The New Canada Not-for-Profit Corporations Act: Considerations for Federally Incorporated NPOs

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ACCOUNTING › CONSULTING › TAX

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The Government of Canada has issued the new Canada Not-for-Profit Corporations Act which establishes a new set of rules for federally incorporated Not-for-Profit Organizations (NPOs) in Canada. These new rules will replace Part II of the Canada Corporations Act, the law that has governed federally incorporated NPOs until this point.

What Should my NPO Consider?

1. The transition is not automatic; NPOs will need to take action to transition to the new Canada Not-for-Profit Corporations Act.
   - This process will include replacing letters patent, supplementary letters patent (if any) and by-laws.
   - All new articles and bylaws must comply with the new Canada Not-for-Profit Corporations Act.
   - As the process to transition includes the preparation and filing of legal documents, NPOs are encouraged to seek advice from their legal counsel.

2. A federally incorporated NPO must make the **transition by October 17, 2014**.
   - Corporations not making the transition by the deadline will be assumed to be inactive and dissolved.
   - For registered charities, dissolution could lead to revocation of registration as a charity resulting in payment of revocation tax equal to 100% of the value of its remaining assets.

3. The new Canada Not-for-Profit Corporations Act creates new audit requirements.
   - NPOs not previously subject to an annual audit may be subject to an annual audit requirement under the new legislation.
   - Planning for the transition to the new Canada Not-for-Profit Corporations Act should include an assessment of the organization's accounting systems, processes and controls to ensure that the appropriate amount of source documentation required for audit evidence will be available with respect to the periods subject to audit.
   - Soliciting corporations, those receiving more than $10,000 over 3 years from a government, another soliciting corporation or person (other than the corporation's members, directors, officers, employees or persons related to such persons), are required to have at least 3 directors and are subject to stricter audit requirements.
   - Soliciting corporations with gross annual revenues above $250,000 must have an audit. Those with revenues between $50,000 and $250,000 can, based on election by members, elect to have a review engagement in lieu of an audit. Those with revenues under $50,000 can elect not to have an audit or review engagement.
     - MNP can perform an assessment and summary of the accounting system to determine areas which may be lacking audit documentation. Performing this assessment prior to the period that will be subject to audit requirements will enable the NPO to update its systems and procedures.
     - This analysis and planning will help to prevent the NPO from being in a situation where they are required to have an annual audit, but MNP, as auditors, is unable to provide an audit opinion due to scope limitations.
     - NPOs will also need to coordinate with their auditors to ensure they perform audit test counts of any inventory or cash on hand at the beginning of the period that is subject to audit requirements (i.e., the year-end immediately prior to the first year-end that will be audited).

4. As the NPO's bylaws may require changes, this could have an effect on the NPO's operations.
   - A change in operations may result in changes to the nature of transaction streams or creation of new transaction streams.
   - Any such changes will need to be assessed by management to determine the appropriate accounting treatment under the applicable financial reporting framework.
   - The effect of such changes will need to be assessed on an entity-by-entity and transaction-by-transaction basis.
     - This assessment would be similar to when any other entity has entered into a new line of operations or made a change to their operations in a given period.

Additional information on the transition is available on the Government of Canada website.

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