

COVID 19 Economic Responses for the Social Cause Sector

Canadian for-profit social enterprise, non-profit organizations (NPOs) and registered charities face unprecedented demand to respond to the health crisis as they weather the storm of financial and operational challenges of COVID-19. All levels of government have introduced a variety of measures to help these organizations deal with the effects of the pandemic. This article summarizes the relevant federal measures that relate to the social cause sector.

Overview

Canadian philanthropic organizations are structured in a variety of ways including for-profit social enterprises and NPOs structured as corporations, trusts or associations of individuals. The structure dictates annual CRA compliance and the COVID-19 relief for which the organization qualifies.

Social enterprises are revenue generating businesses purposed to achieve social, cultural, community environmental or economic outcomes, and to earn revenue by selling goods or services. They operate as NPOs or for-profit enterprises, which are taxable entities. An example of a for-profit social enterprise would be Toronto based Turn Around Couriers, which hires youth facing labour market challenges, and provides financial support for their employees to continue their education.

NPOs are associations, clubs or societies that operate for social welfare, civic improvement, pleasure, sport or recreation purposes. An example would be the Lake Louise Ski Club which provides alpine ski programs for youth. NPOs cannot operate for profit or exclusively for charitable purposes. NPOs do not have spending requirements and cannot issue official donation receipts. NPOs are generally exempt from income tax though may be taxed on capital or property income.

If an organization is to operate exclusively for charitable purposes¹, it may apply to the CRA for registration as either a charitable organization, a public foundation or a private foundation. These organizations are exempt from income tax, and while they must meet annual disbursement quota requirements, they can issue official donation receipts for tax purposes.

NPOs and registered charities generally pay GST/HST on purchases and may claim partial rebates on funding. Most supplies made by charities are exempt. The same is true for NPOs on a more limited basis. All registrants must submit GST/HST returns on a regular basis but charities that are registrants are subject to a different net tax calculation than non-charity registrants.

CRA Filing Deadlines

Registered charities must file the Registered Charity Information Return (T3010) annually within 6 months of their fiscal year end. The filing deadline has been extended to December 31, 2020 for charities that are required to file their return between March 18, 2020 and December 31, 2020. This is a one-time extension due to COVID-19 and next year the usual filing deadlines will apply.

Incorporated NPOs must file annually a Corporate Income Tax Return (T2) and a Non-Profit Organization Information Return (T1044) if certain financial thresholds are met². Normally, both returns must be filed within six months of year end. If the NPO is structured as a trust, it must instead file a Trust Income Tax and Information return (T3), normally due 90 days after year end.

Note that social enterprises may also be structured as a proprietorships or partnerships and would be required to file a personal return (T1) or a partnership information return (T5013) as the case may be.

¹ The Canadian courts define charitable purpose as falling within in one or more of the following categories: relief of poverty; advancement of education; advancement of religion; certain other purposes that benefit the community in a way the courts consider charitable

² Although NPOs are exempt from paying tax, according to subsection 149(12) of the Income Tax Act (ITA) medium to large NPOs are required to file Form T1044, "Non-profit Organization (NPO) Information Return, if it received taxable dividend, interest, rent or royalty income totaling more than \$10,000 in the year; owned assets valued at more than \$200,000 at the end of the year, or has ever previously had to file the form. The firm is subject to late filing penalties of \$25 per day, up to \$2,500 for each year of missed filing.

At the time of writing, the filing deadlines for the following forms and returns are deferred without penalties³:

- T2 returns otherwise due between March 18, 2020 and May 31, 2020 were deferred until June 1, 2020. Those due in June, July or August can be deferred to September 1, 2020.
- T3 returns with a trust year end of December 31, 2019 were deferred until May 1, 2020. The deadline was extended to June 1, 2020 for T3 returns otherwise due on March 31, or in April or May 2020. Those due in June, July or August, have been extended to September 1, 2020.
- T1044 returns due after March 18, 2020 and before May 31, 2020 were extended to June 1, 2020. Those due on May 31, 2020 or in June, July or August 2020 are now due on September 1, 2020.
- T5013 returns otherwise due on March 31, 2020 were deferred until May 1, 2020. Returns due after March 31 and before May 31, 2020 were deferred to June 1, 2020. Those due in June, July, or August 2020 are deferred to September 1, 2020.

CRA Payment Deadlines

Where taxable social enterprises or NPOs have business income tax instalments or payments scheduled to be remitted between March 18, 2020 and August 31, 2020, such payments can be deferred until September 1, 2020 without penalties or interest.

All organizations that charge GST/HST for their programs, products or services can defer remitting GST until June 30, 2020 without incurring penalties or interest.

Annual General Meetings (AGMs)

Federally incorporated charities and nonprofits unable to hold virtual AGMs, or those that do not wish to, can submit an online form to Corporations Canada to delay their AGM beyond the required due date. Provincially regulated organizations have similar administrative relief available.

Charities Directorate

The charities directorate call center has resumed operations. Other services and audit activities are resuming gradually. The CRA has resumed review of digital and paper-based applications for registered status and is prioritizing those that provide support to those impacted by COVID-19. Organizations wishing to apply for registered charity status should apply online.

COVID-19 Federal Responses Available to Social Cause Organizations:

- **Extending the Work- Sharing (WS) Programⁱ**– WS is an agreement between employers, employees and the federal government to mitigate layoffs when there is a temporary decrease in business activity beyond the control of the employer. WS provides Employment Insurance (EI) benefits to eligible employees who agree to reduce their normal working hours and share the available work while their employer recovers. Effective March 15, 2020 to March 14, 2021, program duration is extended from 38 weeks to 76 weeks.
- **Temporary Wage Subsidyⁱⁱ**. – Charities and NPOs that pay employee remuneration may reduce payroll tax remittances by the amount of the subsidy. Eligible organizations must have an existing business number and payroll account with the CRA as of March 18, 2020. The subsidy is equal to 10% of remuneration paid, to a maximum of \$1,375 per employee and \$25,000 in total and applies to remuneration paid on or after March 18th and before June 20th. There is no application. An employer can simply calculate and withhold the subsidy at the time they would otherwise remit payroll tax amounts. Employers who continued to remit taxes for the period they otherwise qualify for the subsidy may be refunded if they complete a self-identification form that will be made available soon.
- **Canadian Emergency Wage Subsidy (CEWS)ⁱⁱⁱ** – Available to eligible employers with a payroll account on March 15, 2020, who experienced revenue decline in March (15%), April (30%) and May (30%) 2020. Includes charities, nonprofits, social enterprises, Registered Canadian Amateur Athletic Associations and non-public colleges and schools; 75% of employee remuneration will be subsidized, up to \$847 per week, from March 15 to August 29, 2020. Revenue decline can be measured against the relevant month for 2019 or the average of January and February of 2020 and via cash basis or accrual basis – whichever is more advantageous. Charities and nonprofits can decide whether to include or exclude revenue from government. The revenue loss requirement may be revisited for June, July and August. The subsidy is not capped at the employer level. Applications are open until October 20, 2020.
- **Canada Emergency Business Account (CEBA)^{iv}** – Interest-free loans of up to \$40,000 for small-business including NPOs and charities, administered by financial institutions in cooperation with Export Development Canada (EDC) to help cover operating costs where revenues have been reduced due to COVID-19. If the balance is otherwise repaid by December 31, 2022, 25% of the loan will be forgiven. Borrowers must have an active business

³ Unless otherwise noted, the extended June 1 filing deadline applies to other information returns, elections, designations and information requests that would have been due after March 18 and before May 31, 2020. The extended September 1, 2020 deadline applies to other information returns, elections, designations and information requests that would have been due on May 31, or in June, July, or August 2020. Penalties and interest will not be applied where the filing and payments are made by September 1, 2020.

account with their financial institution on March 1, 2020, be in good standing with existing credit facilities, and have total payroll for 2019 of between \$20,000 and \$1.5 million. Qualifying NPOs and charities must derive part of their revenue from the sale of goods or services and had filed a T2 or T3010 respectively for 2019. Organizations who do not meet the payroll criteria may qualify under expanded criteria which includes having eligible non-deferrable expenses between \$40,000 and \$1.5 million.

- **Canada Emergency Commercial Rent Agreement (CECRA)**^v – administered by the Canada Mortgage and Housing Corporation (CMHC), CECRA helps small business tenants including non-profits and charities by incenting commercial landlords to reduce rent by 75% for April, May and June, 2020. Applications are open until August 31st and can be applied retroactively to the eligible period. To be eligible for a forgivable loan of up to 50% of rent, the landlord must enter into a rental arrangement that prevents tenant eviction and retroactive rent once the program is complete. Under the agreement, the tenant pays 25% of the rent and the landlord forgoes 25% of rent.
- **Business Development Canada (BDC) Co-Lending Program and Export Development Canada (EDC) Guarantees**^{vi,vii} – Through the Business Credit Availability Program, BDC and EDC are working with financial institutions to co-lend and provide 80% guarantees on term loans and operating credit of up to \$6.25 million to help small and medium-sized enterprises meet operational cash flow requirements. This will help social enterprises that meet lending criteria with their financial institution. Additional programs are available to mid-market enterprises.
- Other programs to support vulnerable Canadians^{viii}
 - **Support for foodbanks and local food organizations** – \$100 million allocated to the Local Food Infrastructure Fund to support organizations such as Food Banks Canada, Salvation Army, Second Harvest, Community Food Centers Canada, the Breakfast Club of Canada, and local organizations serving those experiencing food insecurity. Invests in food purchases, transportation and food distribution, hiring temporary help to fill volunteer shortages and purchase of PPE to reduce the spread of COVID-19 among volunteers and clients. Further \$50 million investment in the Surplus Food Purchase Program for local food organizations to redistribute existing and unsold food inventories to those serving vulnerable Canadians.

- **Emergency Community Support Fund** – \$350 million investment for vulnerable Canadians through charities and nonprofits to deliver essential services to vulnerable Canadians; PLUS further \$50 million investment for women’s shelters, sexual assault centers and facilities for indigenous communities to manage or prevent COVID-19 outbreaks; \$9 million to the United Way Canada for practical services to Canadian seniors, including food delivery and community outreach; \$20 million to community-based projects that reduce isolation and improve the quality of life of seniors.
- **Emergency Support Fund for Cultural, Heritage and Sport Organizations** – \$500 million for arts, culture and sport organizations affected by COVID-19. Partner organizations include the Canada Council for the Arts, the Canada Media Fund and Telefilm Canada.
- **Regional Relief and Recovery Program** – \$960 million funding through regional development agencies and community futures is also available.

The need is immense, the health crisis is evolving and though innovation and hard work of all levels of government and the social cause sector, support is ready to match demand.

ⁱ <https://www.canada.ca/en/employment-social-development/services/work-sharing/notice-covid-19.html>

ⁱⁱ <https://www.canada.ca/en/revenue-agency/campaigns/covid-19-update/frequently-asked-questions-wage-subsidy-small-businesses.html>

ⁱⁱⁱ <https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy.html>

^{iv} <https://ceba-cuec.ca/>

^v <https://www.cmhc-schl.gc.ca/en/finance-and-investing/covid19-cecra-small-business>

^{vi} <https://www.bdc.ca/en/pages/co-lending-program.aspx>

^{vii} <https://www.edc.ca/en/solutions/working-capital/bcap-guarantee.html>

^{viii} <https://www.canada.ca/en/department-finance/economic-response-plan.html#agri-food>

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