

# Town of Lemberg

Incorporated 1907

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**POLICY NAME:** Donation Receipts

**POLICY NO.:** 300-4

**DATE ADOPTED:** 2020 01 21

**DATE AMENDED/REVIEWED:**

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## **BACKGROUND**

The responsibility for the management and administration of donations for the centralized preparation and issuance of donation tax receipts for all donations received by the Town, rests within the Town Administrator.

A Council approved policy for the issuance of charitable donation receipts will provide consistency for application; ensure compliance with Canada Revenue Agency regulations, and will provide guidance to Town staff and stakeholders in planning fundraising programs.

## **DISCUSSION**

Under Income Tax Act, 1985, the Town of Lemberg is classified as a “qualified donee” for charitable donations, and as such, without a registered charity number is afforded the same privileges as a charitable organization.

According to sections 110.1 (1) (a) and 118.1 (1) of the Income Tax Act, Canadian municipalities are permitted to issue receipts for charitable donations. These donations may come in the form of cash or in kind.

The purpose of this policy (Appendix A) is to formalize the charitable donations receipt program, including accounting for donations of cash or in-kind made to the Town. This policy also outlines the standards for evaluating donations in accordance with Canada Revenue Agency guidelines, and will serve as the foundation for standard operating procedures for issuing official charitable donation receipts to donors for income tax purposes.

For information purposes, Appendix B is a summary of the changes to the rules for issuing donations receipts by municipalities that had come into effect on January 1, 2012 as a result of the 2011 Federal Budget. Appendix C is an excerpt from Canada Revenue Agency’s (CRA) Policy Commentary regarding gifts of services.

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## APPENDIX A

### CHARITABLE DONATIONS RECEIPT POLICY

#### STATEMENT

The Town of Lemberg will issue official donation receipts that qualify as charitable donations. If requested, the Town will issue official receipts to donors for eligible donations with a net cash value or net fair market value of \$25 or more.

#### PURPOSE

The policy formalizes the charitable donations receipts program, including accounting for donations of cash or in-kind made to the Town.

This policy also outlines the standards for evaluating donations in accordance with Canada Revenue Agency (CRA) guidelines.

This policy will serve as the foundation for standard operating procedures for issuing official charitable donation receipts (official receipts) to donors for income tax purposes. Scope: The policy applies to all departments within the Town of Lemberg; to all agreements between the Town and organizations and individuals that contribute either financial or in-kind to the Town's operations, programs, services or facilities.

#### DEFINITIONS

- 1) **Charitable donations** – voluntary transfers of tangible property, including cash.
- 2) **Donations in-kind** – tangible property, other than cash, that are eligible donations.
- 3) **Fair Market Value (or Valuation)** – The highest dollar value that a property would bring in an open and unrestricted market, between the willing buyer and the willing seller who are acting independently of each other. The fair market value of a property does not include taxes paid; taxes are costs incurred by the purchaser.
- 4) **Net Amount of Donation** – The fair market value of the donation less any advantage/benefit received or to be received as a result of the donation.
- 5) **Non-Qualifying Donations** – donations that cannot be acknowledged with official donation receipts for income tax purposes, in accordance with CRA guidelines.

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## **PROCEDURES**

To be eligible for an official receipt, the donation has to:

- Be made payable to the Town of Lemberg; and
- Be in cash or in kind; and
- Be voluntary; and
- Be supportive of Town's mandate or beneficial to the community of the Town of Lemberg;

Donations in-kind may be accepted only after the following has been assessed:

- Compliance with Town bylaws and/or policies;
- Compliance with the laws, conventions and treaties of the other levels of government;
- Consistency with the Town's priorities, mandates and strategic and business plans;
- Associated risks (e.g. financial risks, political risk, health and safety issues);
- Condition of the donation;
- Value of the donation;
- Usefulness of the donation to the Town;
- Cost/benefit analysis, if determined by Administration or Council to be necessary, would consider installation, storage, maintenance, renewal, replacement and relevant costs;
- The municipality cannot facilitate a 'conduit' relationship between donors and an organization which is independent of the municipality. This means that the municipality's authority to issue tax receipts cannot be used to provide an unrelated organization with the ability to provide contributors with a tax benefit.
- The Municipality may decline donations from any donor who in the opinion of the Council represents a reputational risk to the Municipality through involvement in activities that are contrary to the values of the Municipality.
- Donations will not be accepted from individuals or organizations currently in litigation or in tax enforcement against the Municipality.
- To ensure that the Municipality retains an arm's length relation with a donor and as such, is not subject to undue influence; donations cannot be solicited or accepted from the following:
  - a party subject to an application for an approval, license, or permit, or
  - a bidder, proponent or applicant or any other party not acting at arm's length from a bidder, proponent, or applicant to an open procurement.
- The Municipality shall not accept donations that are conditional upon the endorsement of any product, service or supplier without the express written consent of Council.

Written valuation of donations in-kind, done within the last 6 months, shall be submitted with the requests for official receipt and is to meet the following requirements:

- \$1,000 or less:
  - appraisal by knowledgeable internal staff; plus

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- valuation from online auction and shopping website
- Over \$1,000:
  - external appraisal by an independent and arm's length competent individual is required;
  - responsibility and the costs associated with obtaining a qualified appraisal shall be determined by the departmental director.

Authority for acceptance or denial of donations in-kind with appraised value of:

- Under \$10,000 – Administration
- \$10,001 and more – Council approval

Non-Qualifying Donations that cannot be acknowledged with official donations for income tax purposes, in accordance with CRA guidelines:

- Intangibles such as services, time, skills, effort
- Donations that are given to the Town intended as a flow through to a specified recipient who does not have charitable organization status.
- Donations of business marketing products such as supplies and merchandise
- Sponsorship in the form of cash, goods or services toward an event, project, program or corporate asset, in return for commercial benefit (i.e. logo placement or presenting sponsorship). The intent of a sponsorship is to enhance the image and marketing opportunities of the sponsor in its target market and/or the community. Sponsorships are reciprocal arrangements benefiting both parties. Usually the cost to the sponsor is categorized as a business expense.

## **References:**

Under Income Tax Act, 1985, the Corporation of the Town of Lemberg is classified as a “qualified donee” for charitable donations, and as such is afforded the same privileges as a charitable organization without a registered charity number.

According to sections 110.1 (1) (a) and 118.1 (1) of the Income Tax Act, Canadian municipalities are permitted to issue receipts for charitable donations. These donations may come in the form of cash or in-kind.

## Appendix B – For Information Only

### Changes to the rules for issuing donations receipts by municipalities

Prior to 2012, municipalities were under “qualified donee” status under the *Income Tax Act*, and are allowed to issue official donation receipts for charitable donations that give donors tax reliefs.

Effective January 1, 2012 municipalities are required to comply with additional requirements to issue donation receipts. The following are changes included in the 2011 federal budget which received Royal Assent on June 26, 2011:

- Municipalities are required to be on a publicly available list maintained by the Canada Revenue Agency (CRA) in order to continue to be recognized as qualified donees.
- Municipalities are required to abide by the rules prescribed by the *Income Tax Act* in relation to the issuance of official donation receipts. If the municipality fails to issue a donation receipt in accordance with *Income Tax Act*, CRA can revoke the status of the qualified donee and suspend the receipting privileges.
- Municipalities are required to:
  - Issue receipts only for transactions that qualify as charitable donations;
  - Properly establish the fair market value of donations in-kind; and
  - Ensure that receipts contain accurate and complete information.
- Municipalities are required to include the same information as registered charities:
  - A statement saying that it is an official receipt for income tax purposes
  - Charity’s business registration number, name, address as recorded with CRA
  - Serial number of the receipt
  - Place or locality where the receipt was issued
  - For cash donation, the day and year on which the donation was received
  - If the donation is in-kind:
    - The day on which the donation was received;
    - A brief description of the donation; and
    - The name and address of the appraiser, if an appraisal was completed
  - The day on which the receipt was issued, if differs from the date on which the donation was received
  - The full name (including middle name) and address of the donor
  - The amount of the cash donation, or if the donation is in-kind, the fair market value or deemed fair market value, if that rule applies
  - Value and description of any benefit/advantage received by the donor
  - Eligible amount of donation less any benefit/advantage

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- Signature of an authorized individual to acknowledge donations
- Name and website address of the Canada Revenue Agency
  
- Municipalities are required to maintain proper books and records supporting any official donation receipts issued, and provide access to those books and records to CRA upon request. If the municipality fails to do so, CRA can revoke the status of the qualified donee and suspend the receipting privileges.

Currently, according to section 230(2) of the *Income Tax Act*, registered charities are required to “keep records and books of account at an address in Canada recorded with the Minister or designated by the Minister containing:

- a) Information in such form as will enable the Minister to determine whether there are any grounds for the revocation of its registration under this Act;
- b) A duplicate of each receipt containing prescribed information for a donation received by it; and
- c) Other information in such form as will enable the Minister to verify the donations to it for which a deduction or tax credit is available under this Act”

Copies of receipts must be kept for two calendar years after the end of the calendar year to which the receipt applies.

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## Appendix C – For Information Only

The following is CRA Policy Commentary regarding Gifts of Services:

**Release Date:** March 29, 2000

**Reference Number:** CPC-017

**Subject:** Official donation receipts – Whether gifts of services qualify as charitable donations

**Purpose:** To clarify the Directorate's policy regarding gifts of services.

**Commentary:**

1. The *Income Tax Act* currently permits a registered charity to issue official donation receipts for income tax purposes for donations that legally qualify as gifts.
2. Contributions of services, that is, of time, skills or efforts, are not property, and therefore they do not qualify as gifts for purposes of issuing official donation receipts. Accordingly, a charity cannot issue an official donation receipt for services rendered free of charge. However, it may be possible to issue a receipt when a right to reimbursement for any actual expense incurred on behalf of a registered charity has been established. See Policy Commentary CPC-012, Out of pocket expenses for more information.
3. A charity may issue an official donation receipt if a person provides a service to the charity, the charity pays for the service, and the person then returns the payment to the charity as a gift. In such circumstances, two transactions have taken place, the first being the provision of a service and the payment flowing therefrom, and the second being a gift proper.
4. The parties should be advised to proceed by way of an exchange of cheques. This ensures the presence of an audit trail, as the donor must account for the taxable income that would be realized either as remuneration (in which case the charity may also be required to issue a T4 slip) or as business income.
5. A charity should not issue an official donation receipt to a service-provider in exchange of an invoice marked "paid". While this procedure does establish an audit trail, it raises questions as to whether in fact any payment has been transferred from the charity to the service-provider which in turn is being gifted back to the charity.

**References:**

Gifts and Official Donation Receipts, IT-110.

Income Tax Technical News, Issue 26.

Gifts of services, CPC-017.

Out of pocket expenses, CPC-012.