

# Obligations of a registered NPO in Canada & Quebec

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## 1. Legal obligations

- Incorporation:
  - No specific federal or provincial laws dictate the organizational form of NPOs or charities.
  - Common forms include non-share corporations, trusts, unincorporated organizations or associations, etc.
  - NPOs can be formal (incorporated) or informal (unincorporated).
  - Incorporation is recommended to facilitate the obtention of grants and funding or limit members' liability.
  - Incorporation process:
    - Made through an online platform
    - Costs 200\$
    - Takes 1 day <sup>1</sup>
  - Obligations of incorporated organizations:
    - Keep records
    - Fill annual returns
    - Keep an updated Company Registry
    - Annual General Meeting (AGM)
  
- Annual General Meetings: A mandatory yearly meeting to allow directors and members to make governance decisions based on current information and keep on supporting the organization's activities.
  - An AGM has to be called within 15 months of the previous AGM and no more than six months after the organization's last financial year-end. A location and a set of acceptable choices for the AGM must be stated in the by-laws.
  - The annual general meeting is an opportunity to:
    - vote for new directors and amend by-laws, if necessary;
    - approve financial statements and review financial documents;
    - discuss organizational matters and receive information about the board of directors' management;
    - review the past year's activities;
    - discuss future directions.
  - The process is governed by the Canada Business Corporations Act, the Canada Not-for-profit Corporations Act, and the Canada Cooperatives Act.
  - You can find an AGM checklist for NPOs at the following link.<sup>2</sup>

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<sup>1</sup> You can pay 100\$ extra to accelerate the process (300\$ for an incorporation in 4 hours)

<sup>2</sup> [Quebec Non-profits: The Annual General Meeting | Éducaloi \(educaloi.qc.ca\)](#)

- Income: No part of the NPO's income can be payable to or made available for the personal benefit of its members.
- Reporting: File annual reports and update the Registraire des Entreprises to maintain good standing.
- By-laws<sup>3</sup>: Documents that set out an organization's fundamental governing and operating rules, and regulations.
  - It should include at a minimum the following:
    - Governance structure: Set an organization's operational framework including policies, guidelines, systems and processes that allow effective decision-making. There are different types of governance structures: management team, policy board, patron governance, cooperative governance, and advisory.<sup>4</sup>
    - Director's term: Will the terms be staggered (directors are divided into groups with different mandate end-date, for more stability) or successive (all director terms end at the same time)? How long will they be?
    - Officers: Will they be elected or appointed? What are their functions and duties? How are they removed from office?
    - Meeting and voting procedures: Set a time and place for the AGM and other meetings, a quorum (the smallest number of people who must be present for a decision to be made), any unique requirements, etc.
    - Committees: Establish committee delegation guidelines, and state how committees are created and abolished and what's their role.
    - Conflicts of interest: State how the organization will manage conflicts of interest between the Non-Profit and a member of the Board.
    - Amendment: State how by-laws can be amended: by the Board, the members or with the approval of a third party?
    - Record-keeping arrangements.

## 2. Fiscal obligations

- Tax exemptions:
  - NPOs and qualified donees are exempt from most types of income taxation.
  - They may still be subject to property taxes and certain capital gains.
  - If an NPO has a profit motive, it loses its NPO status and tax exemptions.
- Tax requirements:
  - The Canada Customs and Revenues Agency cannot determine your status in advance, they have to review the objectives and the activities of your organization for that particular taxation year.
  - NPOs may need to register for GST/HST purposes.

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<sup>3</sup> [Not-for-profit corporation by-laws \(canada.ca\)](https://www2.gov.bc.ca/gov2/othergov2/not_for_profit/corporation_by_laws/corporation_by_laws.html)

<sup>4</sup><https://www.onboardmeetings.com/blog/nonprofit-governance-models/#:~:text=5%20Nonprofit%20Governance%20Models%201%201.%20Advisory%20Model,Model%20...%205%205.%20Management%20Team%20Model%20>

- NPOs and charities are subject to the GST regime but may qualify for exemptions.
- Registered charities and NPOs receiving at least 40% of funding from government sources can get a rebate of half the net GST paid.
- Annual tax returns:
  - File an annual income tax return and annual information return with Canada Customs, Revenue Quebec and Canada Revenue Agency, within 60 days following their anniversary.
  - NPOs must submit the T1044 form to the CRA if they meet certain criteria.
  - If an NPO fails to file an annual tax return, Corporations Canada has the power to dissolve the organization, which prevents the organization of activities legally. In the law, an organization can be dissolved after 1 year of non-filled annual returns, but Corporations Canada typically waits for 3 years of non-filled annual returns before dissolution.
  - Filing is done online and costs 12\$.
- Financial Statements: Prepare and maintain accurate financial statements and reports, including income, expenses, and balance sheets. These must be presented at the annual general meeting.

### 3. Administrative obligations

- Provision of founding documents:
  - Bylaws: documents outlining the governing rules of the internal management that should be revised approximately every two years.
  - Articles of incorporation: a public document, composed of several articles, that establishes the NPO as a legal entity. It must include the following articles:
    - Non-profit's name
    - Purpose of your organization
    - Structure of the organization
    - Duration of the organization (permanent or perpetual)
    - Principal location
    - Insurance clause
    - Limitation on corporate activities
    - Limitation of political activities (no lobbying, supporting political candidates, etc.)
    - Liability and indemnity (directors not personally liable to the organization)
    - Registered Agent's<sup>5</sup> name and contact information
    - Board of directors' name, titles, contact information and major guidelines (number of directors, roles, responsibilities, the election process, etc.)
    - Membership roles
    - Amendments
    - Dissolution clause
    - Incorporators' name and contact information

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<sup>5</sup> A registered agent is an individual or entity designated to receive legal and official documents on behalf of the organization.



- Annual reporting: Prepare and submit an annual updating report to the Registraire des Entreprises, including information on directors, financial statements, and a summary of activities.
- Codes of ethics: It is a set of guiding principles outlining the organization's mission and how board members and employees are expected to behave, particularly when faced with ethical dilemmas. Key elements should include solidarity, confidentiality of information obtained at Board meetings, conflicts of interest management, duty of care and diligence, directors' commitment (attendance, preparation, participation and behaviour at Board meetings) and an annual declaration of interests.
- Board member training: While training board members isn't an obligation, it is highly recommended as a non-profit's board is at the core of its sustainability. Essential skills for board members include decision-making skills, organizational skills, fundraising skills, marketing skills, and more.
- Insurance: Though not mandatory, insurance is strongly recommended for non-profits, offering vital protection to board members in the event of unforeseen incidents. Usually, two types of policies are available: loss coverage or lawsuit coverage.<sup>7</sup>

#### 4. Social obligations

- Purposes and activities that promote public good:
  - NPOs must serve the public benefit and cannot operate to make a profit.
  - Activities should revolve around social, charitable, educational, recreational or cultural objectives. If the NPO's activities drift away from its mission, it may lose its NPO status and advantages.
  - NPOs can engage in revenue-generating activities if profit is not the main purpose and it is used appropriately.
- Community engagement: an NPO should engage with the community it is rooted in and ensure its activities meet the needs and interests of the population it serves and other stakeholders.
- Transparency and accountability: transparency should remain a priority in operations and decision-making processes to allow stakeholders to hold the organization accountable for its actions. Make certain documents available to the public. Grant reporting. Annual reporting.
- Risk management: implementing measures to prevent the misuse of funds and ensuring the integrity of the organization's operations.

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<sup>7</sup> [Is It Necessary for Charities & Not-for-Profits to Carry Insurance and Liability Coverage? \(charitylawgroup.ca\)](http://charitylawgroup.ca)

## Additional links

Admin. (2024, 11 April). Sample Bylaws for Not-for-Profits and Charities in Canada. B.I.G. Charity Law Group.

<https://www.charitylawgroup.ca/charity-law-questions/sample-bylaws>

Canada, C. (2014, 29 June). Model by-laws – Not-for-profit corporations.

<https://ised-isde.canada.ca/site/corporations-canada/en/not-profit-corporations/model-laws-not-profit-corporations>

Canada, C. (2022a, July 21). Your reporting obligations under the Canada Not-for-profit Corporations Act (NFP Act).

<https://ised-isde.canada.ca/site/corporations-canada/en/not-profit-corporations/your-reporting-obligations-under-canada-not-profit-corporations-act-nfp-act>

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Hugg, M. (2023, 26 February). Nonprofit Board Training : The Ultimate Guide [ & # 038 ; resources]. Nonprofit.Courses.

<https://www.nonprofit.courses/blog/nonprofit-board-training-the-ultimate-guide-resources/>

Not-for-profit Organizations - a legal guide. (1992). Dans Public Legal Education And Information Service Of New Brunswick. Retrieved July 15, 2024, from

[https://www.legal-info-legale.nb.ca/en/publications/consumer\\_law\\_and\\_non\\_profit/non\\_profits/not\\_for\\_profit\\_organizations\\_legal\\_guide.pdf](https://www.legal-info-legale.nb.ca/en/publications/consumer_law_and_non_profit/non_profits/not_for_profit_organizations_legal_guide.pdf)

Online Filing Centre - Corporations Canada - Corporations - Innovation, Science and Economic Development Canada. (2024, 30 July).

<https://ised-isde.canada.ca/cc/lgcy/hm.html?lang=eng>

## Annex 1

- Key legislation:
  - **The Personal Information Protection and Electronic Documents Act**
    - Governs how private sector organizations collect, use, and disclose personal information during commercial activities.
    - NPOs engaging in commercial activities must comply with its requirements.
  - **Canada Not-for-profit Corporations Act**
    - Applies to organizations with activities in multiple Canadian provinces and is subject to the Canadian Parliament.
    - Imposes obligations more stringent than the Quebec law.
  - **The Cooperatives Act**
    - Defines a cooperative as a legal person grouping individuals or companies with common economic, social, or cultural needs.
    - Members must use the services offered by the cooperative.
  - **Part III of the Quebec Companies Act**
    - Covers "legal persons or associations without share capital, incorporated or continued by letters patent".
    - Generally used for incorporating associations in Quebec.
  - **The Recreation Clubs Act**
    - Applicable to ten or more persons domiciled in Canada wishing to form an association, circle, or club for recreational, instructional, tourism, musical, or automotive purposes and requires approval from the municipal council and registration with the Enterprise Registrar.
    - Subject to municipal sanction and the reporting and investigation obligations outlined in the Quebec Companies Act.
  - **Act to Modernize Legislative Provisions respecting the Protection of Personal Information, also known as Bill 64.**
    - Applies to individuals and entities who collect, use, or disclose personal information while conducting an enterprise, as defined by the Civil Code<sup>8</sup>.
  - **Law 25:**
    - Quebec's Law 25 requires all businesses, including non-profits, to justify their data collection, usage, and management practices for personal data.
    - Based on 4 pillars: the right of oblivion, transparency, the obligation to notify, and consent.

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<sup>8</sup> The Civil Code defines an enterprise as an organized economic activity carried out by one or more individuals, regardless of its commercial nature.