



Canada Revenue Agency / Agence du revenu du Canada

## The Charities Directorate's Approach to Compliance

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### Church & Charity Law Seminar

November 4, 2021

Canada

## Approach to compliance

- Overview
- Objectives
- Addressing non-compliance
- Audit process
- Going forward
- Helpful Resources

## Compliance overview

- **Mission:** to promote compliance with income tax legislation and regulations relating to registered charities through education, quality service, and responsible enforcement.
- Compliance program uses a multi-streamed approach involving various **audit** and **non-audit** interventions based on the level of risk a charity has of being non-compliant.
- Adopted the compliance pyramid approach to determine when it is best to take an education or audit approach.
- Early education is used to resolve minor non-compliance issues before they become more serious.
- Audits are reserved for more isolated, serious or complex cases of non-compliance.

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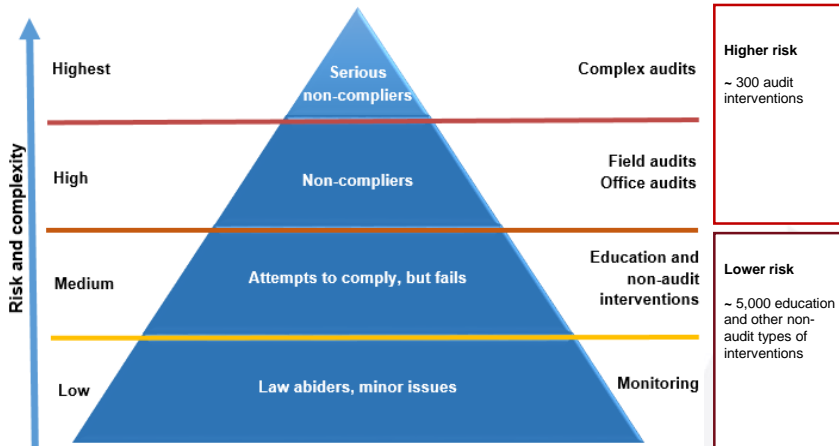
## Compliance objectives

- Our objectives are:
  - Appropriate program balance
  - Quality outputs and service
  - Investing in our people
  - Stronger accountability
- These strategic objectives support the priorities of compliance, service, innovation, accountability, and people.

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## Addressing non-compliance: a balanced approach



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## Compliance risk approach

- Balancing our compliance program enables us to proactively promote voluntary compliance and to interact with a greater number of charities.
- **Lower risk non-compliance**
  - Represents the greatest proportion of charities engaging in non-compliance.
- **Higher risk non-compliance**
  - Represents a smaller proportion of charities that are at a much higher risk of engaging in more complex and serious acts of non-compliance.

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## Compliance activities and interventions

- Some interventions in support of the core mandate of enforcing, encouraging, and assisting registered charities to comply with the requirements of the legislation set out in the Income Tax Act are:
  - Educational interventions
    - outreach and education
    - letter writing campaigns, onsite/virtual visits like the Charities Education Program (CEP)
  - Audit interventions
    - office and field audits

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**AUDIT PROCESS FOR CHARITIES**

**EDUCATION FIRST**  
THE CRA TAKES AN EDUCATION-FIRST APPROACH TO HELP REGISTERED CHARITIES FOLLOW THE RULES. THESE TOOLS HELP CHARITIES COMPLY:

- website
- outreach program
- client service
- reminder letters
- audit program
- Charities Education Program

**HOW IS A CHARITY SELECTED FOR AUDIT?**

A CHARITY CAN BE SELECTED FOR AUDIT FOR VARIOUS REASONS INCLUDING THE FOLLOWING:

- random selection
- complaints from public
- media articles or other public sources
- information from T3010 annual return
- past non-compliance

**HOW DOES THE CRA AUDIT A CHARITY?**

The CRA reviews the finances and programs of charities to make sure they follow the rules and operate for charitable purposes. The type of audit depends on the charity's size and complexity. The CRA works closely with charities and accepts additional information throughout the process.

**OFFICE AUDIT**  
Conducted at CRA offices. EXAMINES:

- the charity's file
- publicly available information
- some books and records

**FIELD AUDIT**  
Conducted at the charity's place of business. EXAMINES:

- the charity's file
- publicly available information
- all books and records

**WHAT HAPPENS AFTER AN AUDIT?**

MORE THAN 90% OF AUDITED CHARITIES ARE ABLE TO CONTINUE THEIR CHARITABLE WORK.

If a charity disagrees with the CRA's findings, it can respond. The CRA reviews the response and determines the appropriate action.

**AUDIT OUTCOME**

- NO CONCERNS**
  - no action
- MINOR CONCERNS**
  - education letter
- MODERATE CONCERNS**
  - compliance agreement
- SERIOUS CONCERNS**
  - sanctions
  - registration revoked
  - registration annulled

**WHAT CAN A CHARITY DO IF THE CRA PROPOSES SANCTIONS OR REVOCATION?**

- The charity has 90 days to file an objection with the CRA's Appeals Branch.
- If the charity disagrees with the result of the objection, it can appeal to the Federal Court of Appeal or the Tax Court of Canada.

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## How is a charity selected for audit?

- A charity can be selected for audit for various reasons including the following:
  - referral from another area of the CRA
  - complaints from the public
  - articles in the media or other publicly available sources
  - review of specific legal obligations under the Income Tax Act
  - information from their T3010 annual information return
  - follow-up on a previous compliance agreement

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## What happens when the audit is finished?

- A letter is sent to the charity outlining the results:
  - All its activities are in line with the Income Tax Act; or
  - Audit uncovers that the charity is not following the Income Tax Act.
- Generally, a charity will have 30 days to reply to concerns, although the charity can request an extension.

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## What types of letters might a charity receive after it has been audited?

- We take an education-first approach.
- Where possible, we will give the charity the chance to correct its non-compliance through education or a compliance agreement before resorting to other measures such as sanctions or revocation.
- Only a very small proportion of audits result in serious consequences like sanctions or revocation.
- The facts will determine which of the following compliance approaches we will take:
  - **education letters**
  - **compliance agreements**
  - **sanctions**
  - **revocation of registration**

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## What recourse does a charity have after an audit?

- The charity is given the chance to make representations to the Appeals Branch of the CRA by filing an objection.
- The charity has to file its objection no later than 90 days after the date of the final letter it received from the Charities Directorate.
- The CRA's Appeals Branch is responsible for the objection process, and its mandate is to review the decision fairly and transparently.
- The charity must set out the reasons for the objection and all the relevant facts.
- If the charity disagrees with the decision about its objection, it has the right to appeal to the Federal Court of Appeal or the Tax Court of Canada, depending on the type of appeal.

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## What audit information is available to the public?

- As an **exception to the general rules** around taxpayer confidentiality, the Income Tax Act allows certain information about charities to be released to the public.
- When the CRA revokes or annuls a charity's registration or when it imposes a sanction, it posts this information in the [List of charities](#).
- Under the Income Tax Act, the CRA can release a copy of the letter(s) it sent to the charity outlining the reasons for its decision.
- This is to make sure the CRA's decision about the charity is transparent.

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### Statistics on audit results compared by year

Outcomes	2018-2019	2019-2020	2020-2021
No change /no further action	6	2	1
Education letters issued	160	131	90
Compliance agreements	76	43	37
Voluntary revocations	4	4	5
Penalties/suspensions	1	0	0
Notices of Intention to Revoke Issued	18	7	0
Annulments	1	1	1
Other (includes other audit activities such as pre-registration and Part V audits)	13	20	8
<b>Total</b>	<b>279</b>	<b>208</b>	<b>142</b>
Revocations as a result of an audit	21	4	4

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## Going forward ...

- Digital solutions doing audits
- Focussing on specific and current non-compliance issues
- Allocating resources to meet current needs
- Evolution of the compliance risk model
- Disbursement quota

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## Helpful Resources

- [Contact us](#) – MyBA, mail, fax, or phone
- [Educational videos](#) and other communications products like infographics
- Upcoming [charities information webinars](#)
- [Electronic Mailing List](#)
- [Our Website](#) – [www.canada.ca/charities-giving](http://www.canada.ca/charities-giving)

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## WE ARE HERE TO HELP !

- Not sure about the rules?
- Want to make some changes?

Contact a representative Monday to Friday  
(except statutory holidays) between 9 a.m. and 5 p.m., local time:

- By phone:  
1-800-267-2384
- By TTY service for people with a hearing or speech impairment:  
1-800-665-0354

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## Questions?

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