



# Just Do It! Financial Compliance Basics

Nov 03, 2018

## What is Compliance

Compliance is either a state of being in accordance with established guidelines or specifications, or the process of becoming so.

The definition of *compliance* can also encompass efforts to ensure that organizations are abiding by both industry regulations and government legislation.

## 3 Things to Remember:

1. Context – you are responsible
2. Framework – charity or non-profit
3. Applicable Compliances

# Context

## Board of Directors

Board of directors are legally accountable and responsible

Therefore, boards must understand:

- WHAT are you responsible for?
  - HOW are you responsible?
- i. Directors are the “guiding” minds
  - ii. Obligated to use authority accordingly
  - iii. And “manage” the org. affairs

## Fiduciary Duties

A fiduciary (representative) is the highest standard of care at either equity or law. A fiduciary is expected to be extremely loyal to whom they owe their duties.

*(Latin) of, relating to, or involving a confidence or trust*

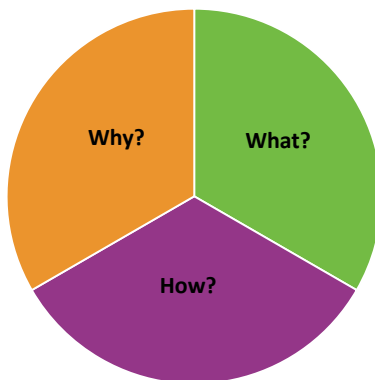
**Examples:**

- |          |   |                                     |
|----------|---|-------------------------------------|
| Doctor   | → | patient                             |
| Attorney | → | client                              |
| Board    | → | organization/association/membership |

## Fiduciary Duties

### Duty of Loyalty

- Ethics
- Interests of association come before interests of individuals



### Duty of Care

- Tend to business
- Be prudent, thorough
- Informed

### Duty to Act Within Scope of Authority

- Exercise authority
- Delegate
- Dedicate resources

## Examples of Fiduciary Duties...

### Duty of Care

**Attendance:** Board members must attend meetings.

**Participation:** Read the relevant materials and ask questions.

### Duty of Loyalty

**Conflict of Interest:** If a member has a potential conflict of interest it should be disclosed and the member must recuse him/herself.

“Perceived” conflict vs. “Real” conflict

### Duty to Act within the Scope of Authority

**Delegation/Abdication:** The board can delegate but they remain accountable/need to monitor.

# Framework

## Non-profit or charity?

### What is Your Framework?

Topic	NPO	Registered charity
Purposes	*can operate for social welfare, civic improvement, pleasure, sport, recreation, or any other purpose except profit	*must be established and operate exclusively for charitable purposes
Registration	*does not have to go through a registration process for income tax purposes	*must apply to the CRA and be approved for registration as a charity
Charitable registration number	*is not issued a charitable registration number	*is issued a charitable <a href="#">registration number</a> once approved by the CRA
Tax receipts	*cannot issue official donation receipts for income tax purposes	*can issue official donation receipts for income tax purposes
Returns	*may have to file a T2 return (if incorporated) or an information return (Form T1044) or both within six months of its fiscal period-end	*must file an annual information return (Form T3010) within six months of its fiscal period-end
Tax exempt status	*is generally exempt from paying income tax *may have to pay tax on property income or on capital gains	*is exempt from paying income tax

# Compliance

What is common to all of you....

## Some of the Compliances to Understand



Service Alberta – Registrar of Corporations  
Employment Standards  
Human Rights  
Charitable Organization Registration



Food Handling  
Commercial Kitchens



GST  
Income Tax  
Payroll/PPP/EI  
Charities Directorate



Gaming License  
Liquor Licence  
Funding Agreements



Canadian Anti Spam Legislation CASL



Funders

## Compliance Tools

Record Keeping

Insurance

Internal controls

## Provincial Compliances



1. Society Annual Returns
2. Bylaws and Bylaw Changes



## 1. Society Annual Returns

**What is it?** – annual “registration” of your organization

**What does it include:**

- Society Annual Return Form (signed)
- Official List of Directors and Officers
- Audited Financial Statements
  - (Note: You are required to hold an AGM to be able to submit)

**When Is it Due?** – On or before the last day of the month after your anniversary month



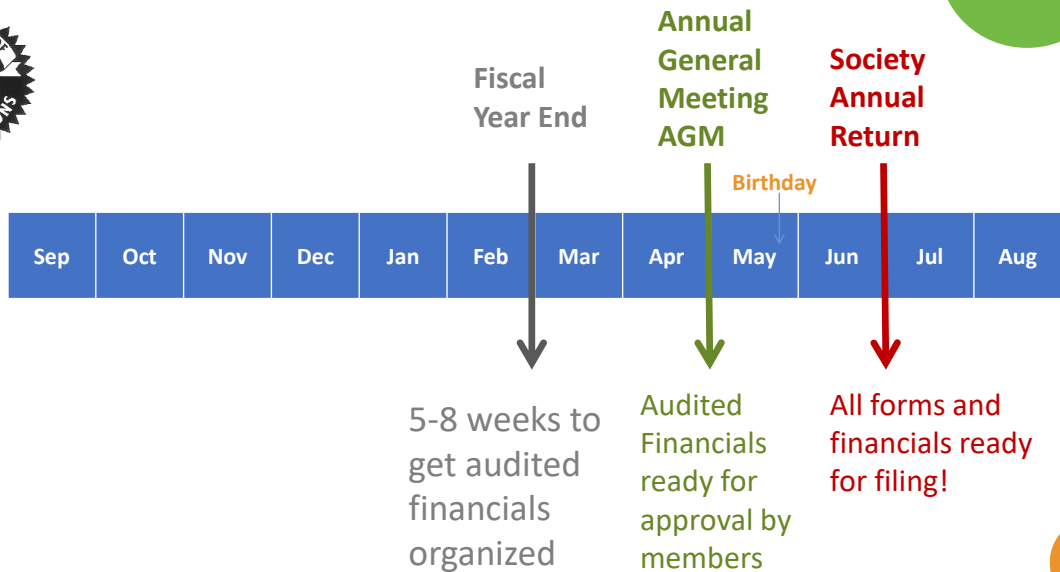
## Timeline for Annual Return :

Please mark the date/month your NPO/Charity was incorporated.



Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
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## Timeline for Annual Return :





## 2. Bylaws and Bylaw Changes

- **What is it?** – Bylaws are your legal documents that are a roadmap for your organization’s actions. You create them when you incorporate and must follow them. If you change them you must file them with Service Alberta and CRA if you are a charity.
- **What does it include:**
  - A signed resolution from your membership approving the changes (SGM or AGM)
- **When Is it Due?** – Whenever you change your bylaws. They don’t become official until they are filed.



## Canada Revenue Agency Compliances

1. Taxes
2. GST
3. Payroll – EI and CPP



# 1. Taxes

Non-profit	Charity
<p><b>T2</b></p> <p>Six months after fiscal year end no late filing penalties</p>	<p><b>T3010</b></p> <p>Six months of fiscal year end De-registration after 6 months</p>
<p><b>T1044</b></p> <p>Filed with T2 (if investment income over \$10,000; or, assets exceed \$200K – once you file you always have to file) late fee \$25 per day to a maximum of \$2500</p>	



# 2. GST - Simplified

- Rules are different for charities and non-profits
- More complicated than for-profit GST
- GST comes in two forms:
  - Rebates
  - Collect and remit
- GST is always calculated every four consecutive calendar quarters
- Do NOT have to register for GST to get a rebate
- CRA publishes a handbook for Non-Profits and one for Charities
- Get a qualified auditor to help you navigate GST



## GST - Simplified Con't

Type of Organization	GST Refund	Collection and Remittance of GST
Non-profit	No GST refund unless a "public service body" (40% of total revenue is from government sources then 50% rebate)	Must register if "revenues" exceed \$50,000 and remit quarterly GST remitted is then reduced by "input tax credits" Nuances on what is taxed (i.e. program for kids under age 14 are never taxed)
Charity	50%	Must register if "revenue" exceeds \$250,000



## GST - Simplified Con't

Type of Organization	GST Refund	Collection and Remittance of GST
Non-profit	<ul style="list-style-type: none"> <li>- NPO budget \$1.2 million – 23% gov't funding – NO GST refund</li> <li>- NPO budget \$1.2 million – 41% gov't funding – 50% GST refund</li> </ul>	-NPO registers to collect GST because their revenue (sales) are over \$50K – must register to remit and can reduce their remittance by the GST they paid to earn the "sales" (i.e. program for kids under age 14 are never taxed)
Charity	No matter the size of a charity you can get 50% of your GST rebated	Must register if "revenue" exceeds \$250,000 – need an accountant to help with this – because what is sales for an NPO might be fundraiser for a Charity



## GST - Simplified Con't

### Things to consider if you are a NPO:

- Memberships – if you add value to a membership, beyond a vote, newsletter and access to participate in programs you might have to charge GST even if you don't earn \$50K in revenue (e.g. up to 30% of membership value is acceptable but anything beyond will require GST)
- Sponsorships may be exempt from GST depending on what services and/or services are provided in exchange for them by NFPs for example:
  - being named the “sponsor” of a reception is exempt
  - receiving trade show booths at a reduced cost may **not** be exempt



## 3. Payroll

*“What are the differences between hiring employees and hiring contractors?”*

- Contract **OF** service – versus – Contract **FOR** services



## Employee or Self-employed?

### INITIAL steps to help make the distinctions

- “The **level of control the payer has** over the worker’s activities;
- Whether the **worker provides the tools** and equipment;
- Whether the **worker can subcontract** the work or hire assistants;
- The **degree of financial risk** the worker takes;
- ...responsibility for **investment and management**...worker holds;
- The worker’s **opportunity for profit**; and
- Any other relevant factors, such as **written contracts.**”



## Payroll Con't

### Remitting payroll (source) deductions

- You are responsible for both the employer’s and employee’s share
- Monthly source deductions for employees
  - CPP
  - EI
  - Income Tax



## Payroll Remittance

### The Average monthly withholding amount (AMWA) decides your remitter type

- Your AMWA is the total of all the **Canada Pension Plan (CPP)**, **employment insurance (EI)**, and income tax you had to remit for the year, divided by the number of months (maximum 12) that you had to remit for.

### Remitting frequency, remitting periods and remittance due dates by remitter type

Remitter type	Remitting frequency	AWMA	Remitting period	Remittance due dates
Quarterly <a href="#">(Example 1)</a>	Quarterly	Less than \$25,000	January 1 to March 31 April 1 to June 30 July 1 to September 30 October 1 to December 31	April 15 July 15 October 15 January 15
Regular <a href="#">(Example 2)</a>	Monthly	Less than \$1,000 and less than \$3,000	Calendar months	15th day of the next month
Threshold 1 accelerated <a href="#">(Example 3)</a>	Up to twice a month	\$25,000 to \$99,999	1st to 15th of the month 16th to end of the month	25th day of same month 10th day of the next month
Threshold 2 accelerated <a href="#">(Example 4)</a>	Up to four times a month	\$100,000 or more	1st to 7th of the month 8th to 14th of the month 15th to 21st of the month 22nd to the last day of the month	3rd working day after the 7th 3rd working day after the 14th 3rd working day after the 21st 3rd working day after the last day of the month

## Remitter Type and Examples

Remitter type	Examples
Quarterly ( <a href="#">Example 1</a> )	Nicole is a <a href="#">quarterly remitter</a> as her payroll is under \$25K. She pays employees in January, February and March. January's first pay includes wages for part of December. Since she pays this remuneration between January 1 and March 31, the CRA must <a href="#">receive</a> her remittance by April 15.
Regular ( <a href="#">Example 2</a> )	Yasmina is a <a href="#">regular remitter</a> as her payroll is \$800. On January 1, she pays an employee for December of last year. Since she pays this remuneration in January, the CRA must <a href="#">receive</a> her remittance, by February 15.
Threshold 1 accelerated ( <a href="#">Example 3</a> )	Paolo's company is a <a href="#">threshold 1 accelerated remitter</a> as his payroll is \$65K. On March 10, 2017, he pays his employees for work done in February. Since he pays this remuneration between March 1 and March 15, the CRA would normally have to <a href="#">receive</a> his remittance by March 25, 2017. However since March 25, 2017 is a Saturday, his due date is March 27, 2017.
Threshold 2 accelerated ( <a href="#">Example 4</a> )	XYZ Company is a <a href="#">threshold 2 accelerated remitter</a> \$105K . It pays employees twice in May 2017, as follows: The company pays remuneration on May 4, 2017. This is between May 1 and May 7. The CRA must <a href="#">receive</a> the company's remittance by May 10, 2017, which is the 3rd working day after May 7, 2017. The company also pays remuneration on May 18, 2017. This is between May 15 and May 21. Since Monday May 22 is a <a href="#">public holiday recognized by the CRA</a> , the CRA must receive the company's remittance by May 25, 2017. This is the third working day after 21st.

## Payroll Remittance Dates - Penalties

### Failure to take deductions or to remit:

- Penalty of 10% of the amount of CPP, EI and income tax you did not deduct
- Increases if you have more than one penalty in a year – 20%
- If you don't comply, you can be prosecuted – fine \$1K - \$25K or fined and imprisoned up to 12 months
- If you deduct but do not remit:
  - 3% if the amount is one to three days late;
  - 5% if it is four or five days late;
  - 7% if six or seven days late; an
  - 10% if it is more than 7 days late, or if no amount is remitted



## Canada Revenue Agency - Director Liability

- If a corporation (including for-profit or non-profit) does not deduct, remit, or pay amounts held in trust for the Receiver General (CPP, EI, and income tax), the directors of the corporation at the time of the failure are jointly and severally, or solidarily, liable along with the corporation, to pay the amount due. This amount includes penalties and interest.
- However, if the directors take action to ensure the corporation makes the necessary deductions or remittances, we will not hold the directors personally responsible. For more information, see Information Circular IC89-2, Directors' Liability.

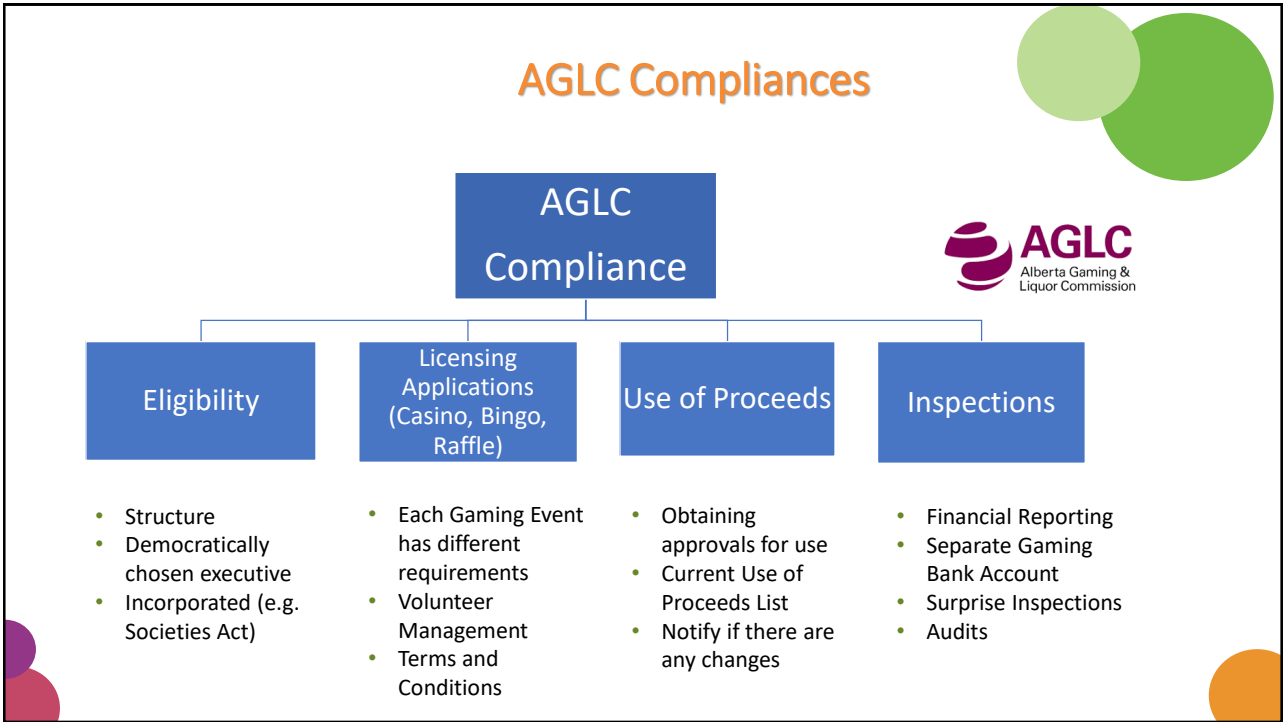


## AGLC Compliances

### 1. AGLC Use of Proceeds







# Compliance Tools

## Record Retention

Good record keeping practices by a non-profit organization or a registered charity should not be overlooked as they will help the organization:

- minimize risks to the board of directors and the organization;
- ensure that the organization operates efficiently; and
- ensure that the organization is accountable to its members and the public.

## Record Retention

### Generally:

- Incorporation Documents and Signed Minutes of the Board  
- 2years after closure of organization - lifetime
- Human Resources (employees and volunteers) - 99+ years
- Financial Records – 7 years

# Organization Insurance

## *What are the different types of insurance?*

- **General Liability**
- **Directors & Officers**
- Errors and Omissions
- Equipment Breakdown
- Business Interruption
- Cyber Crime
- Other types....

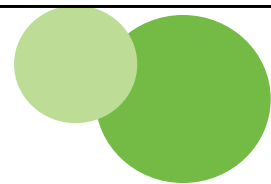
## **General Liability Insurance (Physical Coverage)**

This coverage protects your association/society for its financial responsibility under Common Law and Statutory Law for injury or death of one or more people, and for damage to property of others.

### Special Note:

- All your premises are covered.
- No Participants Exclusion
- All operations of your organization are covered.
- All volunteers and employees are covered.
- Non-Owned Automobile coverage included.

## Directors and Officers Insurance (Behavioural Coverage)

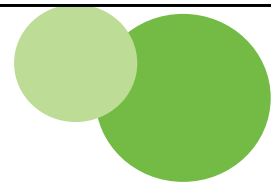


As a Director or Officer of a non-profit organization, you may be personally liable for such things as:

- Employee discrimination
- Wrongful dismissal
- Breach of fiduciary duties
- Enforcement of association or governmental regulations
- Improper advice or supervision
- Mismanagement of funds
- Acts of employees and volunteers while under the direction of a director or officer



## SUMMARY – TAKEAWAY



Associations enter into a legal framework that creates compliance obligations that afford:

- Governance responsibilities for the board
- Financial obligations, audit
- Protection/support for personnel
- New accountabilities to your organizations:  
*Grants, AGLC, financial contracts, etc.*



## SUMMARY – TAKEAWAY

- Figure out which regulations, legislation and rules apply to your organization and keep records of compliance
- Ensure you keep your organization registered
- Properly file CRA/other mandatory forms
- Don't hire a "contractor" because it is easier than hiring an "employee"
- Keep accurate books and records
- Know your and follow your own bylaws!



**THANK YOU!**