

SURPLUS SAFETY



HOW TO SAFEGUARD
CRA COMPLIANCE
IN YOUR CHAPTER

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The BCPVPA is a non-profit professional association that is the provincial body representing the interests of Vice-Principals and Principals working in BC's public school system. Alongside this support, there are local Chapters operating in each of the sixty school districts, and providing their members with localized representation and learning opportunities. The BCPVPA strives to equip our members with the information and resources that they need to lead effectively in their districts, and to maintain good practices in the operation of their local Chapters.

Two years ago, I joined the BCPVPA as Director of Finance. Since my arrival, I have wondered what specialized advice and guidance I could offer to the members of the Association. I am aware that some may consider the work of those in the finance profession to be boring, or even intimidating. In consideration of that, I have been pushed to find different engaging topics to introduce to our members so that they can gain some professional insight, no matter their level of involvement in their local Chapters.

This article offers commentary on a situation that I have noted since my arrival: the surplus of funds accumulated in some Chapters. These surpluses are largely due to the accumulation of contributions from Chapter members, member dues that – for a number of reasons – have not been continually reinvested in the Chapter's operation.

It is important to be aware that, in the eyes of the Canada Revenue Agency (CRA), this accumulation of money could jeopardize a Chapter's non-profit status. Even though this situation is likely to apply more to local Chapters with many members, it is important for all members and Chapters to have a general awareness of the potential risks.

A BIT OF CONTEXT

In order to be eligible for a tax exemption for your Chapter/organization related to member dues – and whether or not the Chapter is incorporated – each Chapter must comply with the criteria of Article 149 (1)(l) of the Income Tax Act. The criteria granting this exemption to an entity are that the organization:

(a) is not a charity;

(b) is organized exclusively for social welfare, civic improvement, pleasure, recreation or any other purpose except profit;

(c) is in fact operated exclusively for the same purpose for which it was organized or for any of the other purposes mentioned in (b)

HOW TO RECOGNIZE IF YOUR CHAPTER IS AT RISK

According to the CRA, the grounds for surplus accumulation are determined on a case-by-case basis.

The key question for Chapters to consider is whether there is a specific reason that the organization is accumulating surplus. An accumulation must always be for activities and purchases that remain within the purpose of the organization, as defined by criteria listed in 149(1)(l)(c). To further establish this point, I also refer to your constitution in regard to the purpose or raison d'être of your organization. For example, accumulating money for a training project that could benefit all Chapter members could be a good reason for accumulating funds. Alternatively, constantly renewing your organization's term deposits could also be a sign that your Chapter has an accumulation of funds, and could jeopardize your not-for-profit status in CRA's view.

It is critical to also maintain a certain latitude in case of unforeseen events, to ensure the continuity of the Association. As a general rule, it is recommended

that an organization carry six to twelve months of their current operating expenditures as their surplus.

For example, if an organization has \$50,000 in annual expenditures, it should have accumulated a surplus between \$25,000 and \$50,000. This prudent amount would allow the organization to carry on activities in the event of an unexpected disruption to cash flows.

It is very possible that over the years, the accumulation of surpluses has grown without a profit motive; however, due to the nature of Chapters, with their continual cycle of executive turnover, an accumulation may not be as easily surfaced or recognized and subsequently scrutinized.

It is important for Chapters to remain aware of their own financial picture and history.

WHAT TO DO IN A SITUATION OF ACCUMULATED FUNDS

As members of your Chapter, you may find yourselves in a situation where your Chapter has accumulated funds over time without a specific and defined purpose. In the CRA's view, this accumulation of surplus could be seen as evidence of profit for the organization. In this scenario, it is crucial to have measures in place to mindfully manage and reduce the surplus.

It is recommended that each Chapter be diligent in maintaining documentation of their internal financial planning, including the recording of proposed and planned actions. If the actions taken regarding your Chapter's accumulated surplus align with your Chapter's mission, tax exemption should be maintained. It is recommended that your Chapter validate finances with a professional accountant so that the actions your Chapter takes are aligned with the CRA criteria.

IN CONCLUSION

Whatever your level of involvement in your Chapter, this information can help you to better understand what is happening in your local Association, and how to ensure compliance with the CRA criteria. Perhaps an increased understanding as a member of your Chapter's operation will lead you to increased involvement. *You may even consider a career change, to become a financial professional!*



Please feel free to reach out to me at simon@bcpvpa.bc.ca if there are financial topics that you would like to see covered in a future issue of *Princip(ed)* magazine.