



How to create a charity

How do you register with Canada Revenue Agency?

Registering your organization with Canada Revenue Agency requires some careful planning, beginning with incorporation as a non-profit organization (reference *How to Incorporate as a Non-Profit Organization*).

In preparation to register with Canada Revenue Agency it is important to understand the different terms in use and the types of charitable structures in Canada.

Charity: giving voluntarily to those in need, an organization or institution for helping those in need (Oxford).

Charitable Organization: defined in its simplest form, it is an organization providing relief to those in need. However, this term is most often used to denote an organization that is registered with Canada Revenue Agency as a recognized charity and thus able to issue receipts for tax purposes. Also referred to as Charitable Status or as a Registered Charity.

Types of charities

There are three types of charities identified by the *Income Tax Act*. The designation of a charity depends on its structure, its source of funding and the charity's mode of operation. If an applicant is accepted, it will be designated at the time of its registration as a charitable organization, a public foundation, or a private foundation.

A **charitable organization** (e.g., a hospital) primarily carries on its own charitable activities; it may be characterized as the deliverer of charitable services to the public, rather than a body that merely funds the charitable activities of others. It may, however, spend up to 50% of its income in any year in making grants to other registered charities. Around 90% of registered charities are designated charitable organizations. Less than 50% of a registered charity's directors/trustees are related persons and at least 50% of the funds it receives are from donors who are not related persons.

A **public foundation** (e.g., a hospital foundation) gives more than 50% of its income annually to other qualified donees, usually other registered charities. It is, in effect, primarily a funder of the charitable activities carried out by other charities. The most familiar example of a public foundation is the United Way or a Community Foundation. It must be established either as a corporation or a trust. Less than 50% of its directors/trustees are related persons and at least 50% of the funds it receives are from donors who are not related persons. A public foundation may carry on some of its own charitable activities.

A **private foundation** may either carry on its own charitable activities, or it may give funds to other qualified donees, usually other registered charities. Its distinguishing factor is the extent to which it is privately funded or controlled. A private foundation is normally established by one donor.

Public foundations and charitable organizations can only operate businesses that are related to their mandate or that are run substantially by volunteers. Private foundations are not allowed to engage in any business activity.

Registering a charity: a process of careful documentation

Canada Revenue Agency offers a detailed paper on 'Registering a Charity for Income Tax Purposes'. You can find this paper by first signing on to <http://www.cra-arc.gc.ca>. Next:

- select the **charities** option
- select **forms and publications**
- select the **registering a charity for income tax purposes** and print off a copy of this document
- select the **registering a charity form** and proceed

The application and its process require the officers, directors and members of the organization to think through what its objects and activities are going to be.

Registration is only the beginning of the relationship of continued compliance with Canada Revenue Agency. In addition, Canada Revenue Agency will seek **accompanying documentation to your application** that includes:

- a copy of the governing documents
- the balance sheet
- the statement of receipts and disbursements, or, if the charity is not in operation, the plan and budget for the first year of operation

The **Application to Register a Charity Under the Income Tax Act (T2050)** published by Canada Revenue Agency, available free of charge, will also provide you with all the information and forms to register as a charity. To contact a tax services office in your area, see the telephone listings for 'Canada Revenue Agency' in the Government of Canada (blue section) of the telephone book or call 1-800-959-2221 to request the application form. You may also visit the nearest Canada Revenue Agency.

Organizational requirements

To be eligible for registration, a charity must be established exclusively for charitable purposes including:

- the relief of poverty;
- the advancement of religion;
- the advancement of education; or
- other purposes beneficial to the community which the courts have decided are charitable.

A charity must also meet the public benefit test to demonstrate that:

- its activities and purposes provide a tangible benefit to the public,
- those people who are eligible for benefits are either the public as a whole or a significant part of the public as a whole. They cannot be a restricted group or where the members of the group share a private connection, such as a social club or professional association and,
- the activities are legal and are not contrary to public policy.

Reasons for revoking charitable registration

Note, these reasons and the parameters for measuring them may from time-to-time be amended by CRA, thus it is prudent to periodically check the CRA website, <http://www.cra-arc.gc.ca>, for updates.

- the failure to conform to the minimum disbursement quota
- the carrying on of a business activity that does not qualify as a related charitable business
- the failure to file the required information returns in the prescribed form and time period
- the issuance of a receipt containing false information
- the failure to keep adequate books and records

Resources

While the CRA website is a valuable resource and the forms and tools are essential to the application process, there are a few additional resources that can be helpful to a group with their applications. These include, but are not limited to:

- Miller Thomson LLP Charities and Not-for-Profit Newsletter
<http://www.millerthomson.com> (click “Publications” and then “Charities and Not-for-Profit”)
- Carter & Associates Charity Law Bulletin <http://www.carters.ca/> (click “Charity and Not-for-Profit Law”)

These two law firms regularly produce briefs pertaining to recent changes in legislation and the impact that these have on a charity including charitable structure.

Several professional associations providing services within Alberta keep their members apprised of changes impacting the charitable sector. These websites are informative and active memberships with each ensure that you and your organization remain as current as possible in the legal, ethical and practice issues and standards of the not-for-profit sector:

- Association of Fundraising Professionals <http://www.afpnet.org/>
- Canadian Association of Gift Planners http://www.cagp-acpdp.org/main_frame.htm
- Alberta Association of Fund Raising Executives <http://www.aafre.org/>

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This article was written by Dree Thomson-Diamond, CFRE; 2006

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The information in this material is written generally and may not exactly fit the needs of your organization. It is meant to be a starting point for you to deal with some of the issues which face many not-for-profit organizations.

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