



# Registered Charities in Canada

Presentation to the ABA Section of Taxation  
September 24, 2010



Canada Revenue  
Agency

Agence du revenu  
du Canada

Canada 

# Presentation Outline

- **Mandate and structure of the Charities Directorate**
- **Interaction with the provinces**
- **Accountability and transparency**
- **Compliance and enforcement**

# Mandate of the Charities Directorate

- The mandate of the Charities Directorate is to enforce the provisions of the *Income Tax Act* relating to charities.
- We also believe that in carrying out our mandate we can contribute to the integrity of the charitable sector and the social well-being of Canadians.
- The Charities Directorate is the only federal government entity actively engaged in the regulation of charities.

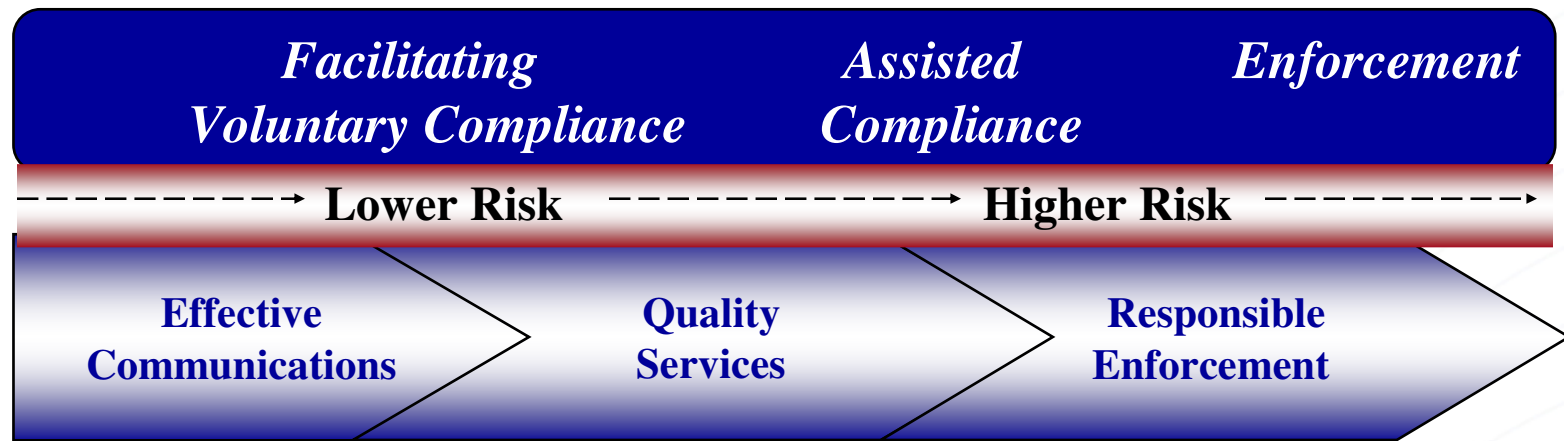
# Charities Directorate's Structure

- The Charities Directorate has close to 250 employees.
- Compliance Programs Branch and Appeals Branch contribute about 50 additional full time equivalents.
- The charities program is primarily delivered centrally out of Ottawa for reasons of efficiency, service quality and specialization.
- While client service, application examination and returns processing are all located in Ottawa, our field audit program is delivered out of our regional offices.

# Organizational Structure

- **Assessment, Determinations and Monitoring Division**
  - Responsible for reviewing applications for charitable registration
  
- **Client Interface and Service Division**
  - Provides information and advice on maintaining registered status
  - Manages the CRA's only contribution program
  - Manages sector outreach activities
  
- **Compliance Division**
  - Manages audit and enforcement activities
  
- **Policy, Planning and Legislation Division**
  - Develops policy guidance and provides information and education programs for donors
  - Manages appeals liaison and business intelligence
  
- **Review and Analysis Division**
  - Supports the CRA's role in combating the financing of terrorism in support of the *Charities Registration (Security Information) Act*

# Charities Compliance Continuum



- Forms & publications
- Seminars
- Outreach programs

- Policy advice
- Interpretations
- Contributions program

- Client enquiries
- Processing of returns
- Determinations

- Desk & Field Audit
- Returns Review

- Revocations for cause
- Part V tax
- Other Sanctions

**Support activities to enhance program efficiency and effectiveness**

- Strategic coordination and direction
- Information technology support services
- Change management and communications
- Financial and HR support services

# Interaction with the Provinces

- The Canadian Constitution gives provinces the responsibility for making laws regarding the establishment, maintenance, and management of charities.
- In practice, provincial legislation and oversight relating to charities tends to be limited in scope, focusing principally on regulating fundraising and gaming activities.
- The Charities Directorate engages the provinces on issues of common interest.

# Accountability and Transparency Outreach

- In an effort to properly inform charities of their obligations under the ITA, help donors make informed decisions, and explain the rationale for its decisions, the CRA's Web site includes:
  - extensive information on applying for registration, operating as a registered charity, and being an informed donor;
  - a vast array of information regarding decisions to register or revoke organizations.
- CRA is also using innovative social media tools such as webinars, webcasts and YouTube to reach the charitable sector.

# Accountability and Transparency Reporting

- The Registered Charity Annual Information Return (form T3010) is used as both a regulatory and public information tool.
- Extensive public disclosure of information is made possible through the posting of T3010 information on the CRA Web site.
- Some of the information includes:
  - Names of directors
  - Descriptions of programs and activities;
  - Revenue and expenditures;
  - Fundraising costs and methods; and,
  - Employee compensation range.

# Accountability and Transparency Reporting

- The last revision of the T3010 took place in 2006.
- As part of the revision process, both internal and external consultations were held, including talks with the IRS regarding its challenges with revisions to Forms 990 and 990-EZ.
- The two main drivers for the redesign of the T3010 in 2006 were to:
  - reduce reporting burden for charities with limited resources not engaged in higher risk activities; and
  - provide additional information to the CRA and the public on larger charities, as well as those engaged in higher risk activities.

# Accountability and Transparency Reporting

- The core form consists of three pages (with a fourth page for certification and a checklist).
- Most small charities only complete the shorter core form, but all charities must report.
- Detailed financial information is required when:
  - Gross revenue exceeds \$100,000, or
  - The amount of all assets not used in charitable programs or administration exceeds \$25,000.

# Public Accountability of Charities

## Compensation

- As in the USA, the question of appropriate compensation for directors and employees of charities has been the subject of interest in Canada.
- Several charities in Canada have been revoked for providing compensation that was, by any measure, abusive when considering value received.
- Employees of charities may receive reasonable and fair compensation for their services, but these services must be necessary to further the charitable purpose.

# Public Accountability of Charities

## Compensation

- In Canada, a Private Member's Bill (Bill C-470) was recently introduced that would cap compensation at \$250,000.
- This Bill would also require charities to disclose the salaries of the five highest compensated executives and employees.
- Hearings before a Parliamentary committee are scheduled to be held this fall.

# Compliance and Enforcement

## Compliance Priorities

- The CRA's compliance enforcement messaging is based on fairness, and stresses a zero tolerance approach to tax fraud.
- In recent years the CRA has targeted three types of tax fraud:
  - tax preparer fraud,
  - charity related fraud, and,
  - identity theft.

# Compliance and Enforcement

## False Receipting

- The CRA has discovered that tax receipts are being sold by some charities for a fraction of their face value.
- There are many different variations on the scheme, including the following:
  - A member of the charity sells receipts without the other members or directors' knowledge.
  - A charity's director may sell the receipts to a tax preparer for a commission.
- In other cases, receipts are forged by tax preparers without the charity's knowledge.

# Compliance and Enforcement

## Tax Shelters

- These arrangements generally promise participants tax receipts reflecting a value many times greater than what they are out-of-pocket.
- There are three common types of tax shelter arrangements:
  - Buy low, donate high
  - Gifting trust arrangements
  - Leveraged cash donations
- Since 2003 there has been approximately:
  - 172,300 tax shelter participants; and,
  - \$5.4 billion in claimed donations.

# Compliance and Enforcement

## Tax Shelters

- As of July 31, 2010 the Charities Directorate has revoked 38 charities and RCAAAs for participating in tax shelter schemes.
- To date 26,000 taxpayers have been audited and about \$1.4 billion in claimed donations have been denied.
- Audits of another 70,000 taxpayers are at various stages of completion. Disallowed donations in these cases are expected to exceed an additional \$1.8 billion.
- As a result, participation in tax shelters has dropped by 80% since 2006, while the dollar amount of the claimed “donations” was reduced by 76% (\$284 million in 2009).

# Compliance and Enforcement Charity Audit Program

- During the 2009-10 fiscal year, 719 audits were concluded of registered charities.
- Of these, fewer than 6% resulted in revocation.
  - In all, 41 charities were revoked for serious infractions (i.e. tax shelters, false receipting);
  - another 20 organizations voluntarily revoked their registration.

# Thank You

Charities Information on the Web  
[www.cra.gc.ca/charities](http://www.cra.gc.ca/charities)

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