



# WELCOME

Common NPO Tax Topics

# Registered Charity vs. NPO

Topic	Registered charity	NPO
Purposes	<ul style="list-style-type: none"> <li>• must be established and operate exclusively for charitable purposes               <ul style="list-style-type: none"> <li>◦ Poverty relief</li> <li>◦ Advancement of education or religion</li> <li>◦ Certain other purposes that benefit the community in a way that the courts have said is charitable</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• can operate for social welfare, civic improvement, pleasure, sport, recreation, or any other purpose except profit</li> <li>• cannot operate exclusively for charitable purposes</li> </ul>
Registration	<ul style="list-style-type: none"> <li>• must apply to the CRA and be approved for registration as a charity</li> </ul>	<ul style="list-style-type: none"> <li>• does not have to go through a registration process for income tax purposes</li> </ul>
Charitable registration number	<ul style="list-style-type: none"> <li>• is issued a charitable registration number once approved by the CRA</li> </ul>	<ul style="list-style-type: none"> <li>• is not issued a charitable registration number</li> </ul>
Tax receipts	<ul style="list-style-type: none"> <li>• can issue official donation receipts for income tax purposes</li> </ul>	<ul style="list-style-type: none"> <li>• cannot issue official donation receipts for income tax purposes</li> </ul>

# Registered Charity vs. NPO

Topic	Registered charity	NPO
Spending requirement (disbursement quota)	<ul style="list-style-type: none"> <li>must spend a minimum amount on its own charitable activities or as gifts to qualified donees</li> </ul>	<ul style="list-style-type: none"> <li>does not have a spending requirement</li> </ul>
Designation	<ul style="list-style-type: none"> <li>is designated by the CRA as a charitable organization, a public foundation, or a private foundation</li> </ul>	<ul style="list-style-type: none"> <li>does not receive a designation</li> </ul>
Returns	<ul style="list-style-type: none"> <li>must file an annual information return (Form T3010) within six months of its fiscal year-end</li> </ul>	<ul style="list-style-type: none"> <li>may have to file a T2 return (if incorporated) or an information return (Form T1044) or both within six months of its fiscal year-end</li> </ul>
Personal benefits to members	<ul style="list-style-type: none"> <li>cannot use its income to personally benefit its members</li> </ul>	<ul style="list-style-type: none"> <li>cannot use its income to personally benefit its members</li> </ul>

# Registered Charity vs. NPO

Topic	Registered charity	NPO
Tax exempt status	<ul style="list-style-type: none"> <li>is exempt from paying income tax</li> </ul>	<ul style="list-style-type: none"> <li>is generally exempt from paying income tax</li> <li>may have to pay tax on property income or on capital gains</li> </ul>
GST/HST	<ul style="list-style-type: none"> <li>generally, must pay GST/HST on purchases</li> <li>may claim a partial rebate of GST/HST paid on eligible purchases</li> <li>most supplies made by charities are exempt</li> <li>calculates net tax using <a href="#">the net tax calculation for charities</a></li> </ul>	<ul style="list-style-type: none"> <li>must pay GST/HST on purchases</li> <li>may claim a partial rebate of GST/HST paid on eligible purchases only if it receives significant government funding</li> <li>few supplies made by NPOs are exempt</li> <li>calculates <a href="#">net tax</a> the regular way</li> </ul>
PSB Rebate	Eligible for a PSB rebate of 50% of all GST paid	Only eligible for a PSB rebate of 50% of GST paid if certain criteria are met (See below)

# Housing Co-operatives

## Can a co-operative be a non-profit or a charity?

According to the Government of Canada website located at:

[https://www.ic.gc.ca/eic/site/106.nsf/eng/h\\_00073.html](https://www.ic.gc.ca/eic/site/106.nsf/eng/h_00073.html)

“Depending on the governing legislation, a co-operative may decide not to distribute surpluses, and **in some situations will meet the definition of a non-profit organization**, except in Quebec where this possibility does not exist for co-operatives. This is often the case when co-ops aim to address social needs, such as housing, day care, and health care co-operatives.

**Co-operatives can also obtain registered charitable status should they meet all the necessary requirements.”**

# NPO vs. Charity GST

## Qualifying Non-Profit Organizations (QNPO) – GST

- Eligible for 50% PSB rebate on GST paid if 40% of gross revenue is from Government Funding
- Could have commercial activities – would file a “for profit” return and claim ITCs on expenses relating to taxable supply

## Charities

- A charity is eligible for a rebate of 50% of all GST paid
- Could also have commercial activities – filing involves a “net tax” calculation specific for charities

## Commercial Activities (\$50,000 small supplier limit on taxable supply)

- If an NPO or a Charity is charging GST on taxable supply of goods, services, rentals, etc. they should consult a professional for advice on special rules that may apply
- (example: NPO would charge GST on commercial rents; whereas, Charity may not be required)



# Municipal GST Status

## Rent-Geared-to-Income (RGI) Housing

- An entity that offers RGI housing may qualify as a designated municipal entity and be eligible for a PSB rebate of 100% on the proportion of rent from RGI units
- RGI Housing requires occupancy **OR** rent charged to be based on the tenant's income

## Designation criteria

- An organization can be designated as a municipality if it meets all of the four eligibility criteria listed below:
  1. the organization is a charity, a cooperative housing corporation, a non-profit organization or a public institution;
  2. the organization supplies long-term residential accommodation within a program to provide housing to low to moderate-income households;
  3. more than 10% of the housing units in a particular housing project are provided on a RGI basis; and
  4. the organization receives funding from a government or municipality to assist it in providing the accommodation within a program to provide housing to low to moderate-income households

# New Construction and Substantial Renovation

## New Construction

- During the construction phase you are deemed “Builder”, you can register for the GST and claim ITCs for the property and services you buy that relate to the construction of the housing (good for cash flow purposes)
- You are considered to have made a taxable sale (self-supply) of the housing on the later of **(timing of completion vs. year-end is critical)**:
  - The day construction is substantially completed (generally means interim occupancy permit has been granted); and
  - The day you first give possession or use of a unit in the housing to an individual under a lease, licence, or similar arrangement entered into for its use as a place of residence.
- You have to pay the GST on that self-supply equal to the greater of the following:
  - The amount of the GST calculated on the fair market value of the housing; and
  - The total of all of the GST paid or payable for the acquisition of the land, for the construction of the building, and for any other improvement to the property.
- There can be a good argument that FMV = cost for a subsidized housing project





# New Construction and Substantial Renovation

## Substantial Renovation

- In a major renovation project, the interior of a building is essentially gutted. Generally, 90% or more of the interior of the existing housing has to be removed or replaced to qualify as a substantial renovation (90% test).
- You do not have to remove or replace the foundation, exterior and interior supporting walls, roof, floors, and staircases to meet the 90% test.
- Only livable areas count towards a substantial renovation including finished basements and finished attics. Livable areas do not include garages or crawl spaces. Work done to partially complete a basement but not make it a livable basement does not count toward the 90% test.



# Other Common Tax Considerations

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- T1044 NPO Information Return filing
- Reduced rent taxable benefit (i.e. maintenance worker receives reduced rent)
- Vehicle taxable benefit
- Employee (T4) vs. Contractor



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