

**Parish councils beware:
Income tax department introduces a \$500 penalty and more,
for late filing of church returns**

I received a little pamphlet from Canada Revenue Agency titled “Registered Charities: What’s new?” and threw it out. Now you tell me that this pamphlet from the Income Tax authorities was very important. Why?

This pamphlet announces some very significant changes to the law affecting some 85,000 registered charities in Canada, including churches, which includes your church. Because you threw out the pamphlet you can still get the details on the internet at www.ccra.gc.ca/charities.

Does this affect my parish?

It does if your parish is a “registered charity”. If your church does not have registered charitable status then none of these rules apply to your church. A registered charity is one that is entitled to issue charitable donation receipts, providing they continue to comply with the law and the regulations, which includes filing a special annual tax return within six months of a church’s year end.

Are you telling me that churches pay income taxes and have to file tax returns like the rest of us?

No, churches do not pay income taxes; only GST and PST; but they have to file a special document covering their operations called a T3010A return and a copy of their annual financial statement within six months of their fiscal year end date. They are also eligible for a 50% rebate of the GST paid, providing they file a GST284 E return for a rebate.

What happens if we don’t follow the rules and file documents on time?

Penalties and sanctions! If a church fails to file its T3010A return on time they will now be subject to an automatic \$500 penalty, in addition to having their registration revoked. That’s \$500 in cash not 500 perogies!

What do you mean that they will revoke our registration?

If the parish’s charitable registration is revoked, the parish will no longer be able to issue registered charitable donation receipts to its parishioners. This is pretty serious stuff. Parishioners would no longer be able to claim their donations to the parish on their individual income tax returns. If that should happen, I would think that there would be a lot of unhappy parishioners.

Are there any other new rules?

There is also a Disbursement Quota (DQ) requirement, a new charitable donation receipt format, a number of other sanctions for non-compliance, and several other significant changes.

Can you explain this “Disbursement Quota” thing?

After a parish files its T3010A return, Canada Revenue Agency sends out a letter titled “*Notice of Confirmation*” which sets out the minimum amount of money a parish must spend in the next year on its charitable activities. This notice is often ignored as being some sort of a routine letter. The new rules have been expanded to include churches, so it becomes an important document. The purpose of the disbursement quota is to ensure funds are used to further charitable purposes, discourage an accumulation of excess investment funds and to keep other expenses at reasonable levels.

I still don’t understand. What do we have to do? Can you give me an example?

That’s a tricky one. Let’s say that the CRA letter, which is based on the information provided to them in the previous year says the parish has to spend \$50,000 on charitable activities but it only spends \$40,000. This would result in a “disbursement deficiency” that has to be caught up in the subsequent year. However, if the parish spends \$65,000, then there is a “disbursement excess” that can be carried forward to the following year. That is why it’s very important to complete the T3010A return properly which most parishes do not. Last year I put out a lengthy document to assist parishes on how to better complete their T3010A charities return, but from my review of their subsequent returns, I got the impression that nobody bothered to read this important document.

So, who’s responsible to ensure that the parish complies with the law and regulations?

I would say it’s a combined responsibility of the parish council, the treasurer and the pastor to ensure there is full compliance and that the parishes don’t jeopardize their charitable status. They should not hesitate to ask for assistance from their either their parishioners who might be professionally qualified, or alternatively, seek outside professional help which might cost some money.

My parish is not registered to give out “income tax receipts” to parishioners. How do we get “registered”

The parish should contact the Archeparchy office and ask for assistance from the Archeparchial Finance Council (AFC) which can then guide them through the process.

Why does my parish have to go through the Archeparchy?

All registered parishes are deemed to be an “Associated Charity” of the Archeparchy, and therefore the Archeparchy has an overriding responsibility to ensure that there is proper compliance with the law and regulations. The Archeparchial Finance Council does not want to find itself in the embarrassing position that a particular parish has not met its obligations under the law and is then being sanctioned by the Canada Revenue Agency. An ounce of prevention is always worth a pound of cure!

What are the Archeparchy's expectations of parishes regarding their financial information and what can the Archeparchy do to help parishes?

Annually, parishes are required to submit a copy of their financial statements to the Archeparchy. If the parish is a registered charity, then they must also submit a copy of their T3010A returns to the Archeparchy.

These documents are then reviewed by the AFC. There have been some issues in the past which the AFC has flagged and have been able to provide assistance to those parishes in resolving sanctions imposed by the Canada Revenue Agency.

What else can you tell me? Are there other pitfalls that parishes should be aware of?

Sure, but let's leave it for the next instalment in *Progress News*.

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