

What You Need To Know About Charities and Fundraising



You will find this information useful if you are involved in fundraising for a charity, either as a volunteer or as staff.

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ACLE

Atlantic Charities
Learning Exchange

EAOBA

L'Échange d'Apprentissage pour
les Organismes de Bienfaisance
de l'Atlantique

LEGAL **Information**
SOCIETY OF NOVA SCOTIA

All charities must fulfill charitable purposes.

Most charities have to fundraise money to fulfill their charitable purposes. In 2008, 87% of Atlantic Canada's nearly 8,000 charities reported fundraising revenue.

Usually it costs money to fundraise; in 2008, more than one in four charities reported fundraising expenses. Your fundraising expenses include staff time used to fundraise for the charity.

As charities, each year we must report to the Canada Revenue Agency (CRA) of the Government of Canada how much money and staff time we spend on fundraising and how much money we fundraise. The reporting form is called the T3010B.

Charitable fundraising reports are complex. As a result, we sometimes make errors when filling out our T3010B forms. These errors are almost always unintentional.

Your charity can avoid making common errors by understanding the key concepts described in this brochure.

1. What is Fundraising?

Fundraising is any activity you do as a charity to raise money and attract in-kind donations. Fundraising is not a charitable activity. A charity can only fundraise gifts, and usually, fundraising means asking people for cash gifts. Examples of fundraising activity include:

- Selling tickets to a fundraising event
- Selling goods or services to fundraise, for example, chocolate bars or daffodils
- Researching new ways to raise money
- Holding fundraising events, like golf tournaments, variety shows, dinners, raffles and 50/50 draws
- Fundraising promotions, like mail campaigns and planned giving programs

Your charity may fundraise for “in-kind” donations, too. An in-kind donation is a non-cash gift that your charity can use, for example, the donation of a free used computer needed in your charity’s office. Actively soliciting for in-kind gifts is a fundraising activity and you have to report any related expenses to CRA.

Common Fundraising Error

Charities sometimes mistakenly report the staff time used to fill out grant applications as fundraising activity, but that cost is actually an administration expense.

2. What is Fundraising Revenue?

Fundraising revenue is money that your charity earns from fundraising, including from in-kind donations and gifts of stocks or life insurance policies.

Fundraising revenue is different from other revenues collected by your charity, and you must report them on separate lines on the T3010B form. An example of other revenue is cost recovery from the sale of a resource guide.

Common Errors in Reporting Fundraising Revenue

Charities commonly fail to report gross revenues. You must tell CRA how much money your charity brought in before expenses.

Often charities fail to report some fundraising revenue, such as money collected from ticket sales, donation boxes, bake sales and other anonymous donations like 50/50 draws, because tax receipts are not issued to these donors. These proceeds must be reported as fundraising revenue.

If you receive a gift in-kind, there are special rules you must follow to report the revenue. See CRA's checklists at:

www.atlanticcharities.ca/cra/checklists

3. What is a Fundraising Expense?

A fundraising expense is money that a charity spends on fundraising.

Ask yourself:

1. Did your charity spend money to attract more money?
2. Did your charity spend time to attract money?

If your charity answers “yes” to either question, the expense is probably a fundraising expense.

Fundraising Expenses

Money to research new ways to raise money, including staff time

Fundraising event expenses, e.g, room rental, food served at the event, entertainment, printing programs, advertising, staff time

Planning and donor development costs, e.g, staff time spent writing thank you letters, the cost of thank you cards, postage

Money to hire a company to do your fundraising, e.g, direct mail campaigns

Money and staff time to write tax receipts

Money and staff time to enter donor information in your charity’s database

NOT Fundraising Expenses

Money and staff time to produce a members’ newsletter

Money and staff time to write a grant application

Volunteer hours

CRA wants fundraising expenses to be reasonable. You can read about two CRA tests, the *Substantially All Test* and the *Four Part Test*, to determine whether an activity can reasonably be considered fundraising.

www.atlanticcharities.ca/cra/tests

A charitable activity might have a fundraising purpose, as well as a charitable purpose. If that is the case, then your charity must report part of the activity as a fundraising expense. For example, if a charity for persons with disabilities sells tickets for a performance in which its beneficiaries participate for therapeutic reasons, then the production cost could be a charitable program expense and the cost of promoting the event to the public could be a fundraising expense.

You must report fundraising expenses in the same year you spend the money, even if you won't see any return funds that year.

4. How much fundraising expense is acceptable?

There is no legal limit on the dollar amount of annual fundraising expenses for a charity. CRA must believe that the amount is reasonable for it to be considered acceptable.

To help determine whether the amount of fundraising expense is reasonable, the CRA created a tool called the fundraising ratio. The fundraising ratio points to the fundraising effectiveness of a charity over a full year.

Divide your annual fundraising expenses by your fundraising revenue. For example, if you spent \$700,000 on fundraising and raised \$2 million in gross revenue last year, your fundraising ratio was 35%.

$$\frac{\text{Fundraising expenses } \$ 700,000}{\text{Fundraising revenue } \$ 2,000,000} = 35\%$$

Ratio of costs to revenue over fiscal period	Canada Revenue Agency's Interpretation of the Charity's Fundraising Ratio
Under 35%	Unlikely to generate questions or concerns.
35% and above	The CRA will examine the average ratio over recent years to determine if there is a trend of high fundraising costs. The higher the ratio, the more likely it is that there will be concerns and a need for a more detailed assessment of expenditures.
Above 70%	This level will raise concerns with the CRA. The charity must be able to provide an explanation and rationale for this level of expenditure to show that it is in compliance; otherwise, it will not be acceptable.

Other assessment tools CRA uses to determine whether your charity is using best practices to reduce fundraising expenses are the size of your charity, your charity's cause, and the value of its work in the community.

The CRA tries to educate non-compliant charities on fundraising compliance as a first step, but a charity that continues with an unreasonably high ratio may be fined and possibly have its charitable status revoked.

Other General Fundraising Information

Issuing Official Tax Receipts

As a registered charity, you may only issue a charitable tax receipt for a charitable donation. Remember - a charitable donation must be a gift. Check the CRA guidance for charities at www.atlanticcharities.ca/cra for details on these topics:

- Understand what legally qualifies as a gift
- Issue complete and accurate tax receipts
- See sample tax receipts
- Assess the value of in-kind donations, like gifts of stocks and planned giving programs
- Calculate the cost of an advantage, e.g, split receipting

Third Party Fundraisers

A third party business or individual might volunteer to organize a fundraiser for your charity. There are “best practices” that your charity should follow with third party fundraisers:

- Issue your own tax receipts rather than authorize the third party to issue the receipts on your behalf.
- Get an accurate list of donor information and costs of the event from the third party before issuing tax receipts.
- Subtract the cost of any advantage each donor received before issuing individual tax receipts.

Hiring External Fundraising Professionals

Sometimes a charity hires an external fundraising professional. External fundraising professionals paid by your charity must be at arm's length to the charity. Their company cannot be owned by a board member or the relative of a board member, and they cannot be related to a board member.

Be sure that your charity does not pay them an excessive amount, or there is a risk that CRA may revoke your charitable status.

Any fundraising professional that your charity hires represents your charity. It is your responsibility to ensure that they obey all CRA rules and all applicable provincial and federal laws. It is a good idea for your charity to hire a fundraising professional who does **not** accept compensation based on a percentage of funds raised for a charity.

Collecting Donor Information

Get your donors' consent to collect, use, or disclose information.

- Use personal information about donors only for reasons you have told them about.
- Collect information in a fair and lawful way, e.g, not gathered from another charity's database.
- Protect your donors' personal information from unauthorized access, disclosure, copying, use or modification.
- Create a privacy policy and be able to produce it for your donors.

Finding More Information

The CRA has published a complete fundraising guidance document, which is available online.

Fundraising by Registered Charities
www.atlanticcharities.ca/cra/guidance

The CRA and others offer free Charities Information Sessions and webinars, specifically for treasurers, new board members and volunteers to learn about their charity's legal obligations.

Legal Information Society of Nova Scotia (LISNS)

LISNS has developed an annotated T3010B form. Visit:

www.atlanticcharities.ca/cra/lisns

Atlantic Charities Learning Exchange (ACLE)

ACLE will hold free workshops on fundraising compliance throughout Atlantic Canada in Fall 2010 and Winter 2011. Check the website for the workshop schedule. Join the ACLE mailing list and connect with a mentor.

www.atlanticcharities.ca

Compliant Fundraising Practices is a project of the Atlantic Charities Learning Exchange (ACLE) of the Community Sector Council Newfoundland and Labrador (CSC) in partnership with Legal Information Society of Nova Scotia (LISNS) and funded by the Canada Revenue Agency, Government of Canada.

This brochure provides general information only and not legal advice. You should consult a lawyer or CRA if you have questions about your charity's fundraising activities and reporting.