



Canada Revenue
Agency

Agence du revenu
du Canada

Completing the Tax Return Where Registration of a Charity is Revoked

Is this guide for you?

This guide will help you to fill out Form T2046, Tax Return Where Registration of a Charity is Revoked.

To find Form T2046 and our other forms and publications, go to canada.ca/cra-forms-publications, select “View and download forms” and see “T2046, Tax Return Where Registration of a Charity is Revoked.” You can also call Client Service at 1-800-267-2384.

An additional copy of Schedule 5 – Transfer of property to an eligible donee is included in this guide.

For more information about revocation, go to canada.ca/charities-giving and see “Revoking registered status.”

Glossary

For definitions of key terms in this guide, see the glossary on page 10 of this guide. The terms in this glossary do not replace enacted or proposed law.

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La version française de cette publication s’intitule Comment remplir la déclaration d’impôt pour les organismes de bienfaisance dont l’enregistrement a été révoqué.

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What is the revocation tax?

Under the Income Tax Act, a registered charity becomes liable to pay revocation tax when it voluntarily gives up its registration, or when the Canada Revenue Agency (CRA) revokes its registration. The purpose of this tax is to ensure that charitable property is applied to charitable use. The tax is equal to 100% of the fair market value of all remaining assets after all debts have been paid. This includes all income and gifts the charity receives during its winding-up period.

However, a revoked charity can reduce or eliminate the amount of tax owing by using its remaining assets on its charitable programs or by transferring them to an eligible donee during the one-year period following the date of the Notice of Intention to Revoke a Charity's Registration. Persons connected with the charity may also be liable for the tax under certain circumstances. For more information, see Schedule 3 – Appropriations on page 8.

Types of revocations

Voluntary revocation – The charity asks the CRA to have its registration revoked. This generally happens when the charity is closing down or merging with another charity.

Revocation for failure to file – The CRA revokes the charity's registration because it did not file its Form T3010, Registered Charity Information Return, on time.

Revocation as a result of an audit – The CRA revokes the charity's registration because an audit determined that the charity did not comply with the requirements of registration.

Revocation for other reasons – The CRA revokes the charity's registration because it did not maintain its corporate status.

Regardless of the type of revocation, each revoked organization must follow the same steps described in this guide.

When to file Form T2046 and pay the revocation tax?

The Income Tax Act requires charities to calculate on Form T2046 the amount of revocation tax that they owe, and to pay the amount when they send us Form T2046. This form is due no later than one year from the date of either the T2051A, or the letter that served as the Notice of Intention to Revoke a Charity's Registration. For more information, see "Winding-up period" on this page.

If we do not receive the completed Form T2046 three months before it is due, we will send the revoked charity Form TX11RF, Reminder to file Form T2046.

For more information, go to canada.ca/charities-giving, select "A to Z index," and see "CSP-W03, Winding-up period."

Where can I get a copy of Form T2046?

To get a copy of Form T2046, go to canada.ca/charities-giving, select "A to Z index," and see "Tax return where registration of a charity is revoked, T2046."

After Form T2046 is filed – Notice of Assessment

When we receive Form T2046, we will review it. If it is correct and complete, we will send it for processing, and a Notice of Assessment will be issued. If Form T2046 is not acceptable as submitted, we will contact the revoked charity to resolve questions, or to get missing information or documentation.

What happens if Form T2046 is not filed by the end of the winding-up period?

If Form T2046 is not filed on or before the end of the one-year winding-up period, we will calculate the revocation tax using the most recent financial information we have. A Notice of Assessment will then be issued in the amount of the revocation tax that the revoked charity owes.

In cases of abuse

Once we notify a charity that its registration has been revoked and we become aware that the charity's property is being diverted or directed to private benefit, we can at any time issue a Notice of Assessment based on the available information.

Winding-up period

The winding-up period starts the day **after** we issue a Notice of Intention to Revoke a Charity's Registration (Day 1) and ends one year later. During this period, the charity must either:

- file Form T2046 and pay any revocation tax
- apply for and be granted re-registration

The winding-up period can be shorter, if the charity files Form T2046 and pays the tax before the due date.

Note

If you think you will have difficulty filing the charity's Form T2046 within the winding-up period, contact us.

Filing an objection

Filing an objection is the first step in the formal process of resolving a dispute. You can file an objection to the Minister by writing to:

Assistant Commissioner
Appeals Intake Centre
Post Office Box 2006, Station Main
Newmarket ON L3Y 0E9

Under the Income Tax Act, a registered charity has 90 days from the date of a Notice of Intention to Revoke a Charity's Registration, Notice of Assessment, or Notice of Reassessment, to file a written objection. This written objection must explain the reasons for the objection and include all relevant facts and documents.

For more information about filing an objection, go to canada.ca/charities-giving, select "A to Z index," and see "Objections and appeals: Registered charities, registered

Canadian amateur athletic associations (RCAAAAs), and other listed qualified donees.”

Applying to re-register

What should a charity know about re-registration?

A charity that had its charitable registration revoked **less than** four years ago can apply to be re-registered. For more information, go to canada.ca/charities-giving, select “Registering for charitable or other qualified donee status” and see “Re-registration.” If the charity was revoked **more than** four years ago, its application will be treated as a new application. For more information, go to canada.ca/charities-registration.

Completing Form T2046, Tax Return Where Registration of a Charity is Revoked

Notes on filling out the return

Many of the terms used in the return have a special meaning. Refer to the glossary in this guide.

Enter all information requested on the return.

Report all amounts to the nearest Canadian dollar in the proper spaces. Do **not** show cents (for example, report \$125,754, **not** \$125,753.53). Do not enter more than one amount in a space.

A director, trustee, like official, or authorized representative of the charity must sign and date the certification area on page 2 of the return.

Identification

Complete the identification portion of the form by entering the:

- 1- Name of the charity
- 2- Address
- 3- City
- 4- Province or territory
- 5- Postal code
- 6- Former BN (registration number)
- 7- File number

Location of books and records

Write the name and address of the person who has the charity’s books and records.

A charity must keep its books and records for at least two years after the date its registration is revoked. In some cases, the books and records must be kept longer. For more information about books and records, go to canada.ca/charities-giving, select “Operating a registered charity,” and see “Books and records.”

Contact information

Write the name of the person who can give us more information about the revoked charity and about the charity’s Form T2046.

Lines 50 and 51

Line 50 – Day 1 is the day the CRA issued the Notice of Intention to Revoke a Charity’s Registration.

Line 51 – This is generally one year after Day 1. For more information, see “Winding-up period” on page 4.

Required information

Answer all the questions in this section. If you select **yes** to any of the five questions, go to the appropriate schedule and fill out the information required.

Line 81 – Did the charity own any property (including cash or receivables) on Day 1?

If the charity owned any property on Day 1 (including cash, loans, mortgages, GST/HST rebates, accounts receivable, equipment, vehicles, land, or buildings) select **yes** and fill out Schedule 1.

Line 82 – Did the charity receive any income or gifts, or make any expenditures, after Day 1?

If, after Day 1, the charity received any income (including gifts, government grants, interest, capital gains, rental income, fundraising, sales of goods and services, or membership dues) or made any expenditures, select **yes** and fill out Schedule 2.

Line 83 – Did the charity make any “appropriations” (dispose of property at less than fair market value) in the 120 days up to Day 1?

During the 120-day period ending on Day 1, if any property was transferred to a person, business, or organization, that then benefited from the transfer at the charity’s expense, select **yes** and fill out Schedule 3.

For more information about appropriations, see the glossary.

Line 84 – Did the charity have any outstanding debts on Day 1?

If the charity had any debts or liabilities on Day 1, select **yes** and fill out Schedule 4.

Line 85 – Did the charity transfer any property to eligible donees after Day 1?

If the charity transferred property to eligible donees, select **yes** and fill out Schedule 5.

For more information about eligible donees, see the glossary.

Summary of calculations

First fill out the applicable schedules. They will tell you what amounts to enter on lines 100, 200, 300, 400, and 500 in the Summary of calculations.

Line 101 – Gross revocation tax

Add lines 100, 200, and 300. Enter the total on line 101.

Line 102 – Allowable deductions

Add lines 400 and 500. Enter the total on line 102.

Line 103 – Revocation tax

Subtract line 102 from line 101. Enter the result on line 103. This is the amount of revocation tax that the charity must pay.

If the result is negative, enter “0.”

Certification

This form must be signed by a director, trustee, like official, or authorized representative of the charity. Authorization must be on file with the Canada Revenue Agency. **It is a serious offence under the Income Tax Act to provide false or deceptive information.** The person signing the return should verify all the information provided to make sure it is correct, complete, and current.

Certification applies to all components of the revoked charity’s return including the completed Form T2046, all schedules and supporting documents, and the revoked charity’s financial statements.

Before mailing the return

Before mailing the return, make sure you have:

- completed the return, including all schedules that apply
- attached proof of transfers to eligible donees (if applicable)
- attached a copy of the revoked charity’s financial statements
- included a cheque or money order, if required, payable to the Receiver General. Write the name and BN/registration number of the revoked charity on the cheque or money order

Send the completed return and all related documents to:

Charities Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

By fax: **613-941-0186**

Keep a copy for the charity’s records.

Section A

Schedules 1 and 2 ask for financial information about the charity. The questions are similar to those on Form T3010, Registered Charity Information Return. However, the revoked charity must report its property at the **fair market value calculated on Day 1**, which may be different from the amounts on previous Form T3010 returns.

Schedule 1 – Property

Schedule 1 asks for the fair market value of all property owned by the revoked charity on Day 1.

Property includes cash, receivables, investments, buildings and other capital property, GST/HST rebates, and any

other property owned by the charity, including intellectual property.

If the total dollar amount of property owned by the revoked charity on Day 1 differs from the total dollar amount of the assets reported on the last filed Form T3010, **the discrepancy must be explained.**

Transfer the amount from line 116 to line 100 in the Summary of calculations.

Schedule 2 – Income and expenditures

Income

List all income the revoked charity received after Day 1.

Line 211 – Gifts from all sources

Enter the total gross amount of all gifts the charity received after Day 1. Do not include pledged amounts.

Line 212 – Income from governments

Enter the total amount the charity received after Day 1 from government grants, contributions, and contracts for goods and services provided to, or on behalf of, a government. Include amounts received from any level of government, whether federal, provincial, territorial, regional, or municipal.

Line 213 – Interest and investment income

Enter the total interest and other investment income the charity received after Day 1 (for example, dividends and interest from bank accounts, mortgages, bonds, and loans).

Line 214 – Gains/losses from the disposition of property

Note

It is important to use the method of calculation described below when calculating the revocation tax.

Enter the total gains or losses the charity realized from the disposition of property after Day 1.

A disposition is usually a sale but the word covers all ways of disposing of property, including giving it away. The proceeds of disposition are the amounts the charity received for its property.

Do **not** include amounts related to any property reported in Schedule 5 as having been transferred to an eligible donee.

Calculate gains (or losses) as follows. For each property disposed of, compare the fair market value of the property on Day 1 with the proceeds of disposition, less any costs related to the disposition of property. These costs could include fixing up a property before putting it up for sale, or fees charged by surveyors, realtors, and lawyers.

Example

Fair market value of property on Day 1	\$5,000
Proceeds of disposition	\$7,500
Costs of disposing of the property	\$1,000
Net proceeds of disposition (\$7,500 – \$1,000)	\$6,500
Gain to report on line 214 (\$6,500 – \$5,000)	\$1,500

If the charity disposed of more than one property after Day 1, add together the gain or loss on each property and enter the net result on line 214.

Put brackets around the figure on line 214 if it represents a net loss.

Line 215 – Rental income (land and buildings)

Enter the charity's gross income from renting its land and buildings received after Day 1. Add all rents, including those earned from property it used in carrying out its charitable programs. For example, include rental income from a seniors home the charity operated. Also include any rental income from leasing out surplus space, such as a church parking lot during the week, or a university residence during the summer.

Report any income the charity earned from leasing equipment or other resources on line 219, "Other income."

Line 216 – Memberships, dues, and association fees

Enter the total income the charity received after Day 1 from memberships, dues, and association fees that entitle a member to some privilege or service.

Line 217 – Income from fundraising (not previously reported)

Enter the gross amount the charity received after Day 1 from activities, events, or campaigns it conducted occasionally to raise funds (for example, an auction, mail campaign, concert, or golf tournament). If the charity has a contract with an external fundraiser, include the gross amounts the fundraiser received directly for the activities it conducted on behalf of the charity.

Line 218 – Income from sale of goods and services (not previously reported)

Enter the gross income the charity received after Day 1 from selling goods and services to individuals, businesses, or organizations. This includes income received from providing goods and services as part of the charity's programs, such as tuition fees or museum admission charges. It also includes the gross income from related businesses, such as a church bookstore or hospital gift shop.

Line 219 – Other income

Enter all other gross income received after Day 1 that you have not already recorded on lines 211 to 218. Briefly explain the nature of the income.

Line 220 – Total income

Add lines 211 to 219 and enter the total on line 220.

Expenditures

List all the revoked charity's expenses that were paid after Day 1.

When an item is used both on behalf of the charity and for personal use (for example, a vehicle), report only the expenses incurred on behalf of the charity.

Line 251 – Advertising and promotion

Enter the total amount paid after Day 1 for advertising and promotion. This includes amounts spent to draw attention

to the charity and its programs, including advertising costs related to fundraising.

Line 252 – Interest and bank charges

Enter the total amount paid after Day 1 in interest and bank charges.

Line 253 – Licenses, memberships, and dues

Enter the total amount paid after Day 1 for licenses, memberships, and dues.

Line 254 – Travel and vehicle

Enter the total amount paid after Day 1 for travel and vehicle expenses. Include travel and accommodation costs, and expenses related to vehicles such as gas, repairs, maintenance, and lease payments.

Line 255 – Office supplies and expenses

Enter the total amount paid after Day 1 for office supplies and expenses. This includes items such as postage, minor equipment purchases, meeting expenses (not including occupancy costs), and the cost of preparing and distributing reports.

Line 256 – Occupancy costs

Enter the total amount paid after Day 1 on occupancy costs such as rent, mortgage payments, building maintenance, insurance, utilities, taxes, and all other costs related to maintaining the premises that the charity used. Report expenditures related to investments on line 261.

Line 257 – Professional and consulting fees

Enter the total amount paid after Day 1 for professional and consulting services (for example, legal, accounting, and fundraising services).

Line 258 – Education and training for staff and volunteers

Enter the total amount paid after Day 1 for education and training for staff and volunteers. This includes the cost of seminars, conferences, and courses.

Line 259 – Salaries, wages, benefits, and honoraria

Enter the total amount paid after Day 1 for all compensation of full-time and part-time employees. Compensation includes salaries, wages, commissions, bonuses, fees, honoraria, and the value of taxable and non-taxable benefits.

Line 260 – Expenditures on charitable activities (not previously reported)

Enter the total of all amounts, not previously reported, that the charity paid after Day 1 to deliver its charitable programs, such as payments for scholarships.

Line 261 – Other expenditures

Enter all other amounts paid by the charity after Day 1 and briefly explain the nature of the expenditures.

Line 270 – Total expenditures

Add lines 251 to 261 and enter the amount on line 270.

Line 280 – Net income

Subtract line 270 from line 220 and enter the amount on line 280.

Transfer the amount from line 280 to line 200 in the Summary of calculations.

Line 290 – Portion of Line 270 that is the total expenditures on charitable activities

Enter the portion of the amount on line 270 that represents what the charity used to conduct its own charitable activities. This includes the amount reported on line 260, plus the parts of the occupancy costs, salaries, and other reported expenditures that are directly related to carrying out a charitable activity. Do not include amounts for general administration, fundraising, related businesses, or political activities.

Schedule 3 – Appropriations

An appropriation is the transfer of a charity's property to an individual or organization where the recipient receives an unwarranted benefit as a result. The CRA reserves the right to review **all** of a charity's transactions to determine whether any of them amount to an appropriation. For more information about appropriations, see the glossary in this guide.

Appropriations that must be listed in this schedule are those that took place before the charity received the Notice of Intention to Revoke a Charity's Registration, specifically those that occurred in the 120-day period ending on Day 1.

List all transactions that occurred in the 120-day period ending on Day 1 and that meet the definition of an appropriation in the glossary. Include a short description of the property that was transferred, the date of the transfer, the name and full address of the individual or organization that received the property, and the **amount of the appropriation**.

The amount of an appropriation is the fair market value of the property less anything given to the charity for the property. For example, if the fair market value of a property is \$1,000 and the charity accepts \$200 for it, the amount of the appropriation is \$800. For more information about fair market value, see the glossary in this guide.

Add the amount of each appropriation, and enter the total on line 302.

Transfer the amount from line 302 to line 300 in the Summary of calculations.

If you need more space to record appropriations, attach a separate sheet.

Section B

Schedule 4 – Outstanding debts

A revoked charity can reduce its revocation tax by the amount it owes on Day 1.

List all the charity's debts that were outstanding as of Day 1. For each debt, give the name and address of the

creditor, and the amount of the debt. Debts include loans, mortgages, and unpaid bills.

Add the amount of each debt and enter the total on line 402. Transfer the amount from line 402 to line 400 in the Summary of calculations.

If you need more space to record the debts that were outstanding on Day 1, attach a separate sheet.

Schedule 5 – Transfer of property to an eligible donee

A revoked charity can reduce its revocation tax owing by transferring property to an **eligible donee** in the year following Day 1.

An eligible donee is a **charity** that meets the following criteria at the time the property was transferred to it:

- It is a registered charity under the Income Tax Act.
- More than half of the members of its board of directors/trustees deal at arm's length with each member of the board of directors/trustees of the revoked charity.
- It has filed all its annual information returns (Form T3010).
- It is not subject to a suspension of its tax-receipting privileges.
- It has no unpaid liabilities under the Income Tax Act or the Excise Tax Act.
- It is not the subject of a certificate under the Charities Registration (Security Information) Act.

In some cases, a municipality may become an eligible donee for the benefit of the community when an eligible charity cannot be found to keep the property in the charitable sector. The transfer of property must be authorized by the Minister. If this is your situation, contact the Charities Directorate at **1-800-267-2384** to get authorization before making the transfer to the municipality.

Note

The governing documents of some charities contain detailed provisions. For example, they may name a particular entity to which the property is to be transferred when the charity dissolves. This type of restriction can make it difficult for the charity to find a group that matches the provisions of both its governing documents and the definition of an eligible donee in the Income Tax Act. If this is the case, contact us.

The revoked charity may not be familiar enough with the internal affairs of the charity or municipality to which it proposes to transfer property to be able to certify that the charity is an eligible donee. For this reason, the recipient charity or municipality is asked to certify its own eligibility.

Before making a transfer, the revoked charity should ask the charity or municipality it is planning to transfer assets to whether it qualifies as an eligible donee. The revoked charity must give the recipient charity or municipality a blank Schedule 5 (the criteria are listed on the schedule), and the recipient must certify that it meets the Income Tax Act definition of an eligible donee.

An **authorized representative of the recipient eligible donee** must sign and date the certification area of Schedule 5. Include a daytime telephone number where we can contact the representative if we need more information.

You must show proof of each transfer to an eligible donee. Include documents such as cancelled cheques, proof of transfers of title to property, bank statements, or other supporting documents.

If property is transferred to more than one eligible donee, fill out a separate Schedule 5 for each donee. This guide includes a copy of Schedule 5, which you can copy if required.

For each property transfer, give a short description of the property, the date it was transferred to the eligible donee, and the eligible amount of the transfer, which is the fair market value of the property less anything given to the charity for the property. Select the box indicating that you have attached the proof of transfer.

Add the eligible amount of each transfer and record the total on line 502.

If only one eligible donee is involved, transfer the amount from line 502 to line 500 in the Summary of calculations. If more than one eligible donee is involved, first add the amounts recorded on line 502 of each Schedule 5, and transfer this combined total to line 500 of the Summary of calculations.

How to amend the return

If you want to make changes to Form T2046 after you have sent it to us, call the Charities Directorate at one of the numbers listed on page 10.

Frequently asked questions

Q1. Why must we fill out this return?

A1. The Income Tax Act requires every charity whose registration has been revoked to fill out and send us Form T2046, Tax Return Where Registration of a Charity is Revoked. We use the information on this return to make sure that charitable assets are used in accordance with the Act.

Q2. Can we transfer property to a non-profit organization?

A2. No. Transfers to non-profit organizations are not allowed either during the charity's registration or after its registration is revoked. Under the Income Tax Act, a transfer to a non-profit organization cannot be used to reduce the amount of revocation tax owing. Only transfers to eligible donees will reduce the tax.

Q3. What will happen to the charity's remaining property if we do not transfer it to an eligible donee?

A3. The revocation tax, which is set at the value of the remaining property after allowable deductions and transfers, must be paid to the Receiver General. If the tax is not paid, the property could be seized and sold, and the proceeds used to pay the tax.

Q4. We represent a group of registered charities, and the plan is for the charities to join together into one body. Will we have to fill out Form T2046?

A4. Not necessarily. There are various ways for charities to join together, depending on whether they are corporations and under which provincial, territorial, or federal law they received their corporate status.

Under some laws, one or more of the charities cease to exist and an entirely new body is created. The charities may have to follow the voluntary revocation process. In these cases, Form T2046 should be filled out and sent in along with proof of the transfer of the assets (such as cancelled cheque, bank statements, title of property or other supporting documents) to show that the property has been transferred to the new charity. We will also accept a letter from the new charity stating each asset that they have received from the revoked organization.

Under other laws, the legal existence of the original entities survives the process of joining together. There is no need for a voluntary revocation, and no need to fill out Form T2046. Incorporated charities should consult with their incorporating authority for information about the requirements for charities that are joining together.

See "amalgamation," "merger," and "consolidation" in the glossary in this guide. Charities should contact us before entering into any of these arrangements.

For more information, go to canada.ca/charities-giving, select "Operating a registered charity," then "Making a change to your organization" and see "Amalgamation, merger, and consolidation."

Q5. Our charity was revoked for not filing its annual Form T3010. How can we re-register our charity?

A5. The charity must:

- pay a \$500 penalty
- submit an Application to Register a Charity under the Income Tax Act through My Business Account
- submit any missing Form T3010s and financial statements
- pay all taxes, penalties and interest for which it is liable under the Income Tax Act or the Excise Tax Act

For more information, see "Applying to re-register" on page 5.

Q6. Is the \$500 penalty refundable if the Charities Directorate does not re-register our charity?

A6. No, the \$500 penalty is not refundable. However, taxpayer relief provisions allow for penalties to be waived in extraordinary cases. For more information, go to canada.ca/cra-forms, select "View and download publications" and see "IC07-1R1, Taxpayer Relief Provisions."

Q7. If the charity is revoked for failure to file a second time, will the charity have to pay a second penalty?

- A7. Yes, the \$500 penalty is payable for each infraction. For more information, go to canada.ca/charities-giving, select “A to Z index” and see “Penalties and suspensions.”
- Q8. The former directors of the charity asked for a voluntary revocation. Will we have to pay the \$500 penalty if we decide to apply for re-registration?
- A8. No. The penalty only applies to a charity that loses its registration because it did not file its Form T3010, Registered Charity Information Return, on time.
- Q9. How do I know if an organization is a registered charity?
- A9. The Charities and giving web pages give a list of all registered charities at canada.ca/charities-list
- Q10. Where can I find out more about revocation?
- A10. For more information about the types of revocation, revocation tax, requirements for re-registration, and more, go to canada.ca/charities-giving and select “Revoking registered status.”

Need more information?

Website

For more information about registered charities, including forms and publications, policies and guidance, and charities listings, go to canada.ca/charities-giving.

Telephone numbers

You can reach us by calling:

- 1-800-267-2384
- 1-800-665-0354 for TTY service for persons with a hearing or speech impairment

Fax number

To send us a fax related to your return, use the following number:

613-941-0186

Mailing address

Charities Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

Your opinion counts!

If you have any comments or suggestions that would help us improve this guide, we would like to hear from you. You can email your comments and suggestions to charities-bienfaisance@cra.gc.ca.

Glossary

The terms included here are given as plain language explanations of some of the technical terms used in this guide, and do not replace the law, either enacted or proposed.

Amalgamation

When charities amalgamate, they bring their memberships, assets, and liabilities into the entity that emerges. The original charities do not cease to exist or dissolve. Although they no longer have separate identities, they continue to exist within a single entity—the amalgamated charity.

The amalgamated body keeps and uses one business number (BN). The other BNs will be terminated. The charity can usually choose which BN it keeps.

Appropriation

An appropriation occurs when a charity transfers property to an individual or organization, and the recipient of the transfer receives an unwarranted benefit as a result.

The amount of an appropriation is the fair market value of the property transferred minus any amount the recipient gave the charity for the property.

For example:

1. If a charity sells property that is worth \$100 for \$10, the charity creates an appropriation of \$90. If it simply gives the property away, the amount of the appropriation is \$100.
2. If a charity winds up its affairs and spends its remaining funds on a vacation for its directors, each director receives an appropriation equal to the amount the charity paid for their vacation. The vacation is not justifiable as a proper use of charitable resources.

Those receiving an appropriation from a charity may be jointly liable to pay the revocation tax up to the amount of the appropriation. In other words, if a charity cannot pay the tax because it has given away its property, then those who improperly benefited from the transfer become liable.

Appropriations that are included in the calculation of the revocation tax are those that took place up to 120 days before the charity received a notice of intention to revoke its registration.

An appropriation does **not** occur:

- when a charity makes a gift to a qualified donee on or before Day 1, or to an eligible donee after Day 1
- when a charity transfers property to a beneficiary in the course of delivering a charitable program, for example, to the winner of a scholarship

Arm's length

The term “at arm's length” describes a relationship where persons act independently of each other, or who are not related. The term “not at arm's length” means persons acting together without separate interests, or who are related.

Related persons are individuals who are related by blood, marriage or common-law partnership, or adoption. Examples of blood relatives who are not considered to deal at arm's length with each other include grandparents, parents, brothers, sisters, and children. Examples of persons related by spousal relationship include the grandparents of a spouse, the parents of a spouse, the brothers and sisters of

a spouse, the spouse of a child, and the spouse of a grandchild. Generally, in determining arm's length relationships, common-law partners are treated in the same way as legally married spouses. Adopted children are treated in the same way as blood-related children.

Related persons also include individuals or groups and the corporations in which they have a controlling interest. Persons related to these individuals or groups are also considered related to those corporations.

For more information about arm's length, go to canada.ca/charities-giving, select "A to Z index" and see "Related persons and dealing at arm's length, Income Tax Folio S1-F5-C1."

BN/registration number

The business number (BN) is used by the federal government to identify organizations and the various program accounts they have. A complete BN has two parts: the registration number (first nine digits) and the account identifier (two letters and four digits). The registration number is the same for all accounts an organization has with the federal government. An organization may have more than one program number assigned by the CRA for each of its business programs including corporate income tax, payroll deductions, goods and services tax/harmonized sales tax (GST/HST), and registered charities. The registered charity account identifier always starts with the letters "RR."

For the purposes of filling out Form T2046, you must use the RR number designation. If you are unsure of a registered charity's business number, contact us.

Charities Registration (Security Information) Act

This is a law enacted by Parliament in 2001 as Part 6 of the Anti-terrorism Act. It provides a way to revoke the registration of any charity when security information is used to establish that the charity is involved in supporting terrorism. Under the Act, two ministers may sign a special certificate when they have reasonable grounds to believe that a charity is implicated in supporting terrorism. A court then reviews the evidence. If it confirms that it was reasonable to issue the certificate, the charity's registration is revoked on the date of the court's determination.

The revocation tax applies to a charity that loses its registration as a result of such a certificate. Day 1 in such a case is the day the court confirms the certificate.

Consolidation

Consolidation takes place when all the original entities dissolve and transfer their assets to a single new entity. The original entities undergo a voluntary revocation of their registration. The new consolidated entity applies for registration and, if accepted, will be given a new BN.

Day 1

Day 1 is the day on which the CRA issued the Notice of Intention to Revoke a Charity's Registration.

Directors/trustees

Directors and trustees are persons who function as the charity's elected or appointed governing body. This generally means those who hold positions identified in the charity's governing documents, such as chair, treasurer, secretary, or past president. See also "Like official" below.

Eligible donee

An eligible donee is a **charity** that meets the following criteria at the time the property was transferred to it:

- It is a registered charity under the Income Tax Act.
- More than half of the members of its board of directors/trustees deal at arm's length with each member of the board of directors/trustees of the revoked charity.
- It has filed all its annual information returns (Form T3010).
- It is not subject to a suspension of its tax-receipting privileges.
- It has no unpaid liabilities under the Income Tax Act or the Excise Tax Act.
- It is not the subject of a certificate under the Charities Registration (Security Information) Act.

A revoked charity can reduce its revocation tax owing by transferring property to an eligible donee in the year following Day 1.

In some cases, a municipality may become an eligible donee for the benefit of the community when an eligible charity cannot be found to keep the property in the charitable sector. The transfer of property must be authorized by the Minister. If this is your situation, contact the Charities Directorate at **1-800-267-2384** to get authorization before making the transfer to the municipality.

Note that an eligible donee is not the same as a qualified donee (see below).

Fair market value

Fair market value generally means the highest price, expressed in dollars, that a property would bring in an open and unrestricted market, between a willing buyer and a willing seller who are both knowledgeable, informed, and prudent, and who are acting independently of each other.

Financial statements

At a minimum, financial statements consist of a statement of assets and liabilities and a statement of revenue and expenditures for the fiscal period. They should show the different sources of a charity's revenue and how it was spent.

Fiscal period

A fiscal period is the 12 months (or, for incorporated charities, a period of up to 53 weeks) covered by the charity's financial statements. Many registered charities have a fiscal period that is the same as the calendar year; others have a different fiscal period (for example, ending August 31 or March 31).

Governing documents

These are the documents that formally establish a charity and govern its operations. Some examples of governing documents are letters patent, certificate of incorporation, memorandum or articles of association, a constitution, trust documents, and bylaws.

Intellectual property

Intellectual property is the legal right that results from intellectual activity in the industrial, scientific, literary and artistic fields. Examples include patents, trademarks, copyrights, and industrial designs.

Like official

A like official is a person who has governing responsibilities for the charity similar to those of the governing board or a trustee. This could include anyone having control and management of the administration of the charity, and may include positions such as chair, vice-chair, treasurer, secretary, or past president.

Merger

A merger describes the situation where charities join together into a single entity. One of the original charities continues in existence while the others wind up their affairs and transfer their property to it. The entities that are winding up undergo a voluntary revocation of their registration.

Property

Under the Income Tax Act, property means more than land and buildings. It extends to property of any kind whatever, whether real or personal, tangible or intangible, and includes cash and rights. It also includes intellectual property.

Qualified donee

Under the Income Tax Act, qualified donees are organizations that can issue official donation receipts for gifts that individuals and corporations make to them.

The following types of organizations are qualified donees:

- a registered charity (including a registered national arts service organization)
- a registered Canadian amateur athletic association
- a registered housing corporation resident in Canada set up only to provide low-cost housing for the aged
- a registered Canadian municipality
- a registered municipal or public body performing a function of government in Canada

- the United Nations and its agencies
- a registered university outside Canada that is prescribed to be a university, the student body of which ordinarily includes students from Canada
- a registered charitable organization outside Canada to which Her Majesty in right of Canada has made a gift
- Her Majesty in right of Canada, a province, or a territory

Revocation

In this guide, revocation refers to the action the CRA takes that has the effect of removing a charity's registration as a charity for the purposes of the Income Tax Act.

Revocation date

This is the day revocation takes effect, that is, the day on which the CRA publishes a notice that names the charity in Part I of the Canada Gazette.

Revocation tax

This is the tax that a charity must pay when its registration is revoked. The tax is 100% of the fair market value of the charity's remaining assets after all debts have been paid. A charity can reduce the amount of revocation tax it owes by using its remaining assets on its charitable programs, or by transferring them to an eligible donee during the winding-up period.

Trustees

See "Directors/trustees."

Winding-up period

Under the Income Tax Act, the winding-up period of a charity is the period that begins immediately after the day the minister issues a notice of intention to revoke the registration of the charity, or immediately after the day on which it has been determined that a certificate served under the Charities Registration (Security Information) Act is reasonable, and ends on the day that is the latest of:

- the day the charity files Form T2046, Tax Return Where Registration of a Charity is Revoked, but no later than the day on which the charity is required to file that return
- the day the minister last issues the charity a Notice of Assessment of revocation tax payable under the Act for that taxation year by the charity
- if the charity has filed an objection or appeal for that assessment, the day the minister may take a collection action under the Act in respect of the tax payable

Schedule 5 – Transfer of Property to an Eligible Donee

Protected B
when completed

Schedule 5 – Transfer of property to an eligible donee (refer to Guide RC4424)

Fill out a separate Schedule 5 for each eligible donee. An additional copy is available in the guide.

You must show proof of each transfer to an eligible donee. Include documents such as cancelled cheques, proof of transfers of title to property, or other supporting documents.

An eligible donee is a charity that meets the following criteria at the time the property was transferred to it:

- a) It is a registered charity under the Income Tax Act.
- b) More than half of the members of its board of directors/trustees deal at arm's length with each member of the board of directors/trustees of the revoked charity.
- c) It has filed all its annual information returns (Form T3010).
- d) It is not subject to a suspension of its tax-receipting privileges.
- e) It has no unpaid liabilities under the Income Tax Act or the Excise Tax Act.
- f) It is not the subject of a certificate under the Charities Registration (Security Information) Act.

Note:

When an eligible charity cannot be found, a municipality may be considered as an eligible donee. In these cases, the transfer of property must be authorized by the Minister. If this is your situation, you must contact the Charities Directorate at **1-800-267-2384**.

Certification of eligibility

I hereby certify that _____
Recipient charity's name and BN/registration number
met all the criteria listed above and was therefore an eligible donee at the time the property listed below was transferred to it.

Name of authorized representative of eligible donee (recipient charity)

Date

Signature

Telephone number

Description of transferred property	Date of transfer	Eligible amount transferred	Proof of transfer attached
		\$	<input type="checkbox"/>
		\$	<input type="checkbox"/>
		\$	<input type="checkbox"/>
Total eligible amount transferred (Transfer this total to line 500 of the Summary of calculations)		<div>502</div> \$	

If the charity transferred property to more than one eligible donee, add the amount reported at line 502 in each completed Schedule 5, and then transfer this combined total to line 500 of the Summary of calculations.