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The New CRA Proposed Fundraising Policy: What It Means for Your Church or Charity

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Overview of Presentation

- Background to CRA's Fundraising Policy
- Evaluation of fundraising expenses
- Fundraising defined as a 'solicitation of support'
- When the costs of an activity that include a solicitation of support can be attributed in whole or in part to a non-fundraising activity
- Good, harmful & questionable fundraising practices
- Small and rural charities checklists

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Fundraising Policy

- In spring 2008 Canada Revenue Agency (CRA) released a policy on fundraising that will apply to all registered charities
- In early summer 2008 CRA released the related backgrounder
- Public feedback on the policy could be submitted to CRA until August 31, 2008
- Final policy not yet released

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Fundraising Policy

- CRA's Stated Purposes for this policy are to:
 - assist charities to distinguish between fundraising and other expenditures
 - establish reporting guidelines for fundraising expenses
 - provide information to determine whether a charity's fundraising activities are acceptable
 - Promote transparency of charity finances through accurate disclosure of fundraising costs and revenues, and accessibility of information to public through the T3010

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Fundraising Expenses

- CRA does not allow for costs of fundraising to be reported as charitable expenditures on T3010 because it does not see fundraising:
 - As a charitable activity
 - As advancing the charitable purposes of a registered charity

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Prevailing Purpose

- Registered charities may not have fundraising as their main or prevailing purpose
- Fundraising may only be used to assist in achieving the charity's broader charitable purposes

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Evaluation Grid

- Used to assess fundraising performance
- Ratio of fundraising cost to fundraising revenue:
 - Less than 20% = acceptable
 - 20% to 35% = generally acceptable
 - 35% to 50% = potentially not acceptable
 - 50% to 70% = generally not acceptable
 - More than 70% = rarely acceptable

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Evaluation Grid

- Fundraising revenues included in Lines 4500 and 4630 of the T3010A

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T3010A

Revenue	
→ Total eligible amount of tax-received gifts	4500 .00
Total amount received from other registered charities	4510 .00
Total specified gifts included in line 4510	4520 .00
Total ending property included in line 4510 (See the guide.)	4525 .00
Total other gifts	4530 .00
Revenue from federal government	4540 .00
Revenue from provincial/territorial governments	4550 .00
Revenue from municipal/regional governments	4560 .00
Total revenue from government (add lines 4540, 4550, and 4560)	4570 .00
Interest and investment income	4580 .00
Proceeds from disposition of assets	4590 .00
Rental income (land and buildings)	4600 .00
→ Memberships, dues, and association fees (non tax-received)	4610 .00
Total revenue from fundraising	4620 .00
Total revenue from sale of goods and services (except to government)	4630 .00
Other revenue	4640 .00
Total revenue (add lines 4500, 4510, 4530, 4570, 4580, and 4600 to 4650)	4650 .00

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Evaluation Grid

- Fundraising expenditures means the resources used to produce solicitations of support or material directed at donors or prospective donors and is shown at Line 5020 of the T3010A

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Activity = Fundraising?

- Part A Test: Requires that substantially all of the resources devoted to the activity advance an objective of the charity other than fundraising (substantially all = 90% or more)
- If this test is met 100% of the expense can be attributed or allocated as 'non-fundraising expenditures'. More specifically it can be treated as a charitable expenditure, management or administrative expenditure, or political activity expenditure etc. as the case may be

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Part A Examples

1. A ¼ page solicitation for donations for a church project is included in a 4-page leaflet for a church service along with staff contact information and the schedule of church services.
 - None of the costs of the leaflet (staff time, paper, printing) need to be attributed as fundraising

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Part A Examples

2. A charity broadcasts a T.V. program featuring a repeated or continuing fundraising solicitation across the bottom of the screen. Based on time it appears and space used, the solicitation uses less than 10% of the resources used for the program
 - Some or all of the expenditures must be reported as fundraising due to the prominence of the solicitation content

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Activity = Fundraising?

- If a charity fails to meet Part A, consider if it qualifies under Part B
- The Part B test has 4 requirements that must be met:
 1. Activity's main objective is not fundraising
 2. Activity does not include repeated requests, emotive requests, gift incentives, donor premiums or other merchandise
 3. Audience selection is not based on the ability to give
 4. Commission-based compensation is not used

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Activity = Fundraising?

- If one of the criteria is not met, 100% of the expense will generally have to be treated as a fundraising expenditure
- If all 4 Part B criteria are met the charity may allocate a *portion* of the costs as non-fundraising expenditures and only a portion as fundraising expenditure on the T3010A

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Part B Examples

- Examples where the activity's main objective is not fundraising (1st criteria) include those undertaken:
 1. to advance the programs or services the charity offers (e.g. leaflet promoting participation in a program is distributed door-to-door)
 2. to provide useful knowledge to the public about the charity's work that prompts an action or change in behaviour (e.g. a cancer prevention charity promoting benefits of regular testing)
 3. to be transparent and accountable for its practices, performance and operations (e.g. an annual report or financial statements)

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Part B Examples

- Examples relating to the 2nd criteria indicating fundraising include:
 1. repeated requests or ongoing prolonged requests within an activity
 2. emotive requests characterized by appeals to emotion vs. an explanation of charity's work in a reasoned manner, or requests that focus on the hardship of the beneficiaries (e.g. telethons)

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Part B Examples

- Examples relating to the 2nd criteria indicating fundraising include:
 3. gift incentives, donor premiums or other merchandise include merchandise offered to donors to encourage them to make a donation, or that accompany a request for donation
 - Note that incentives regardless of their value and treatment in a split-receipting context will result in the activity being considered fundraising

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Non-Fundraising Allocation

- A partial allocation to the 'Charitable expenditures' line would capture the resources that went into producing the part of the activity content that furthered the charitable objects of the charity
- Such an allocation would be included in Line 5000 of the T3010A

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Evaluating use of Resources

- “Resources” are not defined in the *Income Tax Act*
- CRA considers “resources” to include all financial assets plus all other assets which can be used to further the charity’s purposes
 - e.g. staff, volunteers, directors, premises, equipment, supplies

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Evaluating use of Resources

- Need to evaluate the resources used to be able to decide how to allocate non-fundraising expenditures, if any
- Evaluation of non-fundraising purpose is quite subjective and requires weighing of content, prominence in materials, and associated costs

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Cost Allocation Example

- A charity publishes a newspaper insert with 65% content from its program department and 35% content from its development department. Insert costs \$10,000 to print and distribute.
- \$6,500 would be attributed to program department as a charitable expenditure and \$3,500 would be attributed to development department as a fundraising expenditure

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Good Fundraising Indicators

- Prudent planning process
- Appropriate procurement processes
- Good staffing processes
- Ongoing management and supervision of fundraising practice
- Adequate evaluation processes
- Use made of volunteer time and volunteered services or resources
- Disclosure of fundraising costs, revenues and practice

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Questionable or Harmful Fundraising Practices

- Sole-sourced fundraising contracts with no proof of fair market value
- Non-arm's length fundraising contracts
- Poorly documented fundraising initiatives
- Needless or overpriced purchases of fundraising merchandise
- Fundraising contracts where most of gross revenues go to non-charity fundraisers, or fundraisers receive disproportionate compensation

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Questionable or Harmful Fundraising Practices

- Commission based fundraising
- More resources are devoted to fundraising than program activities
- Deception of donors and misrepresentations in fundraising solicitations
- Fundraising that detracts from charitable work
- Practices that impair fundraising efforts of other charities
- Practices that erode voluntary private support of the charitable sector

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Disbursement Quota

- Requires 80% of receipted gifts plus 80% of amounts received from other registered charities in the previous fiscal period to be spent on charitable activities or gifts to qualified donees
- Maximum of 20% of these combined amounts can be spent on administration and fundraising
- Remember that the disbursement quota still applies

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Checklists for Small & Rural Charities

- A self-assessing tool which will generally satisfy CRA the charity complies with fundraising requirements
- Available to charities with revenues of less than \$100,000 who meet criteria of either the Part I or Part II test
- Part I requires fundraising by volunteers, maximum \$10,000 spent on fundraising activities, and accurate completion of the T3010A

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Checklists for Small & Rural Charities

- Part II requires that fundraising expenditures not exceed 35% of total revenues, any fundraising contracts at arm's length, no use of commission-based fundraising, has adequate measures to control fundraising costs and value, and accurate completion of the T3010A

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Accessing the CRA Documents

- Policy on Fundraising available at <http://www.cra-arc.gc.ca/tx/chrts/cnslttns/fndrsng-eng.html>
- Access the complete background information document by clicking on any of the blue underlined words or phrases in the policy document

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