Compliant 9%
 - Education 54%
 - Compliance Agreements 27%
 - Sanctions (Penalties) .4%
 - Revocations for cause 4%
 - All Other (i.e. Annulments, Part V tax) 5.6%

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Charities Directorate: enforcing compliance (cont'd)

- Sanctions:
 - Monetary Penalties &/or Suspension of receiving privileges and qualified donee status
- Revocations for cause
 - 33 charities were revoked for cause in 2010/11



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Charities Directorate: enforcing compliance (cont'd)

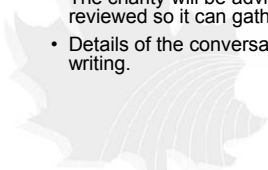
- Audit and Outreach Activities—Lessons learned
 - Analysis of audit findings
 - Educational needs of charities
 - Themes for educational and outreach activities



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Charities Directorate: enforcing compliance (cont'd)

- What to expect in an audit
 - Field audits may be conducted by a single auditor or a team of auditors
 - The auditor will first telephone the charity to notify it of the audit and arrange for a mutually convenient time to meet
 - The charity will be advised as to what items will be reviewed so it can gather necessary materials
 - Details of the conversation are then confirmed in writing.



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Charities Directorate: enforcing compliance (cont'd)

- The audit process
 - The auditor will usually review the charity's ledgers, journals, bank accounts, expense accounts, governing documents, annual reports and other documents that relate to the charity's activities.
 - As a first step, the auditor will normally want to discuss some of the information they obtained when reviewing the file.
 - The auditor may also ask for a tour of the premises to better understand the transactions recorded in the books and to observe the charity's programs and activities.
 - Before finalizing the audit report, the auditor will review and discuss preliminary findings.

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Charities Directorate: enforcing compliance (cont'd)

- The audit conclusion
 - When the audit is completed a letter is sent to the charity outlining the results.
 - If no issues are raised, we confirm that there is no change to the charity's registered status.
 - If there are issues to be addressed, the letter will notify the charity of the specific concerns and provide the charity with an opportunity to respond.
 - Compliance action to resolve the issues raised can include an education letter, a compliance agreement, a sanction or revocation.

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Keeping on the right side of CRA

- Internal controls
- Proper books and records
- Gifting to qualified donees
- Filing information returns and financial statements
- Best practices to ensure timely filing of the return

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Internal controls

- Assigning responsible authority over resources
 - Safeguarding receipts
 - Monitoring usage of charitable facilities and resources



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Proper books and records

What to keep:

- Copies of official donation receipts
- Minutes of meetings of the directors/trustees/executives and members
- All governing documents and bylaws
- Financial statements, source documents, and copies of T3010 returns
- All records concerning 10-year gifts



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Gifting to qualified donees

- Charities cannot give money or other resources to individuals or other organizations that are not "qualified donees" (QDs). Examples of QDs include:
 - Registered Canadian charities
 - Registered Canadian Amateur Athletic Associations
 - Canadian municipalities



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On time filing of Annual Information Returns (T3010) and financial statements

- The *Income Tax Act* prescribes filing timeframes and the consequences for late or non-filing:
 - Information return is due within six months after the charity's fiscal period end
 - Late filing of the return can result in financial sanctions and non-filing can lead to revocation of charitable status
 - Financial Statements must be included when filing the Annual Information Returns (T3010)
- In 2010, almost 21,000 registered charities filed their returns late

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On time filing of Annual Information Returns (T3010) and financial statements (cont'd)

- Document who is responsible, and designate one person as the back up
- Make it a standing item for annual board meetings
- Update charity mailing address and the names and addresses of directors with the Charities Directorate
- Mail to the correct address:

Charities Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

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Thank you!

Client Services – general inquiries
1-800-267-2384
1-888-892-5667

Charities Information on the Web
WWW.CRA.GC.CA/CHARITIES

Charities Electronic Mailing List:

To connect, follow the *Outreach and Communications* link on main page

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