



Canada Revenue
Agency

Agence du revenu
du Canada

Completing the Tax Return Where Registration of a Charity is Revoked

Change of name

In this publication, we use the name “Canada Revenue Agency” and the acronym “CRA” to represent the Canada Customs and Revenue Agency. This reflects recent changes in the structure of the Agency.

Visually impaired persons can get our publications in braille, large print, or etext (computer diskette), or on audiocassette by visiting our Web site at **www.cra.gc.ca/alternate** or by calling **1-800-267-1267** weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

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Canada Revenue Agency's Service Pledge

As a client, you can expect reliable, responsive, fair service in the official language of your choice. We will provide this service to you, explain our decisions and actions, and seek your suggestions on ways to improve our services.

Charities Directorate

Our mission

Our mission is to promote compliance with the income tax legislation and regulations relating to charities through education, quality service, and responsible enforcement, thereby contributing to the integrity of the charitable sector and the social well-being of Canadians.

Our Vision

The Charities Directorate will be recognized and respected by charities, stakeholders, and the Canadian public for its integrity, fairness, knowledge, and innovative service delivery resulting in client-oriented service and compliance.

Need More Information?

Please contact the Charities Directorate if you need more information on a particular topic.

You can reach the Charities Directorate by calling:

- (613) 954-0410 for local Ottawa calls (English)
- (613) 954-6215 for local Ottawa calls (bilingual)
- 1-800-267-2384 for toll-free, long-distance calls (English)
- 1-888-892-5667 for toll-free, long-distance calls (bilingual)
- 1-800-665-0354 for toll-free TTY service for persons with a hearing or speech impairment

To send us a fax related to the return you are completing, please use the following number:

(613) 941-0186

Internet access

You can find the list of registered charities and many of our publications including fact sheets, Q's and A's and summary policies at www.cra.gc.ca/charities.

The Web site also has a list of newly registered charities as well as a list of charities that have recently been revoked.

Your Opinion Counts!

This guide is a new publication. If you have any comments or suggestions that would help us improve our services, we want to hear from you. Please send your comments to:

Charities Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

This guide incorporates the changes to the *Income Tax Act* that came into effect on June 13, 2005.

What is the Revocation Tax?

Under the *Income Tax Act*, a charity becomes liable to pay the revocation tax when it voluntarily gives up its registration, or when the Canada Revenue Agency (CRA) revokes its registration. The purpose of this tax is to ensure that charitable property is applied to charitable use. In essence, it requires a revoked charity to spend its money on its charitable programs or to donate it to an eligible donee. If the revoked charity does this, the tax may be zero. To the extent that it fails to do this, the tax is set at the amount that remains once outstanding debts have been paid. Persons connected with the charity can also be liable for the tax under certain circumstances.

Different types of revocations

Voluntary revocation – The charity asks the CRA to end its registration. This typically happens when the charity is closing down or combining forces with another charity.

Non-filing revocations – The CRA takes away the charity's registration because it did not file its annual information return (Form T3010) on time.

Revocations for cause – The CRA takes away the charity's registration because the charity ceases to comply with the provisions of the *Income Tax Act*. The Charities Directorate works with charities to help them meet the requirements, but if the non-compliance does not stop or is inconsistent with charity status, we will revoke the registration of a charity. There are very few revocations for cause that occur each year.

Note

Call one of the numbers listed on this page if you are not sure which type of revocation you are dealing with. It is important that you understand the revocation process and options available.

The process of a voluntary revocation

The charity has to send us a letter (to the address or fax number on page 4) that asks us to revoke the charity's registration. The letter must be signed by one of its directors/trustees or by another person authorized to sign on behalf of the charity.

We will acknowledge in writing that we have received the charity's letter and confirm that the process of voluntary revocation has started.

About two weeks before the actual date of revocation, we will send the charity Form T2051A, *Notice of Intention to Revoke a Charity's Registration*, by registered mail. It will state the date on which the charity's registration will be officially revoked. Also included will be Form T2046, *Tax Return Where Registration of a Charity is Revoked* that the charity must complete and return to us no later than one year after the date of Form T2051A.

If we do not receive the completed Form T2046 three months before it is due, we will send the revoked charity a reminder (Form T1114, *Reminder to file Form T2046*).

The charity's registration is officially revoked when a notice is published in the *Canada Gazette*.

The process of a non-filing revocation

A charity has to file its annual information return (Form T3010) no later than six months after the end of its fiscal period. For example, a charity that ends its fiscal period on December 31 must file the return by June 30. At any time after that, the CRA can revoke the charity's registration for failing to file its return. However, we will generally give charities a chance to avoid revocation.

If we do not receive the annual return within five months after the end of the charity's fiscal period, we will send a computer-generated reminder (Form TX11D, *Reminder to Registered Charities to File Return*).

If we still do not receive the return within seven months after the end of the fiscal period, we will send Form T2051A, *Notice of Intention to Revoke a Charity's Registration* by registered mail. The date of this form is important:

The charity has 90 days from the date that the Form T2051A was issued to file an objection if it believes that it has met the filing requirements and that its registration should not be revoked. See "Filing an Objection" on page 6.

In the interest of public disclosure and to encourage registered charities to file in a timely manner, the names of late filers will be published on the CRA Web site. Once a charity has filed the required information return, its name will be removed from the list. If a charity which is identified as a late filer does not subsequently file its information return, its registration will be revoked.

During the eighth month after the end of the fiscal period, we may try to contact representatives of the charity by telephone to remind them again to file the annual return.

In the tenth month after the end of the fiscal period, we will begin revocation proceedings. We will send the charity Form T2051B, *Notice of Revocation of Charity's Registration* that sets the effective date of revocation and includes Form T2046 with certain key information already filled in.

The revoked charity has to complete and send us Form T2046, *Tax Return Where Registration of a Charity is Revoked* no later than one year from the date of the Notice of Intention to Revoke a Charity's Registration. (See "Revocation Period" on page 6 for some exceptions.)

If we do not receive the completed Form T2046 three months before it is due, we will send the revoked charity a reminder (Form T1114, *Reminder to file Form T2046*).

The charity's registration is officially revoked when a notice is published in the *Canada Gazette*.

The process of a revocation for cause

The charity is sent a letter by registered mail explaining the reasons why we intend to revoke its registration and what its objection and appeal rights are. This letter serves as a Notice of Intention to Revoke a Charity's Registration. See "Filing an Objection" on page 6.

If there is no objection or appeal, or at the end of an unsuccessful objection and appeal, the charity's registration is officially revoked when a notice is published in the *Canada Gazette*.

We will notify the charity once the registration is revoked and send a copy of Form T2046 with certain key information already filled in. The Form T2046 has to be completed and returned one year from the date of the Notice of Intention to Revoke a Charity's Registration. (See "Revocation Period" on page 6 for some exceptions.)

If we do not receive the completed Form T2046 three months before it is due, we will send the revoked charity a reminder (Form T1114, *Reminder to file Form T2046*).

When is the revocation tax payable?

The *Income Tax Act* requires charities to calculate on Form T2046 the amount of revocation tax that they owe, and to pay the amount when they send us the Form T2046. This return is due no later than one year from the date of the Notice of Intention to Revoke a Charity's Registration. (See "Revocation Period" on page 6 for some exceptions.)

After the Form T2046 is filed – Notice of Assessment

We will send a written confirmation when we have received Form T2046. If necessary, we will contact the revoked charity to resolve questions or to get missing information. The return is then sent to the Tax Services Office for processing.

The Tax Services Office will send the revoked charity a Notice of Assessment. It will also be responsible for collecting any outstanding tax. If the amount of tax assessed is more than \$1,000, the charity can reduce its liability by taking into account qualifying expenditures it made after filing the return. However, these expenditures have to be made in the year following the Notice of Intention to Revoke a Charity's Registration.

Any time within three years of the date of the Notice of Assessment, we may reassess the Form T2046 and send out a Notice of Re-assessment. We can reassess a return if:

- the charity brings to our attention new information or an error in the return or an error in our assessment of the return; or
- we find an error in the return as a result of a review or audit of the revoked charity or of related organizations or persons.

What happens if the Form T2046 is not filed?

First, we will send the revoked charity a registered letter calling for the return to be filed within the next 30 days.

If the return is still not filed, we will complete Form T2046 for the revoked charity using the most recent information we have on the charity. We will then send the file to the Tax Services Office closest to the revoked charity, which will issue a Notice of Assessment based on this information.

In cases of abuse

Once we notify a charity that its registration will be revoked and we become aware that the charity's property is being diverted or directed to private benefit, we can issue a Notice of Assessment based on the available information. The charity would still have one year from the date of this notice to satisfy the tax liability.

Key Points:

- Do not delay. The clock is ticking.
- The various notices you receive contain important information.
- Call one of the numbers listed on page 4 if you need help.

Revocation period

The revocation period starts the day after we issue the Notice of Intention to Revoke a Charity's Registration (Day 1) and ends one year later. During this period, the charity has to:

- file Form T2046 and pay any revocation tax; or
- apply for re-registration.

The revocation period can be shorter, if the charity files Form T2046 and pays the tax before the due date.

In a few cases, the period can be longer. This occurs notably if there has been an objection to the assessment that the CRA issues. Only after all rights of appeal have been exercised or have expired does the revocation period end.

As a fairness measure, if a charity files an objection to the Notice of Intention to Revoke a Charity's Registration, generally the CRA will extend the revocation period to three months after all rights of appeal against the proposed revocation have been exercised or have expired.

Note

If you think you will have difficulty filing the charity's Form T2046 within the revocation period, call one of the numbers listed on page 4.

Filing an objection

Filing an objection is the first step in the formal process of resolving a dispute. You can file a Notice of Objection to the Minister by writing to the Assistant Commissioner, Appeals Branch, 25 Nicholas Street, Ottawa ON K1A 0L5.

Under the *Income Tax Act*, a charity has 90 days from the date of a Notice of Assessment, Notice of Re-assessment or Notice of Intention to Revoke a Charity's Registration to file a written objection. This written objection has to explain the reasons for the objection and all relevant facts.

Applying to Re-register

What should a charity know about re-registration?

A revoked charity does not have to pay the revocation tax if:

- it applies for re-registration within one year from the date it was sent the Notice of Intention to Revoke a Charity's Registration;
- it has paid all taxes, penalties and interest for which it is liable under the *Income Tax Act* or the *Excise Tax Act*;
- it has filed all its annual information returns (T3010) and financial statements for the years before and after revocation; **and**
- the CRA has agreed to re-register the charity.

This option is **not** available after the one-year period is up.

Any application for re-registration is treated in the same way as a new, first-time application. A charity seeking to re-register must complete Form T2050, *Application to Register a Charity Under the Income Tax Act*, and provide the requested documentation, information, and signatures.

Statute law, common law, and administrative policies concerning charities change over time. As a result, a charity that qualified for registration several years ago may not qualify today, or it may have to change its objects and activities.

The new \$500 penalty for failure to file

A charity that loses its registration because it did not file its return and then applies for re-registration is subject to a non-refundable \$500 penalty. The payment must accompany the application for re-registration. Otherwise, the application will be considered incomplete and returned to the applicant.

Need more information on re-registration?

For more information on the re-registration process, see guide T4063, *Registering a Charity for Income Tax Purposes*.

Completing Form T2046

General notes on completing the return

Many of the terms used on the return have a special meaning. Refer to the Glossary in this guide.

Enter all requested information on the return itself.

Report all dollar amounts in Canadian funds in the spaces provided. Do not enter more than one amount in a space. Round all amounts to the nearest **single dollar**; do not show cents (for example, you should report \$125,754, not \$125,753.53).

A director/trustee or like official must sign and date the certification area on page 2 of the return.

Send the completed return and all the required attachments to the Charities Directorate, Canada Revenue Agency, Ottawa ON K1A 0L5. Keep a copy for the charity's records.

Identification

The Charities Directorate completes this section before mailing out the return. Verify the charity's name and its Business Number (BN)/registration number. Make any necessary corrections on the return.

Location of books and records

Indicate the name and address of the person who has possession of the charity's books and records.

A charity has to keep its books and records for a minimum of two years after the date its registration is revoked.

Contact information

Identify the person who can provide more information about the revoked charity and the filing of this tax return.

Lines 50 and 51

The Charities Directorate completes these lines before mailing the return to you. If you are working with a copy of the return that does not contain this information, call one of the numbers listed on page 4.

Line 50 specifies Day 1 for the purposes of calculating the charity's revocation tax. Day 1 is the day the CRA issued the Notice of Intention to Revoke a Charity's Registration.

Line 51 states when the return is due. This is generally one year after Day 1 (see "Revocation Period" on page 6 for exceptions.)

Essential information required

Answer all the questions in this section. If you answer "Yes" to any of the five questions, go to the appropriate schedule and complete the information required.

Did the charity:

Line 81 – Own any property (including cash and receivables) on Day 1?

If the charity owned any property on Day 1 (including cash, loans, mortgages, accounts receivable, equipment, vehicles, land, or buildings) check the "Yes" box and complete Schedule 1.

Line 82 – Receive any income or gifts, or make any expenditures after Day 1?

After Day 1, did the charity receive any income (including gifts, government grants, interest, capital gains, rental income, fundraising, sales of goods and services, membership dues, etc.) or make any expenditures? If so, check the "Yes" box and complete Schedule 2.

Line 83 – Make any appropriations in the 120 days up to Day 1?

"Appropriations" has a special meaning. Please see the Glossary.

During the 120-day period ending on Day 1, if any property was transferred to a person or organization, and that person or organization benefited from the transfer at the charity's expense (*i.e.*, an appropriation), indicate "Yes" and complete Schedule 3.

Line 84 – Have outstanding debts on Day 1?

If the charity had any debts or liabilities as of Day 1, check the "Yes" box and complete Schedule 4.

Line 85 – Transfer any property to eligible donees after Day 1?

"Eligible donee" has a special meaning. Please see the Glossary.

If the charity transferred property to eligible donees, check the "Yes" box and complete Schedule 5.

Summary of calculations

You first need to complete the applicable schedules. They will tell you what amounts to enter on lines 100, 200, 300, 400, and 500 in the Summary of Calculations.

Line 101 – Gross revocation tax

Add lines 100, 200, and 300. Enter the total on line 101.

Line 102 – Allowable deductions

Add lines 400 and 500. Enter the total on line 102.

Line 103 – Revocation tax

Subtract line 102 from line 101. Enter the result on line 103. This is the amount of revocation tax that the charity should pay.

If the result is negative enter “0”.

Certification

This return must be signed by a director/trustee or like official who is authorized to sign on behalf of the revoked charity. The person signing this return should check all the information provided to make sure it is correct, complete, and current.

Certification applies to all components of the revoked charity’s return including:

- the completed Form T2046;
- all its schedules and any attachments; and
- the revoked charity’s financial statements.

Before mailing the return

Before mailing the return, make sure you have:

- completed the return, including all schedules that apply;
- attached a copy of the revoked charity’s financial statements; and
- included a cheque or money order, if required, payable to the Receiver General. Indicate on the cheque or money order the name and BN/registration number of the revoked charity.

Mail the return to:

Charities Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

Section A

Schedules 1 and 2 ask for financial information about the charity. The questions are much the same as those that appear on the charity annual information return (Form T3010).

Schedule 1 – Property

Schedule 1 asks for the fair market value of all property owned by the revoked charity on Day 1.

Property includes cash, receivables, investments, capital property, intellectual property, and any other property owned by the charity.

If the total dollar amount of property owned by the revoked charity on Day 1 differs from the total dollar amount of the assets reported on the most current annual information return (Form T3010), **you may be required** to submit financial statements supporting the change in total property.

Transfer the amount from line 116 to line 100 in the Summary of calculations.

Schedule 2 – Income and expenditures

Income

List all income received by the revoked charity after Day 1.

Line 211 – Gifts from all sources

Enter the total amount of all gifts received by the charity after Day 1. Include the gross amount received. Do not include pledged amounts.

Line 212 – Income from governments

Enter the total amount received by the charity after Day 1 from government grants, contributions, and contracts for goods and services provided to, or on behalf of, a government. Include amounts received from any government body, whether federal, provincial, regional or municipal.

Line 213 – Interest and investment income

Enter the total interest and other investment income the charity received after Day 1 (for example, dividends and interest from bank accounts, mortgages, bonds, and loans).

Line 214 – Gains/losses from the disposition of property

Note

Please read the following instructions closely. They set out a different procedure from what you use in calculating capital gains and losses on your personal income tax return and from what was used in the charity’s annual information return (Form T3010). The differences are intended to help the charity by preventing the same property being counted twice when calculating the revocation tax.

Enter the total of gains or losses the charity realized in the disposition of property after Day 1.

A disposition is usually a sale but the word covers all ways of disposing of property, including giving it away. The proceeds of disposition are the amounts the charity obtained for its property.

Do **not** include on this line amounts related to any property reported in Schedule 5 as having been given to an eligible donee.

Calculate gains (or losses) as follows. For each property disposed of, compare the fair market value of the property on Day 1 with the proceeds of disposition, less any costs

related to the disposition of property. Such costs could include fixing up a property before putting it up for sale or fees charged by surveyors, realtors, and lawyers.

Example

Fair market value of property on Day 1	\$5,000
Proceeds of disposition	\$7,500
Costs of disposing of the property	\$1,000
Net proceeds of disposition (\$7,500 – \$1,000)	\$6,500
Gain to report on line 214 (\$6,500 – \$5,000)	\$1,500

If the charity disposed of more than one property after Day 1, add together the gain or loss on each property and enter the net result on line 214.

Put brackets around the figure on line 214 if it represents a net loss.

Line 215 – Rental income (land and buildings)

Enter the charity's gross income from renting its land and buildings received after Day 1. Add all such rents, even those derived from property it used in carrying out its charitable programs. For example, include rents from a seniors' home the charity operated. Also include any rent derived from leasing out surplus space, such as a church parking lot during the week or a university residence during the summer.

Report any income the charity earned from leasing equipment or other resources on line 219, "Other income."

Line 216 – Memberships, dues, and association fees

Enter the total income received after Day 1 from memberships, dues and association fees that entitle a member to some privilege or service – that is, those that are not gifts.

Line 217 – Income from fundraising (not previously reported)

Enter the gross amount the charity received after Day 1 from activities, events, or campaigns it conducted occasionally to raise funds (for example, an auction, mail campaign, concert, or golf tournament). If the charity has a contract with an external fundraiser, include the gross amounts received directly by the fundraiser for the fundraising activities it conducted on behalf of the charity.

Line 218 – Income from the sale of goods and services (not previously reported)

Enter the gross income the charity received after Day 1 from selling goods and services to individuals or organizations. This includes income received from providing goods and services as part of the charity's programs, such as tuition fees or museum admission charges. It also includes the gross income from related businesses, such as a church bookstore or hospital gift shop.

Line 219 – Other income

Enter any other gross income received after Day 1 that you have not already recorded on lines 211 to 218. Briefly explain the nature of the income.

Line 220 – Total income

Add lines 211 to 219 and enter the total on line 220.

Expenditures

List all the revoked charity's expenses that were paid after Day 1.

Where an item is used both personally and by the charity (for example, a car that is partly for the charity's use and partly for personal use), report only the expenses for the charity's use.

Line 251 – Advertising and promotion

Enter any expenses paid after Day 1 for advertising and promotion. This includes amounts spent to draw attention to the charity and its programs, including advertising and promotion costs related to fundraising.

Line 252 – Interest and bank charges

Enter the total amount paid after Day 1 in interest and bank charges.

Line 253 – Licenses, memberships, and dues

Enter any amounts paid after Day 1 for licenses, memberships, and dues.

Line 254 – Travel and vehicle

Enter the total amount paid after Day 1 for travel and vehicle expenses. Include travel and accommodation costs, and expenses related to vehicles such as gas, repairs, upkeep, and lease payments.

Line 255 – Office supplies and expenses

Enter the total amount paid after Day 1 for office supplies and expenses. This includes, for example, postage, minor equipment purchases, meeting expenses (not including accommodation), and the cost of preparing and distributing reports.

Line 256 – Occupancy costs

Enter the total amount paid after Day 1 on occupancy costs such as rent, mortgage payments, building maintenance, insurance, utilities, taxes, and all other costs related to maintaining the premises used by the charity. Report expenditures related to investments on line 261.

Line 257 – Professional and consulting fees

Enter the total amount paid after Day 1 for professional and consulting services (for example, for legal, accounting, and fundraising services).

Line 258 – Education and training for staff and volunteers

Enter the total amount paid after Day 1 for education and training for staff and volunteers. This includes the cost of seminars, conferences, and courses.

Line 259 – Salaries, wages, benefits, and honoraria

Enter the total amount paid after Day 1 for all compensation of full-time and part-time employees. Compensation includes salaries, wages, commissions, bonuses, fees, honoraria, and the value of benefits.

Line 260 – Expenditures on charitable activities (not previously included)

Enter the total of any amounts, not previously reported, that the charity paid after Day 1 to deliver its charitable programs, such as payments for scholarships.

Line 261 – Other expenditures

Enter the total amount of any other expenses paid by the charity after Day 1 and briefly explain their nature.

Line 270 – Total expenditures

Add lines 251 to 261 and enter the total on line 270.

Line 280 – Net income

Subtract line 270 from line 220 and enter the result on line 280.

Transfer the amount from line 280 to line 200 in the Summary of calculations.

Line 290 – Total expenditures on charitable activities

Enter the part of the amount on line 270 that represents what the charity used to conduct its own charitable activities. This would include the amount reported on line 260, plus the parts of the occupancy, salary, and other reported expenditures that are directly related to carrying out a charitable activity. Do not include amounts attributable to general administration, fundraising, related businesses, or political activities.

Schedule 3 – Appropriations

See the definition of an “appropriation” in the Glossary. Basically, an appropriation involves cases where a charity transfers property to someone else, and the recipient obtains an unwarranted benefit as a result of the transaction.

The appropriations that need to be listed are those that took place before the charity received the Notice of Intention to Revoke a Charity’s Registration, specifically those that occurred in the 120-day period ending on Day 1. (The formula for calculating the revocation tax takes care of appropriations occurring after Day 1 by using the fair

market value of the charity’s property as of Day 1 and then not allowing any deduction for appropriations after that date).

On Schedule 3, list all transactions that occurred in the 120-day period ending on Day 1 and that meet the definition of an appropriation in the glossary. Include a short description of the property that was transferred, the date of the transfer, the name and full address of the individual or organization that received the property, and the **amount of the appropriation**.

The amount of an appropriation is the fair market value of the property less anything given to the charity for the property. For example, if the fair market value of a property is \$1,000 and someone gives the charity \$200 for it, the amount of the appropriation is \$800.

If you need more space to record appropriations, attach a separate sheet.

Add the amount of each appropriation, and enter the total on line 302.

Transfer the amount from line 302 to line 300 in the Summary of calculations.

Section B

Schedule 4 – Outstanding debts

A revoked charity can reduce its revocation tax by the extent of its debts as of Day 1.

List all the charity’s debts that were outstanding as of Day 1. For each debt, provide the name and address of the creditor, and the amount of the debt. Debts include loans, mortgages, and unpaid bills.

If you need more space to record the debts that were outstanding as of Day 1, please attach a separate sheet.

Add the amount of each debt and enter the total on line 402. Transfer the amount from line 402 to line 400 in the Summary of calculations.

Schedule 5 – Transfer of property to an eligible donee

A revoked charity can reduce its revocation tax by transferring amounts to an **eligible donee** in the year following Day 1.

An eligible donee is a registered charity in good standing. The *Income Tax Act* sets out the applicable standards:

- it must be registered as a charity with the CRA;
- more than half its directors/trustees must be at arm’s length with each of the directors/trustees of the revoked charity;
- it must have filed all its annual information returns (Form T3010) with the CRA;
- it must not be subject to a suspension of its tax-receipting privileges;

- it must not have unpaid liabilities under the *Income Tax Act* or the *Excise Tax Act*; and
- it must not be the subject of a certificate under the *Charities Registration (Security Information) Act*.

Only amounts transferred to a charity that is an eligible donee at the time of the transfer can be used to reduce the revocation tax.

Note

In distributing its property, a charity must also keep in mind what its governing documents allow it to do. Check for clauses that say what types of groups the charity can support either during its life or when it dissolves.

If the governing documents are silent on these subjects, then general charity law indicates that a group with purposes similar to those of the charity should be selected.

Some governing documents contain detailed provisions. For example, they may name a particular entity to which the property is to be transferred when the charity dissolves. Such restrictions may make it difficult for the charity to find a group that matches the provisions of both its governing documents and the definition of an eligible donee in the *Income Tax Act*. If this is the case, call one of the numbers listed on page 4.

The revoked charity probably would not be familiar enough with the internal affairs of the charity to which it proposes to transfer property to be able to certify that the charity is an eligible donee. For this reason, the recipient charity is asked to certify its own eligibility.

Before making any transfer, the revoked charity should ask the charity it is proposing to benefit whether it qualifies as an eligible donee. The revoked charity can show the charity a blank Schedule 5 (the criteria are listed on the schedule), and then when the property is transferred, the recipient can certify that it meets the *Income Tax Act* definition of an eligible donee.

The certification area of Schedule 5 must be signed and dated by an authorized representative of the eligible donee. Include a telephone number where we can contact the representative if we need more information.

If property is transferred to more than one eligible donee, complete a separate Schedule 5 for each donee. This guide includes an additional copy of Schedule 5, which you can photocopy if you need more copies.

For each property transfer, provide a short description of the property, the date it was transferred to the eligible donee, and the eligible amount of the transfer (that is, the fair market value of the property less anything given to the charity for the property.)

Add the eligible amount of each transfer and record the total on line 502.

If only one eligible donee is involved, transfer the amount from line 502 to line 500 in the Summary of calculations. If more than one eligible donee is involved, first add the amounts recorded on line 502 of each Schedule 5, and transfer this combined total to line 500 of the Summary of calculations.

How to Amend the Return

If you want to make changes to the return after you have sent it to us, call one of the numbers listed on page 4.

Frequently Asked Questions

- Q. Why are we required to complete this return?
- A. The *Income Tax Act* requires every charity whose registration has been revoked to complete and send us Form T2046, *Tax Return Where Registration of a Charity is Revoked*. We use the information on this return to ensure that charitable assets are used appropriately.
- Q. Can we transfer property to a non-profit organization?
- A. No. Even after its registration is revoked, a charity would still be subject to the common law, which would not allow such a transfer. Under the *Income Tax Act*, a transfer to a non-profit organization cannot be used to reduce the amount of revocation tax owing. Only transfers to eligible donees will reduce the tax. Among other requirements, eligible donees have to be registered charities.
- Q. What will happen to the charity's remaining property if we do not transfer them to an eligible donee?
- A. The revocation tax, which is set at the value of the remaining property after allowable deductions and transfers, has to be paid to the Receiver General. If the tax is not paid, the property could be seized and sold, with the proceeds being used to pay the tax.
- Q. The guide says we should submit financial statements bridging the period between that covered by the charity's last annual information return (Form T3010) and Day 1. However, we stopped operating after the last Form T3010 was filed, have no property, and did not earn any income or have any expenditure. Do we still have to provide financial statements for a period when we were not operating?
- A. The purpose of providing financial statements for this bridge period is to account for any discrepancies between the asset and liability amounts listed on Form T3010 and the property and liabilities listed on Form T2046. If these amounts are the same, financial statements are not required.

Q. We made an error on a previously submitted Form T2046 and want to send a corrected version. What should we do?

A. Call one of the numbers listed on page 4.

Q. We represent three registered charities, and the plan is for the charities to join together into one body. Will we have to complete Form T2046?

A. There are various ways for charities to join together, depending on whether they are corporations and under which statute they received their corporate status.

In some cases, one or more of the charities go out of existence and an entirely new body is created. The charities have to follow the voluntary revocation process. However, in place of a completed Form T2046, we will accept a letter stating that the property has been transferred to the new charity.

In other cases, the legal existence of the original entities survives the process of joining together. There is no need to have a voluntary revocation and so no need for a Form T2046.

See "Amalgamation," "Merger", and "Consolidation" in the Glossary.

For more information, call one of the numbers listed on page 4.

Q. Our charity was revoked for not filing its annual information return. How do we get the charity registered again?

A. The charity will have to:

- pay a \$500 penalty;
- complete an application for registration (Form T2050),
- submit any missing annual information returns, and
- pay all taxes, penalties and interest for which it is liable under the *Income Tax Act* or the *Excise Tax Act*.

For more information, see "Applying to Re-register" on page 6.

Q. Is the \$500 penalty refundable if the Charities Directorate does not re-register our charity?

A. No, the \$500 penalty is not refundable.

However, fairness provisions allow for penalties to be waived in extraordinary cases, such as serious illness or natural disaster. For more on this topic, see Information Circular 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*.

Q. If the charity is revoked for failure to file a second time, will the penalty increase?

A. No, the charity would have to pay another \$500 penalty before it can be re-registered, but the amount would not increase.

Q. The former directors of the charity asked for a voluntary revocation. Will we have to pay the \$500 penalty if we decide to apply for re-registration?

A. No. The penalty only applies to charities that lose their registration because they did not file their annual information returns.

Q. How do I know if an organization is a registered charity?

A. The CRA Web site provides a listing of all registered charities at www.cra.gc.ca/tax/charities/online_listings/charity_listings-e.html.

Glossary

Amalgamation

This is the term the Charities Directorate uses to describe the situation when charities join together into a single entity, using a process that does not extinguish the legal existence of any of the original charities.

Appropriation

An “appropriation” can occur when a charity transfers property and sustains a loss as a result. This specialized term is only used in connection with transfers that take place on or after the day that is 120 days before Day 1. The appropriation is the amount by which the recipient benefits from the transfer at the charity’s expense. For example:

- Charity A creates an appropriation of \$90 if it sells property that is worth \$100 for \$10. If it simply gives the property away, the amount of the appropriation is \$100.
- Charity B is winding up its affairs and decides to spend its remaining funds on a vacation for its three directors. The vacation is not justifiable as a proper use of charitable resources. Each director receives an appropriation equal to the amount the charity paid for his or her vacation.

Those receiving an appropriation from a charity may also be liable to pay the revocation tax up to the amount of the appropriation. In other words, if a charity cannot pay the tax because it has given away its property, then those who improperly benefited from the transfer become liable.

An appropriation does *not* occur:

- when a charity makes a gift to a qualified donee on or before Day 1 or to an eligible donee after Day 1; or
- when a charity transfers property to a beneficiary in the course of delivering a charitable program, for example, to the winner of a scholarship.

Arm’s length

The term “at arm’s length” describes the relationship among two or more people when (1) they are acting independently of each other or (2) when they are not **related**. The term “not at arm’s length” means the opposite situation – when people act in concert with each other and without separate interests, or when they are related.

The legislation defines related individuals as those who are connected by blood relationship, marriage or common-law partnership, or adoption. Examples of blood relatives include grandparents, parents, brothers, sisters, and children. Examples of persons related to an individual by a marriage or common law partnership include the grandparents and parents of the individual’s partner, the brothers and sisters of the partner, and the married or common-law partner of a child or grandchild. Adopted children are treated in the same way as blood-related children.

Related persons also include individuals or groups and the corporations in which they have a controlling interest. Persons related to these individuals or groups are also considered related to those corporations.

You will find more information on this subject in Interpretation Bulletin IT-419R, *Meaning of Arm’s Length*.

Business Number (BN)/registration number

The BN is used by the federal government to identify organizations and the various program accounts they have. A complete BN has two parts: the registration number (first nine digits) and the account identifier (two letters and four digits). The registration number is the same for all accounts an organization has with the federal government. The account identifier is assigned by the CRA for each of its business programs including corporate income tax, import/export, payroll deductions, goods and services tax/harmonized sales tax (GST/HST), and registered charities. The registered charity account identifier always starts with the letters “RR.”

When you deal with the Charities Directorate, you must use the RR number designation. If you are unsure of a registered charity’s business number, please contact us.

Charities Registration (Security Information) Act

This was enacted by Parliament in 2001 as Part 6 of the *Anti-terrorism Act*. It provides a mechanism for revoking the registration of any charity when security information is used to establish that the charity is involved in supporting terrorism. Under the act, two ministers may sign a special certificate when they have reasonable grounds to believe that a charity is implicated in supporting terrorism. A court then reviews the evidence. If it confirms that it was reasonable to issue the certificate, the charity’s registration is revoked on the date of the court’s determination.

The revocation tax also applies to a charity that loses its registration as a result of such a certificate. Day 1 in such cases is the day the court confirms the certificate.

More information on this act can be found in the publication, *Charities in The International Context*, which is available on our Web site at www.cra.gc.ca/tax/charities/international-e.html.

Consolidation

This is the term the Charities Directorate uses to describe the situation when charities join together into a single entity, using a process that extinguishes the legal existence of all of the original charities and transfers their property to a newly created charity that has been registered. Before they dissolve, the original charities should apply for the voluntary revocation of their registration.

Day 1

Day 1 is the day on which the CRA issued the Notice of Intention to Revoke a Charity's Registration.

Directors/trustees

Directors and trustees are the people who function as the charity's elected or appointed governing body. This generally means those who hold positions identified in the charity's governing documents, such as chair, treasurer, secretary, or past president. See also "Like official" below.

Eligible donee

This is a registered charity to which a revoked charity can transfer its property and thereby reduce its revocation tax. See "Schedule 5 – Transfers to an Eligible Donee" in the guide for more details on the qualifications a registered charity must meet to be an eligible donee.

Note that an "eligible donee" is not the same as a "qualified donee" (see below).

Fair market value

Fair market value is usually the highest dollar value you can get for your property in an open and unrestricted market and between a willing buyer and seller. Both the buyer and the seller must be knowledgeable, informed, and acting independently of each other.

Fiscal period

A fiscal period is the 12 months covered by the charity's financial statements. Many registered charities have a fiscal period that covers the calendar year (that is, their fiscal period is from January 1 to December 31). Others have a different fiscal period (for example, one ending on August 31 or on March 31).

Financial statements

At a minimum, financial statements consist of a statement of assets and liabilities and a statement of revenue and expenditures for the fiscal period. They should show the different sources of a charity's revenue and how it spent its money.

Governing documents

These are the documents that formally establish a charity and govern its operations. Some examples of governing documents are letters patent, certificate of incorporation, memorandum or articles of association, a constitution, trust documents, and by-laws.

Like official

A like official is a person who has governing responsibilities for the charity similar to those of a member of a corporation's board of directors or the trustee of a trust.

Very often, the religious leader of a local congregation occupies such a position of influence, even if he or she is not a director or trustee of the charity.

Merger

This is the term the Charities Directorate uses to describe the situation when charities join together into a single entity, using a process in which one of the original charities continues in existence while the others wind up their affairs and transfer their property to it. The original charities that are winding up should apply for the voluntary revocation of their registration before they dissolve.

Non-arm's length

See "Arm's length."

Property

Under the *Income Tax Act*, property means more than land and buildings. It extends to property of any kind whatever, whether real or personal, corporeal or incorporeal, and includes cash and rights.

Qualified donee

Under the *Income Tax Act*, qualified donees are organizations that can issue official donation receipts for gifts that individuals and corporations make to them.

The following types of organizations are qualified donees:

- a registered charity;
- a registered Canadian amateur athletic association;
- a housing corporation resident in Canada constituted exclusively to provide low-cost housing for the aged;
- a Canadian municipality;
- the United Nations and its agencies;
- a university that is outside Canada that is prescribed to be a university the student body of which ordinarily includes students from Canada;
- a charitable organization outside Canada to which Her Majesty in right of Canada has made a gift during the charity's fiscal period or in the 12 months immediately preceding the period; and
- Her Majesty in right of Canada or a province.

Proposed legislation will add a further type of qualified donee: a municipal or public body performing a function of government in Canada.

Revocation

In this guide, revocation refers to the action the CRA takes that has the effect of removing a charity's registration as a charity for the purposes of the *Income Tax Act*.

Revocation date

This is the day revocation takes effect, that is, the day on which the CRA publishes a notice that names the charity in the *Canada Gazette*.

Revocation tax

This is the tax that a charity must pay when its registration is revoked.

Revoked charity

A charity that has had its registration revoked.

Trustees

See "Directors/trustees."

Schedule 5 – Transfer of Property to an Eligible Donee

Complete a separate Schedule 5 for each eligible donee.

An eligible donee is a charity that meets the following criteria at the time the property was transferred to them:

- (a) It is a “registered charity” under the *Income Tax Act*.
- (b) More than half of the members of its board of directors/trustees deal at arm’s length with each member of the board of directors/trustees of the revoked charity.
- (c) It has filed all its annual information returns (T3010 and T3010A).
- (d) It is not subject to a suspension of its tax-receipting privileges.
- (e) It has no unpaid liabilities under the *Income Tax Act* or the *Excise Tax Act*.
- (f) It is not the subject of a certificate under the *Charities Registration (Security Information) Act*.

Certification of eligibility

I hereby certify that _____ met all the criteria listed above and was therefore an eligible donee at the time the property listed below was transferred to it.

(Receiving charity) (BN/registration number)

Name of authorized representative of eligible donee

Date

Signature

(_____)_____
Telephone number

Description of transferred property	Date of transfer	Eligible amount transferred
Total eligible amount transferred (Transfer this total to line 500 of the Summary of calculations)		502 \$

If the charity transferred property to more than one eligible donee, add the amount reported at line 502 in each completed Schedule 5, and then transfer this combined total to line 500 of the Summary of calculations.

Order Form

Please check (✓) the boxes for the publications you want to order. Print your name and address in the space below, then send the order form to the Charities Directorate.

Name _____

Address _____

City and province _____ Postal code _____

Information Circulars

- 75-2 *Contributions to a Registered Political Party, a Registered Association or to a Candidate at a Federal Election*
- 75-23 *Tuition Fees and Charitable Donations Paid to Privately Supported Secular and Religious Schools
Information letter re: Treatment of Tuition Fees as Charitable Donations under Information Circular 75-23*
- 77-6 *Registered Charities: Designation as Associated Charities*
- 78-10 *Books and Records Retention/Destruction*
- 84-3 *Gifts to Certain Charitable Organizations Outside Canada*
- 92-2 *Guidelines for the Cancellation and Waiver of Interest and Penalties*
- 97-2 *Customized Forms – Returns and Information Slips*
- 05-1 *Electronic Record Keeping*

Interpretation Bulletins

- IT-64 *Corporations: Association and Control – After 1988*
- IT-179 *Change of Fiscal Period*
- IT -226 *Gifts to a Charity of a Residual Interest in Real Property or an Equitable Interest in a Trust*
- IT-244 *Gifts by Individuals of Life Insurance Policies as Charitable Donations*
- IT-288 *Gifts of Capital Properties to a Charity and Others*
- IT-297 *Gifts in Kind to Charity and Others*
- IT-407 *Dispositions of Cultural Property to Designated Canadian Institutions*
- IT-419 *Meaning of Arm's Length*

Brochures and Guides

- P113 *Gifts and Income Tax*
- T4033 *Completing the Registered Charity Information Return*
- T4033A *Completing the Registered Charity Information Return*
- RC4424 *Completing the Tax Return Where Registration of a Charity is Revoked*

- T4063
- RC4082
- RC4106
- RC4108
- RC4143

- T4118

Forms

- T913 *Part XI.2 Tax Return – Tax for the Disposition of Certain Properties*
- T1189 *Application to Register a Canadian Amateur Athletic Association Under the Income Tax Act*
- T2046 *Tax Return Where Registration of a Charity is Revoked*
- T2050 *Application to Register a Charity Under the Income Tax Act*
- T2052 *Registered Canadian Amateur Athletic Association Return of Information*
- T2092 *Contributions to a Registered Party or to a Registered Association – Information Return*
- T2093 *Contributions to a Candidate at an Election – Information Return*
- T2094 *Registered Charities: Application to Reduce Disbursement Quota*
- T2095 *Registered Charities: Application for Re-Designation*
- T2140 *Part V Tax Return – Tax on Non-Qualified Investments of a Registered Charity*
- T3010 *Registered Charity Information Return*
- T3010A *Registered Charity Information Return*
- T3011 *Application for Designation as Associated Charities*

Information Kits

- T3010/
T4033 *Registered Charity Information Return (form) and Completing the Registered Charity Information Return (guide)*
- T3010A/
T4033A *Registered Charity Information Return (form) and Completing the Registered Charity Information Return (guide)*
- T2050/
T4063 *Application to Register a Charity Under the Income Tax Act (form) and Registering a Charity for Income Tax Purposes (guide)*

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