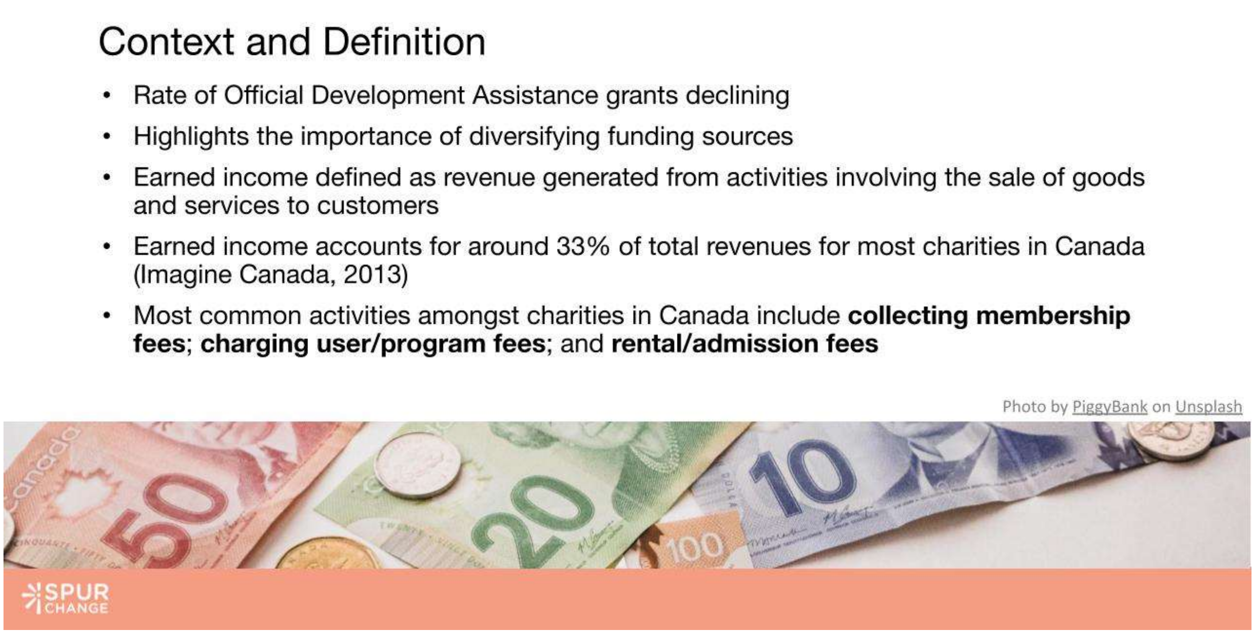
Canadian Content, video 1. Pursuing earned revenue as a charity in Canada.



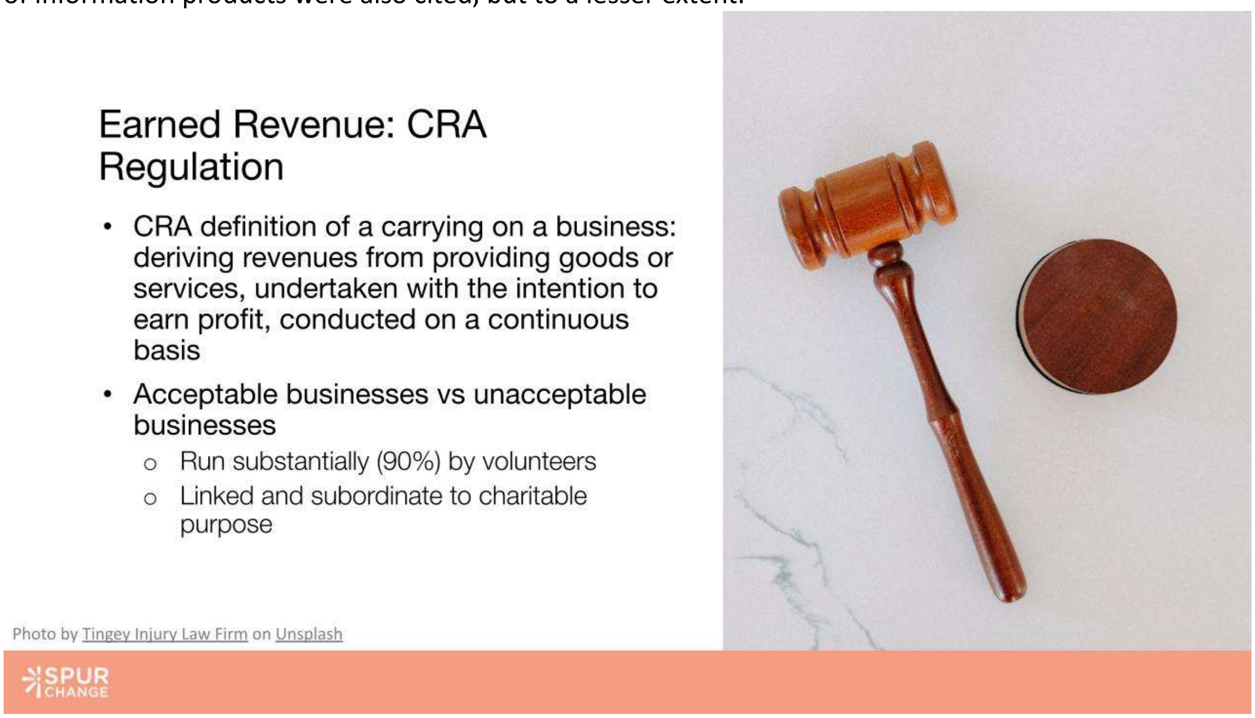
Context and Definition. In its latest report analyzing trends in the global aid architecture, covering the period between 2010 to 2019, the World Bank states that the rate of Official Development Assistance grants comprising overall public and private sector financing to developing countries, has decreased since 2006, while financing from private sources have increased significantly.

The global economic downturn experienced as a result of the COVID-19 pandemic, the decline in grant funding, and the proliferation of new players and movements in the international cooperation funding landscape, mean charities and non-profits need to adapt in order to ensure their sustainability; critical to this is diversifying revenue sources.

In Change the Game Academy's Module 12, participants are presented with a number of additional fundraising techniques. Many of these techniques are creative ways for charities and non-profits to engage in earned income activities.

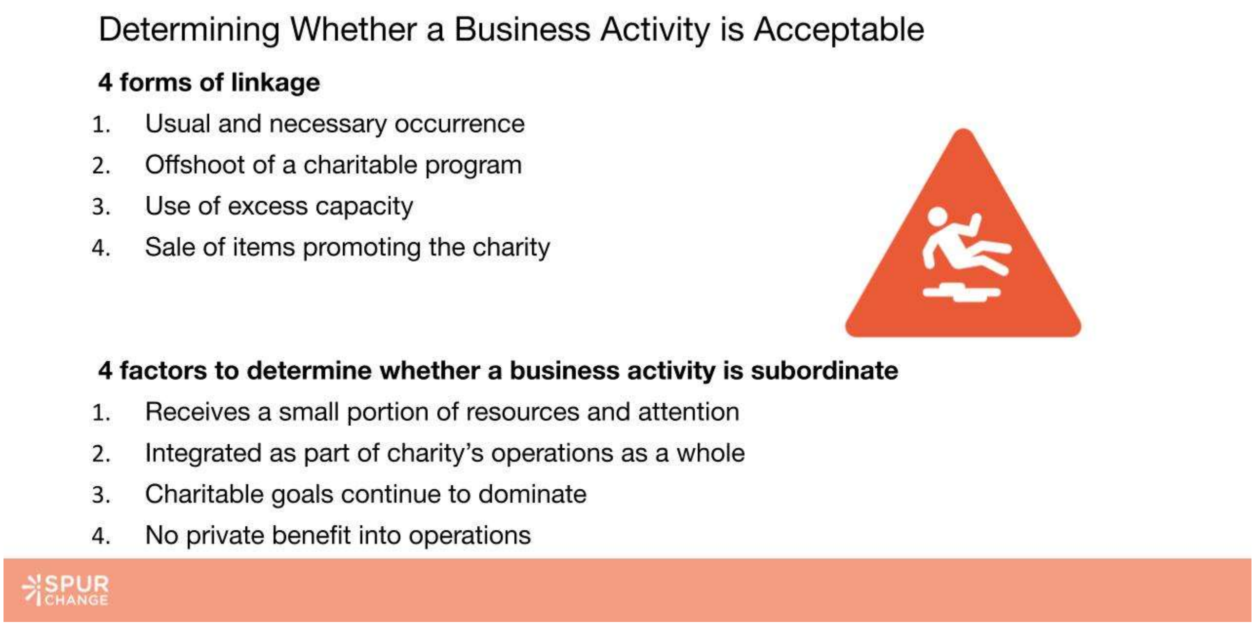
Imagine Canada defines earned income generation as revenue-generating activities that involve the sale of goods or services, such as products, expertise, or processes, to customers, who can include individuals, businesses, as well as charitable and non-profit organizations.

According to a study conducted by Imagine Canada in 2013, earned income accounts for around 33% of total revenues for most charities in Canada, and is often used to fund the organization as a whole, as opposed to individual programs. The most common earned income activities reported amongst charities included the collection of membership fees, charging user or program fees, and charging rental and admission fees. Charging consulting fees, selling publications like magazines or newsletters, and the sale of information products were also cited, but to a lesser extent.



As per CRA requirements, nearly all of a charity's resources must be allocated to furthering its charitable purposes, therefore resources used for other purposes, like carrying on a business, are subject to strict regulation under the Income Tax Act.

First, it's important to understand how the CRA defines a business and what it means to carry on a business. A business, according to the CRA, is when a charity derives revenues from providing goods or services, undertaken with the intention to earn profit. Carrying on a business is when this commercial activity is conducted on a continuous or regular basis.



Let's break this down further. When it comes to determining whether a charity is running a 'related business,' the CRA will first seek to determine whether the business is linked to a charity's purpose. There are four forms of linkage, and only one form needs to be met for a business to be considered "linked" to a charitable program.

- The first form of linkage is that the business activity is a usual and necessary occurrence of a charitable program, in other words, necessary for the effective operation of the program, or necessary to improve the quality of the service delivered. An example provided by the CRA is having a parking lot at a hospital that charges a fee. This parking lot is deemed necessary to better serve patients visiting the hospital.

- The second form of linkage is when the business activity is an offshoot or a by-product of a charitable program. An example provided by the CRA is a heritage village, planting various crops to demonstrate to visitors how 19th century farming implements were used. These crops are then taken to a mill to be ground into flour, and that flour is then sold in a for-profit grocery store. This would be considered a related business because the product being sold was produced as part of the charity's educational program operations.

- The third form of linkage is when a business activity involves the use of excess capacity, or using a charity's assets and staff to gain income during periods when these resources aren't being used to their full capacity. For example, a charity holds an outdoor arts festival, and needs tents to protect the art from inclement weather, but there are no tents available for rent. The charity decides to buy its own tents and can rent those tents out when not in use.

- Finally, when a charity sells products, and these products are promoting the charity, then this would be considered a related, or acceptable business activity. This would include t-shirts or posters displaying a charity's name and logo, used to advertise, promote, or symbolize the charity.

When it comes to determining whether the business being run by a charity is related or acceptable, the CRA will also seek to assess whether the business is subordinate to the charity's purpose, by looking at four factors:

The business activity, relative to the charity's operations as a whole, should receive a small portion of the charity's attention and resources; is integrated as part of the charity's operations, in other words not a self-contained unit; charitable goals continue to dominate decision making of the charity; and the organization continues to operate for an exclusively charitable purpose, not allowing any private benefit into its operations.

For non-profit organizations, CRA interpretations of what constitutes profits are very strict, and even intention to earn a profit equates to being organized/operated with the objective of profit. Additionally, non-profit organizations can only earn a profit if it is incidental to activities supporting a non-profit objective.

The CRA goes on to define what is considered an acceptable or related business, and what is an unacceptable or unrelated business. An acceptable business is one that is either run substantially by volunteers, or one that is linked to a charity's purpose, and subordinate to that purpose.

Thank you