Canada Revenue Agency   Agence du revenu du Canada

Tax Advantages of Donating to Charity

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Canada

Change of name

In this publication, we use the name "Canada Revenue Agency" and the acronym "CRA" to represent the Canada Customs and Revenue Agency. This reflects recent changes in the structure of the Agency.

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La version française de cette publication s'intitule *Avantages fiscaux liés aux dons à des organismes de bienfaisance*.

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As a client, you can expect reliable, responsive, fair service in the official language of your choice. We will provide this service to you, explain our decisions and actions, and seek your suggestions on ways to improve our services.

Your opinion counts

If you have any comments or suggestions that would help us improve this brochure, we would like to hear from you. Please send your comments to:

Charities Directorate
Canada Revenue Agency
Ottawa ON K1A 0L5

Need More Information?

Please contact the Charities Directorate if you need more information or further clarification on a particular topic.

You can reach the Charities Directorate at the following telephone numbers:

- 954-0410 for local Ottawa calls (English);
- 954-6215 for local Ottawa calls (bilingual);
- 1-800-267-2384 for toll-free, long-distance calls (English);
- 1-888-892-5667 for toll-free, long-distance calls (bilingual); and
- 1-800-665-0354 for toll-free service for hearing impaired persons.

The Directorate's fax numbers are (613) 948-1320 and (613) 954-8037.

You can get copies of all forms, pamphlets, information circulars, and interpretation bulletins referred to in this brochure from the Charities Directorate or from any of the tax services offices. You can also get copies by calling **1-800-959-2221**.

To contact a tax services office, see the telephone listings in the Government of Canada section of the telephone book.

Internet Access – You can find the list of registered charities and many of our publications on our Web site at **www.cra.gc.ca/charities**.

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Tax Advantages of Donating to Charity

Charities play a vital role, both in Canadian society and around the world. Generous tax incentives have been created to encourage gifts by individuals and corporations to registered charities.

This brochure explains the different kinds of tax assistance that you, as a donor, can receive in return for a gift you make to a registered charity.

Definitions

What is a registered charity?

A **registered charity** is an organization, corporation, or trust that has been registered as a charity by the Minister of National Revenue for the purposes of the *Income Tax Act*. It must be either created or established in Canada and be resident in Canada.

To be registered, the organization, corporation, or trust must operate for charitable purposes, and must use its resources for charitable activities. It cannot make its income available for the personal benefit of its members.

A registered charity can issue official tax receipts for the gifts it receives from individual or corporate donors.

To find out whether an organization is a registered charity, call the Charities Directorate at the telephone numbers listed on page 4.

What is a gift?

A **gift** is a voluntary transfer of property for which the donor receives no benefit in return.

For there to be a gift, the following conditions must be met:

- the donor transfers ownership of property (cash, or gifts in kind such as goods or land) to a registered charity;
- the transfer is voluntary; and
- no benefit is provided to the donor, or a person selected by the donor, unless the benefit is of **nominal value**.

Note
More specifics about the rule that no benefit may be provided to the donor or to a person selected by the donor will be forthcoming.

What is a benefit of nominal value?

We consider a benefit given by a charity in return for a gift to have a **nominal value** if its fair market value is less than 10% of the amount of the gift, **as long as** the value of the benefit is not more than $50.

If you cannot establish the fair market value of a benefit, then we cannot consider it to be a benefit of nominal value. For example, if you give property to a charity and in return get the opportunity to meet a celebrity, there is no way to establish the fair market value of this benefit. This is also the case if the value of the benefit depends on how often the donor uses it (such as an open-ended discount in a bookstore). In these situations, the charity cannot give you a tax receipt.

Examples
You give $1,000 to a scholarship fund and direct that the money be used to provide an award to your nephew. The money you gave to the charity is not a gift. Therefore, the charity cannot issue you an official tax receipt.

You give $100 to a registered charity. By way of thanks, the charity gives you a calendar worth $8. As this is a benefit of nominal value, the charity can issue you an official tax receipt for your gift.

You give $500 to a registered charity. In return, you receive a card that will give you a 20% discount for any goods purchased at the charity's gift shop this year. There is no way to determine the fair market value of the benefit, as it is impossible to know how often you will use the discount card. Therefore, the charity cannot issue you an official tax receipt.

What is a gift in kind?

The term **gift in kind** usually refers to property other than cash—in particular capital property, depreciable property, and personal-use property. It also includes a residual interest, a right of any kind, a licence, a share, and inventory of a business. However, it does not include a gift of services.

A charity that receives a gift in kind can issue a tax receipt for the fair market value of the gift on the date it was donated.

What is fair market value?

Fair market value generally means the highest price that a property would bring, expressed in dollars, in an open and unrestricted market, between a willing buyer and a willing seller who are both knowledgeable, informed, and prudent, and who are acting independently of each other.

Fair market value does not include any amounts paid or payable to other parties, such as commissions to sales agents or sales taxes like the goods and services tax/harmonized sales tax (GST/HST) or provincial sales taxes.

General Benefits for Individual and Corporate Donors

You can claim a tax credit or a deduction for your charitable donations by completing the appropriate section of your income tax return. Depending on how you file your return, you have to either include copies of your official tax receipts with the return, or keep them for possible review at a later date.

Individual donors – You will receive a federal tax credit equal to 16% of the first $200 you give to registered charities in a taxation year. You will also receive a tax credit equal to 29% for donation amounts that exceed that $200. The more you give, the greater the tax credit.

You apply the credit directly against the tax you owe, instead of deducting it from your taxable income.

Example
In 2001, Mary makes a single donation of $1,000 to a registered charity. She can claim the following tax credit:

16% of the first $200	=	$ 32
29% of the remaining $800	=	$ 232

The total credit she can apply against the federal income tax she owes is $264.

To simplify, this example assumes that no federal surtaxes apply.

The charitable tax credit also reduces surtaxes and provincial or territorial taxes. In Quebec, a charitable gift provides a separate provincial tax credit.

The exact value of the charitable donations tax credit varies slightly according to your taxable income and province of residence.

The following chart shows the amount of federal and provincial assistance available in 2001 to individuals giving $500 as charitable gifts. To simplify, we assume that surtaxes do not apply.

Province or territory	Federal charitable donations tax credit	Impact on provincial or territorial taxes	Total tax assistance for a $500 donation
Newfoundland and Labrador	$119.00	$75.20	$194.20
Prince Edward Island	$119.00	$69.70	$188.70
Nova Scotia	$119.00	$70.08	$189.08
New Brunswick	$119.00	$72.88	$191.88
Quebec	$119.00	$100.00	$219.00
Ontario	$119.00	$45.80	$164.58
Manitoba	$119.00	$74.00	$193.00
Saskatchewan	$119.00	$67.00	$186.00
Alberta	$119.00	$58.25	$177.25
British Columbia	$119.00	$56.20	$175.20
Northwest Territories	$119.00	$53.95	$172.95
Yukon	$119.00	$52.36	$171.36
Nunavut	$119.00	$42.50	$161.50

Corporate donors – You may deduct gifts made to registered charities from taxable income.

This deduction can result in federal and provincial tax assistance of up to 43% of the value of these donations.

The Annual Limit for Charitable Donations

Individual and corporate donors can only claim charitable gifts up to a certain limit each year. In the past, this limit was 20% of net income for the year.

For tax years after 1996, this limit is 75% of net income.

In addition, the annual limit for charitable donations, including bequests, made in the year an individual dies is 100% of the individual's net income. The limit for the year before the individual's death is also 100%.

Example
Roger died in 1998. Any gifts Roger made to registered charities in 1998, including any bequests made under his will, can be claimed up to 100% of his net income for 1998 and 100% of his net income for 1997.

Carrying Forward Charitable Gifts

As explained above, there is a limit to the amount you can claim each year for the gifts you make to registered charities.

However, you can carry forward any unused charitable gifts and claim them for up to five more years, as long as you only claim an amount, or portion of an amount, once.

You have to claim your oldest gifts before you can claim gifts you make in a current year.

Example
Gabrielle owns a parcel of land that has been in her family for several generations. In 1998, she decides to give it to a registered charity. Her annual income is $60,000. The fair market value of the land is $80,000.

When filing her tax return for 1998, she can claim up to 75% of $60,000 ($45,000) as a charitable donation. Her resulting tax credit is based on this amount.

She can carry forward the remainder of her charitable donation claim, $35,000 ($80,000 – $45,000), and use it in her tax return for the 1999 tax year or for the following four years.

Special Types of Charitable Gifts

Gifts of capital property

Capital property is usually defined as any property of value that you buy for investment purposes, or to earn income. Common types of capital property include the following: securities such as stocks and bonds; and land, buildings and equipment you use in a business or rental operation.

Tax incentive for gifts of publicly traded securities

When you donate capital property, we consider you to have disposed of that property for its fair market value. This deemed disposition may result in a capital gain. Generally, 50% of the capital gain resulting from this transaction was taxable. However, the amount of the capital gain that has to be included in income is now cut in half for certain gifts of capital property.

Individuals and corporations who donate publicly traded securities will only have to include in their income and pay taxes on 25% of the capital gain on these gifts.

Publicly traded securities are:

- shares, debt obligations, or rights listed on prescribed stock exchanges (Toronto, Montréal, Tiers 1 and 2 of the TSX Venture Exchange and 36 foreign stock exchanges);
- shares of the capital stock of a mutual fund corporation;
- units of a mutual fund trust;
- interests in related segregated fund trusts (a mutual fund relating to an insurance policy); or
- a prescribed debt obligation.

This rule applies to eligible securities you donate after February 18, 1997.

As a result of this change, the combined federal-provincial tax assistance on such donations of securities may rise to as much as 64% of the value of the gift.

You should note that this measure does not apply to publicly traded securities given to a registered charity that is a private foundation.

Annual donation limit for gifts of capital property

If you have to include a capital gain in your income as a result of a gift of capital property to a registered charity, you can increase your standard donation limit by a percentage of that taxable capital gain. This increased donation limit applies to the year that you make the gift of capital property. It will enable you to offset the tax payable on the capital gain.

For gifts of capital property made after 1996, the standard donation limit of 75% of net income is increased by adding to it 25% of the taxable capital gain resulting from the gift.

Example
Andrew gives a painting to a registered charity. He bought the painting 10 years ago for $60,000. An independent appraiser establishes the painting's value at the time of the donation at $120,000.

This means Andrew has a capital gain of $60,000 ($120,000 – $60,000). He must include one-half of the capital gain ($30,000) in his taxable income.

His income from other sources is $70,000. Therefore, Andrew's total taxable income is $100,000 ($70,000 + $30,000).

How much of his $120,000 donation can he claim?

75% of his total income ($100,000)	=	$75,000
Plus 25% of his taxable capital gain ($30,000)	=	$ 7,500
Total amount that can be claimed	=	$82,500

Andrew can claim $82,500 as a charitable gift this year. He can carry forward the remaining $37,500 ($120,000 – $82,500) and claim it up to 75% of his net income over the next five years.

Gifts of buildings and equipment

Another incentive encourages gifts to registered charities of capital property, such as buildings or equipment.

Owners of depreciable capital property can routinely deduct from their taxable income a capital cost allowance for that property. However, in the past, donors of such property may have found themselves with a tax liability if the value of a property donated to a charity was more than its depreciated value for income tax purposes. This is because there would be a recapture of the capital cost allowance if the property being donated depreciated more slowly than was claimed for tax purposes.

For taxation years beginning after 1996, the annual donation limit (75% of net income) is increased by another 25% of the recapture arising on the gift. This increased limit applies to the year that the gift of capital property is made.

Example
In 1998, Widgets Inc. donated a building which had a fair market value of $95,000, a cost of $100,000, and an undepreciated capital cost of $85,000.

Its net income for the year was $200,000 + $10,000 of recapture on the disposition of the building.

How will Widgets Inc. calculate its charitable deduction?

- It can claim deductions for charitable gifts made in 1998 up to 75% of its net income ($157,500).
- In addition, its annual limit for charitable donations in 1998 is increased by another 25% of the $10,000 recapture ($2,500).

The corporation can carry forward any unused portion of the gift and claim it up to 75% of its net income for the next five years.

Gifts of Canadian cultural property

Special incentives have also been created to encourage Canadians to keep significant cultural property (for example, paintings, sculptures, books, or manuscripts) in Canada.

You can claim, up to 100% of your net income, gifts of cultural property that have been certified by the Canadian Cultural Property Export Review Board as being of outstanding significance and national importance. In addition, you do not have to pay any tax on capital gains resulting from the gift. However, you can deduct any capital losses on the property within the usual limits.

This incentive applies when you give the property to Canadian institutions and public authorities that have been designated by the Minister of Canadian Heritage. This designation ensures that institutions receiving cultural property have the appropriate measures in place to collect and preserve it, and make it accessible to the public for research or display purposes.

If you would like more information about gifts of cultural property, or to get a copy of the Canadian Cultural Property Export Review Board's publication entitled *Applications for Certification of Cultural Property for Income Tax Purposes – Information and Procedures*, please contact the Review Board Secretariat by calling (819) 997-7761, by fax at (819) 997-7757, or by email at **revboard_sec@pch.gc.ca**.

Ecological gifts

Changes have also been made to encourage ecological gifts. You receive a tax benefit for ecological gifts you make to a registered charity that has been designated by the Minister of the Environment, or to a Canadian municipality.

After 1996, you can also receive a tax benefit if you make these gifts to the federal government or to a province.

You can claim a tax credit or deduction of up to 100% of your net income for a donation of land (including an easement, a covenant, or a servitude), if the land has been certified by the Minister of the Environment to be ecologically sensitive and deserving of conservation and protection.

Conservation easements, including common law easements and covenants and civil law servitudes, are legally binding agreements that place certain obligations on the landowner, such as preventing the construction of new buildings. They can operate as restrictions on land to control its development. Once an agreement is drawn up, the current and future landowners must respect these obligations.

Example
Pierre agrees to have an easement registered on property that he owns. The easement is registered in the name of a registered charity designated by the Minister of the Environment, and will prevent development of land surrounding a creek. The land described in the easement is certified by the Minister of the Environment as deserving of conservation and protection. The charity can issue a tax receipt to Pierre for the value of the easement.

The problem in making gifts of easements, covenants, and servitudes is that it is sometimes very difficult to place a value on them. To make this valuation easier, new rules were established for ecological gifts you make after February 27, 1995.

Now, if you make a gift of an easement, covenant, or servitude, the amount on the official tax receipt will be the greater of:

- the fair market value of the restriction (if one can be established); or
- the reduction of the land's fair market value caused by the restriction. In other words, the amount will be the difference between the land's value with the restriction on development, and what the land would be worth if there was no restriction.

Gifts by businesses

When a business gives cash or other property to a charity, it may not necessarily be making a gift to the charity. For example, a business may make a payment, or give merchandise to a charity and receive a business advantage in return, such as promotional or advertising services.

In this situation, the business has not made a gift to the charity and the charity cannot issue an official tax receipt. The business can usually claim the payment or the value of the merchandise as a business expense. However, if the business transfers property to a charity and does not receive consideration in return, then it has made a gift.

As you will see from the following examples, the determination of whether a gift has been made depends on the facts of the situation.

Examples
Your business enters into an agreement with a registered charity. The agreement states that your business will pay $2,000 for advertising space in the charity's magazine. The advertising is intended to promote your products. In this situation, your business has made a payment for services and not a gift to the charity.

Your business gives $2,000 to a registered charity to support the charity's ongoing activities. At the end of the year, the charity acknowledges the gift in the newsletter it sends to its members. As the business receives no other benefit, the amount is considered to be a gift and the charity can issue a tax receipt.

Gifts of business inventory

When a business does make a gift to a charity, it must separate gifts of cash or non-inventory items from gifts made out of its inventory (for example, computers from a computer store, food from a grocery store, or paintings from a commercial gallery).

Gifts of cash or non-inventory items produce the same tax benefits discussed earlier in this brochure. See the section called "General Benefits for Individual and Corporate Donors" on page 9.

Gifts out of inventory are another matter. Registered charities can still issue an official tax receipt for such gifts, and the business can still use these receipts to claim a charitable deduction. However, the business has to include in its income, the fair market value of any goods out of its inventory that it gives to a charity.

As the next examples explain, this provision does not adversely affect the taxable income of a business. While the income of a business is increased because it must include the value of the gift, this increase is offset by the charitable deduction.

Example 1
Giovanni's Bakery gives bread with a fair market value of $1,000 to a local food bank that is a registered charity.

The cost of the bread to the company is $500, half its sale price.

The charity gives the business a tax receipt for $1,000.

Calculation of taxable income

Sales of bread		$50,000
Plus the value of bread donated to charity	+	1,000
Income		$51,000
Less production costs	–	25,500
Net income		$25,500
Less tax deduction for donated bread	–	1,000
Taxable income		$24,500

Example 2
Giovanni's Bakery bakes $51,000 worth of bread.

It sells $50,000 worth of bread, and throws out its surplus inventory worth $1,000.

Calculation of taxable income

Sales of bread	$50,000
Less production costs	– 25,500
Taxable income	$24,500

Tickets to fund-raising dinners, balls, concerts, shows, or like events

Usually, an amount you pay to a charity will not be a gift if you, or someone you name, receives a benefit (other than a benefit of nominal value) in return for the payment. However, in recognition of certain widely accepted fund-raising practices, the following situation is an exception to this rule.

When a registered charity sells tickets to a fund-raising dinner, ball, concert, show, or like event, we consider the difference between the ticket price and the fair market value of the food or entertainment the charity provides to be a gift.

A **like event** is an event that provides services or consumable goods that are bought to be used on a particular date. These services or goods will have no resale value if the purchaser does not use them on that date. For example, a concert would be a like event but an auction would not. Goods bought at an auction continue to have value after the date of the auction.

To calculate the gift part of the ticket to the fund-raising event, the charity can consider that it has received two payments:

- payment for the fair market value of the meal or entertainment it is providing (not the actual cost of providing the meal or entertainment); and
- a gift.

Example
A hospital foundation sells tickets for $200 each to a fund-raising dinner-dance. The cost to the foundation of putting on the event is $45 per person.

The foundation calculates the fair market value of the food and entertainment provided to persons attending the event to be $75.

The gift to the foundation is the difference between the $200 ticket price and the $75 value of the benefit received. The actual cost to the foundation, $45 per person, is not a factor in calculating the part of the ticket price that is a gift.

Therefore, the foundation can issue a tax receipt for $125 to each ticket purchaser.

Tickets for lotteries, draws, or raffles

If you buy a ticket for a lottery, draw, or raffle to win a prize of more than nominal value, then you have not made a gift. Instead, you have purchased a chance to win the prize. Therefore, a registered charity cannot issue an official tax receipt when it sells such tickets.

If the price of admission to a fund-raising dinner, ball, concert, show, or like event includes a lottery or draw for prizes of more than nominal value, then the charity cannot issue a receipt for any part of the admission price.

Example
A hospital foundation sells tickets for $200 each to its fund-raising dinner. The ticket to the dinner also enters you in the foundation's lottery to win a new car. The foundation cannot issue you a tax receipt for any part of the $200 you paid to attend the dinner.

This situation can be avoided if the charity sells tickets for a lottery or draw separately from the admission to the fund-raising event.

For example, if a person can buy tickets for a fund-raising dinner without buying lottery tickets, then the charity can issue an official tax receipt for the part of the admission ticket that exceeds the fair market value of the entertainment or meal provided.

See Interpretation Bulletin IT-110, *Gifts and Official Donation Receipts*, for more information on this topic.

Contributions of services

You can only claim a tax credit or a deduction for gifts of cash or other property that you make to a registered charity.

If you contribute your time to help a charity, it cannot issue you a tax receipt. This is true even if your services are of a professional or business nature. For example, a registered charity cannot give a tax receipt to a garage that maintains the charity's vehicles for free, or to an accountant that does the charity's books without charging.

However, if the charity pays you for your services and you later return all or part of that amount to the charity as a donation, then the charity can issue you a tax receipt for your cash donation. You must declare the amount the charity pays you in your taxable income as remuneration, or as business income.

Auctions

Many registered charities conduct fund-raising auctions. If you donate gifts to the auction, the charity can issue you an official tax receipt. The amount shown on the receipt will be the fair market value of the gift on the date the charity received it.

However, you will not receive a tax receipt if you purchase an item at a fund-raising auction. The payment is not considered to be a gift, even if the price you paid exceeds the fair market value of the item. Therefore, the charity cannot issue you a tax receipt for these payments.

Examples
Jason gives a television to his church for its annual fund-raising auction. The fair market value of the television is $250. The church issues a tax receipt to Jason for $250.

At the auction, Jason purchases a painting for $500. This payment is the purchase price of the painting and not a gift to the church. The church cannot provide a tax receipt for any part of the price of the painting.

Non-Qualifying Securities and Loanbacks

There are some very specialized types of gifts for which a tax receipt may not be issued in the usual way. Depending on the situation, a charity may not be able to issue a receipt at all, or it may only be able to do so at a later date and then possibly for an amount that is less than the fair market value of the gift when it was originally received.

This can be the case when you give a **non-qualifying security** to a charity. As a donor, you need to know that the securities you are thinking of donating can fall into this category if:

- they are not listed on a prescribed stock exchange; and
- either they are shares in a business you control, or they are debts (or other kinds of obligations) between yourself and a company you control or between yourself and someone who is related to you.

The amount of the charitable tax credit or deduction you can claim is also affected in **loanback** situations. This can be the case if you make a gift to a charity, and the charity then acquires a non-qualifying security from you or (if you have close links to the charity) allows you to use its property. Depending on the circumstances, you may have to reduce the amount of the tax credit or deduction you are claiming for your gift by the amount the charity gave to acquire your non-qualifying security, or by the value of the property the charity allowed you to use.

We encourage you to contact the Charities Directorate or consult with a professional gift advisor for more details on these kinds of situations.

Other Kinds of Gifts

This brochure discusses the tax advantages that result from the most common gifts made to registered charities. However, you may also make other kinds of gifts to these organizations and receive a tax credit or deduction in return.

You can get more information from the following Canada Revenue Agency publications:

Interpretation Bulletins

IT-110	*Gifts and Official Donation Receipts*
IT-111	*Annuities Purchased From Charitable Organizations*
IT-226	*Gift to a Charity of a Residual Interest in Real Property or an Equitable Interest in a Trust*
IT-244	*Gifts by Individuals of Life Insurance Policies as Charitable Donations*
IT-288	*Gifts of Capital Properties to a Charity and Others*
IT-297	*Gifts in Kind to Charity and Others*

Information Circular

IC75-23	*Tuition Fees and Charitable Donations Paid to Privately Supported Secular and Religious Schools*

Pamphlet

P113	*Gifts and Income Tax*

Gifts to Qualified Donees

Registered charities are **qualified donees**. The *Income Tax Act* permits qualified donees to issue official tax receipts for gifts they receive from individuals or corporations.

This brochure discusses the tax assistance you can receive when you make gifts to registered charities. However, many of the benefits discussed in this brochure also apply to gifts to qualified donees, other than registered charities. If you make a gift to these organizations, you can frequently claim a tax credit or deduction on your return in the same way as you would for gifts made to registered charities.

In addition to registered charities, qualified donees are:

- registered Canadian amateur athletic associations;
- registered national arts service organizations;
- non-profit Canadian housing corporations that provide low-cost housing for the aged;
- Canadian municipalities;
- the United Nations or its agencies;
- universities outside Canada listed in Schedule VIII of the *Income Tax Regulations*;
- charitable organizations outside Canada to which Her Majesty in right of Canada (the federal government or its agents) has made a gift during the year (taxation year in the case of individuals) or the 12 months before it; and
- Her Majesty in right of Canada or in right of a province (the federal government, a provincial government, or their agents).