

# Allocation and Reporting of Expenditures for Fundraising Activities

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## Introduction

Hello and welcome to the second in Charity Central's series of podcasts on registered charities and fundraising. My name is Lesley Conley, I am the coordinator of Information Services with Charity Central.

The focus for today's podcast is on allocation and reporting of expenditures for activities with multiple purposes. We are pleased to have with us again, Peter Broder. Peter is Policy Analyst and General Counsel with The Muttart Foundation in Edmonton, Alberta.

Welcome Peter and thank you for joining us today.

**Peter:** Thank you Lesley. Glad to be here.

## **On July 11th 2009, CRA released their long awaited guidance on fundraising for registered charities. Can you give our audience a bit of context around CRA's guidance on fundraising?**

Certainly. Registered charities are subject to regulation both provincially and federally. A number of provinces regulate fundraising by charities with those seeking donations on their behalf. So charities need to be aware of any rules, such as the *Alberta Charitable Fundraising Act* imposed by the province or provinces in which they operate, as well as abiding by the federal requirements. CRA has introduced new guidance on fundraising to help registered charities understand their obligations under the *Income Tax Act*, and its expectations about how charities report their fundraising expenditures.

## What does the new guidance deal with?

The new guidance covers how CRA assesses a registered charity regulatory compliance and its fundraising activity and its expectations with respect to how a charity should report or allocate its fundraising cost. The new guidance covers how CRA assesses a registered charity's regulatory compliance in its fundraising activities and CRA's expectations with respect to how a charity should report and allocate its fundraising cost. Specifically, it deals with prohibiting fundraising activities, allocation of cost per activities undertaken by the charity that have multiple purposes, practices that the charity can follow to better manage compliance risks associated with its fundraising. And factors generally taken into account when CRA evaluates the resources devoted by charities to fundraising, relative to the resources it devotes to its charitable programming.

## Can you give us a bit of a history or background on the guidance?

Sure. Historically there was little direction for registered charities about how to allocate costs for an activity that advanced more than one purpose. So if a charity undertook a program activity with a fundraising component. For example, a church leaflet with information about service and a request for donations on it, or a mail out from a community health center with information about its services, that also included a fundraising appeal. The charity has a lot of discretion about how they recorded the expenditure. Either CRA guidance or accounting standards required much beyond charities being reasonable and consistent in how they treated such cost. The new fundraising guidance gives charities much more direction and numerous examples of what is appropriate in allocating and reporting these types of expenditures. But it is important to remember that the new guidance doesn't change the law, it just explains better how CRA interprets what is required.

## What benchmarks are provided in the guidance?

The guidance sets out a series of criteria to help determine appropriate cost allocation. Once how the costs of an activity are to be allocated is determined based on one of these criteria - the subsequent criteria typically don't need to be looked at. The criteria involve (A) assessing whether substantially all the resources used for activity related to a purpose other than fundraising, (B) applying a four-part test looking at whether the main objective of the activity was fundraising, and (C) determining whether an event or activity demonstrably advances an organization charitable purposes by promoting a change in behaviour or an action other than the making of a donation, such that notwithstanding its having been found to have fundraising traits under the four-part test, cost allocation between its fundraising and other purposes can be allowed.

### What exactly is the substantially all test?

The CRA considers that if more than 90% of the resources devoted to the activity advance the purpose other than fundraising, all the costs of the activity can be allocated to that purpose. If this test is met, it establishes how costs are allocated, you do not need to apply the other criteria to the activity.

### Can you give our listeners an example of this?

Sure, an executive director gives a 45 minute speech about his or her organization and during the last couple of minutes puts up a PowerPoint slide with information about how to donate to the group, the purpose is to inform the audience about the charity and promote its work and not to fundraise. Same thing if the charity has a single donation page on its 30 page website. The website is intended to share program information about the charity rather than to fundraise.

### What does the four-part test include?

If the activity is advancing a purpose other than fundraising based on the substantially all test than a four-part test looks at the traits of the activity to see if its main purpose is fundraising. This includes looking at what and how resources are devoted to the activity, the nature of the messages or actions including in the activity, the audience for the activity, and how people are compensated for organizing the activity. If its determined based on this test that the primary purpose is fundraising, then typically all the costs associated with the activity are allocated to fundraising.

### What criteria are used for looking at the resources a charity devotes to the activity?

The activity is assessed based on the quantity of resources associated with each purpose advanced by the activity, as well as the content of the activity. Often the form and context in activity will indicate its main purpose is fundraising. Examples of this are an infomercial, a charitable lottery, or a promotion of goods or services sold as benefiting the charity. In some cases the cost associated with particular purpose being furthered by the activity will be obvious.

### Can you give us an example?

Sure. If the charity's development department is responsible for 50% of the content of the news paper of a newspaper insert about the charity, then 50% of the printing costs of the insert and all the staffing costs contributed by the development department would be attributed to fundraising. In other cases such as an event, content will be more blended and the allocation is more of a judgment call. In those circumstances the charity needs to take into account any salary differentials, between fundraising staff and program staff, which should be recognized when doing the allocation.

### How are the nature of the messages or actions included in a fundraising activities assessed?

Repeated solicitations, emotive appeals and requests accompanied by incentives or premiums are generally considered fundraising.

### How does the audience for the activities factor in?

If the audience for the activity is selected based on the likelihood of support, this can result in the activity being considered fundraising. For example, if a group distributes a publication in a wealthy part of town, even though its beneficiaries are drawn primarily from a less affluent neighbourhood, the activity is treated as fundraising.

### The guidance raises the issue of how people are compensated for fundraising activities. How is this assessed?

If payment of commissions or other compensation for mounting the activity are tied to the amount or number of donations raised, then the whole activity is considered fundraising.

### If a charity looks at their activities, and based on the elements of the four-part test, its main purpose is fundraising. What do they do then?

Generally, if based on the four-part test, the activities primary purpose is fundraising, the charity has to allocate all the costs associated with the activity as fundraising expenditures. But there are some exceptions, so you need to see whether the activity falls within the criteria for an exception.

## What are those criteria?

In some circumstances an event or activity may serve multiple purposes, and still have a major fundraising component. Often activities are undertaken both to advance a charity's programs and as a means of raising funds for the charity. Examples of this might include: promoting an activity where revenues are raised based on the charity's work with its beneficiaries, such as the sale of goods from the operations of a sheltered workshop involving persons with disabilities, or perhaps mounting an event featuring beneficiaries to foster their skills or well-being. For example, a concert performance by autistic children, or an endurance race to build stamina of cancer survivors.

## Is promoting awareness of the charity considered to be advancing charitable programs?

The CRA does not consider merely promoting awareness of charity to be furthering its charitable purposes. However, they do generally allow charities to treat an event or activity, if it can be shown to prompt a change in behaviour or an action other than giving a donation or other financial support as partly a charitable expenditure. Even where it has a significant fundraising component, to be dealt with in this way however, the event or activity should reach a significant portion of the charity stakeholders other than its current or prospective donors, and clearly exhibit greater emphasis on helping beneficiaries than attaining financial support.

Thank you for speaking with us today Peter, on the new fundraising guidance. As usual it's very informative and hopefully we can have you back to continue this discussion.

**Peter:** Thank you for having me.

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