
CAN A COMMUNITY FOUNDATION UNDERTAKE CHARITABLE ACTIVITIES BEYOND GRANTMAKING?

Community Foundations are registered as “[public foundations](#)” under the Income Tax Act (Canada). The definition of a public foundation according to the Income Tax Act (Canada) is:

- it is established as a corporation or a trust;
- it has only charitable purposes;
- it generally gives more than 50% of its income annually to other [qualified donees](#), usually other registered charities, but it may carry out some of its own charitable activities;
- more than 50% of its directors, trustees, or like officials deal with each other at arm’s length; and
- it generally receives its funding from a variety of arm’s length donors.

A community foundation’s charitable activity is primarily in making grants to qualified donees, and its community leadership work. However, a community foundation may also be able to engage in direct program and service delivery enabling it to provide funding directly to an individual (for instance providing scholarships directly to students) or to an organization that is not a registered charity (for instance to a not-for-profit). There are a number of things to consider if you are interested in this kind of charitable activity.

Your foundation will be fully accountable for any programs or services, i.e. the program or activity must be under the foundation’s direct financial and administrative control. Your board of directors will need to consider how it will meet the requirements including:

- **Objects and bylaws:** Your foundation’s governing documents must include the ability to undertake direct charitable activities and define what they are. These activities must make up less than 50% of your foundation’s charitable activities under the Income Tax Act guidelines.
- **Liability risks:** Ensuring appropriate insurance coverage if required. For example, if you fund a not-for-profit organization in food service, you must be covered for potential liabilities such as food poisoning. All potential risks for various activities should be considered.
- **Financial accountability:** You will need to track and produce records to support expenditures for any or your own charitable activities for audit purposes. These expenses are on a different line of Form T3010 than are grants.
- **Human resources:** Direct program and service delivery usually requires significant time and resources. Give careful consideration to how this might affect the core mission of your foundation for endowment building and donor services, broad grantmaking and inclusive community leadership.

ILLUSTRATION: SCHOLARSHIPS

Normally, community foundations make scholarship grants only to qualified donees such as a university, college or school board where the students are enrolled. The institution gives the students the funds directly, and provides whatever tax slips may be necessary. If your foundation wanted to pay scholarships directly to students, your bylaws must include an objective such as “providing scholarships to deserving students.” You would also be responsible for providing any tax slips to students if required for their income tax return. Further, program details must be submitted to the Canada Revenue Agency in your statement of activities to ensure it is within the limitations imposed by the Income Tax Act.

[Click here](#) for the Community Foundation Start Up Manual. Pages 21-23 provide more information about the process of charitable registration, and examples of wording for objects relating to direct program and service delivery.

[Click here](#) for the Community Foundation Regulatory Checklist. It provides more information about your obligations under Canada’s Income Tax Act and the criteria important to the health of your organization, especially those that can affect your registered charity status.

HOW CAN A COMMUNITY FOUNDATION PROVIDE FUNDING DIRECTLY TO AN INDIVIDUAL OR ORGANIZATION THAT IS NOT A QUALIFIED DONEE?

The Canada Revenue Agency (CRA) recognizes different relationships that can exist between charities and non-charities as outlined in Guidance CG-004 (see link below). Different policies and agreements apply for each type of partnership. When providing funds directly to a non-qualified donee, the community foundation must maintain direction and control over the use of its resources in fulfillment of its own charitable objects.

There are four common types of partnership arrangements recognized by CRA:

- An **agent** is an intermediary that agrees to carry out specific activities on a charity’s behalf. A charity often uses an agent when the charity cannot send its staff to a region to carry out an activity. This is the common arrangement that a charity might have with a not-for profit agency.
- A **joint venture participant** is an organization that a charity works with to carry out a charitable activity. The charity and one or more joint venture participants pool their resources to accomplish their goal under the terms of a joint venture agreement.
- A **contractor** is an organization or individual that a charity hires to provide goods and/or services. For example, a charity might hire a for-profit construction company to build temporary housing for homeless individuals.
- A **co-operative participant** is an organization that a charity works side by side with to complete a charitable activity. Rather than pooling their resources and sharing responsibility for the project as a whole, as in a joint venture, the charity and other organization(s) instead each take on responsibility only for parts of the project.

[Click here for CRA Guidance CG-004](#): Using an Intermediary to Carry Out a Charity’s Activities within Canada. It provides more detail and examples that illustrate the various arrangements.

Additional information is also contained in [A Guide for Charity/Non-Charity Partnerships](#).



HOW CAN A COMMUNITY FOUNDATION MEET THE NECESSARY ACCOUNTABILITY REQUIREMENTS FOR ACTIVITIES CARRIED OUT BY A NON-QUALIFIED DONEE?

Under the terms of an agreement for one of the partnerships noted above, the community foundation would detail the services provided, how the funds are to be used, and the documentation and reporting required ensuring the funds are expended in fulfillment of its own charitable objects.

[Click here](#) for CRA Guidance CG-004. Section 5 provides detailed information about direction and control of resources when working through an intermediary partner.

CAN A COMMUNITY FOUNDATION PROVIDE GRANTS TO NON-QUALIFIED DONEES BY FLOWING THEM THROUGH ANOTHER QUALIFIED DONEE?

Community foundations often make grants to qualified donees that partner with non-qualified donees such as not-for-profit organizations. For example, Tides Canada is a registered charity and has agreements with a number of not-for-profit organizations. If the organization applies for a community foundation grant, it must include confirmation of the partnership agreement. The foundation issues approved grants to Tides Canada. The not-for-profit organization is responsible for reporting to the community foundation as per the grant guidelines though the communication may come from Tides Canada. Tides Canada is ultimately accountable to ensure appropriate use of the funds under the terms of its agreement with the organization.