



Canada Revenue Agency

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Community Economic Development Activities and Charitable Registration

Guidance

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This guidance replaces Guide RC4143, *Registered Charities: Community Economic Development Programs*, issued on December 23, 1999.

Summary

Community economic development (CED) activities can be charitable when they further a charitable purpose.

Organizations that carry out CED activities may be eligible for charitable registration under the *Income Tax Act* if all their activities further charitable purposes.

Generally, CED activities involve improving economic opportunities and social conditions of an identified community.

CED activities may further charitable purposes that:

- relieve poverty,
- advance education; or
- benefit the community in other ways the law regards as charitable.

CED activities generally fall into five areas:

- activities that relieve unemployment;
- grants and loans;
- program-related investments;
- social businesses for individuals with disabilities; and
- community land trusts.

To be charitable, CED activities must be undertaken in a way that ensures that any resulting [private benefit](#) is **incidental**, meaning that it is necessary, reasonable, and not disproportionate to the public benefit that is delivered. If a private benefit is more than incidental, an organization can face [sanctions](#) or have its charitable registration [revoked](#).

When CED activities are undertaken in areas of social and economic deprivation, it may be easier to show that a private benefit is incidental. Each situation will be evaluated in its own context.

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A. Introduction

1. The Canada Revenue Agency's Charities Directorate registers charities under the *Income Tax Act* and ensures that registered charities continue to meet all associated requirements.
2. In this guidance, unless otherwise stated, the terms:
 - "charity" and "registered charity" include all three types of registered charities as defined under the *Income Tax Act*: [charitable organizations](#), [public foundations](#), and [private foundations](#).
 - "organization" includes applicants for registration as a charitable organization, a public foundation, or a private foundation, as well as already registered charities.
3. This guidance explains the Charities Directorate's interpretation of the relevant common law (case law or court decisions) and legislation (the *Income Tax Act*). It sets out the criteria the Charities Directorate uses to determine whether an organization that engages in community economic development (CED) activities that further charitable purposes may be eligible for registration as a charity under the *Income Tax Act*. Charitable registration is one option for organizations. Please go to [Is registration right for you?](#) for more information about this topic.
4. An organization must meet a number of general requirements to qualify for registration under the *Income Tax Act*. Refer to Charities Directorate guidance for detailed information about other registration requirements, including the following:
 - [Public benefit requirements](#)
 - [Political activities](#)
 - [Business activities](#)

Operating through intermediaries

- [Within Canada](#)
- [Outside Canada](#)
- Complying with Canada's anti-terrorism legislation
 - [Checklist](#)
 - [Charities in the international context](#)

5. This guidance provides general information only. All decisions about specific organizations are made individually, applying the law to the facts in each case. The facts may come from information the organization provides or from other information available to the Charities Directorate.

B. Community economic development in the charitable context

Key concepts

6. The law in Canada does not recognize community economic development (CED) as a charitable purpose. However, activities related to CED (CED activities) may be charitable when they directly further a charitable purpose.

7. CED refers to a wide variety of activities. Other terms that could describe similar activities include community capacity building, social enterprise, and social finance. In this guidance, CED activities may include activities associated with all such terms. For more information about these terms, see [Appendix A](#).

8. Regardless of how an activity is labeled, it will only be charitable if it directly furthers a charitable purpose. [\[Footnote 1\]](#)

9. Many CED activities involve improving economic opportunities and social conditions of an identified community. A community is often defined geographically, but in this guidance it can also mean an identified group of eligible beneficiaries who share a common characteristic that results in an economic disadvantage. Sometimes, both characteristics will be present.

10. Organizations that conduct CED activities must make sure they meet the public benefit requirement, which prohibits the delivery of unacceptable private benefits. As a general rule, a private benefit is a charitable or non-charitable benefit provided to a person, entity or organization that is not a charitable beneficiary, or a benefit provided to a charitable beneficiary that exceeds what is considered to be charitable. Most of the time, an unacceptable private benefit is one that is not incidental to achieving a charitable purpose. A private benefit will usually be incidental if it is necessary, reasonable, and proportionate to the public benefit achieved. For more information, go to [Policy Statement CPS-024, Guidelines for Registering a Charity: Meeting the Public Benefit Test](#).

C. Community economic development activities that further charitable purposes

11. CED activities may potentially further purposes that relieve poverty, advance education, or benefit the community in other ways the law regards as charitable. The following are examples of charitable purposes that can be furthered by CED activities:

- relieving poverty by relieving unemployment of the poor;
- advancing education by providing employment-related training; and
- benefiting the community in a way the law regards as charitable by:
 - relieving unemployment of individuals who are unemployed or facing a real prospect of imminent unemployment and are shown to need

- assistance; [\[Footnote 2\]](#)
- relieving conditions associated with disability;
- improving socio-economic conditions in areas of social and economic deprivation; and
- [promoting commerce or industry](#).

12. Each charitable purpose has specific requirements relating to eligible beneficiaries. [\[Footnote 3\]](#) For example:

- for a purpose that relieves poverty, eligible beneficiaries must be poor;
- for a purpose that relieves conditions associated with disability, eligible beneficiaries are individuals with conditions associated with the disability;
- when unemployment is relieved to further a purpose beneficial to the community in a way the law regards as charitable, the beneficiaries must be unemployed or facing a real prospect of imminent unemployment and be shown to need assistance.

13. The courts have not recognized “providing employment,” or “helping people find employment” as charitable purposes in and of themselves when the beneficiary group is the general public. [\[Footnote 4\]](#) However, either providing employment, or helping individuals find employment, could be a charitable activity if it directly furthers one of the charitable purposes listed in [paragraph 11](#).

14. CED activities generally fall into five areas:

- activities that relieve unemployment;
- grants and loans;
- program-related investments;
- social businesses for people with disabilities; and
- community land trusts.

15. Depending on the purpose they further, different activities may be subject to different requirements. For example, activities that advance education must be sufficiently structured, meaning they have a teaching or learning component and involve a legitimate, targeted attempt to educate. [\[Footnote 5\]](#) requirements that do not generally apply to activities that further other charitable purposes.

16. The following sections provide more details about activities within these five areas and the charitable purposes they can further.

Activities that relieve unemployment

17. Activities that relieve unemployment of individuals who are unemployed or facing a real prospect of imminent unemployment and are shown to need assistance may be charitable if they directly further one or more of the charitable purposes listed in [paragraph 11](#).

18. Examples of activities that relieve unemployment include:

- providing employment-related training (see [paragraph 21](#));
- providing career counselling;
- providing referral services to appropriate agencies for assistance;
- forming and facilitating mutual support groups for individuals seeking employment;
- providing assistance with résumés or preparing for job interviews;
- establishing lists of available jobs;
- matching individuals who are unemployed or facing a real prospect of imminent unemployment and are shown to need assistance to appropriate employers;
- providing funds to allow individuals who are unemployed or facing a real prospect of imminent unemployment and are shown to need assistance to attend job interviews or to relocate to get employment; and
- helping unemployed individuals to get employment insurance or other benefits to which they are legally entitled.

19. Helping individuals who are underemployed to get a new job can be a charitable activity when it can be shown to further a charitable purpose, such as relieving poverty or relieving conditions associated with a disability.

20. When the emphasis is on helping employers recruit employees, this does not further a charitable purpose due to the delivery of a more than incidental [private benefit](#) to the employers.

Employment-related training

21. Generally, employment-related training must not be limited to a specific employer, because this could result in an unacceptable private benefit to the employer. [\[Footnote 6\]](#) Exceptions may be possible in areas of social and economic deprivation (see [paragraphs 84-91](#)). For more information, go to [Policy Statement CPS-024, Guidelines for Registering a Charity: Meeting the Public Benefit Test](#).

22. Examples of employment-related training activities for eligible beneficiaries include:

Employability training: developing the skills necessary to prepare for employment such as English or French as a second language, as well as life skills such as time management and interpersonal relations.

Entrepreneurial training: providing instruction on preparing a business plan, obtaining financing, bookkeeping, preparing financial statements, marketing, and government regulations.

On-the-job training: providing on-the-job training in vocational or work skills that enhance an individual's employability. These activities cannot simply provide individuals with employment or supply an employer with staff. The aim and result of the program must be to provide training, not jobs. To be acceptable, programs should feature the following characteristics:

- instruction is provided to complement the on-the-job training (before or during the on-the-job component);
- the participants are employed for a limited period of time;
- the charity offers a job placement service to help graduates of the program find work in the labour force;
- the proportion of workers from the beneficiary group in relation to the total number of employees is 70% or higher, but alternative ratios may be justifiable if considerable supervision is required; and
- the focus of the activity must be to further a charitable purpose, not to generate revenue. [\[Footnote 7\]](#)

23. If these criteria are not met, the charity may be running an unrelated business, which is not permitted. For more information, go to [Policy Statement CPS-019, What is a Related Business?](#)

Grants and loans to eligible beneficiaries

Individual development accounts

24. Providing individual development accounts (IDA) may be charitable if they directly further one or more of the charitable purposes listed in [paragraph 11](#).

25. IDAs are savings accounts that are used only for a specific goal. The charity provides matching funds at a predetermined ratio (for example 2:1) to help eligible beneficiaries develop savings over a specific period. For example, a charity contributes two dollars for every dollar the individual saves. The individual then uses the amount saved for the agreed upon goal.

26. While IDAs are most commonly used to further poverty relief by relieving unemployment of the poor, they may also advance education by providing funds for employment-related training, or further a fourth category purpose such as relieving employment-related conditions associated with disability.

27. Examples of IDAs that may further charitable purposes include:

- funds to help a disabled individual modify his or her home in order to operate a home-based business;
- funds to buy tools that an unemployed tradesperson needs to work; or
- funds for employment-related training, including post-secondary education.

28. The organization must be able to provide its policy for ensuring that IDAs are used only to further charitable purposes. The policy should include the following information:

- the criteria for determining who is an eligible beneficiary of an IDA;
- how the amount of the IDA is determined;
- the acceptable uses for its IDAs; and
- when eligibility ceases based on predetermined criteria (for example, the recipient has finished school or has purchased equipment and is now employed and therefore no longer meets predetermined poverty criteria).

29. To avoid delivering more-than-incidental [private benefit](#), a charity may grant only the amount needed to achieve the charitable purpose. A charity must be able to show that its grants do not exceed this amount.

Loans and loan guarantees

30. Providing loans, including micro-loans, and loan guarantees to eligible beneficiaries may be charitable if they directly further one or more of the charitable purposes listed in [paragraph 11](#). For example, a loan or loan guarantee can help an eligible beneficiary attend courses to enhance employment-related skills.

31. Start-up loans and loan guarantees to establish businesses, including sole proprietorships or collective enterprises such as worker cooperatives, can be charitable if they directly further a charitable purpose. These loans and loan guarantees are typically accompanied by entrepreneurial training (see [paragraph 22](#)) and necessary support services.

32. However, providing loans, including start-up loans, and loan guarantees to promote entrepreneurship by, for example, helping entrepreneurs bring new and innovative ideas to the marketplace, or to promote business development, is generally not a charitable activity. These loans and loan guarantees typically fail to directly further a charitable purpose without delivering a more-than-incidental private benefit.

33. When loans, including start-up loans, and loan guarantees are provided to individuals to relieve poverty, and the recipient no longer meets the eligibility criteria, the loan or loan guarantee no longer furthers the charitable purpose. The balance of the loan should be repaid or the terms of the loan adjusted to market rates to ensure the non-qualifying beneficiary doesn't receive an undue [private benefit](#).

34. The organization must be able to provide its policy that ensures that all loans and loan guarantees further its charitable purposes. The policy should include the following information:

- the criteria for determining eligible beneficiaries; and
- in the case of start-up loans for businesses, how it determines when a start-up business has become viable and no longer needs support. For example, the organization might consider a business to be viable when it can get financing from conventional sources.

35. To avoid delivering a more-than-incidental private benefit, a charity may only loan or

guarantee an amount needed to achieve the charitable purpose. Total loans or guarantees of less than \$10,000 to eligible beneficiaries will generally be considered to meet this requirement; however, the determination will be fact-based in each case. For example, a smaller loan may achieve the same results in a developing economy that a \$10,000 loan would achieve in the Canadian context.

36. A charity must be able to provide a rationale and justification to show that its loans or guarantees do not exceed the amount needed to achieve its charitable purpose. For more information about private benefit, go to [Policy Statement CPS-024, Guidelines for Registering a Charity: Meeting the Public Benefit Test](#).

37. In most cases, interest rates are expected to be at or below [fair market value](#) to allow greater charitable benefits to be delivered. [\[Footnote 8\]](#) However, there may be circumstances when a higher rate is justified. For example, a loan at above-market rates could be justified based on terms that allow the borrower to delay repayment. Flexibility may be as important a consideration as rate for some borrowers.

38. For information about accounting for loans, see [paragraphs 61-68](#).

Program-related investments

39. Program-related investments (PRIs) may be charitable if they directly further one or more of the charitable purposes listed in [paragraph 11](#). A PRI is an activity that directly furthers the investor charity's charitable purposes. Common types or forms of PRIs include:

- loans;
- loan guarantees;
- share purchases; or
- leases of land or buildings.

40. A PRI is not an investment in the conventional financial sense. While PRIs may generate a financial return, they are not made for that reason. A PRI usually involves the return, or potential return, of capital (funds or property) within a set period of time, but this is not a requirement. A PRI may also yield additional revenue for the investor charity (such as interest), but the yield of additional revenue can be below market rates.

41. A charity could often simply fund a PRI-related activity outright because it furthers one of its charitable purposes. However, a charity may decide to invest capital with the expectation of it being returned with or without yielding additional revenue for various reasons. For example, a PRI can increase the benefits a charity can provide when the invested capital or property is returned (such as repaying the principal or ending a lease), or yields additional revenue (such as interest on a loan) as these funds or facilities can be used or re-used to support other charitable activities.

Examples of program-related investments

42. Examples of PRIs include:

Example A

A charity that has a purpose to relieve poverty by providing essential amenities of life makes a PRI in the form of a [fair market value](#) purchase of shares of an [arm's length](#) corporation (a non-qualified donee [\[Footnote 9\]](#)) that operates a commercial apartment complex. This PRI is based on a [written agreement](#) that a proportionate number of units in the apartment complex are rented at reduced rates to poor individuals who satisfy the investor charity's appropriate poverty eligibility criteria. The terms of the agreement include ongoing monitoring and reporting provisions to ensure the charity maintains the necessary direction and control over its activity, which is to provide affordable rental housing to the poor.

Example B

A charity that has a purpose to relieve unemployment of individuals who are unemployed or facing a real prospect of imminent unemployment and are shown to need assistance by providing job skills training makes a PRI in the form of a low-interest loan to a not-for-profit entity (unconnected to the investor charity and a non-qualified donee). The not-for-profit entity provides job training programs on the charity's behalf. This PRI is based on a written agreement that the funds are used only to provide training to participants who meet the investor charity's appropriate eligibility criteria. The terms of the agreement include ongoing monitoring and reporting provisions to ensure the charity maintains the necessary direction and control over its activity.

Example C

A charity that has a purpose to advance education leases a building to an arm's length organization (a non-qualified donee) at less than fair market value. The arm's length organization teaches English or French as a second language to help students develop the skills necessary to prepare for employment. The lease agreement between the charity and the arm's length organization states that all students have to meet the investor charity's appropriate eligibility criteria. The terms of the agreement include ongoing monitoring and reporting provisions to ensure the charity maintains the necessary direction and control over its activity, which is to teach eligible beneficiaries the language skills necessary to prepare them for employment.

Requirements for program-related investments

43. A PRI must directly further a charity's stated charitable purposes.
 44. According to the *Income Tax Act*, a registered charity can only use its resources (such as funds, personnel, and property) in two ways:
 - for gifting funds to [qualified donees](#); and
 - for its own activities (those over which the charity maintains ongoing direction and control, and for which it can account for any resources invested).
 45. For this reason, a PRI must:
 - be made to a qualified donee; or
 - if the recipient is a non-qualified donee, the PRI must be used for a program over which the investor charity maintains ongoing direction and control, so that the program is the investor charity's own activity.
 46. When a PRI is made for the program of a qualified donee, the investor charity does not need to retain direction and control over the resources invested. These PRIs are considered to generate gifts to the recipient qualified donees to the extent of the investment income forgone by the investor charity.
 47. If a PRI is made for a program being carried out by a non-qualified donee, the investor charity must be able to prove that the arrangement meets the "own activities" requirements of the *Income Tax Act*. This means that the program the PRI relates to must be conducted under the charity's ongoing direction and control. In many cases, the recipient non-qualified donee will act as the intermediary of the investor charity.
 48. For information about the types of arrangements an investor charity can use to establish the necessary direction and control, see the sections relating to working with intermediaries in [Guidance CG-002, Canadian Registered Charities Carrying Out Activities Outside Canada](#), and [Guidance CG-004, Using an Intermediary to Carry out a Charity's Activities within Canada](#). [\[Footnote 10\]](#)
 49. A charity that makes a PRI to a non-qualified donee must show that any [private benefit](#) resulting from the PRI is incidental (necessary, reasonable, and not disproportionate to the resulting public benefit). For more information about private benefit, go to [Policy Statement CPS-024, Guidelines for Registering a Charity: Meeting](#)
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the Public Benefit Test.

50. If a charity cannot maintain direction and control over the activity carried out by a non-qualified donee, it cannot use a PRI. However, a charity could potentially invest in, or provide resources to, the non-qualified donee at market rates (as a form of conventional financial investment) provided the investment meets the investor charity's conventional investment requirements.

51. The charity must ensure it has appropriate exit mechanisms in place to allow it to: a) withdraw from a PRI; or b) convert the PRI to a regular investment, if the PRI no longer furthers its charitable purposes. Failing to do so may result in sanctions. Examples of exit mechanisms include:

- For PRIs in the form of loans or leases, the exit mechanism is most often a condition that requires the immediate repayment of the loan or termination of the lease, or the conversion of the loan or lease to commercial terms. In the latter case, the loan or lease must subsequently be treated as an investment, not an activity that furthers a charitable purpose. The charity would be expected to get appropriate market rates of return on such an investment. Property not used in charitable programs or administration may be subject to the [disbursement quota](#).
- For PRIs in the form of shares, subject to the laws governing the reduction of capital, the exit mechanism would likely be an arrangement by which the company initially issues shares that are redeemable in certain circumstances or by which it agrees to repurchase its own shares conditionally. Alternatively, a charity could declare that the investment is no longer a PRI, but has become a regular investment. In that case, the charity would be expected to get appropriate market rates of return on such an investment. Property not used in charitable programs or administration may be subject to the disbursement quota.

52. Other forms of exit mechanisms may be used provided they satisfy the requirement that the charity is able to withdraw its investment when it can no longer ensure that its charitable purposes are being furthered.

53. The charity should have a written policy or other documentation explaining the relationship of each PRI to its purposes, and setting out the criteria or parameters it applies when making PRI decisions. If the PRI involves funding a non-qualified donee, supporting documentation to establish the necessary direction and control as outlined in [paragraphs 47-48](#) should form part of the charity's books and records because the Charities Directorate may ask to see it during the application or audit processes.

54. The charity must also ensure that its PRIs meet all applicable trust, corporate, or other legal or regulatory requirements.

Program-related investments in the form of loans and loan guarantees

55. A charity [\[Footnote 11\]](#) may make a PRI in the form of a loan. In most cases, interest rates are expected to be at or below fair market value so that greater charitable benefits can be delivered. [\[Footnote 12\]](#) However, there may be circumstances when a higher interest rate is justified. For example, a loan at above-market rates could be justified based on other terms that allow the borrower to delay repayment. For some borrowers, flexibility may be as important a consideration as rate.

56. A charity may also make a PRI in the form of a loan guarantee to help another organization to obtain a loan. The guarantee must be for a loan that will further the investor charity's charitable purposes.

Program-related investments in the form of share purchases

57. A charitable organization may make a PRI in the form of share purchases. A public or private charitable foundation can also make a PRI in this form, but neither can acquire a controlling interest in a company. [\[Footnote 13\]](#) Also, if a private foundation acquires more than 20% of any class of shares in a company, it might trigger divestment obligations and sanctions, including revocation of its charitable status. [\[Footnote 14\]](#)

58. Other legal limitations may apply to all charities because of the provisions in provincial and territorial legislation.

Specialized intermediaries for program-related investments

59. An investor charity may use an intermediary to carry out the program financed by the PRI on its behalf. The same requirements for maintaining direction and control over resources, avoiding non-incidental [private benefit](#), and including exit mechanisms all apply. For more information about working through an intermediary, go to [Guidance CG-002, Canadian Registered Charities Carrying Out Activities Outside Canada, and Guidance CG-004, Using an Intermediary to Carry out a Charity's Activities within Canada](#). [\[Footnote 15\]](#)

60. A specialized PRI intermediary that helps charities to make or manage PRIs could itself potentially qualify as a registered charity on the basis that it is promoting the efficiency and effectiveness of charities. For example, a property management organization that leases and manages only low-income housing properties owned by registered charities might qualify for charitable status. For more information, go to [Policy Statement CPS-026, Guidelines for the Registration of Umbrella Organizations and Title Holding Organizations](#).

Accounting for loans and program-related investments

61. When completing its annual information return ([Form T3010, Registered Charity Information Return](#)), a charity should include the outstanding amount of all loans and the value of all PRIs (loans, share purchases, and leases) in its total assets (section D, line 4200 [\[Footnote 16\]](#)) or accounts receivable from all others (Schedule 6, line 4120). [\[Footnote 17\]](#)

62. Charities should not include loaned funds and PRIs used for charitable activities in assets "not used in charitable programs or administration" when completing the T3010.

63. Charities that have to complete Schedule 6 of the T3010 must report all interest or other income that is earned from loans or PRIs at line 4580 – Total interest and investment income received or earned. Charities that have to complete section D must report all interest or other income that is earned from start-up loans or PRIs at line 4650 – Other amounts not already included in the amounts above.

64. If the charity has to complete Schedule 6, all amounts received (principal repaid, interest earned, disposition from shares, dividend income, etc.) have to be added to the total "property not used in charitable activities" (Schedule 6, lines 5900 and 5910) until such time as it is directly used again for charitable activities or administration.

65. If a portion of any loan is held by the loan recipient for future use, that portion has to be reported as "property not used in charitable activities."

66. A PRI in the form of a loan guarantee is cost-neutral. It is not a debt at the time the loan is guaranteed. If the borrower defaults on the loan, and the charity has to honour the guarantee, the charity will be considered to have incurred a debt. Once the debt has been incurred, the charity has to report the debt as a liability. Any principal and interest paid can be reported as a charitable or other type of expenditure, as applicable.

67. If the investor charity is unable to recover part or all of the principal of a loan, the unrecovered amount is a charitable or other expenditure of the investor charity,

depending on the purpose of the loan.

68. When a charity fails to meet its disbursement quota requirement and the charity has made a loan or a PRI (in the form of a loan, a share purchase, or a lease), the Charities Directorate may consider any opportunity cost resulting from these activities as equivalent to an expenditure. In this situation, the opportunity costs of PRIs are calculated as follows:

- **Loans:** the outstanding loan multiplied by the difference between the interest rate the investor charity could have earned if it invested the amount in T bills or GICs, and the interest rate the charity received.
- **Share purchase:** the difference between the return the investor charity could have realized had it invested in T bills or GICs and the actual return or loss from purchasing shares.
- **Lease:** the difference between the fair market value of the lease and the actual amount the investor charity received from the lease.

Social businesses for individuals with disabilities

69. Operating social businesses [\[Footnote 18\]](#) for individuals with disabilities [\[Footnote 19\]](#) may be charitable when the businesses directly further one or more of the charitable purposes listed in [paragraph 11](#). Social businesses differ from on-the-job training opportunities because they seek to provide permanent employment, not employment for a limited time.

70. A social business may provide services, sell goods, manufacture articles, or undertake other kinds of work. A social business may operate a retail outlet or send products manufactured in a workshop to a store.

71. Social businesses may directly employ eligible beneficiaries. They may also provide technical assistance, tools, materials, and marketing to eligible beneficiaries who use the workshop, but are self-employed.

72. To further a charitable purpose, a social business must have the following characteristics:

- the workforce is composed entirely of individuals with disabilities, with the exception of employees who provide necessary training and supervision; and
- the work is specifically chosen and structured to take into account the special needs of individuals with disabilities and to relieve conditions associated with those disabilities.

73. The following characteristics, although not required, are generally expected:

- associated job-related training that enhances the general skills of the eligible beneficiaries; and
- significant involvement of eligible beneficiaries in managing and making decisions for the social business.

74. A social business must focus on helping eligible beneficiaries and not on making a profit. For more information, go to [Policy Statement CPS-019, What is a Related Business?](#)

Community land trusts

75. Operating a community land trust may be a charitable activity if it directly furthers one or more of the charitable purposes listed in [paragraph 11](#).

76. A community land trust is set up to ensure that land will continue to be available for the benefit of a community. Generally, community land trusts operate by developing properties and leasing them to eligible beneficiaries. For example, an organization that creates a community land trust to provide housing for individuals who are poor or who

have a disability may be eligible for registration as relieving poverty or conditions associated with disability.

D. Community economic development activities that promote commerce or industry

77. CED activities may be charitable when they promote commerce or industry **for the public benefit**. [\[Footnote 20\]](#) Charities may conduct CED activities to promote a particular industry or trade such as agriculture, horticulture, or craftsmanship. However, the organization's purposes and activities must focus on enhancing an industry or trade as a whole for the benefit of the public, and not on advancing the interests of members of that industry.

78. Promoting a particular industry or trade will only be charitable if doing so results in a **charitable benefit** being provided to the **public** or a sufficient section of the public. [\[Footnote 21\]](#) At common law, a charitable benefit must be recognizable and capable of being proved, and socially useful. To be recognizable and capable of being proved, a benefit must generally be tangible or objectively measurable. Benefits that are not tangible or objectively measurable must be shown to be valuable or approved by "the common understanding of enlightened opinion for the time being." [\[Footnote 22\]](#) "The common understanding of enlightened opinion for the time being" may be proved through objective evidence of common or widespread acceptance by persons who are knowledgeable and informed about the particular subject or issue. To be socially useful, a benefit must have public value and a demonstrable impact on the public. [\[Footnote 23\]](#) This means that the nature of the particular industry or trade must be such that its promotion results in a charitable benefit, and that charitable benefit must be delivered to the public.

79. Examples of the types of purposes that could enhance an industry as a whole and potentially deliver a charitable public benefit include those that:

- promote greater efficiencies within an industry, if those efficiencies benefit the general public; or
- promote and facilitate the achievement, preservation and maintenance of high standards of practice within an industry, if doing so benefits the general public. [\[Footnote 24\]](#)

80. Examples of activities that further the purposes in paragraph 79 include:

- Conducting research that will be publically disseminated to establish the socio-economic profile of a community, assess its socio-economic strengths and weaknesses, and identify potential economic opportunities. For more information, go to [Guidance CPS 029, Research as a Charitable Activity](#).
- Holding public exhibitions of a community's agricultural products and services that include prizes being awarded to promote excellence and demonstrations being conducted to showcase new advances in technology and enable spectators to learn about the industry.
- Encouraging excellence in the products and services of an industry by holding industry-wide competitions, creating industry-wide standards, or developing and disseminating new scientific and technological knowledge related to that industry.

81. Organizations often have difficulty promoting commerce or industry without delivering more-than-incidental **private benefit** to those engaged in the particular industries or trades. The public benefit cannot be too indirect, remote, or speculative as compared to a more direct or immediate private benefit, particularly where the direct benefit is to private persons, entities or businesses. [\[Footnote 25\]](#)

82. Objective evidence is used to determine whether a benefit to the public will result from promoting an industry. The non-expert opinions of the founders, directors, trustees, members or supporters of the organization are not relevant, and an expression of non-expert opinion or belief, or merely stating that a public benefit will result from a purpose,

is not enough. [\[Footnote 26\]](#)

83. Examples of types of purposes that are not charitable as promoting commerce or industry because they do not deliver the required charitable benefit to the public include:

- promoting entrepreneurship by helping entrepreneurs bring new and innovative ideas to the marketplace; and
- promoting business development by providing funding (including start-up loans), and mentorship programs.

E. Community economic development activities in areas of social and economic deprivation

84. CED activities may be charitable if they improve socio-economic conditions for the public benefit in an area of social and economic deprivation. [\[Footnote 27\]](#)

85. In this guidance, areas of social and economic deprivation (also known as deprived areas) are geographic communities that generally display high rates (at least 1.5 times the national average) of one or more of the following characteristics:

- unemployment for two or more consecutive years; [\[Footnote 28\]](#)
- crime, including family violence;
- health problems, including mental health issues, drug and alcohol addiction, and suicide; and
- children and youth at risk (taken into care or dropping out of school).

86. To deliver the required public benefit, the deprived area must be large enough for the beneficiaries to form a sufficient segment of the public.

87. An area that does not display these characteristics for four years in a row is no longer considered socially or economically deprived. When this happens, a charity whose activities were charitable solely because they were conducted in the deprived area has a further two years to wind up those activities.

88. Special considerations relating to the assessment of [private benefit](#) are generally allowed in deprived areas. This is because what is considered to be an acceptable incidental private benefit can vary depending on the context it occurs in. [\[Footnote 29\]](#) The private benefit assessment involves considering the usual factors: whether a private benefit is necessary, reasonable, and not disproportionate to the public benefit achieved. However, what is necessary, reasonable, and not disproportionate is fact-based, and is determined taking into account the circumstances of the deprived area in question.

89. For example, it may be possible to establish a connection between a shortage of health care professionals and the social and economic deprivation in an area. If so, attracting health professionals to the deprived area by offering inducements (private benefits) might be a charitable activity that directly furthers the fourth category purpose of improving the socio-economic conditions in an area of social and economic deprivation. The organization has to show that the private benefit delivered to the health care professionals (such as providing low-rent clinic facilities or housing) is incidental in the particular case.

90. In deprived areas, preventing further unemployment by providing training to the employees of a specific company may be charitable, when it would otherwise deliver a more than incidental private benefit, if:

- without this training, the company would be forced to close or dismiss workers; and
- the training can be generally applied in the marketplace (such as literacy or computer skills), as opposed to training that is useful only to the specific employer. [\[Footnote 30\]](#)

91. For more information on the restrictions on private benefit, see [CPS-024: Guidelines](#)

[for Registering a Charity: Meeting the Public Benefit Test.](#)

F. Appendix A: Terms and definitions

Community economic development has not been recognized as a charitable purpose in Canada. The Charities Directorate does not have official definitions for community economic development or other associated terms, and recognizes that there are no universally accepted definitions. The following definitions may be helpful to readers interested in considering the concepts further. They are provided for reference only and will not be used as determining factors in any registration or auditing processes.

Community economic development

“...is action by people locally to create economic opportunities and better social conditions, particularly for those who are most disadvantaged. CED promotes holistic approaches, addressing individual, community and regional levels, recognizing that these levels are interconnected.”

Source: [What is CED?](#), The Canadian CED Network.

Social enterprise

“A social enterprise is generally understood to mean any organization or business that uses the market-oriented production and sale of goods and/or services to pursue a public benefit mission. This covers a broad spectrum of entities – from enterprising charities, non-profits, and co-operatives to social purpose businesses.”

Source: [Mobilizing Private Capital for Public Good](#) (p.32). Canadian Task Force on Social Finance.

Social finance

“Social finance uses standard financial tools and instruments to leverage the economic, social and environmental value created by organizations in the non-profit and for-profit sectors or in the hybrid space between them. These organizations are usually mission-driven and seek to maximize all three forms of value.”

Source: [Impact Investing / Social Finance](#). Carleton Centre for Community Innovation.

Community capacity building

“...refers to the identification, strengthening and linking of your community's tangible resources, such as local service groups, and intangible resources like community spirit.”

Source: [Community Capacity Building](#). Ontario Healthy Communities Coalition.

Footnotes

[\[Footnote 1\]](#)

Vancouver Society of Immigrant and Visible Minority Women v. M.N.R., [1999] 1 S.C.R. 10 (S.C.C.) (*Vancouver Society*), per Iacobucci J. at para. 152; it is the purpose an activity furthers, and not the character of the activity itself, that determines if it is of a charitable nature. And at para. 154: “In light of the preceding discussion regarding the construal of charitable activities, exclusively charitable activities would be those that directly further charitable purposes and not other, non-charitable, purposes.”

[\[Footnote 2\]](#)

In this context, eligible beneficiaries are those who do not have the resources or skills to help themselves.

[\[Footnote 3\]](#)

See, for example, *Vancouver Society*, supra note 1, where the Society's program included certain non-educational services for its students, such as networking, soliciting job opportunities, maintaining a job skills directory, liaising for accreditation of foreign credentials, and offering referral services. These were ruled to be non-charitable largely because those receiving them could have included those who were not eligible charitable beneficiaries.

[\[Footnote 4\]](#)

See, for example, *Vancouver Society*, supra note 1.

[\[Footnote 5\]](#)

The following statement from *Vancouver Society*, supra note 1, per Iacobucci J. at para. 171 summarizes the direction of the Court in this regard:

"That is not to say that education should be broadened beyond recognition, however. Even while advocating a more inclusive approach to education, the Ontario Law Reform Commission also cautioned against treating as educational those activities which, although they advance legitimate goods, do not include any actual teaching or learning component. ... I would agree with that caution. To my mind, the threshold criterion for an educational activity must be some legitimate, targeted attempt at educating others, whether through formal or informal instruction, training, plans of self-study, or otherwise. Simply providing an opportunity for people to educate themselves, such as by making available materials with which this might be accomplished but need not be, is not enough. Neither is "educating" people about a particular point of view in a manner that might more aptly be described as persuasion or indoctrination. On the other hand, formal or traditional classroom instruction should not be a prerequisite, either. The point to be emphasized is that, in appropriate circumstances, an informal workshop or seminar on a certain practical topic or skill can be just as informative and educational as a course of classroom instruction in a traditional academic subject. The law ought to accommodate any legitimate form of education."

[\[Footnote 6\]](#)

See, for example, *Re Leverhulme*, [1943] 2 All ER 143 (Ch.D.) (*Re Leverhulme*).

[\[Footnote 7\]](#)

This is not to say that a charity cannot charge program participants or sell goods or services produced in the course of the program. See, for example, *CIR v. Peebleshire Nursing Association*, (1927) 11 T.C. 335; *Everywoman's Health Centre Society (1988) v. Minister of National Revenue*, [1991] 2 C.T.C. 320, [1992] 2 F.C. 52(F.C.A.) (*Everywoman's Health Centre*) and Charities Directorate [Policy Summary, CPS-024, Guidelines for Registering a Charity – Meeting the Public Benefit Test](#).

[\[Footnote 8\]](#)

A charity may generally justify charging an interest rate that covers, but does not exceed, its own borrowing rate and administrative costs, plus a loan-loss provision that is supported by the charity's actual loan-loss experience. New charities can rely on the loan-loss experience of charities that operate similar programs.

[\[Footnote 9\]](#)

[Qualified donees](#) are organizations that can issue official donation receipts for gifts that corporations make to them, as listed in subsection 110.1(1)(a) the *Income Tax Act*, and individuals make to them as listed in subsection 118.1(1) the *Income Tax Act*.

[\[Footnote 10\]](#)

Private foundations may be restricted in terms of the types of arrangements they may enter into, based on, for example, the prohibitions against engaging in business activities and the excess business holding rules. Private foundations must ensure that any arrangements entered into when making a PRI through a non-qualified donee comply with all applicable legal requirements.

[\[Footnote 11\]](#)

Private foundations are restricted in that they are not permitted to engage in any business activities. While charitable organizations and public foundations can make a PRI that generates business income for the investor charity to the extent that the PRI does not become a collateral purpose, a private foundation is not permitted to invest in a PRI that generates business income for the private foundation because this would be considered to be carrying on a business. Whether any income generated by the PRI would be reported on account of business or property is a question of fact, and depends on the particulars of the arrangement, including the scope of the charity's involvement in the activity financed by the PRI and the extent to which it is structured to allow the charity to realize profits from the ongoing activities.

[\[Footnote 12\]](#)

See *supra* note 8.

[\[Footnote 13\]](#)

A **charitable organization** can retain control over the taxable corporation through share holdings or a power to nominate the board of directors as long as its own governing documents and provincial legislation allow it to do so. **Charitable foundations** (public or private) cannot acquire or maintain control of a corporation. This prohibition does not apply, however, to a foundation gaining control of a corporation by gift. Paragraph 149.1(12)(a) of the *Income Tax Act* defines "control" in this context as follows: "[A] corporation is controlled by a charitable foundation if more than 50% of the corporation's issued share capital, having full voting rights under all circumstances, belongs to the foundation, or the foundation and persons with whom the foundation does not deal at arm's length." However, foundations may acquire control of a corporation if they receive the shares as a gift and they have not previously "purchased or otherwise acquired for consideration more than 5% of the issued shares of any class of the capital stock of that corporation." The principles in note 11, *supra*, also apply to PRIs that are structured through share purchases.

[\[Footnote 14\]](#)

See [Guide T2082, Excess Corporate Holdings Regime for Private Foundations](#).

[\[Footnote 15\]](#)

Private foundations may be restricted in the types of arrangements they may enter into, based on, for example, the prohibitions against engaging in business activities and the excess business holding rules. Private foundations must make sure that any arrangements they enter into when making a PRI through a non-qualified donee comply with all applicable legal requirements.

[\[Footnote 16\]](#) All line numbers are subject to change. Charities are responsible for ensuring that the information is recorded on the correct line.

[\[Footnote 17\]](#)

Until it is written off as uncollectable, the loan remains an account receivable.

[\[Footnote 18\]](#)

The previous version of the community economic development guidance referred to social businesses as "sheltered workshops."

[\[Footnote 19\]](#)

According to the *Canadian Human Rights Act*, R.S.C. 1985, c. H-6, s. 25: "disability" means any previous or existing mental or physical disability and includes disfigurement and previous or existing dependence on alcohol or a drug.

[\[Footnote 20\]](#)

See, for example, *Crystal Palace Trustees v. Minister of Town and Country Planning*, [1950] 2 All ER 857; *IRC v. White and Others (re The Clerkenwell Green Association for Craftsmen)*, [1980] 55 TC 651, [1980] TR 155 (*IRC v. White*); *Inland Revenue Comrs v. Yorkshire Agricultural Society*, [1928] 1 KB 611, 97 LJKB 100, 138 LT 192.

[\[Footnote 21\]](#)

For more information about charitable benefit, and about what will be considered to be the public or a sufficient section of the public, go to [Policy Statement CPS-024, Guidelines for Registering a Charity: Meeting the Public Benefit Test](#)

[\[Footnote 22\]](#)

See, for example, *Vancouver Society*, supra note 1 per Gonthier J. (dissenting in the result) at para. 41, *National Anti-Vivisection Society v. I.R.C.*, [1948] A.C. 31 (HL) (*National Anti-Vivisection Society*) per Lord Wright at p. 47 and p. 49; Decision of the Charity Commissioners for England and Wales (17 November 1999) Application for Registration as a Charity by the Church of Scientology (England and Wales); Decision of the Charity Commission for England and Wales (August 15, 2000), Application for Registration of National Federation of Spiritual Healers (NFSH) Charitable Trust Limited; and *Everywoman's Health Centre*, supra note 7 per Decary J. at para. 16, indicating that Canadian courts have taken a cautious approach, being "ill-equipped" to "assess public consensus, which is a fragile and volatile concept."

[\[Footnote 23\]](#)

See, for example, *National Antivivisection Society*, supra note 22 per Lord Wright at p. 49: "The law may well say that quite apart from any question of balancing values, an assumed prospect, or possibility of gain so vague, intangible and remote cannot justly be treated as a benefit to humanity, and that the appellant cannot get into the class of charities at all unless it can establish that benefit."; *In re Shaw decd*, [1957] 1 WLR 729; *Gilmour v. Coats et al.*, [1949] A.C. 426 (HL) per Lord Simonds at pp. 446-447; *McGovern v. AG*, [1981] 3 All ER 493; *Re Hummeltenberg, Beatty v London Spiritualistic Alliance*, [1923] All ER Rep at p. 51, [1923] 1 Ch 237 per Lord Russell of Killowen (then Russell J.) at p. 242 (*Re Hummeltenberg*); *Re Pinion (deceased)*; *Westminster Bank v. Pinion and another*, [1965] Ch 85, [1964] 1 All ER 890 (*Re Pinion*); *In re Grove-Grady, Plowden v. Lawrence*, [1929] 1 Ch. 557; *In re Price, Midland Bank Executor and Trustee Company, Limited v. Harwood*, [1943] Ch. 422.

[\[Footnote 24\]](#)

See, for example, *IRC v White*, supra note 20; *Construction Industry Training Board v Attorney General*, [1971] 1 W.L.R. 1303; and *Whitehall and Industry Trust*, [1990] Ch Com Rep 8 at para. 39.

[\[Footnote 25\]](#)

See, for example, *Inland Revenue Commissioners v. Oldham Training and Enterprise Council*, [1996] STC 1218, 69 TC 231, [1996] BTC 539 (*Oldham TEC*) and *Canterbury Development Corporation v. Charities Commission*; *Canterbury Development Corporation Trust v. Charities Commission*; *CEDF Trustee Limited As Trustee of the Canterbury Economic Development Fund v. Charities Commission*, [2010] NZHC 331 (*Canterbury Development Corporation*); *Hadaway v. Hadaway*, [1954] 1 W.L.R. 16 (P.C.); *Independent Schools Council v. Charity Commission for England and Wales*; *Attorney General v. Charity Commission for England and Wales and another*, [2011] UKUT 421 (TCC); and *Re Co-operative College of Canada et al. and Saskatchewan Human Rights Commission*, (1975) 64 D.L.R. (3d) 531.

[\[Footnote 26\]](#)

See, for example, *Re Hummeltenberg*, supra note 23, per Lord Russell of Killowen (then Russell J.) at p. 242; *Re Pinion*, supra note 23, per Harmon L.J. at pp. 893-894; *Re Shaw's Will Trusts, National Provincial Bank Ltd v. National City Bank Ltd.*, [1952] 1 All ER 49, [1952] Ch 163.

[\[Footnote 27\]](#)

Formerly referred to as "economically challenged communities" (ECCs) in RC4143 Registered Charities: Community Economic Development Programs.

[\[Footnote 28\]](#)

Labour force participation may be used as an alternative to the unemployment rate.

[\[Footnote 29\]](#)

See, for example, *Oldham TEC* and *Canterbury Development Corporation*, supra note 25; and [Policy Statement CPS-024: Guidelines for Registering a Charity: Meeting the Public Benefit Test](#).

[\[Footnote 30\]](#)

Re Leverhulme, supra note 6.

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