



# The Charities File: On Board

Treasurer's Chest





# Module Overview

- Understand the role and responsibility of the treasurer in ensuring that his/her charity is acting in a transparent, accountable and financially appropriate manner.
- Understand CRA expectations with respect to the accurate and timely completion of the T3010B Information Return and attachments
- Awareness of tools and strategies to assist with compliance and effective transfer of financial information to the T3010B



# Focus of this Module

## **Module Includes:**

- General Information
- Terms and Definitions
- Examples and Descriptions

## **Not...**

- Advice (CRA is the expert and professional expertise is often required for more complex issues)
- Providing specific information that may only be relevant to one organization
- Information pertaining to provincial or territorial legislation, Acts, or requirements for societies and non-profit organizations

# How does an organization obtain Charitable Status?

## Organization submits application to CRA identifying:

### What it intends to achieve:

- Referred to as Charitable Purposes or Objects
- Referenced to CRA guidelines for approved objects
  - must use one of four categories (e.g. relief of poverty)
  - (recommend use of pre-approved objects)
- Must be included in Charity's Governing Documents

### How it will accomplish its purpose

- Referred to as Charitable Activities – specific, not general



# Implications of Charitable Status

## Privileges of Charitable Status:

- Exemption from paying income tax
- Ability to issue official tax receipts for gifts received, thereby reducing payable income tax for individuals and taxable income for corporate donors
- Ability to receive funding from other registered charities because the organization is officially recognized as a “Qualified Donee”

## Responsibilities connected to maintaining Charitable Status:

- Demonstrate that they are devoting a substantive portion of their resources to the charitable purposes they were registered to do
- File the T3010B Information Return
- Carry out other obligations under the *Income Tax Act*



# Impact of Non-Compliance

- Public **Embarrassment**
- Loss of **Reputation**
- Hurts **Credibility** of the Voluntary Sector
- Range of **Sanctions** from CRA
  - Financial penalties
  - Removal of privileges until corrective action taken
- Revocation of Charitable **Status**
  - Unable to issue tax receipts for donations
  - Loss of status as a Qualified Donee
  - No longer tax exempt



# Importance of the Board of Directors

The Board of Directors is the legal entity that has ultimate authority and accountability as the official governing body of a charity.

## **The Board of Directors**

- is accountable for competent, conscientious and effective management
- Must govern affairs within relevant legislation and regulations
- Have ultimate sign-off authority and responsibility

# Role of Treasurer – An Officer of the Board

A leadership role as an Officer of the Board of Directors with specific responsibilities to oversee and ensure:

- Financial recordkeeping is appropriate
- Compliance with regulations related to financial issues
- Appropriate involvement of Board in decision making processes related to financial issues.
- Completion of the financial components of T3101B Information Return in an accurate and timely manner

# Responsible for Financial Records Management

**CRA needs to ensure that all resources, human, financial and physical, are used for charitable purposes.**

## **Concerns include:**

- That the records verify all official receipts issued
- That all income and expenditures are identified
- That there is evidence to establish that activities of the entity are charitable

## **Charitable receipting (critical to calculation of Disbursement Quota)**

- Prepare all official receipts in duplicate
- Retain copies of all receipts issued
- Ensure official receipts are individually numbered
- Make sure each receipt has authorized signature
- Retain copies for two years (except for receipts issued for ten year gifts)
- Receipts must contain all the required information, other wise they may be disallowed at the local filing office.



# Charities must respect CRA guidelines with respect to the use of their resources

CRA provides guidelines to assist charities in devoting adequate resources to charitable activities.

They define three basic categories of activities:

## **1. Permitted Charitable Activities**

Approved and appropriate – connected to mandate of charity

## **2. Permitted but restricted activities**

Charities can direct some resources within defined limitations

## **3. Prohibited Activities** - outside mandate of charity

**The Treasurer must be aware of these guidelines :**

- Ensure adequate resources used for permitted activities
- Avoid use of resources in restricted or prohibited activities



# Charities must direct adequate resources to Approved Charitable Activities

## What is a Disbursement Quota (DQ)?

- The **minimum amount** a registered charity has to spend on charitable activities or gifts to qualified donees to keep its registered status.

## What is the purpose of a Disbursement Quota?

- Ensure most of charity's funds used for charitable purposes
- To discourage charities from accumulating excessive funds
- To keep other expenses at a reasonable level

# Meet Disbursement Quota Requirements

**Receipted  
Donations**

**80% guideline**

**+**

**Other Assets held but Not  
used for charitable  
programs**

- Gifts-in-Kind
- Enduring property
- Capital Assets

**Generally a  
3.5 % guideline  
- Calculation can be  
complicated**



# Use proper receipting practices

The total value of receipts is critical in calculation of Disbursement Quota.

## **Receipts must include the following information:**

- The charity's name, address, BN/Registration #
- Date donation received
- Total amount received by charity
- Who it was donated by, address of donor
- Date receipt issued, location receipt issued
- Authorized signature of charity
- Listing of CRA charities website

## **Some receipts must include other elements if they involve non-cash gifts and valued added benefits that the donor received:**

- The Eligible Amount of Gift for tax purposes
- Description of property
- Value of advantage
- Appraised by, and Address of Appraiser

# Understand issues related to Split-Receipting

- Occurs when a donor receives a benefit or an advantage (i.e. tickets, t-shirt, mug, etc.); in this situation the receipt reflects the total amount of the donation less the value of the benefit or advantage

	<u>Example A</u>	<u>Example B</u>	} All three values must be included on the receipt
<b>Donation</b>	\$100.00	\$100.00	
-	-	-	
<b>Value of Advantage* (gift to donor)</b>	\$15.00	\$9.00	
=	=	=	
<b>Eligible Amount of the gift (receipted amount)</b>	\$85.00	\$100.00	

\* The value of the advantage must be determined and is subject to the “de minimis threshold” calculation. “De minimis threshold” is the lesser of 10% of the value of the donation given or \$75; whichever is less (i.e. the value of the advantage in Example A is greater than 10%; therefore the receipted amount is adjusted accordingly. In Example B the advantage is less than 10%; therefore the receipted amount is not adjusted)



# A Complete T3010B Package

**Your T3010B Package is accurate and complete when you:**

**Include a completed T3010B Information Return and:**

- Basic Information Sheet – TF725 even if no changes
- Financial statements for year of return
- Completed Directors/Trustees worksheet – T1235E
- Completed “Qualified Donee” worksheets – T1236E, if applicable

**Do *not* forward the:**

- Capital Gains and Disbursement Quota Worksheet (Form T1259)

**Receive (after processing) the:**

- *Registered Charity Information Return Summary (SUM)*  
(Form T1242)



## General Information About the T3010B

- Must be filed within six months of fiscal year end
- Receive package in mail in the month following the fiscal year end
- Develop process to ensure completion, compliance and filing
- Release of financial statement to public
- Develop processes to capture information required for return

# Financial Statements for fiscal period

**Shows the sources of revenue and how the money was spent**

- Statements of assets and liabilities (Balance Sheet)
- Statement of revenue and expenditures (Income Statement)

**Accounting consistency** – either way acceptable:

- **Cash:** record only revenue or expenditures the charity actually received or paid during the fiscal period
- **Accrual:** immediately recognizes income earned and expenditures incurred

**Approved and signed** by the Board's Treasurer and/or an authorized Director or Trustee



## Ensure understanding of financial terms

- CRA website is constructed to augment these definitions with examples and other information to help clarify the concepts
  - e.g. policy commentaries, information sheets
- The Legal Information Society of Nova Scotia has constructed an annotated T3010B Information Return with specific information related to each term:  
<http://www.legalinfo.org/index.php?option=content&task=view&id=172&phpMyAdmin=f9ea848783485f3dd76c9082d2c76a5a>
- Some concepts required professional expertise to understand nuances



## Ensure accurate transfer of Financial Information to T3010B

- Generally accounting packages use categories that do not directly match the T3010B reporting categories
- Organizations should look at ways of recording revenue and expenditures to ease transfer of information – for current and future reporting
- Use specific spreadsheets to track important categories
  - Gifts-in-Kind – Fair Market Value, capital gains implications
  - Enduring property – implications on DQ
- Obtain advice re: complex issues (CRA, professionals)
  - Capital gains, capital gains pool, capital gains reduction
  - Enduring property (bequests, planned giving)
  - Types of gifts (specific, exempted)
  - Non-qualified investments and securities



## Ensure expenditure allocation is appropriate

The T3010B is constructed to isolate expenditures by purpose, thus ensuring adequate resource allocation to identified charitable activities

5000	<b>Charitable programs (main focus)</b>
5010	Management and Administration
5020	Fundraising
5030	Political Activities
5040	Other Expenditures
5050-70	Qualified Donees
5100	Total Expenditures

# Management and Administration Expenses

Line 5010: Includes all expenditures related to the overall management and administration of the registered charity.

## Examples include:

- Cost of holding a Board of Director's Meeting
- Accounting / auditing & other administrative services
- Occupancy costs for administrative services

**Some expenditures are attributable to both** charitable programs and management and administration expenses such as salaries and occupancy costs – thus must be allocated accordingly.

The CRA expects that this allocation will be made on a **consistent** and **reasonable** basis.



## Fundraising expenses and guidelines

Line 5020: Total expenses paid out for fund raising activities whether carried out directly by the registered charity or by contracted fund raisers.

### **Examples of fund raising expenditures are:**

- Expenditures for conducting fund raising activities, including salaries and overhead costs, promotional materials, campaign supplies, electronic data processing, and year-round office expenses directly related to fund raising
- Expenditures for promoting the registered charity and its activities to the community primarily for fund raising purposes
- Fees the registered charity paid to outside fund raising consultants or agencies (or amounts retained by them)

**CRA has developed guidelines for acceptable practice**

# Qualified Donee Worksheet – T1236(09)

## Qualified Donee (QD)

- An organization that can issue tax-receipts
- CRA has extensive list of acceptable donees

## If yes, must attach a list with required information and submit with T3010B

- Whether charity associated with you
- Address/location/BN registration number
- Amount of gift for fiscal period
- Amount of any specific gift
- List all QD in descending order of total value of gifts

## Capital Gains and Disbursement Quota Worksheet T1259

- CRA will officially calculate a charity's Disbursement Quota based on financial information on T3010B
- Worksheet T1259 is a tool to help registered charities calculate their Disbursement Quota
- Calculations on worksheet can be quite complicated and often requires professional advice or CRA clarification
- Worksheet is not to be submitted to CRA
- Worksheet is also used to track disbursement excesses which can be carried forward for five years

# Be aware of common errors and concerns with T3010B Compliance (2007 statistics)

## Common challenges:

- Late filing of the T3010B Information Return (20 % - 2007)
- Incomplete T3010B Information Returns
- Insufficient books and records
- Incomplete receipts/False information

## Increased number of revoked charities

- 1,714 charities revoked
- 790 audits – 6.5% revoked for just cause, most required education (53%)

## Continual growth of the charitable sector

- 3655 applications, 600 for re-registration – only 2345 approved
- Common reason for denial - 41% insufficient detail on charitable activities



# Ensure Due Diligence of Board

## **The T3010B package must be officially signed by an Director/Trustee/Like Official**

- Certifies that all information is correct and has been approved by a representative of the legal governing body of the charity
- Assumes Board has been directly involved in approval of information
- Assumes Board have been appropriately involved in process of completion and is aware of any issues which might affect CRA compliance— due diligence



# Implement Strategies To Ensure Compliance

- Effective Communication process with CRA and Board
- Completing all forms accurately and correctly requires *quality* time
- Financial practices need to easily facilitate T3010B Information Return reporting expectations
- Ensure an “organizational memory” for future reporting – there is a significant learning curve



# Use Support & Professional Expertise of CRA

## A. Review the Guide to Completing the Charities Information Return

## B. Ask for Clarification

- Toll Free lines –phone, FAX, both languages
- Write for advice – rather than guess

## C. Visit Internet Resources on CRA website

[www.cra.gc.ca/charities](http://www.cra.gc.ca/charities)   [www.arc.gc.ca/bienfaisance](http://www.arc.gc.ca/bienfaisance)

- All forms and publications
- Summary policies on all issues
- Information Letters on numerous topics
- **On-line Listing of Registered Charities**
- Registered charities newsletter – broad, specific (4X year)
- Electronic mailing lists – register to receive what's new

## Use other relevant resources

### **Voluntary Gateway – Sector Portal**

[www.voluntarygateway.ca](http://www.voluntarygateway.ca)

### **Charities File Website**



### **Additional module**

Completing the T3010B (accountants, bookkeepers)

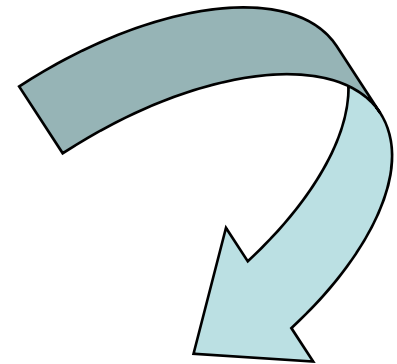
### **Other resources and tools (e-learning)**



In the end, with your help...

We will have a sector that is

- More accountable
- More transparent
- More effective and focused
- More credible...



And a Canadian society that is enriched by the caring and support that comes from the passion of organizations committed to making a difference in our communities.