

COCO INFO-SHEET



COCO – The Centre for Community Organizations
3680 Jeanne-Mance, #470 Montreal (QC) H2X 2K5 ph: (514) 849-5599 or (866) 552-2626 fax: (514) 849-5553 or (866) 560-2626
info@coco-net.org | www.coco-net.org

Applying for Charitable Status

Please note: the 2010 federal budget removed the long standing disbursement quota, which used to require charities to spend at least 80 percent of their donated money on charitable activities.

Charitable status: Do we really have to?!

At COCo, we encounter groups working for social change under all sorts of legal structures. Lots of community groups do charitable work without ever applying for charitable status. Some organizations apply for charitable status in order to become eligible to receive funding from charitable foundations or because they think donors will be more likely to donate money if they can obtain tax receipts in return. Other groups evaluate the potential for increased donations or funding and decide applying for and maintaining charitable status just isn't worth the time and effort required.

What is the difference between applying for incorporation and getting charitable status?

A non-profit organization is not necessarily a charity. In fact, many non-profit organizations do not have charitable status. For more information on incorporating your organization, see:

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Incorporation of a Non-Profit Organization in Quebec

<http://coco-net.org/en/node/339>

Applying for charitable status is a separate process governed by the Canada Revenue Agency (CRA). General information about charitable status and the application process is outlined below.

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What are the benefits of charitable status?

A charity is exempt from income tax and can issue tax receipts to donors. Donations that are made to charities are tax deductible, which provides added incentive to donors to give. If your non-profit organization is seeking funding from charitable foundations such as Centraide or the McConnell Foundation, you will only be eligible if your organization has charitable status.

Also, charities must follow certain financial and governance regulations and ensure that they use the majority of their funds for charitable purposes. These regulations may make some members, donors or funders feel that the organization is more financially and democratically accountable and can provide a guarantee that the organization is indeed doing charitable work.

What is required to maintain charitable status?

In order to maintain their charitable status, organizations need to meet several requirements, including but not limited to:

- filing a yearly *Registered Charity Information Return*;
- limiting their political activities;
- maintaining financial books according to specific procedures; and
- providing and tracking charitable receipts.

If an organization does not meet these requirements, it may be required to pay a fine or, more seriously, it may have its charitable status revoked.

The CRA provides a series of checklists of all the requirements towards maintaining charitable status, such as the various administrative and filing requirements. For more information, see:

Checklists for Charities

CRA Checklists

<http://www.cra-arc.gc.ca/chrts-gvng/chrts/chcklsts/menu-eng.html>

Blumberg Segal LLP's Canadian Charity Legal Checklist

http://www.blumbergs.ca/articles_more.php?id=96_0_2_0

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Can charities organize or participate in political activities?

Charities need to make sure that most of their resources are spent on charitable activities. Depending on the size of the organization, only 10% to 20% of resources can be spent on non-partisan political activities annually. This is often referred to as “the 10% Rule” although the percentage varies according to the income of the organization.

The Canada Revenue Agency (CRA) defines non-partisan political activities as anything that *explicitly* calls for a “law, policy or decision of any level of government” to be “retained, opposed or changed”. Non-partisan political activities are the only type of political activity charities can organize or participate in. It is on this type of political activity that the CRA imposes yearly limitations.

All partisan political activities are strictly prohibited. The CRA defines a partisan political activity as “one that involves direct or indirect support of, or opposition to, any political party or candidate for public office”.

For more information about charities and political activities, see:

Charitable Organizations and Political Activities

COCO's Info-Sheet: Charitable Organizations: Limitations on Political Activities
<http://coco-net.org/en/node/340>

The CRA's policy on Political Activities:
http://www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cps/cps-022-eng.html#P147_14872

How can we decide if it is worthwhile to apply for charitable status?

By estimating in advance the potential for increased donations and funding, you can assess whether charitable status will help the financial health of your organization.

The amount of donations you receive may not necessarily increase drastically just because you can provide tax receipts. By estimating the *possible* increase in donations, you can decide

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whether the efforts of obtaining and maintaining charitable status are worthwhile.

It is useful to survey the additional funding that may be available if your organization becomes a registered charity. Foundation and government funding can be difficult to access, and is often limited to funds for short-term projects that must fit into very specific categories. Some organizations cannot conceive of fitting their activities into these predefined government or foundation themes. Talking with other organizations doing similar work can also help you understand the funding options available to charities.

Are all charities the same?

No, there are charitable organizations and then there are public and private foundations. Charitable organizations carry out their own charitable activities. Public and private foundations focus on raising funds to support other operating charities though they can carry out some of their own charitable activities.

Which activities are charitable according to the Canada Revenue Agency (CRA)?

The CRA has strict definitions of charitable work. To be eligible for charitable status, your organization's activities must fit into at least one of these four categories:

- the advancement of religion
- the relief of poverty
- the advancement of education
- other activities of benefit to the community that the courts have deemed as charitable.

For more information on which activities falling within the above categories will be considered charitable, see the CRA's guide.

CRA Guide

Registering a Charity for Income Tax Purposes

<http://www.cra-arc.gc.ca/E/pub/tg/t4063/t4063-08e.pdf>

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A variety of charitable purposes and activities fall within the fourth category. Some or may fall within two charitable purposes. For example, when charitable, the promotion of animal welfare may fall under education (second category) and “other” (fourth category). In this case “other” recognized charitable purposes may include protecting the environment or promoting agriculture. For a full list of the CRA's policies and guidance, see:

CRA's Alphabetical index of all policies and guidance

http://www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/csp/csp_mnn-eng.html

After considerable pressure from community organizations working with ethnocultural communities, the Canada Revenue Agency released a policy statement on charitable status applications from organizations working with ethnocultural communities, which outlines which activities will be deemed charitable. It serves as a useful guide for organizations that are applying for charitable status. The policy statement can be found at:

CRA Policy Statements

Charitable Work and Ethnocultural Groups - Information on registering as a charity

<http://www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/thn-eng.html>

Applicants Assisting Ethnocultural Communities

<http://www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cps/cps-023-eng.html>

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What forms and documents are required when applying for charitable status?

Necessary documents include:

- The “*Application to Register a Charity Under the Income Tax Act*”

Application to Register a Charity Under the Income Tax Act

<http://www.cra-arc.gc.ca/E/pbg/tf/t2050/README.html>

- your organization's bylaws;
- a detailed account of activities;
- minutes from annual general meetings;
- letters patent (if your organization is incorporated);
- financial statements;
- letter of good standing (Quebec equivalent: certificat d'attestation)

The Canada Revenue Agency also provides an online guide:

CRA Guide & Checklist

<http://www.cra-arc.gc.ca/chrts-gvng/chrts/pplyng/htply-eng.html>

How will the CRA help us with our application?

Upon request, the Canada Revenue Agency (CRA) will review any draft application. The CRA will assess the draft application and point out any problems it may contain. While submitting a draft application can be useful, it can also take a long time for it to be reviewed. Some organizations decide to submit the final version of their application right away to minimize delays.

When you submit your application, a CRA agent will be assigned to you. This agent can provide

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guidance to your organization during the application process.

Should I consult a lawyer?

Some people complete the application on their own, or with the guidance of a community worker with experience completing such applications, or with support from their assigned CRA agent. Others seek legal advice due to the considerable amount of time required to understand the application process as well as the fact that mistakes can be time-consuming and frustrating. Lawyer fees related to a charitable status application average \$3,000 to \$5,000 and may be significantly higher depending on the specifics of the application.

Some lawyers may be willing to donate their time to a non-profit organization which can be of significant help. It is important to note, however, that a lawyer with experience with charitable status applications will be more familiar with the requirements leading to a successful application. COCo has a list of lawyers with experience working with community groups on charitable status applications.

What are the costs associated with an application?

The government does not charge a filing fee. If you decide to apply without third-party assistance there may be some out of pocket costs, for example, the expense of your time working on the application, making copies of documents required for the application, etc.

How long before I receive the decision from Revenue Canada?

The process generally takes at least six months and could be significantly longer. If your request is refused, your assigned CRA agent and your refusal letter may help you to understand the reasons for the refusal and what organizational changes will be required for your application to be accepted.

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