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IC 75-23 — REALITIES AND CHALLENGES OF PERFORMING THE ANNUAL CALCULATION

By: Franklin Smith, MBA, CMC
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The Canada Revenue Agency's (CRA) Information Circular No. 75-23 (known as IC 75-23) allows for an exception to the rule that tuition fees paid to an educational institution in Canada are not considered charitable donations. This exception is provided to non-post secondary educational institutions that either teach exclusively religion or those which operate in a dual capacity providing both secular (academic) and religious education.

The full text of IC 75-23 can be found on CRA's website at <http://www.cra-arc.gc.ca/E/pub/tp/ic75-23/ic75-23-e.txt>. IC 75-23 dates from September 29, 1975. CRA also issued an information letter in 1982 describing departmental guidelines for the issuance of receipts under IC 75-23, and is available from CRA's website at: <http://www.cra-arc.gc.ca/chrts-gvng/chrts/c75-23-ttch-eng.html>.

As a former faith-based school Executive Director, I had the pleasure (or misfortune!) of taking the lead on performing the calculation on an annual basis. Every January, I would ask my staff to provide the following information:

- Total tuitions paid for the previous calendar year on behalf of each student (this would generate a list of multiple tuition payors per student as well).
- Full list of students by grade, including noting any students who enrolled late during the year and/or withdrew early.
- List of calendar year donations received.
- Total expenses of the school during the year, split between secular and religious where possible
- Assessment, by grade, of weekly curricular / teaching hours for students, also split between secular and religious

I also happen to be a bit of a "computer geek", and had built a reasonably sophisticated spreadsheet model to assist in performing the calculation and determining the value of each tuition payor's annual donation tax receipt. So, every January, I would go back to the previous year's spreadsheet model, and begin the task of reviewing, modifying, and testing it. All of this effort, by myself and associated staff, for sure ended up using well over 100 person hours of effort, during the January – February timeframe each year.

Although mathematically not difficult to perform, the IC 75-23 calculation requires each school, on an annual basis, to take into consideration the following key variables:

- Total number of students enrolled
- Secular versus religious costs of providing education
- Non-parent donations, miscellaneous income, grants, and capital versus non-capital donations received
- Enrolled / withdrawn dates for each student
- Tuition payments made on behalf of each student, identified by payor
- Proportion of religious versus secular education

Although IC 75-23 provides an overall description as to the performance of the calculation, many of the details relating to specifics of the calculation are open to possible interpretation. In its annual performance of the calculation, a school could be making interpretive judgments and/or assumptions based not on what is "reasonable", but instead on what will generate the maximum positive advantage to individually generated donation receipts.

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For example, how do schools deal with the following situations as part of the calculation:

- Multiple tuition payors for a single student, and allocation of the advantage or non-receiptable tuition portion between those payors;
- Early student withdrawals / late student enrolments and pro-rating of the advantage or non-receiptable portion;
- Ensuring accurate record-keeping of religious and secular expenditures;
- Definition of religious versus secular education and determination of percentage allocations or apportionments (for those schools that operate in a dual capacity) either on a whole school or per grade basis; and,
- Determination of enrolled students when considering: multiple academic years in a single tax year and half-day school programs (ie. JK).

Given today's need to manage an ever-increasing volume of data in as efficient and effective a manner as possible, and in combination with the fact that most if not all schools are currently making use of computer technology for school management functions, it is likely that the single most used tool to conduct the IC 75-23 calculation in use currently is the spreadsheet. This reliance on individually developed spreadsheets raises a host of issues including:

- those developed by a single individual independent of knowledge sharing with others could make for an incomplete or inaccurate calculation.
- when the spreadsheet creator leaves the school and someone else takes over responsibility for the task, is there a complete knowledge transfer? Is the school at risk of a tool being used that is not adequately maintained / used in subsequent cycles?
- lack of consistency in application of calculation rules between different schools leading to inconsistent results for datasets with similar inputs.

This is one of the reasons why my company, the Simon Phoenix Group (SPG), has developed and published our relational database product, Phoenix NP Complete[®], which has been specifically designed for the use of independent schools and non-profit organizations. I always knew, while toiling with spreadsheets, that there was a better way of performing the annual IC 75-23 calculation and, in Phoenix NP Complete[®], SPG has brought to market a robust and highly affordable product that takes the pain out of this annual exercise!

Of course, the final "word" on whether any school is conducting the calculation properly with reasonable and defensible assumptions, will always be CRA through their audit process, which is a time-consuming and costly process. If CRA, in their wisdom, determines that the value of issued receipt(s) has been overstated, they will require the school in question to re-issue receipts, thereby generating a potential tax liability for individual school tuition payors, not to mention the possibility of action against the school up to and including revocation of registered charitable status. This can be an extremely costly and embarrassing exercise, which makes it a situation to be avoided!

As a company that specializes in the IC75-23 calculation, we have had an opportunity to discuss this topic with many different schools and school associations. We are aware of many schools who perform the calculation with rigour and a strong desire to do so accurately, and we are also unfortunately aware of those who try to take certain "liberties or shortcuts" with the calculation and/or handling of donations. There have indeed been a few very high profile cases of the latter situation "making the news" in years past.



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The Simon Phoenix Group welcomes the opportunity to assist faith-based schools in making the performance of this annual calculation more rigorous, accurate, and as “pain-free” as possible. In this way, schools can confidently increase the value of their annual tuition donation tax receipts to the maximum amount allowable which, from a marketing standpoint, could be used to increase school enrolment.