



Charities and Not-For-Profit Organizations Current Matters Winter 2010



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HST - What You Need To Know

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The tax changes that came into effect on July 1, 2010 for HST in the Province of British Columbia saw changes for Public Service Bodies (PSB's). A PSB can be a not-for-profit organization, a charity, a municipality, a school authority, a hospital authority, a public college or a university.

Changes affecting PSB's:

- New rebate calculations. For example, the calculation for charities and qualifying non-profit organizations, went from 50% of the GST over to the new rules which allow a combination of 50% of the federal portion of the HST (50% of 5%) plus 57% of the provincial portion of the HST (57% of 7%); The provincial portion of the rebate calculation is dependant on the type of PSB as explained below:

	BC
a municipality	75%
a university	75%
a school	87%
a hospital authority, a facility operator or an external supplier	58%
a charity or qualifying non-profit organization	57%

- PSB's are required to track the federal and provincial portions of the HST separately in order to make a PSB rebate claim. This

may require setting up multiple accounts within an organization's accounting software;

- PSB's are required to report the PSB rebate for the federal and provincial parts of the HST separately on the PSB rebate application form;

- As of October 4, 2010, any PSB that is also an HST registrant can now claim their PSB rebate electronically with their HST return using GST/HST NETFILE;

- New remittance rates for PSB's who have elected to use the Special Quick Method;

- In BC, a point-of-sale rebate of the provincial portion of the HST (7%) is provided to all persons who purchase qualifying books; and

- The government of BC has agreed that, effective July 1, 2010, all BC government ministries, agencies, boards, commissions and Crown corporations will pay GST/HST on their purchases of taxable goods and services.

What hasn't changed:

- If a PSB was required to collect GST in BC prior to July 1, 2010, then it would generally be required to collect HST after the transition. Supplies of property and services that were previously taxable under the GST are generally taxable under the HST;

- Reporting periods under the HST rules remain the same as

under the GST rules;

- An organization does not have to be a GST/HST registrant in order to claim a PSB rebate of the HST;
- Small supplier rules remain the same for PSB's - total revenue from taxable supplies must not exceed \$50,000 in a calendar quarter and over the previous four consecutive calendar quarters;
- Charities may also qualify as small suppliers if they apply the \$250,000 "gross revenue test". Charities qualify as small suppliers using either the gross revenue test or the taxable supply rule noted above. The gross revenue test is generally the total of business income, donations, grants, gifts, property income, investment income, and capital gains less any capital losses as a result of a disposition in the year; and

- Charities that are HST registrants are generally required to use the net tax calculation when reporting their HST collected. The charity would generally remit 60% of the HST collected in lieu of claiming input tax credits on most purchases of property and services.

Please contact our office for further assistance with GST/HST.

New Accounting Standards for Not-for-Profit Organizations:

As an alternative to adopting International Financial Reporting Standards (IFRS), the Accounting Standards Board (AcSB) has approved a new framework of accounting standards for not-for-profit organizations in the private sector. The new accounting standards will be based on a combination of the new Canadian accounting standards for private enterprises and the current 4400 series of accounting standards, which were unique to the not-for-profit sector under the old CICA Handbook. The new standards will form Part III of the CICA Handbook called "Accounting Standards for Not-for-Profit Organizations" and was made available on December 1, 2010.

The new accounting standards will be effective for fiscal years beginning on or after January 1, 2012. Earlier adoption will be permitted. Stay tuned for how the new accounting standards will affect your organization.

New Canadian Auditing Standards (CAS):

New auditing standards will be effective for fiscal years ending on or after December 14, 2010. Many of the changes will not be noticed directly by your organization and will instead affect the audit firm's approach and application of principles within the audit framework.

However, two of the most significant changes that will affect an organization as a result of CAS are:

- 1) Improved audit report – organizations will notice a more detailed audit report in their financial statements, clearly communicating management's responsibilities for the financial statements, and responsibilities for the audit. The new look of the report will now show six paragraphs and there is the option to include an additional paragraph for "other matters" which may or may not be applicable for any respective year-end.
- 2) Extent of subsequent events testing – auditors will now be

required to evaluate transactions and events which occur between the year-end date and the date the financial statements are approved. Approval means the date that the draft financial statements have been signed off by the person, or board, who has the authority to do so under law. If there is a significant amount of time between the end of the audit and the actual date the financial statements are approved, extra audit testing/or evaluation may be required. This extra time spent may result in additional audit fees. The previous rules required subsequent events to be tested up to the date of significant completion of the audit, which was typically the end of the audit field work.

In order to minimize additional costs, our suggestion is to arrange a special Board meeting (formal or informal) to approve the draft financial statements in a timely manner. As part of our audit planning process, we will be in touch to discuss this matter in more detail.

Filing Requirements

Is your organization in compliance with its filing requirements?

- A) A Registered Charity is required to file a T3010 "Registered Charity Information Return" within six months of its year-end.
- B) A Not-for-Profit Organization may be required to file a T1044 "Non-Profit-Organization (NPO) Information Return" within six months of its year-end if they

it meets any of the following criteria:

- 1) If it received or was entitled to receive taxable dividends, interest, rentals or royalties totaling more than \$10,000 in its fiscal year;
- 2) The total assets of the organization were more than \$200,000 at the end of the immediately preceding fiscal period; or

3) It was required to file a T1044 in any previous period.

In addition to the above, any NPO that is incorporated is also required to file a T2 Corporate Income Tax Return, even though it is exempt from tax. This rule applies to any organization incorporated under the Society Act.

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The 2010 budget proposes to reform the disbursement quota for fiscal years that end on or after March 4, 2010. Specifically:

- Repeal the charitable expenditure rule;
- Modify the capital accumulation rule; and
- Strengthen related party anti-avoidance rules.

With the repeal of the charitable expenditure rule, charities will no longer be required to include the following in their calculation of the disbursement quota:

- Enduring property;

- Capital gains reduction and the capital gains pool;
- Specified gifts; and
- Exclusions from the calculation of the base to which the 3.5% disbursement rate is applied.

Changes to the capital accumulation rule will see an increase of the exemption from \$25,000 to \$100,000. This will reduce the compliance burden on small charitable organizations and provide them with greater ability to maintain reserves to deal with contingencies.

Changes to the anti-avoidance rules include provisions that

ensure amounts transferred between non-arm's length charities will be used to satisfy the disbursement quota of only one charity.

The recipient charity will be required to transfer the amount to a qualified donee (with which it deals at arm's length) in the current or subsequent taxation year.

The transferring charity will also be able to elect to have the amount transferred not count towards satisfying its disbursement quota.

Do Your Donation Receipts Meet CRA Requirements?

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A charity must ensure that it issues donation receipts that meet the requirements of an "official" donation receipt by Canada Revenue Agency ("CRA"). Not doing so may result in donors' income tax deductions being disallowed by CRA and potential embarrassment and additional work for the charity.

Receipts must include:

- A statement that it is an official receipt for income tax purposes;
- The name and address of the charity as on file with CRA;
- The charity's registration number;

- The serial number of the receipt (must be unique);
- The place or locality where the receipt was issued;
- The day or year donation was received;
- The day on which the receipt was issued (if it differs from the day of donation);
- The full name, including middle initial, and address of the donor;
- The amount of the gift;
- The value and description of any advantage received by donor (proposed legislation);

- The eligible amount of the gift – amount of gift less advantage received (proposed legislation);
- The signature of an individual authorized by the charity to acknowledge donations; and
- The name and website address of CRA (www.cra.gc.ca/charities).

Examples of "official" donation receipts can be found on CRA's website: www.cra.gc.ca/charities.

Revocation of Charitable Status

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Did you know that CRA has the ability to revoke a charity's registration if the charity has failed to file its "Registered Charity Information Return" (T3010) within six months of its fiscal period end? Failure to file an information return is the most common reason for the revocation of a charity's registration. CRA also notes that if the information return is received but the charity's financial statements are NOT attached, the charity is deemed to have not filed a complete return and its registration could still be revoked for failure to file.

What can your organization expect if it fails to file its annual information return?

- If Canada Revenue Agency has not received the annual return within five months after the charity's year-end, they will send a computer-generated reminder (Form TX11D, "Reminder to Registered Charities to File Return").
- If after seven months past the year-end Canada Revenue Agency has not received the annual return, a "Notice of Intention to Revoke a Charity's Registration" (T2051A) may be sent via registered mail.
- After the eighth month past the year-end, Canada Revenue Agency representatives may try to contact the charity as a reminder to file the annual return.
- Once a charity has received the "Notice of Intention to Revoke a Charity's Registration" (T2051A), it has 90 days from the date on the T2051A to file an objection if the charity believes that it has satisfied all of the filing requirements.
- If no notice of objection is filed, in the tenth month after the year-end, Canada Revenue Agency may send the charity a "Notice of Revocation of a Charity's Registration" (T2051B) which will state the effective date of the revocation, after which the Charity will no longer be able to issue tax deductible receipts.
- A charity can apply for re-registration within one year from the date that it was sent Form T2051A.

Charities should be aware that their registration is officially revoked when a notice is published in Part I of the Canada Gazette. In addition, the name of the charity and the reason for its revocation will be posted in the Charities Listings section on Canada Revenue Agency's website. Furthermore, all letters relating to the grounds for the revocation are made available to the public.



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KNV's Partners and Managers volunteering a day to work at Camp Alexandra doing repairs.