

[Issuing Receipts for Non-cash Charitable Donations](#)

Published on 4:53 pm by [Phil](#) in [Registered Charities](#), [Taxation](#)

0

Many not-for-profit organizations are having to rely more heavily than ever before on donations as a key source of revenue. Organizations are becoming more creative in their efforts to both widen their donor bases and ward off competition from other fundraisers. Innovative fundraising ventures such as art auctions, silent auctions, 100 hole golf marathons and other sporting events often involve donations of non-cash items. Rules for issuing receipts are often applied incorrectly and, in some cases, possibilities for donors to receive significant tax benefits are overlooked. In this article, we will cover Revenue Canada's rules for issuance of donation receipts for non-cash items from both the donor's and the recipient's perspectives.

Rules for issuing donation receipts

The Income Tax Act states that registered charities can issue official donation receipts for property gifted by a donor to a registered charity. Note that as "services" are not property they are not eligible for receipts. For a transfer of property to be a gift the transfer must be voluntary (i.e. not subject to a contract or other formal obligation on the part of the donor), and the property must be transferred without expectation of return. "Without expectation of return" means that nothing of value or benefit should be collected by the donor or anyone designated by the donor in return for the gift.

Receipts for gifts-in-kind may be issued for the fair market value of the gift at the date of donation. Gifts over \$1,000 must be independently appraised. The donation receipt issued must include a brief description of the property donated and the name and address of the appraiser.

Donation receipts may not be issued for:

- services such as computer consulting and design work
- old clothes, furniture, home baking, hobby crafts etc. Exceptions can be made for articles of unusually high value.
- sale of raffle, lottery and other games-of-chance tickets

These are the basic rules dictating when donation receipts may and may not be issued. See the following CRA guidelines for specifics (<http://www.cra-arc.gc.ca/E/pub/tp/it297r2/>). Following are guidelines for applying the rules to specific situations:

Games of chance

You may not issue donation receipts for sale of lottery or raffle tickets as people buying these tickets have an expectation of return. It is clear that charities running the ubiquitous hundred dollar sweepstake lotteries cannot give donors receipts for purchasing tickets for these events. It becomes less clear when you think of issuing receipts for charitable functions which include a door prize in the event. Generally Revenue Canada overlooks benefits to donors such as door prizes where they are only a minor part of the event.

Donation of Services

A charity may not issue a donation receipt for a contribution of services. This follows from the rule that donation receipts may only be issued for a transfer of “property”: Services are not property. To issue a receipt for a donation of services the transaction must be divided into two parts: one being a sale and the second a cash donation.

- Firstly, the “donor” of the services would invoice the charity for the value of the services provided. The charity should then pay for the services in cash.
- Secondly, the service provider would donate the cash (i.e. the “property”) to the charity. The charity may then issue a donation receipt to the donor.

There are two separate transactions in this exchange. Firstly, the service is provided and paid for. The income generated must be included in the taxable income of the service provider and, in addition, HST and PST, if applicable, must be charged and remitted as in a normal sale. The second transaction is the donation and involves the gifting of money from the donor to the charity and issuance of the charitable receipt in return.

Charities and donors often shortcut the process by merely swapping a donation receipt for services provided. HST is often missed in the swap transaction and the donor may not be aware that the value of services provided must be included in taxable income on their income tax return. At the very worst, a charity can lose its charitable registration for issuing a donation receipt for contribution of services.

Sponsorships

Donation receipts may not be issued for sponsorships where the sponsor receives a benefit such as advertising or promotion in return for the donation. Revenue Canada’s position is that the donor must deduct these sponsorship expenditures as business expenses and, therefore, a donation receipt should not be given. As an example, companies and individuals often sponsor golf holes or dining tables at charitable events. The name of the donor is included in the event publicity. In this way the sponsor receives public recognition. As businesses can deduct advertising and promotion from taxable income, the tax deductibility of the payment will not be lost.

Gala fundraising events

Donors attending gala fundraising events pay for and receive a benefit, such as a meal or tickets to a performance, for their contribution. One of the cardinal rules of receipting is that a donor receiving a benefit of more than a nominal value (e.g. a package of golf balls, flowers, a page of address labels) is not entitled to a donation receipt.

An exception to the nominal value rule occurs where a donor purchases a ticket to attend a charitable event such as a play or banquet and the donor pays more than the value of the event. The charity is allowed to issue a receipt for the difference between retail value of the cost of the event and the purchase price of the ticket. For example, if a charity sells a \$200 ticket for an event costing the charity \$110 per person, then the donor is eligible to receive a donation receipt for \$90.

It is important to note that the value of the receipt is the difference between the retail value of the entertainment and the price charged by the organization for the event. If the cost of the event is partially or completely covered by another individual or organization (e.g. if a theatre contributes a block to

tickets to a performance at a discount) then the donor is still only entitled to receive a donation receipt for the difference between the retail value of the cost of the event and the purchase price of the ticket. If, using the above \$200 ticket example, the charity receives a donation of food for the dinner to bring the cost per person down to \$75 from \$110, then participants are still only eligible for a \$90 receipt for each \$200 ticket purchased.

Art auctions

Charitable organizations are increasingly turning to art auctions as a source of donation revenue. In these situations, either artists themselves or individuals or corporations donate works of art. If an artist contributes his or her own work of art then the artist is deemed to have sold it in the normal course of business at fair market value at the time of the gift. As the work of art comes from the artist's inventory the sales price must be included in the artist's taxable income. As is the case with donation of services, the artist should sell the work of art to the charity and then donate the cash from the sale back to the charity. The artist should still charge HST and if applicable. The donation receipt issued by the charity to the artist can be used to offset the taxable income of either the artist or the artist's spouse.

Some organizations are concerned that if they cross cheques with donors then the donation cheque may not be honoured (i.e. may be returned NSF). The organization would then be stuck with a piece of art which they may have trouble selling for full market value. Consequently cheques are often not crossed and the art is incorrectly swapped directly for a donation receipt.

In the case of art donations from non-artist individuals or corporations, the donor would still receive a tax receipt based on the value of the donation. Revenue Canada has an administrative policy of not requiring formal valuations for works of art with a retail value of under \$1,000. However, for donated works valued at over \$1,000 an independent appraisal is required. A donation receipt may then be issued to the donor for the appraised value.

Typically, proceeds realized by charities on auction of artwork are significantly less than appraised values. Revenue Canada could come back and challenge the appraised fair market value of the donation up to four years after the fact. Revenue Canada would presumably base its challenge of the receipted amount in part on the gap between the amount of the donation receipt issued and the auction price. To avoid embarrassment and future financial difficulty for donors, charities are advised to obtain the most reputable appraisals possible.

The purchasers of art at an auction are, of course, not eligible for receipts as they are buying art and are not making a donation.

One further wrinkle to the art auction: Charities are required to spend at least 80% of the value of receipts issued on charitable activities (the disbursement quota). If, as an example, receipts are issued to donors for \$100,000 and only \$40,000 is raised at the auction then the charity must still spend 80% of the receipts issued (i.e. \$80,000) on charitable activities in the next fiscal year. If the art auction is the only source of revenue then the organization may have difficulty spending \$80,000 as it only raised \$40,000 in cash. For organizations with significant sources of non-receipted revenue such as government funding, meeting the quota is generally not an issue. However, if that is not the case then care must be taken to ensure you have sufficient funds to meet the 80% disbursement test.

Benefits to donors of gifting

Donors can receive donation receipts for donations of property made to the following types of organizations:

- charitable organizations, public foundations and private foundations
- Canadian amateur athletic associations
- housing corporations that provide low-cost housing and are exempt under the Income Tax Act
- gifts to a municipality within Canada
- gifts to the United Nations or one of its agencies
- gifts to universities outside Canada and charitable organizations outside Canada, in certain circumstances. These donation receipts are typically only deductible against taxable income earned in the jurisdiction of the organization. For example, donations to a certain public US television station can only be deducted against US source income.
- gifts to the Crown.

Donors are eligible for a credit against tax payable of approximately 27% for the first \$200 of donations and approximately 50% for donations in excess of \$200. The benefits are significant. Either spouse may claim the credit for charitable gifts regardless of who actually made the donation.

In the case of corporations, charitable donations can generally be deducted up to 20% of taxable income in the year. In many situations, however, sponsorship payments should be classified as advertising and promotion expenses. In these cases, donation receipts should not be issued as the expenditures may be deducted directly against business income.

Summary

The Income Tax Act permits donors to claim a significantly higher deduction in the year of the donation than was formerly available. In many situations donors will now find it more beneficial to donate gifts of property, on which they have accrued capital gains, than to dispose of the property and contribute the cash. Again, the organization should work through individual situations with donors as they arise.

Source: <http://187gerrard.com/2010/07/issuing-receipts-for-non-cash-charitable-donations-2/>