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Using an intermediary to carry on a charity's activities within Canada

Guidance

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CG-004

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This guidance updates and replaces the previous version of Guidance CG-004, Using an intermediary to carry on a charity's activities within Canada.

General requirements for charitable registration

In addition to the requirements set out in this guidance, there are a number of other general requirements related to charitable registration. For more information, see [Guidance CG-017, General requirements for charitable registration](#).

Guidance products can be updated. If you have comments or suggestions to improve the guidance, we would like to hear from you. To provide comments or obtain additional information, [contact the Charities Directorate](#).

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1. Introduction

This guidance provides information for charities that further their charitable purposes through intermediaries within Canada. It explains how these charities can make sure their resources are devoted to charitable activities, and that they meet the requirements of the Income Tax Act.

For information about working with an intermediary to carry on charitable activities outside Canada, see [Guidance CG-002, Canadian registered charities carrying on activities outside Canada](#).

1.1 Terminology

In this guidance:

“charity” means a Canadian charity that is registered under the Income Tax Act, and includes both charitable organizations and charitable foundations

“organization” includes applicants for charitable registration, as well as registered charities

1.2 How do Canada's anti-terrorism laws apply to charities?

Like all individuals and organizations in Canada, charities are responsible for making sure they do not operate in association with individuals or groups that are engaged in or support terrorist activities.

The [CRA \(Canada Revenue Agency\)](#) has produced a [Checklist for charities on avoiding terrorist abuse](#).

Under the Charities Registration (Security Information) Act and the Income Tax Act, a charity's registration may be revoked if the charity's operations make its resources available, either directly or indirectly, to a **listed entity**, as defined in subsection 83.01(1) of the Criminal Code, or to any other entity (person, group, trust, partnership, or fund, or an unincorporated association or organization) that engages in terrorist activities or activities in support of them.

Charities are also subject to prohibitions on funding or otherwise facilitating terrorism, as contained in the Criminal Code and various regulations enacted under the United Nations Act. For more information, go to [Charities in the international context](#).

2. Restrictions on how a charity can use its resources

The Income Tax Act allows a charity to operate in only two ways: ¹

- carrying on its own charitable activities
- making gifts to qualified donees ²

For more information on what types of organizations are qualified donees, see [Guidance CG-010, Qualified donees](#).

2.1 What are charitable activities?

An organization's activities are charitable when they further its charitable purposes. The organization's purposes (or "objects") are the goals or objectives it is created to achieve. These purposes should be stated in the organization's governing document. ³

Examples of charitable purposes include relieving poverty by providing housing to the homeless, advancing education by providing scholarships to students, or promoting health by providing medical care to the sick.

For more information, see [Guidance CG-019, How to draft purposes for charitable registration](#).

2.2 Meeting the “own activities” test for charitable registration

The Income Tax Act requires a charity to devote all its resources to charitable activities carried on by the organization itself. This requirement is referred to as the **own activities** test. ⁴

A charity's resources include all its physical and financial resources, as well as its staff and volunteers. ⁵

A charity can meet the own activities test by carrying on its activities through its staff or through an intermediary. In certain limited circumstances, a transfer of [charitable goods](#) can also meet the own activities test.

2.2.1 Carrying on activities through the charity’s staff

A charity can use its own staff, including volunteers, directors, and employees, to carry on its activities. This is the easiest way for a charity to meet the own activities test.

2.2.2 Carrying on activities through an intermediary

A charity can also carry on its activities through an intermediary. An intermediary is an individual or organization that is a non-qualified donee, ⁶ that is separate from the charity. The charity works through it to carry on the charity’s own activities.

When a charity works through an intermediary the charity must direct and control the activities conducted on its behalf and the use of its resources. ⁷ For example, a charity might do one of the following:

- hire a company or private contractor
- enter into an agreement with a non-profit organization to have the organization deliver specific charitable programs for the charity
- pool its resources with another organization to complete a project

For more information about using an intermediary, see [section 4](#).

2.2.3 Transferring charitable goods

In some limited circumstances, the [CRA \(Canada Revenue Agency\)](#) may consider a charity to be carrying on its own activities when the charity transfers certain resources (not money) to a non-qualified donee.

It is important to note that transfers of money from a charity to a non-qualified donee always require the charity to provide ongoing direction and control of the money.

When the [CRA \(Canada Revenue Agency\)](#) assesses whether a transfer of a charity's non-monetary resources meets the own activities test, it considers all relevant facts. At a minimum, the transfer must meet these three conditions:

- The resources being transferred can reasonably be used only for charitable purposes. For example, medical supplies like antibiotics and instruments will likely only be used to treat the sick, while school supplies like textbooks will likely only be used to advance education.
- The non-qualified donee that receives the resources understands and agrees to use them only for the specified charitable activities, as documented by the charity.

- After reviewing the status and activities of the non-qualified donee that will receive the resources (including the outcome of any past transfers from the charity), the charity can reasonably expect the non-qualified donee to use the resources for the intended charitable activities.⁸

The charity's records should show that it reviewed the status and activities of the intermediary. To conduct this review, a charity would typically examine details such as the intermediary's stated goals and purposes, its history and reputation, and relevant media reports.

If a transfer of its resources does not meet the above three conditions, the only way a charity can meet the own activities test is to direct and control the use of the transferred resources.⁹ If a charity does not do so, it risks sanctions under the Income Tax Act, such as financial penalties, or revocation of its registration.

Below are examples of situations that might meet the conditions for transferring resources to a non-qualified donee:

- transfers of books and scientific reports from a research organization to a reputable library or school that is not a qualified donee
- transfers of food and blankets to a non-profit organization that is helping during a natural disaster, and that has a long history of successful operations

If a charity intends to build or buy real property (land and immovable property on land, such as buildings) in partnership with an intermediary, the charity must retain ownership of its share of the property. If it is impossible for the charity to retain ownership of its share of the property, it should consult the CRA (Canada Revenue Agency) to consider available options.

If a charity transfers resources directly to beneficiaries of its charitable purposes it does not have to direct and control the use of those resources. For example, a charity could give school supplies, such as books or writing instruments, to students experiencing poverty without having to direct and control how the students use those resources.

For information on how charities can direct and control their resources, see [section 5](#).

2.3 What is a gift to a qualified donee?

In addition to carrying on its own activities, a charity can make gifts to qualified donees. ¹⁰

A gift is a transfer of money or other resources without compensation. A qualified donee is defined in the Income Tax Act as an organization that can issue official donation receipts for gifts they receive from individuals and corporations.

Some types of qualified donees include:

- registered Canadian charities
- her Majesty in right of Canada, a province, or a territory
- a registered Canadian municipality
- certain registered universities outside Canada
- the United Nations and its agencies

For more information, see [Guidance CG-010, Qualified donees](#).

2.4 What is a conduit?

In this guidance, a conduit is a charity that funnels its resources to a non-qualified donee without direction or control. Acting as a conduit contravenes the Income Tax Act, and could jeopardize a charity's

registration. ¹¹

Example: Acting as a conduit

A registered charity has a purpose to protect the environment. A non-profit organization with a similar purpose approaches the charity, and explains it has submitted an application for charitable registration, but has not yet been registered.

The non-profit asks the charity to accept donations on its behalf, issue receipts, and then forward the money to the non-profit. The charity agrees to the request.

However, the charity has no say on where, when or how the activity is carried on. The charity is simply funding the non-profit's activity. Therefore, even though the activity may be charitable, the charity is acting as a conduit.

To avoid acting as a conduit, the charity must be able to show (through its books and records) control over the use of its money, and that it is carrying on its activities itself, through its intermediary. For more information on how to demonstrate direction and control, see [section 5](#).

A charity may also be acting as a conduit when it transfers resources to an affiliate or umbrella organization that is not a qualified donee. In such cases, a charity and its affiliate may create a written agreement that gives the appearance that the affiliate is the charity's intermediary. However, to determine if a charity in this situation is acting as a conduit, the [CRA](#) (Canada Revenue Agency) may consider if the charity:

- has evidence that it exercises ongoing direction and control over the use of its resources
- keeps adequate books and records at a Canadian address it has on file with the CRA (Canada Revenue Agency)
- receives goods and services of proportionate value for any money or other resources it sends to a non-qualified donee
- needs permission from a non-qualified donee to undertake activities, or approval on how to carry on its activities

3. How can a charity work through an intermediary?

A charity typically works with an intermediary when it is unable to carry on its own activities through its staff. The intermediary usually can provide resources that a charity needs, such as particular skills, knowledge of a region, or specialized equipment.

When working through an intermediary, a charity must direct and control the use of its resources.¹² A charity that does not do so risks sanctions under the Income Tax Act, such as financial penalties, or revocation of its registration.

Note

Before deciding to work through an intermediary, and periodically throughout the arrangement, a charity should **review** the status and activities of the intermediary to make sure it:

- has the capacity (for example, personnel, experience, and equipment) to carry on the charity's activity
- will use the charity's resources as directed by the charity

As part of the review, the charity might examine the intermediary's stated goals or purposes, research its history and reputation, carry out site visits, and reference checks, and consult with project stakeholders.

Sometimes an intermediary can also be a beneficiary of a charity's programs by building its own capacity. For example, the intermediary might acquire skills and expertise while carrying on the charity's activity. For more information on this situation, see [Appendix A](#).

3.1 What are common types of intermediaries?

Three common types of intermediaries are described below. However, a **charity can make other arrangements** to carry on its own activities through an intermediary, as long as the charity directs and controls the use of its resources.

3.1.1 Consultant or contractor

A **consultant or contractor** intermediary is an individual or organization that carries on specific activities on behalf of a charity. This type of intermediary might be a non-profit organization or a for-profit contractor.

A charity often engages a consultant to act as its intermediary when its own staff cannot carry on an activity. It may hire a contractor to provide goods or services. In these situations, a charity usually exercises direction and control through an agreement with the consultant or contractor.

Example: Using a consultant

A charity has a purpose to promote health by providing psychological counselling services to people in under-served northern communities across Canada. None of the charity's staff

has training in counselling. The charity locates several professional psychological counsellors with independent practices who will act as the charity's intermediaries in carrying on the activity.

The charity and the counsellors create and sign an agreement that describes the details of the activity and their respective roles and responsibilities. The agreement states that the charity will pay all travel and operating expenses, and the counsellors will volunteer their time and make day-to-day operating decisions, such as renting offices, notifying the communities of their services, and hiring local support staff.

The counsellors send regular, detailed reports on the use of the charity's resources, according to the terms of the agreement. The charity intervenes to provide ongoing instructions on the use of its resources. The ongoing instructions allow the charity to make sure that the activity continues to be carried on according to the agreement, and that the activity is achieving the charity's own charitable purpose.

Example: Using a contractor

A charity has a purpose to advance education by conducting research into a particular disease. As part of its activities, it contracts with a private medical laboratory to test new compounds for their disease fighting properties.

The charity and the laboratory draft and sign a contract that outlines all the terms and conditions of their relationship. The contract is the instrument through which the charity directs and

controls the use of its resources, monitors the use of its resources as the laboratory carries out the activity, and makes sure only fair market value is paid for any work done.

3.1.2 Joint venture participant

A **joint venture participant** is an organization that a charity works with to carry on a charitable activity. The charity and one or more joint venture participants pool their resources to accomplish an agreed-upon goal under the terms of a joint venture agreement.

A joint venture participant differs from a consultant or contractor intermediary in that the charity does not rely entirely on the joint venture participant to carry on the charity's activities. Instead, the charity works with a joint venture participant to conduct the charitable activity. Typically the charity has members that sit on a joint venture governing board for the entire project. This allows the charity to make decisions on how its resources are used. The structure of joint ventures varies from case to case.

A charity must be able to show that its share of authority and responsibility over a venture allows the charity to direct and account for how its resources are used. If a charity does not have enough decision-making authority to make sure its resources are used as it directs, it may not be able to show it is carrying on its own activities.

The CRA (Canada Revenue Agency) will look at any venture as a whole to make sure the charity's resources are used only to further its charitable purposes.

For a list of the factors the CRA (Canada Revenue Agency) looks at when examining joint venture arrangements, see Appendix B.

Example: Direction and control in a joint venture

A charity has a purpose to relieve poverty by providing small business loans in areas of social and economic deprivation. The charity collaborates with a for-profit bank to design an activity that will provide entrepreneurial training, support services, and start-up loans to hard-to-employ people. For more information about this type of activity, see [CG-014, Community economic development activities and charitable registration](#).

The charity and the bank form a governing body to operate the venture. The charity provides roughly 40% of the funding for the project, and it controls about 40% of the decision-making power on the venture's governing body. As long as the venture uses the charity's resources only for the charity's own activities, the arrangement should be acceptable.

However, because the charity has only 40% of the decision making power, it is possible the bank could decide to use the charity's resources inappropriately. For example, the bank might carry on activities that the charity had not agreed to. To avoid this situation, the arrangement should include a provision to allow the charity to stop providing resources to the venture under such circumstances.

3.1.3 Co-operative participants

A **co-operative participant** is an organization that works side-by-side with a charity to complete a charitable activity. The charity and the other organization(s) each take on responsibility for specific parts of the project

only. This is different from a joint venture, where participants pool their resources and share responsibility for the project as a whole.

Example: Co-operative participant project

A charity and a non-profit corporation share a common goal to assist youth at risk in a major city. The charity has a purpose to help youth in preventing and recovering from substance abuse. The non-profit provides academic assistance to teens with learning disabilities. They decide to lease a space together to run a new program, aimed at helping youth at risk complete high school.

Each organization operates its particular program out of its half of the leased space, using its own staff and resources. While they co-operate, for example, by sharing information and recommending potential candidates for each other's programs, each organization retains ownership of its assets and carries out its responsibilities independently, without oversight or control from the other body.

4. What is direction and control?

To meet the own activities requirement, when a charity transfers resources to its intermediary, it must direct and control the use of those resources. ¹³

This means the charity must make decisions and set parameters on significant issues related to the activity, on an ongoing basis, such as:

- how the activity will be carried on
- the overall goals of the activity
- the area or region where the activity will be carried on
- who will benefit from the activity

- what goods and services the charity's money will buy
- when the activity will begin and end

A charity can accept advice from its intermediaries, and does not have to make every decision involved in carrying on an activity. However, it must be able to intervene in any decision.

A charity can delegate the responsibility for day-to-day operational decisions to an intermediary, which is often in a better position to make this type of decision. For example, a charity might delegate the authority to:

- decide which local vendor to buy supplies from
- hire and manage staff
- locate potential beneficiaries for an activity
- maintain buildings owned or operated for the charity's activities

4.1 How should a charity direct and control the use of its resources?

Generally speaking, when a charity chooses the type and number of direction and control measures it will use, it should **consider the nature of the activity**, including:

- the amount of resources involved
- the complexity of the activity
- the location of the activity
- the type of resources being transferred
- any previous experience of the charity working with the intermediary
- the capacity and experience of the intermediary

While there may be other ways to show direction and control over the use of a charity's resources, the **CRA (Canada Revenue Agency) recommends that charities use the following measures:**

- create a written agreement, and implement its terms
- communicate a clear, complete, and detailed description of the activity to the intermediary
- monitor and supervise the activity, including requiring regular reporting
- provide clear, complete, and detailed instructions to the intermediary on an ongoing basis
- make periodic transfers of resources to the intermediary, based on demonstrated performance
- arrange for the intermediary to either keep the charity's funds separate, or account for separately in its books and records

A charity must record all steps taken to exercise direction and control as part of its books and records. This allows the CRA (Canada Revenue Agency) to verify that the charity's resources were used to carry on its own activities.

Example: Direction and control

A charity has a purpose to relieve poverty by assisting refugees, and it begins an activity to help refugees who have just come to Canada from a country undergoing a civil war. However, the charity's staff has little expertise in the language and culture of that country.

The charity finds a Canadian non-profit organization that welcomes newcomers to Canada, and has members who immigrated from the same country some time ago. The non-profit has the capacity to provide housing, interpretation, language training, social services, and employment preparation. It agrees to carry on these activities on behalf of the charity.

The charity and the non-profit meet to plan the activities. The charity takes the non-profit's advice and experience into account, although it has final authority over the use of its funds.

The charity adopts measures to make sure it directs and controls the use of its resources. These measures include developing a written agreement with its intermediary, ensuring the terms of the agreement are implemented, monitoring the activity (including requiring regular reporting), and providing ongoing instruction.

The facts of every situation will differ, and it is not possible to give precise guidelines to cover all situations in advance. If a charity has questions it should [contact the Charities Directorate](#) for assistance.

4.2 Creating a written agreement

A written agreement is a document that shows the relationship between a charity and its intermediary. An agreement should also give the charity the authority and means to maintain direction and control over the use of its resources, and over its intermediary's actions related to the charity's activities. ¹⁴

The nature of an arrangement with an intermediary can have important implications for a charity. In particular, the charity can be exposed to liability for the acts of the intermediary. This highlights the importance of having a clear agreement (preferably in writing) that sets out the nature of the relationship, including the charity's expectations and the intermediary's obligations.

The CRA (Canada Revenue Agency) recommends that a charity enter into a written agreement with intermediaries. Although there is no legal requirement to have a written agreement, and the same result might be achieved by other means,¹⁵ a properly executed written agreement is an effective way to help the charity meet the own activities test. It also shows a charity's due diligence about the use of its funds.

However, signing an agreement is not enough by itself to prove that a charity meets the own activities test. The charity must also be able to show through its books and records that it has a real, ongoing, and active relationship with its intermediary.¹⁶ The CRA (Canada Revenue Agency) recommends that a charity have a system in place to periodically review its written agreements to make sure they stay current.

For a one time activity, where the amount of resources involved is minor, the CRA (Canada Revenue Agency) acknowledges that the complications of developing a full, formal, written agreement may outweigh the benefits. When a charity spends \$5,000 or less on a one-time activity, other documents might be enough to show ongoing direction and control over the intermediary's use of resources. These might include written instructions, email records, meeting minutes, and regular reporting.

If a charity expects to repeat the activity on an ongoing basis, annually for example, the CRA (Canada Revenue Agency) recommends it have a written agreement with the intermediary to make sure that there is a clear understanding of the agreement over its duration.

When applicants for charitable registration intend to carry on activities through an intermediary, it is helpful to include a copy of a written agreement with the application. This helps to show the CRA (Canada Revenue Agency) that the applicant's relationship with its intermediary can meet registration requirements.

The CRA (Canada Revenue Agency) does not provide a template for written agreements. However, for a list of the information that should be included in a written agreement, see Appendix C.

Some organizations have written agreements in the form of agency agreements with their intermediaries. As long as these agreements show the presence of direction and control over the use of the charity's resources, as set out in this guidance, they can be acceptable.

4.3 Describing activities

Before starting an activity, the charity and its intermediary should agree on a detailed description of the activity. The charity should include this description in its records. Depending on the nature and complexity of an activity, the description should generally include:

- what the activity involves, its purpose, and the charitable benefit it provides
- who benefits from the activity
- the exact location of the activity
- a detailed budget for the activity, including payment schedules
- the start and end dates, and other relevant timelines
- a description of the deliverables and performance benchmarks
- how the charity monitors the activity and use of its resources (including its regular reporting requirements)
- how the charity can change the nature or scope of the activity, including ending the activity if required (for example, if funds are unaccounted for)
- the plans for income arising from the activity (for example, tuition fees from operating a school, or sales from goods made by low-income artisans in economically challenged areas ¹⁷)

- any contributions intermediaries are expected to make

4.4 Monitoring and supervising, including regular reporting

Monitoring and supervision is the process of receiving timely and accurate information, including regular reports, ¹⁸ that allows a charity to make sure its resources are being used for its own activities. Depending on the nature and complexity of an activity, the reporting methods can include:

- regular progress reports
- expense receipts and financial statements
- records of communication via telephone, videoconference, or email
- photographs
- audit reports
- on-site inspections by the charity's staff

4.5 Ongoing instruction

On an ongoing basis, charities should provide intermediaries with instructions that are needed to address issues that arise.

Records of any ongoing instructions will help the charity to show it is carrying on its own charitable activities in accordance with the Income Tax Act. Minutes of meetings, conference calls, telephone calls, or other written records of decisions are ways for the charity to show it has given instructions to its intermediary. The CRA (Canada Revenue Agency) recommends using written instructions such as letters, emails, or faxes to communicate with an intermediary when possible.

Charities and organizations acting as intermediaries occasionally arrange to have a director, trustee, volunteer, or employee work for both bodies. Although this type of arrangement can make it easier to pass along reports

and ongoing instructions, it might not be enough to show that the charity maintains direction and control over the use of its resources.

For example, if a staff member from the charity serves on the board of an intermediary, his or her control over the charity's resources may be limited to one vote among many. The intermediary's board could potentially decide to use the charity's money for activities other than those of the charity, despite the staff member's objections.

4.6 Making periodic transfers

The [CRA \(Canada Revenue Agency\)](#) recommends that charities send resources to their intermediaries in periodic instalments, based on demonstrated performance, rather than in one transfer.

When appropriate, a charity should hold the right to stop the transfer of money and have unused funds returned if it is not satisfied with the activity's progress or outcome. This will allow the charity to stop funding an activity if the charity's resources are being misused or for another valid reason.

4.7 Separate activities and funds

When carrying on an activity through an intermediary, a charity must make sure it can distinguish its activities from those of the intermediary. ¹⁹ A charity cannot simply pay expenses that an intermediary incurs to carry on the intermediary's own programs and activities.

If an intermediary manages an ongoing activity on the charity's behalf, the intermediary should keep the funds it receives from the charity separate from its own. This means the intermediary should keep the funds in a separate bank account or it should account for them separately from the

other funds in its books and records. The intermediary's books and records should contain enough detail to ensure the charity's funds can always be tracked and accounted for.

The intermediary should use the funds it receives from the charity only after the charity authorizes it to do so or the intermediary meets established performance benchmarks.

5. Keeping books and records

Under the Income Tax Act, a charity must keep adequate books and records in Canada. Books and records must contain enough information to allow the CRA (Canada Revenue Agency) to determine if the charity is operating in accordance with the Income Tax Act.²⁰ The CRA (Canada Revenue Agency) recommends that books and records be kept in either French or English.²¹

A charity's books and records must allow the CRA (Canada Revenue Agency) to check whether:

- the charity's funds are being spent on its own activities or on gifts to qualified donees
- the charity is directing and controlling the use of its resources
- revenues, including charitable donations, can be verified
- the charity's purposes and activities continue to be charitable

A charity that fails to keep adequate books and records risks sanctions under the Income Tax Act, such as suspension of receipting privileges, or revocation of its registration.²²

When the CRA (Canada Revenue Agency) considers whether a charity's books and records are adequate, it looks at the risk of non-compliance for particular activities. The risk level may relate to the location, the activity, or

the type of resources. For more information on books and records, including what information to include, go to [Books and records](#).

6. Meeting the disbursement quota

The disbursement quota is the minimum amount a registered charity must spend each year on its own charitable activities or on gifts to qualified donees.

Generally, all amounts a charity spends on directly carrying on its charitable activities will go towards meeting its disbursement quota, whether the activities were carried on by the charity's staff or through an intermediary.

When a charity reports expenditures on [Form T3010, Registered Charity Information Return](#), it should report all amounts spent on its behalf by its intermediaries as if the charity had spent these amounts itself.

The [CRA \(Canada Revenue Agency\)](#) considers amounts spent on charitable activities to include, but not be limited to:

- the costs of goods transferred to an intermediary to provide eligible beneficiaries with charitable relief
- payments for goods and services to provide eligible beneficiaries with charitable relief
- purchase or maintenance of facilities, equipment, and other items used directly in the charity's charitable activities
- fees, licences, and memberships needed to deliver the charity's charitable activities
- salaries paid to those that directly provide charitable relief to eligible beneficiaries

For more information on calculating the disbursement quota, see [Guide T4033, Completing the Registered Charity Information Return](#).

Appendix A - Capacity-building activities

For the purposes of this guidance, capacity building is working in partnership with an organization, community, or other group to develop the skills, tools, and resources they need to address their own issues.

Capacity-building activities may be charitable if they relieve poverty, advance education, or further another recognized charitable purpose.

A charity can carry on capacity-building activities as long as it continues to meet all requirements of the Income Tax Act. A charity must, among other requirements, make sure its activities further its charitable purposes, direct and control the use of its resources, and not confer more than incidental private benefit. For more information about public and private benefit, see [Guidance CPS-024, Guidelines for registering a charity: Meeting the public benefit test](#).

One of the principles behind capacity-building is that long-term solutions rarely result from simply transferring money to a group or community without ongoing support. Under a capacity-building approach, a long-term relationship between a charity and its partner can lead to the partner taking over the program, and the charity withdrawing its resources entirely to leave the project's successful operation in the hands of the former partner.

In this situation, the line between intermediary and beneficiary may become harder to distinguish. Although this guidance typically assumes an intermediary is a means for a charity to carry on its own activities, in some cases an intermediary may also be a beneficiary of a charity's activities. For

example, the intermediary may receive training or operational resources that will enhance the capacity of the intermediary while also delivering the core charitable activity.

Before starting a capacity-building program, charities should make sure that their stated purposes allow them to carry on the charitable activities they anticipate will be needed.

For more information on capacity building activities, see [Guidance CG-014, Community economic development activities and charitable registration](#).

Appendix B - Guidelines for joint ventures

The [CRA \(Canada Revenue Agency\)](#) looks for certain elements when determining if a charity directs and controls the use of its resources in a joint venture. These elements include:

- inclusion of members of the charity on the governing body of the joint venture
- presence of the charity's personnel in the field
- joint control over the hiring and firing of personnel involved in the venture
- joint ownership of assets and real property
- input by the charity into the venture's start-up and follow-through, including the charity's ability to direct or modify the venture and establish deadlines or other performance benchmarks
- signature of the charity on loans and contracts arising from the venture
- review and approval of the venture's budget by the charity, availability of an independent audit of the venture, and the option to discontinue funding when appropriate

- authorship by the charity of procedures manuals, training guides, and standards of conduct
- on-site identification of the venture as being the work, at least in part, of the charity

When taking part in a joint venture, the charity should make sure that it regularly receives full financial information for the whole venture. It should also have enough documentation to show how its contribution fits into the overall undertaking and how its resources have been devoted to activities that further its own charitable purposes.

Appendix C - What should be included in a written agreement?

A written agreement should include:

- exact legal names and physical addresses of all parties
- a detailed description of the activities to be carried on by the intermediary, and an explanation of how they further the charity's purposes
- the location where the activity will be carried on (for example, physical address, town or city)
- all time frames and deadlines
- a requirement for regular written financial and progress reports to show receipt and disbursement of funds, and progress of the activity
- a statement of the right to inspect the activity, and related books and records, on reasonably short notice
- a provision for funding in instalments based on satisfactory performance (funding includes the transfers of all resources), and for the withdrawing or withholding of funds if required
- a provision for issuing ongoing instructions as required

- a requirement for the charity's funds to be separated from those of the intermediary, either through separate bank accounts or by accounting for them separately in the intermediary's books and records
- if any of the charity's resources will be used to acquire, construct, or improve real property, that property title will vest in the name of the charity. If not, there will be provision showing how legal title to the property is held by a qualified donee
- for charities working in joint ventures, a provision that the charity be an active partner, with a proportionate degree of direction and control in the venture as a whole, and assurances of the following:
 - the charity's resources are devoted only to activities that further its purposes
 - the charity maintains and receives financial statements and records for the entire project on a regular basis
- effective date and termination provisions
- signature of all parties and the date

Footnotes

- 1 The Income Tax Act, at subsection 149.1(1), defines “charitable organization” as one “all the resources of which are devoted to charitable activities carried on by the organization itself.” This is referred to as the “own activities test.” That subsection also defines “qualified donee.” Subsections 149.1(2), (3), and (4) allow the Minister to revoke the registration of charitable organizations, public foundations, and private foundations for failing to expend their resources either for their own charitable activities (“charitable activities carried on by it”) or on gifting to qualified donees. Together, these provisions require charities to devote their resources either to their own charitable activities or to making gifts to qualified donees.
- 2 The phrase “disbursement of funds to qualified donees” in subsection 149.1(1) of the Income Tax Act (“charitable purposes”) is intended to include the transfer of any in kind (non-cash) resources. See [Policy commentary CPC-014, Funding qualified donees](#).
- 3 See the Income Tax Act at subsection 149.1(1), which defines both “charitable organization” and “charitable foundation,” and require both to be “constituted and operated exclusively for charitable purposes.”
- 4 See explanation, supra note 1.
- 5 See [Summary policy CSP-R13, Resources](#).
- 6 While an intermediary can also be a qualified donee, a charity that transfers its resources (funds, property) to a qualified donee is not required to direct and control the qualified donee’s use of those resources.

- 7 The Federal Court of Appeal has confirmed in the following decisions that a charity working through an intermediary must direct and control both the activities conducted on the charity's behalf, and the use of the charity's resources:
- The Canadian Committee for the Tel Aviv Foundation v. Canada (2002 FCA 72) 2002-03-01 ("Tel Aviv").
 - Canadian Magen David Adom for Israel v. Canada (Minister of National Revenue) (2002 FCA 323) 2002-09-13 ("CAMDI").
 - Bayit Lepletot v. Canada (Minister of National Revenue) (2006 FCA 128) 2006-03-28 ("Bayit").
 - Public Television Association of Quebec v. Canada (National Revenue) (2015 FCA 170), 2015-07-22 ("PTAQ").
- 8 See CAMDI, supra note 7, at paragraph 71.
- 9 See CAMDI, supra note 7, at paragraph 74.
- 10 Charities that are constituted in, or a resident of, Ontario should contact the Office of the Public Guardian and Trustee of Ontario to see if there are any restrictions on the qualified donees to which they can gift their funds.
- 11 See Tel Aviv, supra note 7, at paragraph 30, and PTAQ, supra note 7, at paragraph 44.
- 12 See Tel Aviv, supra note 7, at paragraph 40, and PTAQ, supra note 7, at paragraph 41.
- 13 See CAMDI, supra note 7, at paragraph 66, and Tel Aviv, supra note 7, at paragraph 40.

- 14 See Tel Aviv, supra note 7, at paragraph 40, and PTAQ, supra note 7, at paragraph 41.
- 15 See CAMDI, supra note 7, at paragraph 66.
- 16 See Tel Aviv, supra note 7, at paragraph 30.
- 17 See Guidance CG-014, Community economic development activities and charitable registration.
- 18 See PTAQ, supra note 7, at paragraph 53.
- 19 See Bayit, supra note 7, at paragraph 6, and PTAQ, supra note 7, at paragraph 43.
- 20 See the Income Tax Act, at subsection 230(2), and Tel Aviv, supra note 7, at paragraph 42.
- 21 Charities that have to file a GST/HST return or that have applied for a rebate must keep some records in either official language. See the Excise Tax Act 286(1) R.S., 1985, c. E-15, and 15.1, and General requirements for books and records.
- 22 See the Income Tax Act, at paragraph 168(1)(e).
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