

Note that Charity Bank may want to receive assistance from other registered charities in other ways. For example, if Charity Bank wants to develop a premium-priced product line for a certain registered charity customer profile, it will be easier to attract the relevant client base if Charity Bank is itself a registered charity. The premium-price paying customer will have to justify the extra expense inherent in the premium pricing. In part, this might be done on the basis that the premium element of the price is a gift to the registered charity.

3. **Income Tax Exemptions:** The income of registered charities is exempt from income tax by virtue of section 149.1(f) of the Act. Registered charities are granted a number of other exemptions throughout the Act, including an exemption from the non-resident trust rules in section 94.1, an exemption from the tax on large corporations in Part I.3 of the Act (by virtue of paragraph 181.1(3)(c)), and an exemption (by virtue of section 227(14)) from the taxes imposed under Parts IV (tax on portfolio dividends of a private corporation), IV.I (tax on dividends received by a corporation on a taxable preferred share) and VI.I (tax on dividends paid by a corporation on a taxable preferred share), and Part VI (tax on the capital of financial institutions) of the Act. The exemptions from income tax and capital tax are important to the extent Charity Bank anticipates a need to re-invest its profits in operations or capital: its untaxed profits would serve as an additional source of capital. Its exemptions from the various taxes on dividends (as payor or payee) may provide additional flexibility in the design of its share capital and in the make-up of its investment portfolio.
4. **Annual Accountability to CRA and Restrictions on Activities:** Section 149.1 of the Act regulates registered charities by requiring them to use their resources for exclusively charitable purposes. Charity Bank therefore may only engage in activities which are exclusively charitable. Charity Bank's registration as a registered charity under the Act presents a challenge because Charity Bank will be carrying on the business of banking. The application for registration argues that this is permissible on the basis that the banking business will be Charity Bank's charitable activity, in the same way that Goodwill Industry's retailing business is an integral part of its charitable activities. CRA may require, as a condition of registration, that Charity Bank restrict its activities in some additional way or it may require Charity Bank to meet some higher accountability requirements beyond the annual return.

Enclosures