

Wiener, Heidi

From: Buchanan, Sonia
Sent: September-20-12 12:48 PM
To: Croteau, Mylene; PA-AP-Dist_Media_Enquiries-Demandes_medias
Cc: PA-AP-Dist_CC_Media Enquiries / Demandes medias
Subject: RE: FOR APPROVAL - Media request / Charities Directorate Q&A / 19(1)
Attachments: Charities interview.docx
Categories: Blue Category

Please find attached MO's suggested edits and comments and resend for approval once they have been considered.

Sonia

From: Croteau, Mylene
Sent: September-19-12 3:57 PM
To: PA-AP-Dist_Media_Enquiries-Demandes_medias
Cc: PA-AP-Dist_CC_Media Enquiries / Demandes medias
Subject: FOR APPROVAL - Media request / Charities Directorate Q&A / 19(1)

FOR APPROVAL

19(1)

Deadline: Friday, September 21, 10 am (but we have pushed back the deadline twice, so if we can get approval Thursday it would be even better!)

Questions

- 1) What do you feel the role of the Directorate is both within CRA and in relationship to the nonprofit sector in Canada?
- 2) What are the Directorate's priorities and areas of focus for the charitable sector in Canada?
- 3) In the federal budget tabled in March, the government gave \$8 million to the CRA to step up audits and other activities to keep charities within the law. Does any of this money flow through to the Directorate and if so, in what capacity?
- 3) Given recent headlines around Tides Canada, there's a growing perception that audits of Charities may be politically motivated or instigated. What triggers an audit?
- 4) How do you see the Directorate working with charities to increase transparency and accountability? Has your office worked or consulted with organizations like Imagine Canada and the Association of Fundraising Professionals (AFP) to move the sector towards better transparency?
- 5) With respect to that last question, how much has the Directorate learned from its dealings with Canadian Charities?

- 6) What are some of the hot-button issues or trends that the Directorate is dealing with currently?
- 7) What is the Directorate's role in monitoring charities that may be suspected of laundering money for terrorist organizations?
- 8) Is there anything you would like to address to our readers and charitable sector leaders that you feel is important for them to know or any myths about the Directorate you'd like to dispel?
- 9) Overall, what is the Directorate's perception of the Canadian Charitable sector? Do you feel it's moving in the right direction?

Responses (approved by LPRAB AC, Brian McCauley)

** NOTE: Please note that the reporter was looking at doing a Qs & As with Cathy Hawara. He is ok with this written format, but Cathy Hawara will be the one mentioned / quoted in the article.*

1) What do you feel the role of the Directorate is both within CRA and in relationship to the nonprofit sector in Canada?

The Charities Directorate is the federal regulator of registered charities in Canada, and as such, is responsible for ensuring compliance with the provisions of the *Income Tax Act*.

The Charities Directorate plays the dual role of:

- registering Canadian charities who meet the requirements of the law; and
- ensuring those charities continue to comply with the provisions of the *Income Tax Act*, and use their resources towards the charitable purposes that they were registered for.

Canadians have shown that they are willing to donate generously to support charities, but want to be assured that charities are using their resources appropriately. That's where the Charities Directorate comes in. We have a number of tools at our disposal to help charities understand and respect their legal obligations – from our information, client services and education programs, to our monitoring and compliance programs.

In so doing, the Charities Directorate sees itself playing a vital role in upholding the integrity of the charitable sector as a whole.

It should be noted that, in addition to its role vis à vis charities, the Directorate also has responsibility for a number of other organizations and entities who are registered/listed and have the right to issue official donation receipts: registered Canadian amateur athletic associations (RCAAs), registered national arts service organizations (RNASOs) and other listed qualified donees (e.g., Canadian municipalities, prescribed universities outside Canada, certain foreign charitable organizations).

2) What are the Directorate's priorities and areas of focus for the charitable sector in Canada?

In 2010, the Directorate embarked on a review of our priorities for the next three to five years, with a view to establishing our key priorities moving forward. Our review identified a number of trends in the charitable sector that might impact how the Charities Directorate conducts its regulatory activities in the future: an increasing demand for transparency and accountability, declining volunteering rates and changing demands/expectations of volunteers, as well as changing fundraising methods and new concepts such as social partnerships and social enterprise.

Taking into consideration all that we heard and learned, and building on our strengths, the Charities Directorate adopted five strategic directions for the future:

- improving our information management framework (e.g., the quality and analysis of the data that charities provide annually to the CRA through the T3010 information return, use of business intelligence, updating our IT infrastructure and ensuring our Web site is user-friendly)

- strengthening our risk-based approach to compliance (e.g., implementing the Auditor General's recommendations following the 2010 audit, more focused education and compliance activities)
- ensuring quality and consistency in our decision-making (e.g., a quality assurance program, meaningful reporting back to the sector on our activities)
- enhancing our external communication framework (e.g., increasing sector and public awareness of the Directorate's role as regulator of charities, as well as the legal requirements for registration)
- evolving our service delivery model (e.g., new service standards, exploring possible electronic service options)

In addition to these overarching strategic priorities, the Directorate is in the process of implementing the measures related to registered charities which were announced in Budgets 2011 and 2012.

3) In the federal budget tabled in March, the government gave \$8 million to the CRA to step up audits and other activities to keep charities within the law. Does any of this money flow through to the Directorate and if so, in what capacity?

The 2012 Budget proposed several measures related to transparency and compliance with respect to political activities carried on by registered charities. The government announced that additional funds would be provided to the CRA in order to implement all of these measures; while the Charities Directorate will play a lead role in implementing these measures, it will also work with partners within the CRA (e.g., the Information Technology Branch). More specifically, the measures include:

- *Increased transparency:* charities will be required to disclose additional information about their political activities, including the extent to which they are funded by foreign sources. This requires a number of changes to the charities annual information return (T3010), as well as IT changes to our database and the Charities Listings on the CRA Web site (www.cra.gc.ca/charitylists).
- *Enhanced outreach and compliance activities:* this aspect of Budget 2012 will be a particular focus for the Charities Directorate. It is important to note at the outset that the rules relating to political activity apply to all registered charities. As such, our efforts in this regard will extend to the charitable sector as a whole. Secondly, our approach to increasing compliance in the sector has always focussed on the entire compliance continuum. This includes education and outreach, monitoring, and then verification and audit activities. Our approach to the issue of political activities will be no different.

In relation to education and outreach, the Directorate has an important role to play in providing charities with the information and tools that they need to understand the rules under which they must operate. We also want to take this opportunity to try different approaches to compliance, using a combination of tailored education and outreach, proactive monitoring and audits.

For more information on our implementation plans, I encourage your readers to consult the speech I delivered at the Canadian Bar Association National Charity Law Symposium in May 2012 (www.cra.gc.ca/chrts-gvng/chrts/bdgt/2012/dgspch-eng.html).

4) Given recent headlines around Tides Canada, there's a growing perception that audits of Charities may be politically motivated or instigated. What triggers an audit?

The confidentiality provisions of the *Income Tax Act* do not allow me to discuss the affairs of a particular registered charity.

I can, however, provide some general information about how the Charities Directorate determines which charities should be the subject of an audit.

The Directorate is responsible for monitoring the operations of registered charities to make sure they comply with the requirements of the *Income Tax Act*. Audits are an important element of this process. Each year, the Directorate aims to audit approximately 1% of registered charities. The process for identifying which charities will be audited is handled by the Charities Directorate itself and is not subject to political direction. It begins with the development of a comprehensive audit plan, outlining the types of audits to be conducted and using a risk-based system to select specific files. The Directorate's audit plan would include the following types of audits each year:

- *Random audits*, to assess the overall levels of compliance within the charitable sector;
- *High-risk audits*, to address the suspected cases of egregious non-compliance and complaints received (e.g., abusive tax shelter gifting arrangements, false receipting cases);
- *Desk audits*, to confirm that charities that have previously been audited and signed a compliance agreement, have abided by the terms of that agreement and carried out any necessary remedial actions;
- *Other types of audits* can be conducted for exploratory purposes or to confirm that assets have been appropriately distributed after revocation, for example.

We are very aware of the attention the issue of political activity has garnered in the past few months and I can assure registered charities that we intend to conduct ourselves with fairness, professionalism, and integrity. These measures are not intended to target or single out specific charities. Rather, they will provide more transparency for Canadians who donate and more education to charities to ensure they are operating within the law. These measures are meant to strengthen the integrity of the charitable sector and enhance the regulatory framework.

5) How do you see the Directorate working with charities to increase transparency and accountability? Has your office worked or consulted with organizations like Imagine Canada and the Association of Fundraising Professionals (AFP) to move the sector towards better transparency?

The Charities Directorate has a long tradition of meaningful consultation and engagement with registered charities on a variety of issues, including transparency and accountability. Examples include the process for developing new guidance products, the small and rural charities initiative, and changes to the charities annual return.

Furthermore, many registered charities are affiliated with umbrella organizations and facilitator-type charities. These intermediaries often provide certifications, learning opportunities and communications products to their members. The Charities Directorate will further leverage its relationships with a variety of intermediary organizations and professional groups to renew education and engagement activities with the charitable sector.

I would like to take the opportunity to highlight two recent initiatives aimed at increasing transparency and accountability in the charitable sector: the Charities Directorate's Charity Quick View and Imagine Canada's Charity Focus.

Charity Quick View is a new display tool that uses graphs and tables to provide Canadians with a summary of a registered charity's activities, revenues, and expenditures. It was developed with donor input, is easier to understand, and provides users with the key information they want to know about charities.

Charity Focus is a tool sponsored by the CRA and developed by Imagine Canada that provides the public with an in-depth year-to-year comparison of a charity's financial information. Charities may also elect to upload documents to Charity Focus that would not be available on the CRA Web site, such as:

- mission statements;
- program information;
- annual reports; and
- financial statements.

With these new tools, it has never been easier for Canadians to find out more about registered charities and their activities. I encourage your readers to check out the Canada Revenue Agency's Charities Listings at www.cra.gc.ca/charitylists or Imagine Canada's Charity Focus at <http://www.charityfocus.ca/EN/Pages/Home.aspx>.

6) With respect to that last question, how much has the Directorate learned from its dealings with Canadian Charities?

I can say with confidence that Canadian registered charities have provided invaluable and important insight into the vast majority of issues that we deal with on a day-to-day basis. Having access to stakeholders that can provide us with "on the ground" type considerations of the challenges they face has had a direct impact on how the CRA charities program has evolved over the years. I greatly appreciate the contributions they have made to our service delivery and certainly look forward to continuing to work together as we move forward.

7) What are some of the hot-button issues or trends that the Directorate is dealing with currently?

As part of our strategic directions exercise, we identified a number of trends in the sector that may have an impact on how the Charities Directorate undertakes its regulatory activities in the future. These trends include:

- an increasing demand for transparency and accountability (as evidenced by recent studies by the House of Commons Finance Committee on issues such as compensation of employees and directors of registered charities and the charitable contribution tax credit);
- declining volunteering rates and changing demands/expectations of volunteers;
- changing fundraising methods, as well as evolving concepts of social innovation and social enterprise;
- evolving security requirements (including issues related to terrorist financing of registered charities and Budget 2011 requirements related to safeguarding charitable assets and the eligibility of individuals to control or direct the affairs of registered charities); and,
- increasing diversity within the sector.

Taking into consideration all that we heard and learned, and building on our strengths, the Charities Directorate adopted five strategic directions which will help guide our work in the years to come (see Question 2 for more details).

The Directorate also continues to deal with the implementation of measures announced in the last two federal Budgets, including political activities and the rules governing the past conduct of directors or officers of charities. From a compliance perspective, the Directorate continues to tackle the issue of charities participating in abusive tax shelter gifting arrangements.

8) What is the Directorate's role in monitoring charities that may be suspected of laundering money for terrorist organizations?

The Government of Canada has made it very clear that the tax advantages of charitable registration should not be extended to an organization where its resources may, directly or indirectly, provide any means of support for, or benefit to, any entity engaged in terrorism. Depriving terrorist organizations of access to funds is a fundamental tool in undermining terrorist activities as it weakens their supporting logistical and social infrastructures.

The Charities Directorate has a regulatory responsibility to identify problems and to take measures that protect and maintain public confidence in the charitable sector. In deciding whether organizations should be registered as charities, we need to ensure that the tax benefits reserved for Canada's charities are not used to provide support to terrorism in the guise of charity. As a result, every application for registration is carefully screened.

The CRA also audits a number of registered charities each year as a result of public complaints, random selection, or after reviewing charities' annual information returns. Charities are also audited to ensure that only those organizations that meet the legal requirements for registration remain registered and that they are spending their resources on the

charitable purposes for which they were registered. The CRA takes a balanced approach to compliance that includes educating charities about the rules, conducting audits, applying sanctions, or revoking registered status if necessary. If a registered charity is not meeting its obligations under the *Income Tax Act*, the CRA takes appropriate follow-up action. The facts of a particular case determine which compliance measure will be adopted.

9) Is there anything you would like to address to our readers and charitable sector leaders that you feel is important for them to know or any myths about the Directorate you'd like to dispel?

I have had the privilege of leading the Charities Directorate for over three years now, and I continue to be inspired every day by the dedication and passion of the men and women who make up the Charities Directorate. They are committed to making the right decisions under the law, providing unparalleled services to our clients, offering charities a variety of tools to become informed about the complex rules under which they must operate, and protecting the integrity of the charitable sector through a rigorous compliance program. They apply our “education-first” approach every day they come to work. I know that it may seem daunting for a charity to come forward to the regulator after having unintentionally run afoul of the rules. But we are committed to working closely with charities to find ways to help them resolve their concerns and meet their obligations under the *Income Tax Act*, so that Canadian charities can continue to provide their valuable contribution to our communities.

10) Overall, what is the Directorate's perception of the Canadian Charitable sector? Do you feel it's moving in the right direction?

The Charities Directorate regulates almost 86,000 registered charities: a number that has not changed much during the last decade. The charitable sector has faced and is still facing considerable challenges, including economic, regulatory, human resourcing and fundraising challenges.

More than half of the registered charities are considered small (under \$100,000 total revenue) and rely on volunteers to carry out their activities. A lot of charities have difficulties recruiting and retaining new volunteers, and those who volunteer do so because of a desire to work in ways that resonate with the charity's purposes. Most volunteers are not interested in the administrative or the fundraising aspects of the charity and may not have the necessary financial or accounting experience.

Registered charities also need to follow a complex set of rules and need to be up-to-date with the fast pace of legislative changes. For example, the past six federal budgets included changes that affected charities, and the charities annual information return was changed five times in the past ten years.

Overall, the level of compliance in the charitable sector is strong. However, it is understandable that we encounter a significant amount of minor, unintentional non-compliance. It is the Directorate's responsibility to inform charities about the changes and provide them with the tools and information that will enable them to voluntarily comply. This function, in the form of education, is the first step in the Directorate's compliance continuum.

We are committed to working closely with charities to find ways to help them resolve their concerns and meet their obligations under the *Income Tax Act*, so that Canadian charities can continue to provide their valuable contribution to our communities.

Mylène Croteau

Media Relations Advisor | Conseillère en relations avec les médias
Media Relations | Relations avec les médias
Public Affairs Branch | Direction générale des affaires publiques
555 MacKenzie Avenue | 555 avenue MacKenzie
Ottawa, Ontario | Ottawa (Ontario)
K1A 0L5

Tel. | Tél. : 613-957-3522

Fax | Télécopieur : 613-296-7848



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