

## Developments in Canada

### 1. Political Activities

Although the 2012 Budget did not change the legal framework surrounding political activities and charities, it did provide the Directorate with additional funds to:

- improve transparency with new reporting requirements;
- increase our education and information activities; and
- enhance our compliance activities.

As part of efforts to improve transparency, changes were made to the charities information return to ask for information about:

- the political activities charities carry out;
- how these political activities relate to their purposes;
- the methods and resources used to carry out political activities;
- gifts made to qualified donees to support political activities; and
- funds received from outside Canada that were directed to be used for political activities.

Educational and information activities included development of a series of web-based resources, including questions and answers, a political activities webinar, and a political activities self-assessment tool to our webpages. In the coming months, the Directorate will release a series of short videos on charities and political activities.

The budget announcement attracted a fair bit of media attention in Canada. We have tried to be as transparent as possible about our approach to selecting charities for audit and recently published information on our progress to date as part of our *Charities Program Update*. In that document we describe how files are selected for review for possible political activities compliance action, including the key factors that we take into account in building our audit plan:

- regional balance—charities from across Canada are considered;
- sector segment balance—charities from all four charitable purpose categories are considered;
- the severity of perceived non-compliance;
- previous non-compliance issues; and
- materiality—amount of resources involved.

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We also talk about how long a political activities audit might take, what we have observed to date, and why audit results are not made public.

### 2. Other Budget News

#### Budget 2013

- First-Time Donor's Super Credit

The 2013 Budget introduced a First-Time Donor's Super Credit. The credit is a temporary measure to encourage donors who have not donated within the last five years to give to charities and is only applicable for tax years from 2013 to 2017. This credit effectively adds 25% to the rates used in the calculation of the charitable donations tax credit for up to \$1,000 of monetary donations. As a result, a first-time donor is allowed a 40% federal credit for donations of \$200 or less, and a 54% federal credit for the portion of donations over \$200 but not exceeding \$1,000.

#### Budget 2014

- Other Donation Credits

The most recent budget, which was introduced in February of this year, also made changes to certain donation credits. These changes will have a more favourable impact on the credits donors will be entitled to if they donate ecological gifts or if they donate through a will.

- New De-Registration Power

This year's budget also provided the Directorate with another tool to challenge organizations who pose a threat to the national security of Canada.

- The Directorate will now be able to refuse registration to a charity or revoke its registration if it is determined to have accepted a gift from a "foreign state" listed in the *State Immunity Act*.
- The definition of "foreign state" in the *State Immunity Act* includes a head of state; any government or political subdivision of the foreign state (including any of its departments); and any agency of the foreign state.
- Presently, only Syria and Iran are listed under that Act.

- Electronic Filing

Budget 2014 included funding for the CRA to modernize its Charities IT systems. Once the redesign is complete, the Charities Directorate will be able to

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offer new electronic services, including online filing of the annual information return and the application for registration. We will take this opportunity to consider a fairly comprehensive rethink of the information we collect, reflecting the reality that the return is no longer simply a compliance tool for the CRA but is also a transparency and accountability tool for charities to report to donors and for donors to hold charities to account.

- **Review of Non-profit Organizations**

Finally, the budget also announced a public consultation on the income tax framework for non-profit organizations (NPOs). The purpose of the review is to ensure that the tax exemption for NPOs is appropriately targeted and not subject to abuse by organizations that claim the exemption but are not operating in the manner intended, and to ensure that reporting requirements for legitimate NPOs provide the public and the Canada Revenue Agency with sufficient information to evaluate their activities. The Charities Directorate will be participating in an interdepartmental working group as part of this process.

### **3. Ineligible Individuals**

In 2011, the government amended the *Income Tax Act* to provide CRA with the discretion to refuse to register an applicant charity or to revoke, suspend or impose a penalty on a registered charity, where an ineligible individual serves on its board or controls or manages it. After extensive consultation with the sector, we are now preparing to publish operational guidance on the subject.

Briefly, an ineligible individual is a person who has been convicted of a relevant criminal offence at any time, or convicted of a relevant offence, such as financial dishonesty, or has been on the board or controlled or managed revoked charities, within the last five years. In addition, the promoter of a tax shelter that resulted in the revocation of a registered charity is also an ineligible individual.

The responsibility for identifying risks and addressing these with the organization falls to the CRA.

The sector was also assured that the provisions did not preclude registered charities from having ineligible individuals on their boards. Where it is relevant to their mandate, some organizations, such as John Howard and Elizabeth Fry societies, actively recruit board members who have been convicted of a criminal offence. In all cases, it is open to the organization to make the case that an ineligible individual should be allowed to remain on the board and to explain the steps taken to mitigate any associated risks.

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We have been clear throughout the consultative process that the CRA will exercise its discretionary authority in a balanced way, recognizing that the vast majority of registered charities comply with the Act's requirements.

### **4. Social Finance**

Although the latest Federal budgets haven't included specific measures relating to charities and social finance, this continues to be an area of interest. In December 2013, Employment and Social Development Canada (ESDC) formed a new Ministerial Advisory Council on Social Innovation. The Council is made up of experts and practitioners in the fields of social finance and social enterprise, and will advise the Minister of ESDC on possible ways and means of moving this file forward, including consideration of barriers to success.

### **5. Public and Sector Education**

The tools and resources we use to deliver our programs and obtain feedback from the public are evolving.

- Over the last two years the Directorate has added a substantial amount of new educational information to our website relating to charities and political activities.
- Additionally, the Directorate has provided webinars on other topics of interest such as fundraising, art related activities, community economic development, and related business.
- Policy pieces have been developed on:
  - How to Draft Purposes for Charitable Registration;
  - Charitable Purposes and Activities that Benefit Youth; and
  - The Promotion of Health and Charitable Registration.

The Directorate is currently working on guidance products related to the protection of the environment, the advancement of education, the advancement of religion, and public benefit.