



**Increasing the
Productivity and Competitiveness
of the charity and non-profit
sector through greater
transparency and accountability**

**Submission to the House of Commons Standing
Committee on Finance**

July 2017

July 25, 2017

Dear Members of the Standing Committee on Finance,

Blumberg Segal LLP is a law firm based in Toronto that provides legal services to Canadian non-profits, registered charities and donors. Blumberg Segal LLP maintains the websites, <http://www.canadiancharitylaw.ca> and <http://www.globalphilanthropy.ca>, that provide extensive information and resources to Canadian charities to encourage them to understand their legal obligations and strive for higher ethical standards. Blumbergs has also launched a transparency tool at the website www.charitydata.ca with up to thirteen years information on every Canadian registered charity. We encourage donors to be generous but careful in the way they practice charity and philanthropy. Our firm is concerned about the well-being of the non-profit and charitable sector and that there is appropriate regulation for this very important sector.

Executive Summary

We are concerned that there are not adequate measures in place to ensure the efficient use of charitable assets and to prevent the misappropriation of charitable assets. We will provide two recommendations to improve the productivity and competitiveness of the non-profit and charitable sector through greater transparency and other recommendations.

Introduction

The voluntary sector in Canada plays a vital role in this country. It provides some of the most important services and helps the most vulnerable. Over 600,000 board members volunteer their time, effort, energy and skill to running registered charities and that does not include non-profits that are not registered charities. According to Statistics Canada, 13.3 million people, or 47% of the population, volunteered their time through a group or organization. These volunteers contributed nearly 2.1 billion hours in 2010 – a very valuable contribution to the work of the voluntary sector by Canadians, which is generally not reflected in financial statements. The charity sector in Canada has 24 million donors. Almost 2.6 million people work in the charity sector. The charity sector has revenue of over \$251 billion¹ Those involved with volunteering or working in the charity sector deserve more detailed and better information on their charities and the sector.

¹ See [Blumbergs' Snapshot of the Canadian Charity Sector 2015](#).

Improvements in the voluntary sector by the Federal government will help not only non-profits and charities but also the many groups that they serve such as the unemployed, Indigenous peoples, patients, those with a disability, seniors, and students. The services provided by non-profits and charities affect people in all parts of the country including major urban, small towns and rural and remote communities.

Transparency

The 2014 Federal Budget allocated funds to improve the T3010 Registered Charity Information Return and to allow it to be filed electronically. This is an important and long overdue step forward and is consistent with our [2012 Budget submission](#) suggesting “Having a review of the T3010 to encourage greater disclosure of information to the public, as has been done in the US with their annual return or the UK with their reporting”.

The work that charities do is extremely important to our society, so it is vital that various stakeholders, such as the public, the media, the government, donors, employees, volunteers, etc. have access to key information on what charities are doing and how they are doing it. Transparency will ultimately increase public trust and confidence in the sector by making the public more informed about the work that charities undertake.

Transparency can shine a light on certain charities, which will also hopefully help to improve governance of non-profits and charities and reduce the amount of abuse that goes on. People are less likely to abuse charities if they know that they will be more easily discovered. Less abuse of charities’ assets will also result in greater productivity and public benefit.

The inability of the Charities Directorate to discuss particular charities makes it harder for parliamentarians to understand the charitable sector and does not allow the Canada Revenue Agency (“CRA”) to identify which organizations they have serious compliance concerns with. This opens up the CRA to criticism, as we have seen recently in the media.

Currently, the confidentiality provisions in Section 241 of the *Income Tax Act* (Canada) forbid the CRA from disclosing information about any non-profit or registered charity either through an informal request or a formal access-to-information request. The only way this information can be accessed is if it falls within certain narrow exceptions, such as the public portion of the T3010, or if there has been consent for disclosure provided by the non-profit or registered charity.

We anticipate that there will be little or no fiscal cost for the adoption of the transparency recommendations set out below.

Registered Charities and Transparency

Currently, without the consent of the registered charity, CRA can only provide the “entirety of or any part of any letter sent by or on behalf of the Minister to the charity relating to the grounds for the revocation or annulment”. However, this can only be provided after the charity’s registration has been revoked. This means that by the time the charity has actually lost its registered charity status, several years may have passed after CRA started having significant concerns about the

charity. Therefore, CRA essentially has no ability to disclose to the public any information about charities that are involved with, for example, abusive gifting tax shelters (totaling approximately \$6.3 billion dollars over the last 10 years). CRA also does not have the power to disclose to the public any information surrounding charities that have had complaints of systemic child abuse, involvement with inappropriate third party transactions or other major concerns such as terrorism. This completely differs from the methods of the Charity Commission of England and Wales, which [regularly distributes information to the public when it has concerns with particular registered charities](#). In the U.K., the Charity Commission does not wait to share pertinent information with the public until registration has been revoked. In Canada, the public, especially donors, should have the right to know of any serious non-compliance by charities prior to revocation. It will take amendments to the *Income Tax Act* to allow for such disclosure.

Recommendation 1: Section 241 of the *Income Tax Act* should be amended to allow the CRA to disclose serious non-compliance with legal requirements by a registered charity, Registered Canadian Amateur Athletic Associations or certain other qualified donees.

Non-Profit Organizations and Transparency

It is estimated that there are over 80,000 non-profits that are not registered charities or other types of qualified donees in Canada. We welcome the proposal in the [2014 Federal budget](#) to review the transparency requirements of non-profit organizations “to ensure that reporting requirements for legitimate NPOs provide the public and the Canada Revenue Agency with sufficient information to evaluate their activities”. These NPOs are exempt from almost all transparency requirements even though they are exempt from taxes and, in many cases, they receive government funding, support or public donations. While non-profits that are not charities must in some cases file the two page Form T1044, Non-Profit Organization (NPO) Information Return, such form is not made available to the public either electronically or by request. The T1044 is filed with the CRA which then inputs all the information in its database. There is no additional cost or “red tape” associated with this proposal as non-profits are already filing the form and the CRA is already inputting the information.

Recommendation 2: Section 241 of the *Income Tax Act* should be amended to allow the CRA to disclose to the public information contained on the T1044 Non-Profit Organization (NPO) Information Return.

Other Suggestions

There are many ways in which the regulation of charities can be improved to result in greater public benefit that the Committee may wish to also consider:

- 1) Increase the disbursement quota payout from a measly 3.5% to something like 5% or 6%. This would result in hundreds of millions of dollars being able to be deployed for charitable programming may would have been otherwise an unauthorized encroachment on capital;

- 2) With donor advised funds, donors get an immediate tax receipt while in some cases none of the money will be distributed to charities for years. Ensure that each donor advised fund is required to disburse a certain percentage per year per fund. In the US there have been proposals that the amount be between 15% to 20% per year;
- 3) While we don't think there is any need to change the rules surrounding Canadian charities and political activities we think that it would be helpful for CRA to roll out additional educational programs to increase the likelihood that charities will be aware of the significant scope that they have to engage in non-partisan political activities and to encourage compliance with the existing rules. We are concerned by the trend in the US where some politicians are calling for US charities to be able to conduct unlimited political activities including even partisan activities.
- 4) Require charities to demonstrate annually in their reporting (as in the UK) that they actually have a "public benefit", rather than this being assumed, which could help the sector tremendously by increasing public confidence and reducing the number of dormant charities;
- 5) Reinstate the Charities Partnership Outreach Program, or create a similar program, which provides funds to Canadian charities to fund educational initiatives within the sector to increase compliance. It is especially important to increase the capacity of the sector to understand financial management, internal controls and reporting;
- 6) Consider whether Canada should move to a system as in Australia where the ability to issue tax receipts is not based on being a "registered charity" but rather a narrower category of deductible gift recipients; and
- 7) Establish a unit within the RCMP, or other police force, tasked with the responsibility of reviewing complicated abusive charity schemes that provide inappropriate official donation receipts.

If you require further information or wish to discuss this submission, please do not hesitate to contact us. We would certainly be interested in presenting to the Committee if it would be helpful and the opportunity should arise.

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