Keeping on the Right Side of CRA

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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

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).
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.

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%

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.
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

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

Charities Directorate: enforcing compliance
- Charities Audit Program
  - Field audits
  - Desk audits
- Fiscal year 2011/12
  - 746 budgeted audits:
    - 646 Field audits
    - 100 Desk audits
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%
Charities Directorate: enforcing compliance (cont’d)

- Sanctions:
  - Monetary Penalties &/or Suspension of receipting privileges and qualified donee status

- Revocations for cause
  - 33 charities were revoked for cause in 2010/11

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

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.
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.

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.

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
Internal controls

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

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

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
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

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

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