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Registered charities making grants to non-qualified donees

Guidance

Reference number

CG-032

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General requirements for charitable registration

In addition to the requirements set out in this guidance, there are a number of other general requirements related to charitable registration. For more information, see [Guidance CG-017, General requirements for charitable registration](#).

Guidance products can be updated. If you have comments or suggestions to improve the guidance, we would like to hear from you. To provide comments or obtain additional information, [contact the Charities Directorate](#).

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1.0 Introduction and key principles

1.1 Background

1. Many organizations in Canada and internationally contribute to charitable activities, but do not have registered charity status with the Canada Revenue Agency (CRA). We refer to these organizations as non-qualified donees in this guidance.¹

2. The Income Tax Act was amended in 2022² to create a new way for registered charities to work with non-qualified donees: by making grants to grantees.

3. Charities can also work with non-qualified donees as intermediaries. A charity can do this if it maintains ongoing direction and control of the activity that the non-qualified donee performs on its behalf. In this kind of arrangement, the activity

must be the **charity's own**.³

4. With grants, a charity can support the **grantee's own** activities, provided the charity shows that it meets the Income Tax Act requirements set out in this guidance.

5. This legislative change recognizes the significant value that non-qualified donees bring to charitable work in Canada and internationally. This new option was introduced to provide charities with a means to build more collaborative and equitable partnerships.⁴

6. This guidance is not law. Instead, it recommends ways a charity can meet the Income Tax Act requirements while taking reasonable, flexible, and proportionate measures based on the nature of each grant. To do this, the charity should apply due diligence when making the grant. This allows the charity to account for its use of tax-assisted resources.

1.2 Technical terms and definitions

7. For the purposes of this guidance:

- **"accountability requirements"** refer to the Income Tax Act requirements for making a grant.
- **"accountability tools"** refer to due diligence measures we recommend a charity apply to meet the accountability requirements.
- **"charity"** includes all three types of registered charities: charitable organizations, public foundations, and private foundations.⁵
- **"due diligence"** refers to steps taken to satisfy the legal requirements for granting under the Income Tax Act; this guidance recommends a process for doing this through accountability tools.
- **"grant"** refers to a "qualifying disbursement" made to a "grantee organization", as defined in the Income Tax Act.⁶ A grant can include both cash and non-cash resources. While the term "grant" is commonly applied to other arrangements within the charitable sector, this guidance uses the term "grant" in relation to the Income Tax Act requirements for making a "qualifying disbursement" to a "grantee organization".

- **“grantee”** refers to a “grantee organization”, as defined in the Income Tax Act, and includes “a person, club, society, association or organization or prescribed entity, but does not include a qualified donee”. ⁷
- **“risk”** in general refers to conditions that could compromise the charity’s registration and the public’s trust in the charitable sector. In terms of this guidance, we recommend a charity apply due diligence to mitigate the risk of grant resources being misused.

1.3 Income Tax Act accountability requirements

8. A charity can enter into a wide variety of granting arrangements with grantees, as long as the charity meets the Income Tax Act requirements: ⁸

qualifying disbursement means a disbursement by a charity, by way of a gift or by otherwise making resources available,

(a) ... to a qualified donee, or

(b) to a grantee organization, if

(i) the disbursement is in furtherance of a charitable purpose (determined without reference to the definition charitable purposes in [subsection 149.1(1) of the Income Tax Act]) of the charity,

(ii) the charity ensures that the disbursement is exclusively applied to charitable activities in furtherance of a charitable purpose of the charity, and

(iii) the charity maintains documentation sufficient to demonstrate

(A) the purpose for which the disbursement is made, and

(B) that the disbursement is exclusively applied by the grantee organization to charitable activities in furtherance of a charitable purpose of the charity ...

9. To meet these accountability requirements, a charity must be able to interpret and apply key terms in the legislation, such as the following:

- “ensures”
- “exclusively applied”
- “in furtherance of a charitable purpose of the charity”
- “maintains documentation sufficient to demonstrate”

10. Our interpretation and application of these terms is explained at a glance in section 1.4, and in detail throughout this guidance.

11. A charity does not have to follow our granting recommendations. It can show in its books and records that it has used other measures to meet the accountability requirements.

12. A charity could jeopardize its registration if it does not meet the requirements of the Income Tax Act.⁹ Depending on the degree of the non-compliance, the charity will be subject to CRA (Canada Revenue Agency) compliance measures. This could include education letters, compliance agreements, sanctions, or in the most severe cases, revocation of registration.¹⁰

1.4 The CRA (Canada Revenue Agency)’s interpretation and application of the accountability requirements

13. At a glance, here is how we interpret and apply the accountability requirements:

Text from legislation (emphasis added)	<u>CRA (Canada Revenue Agency)</u> ’s interpretation	<u>CRA (Canada Revenue Agency)</u> ’s application and recommendations	Details in guidance
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<p>"the disbursement is in furtherance of a charitable purpose (determined without reference to the definition <i>charitable purposes</i> in [subsection 149.1(1) of the Income Tax Act]) of the charity"</p>	<p>We interpret this requirement to mean that a charity can only make grants that further its stated common law purposes, that is, purposes that fall within one of the four categories of charity.</p>	<p>A charity may need to amend its purposes to make grants.</p> <p>If the grant activity cannot be shown to further the charity's charitable purposes, the charity should not proceed with the grant.</p>	<p>Charitable purposes are discussed in <u>section 3.1</u>.</p>
<p>"the charity ensures that the disbursement is exclusively applied to charitable activities..."</p>	<p>A charity must make sure that the grant resources are used only for charitable activities that further its charitable purposes.</p>	<p>Despite best efforts, a charity may not be able to "ensure" or guarantee the grant resources will be applied exactly as intended. For this reason, we aim to adopt a reasonable, flexible, and proportionate approach to granting.</p> <p>We recommend the charity apply due diligence by using accountability tools over the grant's duration. The grant's risk influences the level of due diligence required: limited, moderate, or extensive.</p>	<p>Due diligence and accountability tools are discussed in <u>section 3</u>.</p>

<p>"the charity maintains documentation sufficient to demonstrate..."</p>	<p>The Income Tax Act requires a charity to keep adequate books and records. It also adds a specific documentation requirement for grants.</p>	<p>We aim to adopt a reasonable, flexible, and proportionate approach to grant documentation.</p> <p>We recommend the charity maintain documentation to show:</p> <ol style="list-style-type: none"> 1. the grant's purpose 2. the grantee exclusively applied the resources to that purpose 3. the charity applied due diligence to meet this requirement when making the grant <p>The extent of the documentation is based on the level of due diligence needed for each grant.</p>	<p>Due diligence, accountability tools, and books and records are discussed in <u>section 3</u>.</p>
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2.0 How can a charity operate?

14. The Income Tax Act allows a registered charity to operate in the following ways:

- carrying on its own charitable activities through:
 - its staff and volunteers

- an intermediary, over which a charity must exercise direction and control
- making qualifying disbursements through:
 - gifts to qualified donees
 - **grants to grantees (non-qualified donees)**, where a charity must meet accountability requirements



15. When a charity intends to collaborate with another organization, it should consider at the outset whether it will do this through a grant to a grantee, a gift to a qualified donee, or by carrying on its own activities through an intermediary. This decision rests with the charity. The charity can determine what is most appropriate in the circumstances, based on its own processes and the information and recommendations set out in the relevant guidance. The charity should clearly show which approach it has taken in its books and records.

16. This guidance focuses on our recommendations for making grants to grantees. For more details on how a charity can operate, including how granting differs from direction and control, see below.

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► Explanation of how a charity can operate

► Comparing accountability requirements and direction and control

- Changing a relationship with a non-qualified donee from intermediary to grantee, or vice versa

3.0 The CRA (Canada Revenue Agency)'s recommended grant-making process: the due diligence model

21. We recommend the following due diligence steps for making grants:

3.1: Establish how the grant activity furthers the charity's charitable purpose.

3.2: Assess the grant's risk level – low, medium, or high – based on factors that may affect the charity's ability to meet the Income Tax Act requirements.

3.3: Determine how much due diligence the charity needs to apply through accountability tools based on the risk level.

3.4: Apply the accountability tools in collaboration with the grantee.

3.5: Document the charity's due diligence over the grant's duration in its books and records.

22. A charity should apply a reasonable and consistent approach to its grants, that is, treating similar grants in a consistent way.

23. Exercising appropriate due diligence helps protect the charity if the grantee is not able to follow through on the grant agreement.

24. We understand that charities may need to devote reasonable expenses to administer and manage the grant.¹² We consider these to be necessary and important.

3.1 Establish how the grant activity furthers the charity's charitable purposes

25. The grant must be exclusively applied to charitable activities that further the charity's charitable purposes.

26. Purposes, or “objects”, are an organization’s goals or objectives. Each must be clearly stated in an organization’s governing document. We rely on the common law to determine when purposes are charitable and whether the activities further the charitable purposes.

27. For more information on purposes and activities, see sections 3.1.1 to 3.1.2 and Guidance CG-019, How to draft purposes for charitable registration.

3.1.1 Charitable purposes

28. First and foremost, the grant activity must further a charitable purpose of the charity. The provision is worded this way because it is not sufficient to make a grant for **any charitable purpose**; instead, a charity must devote its resources to the **charity’s own purposes found in its governing document**.

29. Many charities will be able to expand their operations to include making grants to grantees using their existing purposes.

30. However, a charity would need to amend its purposes if it:

- wants to make a grant for a purpose that is not stated in its governing document.
- does not have a stated common law charitable purpose within one of the four categories of charity. This includes a foundation that only has a purpose to make gifts to other qualified donees.

31. A charity could not make a grant with only a “making qualifying disbursements” or “making grants” purpose. A “grant-making” purpose in and of itself would not fall within one of the four categories of charity. Also, when drafting a charitable purpose, it is not necessary for the charity to specify that the organization will be making grants.

32. Here is an example of a purpose that would be suitable for a grant that advances education:

- To advance education by providing books, equipment, and educational aids to students.

33. Here is an example of a purpose that would be suitable for a grant that relieves poverty:

- To relieve poverty by providing necessities of life, including food, clean water, medical supplies, clothing, or shelter to victims of disasters.

34. For more examples of charitable purposes, go to [Charitable purposes](#). For more information on amending purposes and activities, go to [Change purposes and activities](#).

3.1.2 Charitable activities

35. Here are some examples of general requirements that a charity should keep in mind when making grants:

- **Comply with Canadian law and public policy for grant activities inside and outside Canada:** before making grants, a charity should also become aware of local laws and how they may affect the grant activities.
- **Meet the public benefit test:** grant activities that do not meet the public benefit test would not be considered charitable. For more information, see [CPS-024, Guidelines for registering a charity: Meeting the public benefit test](#).
- **Do not confer an unacceptable private benefit:** a charity must ensure it does not confer an unacceptable private benefit on a person, entity, or organization when it makes a grant. Generally, an unacceptable private benefit goes beyond what is considered to be charitable. An acceptable private benefit is typically one that is incidental to achieving a charitable purpose because it is necessary, reasonable, and proportionate to the resulting public benefit. While unacceptable private benefit could arise in any grant situation, the charity should be especially mindful of unacceptable private benefit when granting:
 - resources that are susceptible to non-charitable use
 - to individuals
 - to for-profit organizations

For more information, see [section 3.2](#), as well as [description of grant activity and granting real property](#). See also [CPS-024, Guidelines for registering a charity: Meeting the public benefit test](#).

- **Make sure the grant does not support terrorist activities**, including by making a grant to an individual or group that is engaged in or supports terrorist activities (but see also the humanitarian exemption and authorization regime in the Criminal Code ¹³).

3.2 Assess the grant's risk level – low, medium, or high – based on factors that may affect the charity's ability to meet the Income Tax Act requirements

36. To “ensure” grant resources are “exclusively applied” to charitable activities that further the charity's charitable purposes, a charity may find it helpful to assess the level of risk at the outset of the grant. The matrix below is a guideline to explain the non-exhaustive factors the charity should think about. The charity can weigh the conditions of the grant to determine the overall risk level: low, medium, or high.

3.2.1 Risk assessment

Factors	Low risk	Medium risk	High risk
Charity's experience	<ul style="list-style-type: none"> • significant experience with grants or working with non-qualified donees (such as an intermediary) 	<ul style="list-style-type: none"> • some experience with grants or working with non-qualified donees (such as an intermediary) 	<ul style="list-style-type: none"> • no experience with grants working with non-qualified donees (such as an intermediary)
Grantee's experience	<ul style="list-style-type: none"> • extensive and effective experience with charities and charitable program 	<ul style="list-style-type: none"> • some related experience either with charities or charitable program 	<ul style="list-style-type: none"> • newly established grantee or charitable program

Purposes and governing documents of grantee organization ¹⁴	<ul style="list-style-type: none"> purposes are closely aligned with those of the charity 	<ul style="list-style-type: none"> there are some differences between the purposes of the charity and grantee, such as a non-charitable purpose, but the grant activity can still fall within at least one of the grantee's charitable purposes; for example, a for-profit entity that has a purpose that could also be charitable, such as providing educational services 	<ul style="list-style-type: none"> not clear th the charitat grant activi would fall within a purpose of grantee
Governance structure of grantee organization ¹⁵	<ul style="list-style-type: none"> clear framework of responsibilities and reporting structure within the organization 	<ul style="list-style-type: none"> some organizational structure in place, but not comprehensive 	<ul style="list-style-type: none"> little to no organizatio structure

Grantee's regulation and oversight	<ul style="list-style-type: none"> • subject to charitable regulation, including in a jurisdiction outside Canada 	<ul style="list-style-type: none"> • not subject to charitable regulation, but is subject to other governmental oversight in a jurisdiction outside Canada 	<ul style="list-style-type: none"> • not subject any regulat oversight
Private benefit concerns ¹⁶	<ul style="list-style-type: none"> • limited private benefit concerns 	<ul style="list-style-type: none"> • some private benefit concerns 	<ul style="list-style-type: none"> • significant potential fo unacceptab private ben such as granting to non-arm's length part

Grant activity	<ul style="list-style-type: none"> • inside Canada • in a stable country or region, including security and social stability • strong infrastructure • in a country where the charity or grantee have an established presence 	<ul style="list-style-type: none"> • outside Canada <u>18</u> • in a country or region that is somewhat stable, including social instability, or where there are some security concerns • at least basic infrastructure, such as banks or reliable internet access • in a country where the charity or grantee do not have significant previous experience or connection 	<ul style="list-style-type: none"> • outside Car • in a country region that significant unstable, including violent conf or other soc instability, c where there are security concerns • lack of infrastructure such as limi access to financial institutions such as bar or to the internet • in a country where the charity or grantee do have any previous experience connection
Grant amount	<ul style="list-style-type: none"> • low value of grant (up to \$5,000) 	<ul style="list-style-type: none"> • moderately high value of grant (more than \$5,000 and up to \$50,000) 	<ul style="list-style-type: none"> • high value of grant (more than \$50,000)

Nature of resources granted	<ul style="list-style-type: none"> • non-cash resources that are likely to be used only for charitable purposes, such as charitable goods, including textbooks or medical supplies ¹⁹ 	<ul style="list-style-type: none"> • resources that are somewhat susceptible to non-charitable use, such as a mix of cash and non-cash resources 	<ul style="list-style-type: none"> • resources that are susceptible to non-charitable use, such as cash, cryptocurrencies and real property
Grant duration	<ul style="list-style-type: none"> • short-term grants (less than two years) 	<ul style="list-style-type: none"> • longer-term grants with an end date (between two and five years) 	<ul style="list-style-type: none"> • long-term grants over years, including grants with end date (such as real property grants ²⁰)

37. If there is a significant change in grant conditions, the charity should assess whether the grant's overall risk level has changed, and work with the grantee to adjust the grant's terms. For more information, see below.

► What are some examples of significant changes in grant conditions?

3.3 Determine how much due diligence the charity needs to apply through accountability tools based on the risk level

40. The risk level will help determine whether the use of accountability tools will be limited, moderate, or extensive. The accountability tools help a charity meet the accountability requirements.

3.3.1 Explore the accountability tools

41. See below for more information about each tool.

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- ▶ Research and review of grantee, including documenting the process
- ▶ Description of grant activity, including its intended outcome and charitable purpose
- ▶ Written agreement, including minimum standards, milestones, outcomes, and budgets
- ▶ Reporting plan, including final reports, and interim reports if suitable
- ▶ Transfer schedule, for longer-term or higher-risk grants, if suitable
- ▶ Separately tracked funds, such as a separate ledger

3.3.2 Determine the level of due diligence based on risk

66. Using the risk assessment tool in [section 3.2.1](#), determine the level of due diligence needed to meet the accountability requirements. The accountability tools are not exhaustive and their suitability depends on the nature of individual grants. We recommend using the accountability tools in the table below, **as applicable**. ²²

Accountability tools	Low risk	Medium risk	High risk
Research and review	Limited review, particularly where the charity has a pre-existing relationship with the grantee	Moderate review, such as independently researching the grantee	Extensive review, such as requesting information from the grantee or an in-person visit
Description of grant activity	Simple description of grant activity	Written description of key elements of grant activity	Detailed written description of grant activity

Written agreement	Simple agreement; other documentation, such as email records and meeting minutes, are likely sufficient for non-recurring grants of \$5,000 or less	Formal written agreement with key terms	Formal written agreement with comprehensive terms
Reporting plan	Simple written final report	Written final report, covering key deliverables, and if relevant to the charity, interim reports	Detailed written final report, and where appropriate, interim reports
Transfer schedule	For the charity to consider under the circumstances	If likely to be a concern for the charity	Yes, unless resources cannot be transferred periodically
Separately tracked funds	Yes, such as a simple ledger and supporting documentation	Yes, such as a ledger of key elements and supporting documentation	Yes, such as detailed record keeping and supporting documentation

3.4 Apply the accountability tools in collaboration with the grantee

67. By working together with the grantee, the charity can meet the accountability requirements by using the accountability tools described in [section 3.3](#). See below for an example of applying accountability tools to a grant.

► Example

3.5 Document the charity's due diligence over the grant's duration in its books and records

68. Under the Income Tax Act, a charity must keep adequate books and records in Canada, containing enough information to allow us to determine whether the charity is operating in accordance with the Income Tax Act. ²³ The Income Tax Act also adds specific documentation requirements for grants.

69. With respect to grants, a charity's books and records must allow us to check whether:

- the charity's grants meet the accountability requirements
- the grantee's use of resources can be verified
- the grantee continues to use the grant's resources for the purposes and activities set out in the grant's terms

70. Our recommendations for keeping adequate books and records are linked to the accountability tools suitable for the particular grant arrangement. For more information, see the accountability tools discussion throughout section 3.

71. The charity should be able to obtain from the grantee any supporting documents in original or electronic format, such as a photocopy, scanned document, or photograph.

72. A charity that fails to keep adequate books and records exposes itself to possible CRA (Canada Revenue Agency) compliance measures. This could include education letters, compliance agreements, sanctions, or in the most severe cases, revocation of registration. ²⁴

4.0 Special topics: limits, directed gifts and conduits, reporting, pooled grants, charitable goods, real property, disaster or emergency relief, anti-terrorism considerations, grants inside and outside Canada

73. The remainder of this guidance details special granting topics. Learn more about each topic below.

[Expand all](#)[Collapse all](#)

- ▶ Qualifying disbursement limit – charitable organizations
- ▶ Directed gifts and acting as a conduit
- ▶ Reporting grants
- ▶ Information for organizations that want to provide disaster or emergency relief
- ▶ Pooled grants
- ▶ Granting charitable goods
- ▶ Granting real property
- ▶ Grants and anti-terrorism considerations
- ▶ Grants inside and outside Canada

- 1 An organization that does not meet the definition of a “qualified donee” is referred to by the CRA as a “non-qualified donee”. For more information on the meaning of “qualified donee”, see [Guidance CG-010, Qualified donees](#).
- 2 Bill C-19, An Act to implement certain provisions of the budget tabled in Parliament on April 7, 2022 and other measures, 1 Sess, 44th Parl, 2022 (assented to June 23, 2022), SC 2022, c 10.
- 3 For more information about working through an intermediary to carry on charitable activities, see [Guidance CG-002, Canadian registered charities carrying on activities outside Canada](#) and [Guidance CG-004, Using an intermediary to carry on a charity's activities within Canada](#).
- 4 For more information, see [Budget 2022: A Plan to Grow Our Economy and Make Life More Affordable](#).
- 5 For more information, see [Types of registered charities \(designations\)](#).
- 6 The Income Tax Act, at subsection 149.1(1). See also the [Special Topics sections](#) in this guidance, which outline other Income Tax Act requirements for grants.
- 7 The Income Tax Act, at subsection 149.1(1). See also [Guidance CG-010, Qualified donees](#).
- 8 The Income Tax Act, at subsection 149.1(1). See also the [Special Topics sections](#) in this guidance, which outline other Income Tax Act requirements for grants.
- 9 See the Income Tax Act, at paragraphs 168(1)(e) and 188.1(5)(c).

- 10 For information on the CRA (Canada Revenue Agency)'s Charities Compliance Program, including audit processes, consequences of non-compliance, bringing a charity back into compliance, sanctions, and other related information, go to Compliance and audits.
- 11 For more information about working through an intermediary to carry on charitable activities, see Guidance CG-002, Canadian registered charities carrying on activities outside Canada and Guidance CG-004, Using an intermediary to carry on a charity's activities within Canada.
- 12 For more information, see Completing Form T3010 Registered Charity Information Return.
- 13 Bill C-41, An Act to amend the Criminal Code and to make consequential amendments to other Acts, 1 Sess, 44th Parl, 2023 (assented to June 20, 2023), SC 2023, c 14.
- 14 Consideration with respect to grants to individuals rather than organizations may vary.
- 15 Consideration with respect to grants to individuals rather than organizations may vary.
- 16 For more information, see Policy statement CPS-024, Guidelines for registering a charity: Meeting the public benefit test.
- 17 For more information, see Income Tax Folio S1-F5-C1, Related Persons and Dealing at Arm's Length.
- 18 The CRA (Canada Revenue Agency) has limited ability to monitor events and transactions outside Canada. It relies heavily on the grantor and grantee to account for the use of grant resources.
- 19 For more information on granting charitable goods, see section 4.

- 20 For more information on granting real property, see section 4.
- 21 For more information, see Guidance CG-002, Canadian registered charities carrying on activities outside Canada and Guidance CG-004, Using an intermediary to carry on a charity's activities within Canada.
- 22 For example, a grant would not have a final report if there is no termination date. In these circumstances, the charity could request interim reports from the grantee.
- 23 The Income Tax Act, at subsection 230(2); and The Canadian Committee for the Tel Aviv Foundation v. Canada (2002 FCA 72) 2002-03-01, at paragraph 42.
- 24 See the Income Tax Act, at paragraph 168(1)(e).
- 25 Amendments to the Income Tax Act proposed in Budget 2022 maintain this requirement: see the Income Tax Act, at subsection 149.1(6.001). An exception to this requirement is a charitable organization designated as an “associated charity”. For more information, see IC77-6R, Income Tax Information Circular.
- 26 See the Income Tax Act, at paragraph 168(1)(f).
- 27 For more information, see Explanatory Notes Relating to the Income Tax Act and Other Legislation, April 2022, at 38-39.
- 28 For more information, see Determining fair market value of gifts in kind (non-cash gifts).
- 29 See the Income Tax Regulations, section 3703.

30 Bill C-41, An Act to amend the Criminal Code and to make consequential amendments to other Acts, 1 Sess, 44th Parl, 2023 (assented to June 20, 2023), SC 2023, c 14.

31 These measures were introduced in Budget 2021.

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