Policy Priorities for the Charities Directorate, Canada Revenue Agency

International Committee on Fundraising Organizations
Annual General Meeting, May 14, 2010
Today’s presentation

1. A brief overview of the regulation of charities in Canada

2. Developing guidance for charities: process and practice

3. Recently completed guidance
   • Fundraising guidelines
   • Sports activities and charitable purposes
   • Foreign activities
   • Upholding of human rights
Charities in Canada

- The Charities Directorate is the part of the Canada Revenue Agency (CRA) that administers the provisions of the *Income Tax Act* relating to registration and regulation of charities.

- Our mission is:
  To promote compliance with the income tax legislation and regulations relating to charities through education, quality service, and responsible enforcement, thereby contributing to the integrity of the charitable sector and the social well-being of Canadians.
What is a Canadian charity?

- To become registered, an organization must have exclusively charitable purposes that fall into one or more of the following categories:
  1. Relief of poverty
  2. Advancement of religion
  3. Advancement of education
  4. Other purposes that the courts have deemed charitable (e.g. promotion of health, animal welfare)

- A registered charity must devote substantially all of its resources to charitable activities.
Why register a charity?

- Registered charities may issue official donation receipts and are exempt from paying income tax.

- An official donation receipt provides both a federal and provincial tax credit to the donor.

- In 2007 (the most recent year complete statistics are available):
  - Charities reported issuing $13.9 billion in tax receipts.
  - Donors claimed $9.3 billion on their tax returns.
  - The federal and provincial governments reported $3.9 billion in foregone revenue due to these tax credits (average tax credit rate of about 40%).
How many charities are registered?

- As of May 2010, there are just over 85,000 registered charities in Canada.

- The Charities Directorate has about 250 employees at headquarters in Ottawa, and there are also 40 field auditors that carry out charity audits across Canada.
  - 4,000 applications received / year
  - 2,750 charities registered / year
  - 900 charities audited / year
  - 1,600 charities revoked / year for various reasons
What are the functions of the Charities Directorate?

- The Charities Directorate contains six divisions, each with its own area of responsibility:
  - **Assessment, Determinations, and Monitoring:** reviews applications for registration.
  - **Client Interface and Service:** provides information, guidance and advice on maintaining registered status.
  - **Compliance:** ensures that registered organizations comply with registration requirements.
  - **Corporate and Information Programs:** engages with the sector and other sections of the government.
  - **Policy, Planning, and Legislation:** develops policy and educates the charitable sector and donors.
  - **Review and Analysis:** supports the CRA’s role in combating the financing of terrorism.
Charities Directorate guidance


- The guidance is intended to assist:
  - Our own officers when making determinations, providing guidance and conducting audits
  - Charities and applicants for charitable status
  - The public
How is guidance developed?

- The Policy, Planning and Legislation Division (PPLD) within the Charities Directorate is responsible for developing new guidance and updating older documents.

- We monitor the nature of enquiries coming in from registered charities and other external stakeholders and also discuss with our own staff.

- A cross-Directorate Policy Development Committee then identifies priorities for guidance.

- These priorities are presented to a management committee for approval.

- PPLD then proceeds with drafting the guidance, and holding internal and external consultations.
What consultations does the Charities Directorate carry out?

- Internal and external consultations on our draft guidance is an integral part of the Charities Directorate’s development process.

- Our consultation process can include any or all of the following steps:
  - An internal working group
  - A standing committee of sector and internal representatives
  - Targeted external consultations with specific stakeholders
  - Posting a draft on the Web site for public consultation
  - Soliciting feedback at conferences.
What guidance has been released recently?

- The Charities Directorate is continually developing new guidance, and revising older documents to reflect changes in the Income Tax Act, the common law, or the charitable sector.

- Some examples of recent guidance include:
  - Fundraising by registered charities
  - Sports and charitable registration
  - Registered charities carrying out activities outside Canada
  - Upholding human rights and charitable registration
Why new guidance on fundraising?

- While fundraising is not itself a charitable purpose, it clearly is necessary and can be conducted within reasonable limits.

- The new guidance was developed to:
  - Promote consistency in how CRA officials interpret and apply the legislation when dealing with fundraising issues
  - Promote consistency in how fundraising expenses are reported by charities
  - Improve transparency and enable charities to better understand the Charities Directorate’s expectations when making decisions about fundraising.
Why new guidance on fundraising?

- The Income Tax Act does not have any provisions that relate specifically to fundraising.

- However, when fundraising, charities must comply with general requirements of the Act, such as:
  - Devotion of all resources to charitable purposes and activities
  - Must operate for public benefit, not private benefit
  - Accurate reporting of expenses
Why new guidance on fundraising?

- During the public consultation process, the charitable sector formed its own working group to advance their concerns.

- Much attention was paid to a proposed fundraising ratio of expenses and revenue.

- In response, the Charities Directorate revised the guidance to address these concerns (while retaining its objectives), and agreed to carry out an implementation review after one year.
Why new guidance on sports?

- The Charities Directorate occasionally receives applications to register as a charity an organization whose purpose is to promote sports.

- However, the courts have not recognized the promotion of sport as a charitable purpose.

- The Charities Directorate has therefore refused charitable registration to these organizations.
Why new guidance on sports?

- The guidance sets out in what circumstances sports activities may be recognized as furthering other charitable purposes. For example, therapeutic horseback riding to provide relief for conditions associated with a disability.

- A 2007 Supreme Court decision confirmed the Charities Directorate’s position.
Why new guidance on activities outside of Canada?

- One area of concern for the Charities Directorate is the issue of charities sending resources out of the country.

- In short, the Act requires a charity to devote all its resources to activities carried on by itself – a charity cannot simply hand its resources over to any organization it wants to support.

- A charity may, however, work through a foreign intermediary to carry out its activities, providing it controls and directs the intermediary’s use of its resources.
Why new guidance on upholding human rights?

- CRA had no public policy on human rights as a charitable purpose.

- Approximately 400 registered charities include some aspect of human rights in their work.

- Upholding codified human rights is a charitable purpose as it involves upholding law.

- However, there are strict limits on political activities that apply to all charities and this is where clear guidance was needed.
Why new guidance on human rights?

- In general, the draft guidance was met with approval from the sector during the public consultation phase.

- Some concern from the sector that:
  - Limitations on political activities are too restrictive
  - Definition of Human Rights should be broader

- A number of the sector’s concerns were addressed through changes to wording, and through the addition of a Questions and Answers appendix.
What are the Charities Directorate’s priorities for future guidance?

- The Charities Directorate’s is currently developing new guidance on the following topics:
  - The advancement of religion
  - Animal welfare
  - Protection of the environment
  - Complementary and alternative medicine
Thank you

www.cra.gc.ca/charities