



Canada Revenue  
Agency

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du Canada

# Income Tax Guide to the Non-Profit Organization (NPO) Information Return

## Is this guide for you?

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This guide is for you if you represent an organization that is:

- a non-profit organization (NPO) as described in paragraph 149(1)(l) of the *Income Tax Act*
- an agricultural organization, a board of trade, or a chamber of commerce as described in paragraph 149(1)(e) of the Act

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La version française de ce guide est intitulée *Guide d'impôt pour la Déclaration de renseignements des organismes sans but lucratif*.

Unless otherwise stated, all legislative references are to the *Income Tax Act* and the *Income Tax Regulations*.

This guide uses plain language to explain the most common tax situations. It is provided for information only and does not replace the law.

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## Chapter 1 – General information

### What is a non-profit organization?

An NPO, as described in paragraph 149(1)(l), is a club, society, or association that is **not a charity** and that is organized and operated solely for:

- social welfare
- civic improvement
- pleasure or recreation
- any other purpose except profit

To be considered an NPO, no part of the income of such an organization can be payable to or available for the personal benefit of any proprietor, member, or shareholder, unless the proprietor, member, or shareholder is a club, society, or association whose primary purpose and function is to promote amateur athletics in Canada.

An NPO is exempt from tax under Part I of the Act on all or part of its taxable income for a fiscal period if it meets all of the above requirements for that period.

#### Note

Although a factual determination must be made in each case, most residential condominium corporations qualify as non-profit organizations under paragraph 149(1)(l) because they are usually operated for a purpose other than profit.

For more information on whether the organization qualifies as an NPO described in paragraph 149(1)(l), see Interpretation Bulletin IT-496R, *Non-Profit Organizations*.

### What is an agricultural organization?

For the purpose of paragraph 149(1)(e), an agricultural organization is an entity organized and operated for one or more of the following purposes:

- the advancement or furtherance of agriculture
- the betterment of the conditions of those engaged in agricultural pursuits
- the improvement of the grade or quality of their pursuits
- the development of a higher degree of efficiency in their respective occupations

### What is a board of trade or a chamber of commerce?

A board of trade or a chamber of commerce is generally an association to promote local commercial interests.

You should use this guide if the organization you represent falls into one of the categories of organizations described at the beginning of this chapter. This guide includes general information about Form T1044, *Non-Profit Organization (NPO) Information Return*, as well as step-by-step instructions on how to complete it.

### Distinguishing a non-profit organization from a charity

An NPO cannot be a charity, as defined in the *Income Tax Act*. There are differences between these types of organizations.

Under the Act, a charity can apply to the Canada Revenue Agency for registration. Once accepted, a registered charity is exempt from income tax under paragraph 149(1)(f). The charity can then issue charitable donation receipts for tax purposes.

An NPO does not have to register federally or provincially to acquire its tax-exempt status. An NPO cannot issue tax receipts for donations or membership fees contributed.

#### Note

A charity—whether or not it is registered—cannot be an NPO under the Act.

For more information about registered charities, go to [canada.ca/charities-giving](http://canada.ca/charities-giving).

### Does the organization you represent have to file a Non-Profit Organization (NPO) Information Return?

Under subsection 149(12), an organization may have to file Form T1044, *Non-Profit Organization (NPO) Information Return* for a fiscal period ending after December 31, 1992, if it is:

- a non-profit organization described in paragraph 149(1)(l)
- an agricultural organization, a board of trade or a chamber of commerce described in paragraph 149(1)(e)

However, the organization will only have to file an NPO information return if:

- it received or was entitled to receive taxable dividends, interest, rentals, or royalties totalling more than \$10,000 in the fiscal period
- the total assets of the organization were more than \$200,000 at the end of the immediately preceding fiscal period (the amount of the organization's total assets is the book value of these assets calculated using generally accepted accounting principles)
- it had to file an NPO information return for a previous fiscal period

#### Notes

Corporations operating only to provide **low-cost housing for the aged**, where no income is payable to or available for the personal benefit of any proprietor, member, or shareholder, do not have to file Form T1044. Subsection 149(12) does not apply in such cases, since these corporations are exempt from Part I tax under paragraph 149(1)(i).

Registered charities, registered Canadian amateur athletic associations, and registered national arts service organizations do not have to file Form T1044.

When calculating whether or not you have to file an NPO information return, you should only include the amounts your organization received or was entitled to receive in the form of taxable dividends, interest, rentals or royalties in the fiscal period.

Once an organization has filed an NPO information return for a fiscal period, it must file an information return for all subsequent fiscal periods, as long as it remains an NPO and regardless of the dollar value of its revenues or the book value of its assets in those later years.

### Example

- Q.** XYZ Ltd. is an NPO. At the end of its previous fiscal period it had total assets with a book value of \$350,000, and it had received rental income of \$7,000. At the end of its current fiscal period, the book value of its total assets decreased to \$198,000, and its rental income decreased to \$3,500. Does XYZ Ltd. have to file an NPO information return?
- A.** Yes. XYZ Ltd. will have to file the NPO information return for its current fiscal period based on the book value of its total assets in the previous fiscal period. Since its total assets in that period were more than \$200,000, XYZ Ltd. has to file the NPO information return for the current fiscal period **and all future fiscal periods.**

A fiscal period is the period for which an organization's accounts have been prepared. In the case of a corporation, the fiscal period cannot be more than 53 weeks and, in any other case, it cannot be more than 12 months.

An organization that has to file an NPO information return may also have to file other returns such as a *T2 – Corporation Income Tax Return*, a *T2Short*, or a *T3 – Trust Income Tax and Information Return*. For more information on how to file these returns, see guides *T4012, T2 – Corporation – Income Tax Guide*, and *T4013, T3 – Trust Guide*.

A corporation generally has to file a *T2 – Corporation Income Tax Return*, or a *T2Short*, even though it may be an NPO. If an organization's main purpose is to provide dining, recreational, or sporting facilities, then the property of the organization is deemed to be held by a trust and a *T3 – Trust Income Tax and Information Return* must be filed. The deemed trust will be taxable on the income earned from property as well as on the taxable capital gains on the disposition of property, held in the deemed trust, and not used to provide such services.

For information on returns that certain clubs, societies or associations may have to file, see Interpretation Bulletin IT-83R3, *Non-Profit Organizations – Taxation of Income from Property*.

An NPO does not have to include financial statements with the NPO information return.

If the organization is involved in one or more activities, the amounts you have to report on the NPO information return will include total receipts, assets, liabilities, and remuneration related to all activities.

## When does an organization have to file its annual return?

An organization has to file its NPO information return no later than six months after the end of its fiscal period.

Mail your return to:

Jonquière TC  
T1044 Program  
PO Box 1300 LCD Jonquière  
Jonquière QC G7S 0L5

The organization you represent may have more than one fiscal period ending in a 12-month period (or a 53-week period for corporations). In this case, the organization has to file the NPO information return for each of these periods, no matter how long they are.

If the organization has to file an NPO information return and fails to do so on time, the basic penalty is \$25 per day late. There is a minimum penalty of \$100 and a maximum of \$2,500 for each failure to file. We can waive penalties if you file the NPO information return late because of extraordinary circumstances beyond your control. If this happens, include a letter with the return giving the reasons why the return is late. If you need more information, see Information Circular IC07-1, *Taxpayer Relief Provisions*.

## Asking us to acknowledge your return

If you would like us to acknowledge the receipt of your NPO information return, include two copies of a letter with the return asking us for acknowledgement. We will date-stamp the letters and return one copy to you.

We will only send a notice of assessment if we have to charge a penalty to the organization for late filing or failure to file.

## Making changes to your return

If you want to change your NPO information return, send us a letter with an explanation of the changes you want to make, fill out a new return, or make corrections on a photocopy of the original return. Make sure you include all of the same information that was on the original return except for the lines that you are changing. Clearly print the word "AMENDED" at the top of page 1 and send the letter or the amended return to:

Jonquière TC  
T1044 Program  
PO Box 1300 LCD Jonquière  
Jonquière QC G7S 0L5

## Authorizing a representative

The information you give us will stay confidential under the *Privacy Act*; however, you can authorize a representative to discuss the organization's affairs with us.

If your organization has a business number and is registered for the My Business Account online service, you can immediately authorize a representative to deal with us on your behalf by using the "Authorize or manage representatives" service on our website at [canada.ca/my-cra-business-account](http://canada.ca/my-cra-business-account).

Using the My Business Account service, you can also view a list of representatives we have on record for your business account(s), and change or cancel their authorization.

You can also send a completed Form RC59, *Business Consent for access by telephone and mail* to your tax centre. This form is available for print on our website at [canada.ca/cra-forms](http://canada.ca/cra-forms).

A representative of an organization that has a business number can now:

- submit authorization requests online
- delete authorizations online

Representatives can access these new services at [canada.ca/taxes-representatives](http://canada.ca/taxes-representatives).

## Reviews and audits

Our authorized officials may conduct in-depth reviews or audits of the information returns that the organization files as well as its books and records.

To prepare for such reviews and audits, the organization has to keep detailed books and records allowing us to verify amounts reported on a return.

Guide RC4188, *What you should know about audits*, contains more information on the audit process.

## Keeping records

Keep your paper and electronic records for a period of six years from the end of the last tax year to which they relate. However, if you want to destroy them before the period is over, complete Form T137, *Request for Destruction of Records*.

For more information, go to [cra.gc.ca/records](http://cra.gc.ca/records).

## Chapter 2 – How to Complete the NPO Information Return

The information in this section follows the order of the lines on the return, which is divided into the following seven parts:

- Part 1 – Identification
- Part 2 – Amounts received during the fiscal period
- Part 3 – Statement of assets and liabilities at the end of the fiscal period
- Part 4 – Remuneration
- Part 5 – The organization's activities
- Part 6 – Location of books and records
- Part 7 – Certification

**You have to complete all parts of the return that apply to the organization.**

### Part 1 – Identification

#### Fiscal period

Enter the dates on which the fiscal period covered by this return began and ended.

### Business number (BN)

If the organization has a BN, enter it in the space provided. If you do not have a BN and want to register for one, go to [canada.ca/business-registration-online](http://canada.ca/business-registration-online).

### Name and address of organization

Enter the full name and address of the organization as it was registered with the CRA when you received your business number.

### Trust (T3) number

If the organization has a trust (T3) number, enter it in the space provided.

A trust (T3) number is generally assigned after you file the first *T3 Trust Income Tax and Information Return*.

### Is this the final return to be filed by this organization?

Tick the appropriate box. Attach an explanation to the return if the organization no longer exists and this is the final return.

### Type of organization

Enter the two-digit code that best describes the organization. The codes and types of organizations are as follows:

Code	Type of organization
01	Recreational or social organization
02	Professional association
03	Board of trade or chamber of commerce
04	Organization operated for civic improvement
05	Agricultural organization
06	Educational organization
07	Multicultural organization
08	Arts or cultural organization
09	Low-cost housing organization
10	Residential condominium corporation
30	Other

### Name and title of person to contact

If you want us to send correspondence to an individual's attention, include their full name and title in the space provided.

### Part 2 – Amounts received during the fiscal period

If the organization prepares its financial statements using the accrual method, you can report amounts on lines 100 to 106 using this method.

### Line 100 – Membership dues, fees, and assessments

Report the total amount of membership dues, fees, and assessments the organization received from members in the fiscal period. For example, report club memberships, professional association dues, or membership fees.

## Line 101 – Federal, provincial, and/or municipal grants and payments

Report the total amount of grants or payments the organization received from any level of government or governmental agency in the fiscal period. For example, include grants to assist agriculture and industry, or grants to promote the arts.

## Line 102 – Interest, taxable dividends, rentals, and royalties

### Interest

Report the total interest the organization received for the fiscal period. For example, include interest from bank accounts, mortgages, bonds, or loans. Also include interest received from non-arm's-length transactions. Include these amounts whether or not your organization received an information slip for this income.

### Taxable dividends

Report the amount of taxable dividends the organization received from:

- corporations residing in Canada
- foreign corporations not residing in Canada

### Rentals

Report the total receipts from property rentals the organization received in the fiscal period. Do not deduct related rental expenses.

### Royalties

Report the total royalties the organization received during the fiscal period. For example, report royalties from publications, music, oil, and gas.

#### Note

Report the full amount of all foreign interest, taxable dividends, rental receipts, and royalties that the organization received in the fiscal period. Report these amounts in Canadian dollars, converted at the rate of exchange in effect when the organization received the amounts. Do not deduct any tax that was already deducted at source from these amounts.

### Example

The ABC Tennis Association is an NPO. The following transactions occurred during the current fiscal period:

- It received \$2,000 in interest from term deposits
- It received taxable dividends of \$2,200 from XYZ Corporation, a corporation residing in Canada
- It received \$500 in taxable dividends from MNO, a foreign corporation. MNO withheld \$120 in tax at source. The amounts received and withheld were converted to Canadian dollars based on the exchange rate in effect on the date the organization received the taxable dividends
- It received a total of \$6,200 in rental receipts. The related rental expenses amounted to \$3,600
- It received \$3,350 in royalties from one of its publications

The total amount that the organization should report on line 102 is:

Interest .....	\$2,000
Taxable dividends from a corporation residing in Canada.....	\$2,200
Taxable dividends received from a foreign corporation (\$500 + \$120).....	\$620
Rental .....	\$6,200
Royalties .....	\$3,350
<b>Total</b> .....	<b>\$14,370</b>

### Notes

The total amount that the ABC Tennis Association received or was entitled to receive from interest, taxable dividends, rentals, and royalties is \$14,370. This is more than the \$10,000 filing requirement. Therefore, ABC has to file Form T1044, *Non-Profit Organization (NPO) Information Return*, for the current fiscal period, **and all future fiscal periods**.

This example is provided only for purposes of outlining a numerical calculation. An organization with this level and type of income may not qualify as an NPO, or may be subject to tax on its property income under subsection 149(5).

## Line 103 – Proceeds of disposition of capital property

Report any proceeds of disposition the organization received. Generally, the proceeds of disposition are equal to the selling price on the date of the sale. However, the proceeds can also include compensation the organization received for property that was destroyed, expropriated, stolen, or damaged. If the proceeds of disposition are not money, use the fair market value of the goods or services you received on the date of the sale as the proceeds of disposition. Examples of capital properties include land, buildings, securities, and works of art.

## Line 104 – Gross sales and revenues from organizational activities

Report sales and revenues received in the fiscal period from all organizational activities. Include such amounts as sales and revenues from programs, services, and special events. Do not deduct any related expenses.

## Line 105 – Gifts

Report the total amount of gifts the organization received during its fiscal period. These include gifts:

- from foreign sources
- of capital received from a bequest or inheritance
- subject to a trust
- from other organizations

### Line 106 – Other receipts (specify)

Report any other amount the organization received in the fiscal period on line 106. Specify in the space provided the nature of the amount you are reporting.

## Part 3 – Statement of assets and liabilities at the end of the fiscal period

### Assets

Record all the organization's assets (other than cash or amounts receivable) based on their cost. If you use another method of accounting, please tell us the method you have used.

If the organization uses the accrual method, report amounts on lines 108 to 119 where they apply.

### Line 108 – Cash and short-term investments

Report the total amount of the organization's cash and short-term investments that are on hand at the end of the organization's fiscal period. Cash includes cash on hand and cash deposits. Short-term investments include treasury bills and term deposits. We consider any investment that has a maturity period of one year or less to be a short-term investment.

### Line 109 – Amounts receivable from members

Report the total funds owing to the organization from members at the end of the organization's fiscal period. Include such amounts as loans, mortgages, and amounts connected to the sale of the organization's goods and services to these people.

### Line 110 – Amounts receivable from all others (not included on line 109)

Report the total funds owing to the organization from all persons other than members at the end of the organization's fiscal period. Include such amounts as loans, mortgages, and amounts connected to the sale of goods and services. **Do not include the amounts you reported on line 109.**

### Line 111 – Prepaid expenses

Report the total amount of all prepaid expenses at the end of the organization's fiscal period. Include such amounts as prepaid rent and prepaid insurance.

### Line 112 – Inventory

Report the cost of all goods on hand at the end of the organization's fiscal period, including work in progress. Do not include supplies or other items not regularly offered for sale.

### Line 113 – Long-term investments

Report the total cost of long-term investments on hand at the end of the organization's fiscal period. Include stocks, notes, bonds, and other securities. We consider any investment that has a maturity period of more than one year to be a long-term investment.

### Line 114 – Fixed assets

Fixed assets include land, buildings, and equipment. Report fixed assets on hand at the end of the organization's fiscal period at their book value. For depreciable assets, **book value** equals the cost of the asset **minus** accumulated depreciation. For all other assets, it equals the cost.

### Line 115 – Other assets (specify)

Examples of other assets are vehicles, supplies, and works of art. Report all other assets on hand at the end of the organization's fiscal period at their book value. For depreciable assets such as vehicles, **book value** equals the cost of the asset **minus** accumulated depreciation. For all other assets, it equals the cost.

### Liabilities

### Line 117 – Amounts owing to members

Report the total amounts owing to members of the organization at the end of the organization's fiscal period. Include such amounts as loans, mortgages, salaries payable, and payments due for goods and services received.

### Line 118 – Amounts owing to all others (specify)

Report the total of all other liabilities of the organization. Include amounts owing to other persons or organizations, such as loans, mortgages, notes, salaries to non-members, and grants payable. **Do not include the amounts you reported on line 117.**

## Part 4 – Remuneration

### Line 120 – Total remuneration and benefits paid to all employees and officers

Report the total amount the organization paid out in remuneration and benefits to **all** employees and officers (including employees and officers who are or were members) during the fiscal period. Include amounts such as salaries, commissions, bonuses, directors' fees, trips, travel expenses, and benefits from housing loans.

### Line 121 – Total remuneration and benefits paid to employees and officers who are members

Report the total amount the organization paid out during the fiscal period in remuneration and benefits **only** to employees and officers who are or were members of the organization at any time during that period. Members include both individuals and corporations. Include amounts such as salaries, commissions, bonuses, directors' fees, trips, travel expenses, and benefits from housing loans.



**Line 122 – Other payments to members (specify)**

Report the total of any payments the organization made to members during the fiscal period, other than payments made in the usual course of employment or commercial transactions. **Do not include the amounts you reported on lines 120 and 121.**

**Number of members in the organization**

On the line provided, enter the number of members in the organization at the end of the organization's fiscal period.

**Number of members who received remuneration or other amounts**

On the line provided, enter the total number of members who received remuneration, benefits or other payments during the fiscal period covered by the return.

**Part 5 – The organization's activities**

Briefly describe the activities of the organization. If this is the organization's first year filing the NPO information return, include a copy of the organization's mission statement with the return.

Also, indicate whether the organization carries on activities outside Canada. If so, give the location.

**Part 6 – Location of books and records**

Enter the name, address, and telephone number of the person we should contact about the organization's books and records. Leave this area blank if the information is the same as in Part 1.

**Part 7 – Certification**

The NPO information return has to be certified to show that the information in the return is correct and complete. Only a current officer of the organization can sign the certification.

## For more Information

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### What if you need help?

If you need more information after reading this publication, visit [canada.ca/taxes](http://canada.ca/taxes) or call 1-800-959-5525.

### Forms and publications

To get our forms and publications, go to [canada.ca/cra-forms](http://canada.ca/cra-forms) or call 1-800-959-5525.

### Electronic mailing lists

The CRA can notify you by email when new information on a subject of interest to you is available on the website. To subscribe to the electronic mailing lists, go to [canada.ca/cra-email-lists](http://canada.ca/cra-email-lists).

### Teletypewriter (TTY) users

If you have a hearing or speech impairment and use a TTY, call 1-800-665-0354.

If you use an **operator-assisted relay service**, call our regular telephone numbers instead of the TTY number.

### Service complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the CRA. See the Taxpayer Bill of Rights.

You can file a service complaint if you are not satisfied with the service you get from the CRA.

There are three steps to resolve your service-related complaint.

### Step 1 – Talk to us first

If you are not satisfied with the service you received, you can file a service complaint. Before you do this, we recommend that you try to resolve the matter with the employee you have been dealing with or call the telephone number provided in the CRA's correspondence. If you do not have contact information, go to [canada.ca/cra-contact](http://canada.ca/cra-contact).

If you still disagree with the way your concerns were addressed, you can ask to discuss the matter with the employee's supervisor.

### Step 2 – Contact the CRA Service Complaints Program

The CRA Service Complaints Program is for individuals and businesses. The program provides another level of review if you are not satisfied with the results from step 1 in the service complaint process. Generally, service-related complaints refer to the quality and timeliness of our work.

To file a complaint with the CRA Service Complaints Program, fill out Form RC193, *Service-Related Complaint*.

For more information on the CRA Service Complaints Program and how to file a complaint, go to [canada.ca/cra-service-complaints](http://canada.ca/cra-service-complaints).

### Step 3 – Contact the Office of the Taxpayers' Ombudsman

If, after following steps 1 and 2, your service-related complaint is still not resolved, you can submit a complaint with the Office of the Taxpayers' Ombudsman.

For more information about the Office of the Taxpayers' Ombudsman and how to submit a complaint, go to [canada.ca/en/taxpayers-ombudsman.html](http://canada.ca/en/taxpayers-ombudsman.html).

### Reprisal complaint

If you believe that you have been subject to reprisal, complete Form RC459, *Reprisal Complaint*.

For more information about reprisal complaints, go to [canada.ca/cra-reprisal-complaints](http://canada.ca/cra-reprisal-complaints).



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# What is the difference between a registered charity and a non-profit organization?

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Registered charities and non-profit organizations (NPO (Non-profit organization)s) both operate on a non-profit basis, however they are not the same. This page explains the differences between them.

## Registered charities

Registered charities are charitable organizations, public foundations, or private foundations that are created and resident in Canada. They must use their resources for charitable activities and have charitable purposes that fall into one or more of the following categories:

- the relief of poverty
- the advancement of education
- the advancement of religion
- other purposes that benefit the community

## Examples of registered charities

Some examples of registered charities under each of the four categories:

- relief of poverty (food banks, soup kitchens, and low-cost housing units)
- advancement of education (colleges, universities, and research institutes)
- advancement of religion (places of worship and missionary organizations)
- purposes beneficial to the community (animal shelters, libraries, and volunteer fire departments)

### Note

If you are operating as a charity and want to issue official donation receipts and not have to pay income tax, you have to apply to be a **registered** charity. If you are not registered, you do not qualify for these advantages.

# Non-profit organizations

Non-profit organizations are associations, clubs, or societies that are not charities and are organized and operated exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit.

## Examples of non-profit organizations

Here are a few types of non-profit organizations and examples of each:

- social, recreational, or hobby groups (bridge clubs, curling clubs, and golf clubs)
- certain amateur sports organizations (hockey associations, baseball leagues, and soccer leagues)
- certain festival organizations (parades and seasonal celebrations)



### Note

If you are operating as a charity, you **cannot** be considered a non-profit organization, even if you are not registered or cannot be registered as a charity. You can only meet one definition, not both.

The Canada Revenue Agency (CRA) (Canada Revenue Agency) tax services offices are responsible for deciding if an organization qualifies for tax-exempt status as a non-profit organization.

## The differences between a registered charity and a non-profit organization

Topic	Registered charity	NPO (Non-profit organization)
Purposes	<ul style="list-style-type: none"><li>• must be established and operate exclusively for charitable purposes</li></ul>	<ul style="list-style-type: none"><li>• can operate for social welfare, civic improvement, pleasure, sport, recreation, or any other purpose except profit</li><li>• cannot operate exclusively for charitable purposes</li></ul>

Topic	Registered charity	NPO (Non-profit organization)
Registration	<ul style="list-style-type: none"> <li>• must apply to the <u>CRA (Canada Revenue Agency)</u> and be approved for registration as a charity</li> </ul>	<ul style="list-style-type: none"> <li>• does not have to go through a registration process for income tax purposes</li> </ul>
Charitable registration number	<ul style="list-style-type: none"> <li>• is issued a charitable <u>registration number</u> once approved by the <u>CRA (Canada Revenue Agency)</u></li> </ul>	<ul style="list-style-type: none"> <li>• is not issued a charitable registration number</li> </ul>
Tax receipts	<ul style="list-style-type: none"> <li>• can issue official donation receipts for income tax purposes</li> </ul>	<ul style="list-style-type: none"> <li>• cannot issue official donation receipts for income tax purposes</li> </ul>
Spending requirement (disbursement quota)	<ul style="list-style-type: none"> <li>• must spend a minimum amount on its own charitable activities or as gifts to <u>qualified donees</u></li> </ul>	<ul style="list-style-type: none"> <li>• does not have a spending requirement</li> </ul>
Designation	<ul style="list-style-type: none"> <li>• is designated by the <u>CRA (Canada Revenue Agency)</u> as a charitable organization, a public foundation, or a private foundation</li> </ul>	<ul style="list-style-type: none"> <li>• does not receive a designation</li> </ul>
Returns	<ul style="list-style-type: none"> <li>• must file an annual information return (Form T3010) within six months of its fiscal period-end</li> </ul>	<ul style="list-style-type: none"> <li>• may have to file a T2 return (if incorporated) or an information return (Form T1044) or both within six months of its fiscal period-end</li> </ul>
 Personal benefits to members	<ul style="list-style-type: none"> <li>• cannot use its income to personally benefit its members</li> </ul>	<ul style="list-style-type: none"> <li>• cannot use its income to personally benefit its members</li> </ul> 

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Topic	Registered charity	NPO (Non-profit organization)
Tax exempt status	<ul style="list-style-type: none"> <li>is exempt from paying income tax</li> </ul>	<ul style="list-style-type: none"> <li>is generally exempt from paying income tax</li> <li>may have to pay tax on property income or on capital gains</li> </ul>
GST/HST (Goods and services tax / Harmonized sales tax)	<ul style="list-style-type: none"> <li>generally must pay GST/HST on purchases</li> <li>may claim a partial rebate of GST/HST paid on eligible purchases</li> <li>most supplies made by charities are exempt</li> <li>calculates net tax using <u>the net tax calculation for charities</u></li> </ul>	<ul style="list-style-type: none"> <li>must pay GST/HST on purchases</li> <li>may claim a partial rebate of GST/HST paid on eligible purchases only if it receives significant government funding</li> <li>few supplies made by NPOs are exempt</li> <li>calculates <u>net tax</u> the regular way</li> </ul>

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## Five easy ways to jeopardize your charity

If you are associated with a charitable organization in Canada, do read on. Share this information with Board members, other appropriate volunteers, and staff.

#### PopularRecent

[Five easy](#)

If yours is a non-profit organization considering charitable status, do take the contents of this paper into consideration as you move forward.

Beginning in 2009, our Centre was granted support by the Canada Revenue Agency (CRA) to create and deliver a workshop curriculum to small and rural charities, one that demystified the language of CRA, and clearly explained issues related to charity governance and compliance.

This information is a compendium of the items that represented the most 'a-ha!' moments for the 1,100 non-profit and charity representatives who participated in one of the 29 workshops that we convened across Western Canada over that year.

*The contents of this blog were reviewed and updated in 2015.*

### **Charities versus non-profits**

First, a brief explanation of the differences between charities and non-profits. An organization must first establish itself as a non-profit before it applies to **CRA's Charities Directorate** to obtain charitable status.

It is estimated that there are about as many non-profit organizations in Canada as there are charitable organizations (over 85,000 in each group).

Being a charitable organization means that the group can issue official receipts for income tax purposes, to donors. Donors can then receive (personal and corporate) income tax credits for their donations. Being a charity also means



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that the organization can accept grants from other registered charities (charitable organizations and foundations: both public and private), and other 'qualified donees'.

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Especially if an organization doesn't view itself as needing to approach the public for donations, and if it does not require project / operating grants from charities and foundations, there is less reason to apply for charitable status. Certainly, the administrative burden is heavier for charities, and there are more restrictions with respect to how they can make use of their resources (political and social activities being examples of items that are limited).

For an in-depth comparison of registered charities versus non-profit organizations, see [CRA's excellent web page on the topic](#).

Charitable registration is a one-way street. If a charity decides to dissolve (or revert back to status as a non-profit organization), or if its registration is revoked by the CRA, the charity must either pay the CRA a 100% tax on its assets (referred to as a 'revocation tax'), or transfer those assets to another charity. So, the decision to register as a charity must be made carefully.

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## **1. One way to jeopardize your charity:**

### **GIVE GRANTS TO NON-PROFITS**

Two practices that are offside with CRA are the 'lending' of a charitable number to non-charities, or acting as a 'flow-

through' for non-charities. These actions seem to be undertaken often, in some cases in return for an 'admin fee' back to the charity.

Related to this activity is the granting of funds to a non-profit by a charity. It is essential to keep in mind that charities (including foundations) can only extend grants to **qualified donees**. Non-profits are NOT qualified donees.

It is possible for a charity to direct funds to non-profits, businesses, and individuals, but only in a situation where the payee is fulfilling a contract for the charity. The charity must retain direction and control over the work.

When a charity is detected directing gifts to non-qualified donees (such as non-profits), or lending its charitable number to another body to apply for a grant, the charity is fined 105% of the amount. For the second infraction, the fine is 110%. The third infraction would likely result in revocation of the charity's status.

Revocation means that the charity would need to gift all assets to a charity or pay the full equivalent amount to the CRA. It would no longer be able to issue charitable tax receipts for donations, nor would it be a qualified donee (ending access to grants from foundations and other charities).

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## **2. Another way to jeopardize your charity:**

### **DRIFT FROM YOUR CHARITABLE PURPOSES**

The charitable purposes or 'objects' are the exact wording that the charity submitted to CRA when originally applying for charitable status. This specific language is what was approved by CRA, and denotes exactly the activities that the specific charity is allowed to undertake.

This special wording is not to be confused with a vision or mission statement, or a strategic plan. Often, strategic planning processes are undertaken without the charitable purposes in mind. Too often, this burying of the official allowable charitable activities of the organization leads to 'drifting' away from the activities that the charity is actually allowed to undertake. This is a specific risk for older organizations, which may have experienced many changes in leadership, lost its 'institutional memory', or has simply responded to changing community needs over time.

Revisit your charitable purposes, and ensure that your charity is still working within them. For example, perhaps a charity began its life as an organization that assisted women, then over time, it included children as well. As noble and as charitable as the activity remains, if CRA did not approve this shift, then the charity is technically operating offside with CRA.

There are two choices, in order to remain within CRA requirements: either cease the activity, or apply to CRA to have the charitable objects amended.

If your choice is the latter, ensure that the new activity safety falls within the four 'heads' of charity. These are relief of poverty; advancement of education; advancement of religion; and other purposes beneficial to the community in a way the law recognizes as charitable (this is a catch-all category based on Canadian case law and related precedent).

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### **3. Another way to jeopardize your charity:**

#### **DON'T FILE YOUR ANNUAL INFORMATION RETURN (T3010)**

Failure of a charity to file its annual information return or T3010 is the most common reason for revocation of charitable status.

Since 2010, **the CRA has revoked 1,700 charities per year, on average**. Of these, 43% were revoked due to a failure to file their T3010. Of those, nearly 40% are situated in the charitable category of advancement of religion.

The T3010 is the key means that CRA has to gauge compliance. If the T3010 is not submitted, then the CRA has limited avenues (short of audits) of verifying that the charity is operating properly.

In 2009, the T3010 was simplified, and became much easier to complete. Helpful [online resources from CRA](#) make the process even clearer.

The T3010 is due to be filed six months past the fiscal year-end of the organization. A late filing fee of \$500 will be applied if this deadline is missed. Note that a T3010 filed without accompanying financial statements is considered to be an incomplete submission.

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#### **4. Another way to jeopardize your charity:**

##### **ISSUE DONATION RECEIPTS IN EXCHANGE FOR SERVICES**

Official donation receipts can only be issued if the gift is *property*. Cash and tangible items (e.g. office supplies, equipment, etc.) are considered to be property. Services are NOT considered to be property.

For example, if someone offers free marketing services or bookkeeping to a charity, an official donation receipt for tax purposes cannot be offered. Similarly, if a hairdresser donates a gift certificate for a silent auction, this cannot be receipted. Nor can a spa gift certificate, because there is no way of knowing whether the end user will convert the certificate to property (e.g. skin care products) or a service (such as a massage).

Likewise, a person donating their time to the charity as a volunteer cannot be remunerated with a donation receipt.

There is a practice called a 'cheque exchange', which is a perfectly legitimate way of 'converting' a donation of a service to property (which is then receiptable). Cheque exchanges, however, only add administrative work to the charity, with no pay-off for the donor.

This is how it works: 1. a donation of a service is made to the charity by a business 2. the donor then invoices the charity for the service 3. the charity pays the invoice 4. the donor then gifts the payment back to the charity 5. now that the donation is cash (and therefore property), the charity issues a donation receipt to the donor.

The reality of the cheque exchange is that the donor has just issued an invoice, which is a sale to be claimed as income. The donation receipt is an expense that is applied to the income, and thereby 'cancels it out'. The net result is nil to the donor, because the receipt only serves to negate the recorded income.

Receipting on items that are not truly receiptable is an area of huge concern for CRA, because every donation receipt that is claimed as an income tax credit by the donor represents foregone tax revenue for the government. During our workshop delivery, we heard a horror story that involved a charity auctioning off three \$5,000 donation receipts to the highest bidders!

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## 5. A final way to jeopardize your charity:

### OPERATE AN UNRELATED BUSINESS WITHIN YOUR CHARITY

The [CRA's Policy Statement CPS-019](#) *What is a related business?* details the nuances of when a social enterprise can be operated within a charity, and when another structural option (i.e. a taxable corporation) must be chosen. This document is 'must' reading for charities considering or engaged in social enterprise.

'Social enterprise' has, as yet, no legal meaning in Canada.

The CRA guidance therefore refers to 'related' and 'unrelated' business. Related business **can** be operated within a charity. Unrelated business **cannot**. The difference between the two is a great source of misunderstanding for social enterprise operators. Most believe that they are operating a related business. Many times, they are not.

Many charities erroneously assume that as long as the profits are flowing back to the charity's good works, then the enterprise can be operated legally as a project within the charity. This is called '[the destination test](#)'... and would hold true if the charity was based in New Zealand!

Canadian social enterprises need to dig deeper, ensuring that they are operating a related business. CRA defines 'related businesses' as two kinds: 1) businesses that are run substantially by volunteers; or 2) businesses that are

linked to a charity's purpose and subordinate to that purpose.

If the social enterprise is 90% volunteer-run, then the tests below for linkage and subordination need not be considered.

'Linkage' cannot be claimed merely by the fact that the profits from a social enterprise are directed to a charity.

'Linkage' to the organization's charitable purpose means that the business must meet **one** of the following tests.

To be considered related, the business must:

1. Be a usual and necessary concomitant of charitable programs (e.g. a hospital parking lot, a university bookstore, a museum gift shop); **or**
2. Be an offshoot of a charitable program (e.g. a church that records and sells choir recordings); **or**
3. Represent a use of excess capacity (e.g. charging for parking lot use during hours of closure, or renting out event tents when not being used by the charity); **or**
4. Involve the sale of items that promote the charity and its objects (e.g. calendars, T-shirts, etc.).

All of the examples given above are CRA's own examples.

With respect to item #3 (excess capacity), it is of interest to note that CRA's examples are of excess assets, and not staff time... so we have no clarity on what percentage of staff time would be considered an acceptable 'linked' use for social enterprise activities.



Many organizations define 'linkage' far too loosely. They assume that if the social enterprise relates to the clients that they serve in some way, then the enterprise is a related business that can therefore be operated within the charity. This is not the case – **at least one of the four areas of linkage** outlined above must be demonstrated in order for the charity to use the linkage argument.

'Subordination' means that the business activity must:

1. Receive a minor portion of the charity's attention and resources; **and**
2. Be integrated into the charity's operations, rather than acting as a self-contained unit; **and**
3. Not dwarf the charity's decision making so that charitable goals take a backseat to the enterprise's; **and**
4. Not involve private benefit.

**All four of these areas of subordination** must apply to the social enterprise in order for it to be considered a related business.

If the social enterprise is not substantially run by volunteers, and if linkage **and** subordination cannot be demonstrated, then the charity is operating what CRA calls an unrelated business.

In the case of unrelated business, the charity is advised to establish a separate legal entity (usually a taxable corporation), which must operate at absolute arms' length

from the charity. This includes a separate Board of Directors, ledger, bank account, etc.

The separate legal entity that holds the unrelated business cannot benefit in any way from the charity that owns it. To err on the side of caution, charities should enact absolute separation of staff, equipment, and sundry supplies; or a clear paper trail that shows the corporation paying fair market value for use of the charity's resources, such as rent.

An unrelated business cannot be run as a 'project' within the charity, but must be established as a completely separate legal entity, remitting corporate taxes on net income derived from social enterprise activity. The corporation can donate up to 75% of its net profits to the charity, and only pays income tax on the remaining net profit after the donation is made.

When an unrelated business is detected by CRA within a charity, the fine is 5% of *gross* revenues of the venture. Upon the second discovery, the fine is 100% of *gross* revenues plus suspension of receipting privileges.

**If you would like our help in determining whether your charity is compliant, do contact us to request a **charity check-up!****

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