

# Obtaining a charity number: steps, documents and tips

## A. What is a charity and what's the difference with an NPO?

A charity is an organization set to help people in need for a specific cause. There are three types of registered charities:

- **Charitable organization:** must be established as a corporation, trust, or under a constitution, with solely charitable purposes. It should primarily conduct its charitable activities, have over 50% of its directors or trustees dealing at arm's length, and generally receive funding from a variety of independent donors.
- **Public foundation:** must be established as a corporation or trust with solely charitable purposes. It generally donates over 50% of its income to other registered charities, conducts some of its charitable activities, and has over 50% of its directors dealing at arm's length, and receives funding from diverse independent donors.
- **Private foundation:** must be established as a corporation or trust with solely charitable purposes. It conducts its charitable activities and/or funds other registered charities. At least 50% of its directors or trustees do not deal at arm's length, and/or over 50% of its funding comes from a person or group that controls the charity or makes up more than 50% of its directors or trustees.

What's the difference between a charity and an NPO?

- **Purpose:** Registered charities must use their resources for charitable activities and purposes, while NPOs are organized for social welfare, civic improvement, pleasure, recreation, or other non-profit purposes.
- **Tax Benefits:** Registered charities can issue official donation receipts and are exempt from paying income tax. NPOs are also tax-exempt but cannot issue donation receipts.
- **Registration:** Registered charities must apply and be approved by the Canada Revenue Agency (CRA). NPOs do not need to register with the CRA to operate.
- **Mutual Exclusivity:** An organization cannot be both a registered charity and an NPO. It can only meet one definition.

## B. Steps to obtain a charity number

### 1. Incorporate your organization:

Register your organization with the *Registraire des entreprises du Québec*, or you can request recognition as a charity made to the Canada Revenue Agency (CRA)

### 2. Ensure the eligibility of your organization to the official requirements:

An organization can be recognized as a registered charity if:

- It demonstrates that it provides a public benefit and requires clear evidence that the purposes (reason for existing) and activities (what you do to achieve these purposes) serve the public's good or a sufficient section of the public.
  - The charity must not be created for the advantage of private individuals;

- It must be constituted and operated exclusively for charitable purposes;
- It should be accessible to the public, without unreasonable restrictions;
- The benefits must be tangible and broadly accessible, without excessive limitations on who can access them.
- It clearly defines its purposes and activities aligning with the legal requirement for obtaining charitable status. These must be specific and charitable according to the Income Tax Act, and fall within one or more of the following categories:
  - Relief of poverty;
  - Advancement of education;
  - Advancement of religion;
  - Other purposes beneficial to the community.
- Its business activities are limited to those related to its charitable purposes.
- All the resources devoted to charitable activities are carried out by the organization or are allotted to qualifying disbursements;
- No part of its income is payable to or otherwise available for the personal benefit of any proprietor, member, director or trustee;
- It is not controlled directly or indirectly by a person who has contributed to the organization amounts that total more than 50% of the organization's capital, a person who is not at arm's length with someone who has contributed to more than 50% of the organization's capital;
- Factors preventing you from obtaining a charity number may include non-resident organizations (established outside of Canada), non-charitable purposes at law, personal benefits, private benevolence, etc.

### **3. Gather the required documents:**

Preparing the required documentation is a crucial step before submitting your application. The completeness of the documentation can significantly impact the review process. The government website provides an interactive tool for generating a document checklist to help with the application process. This checklist should include, but isn't strictly limited to:

- The completed application form;
- Governing documents: documents outlining how the organization will be managed and how it will operate, such as trust deeds, constitutions, by-laws, operating agreements, codes of ethics, etc;
- Incorporating documents: foundational documents required to legally create a corporation, such as articles of incorporation, etc;
- A detailed description of each purpose and activity - provides as much information to describe how each activity is carried out:
  - What you want to achieve, how you are doing it, who are the beneficiaries, fees, frequency and length of the activities, employees or volunteers, logistics, start date and location of the activity, details of intermediaries and other partnerships, anticipated expenses, purposes the activity supports, etc;
- Documentation related to charitable activities;
- Certificate of good standing or equivalent - required if the organization has been incorporated for more than 5 years or if the organization is re-registering as a charity;

- Minutes of meetings, newspaper articles, fundraising materials, business plans, or any other documents or media that will allow the Charities Directorate to determine if your activities are charitable;
- Recent financial statements - minimum of 2 years (balance sheet, income statement, accounting policies, source of revenues, etc.). If your income is superior to \$250,000, it is recommended to professionally audit your financial statements; otherwise, the treasurer should sign them. These statements should also prove that your purpose has remained charitable;
- Receipts;
- Information on the charity's official: Board of Directors names and addresses, date of birth, etc.

**4. Complete the application for registration:** Complete an online form through *My Business Account*. Here are some sections that may be included in the form:<sup>1</sup>

- Identification of the organization applying for registration:
  - Current legal and operating/trade name of the organization;
  - List of previous names;
  - Business number;
  - Previous contact with CRA, if yes, provide a reference number.
- Organizational structure:
  - Is the organization formed to give more than 50% of its income to qualified donees (other charities, etc.)?
  - Has the organization received or will it receive more than 50% of its capital from a person or group who aren't at arm's length with each other?
  - Are the organization's officials at arm's length with other officials (related by blood, marriage, business or employer/employee relationships)? Identify these relationships.
- Activities of the organization:
  - Description of the charitable purposes and activities (current and future):
    - Clearly describe in detail each charitable activity you will undertake to achieve each charitable purpose and show how it provides a public benefit;
    - Don't include fundraising and business-related activities in this section.
  - Fundraising methods (internal process, outsourced, etc.);
  - Revenues generated from activities;
  - Financial transactions with the organization's officials.
- Financial information:
  - Revenues (gifts, government grants, fundraising activities and others, etc.);
  - Expenditures for each activity (charitable activities, fundraising activities, management, etc.);

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<sup>1</sup> The following information is from the T2050 application form that no longer in force, but it remains a useful reference when preparing your charity status application.

- Assets and liabilities;
  - Information about the organization's officials (Full name, position in the charity, date of birth, occupation, address);
  - Confidential information (location of the organization, physical location of books and records, contact person).
5. **Apply:** Apply through the online platform *My Business Account*. The processing time for the application for a charity number (or RR number) by the Canada Revenue Agency is 8 to 12 months.

### C. Additional tips

- Common mistakes to avoid:
  - missing information about the Board of Directors and other officials (birth date, address, telephone number, etc.);
  - insufficient description of activities in the Purposes and Activities section of the Application for Registration;
  - missing required governing documents;
  - missing application pages;
  - missing signatures and dates on documents;
  - missing budget information;
  - missing required documents.
- To avoid delays, the use of *My Business Account* for the application submission is recommended. This will ensure you include all information and documents needed to process your application.
- Your financial records should be kept at an on-record Canadian address. Since storing information (including digital information) at a foreign address is illegal when considering a software platform, make sure it operates within the Canadian territory.
- Avoid broad and vague language and make sure your purposes reflect your activities.

### D. References

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