

Practical Implications of the Tax Legislation for Charitable Organizations - Two Comments

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With any change in government regulations a thorough review of the procedures of any organization is mandatory to assess the impact of changes. The Income Tax Act has necessitated a number of changes for charitable organizations and I shall outline some of the problems which our agency has been faced with as a result.

In order to comply with the income and expenditure requirements of the new rules, it is mandatory for an agency to utilize functional accounting with allocation of overhead expenses. In the past few agencies have utilized functional accounting unless they have been direct recipients of United Way funds in their respective communities but a provincial organization such as ours rarely receives United Way funds and therefore has not been required to utilize functional accounting.

It is now necessary for charitable agencies to establish a functional accounting system which will present the facts as required by the government. However, the problem does not stop at the establishment of a functional accounting system. It is necessary to allocate overhead to the various functions and therein lies a problem. The Department of National Revenue when queried recently has not established any standard formula as to what they will accept and we must assume that a time allocation for staff time will have to be acceptable until the Department can rule to the contrary. Many of the other expense items are more readily assigned but nonetheless more staff time is going to be required in order to allocate general overhead expense items.

The provincial organization with a number of operating chapters comprised primarily of volunteers must consider the implications of the functional system and how it will affect each and every chapter. Going back to the research of the Tax Act, our organization made the decision that a single registration number would be the most advisable under the disbursement rules. This means that every chapter in the Province of Ontario will utilize the division receipt number and therefore the annual statement for 1977 must be a consolidated statement incorporating all revenues and expenditures of each and every chapter plus the division office. The problem relates to the fact that many of the volunteers are not trained bookkeepers or accountants and a functional system to the novice is at best a maze. We are attempting to write a basic accounting manual in a very simple format that will enable the volunteers to continue to do the fine job they have done and yet provide us with a degree of accuracy we feel we must have to comply with the Act.

This brings me to the area that causes our organization and I am sure many

others some serious concern and that is the revocation of a registration number for failure to comply with the requirements of the Act. A prime example of what can happen can be illustrated by a situation that happened this year. Our 1976 information return was despatched to Ottawa in April after Board approval of the Annual Report. In late May we received a reminder notice to file our information return and the bookkeeper promptly despatched a duplicated copy with a notation as to when the original had been mailed. A warning letter was received from the Department in August advising us that our registration would be terminated if we did not file our information return. Upon investigation it appeared that a civil servant employed by the Department had neglected to punch the proper key in the computer. Under the 1976 Tax Act, this was not a serious problem. The 1977 Act does not provide any room for error and in a situation that is described above, if it had gone to the state where we had not challenged the Department, it would be automatic that our registration number would be revoked and a rather lengthy process would be necessary to have it reinstated. This illustrates an area where it would be useful if there were a strong organization which would have sufficient input to the government to preclude such statutes from being passed.

My involvement with the tax legislation for charitable organizations is derived from two sources:

Firstly, as a concerned professional in the public accounting field, and secondly, as the volunteer treasurer for the Ontario Association for the Mentally Retarded.

It is the second source that has provided me with the most direct exposure to the new legislation and an opportunity to assess its implications for charitable organizations in general and mine in particular.

The legislation has created many new concerns within our association of both a practical and theoretical nature. On a practical level the legislation introduces considerable and perhaps unnecessary complexity in the area of legitimate charitable activity. From a theoretical viewpoint the legislation leaves many unanswered questions which may impact on the operation of our organization. Significant concerns include the following:

1. The public reporting requirement embodied in form T3010 has added an additional cost burden to both the charitable organizations and those volunteers who assist in the preparation of such documents. Certainly, the expertise required to complete these forms is available in very few charitable organizations and almost without exception these organizations have to rely on the participation of their public accountants or professional volunteers.
2. Not only is there an additional burden associated with the reporting function but there is now a three month deadline on the submission of form T3010 and, for practical purposes, an automatic revocation of the charitable organization's registration if the three month deadline is not met. Accordingly an additional time pressure burden is placed on those that can least afford it. Already there are substantial provincial funding and reporting pressures on charitable organizations and the addition of another source is not required by an already burdened social service industry. The Ontario Association has pursued an historical policy of openness and willingness to discuss activities and finances with the public. I think it is responsible attitudes like these that will be damaged by the federal government's insistence on immediate reporting.
3. The Ontario Association is burdened with the nebulous concept of unrelated businesses. Several local associations for the retarded operate businesses that compete with local industry and are encouraged to do so by the provincial gov-

ernment in an effort to rehabilitate and provide a meaningful life for clients. Naturally, the haziness of the related business definition looms as a potential threat to the operation of these activities and one that will be closely monitored by the associations in the future. While it is appreciated that competition is only one factor in determining the unrelated status, there is an apparent conflict of priorities when tax law opposes the attempt to rehabilitate clients.

4. At the present moment, the identification of fund raising costs is undefined. While this is not necessarily a problem and certainly every situation will differ it means that there will be a disuniformity in calculating fund raising costs and determining whether the distribution rule for income raised by these activities is met.

The above concerns are ones which will have to be resolved within the next year by an already over burdened social service industry. The Ontario Association acts as co-ordinator for 122 locally incorporated associations for the mentally retarded. One can quickly appreciate that these problems, when spread over 122 separate organizations, will serve to multiply the resources required to meet the demands of the new legislation.