



February 24, 2014

Office of the President and
Chief Executive Officer

Cabinet du président
et chef de la direction

To: Association Members of the Canadian Chamber of Commerce

Dear Member:

It has been almost two years since the Canadian Chamber of Commerce held an Association Roundtable in Ottawa that focused on the Canada Revenue Agency's (CRA's) examination of non-profit organizations (NPOs). Many of you had alerted me to the fact that the CRA was examining your operations, attempting to understand your activities and sources of revenue.

During the meeting, a CRA official confirmed that a large scale audit was underway as part of the Agency's three-year NPO Risk Identification Project. The purpose of the project was to increase the CRA's intelligence in the not-for-profit sector and to assist the CRA in determining:

1. The level of non-compliance of NPOs with respect to required reporting.
2. Any significant data gaps that may require mandatory filing of prescribed forms.
3. Whether recommendations to the Department of Finance for more robust legislation are necessary.

The project wrapped up this past summer. The CRA examined 1437 NPOs out of the approximately 30,000 it reportedly has in its database.

The CRA has now informed me that the NPO Risk Identification Project uncovered sufficient causes for concern. Specifically, it indicated that a significant portion of incorporated organizations selected for review did not meet all the requirements found in the *Income Tax Act*. The project found that some organizations would benefit from more guidance about the requirements under existing legislation.

The February 11, 2014 federal budget noted that the income tax exemption for NPOs has changed little since its introduction in 1917 and "concerns have been raised that some organizations claiming the NPO tax exemption may be earning profits that are not incidental to carrying out the organization's non-profit purposes, making income available for the personal benefit of members or

420 - 360, rue Albert St.
Ottawa, Ontario
K1R 7X7

613.238.4000
613.238.7643

Chamber.ca
info@chamber.ca

maintaining disproportionately large reserves. In addition, because reporting requirements for NPOs are limited, members of the public may not be adequately able to assess the activities of these organizations, and it may be challenging for the Canada Revenue Agency to evaluate the entitlement of an organization to the tax exemption."

In short, the government announced its intention to review whether the income tax exemption for NPOs remains properly targeted and whether sufficient transparency and accountability provisions are in place. As part of its review, the government indicated that it will release a consultation paper for comment in the coming months, and it will further consult with stakeholders as appropriate.

The CRA recognizes that education and outreach with the non-profit sector are critical to improving the organizations' compliance with the *Act*. Accordingly, it has committed to work with representatives of the non-profit sector to determine how the sector's knowledge of the income tax rules can be improved. I have written to the Minister of Revenue to request a meeting and to offer our assistance and that of our 90-plus association members in this regard. Additionally, because the CRA's review of the sector revealed that the legislative framework may benefit from further examination, I have written to the Minister of Finance offering to work with his Department as it considers next steps.

It will be important that NPOs provide their input to ensure the government has a full understanding of the sector and its needs, and to ensure that any changes to the rules (as stipulated under paragraph 149(1)(l) of the *Income Tax Act*) take your views into consideration. We, along with our Taxation Committee, would be pleased to collaborate with you and the legal and professional services firms on a joint submission.

We are looking forward to working with you on this important initiative.

Sincerely,

A handwritten signature in black ink that reads "Perrin Beatty". The signature is written in a cursive, flowing style.

Perrin Beatty
President and Chief Executive Officer