

## Fundraising - Four Part Test

### *Introduction* (Slide 1)

This module introduces you to CRA's Four Part Test.

This is one of two tests that CRA uses to determine if an activity is considered a fundraising or a charitable activity and how the activity's expenses have to be reported based on the result of this test.

**Note:** The other test is the Substantially All Test. Information on the Substantially All Test is at [www.charitycentral.ca/site/?q=node/500](http://www.charitycentral.ca/site/?q=node/500)

### *Purpose* (Slides 2-5)

The **Four Part Test** is in the form of four main questions:

1. Was fundraising the main objective of the activity?
2. Did the activity include on-going or repeated requests, emotive requests, gift incentives, donor premiums, or other fundraising merchandise?
3. Was the audience selected based on its ability to give?
4. Was commission-based remuneration or compensation based on the number or amount of donations?

If you answer "**no**" to all four questions, a portion of the expenses related to the activity can be reported on the T3010 as charitable, management, or political expenses as applicable and a portion can be reported as fundraising expenses on the T3010B form.

If you answer "**yes**" to any one question, all of the activity's expenses have to be reported as fundraising expenses on the T3010 form.

### **Example**

Charity Z has the mission of helping seniors live a healthy and safe lives. One of its program is the prevention of elder abuse. Charity Z publishes and sends out a 4-page brochure to the general public on:

- ❖ signs of elder abuse
- ❖ the public should take action to stop elder abuse
- ❖ how Charity Z can help
- ❖ other community resources

The back cover of the brochure describes the programs of Charity Z with a note stating that donations are welcome to support the programs.

The staff and volunteer prepare and mail out this brochure as part of their regular activities. There is no compensation based on the number of donations received.

### **Explanation: Applying the Four Part Test to the Case of Charity Z**

1. Fundraising is not the main objective of the activity. The purpose of the brochure is to inform the public about elder abuse and to urge them to take action. Less than 25% of the brochure content is about donations.
2. The brochure does not include on-going, repeated or emotive requests for donations.
3. The audience was not selected based on its ability to give.
4. There is no commission-based remuneration or compensation.

**A majority of the expenses are to be allocated as charitable expenses with less than 25% as fundraising expenses.**

## *Main Objective (Slides 6–17)*

### **Question 1: Was fundraising the main objective of the activity?**

To determine whether the main object of an activity is fundraising, the CRA looks at three things:

- a. the amount of resources devoted to the fundraising component of the activity
- b. the nature of the activity
- c. the content of the activity

Each of these areas is explained more below:

#### **1(a) Amount of Resources**

The amount of resources devoted to the fundraising component of the activity.

CRA considers resources to include all of a charity's financial assets and resources such as staff, volunteers, directors, space, and equipment that the charity can use to further its purposes.

If most of your resources are used for fundraising purposes as reflected in the amount of content and the cost, then the main objective of the activity is fundraising. This is possible even if some resources are used for other objectives.

#### **1(b) Nature of the Activity**

These activities by its nature are generally considered as fundraising activities.

- ❖ Paid advertisement except when the ad is only on the charity's programs and services.
- ❖ Infomercial

- ❖ Telemarketing
- ❖ Activities with content related to charitable gaming
- ❖ Activities with content related to products and services being sold as a fundraiser by or on behalf of the charity.

**Note:** Free Public Service Announcement (PSA) is generally not considered a fundraising activity.

### 1(c) Content of the Activity

When your activity has both fundraising and charitable components, it may be difficult to separate the two components.

**For example,** a charity working with autistic children arranges for a television interview to discuss the challenges faced by them and their families. While talking about the issue, the need for funds and how people can donate is discussed. So how can the charitable component be distinguished from the fundraising component?

CRA looks for four features in the content of the activity to determine if it is a fundraising activity or not. In general, if an activity contains one of the features, it is a charitable activity and expenses should be allocated accordingly.

The four features of the contents of an activity that CRA looks for are:

- i. to advance the programs and services of the charity
- ii. to raise awareness of an issue
- iii. to provide useful information to the public or the stakeholders about the charity's work or an issue related to that work
- iv. to be transparent and accountable for its practices by providing information about its structure, operations, or performance to the public and to its stakeholders.

Each of these features of the contents of an activity is explored in detail below:

#### **i. Advancing Programs and Services**

If the main objective of your activity is:

- ❖ to provide information to further the objectives of the charity with
- ❖ the beneficiaries or potential beneficiaries of the charity as the primary audience

This activity will generally be considered a charitable activity. The expenditures associated with the activity are thus to be reported as charitable expenditures.

**Exception:** When the programs and services of a charity are profiled as a means to encourage donations, the activity is considered a fundraising activity. The expenses incurred are considered fundraising expenditures.

#### **Example:**

A brochure describing the services of a seniors' centre is distributed to seniors' households in the area served by the centre.

Costs of the resources for this activity are considered charitable expenses since object of the activity is to further the centre as charitable objectives.

## ii. Raising Awareness

Raising awareness among the public or a segment of the public may be considered a charitable activity as long as:

- ❖ it will fulfill the charity's objective
- OR**
- ❖ the charity has expertise on a matter of public concern

### **Example:**

A charity buys a newspaper advertisement announcing a public forum on Labour Standards and Temporary Foreign Workers. One-quarter of the ad space states that the charity needs funds to conduct research on the issue and that donations are welcome.

The main objective of this activity is to increase public awareness and not to fundraise.

So, 75% of the expenses are charitable expenses 25% of the expenses are fundraising expenses

## iii. Providing Useful Information

In this feature, a charity's activity can be considered charitable if the activity provides useful information to:

- ❖ prompt an action
- OR**
- ❖ to change a behaviour related to its charitable objectives
- AND**
- ❖ is directed towards its beneficiaries and/or potential beneficiaries

Providing information on the charity's programs, services, and operations to the general public is not generally considered under this feature.

### **Example:**

A charity whose object is to prevent prostate cancer may publish information on what prostate cancer is and why regular testing is important.

This activity is considered a charitable and not fundraising activity. Therefore, expenses incurred by this activity are not fundraising expenses.

## iv. Being Transparent and Accountable

Your charity may regularly publish reports such as annual reports, financial information, and other reports about its performance. Part of these reports may contain information acknowledging donor support and requesting further support. Because your main objective of these reports is not fundraising but rather part of being transparent and accountable, this activity would **not** be considered as a fundraising activity.

(See two exceptions on the next page)

### Exceptions:

- ❖ Activities for *generic branding*, that is, for the promotion and marketing of your charity's name, logo, or past work, are usually considered *fundraising activities*.
- ❖ Promotions or branding through *cause-related marketing* is considered fundraising and any expenses incurred are *fundraising expenses*.

## 2. Repeated Requests (Slide 18)

### Question 2: Did the activity include on-going or repeated requests, emotive requests, gift incentives, donor premiums, or other fundraising merchandise?

The following activities are generally considered fundraising:

- ❖ an activity including *repeated or ongoing solicitations*
- ❖ activities that use *emotional appeals* in the request
- ❖ *telethons* are usually considered fundraising as they appeal to emotion
- ❖ activities that provide *incentives, premiums, or merchandise* to donors or prospective donors regardless of how the items are treated on the receipts.

## 3. Target Audience (Slide 19)

### Question 3: Was the audience selected based on its ability to give?

The following conditions will make an activity a fundraising activity:

- ❖ the audience is selected based on its ability to give
- ❖ the medium chosen for the activity attracts an audience that has the ability to give and not the potential beneficiaries or the audience that would have an interest in the charity's programming activities

## 4. Compensation (Slide 20)

### Question 4: Was commission-based remuneration or compensation based on the number or amount of donations?

This part of the test is based on how your charity calculates compensation for people involved in the charity's activities.

If a person responsible for an activity is paid by commission or other compensation based on the amount or number of donations, the whole activity is considered fundraising.

If compensation is based on the amount of work done and not on the results, and the main objective is not fundraising, then the activity may not be considered wholly fundraising.

## *Exceptions (Slides 21&22)*

CRA recognizes that there are instances where an activity may serve multiple purposes. It may advance a charity's programs and as a means to raise funds for the charity. So the Guidance lists three exceptions to allocation of fundraising expenditures:

- ❖ An activity that raises revenues based on the charity's work with its beneficiaries such as the sale of goods from the operation of a sheltered workshop involving persons with disabilities.
- ❖ The charity mounts an event featuring its beneficiaries for treatment purposes or to foster their skills or well-being, such as a concert performance by autistic children or an endurance race to build the stamina of cancer survivors;
- ❖ The charity ties a fundraising event appeal to a political activity allowed under the *Income Tax Act* such as mounting a public awareness campaign about a policy issue.

**Note:** Political activity allowed under the *Income Tax Act* has to be non-partisan and using less than 10% of the charity's resources.

## *Summary (Slide 23)*

The four main questions in the Four Part Test are:

1. Was fundraising the main objective of the activity?
2. Did the activity include on-going or repeated requests, emotive requests, gift incentives, donor premiums, or other fundraising merchandise?
3. Was the audience selected based on its ability to give?
4. Was commission-based remuneration or compensation based on the number or amount of donations?

More information on the Four Part Test can be found at the CRA website at [www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-028-eng.html](http://www.cra-arc.gc.ca/tx/chrts/plcy/cps/cps-028-eng.html)

## *Notice (Slide 24)*

Information in this module is provided for general educational purposes and not as legal or accounting advice. Consult a lawyer or accountant for professional advice.

Information is accurate as of May, 2009.

For changes after this date, consult Canada Revenue Agency.