Imagine Canada: Sector Source

Basics of Tax Receipting for Donations

Information included on a receipt

The CRA has specific requirements regarding the information included on a donation receipt. They have created a checklist of mandatory elements for use when issuing an official donation receipt ; they have also provided several sample receipts for different scenarios.

Some of the required information, such as the amount of the gift that is eligible for a receipt (eligible amount), may be difficult to determine.

A tax receipt can be issued only in the name of the individual or organization that actually gave the gift. If the donation is made by a cheque written on a joint bank account, the tax receipt should be issued in both names on the cheque, and the receipt may be used by either party to claim a tax credit.

Is a gift eligible for a receipt?

Before you issue a tax receipt, you must determine if you have truly received a gift according to the Canada Revenue Agency's (CRA's) definition.

To be eligible for a tax receipt, a gift must also:

- be able to be valued; and
- enrich the charity (that is, the gift must be the result of an intention to make a donation).

If the donor receives something in return for their gift (known as an "advantage" by CRA), you may or may not be able to issue a receipt for part of the gift (known as the eligible amount of the gift). See Split Receipting for details.

Gifts that are not eligible for receipts

Some gifts, such as money received in response to a direct mail campaign, are eligible for a tax receipt for the full amount of the donation. Some gifts are eligible for a receipt for only part of the amount of the donation. Other gifts are not eligible for a tax receipt at all.

The amount of the gift that is eligible for a receipt (eligible amount), may be difficult to determine. If the value of the gift, and the value of any advantage given in return for the gift, can’t both be determined, the Canada Revenue Agency (CRA) does not allow a tax receipt to be issued.

Also, CRA generally does not allow tax receipts to be issued for the following **(each topic included below)**:

- Donations received as a result of an obligation or inducement
- Donations of services
- Pledges
- Gift cards and certificates
- The purchase of goods or services from a charity
- Donations directed to specific individuals, families, or non-qualified donees
- Donations for the benefit of the donor
- Donations of non-qualifying securities
- Use of vacation property
- Lottery or raffle tickets

Electronic tax receipts

Charities may issue electronic tax receipts, if:

- the receipts contain all the required information (see Information that must be included on a tax receipt);
- the receipts can be reproduced by the charity; and
- the receipting information is stored on a system that is reasonably protected from unauthorized access.

Receipts may be sent to the donor by e-mail, if:

- they are sent in a non-alterable format such as PDF;
- they are signed with an electronic signature; and
- the charity keeps copies of all e-mailed receipts.

See the CRA's Computer-generated receipts for more information.

Keeping records of tax receipts

Charities must keep copies of all tax receipts for two years after the year for which the receipt was issued. For ten-year gifts and other gifts of enduring property, copies of tax receipts must be kept for as long as the charity is registered, plus two additional years.

Copies must be stored in a secure place and should be made available only to those with a legitimate reason to see them. (For more information, refer to the privacy legislation that applies in your jurisdiction.)

If electronic tax receipts were issued, charities must be able to reproduce electronic copies of them for these time periods. The information must be stored in a password-protected computer system. Charities should also keep backup copies of their receipts, preferably at another secure location.

Donations received as a result of an obligation or inducement

Charities cannot issue tax receipts for donations when:

- the donor was required to make the donation (for example, as the result of a court order) or
- the donor was induced in any way to make a donation that he or she otherwise would not have made.

In these cases, the donation is not considered voluntary, and therefore is not a gift.

Example 1: As part of a settlement in a court case, the loser in the case is required to make a donation to charity. Because the donation did not meet the definition of a gift (it was not voluntary), no tax receipt can be issued.

Example 2: A charity contacts a potential donor and proposes the following: Consistent with its charitable objects, the charity is able to provide relief to farmers, although it has no program set up to do so. The charity knows that the potential donor is interested in helping a specific farming family, so it offers to provide a program for which only this family would qualify if the donor donates to the charity. Although the donor does not receive any personal advantage for his donation, he has been induced to make his gift. Therefore no tax receipt can be issued.

Donations of services

Contributions of services (for example, time, labour, skills) are not transfers of property and therefore are not gifts. No tax receipt may be issued for the contribution of services.

See 'Gifts of Services' (CRA, 2011)

However, if the charity pays for the services provided, the service provider may then donate that payment to the charity. In this case, this is considered to be a cash donation and the charity can issue a tax receipt to the donor. This is sometimes called a cheque swap.

Example 1: A charity maintains a roster of volunteers to drive seniors to various appointments, to shopping, etc. The volunteers' time is a gift of services. Therefore no tax receipt can be issued.

Example 2: A gardener offers to voluntarily take care of a charity's lawn and garden. No tax receipt can be issued for the provision of this service. But if the gardener decides to invoice the charity at her normal prices for such work and the charity pays this invoice, the gardener may then choose to donate all or part of the payment to the charity. The charity can then issue a tax receipt for this cash donation. Of course, the gardener would have to declare the amount invoiced as income for tax purposes, so there is likely no net benefit to her in doing so.

Caution: For a donation to qualify for a tax receipt, there must be an actual cash donation. Funds must actually change hands.

Pledges

A pledge is a promise to make a donation in the future. It is not a gift until the charity actually receives the donation. Therefore, no receipt can be issued until the donor has fulfilled the pledge by making a donation.

Gift Cards and Certificates

Gift cards or certificates are often donated to charities and are commonly used in fundraising activities such as silent auctions.

Tax receipts **cannot** be issued for a gift card or certificate if the donor is the business that issued it and if the gift card or certificate is redeemed by a third party (for example, by someone who purchased it in a silent auction). In this case, the gift card or certificate is considered only to be a promise by the business to give merchandise sometime in the future (that is, when the gift card is actually redeemed). Until then, there has been no gift of property. If the charity itself redeems the gift card or certificate for goods (not services), then a receipt may be issued, as the donor (the business) has then fulfilled its promise and transferred property to the charity.

Tax receipts **may** be issued if the person who donates the gift card or certificate purchased it from the issuer and then donates it to a charity. Once purchased, the gift card or certificate is considered to be property and, if donated to a charity, is eligible for a tax receipt.

The following table illustrates when a tax receipt may be issued in exchange for a gift card or certificate donated to a registered charity:

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="2">Redeemed by …</td></tr>
<tr><td>Charity</td><td>3rd party</td></tr>
<tr><td rowspan="2">Donated by …</td><td>Issuer (a business)</td><td>Issue tax receipt</td><td>Do not issue tax receipt</td></tr>
<tr><td>3rd party</td><td>Issue tax receipt</td><td>Issue tax receipt</td></tr>
</table>

Example 1: A book store donates one of its gift cards to a charity for use in its auction. Because the gift card is only considered to be a promise at the time of the donation, a tax receipt cannot be issued.

When the card is redeemed by whoever purchased it at the auction, the charity still cannot issue a receipt. This is because the redemption transaction is between the book store and the purchaser. The charity is not involved in this transaction (and specifically does not receive any donation as part of the transaction), so no tax receipt can be issued.

Example 2: A person buys a gift certificate for cooking classes from the cooking school and then donates it to a charity for use in its auction. The donor can receive a tax receipt for the full amount of the gift certificate because it is now considered to be property. The person who is giving the cooking classes does not get a receipt from the charity.

The purchase of goods or services from a charity

The purchase of goods or services from a charity is a commercial transaction, not a gift, and is therefore not eligible for a tax receipt. In certain circumstances, however (for example, when the purchaser pays more than the fair market value of the goods or services with the intention that the overpayment be donated to the charity), a receipt can be issued for that part of the payment that represents a donation (see Split Receipting)

Example 1: A person buys a book worth $30 from a charity and pays the charity $30 for it. This is a commercial transaction, not a gift. Therefore no receipt can be issued.

Example 2: A person buys a book worth $30 from a charity but gives the charity a cheque for $50. Part of the payment ($30) represents an advantage to the donor (that is, the book), and the rest ($20) represents a donation. Therefore a receipt can be issued for $20 – the difference between the cash received by the charity and the advantage obtained by the person (see Split Receipting for limitations on issuing receipts in such cases).

Donations directed to specific individuals, families, or non-qualified donees

A donor cannot specify the ultimate beneficiary of a gift, and the gift generally cannot benefit the donor or anyone who is not at arm’s length from the donor. That is, there can be no private benefit. If either of these conditions apply to the gift, CRA does not allow the charity to issue a tax receipt.

Example 1: A donor gives $1,000 to a charity for the specific purpose of funding Jean David’s attendance at a music course given by the charity. For a donation to be eligible for a tax receipt, the charity must be able to freely apply the funds within a program (the music course) or within other similar programs at its discretion. In this case, the donor has directed specific individuals on whom the funds must be spent. Therefore no tax receipt can be issued.

Example 2: A donor gives $1,000 to a charity specifically to help reduce the cost of offering a music program. The charity is then able to lower the fees it charges its students. Because the donor has not directed that the donation is to be used for a specific individual, it is eligible for a tax receipt.

Example 3: A donor gives $1,000 to a charity specifically to fund a bursary program to help disadvantaged youth participate in a music program. The charity sets the criteria and selects the students to be supported. Because the donor has not directed that the donation is to be used for a specific individual, it is eligible for a tax receipt.

Example 4: A donor gives $10,000 to benefit the family of a specific victim of a traffic accident. Because particular individuals have been identified by the donor, it is not eligible for a tax receipt. If the donation was instead intended to benefit any victim of a traffic accident, it would be within the charity's discretion as to how to apply it, and therefore a tax receipt could be issued.

Donations for the benefit of the donor

Donations that are primarily intended to benefit the individual making the donation are not eligible for a tax receipt. Benefits to the donor can include:

- admission fees to concerts or other performances;
- tickets to attend events where a meal is served or entertainment is provided;
- events that include auctions, lotteries, or draws;
- provision of services, such as the use of a charity's premises or meeting facilities; and
- recognition for sponsors.

In some conditions, however, a receipt can be issued for a part of the payment (see Split Receipting for more information and examples).

Donations of non-qualifying securities

A charity may generally not issue a tax receipt for the gift of shares or securities of a corporation unless they are publicly traded on a "prescribed stock exchange" or if the donor is at arm's length from the charity and each of its director and officers. This is a complex area of the regulations, however. You should get professional advice or ask CRA if you are in this situation.

Use of vacation property

The use of a property is not the same as the transfer of a property. However, if the charity pays for the use of the property and the owner of the property donates that money back to the charity, the charity can issue a tax receipt for the donation (known as a cheque swap).

Example 1: Jane and Paul Proudfoot have a cottage in the Gatineau Hills. They donate a week at the cottage to a silent auction run by their favourite charity. Because the donation of use of the cottage is not a transfer of property, a tax receipt cannot be issued. However, if the charity paid for a week at the cottage and the Proudfoot's donated the payment back to the charity, a charitable tax receipt could be issued. Of course, the Proudfoot's would have to declare this as income, and so there may not be any net benefit to them.

Lottery or raffle tickets

CRA considers that donors who buy lottery or raffle tickets do so primarily because they want a chance to win the prizes that are offered and not because they want to make a donation to the charity that is holding the event. Therefore it does not allow tax receipts to be issued.

Source: http://sectorsource.ca/managing-organization/gifts-and-receipting/receipting