



## Tax Tidbits – March 2014

### ***CRA Non-Profit Organization Risk Identification Project Update***

Recently the Canada Revenue Agency (“CRA”) released a report summarizing the results of its three year non-profit organization risk identification project (“NPORIP”). During the course of this project, which started in 2009, the CRA reviewed 1,337 randomly selected files of approximately 30,000 organizations that claim a tax exemption under the *Income Tax Act* (the “Act”) and file a T2 corporation tax return, a T3 trust tax return, or a T1044 non-profit organization return. Based on the report there appears to be a significant gap between how the CRA expects an NPO to be organized and operate and what they observed happening in the NPO sector.

The NPORIP was designed to provide the CRA with an understanding of the issues faced by organizations claiming an NPO tax exemption in complying with the requirements of the Act. The report highlights a number of areas where the non-profit sector’s understanding of the law differs from that of the CRA and has revealed several significant compliance issues. These include:

- organizations earning profits that were not incidental or not related to their non-profit objectives;
- organizations with disproportionately large reserves, surpluses, or retained earnings; and
- organizations where income is payable or made available for the personal benefit of a proprietor, member, or shareholder.

**In the CRA’s opinion many organizations would not actually qualify for the NPO tax exemption and would need to be reassessed if they were audited outside the purview of the NPORIP. In most cases this would result in a tax cost to the organization.**

#### ***What to expect next...***

To improve compliance with the requirements of the Act, the CRA plans to work with representatives of the non-profit sector to determine how the sector’s knowledge of the income tax rules can be improved. The CRA will also look to improve NPOs’ understanding of their income tax obligations through targeted outreach activities, client service, and education. This will likely take the form of increased audit and review activity by the CRA.

The CRA also intends to forward the results of the NPORIP to the Department of Finance for examination of whether legislative changes should be considered.

#### ***We Can Help...***

For assistance determining what the results of the CRA NPO risk identification project mean to your NPO please contact [Bryan Hubbell](#) or [Warren Haag](#).





## ***Eligible medical expenses for T1 personal income tax returns***

In 2013, an individual can claim medical expenses for themselves, their spouse, and their dependants if the expenses exceed the lesser of 3% of their net income or \$2,152.

Did you know that medical services received outside Canada may be eligible? Where prescribed by a doctor, air filters, furnaces, and water purifiers may also be eligible. For CRA's list of eligible medical expenses, please see:

<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/ddctns/Ins300-350/330/llwbl-eng.html>

Some medical expenses are eligible in some provinces, but not others. For example, massage therapy may be eligible in BC, but not Alberta. Ontario is the only province that allows medical expenses for work performed by kinesiologists. For CRA's list of authorized medical practitioners by province or territory, please see:

<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/ncm-tx/rtrn/cmpltng/ddctns/Ins300-350/330/ampp-eng.html>

If you have any questions concerning eligible medical expenses, please contact **Jody Hatto** or **Tara Hauck** of the Manning Elliott Tax Team for assistance.





## ***And More...***

### **2014 Federal Budget**

- On March 31, 2014 the new Canadian Finance Minister, Joe Oliver, tabled a Notice of Ways and Means Motion to implement many of the tax provisions announced by Jim Flaherty. These include:
  - Require certain financial intermediaries to report to the CRA international electronic funds transfers of CAD\$10,000 or more;
  - Expand the list of eligible expenses under the Medical Expense Tax Credit to include costs associated with service animals specially trained to assist individuals with severe diabetes;
  - Exempt acupuncturists' and naturopathic doctors' professional services from the GST/HST;
  - Increase the maximum amount of the Adoption Expense Tax Credit to CAD15,000;
  - Deem the value of a gift of certified cultural property to be no greater than the donor's cost of the property, if it was acquired under a gifting arrangement that is a tax shelter.

### **Tax designation survey results**

- In January 2014, the Canadian Tax Foundation (“CTF”) commissioned a survey of its members, young practitioners, and students enrolled in the CPA Canada In-Depth Tax Course to determine whether there would be support for the development of a tax designation in Canada.
  - 66% of respondents either strongly supported or somewhat supported the development of a tax designation
  - 71% of respondents said that they would definitely or probably seek the tax designation if it were offered by the CTF alone or in collaboration with other organizations such as CPA Canada and the Canadian Bar Association.

Stay tuned as we will share more information as it becomes available!

### **Russia jumps on the FATCA bandwagon**

- Russia is the latest in a long list of countries making changes to their tax codes relating to foreign companies controlled by tax residents. Each country is trying to tax revenues earned by their tax residents on an accrual basis instead of waiting for the cash to flow from the foreign corporation to the resident shareholder.
- Russia's Ministry of Finance wants to introduce a 20% penalty on understated income in addition to the 20% tax on income received by tax residents from the foreign companies that they control.

