

Issues in Tax Receipting
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One of the major benefits of being a registered charity is the ability to issue tax receipts. By offering a significant tax advantage to individual donors, a tax receipt can be a major selling point in soliciting donations. On the other hand, mistakes in handling tax receipting are one of the most common kinds of issue that the Canada Revenue Agency (CRA) sees in charities' compliance with its regulations. These mistakes can lead to dissatisfied donors, extra work for charities' staff or volunteers, and CRA penalties and sanctions. Persistent mistakes in this area can even lead to suspension of tax receipting privileges by CRA.

This article reviews some of the most common issues around processing tax receipts. Addressing these issues is generally straightforward. And, if you have further questions in this area, CRA is happy to answer them. So, here are five common questions or issues in tax receipting:

1. What information is required on tax receipts?

This is a simple matter to address - once - when you get your tax receipts designed. Then, just make sure that you fill in all the required information on each receipt. Tax receipts must contain the following information to be accepted by the CRA:

- a statement that the receipt is an official receipt for income tax purposes;
- the name and Canadian address of the charity that are on file with the CRA;
- the charity's charitable registration (business) number;
- the serial number of the receipt (all receipts must be numbered);
- the place where the receipt was issued;
- the date the donation was received;
- the date on which the receipt was issued if it differs from the date of donation;
- the full name and address of the donor;
- the eligible amount of the gift;
- the signature of an individual authorized by the charity to sign receipts; and
- the name and Web site address of the CRA (www.cra-arc.gc.ca/charities).

For non-cash gifts (gifts in kind), you must also include:

- a brief description of the property transferred to the charity; and
- the name and address of the appraiser (if the property was appraised).

2. How do we determine the value of non-cash gifts to put on the tax receipt?

The value of a non-cash gift (gift in kind) is its "fair market value". CRA says that fair market value

"is usually the highest dollar value you can get for your property in an open and unrestricted market and between a willing buyer and a willing seller who are knowledgeable, informed, and acting independently of each other."

There are a number of important elements in this definition:

- **"Highest dollar value"** Fair market value is a dollar value, even if the property being valued does not have an apparent "price" (for example, if it is a rare and personal collection donated by the owner). The "highest dollar value" suggests that the fair market value is the retail value of the item.
- **"Open and unrestricted market"** Fair market value must be determined in the context of an open market; in other words, where there are many sellers and many buyers, all competing to buy and sell goods. The fair market value is the highest price that a willing seller can get for the item from a willing buyer. This can be very difficult to determine where such a market does not exist.
- **"Willing buyer and a willing seller"** Fair market value must be determined without considering that either the buyer or seller may be forced, induced, or reluctant to buy or sell. A person who is forced to sell may have to lower the price of a property below fair market value to sell it sufficiently quickly; a person who is forced to buy may end up paying more than fair market value.
- **"Acting independently"** This is also known as acting at arm's length. It means that neither the buyer nor seller control or influence the other or have any connection that might cause one to treat the other in any special way (for example, marriage or other family relationship).

Sometimes, fair market value can be determined by published prices or price lists from the donor or other source of the item. Sometimes, you will have to work harder to arrive at the value, and a professional appraiser or valuator may be needed. In fact, CRA strongly recommends having a professional valuation of donated goods where the value exceeds \$1,000.

3. Can we issue a receipt for a gift of services?

No. The definition of a gift is limited to "property" and a service is not a property. So, a "gift" of services is not a gift for tax purposes, and no receipt may be issued.

If the charity pays for the services provided, the service provider may then choose to donate that amount back 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 (because the charity pays for the service with a cheque and the service provider then gives a donation cheque back to the charity). The value of this series of transactions is questionable in many cases, however, since the service provider would generally have to declare the payment received for services as income for tax purposes, offsetting the donation tax credit.

4. How do we handle gifts where we give donors something in return for their gifts?

Often, a charity will give a donor something in return for their donation. This could be dinner and an evening's entertainment at a fundraising event, a round of golf, or a simple gift of appreciation for

donations above a certain value (CRA calls items given in return for a gift, "advantages"). In these cases, it is necessary to issue a "split receipt", that is, a receipt for only part of the value of the gift.

The basic requirement is that the receipt be issued for the value of the gift, less the value of the advantage given in return for the gift. However, CRA has two important rules about the size of advantage relative to the gift:

1. Very small advantages do not need to be deducted from the amount of the receipt. Specifically, advantages that are both \$75 or less in value *and* less than 10% of the value of the gift can be ignored when determining the amount of the tax receipt, and a tax receipt may be issued for the full amount of the gift;
2. Large advantages mean that no tax receipt can be issued. Specifically, if the value of the advantage is more than 80% of the value of the gift, then no receipt may be issued for the gift. (In exceptional situations, CRA may consider an exemption to this rule, but only if the donor's intention to make a gift can be clearly demonstrated. Contact the CRA Helpline if you believe you have such an exceptional situation.)

5. How long do we need to retain copies of issued receipts?

Basic Requirement: Copies of tax receipts for gifts (except ten-year gifts -- see below) must be kept for two years after the end of the fiscal year in which the gift was made. So, if you have a March year-end, and you issue a receipt in October 2009, you must keep a copy of that receipt until the end of March 2012.

For gifts that are designated as "ten-year gifts" (that is, where the donor requires the gift to be held by the charity for at least ten years), bequests or other "enduring property": These are normally larger gifts that are intended to be held to generate income for the charity, and their treatment in the charity's records and CRA filings is more complicated. Copies of tax receipts for these gifts must be retained for as long as the charity is registered plus two more years.

6. Can we issue receipts in electronic form?

Charities may issue electronic tax receipts, if:

- the receipts contain all the required information (see above);
- 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.

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Failing to address issues such as these can expose your charity to strained donor relations, unnecessary additional work for your staff or volunteers, and the prospect of penalties or sanctions being imposed on your charity by CRA.

On the other hand, addressing these common tax receipting issues will go a long way toward ensuring that you are in compliance with the CRA's requirements in this area. As noted earlier, however, CRA is happy to assist charities who want to improve their compliance. You can call CRA's Helpline for advice on an anonymous basis, if you like. And, CRA is increasing its outreach activities to the charitable sector in a bid to educate and encourage organizations to comply with its requirements.

Indeed, with CRA's financial support, Imagine Canada is working right now to release a comprehensive and user-friendly online resource to assist registered charities in meeting their CRA record-keeping, receipting and reporting obligations. Watch the Imagine Canada website for information on *Charity Tax Tools*, coming soon!

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