

Report from Financial Management Services, Director

Date of Report: March 27, 2018

Date of Meeting: April 16, 2018

Report Number: FMS-B013-2018

File: 10.57.99

Subject: Charitable Donation Receipts

Recommendation

That the Budget Standing Committee approve the Charitable Donation Receipts Policy and forward to Council for consideration at its meeting of May 7, 2018.

Background

The City of St. Catharines was selected for a Canada Revenue Agency (CRA) audit related to the City's "qualified donee" status and its ability to issue official income tax donation receipts under the *Income Tax Act*. CRA allows qualified donees to issue official income tax receipts for donations which they receive from individuals or corporations whether in cash or in kind.

The audit is now complete and CRA has confirmed the City will retain its qualified donee status and corresponding ability to issue official income tax receipts for donations.

The CRA's audit report outlined some areas of non-compliance. A Municipality to retain its qualified donee status and its ability to issue official income tax donation receipts under the *Income Tax Act*, must comply with all applicable legal requirements.

Report

In order to provide clarity and comply with all legal requirements a revised Charitable Donations Receipt Policy has been drafted and is attached as Appendix 1.

The following are some of the key features of this policy.

The City of St. Catharines will issue official income tax receipts for eligible donations with a minimum value of \$20.

Voluntary transfer of tangible property, received from either an individual or corporation. A donation may be in the form of cash or gift in kind (GIK). A GIK can include securities, capital assets, pieces of art, real property. Donated services such as labour, time and effort are not eligible for a tax receipt under the Income Tax Act.

Eligibility Requirements-To be eligible for an official donation receipt the donation has to satisfy the following requirements:

- Be made payable to the City of St. Catharines
- Be in Cash or In Kind, in excess of \$20
- Be Voluntary
- Be supportive of the City of St. Catharines's mandates or beneficial to the community of St. Catharines, including support of Committees authorized by City Council
- Donations in Kind must satisfy the following criteria:
 - For donations with a written valuation of \$1,000 or less:
 - Appraisal by knowledgeable internal staff; and/or
 - Valuation from online auction or shopping website
 - For donations with a written valuation of \$1,000 or more:
 - External appraisal of property by an independent appraiser approved by Canada Revenue Agency
 - Costs associated with obtaining a qualified appraisal are the donor's responsibility.

The City receives most donations either on behalf of or to be used to support the Performing Arts Centre, Canadian Henley Rowing Corp., Fallen Workers Memorial etc. or any other Committee that has been authorized by City of St. Catharines. However, where the organization has received its own charitable registration number, the City will work with the organization to transition the issuance of income tax receipts to the individual organization. See Attached Appendix 2 for a list of Council approved organizations/groups for whom where appropriate the City will issue donation receipts.

Funds Received from Other Not for Profit Organizations

CRA states that if the City receives funds from an organization which has a Charitable Registration number the City **DOES NOT** issue a tax receipt. The city provides a receipt or letter simply acknowledging receipt of the funds.

Donor/Sponsor Recognition

Donor/Sponsor recognition is the acknowledgement or thanking of a person or corporation who has made a gift to the City.

All donations and sponsorships received by the City will be acknowledged by a letter of thanks on City letterhead.

The City will recognize donations and sponsorships in a manner appropriate to the value of the gift. It may involve inclusion in an annual communication to the public, which recognizes donors and sponsors, or a more permanent recognition for larger value donations.

Sponsorship

A contribution in the form of cash, goods or services towards an event, project, program in return for commercial benefit for example: logo placement, tickets or signage/promotion is deemed to be a sponsorship and as such is not eligible for a donation receipt for income tax purposes.

The intent of sponsorship is to enhance the image and marketing opportunities of the business in the community, and it is a reciprocal arrangement benefitting both parties. The positive for the business is that such contributions may qualify as advertising, entertainment or business development expenses and as such may be eligible as a deduction under the Corporate Income Tax Act.

So effective immediately, **The City of St. Catharines will no longer provide income tax receipts for amounts received in relation to sponsorships.**

Naming Rights

CRA regulations state that Naming Rights are a taxable supply and are subject to HST. The gift would not be an eligible donation and as such a donation receipt for income tax purposes would not be issued.

Financial Implications

This report itself has no financial implications. Although, City's "qualified donee" status and its ability to issue official income tax donation receipts under the *Income Tax Act* supports the cost of various projects occurring within the City. It also provides the ability for the City to support eligible organizations.

Relationship to Strategic Plan

This report supports three of the four pillars of the City's Strategic Plan

Economic Sustainability Pillar goals:

- Be an affordable city for all
- Develop partnerships to enhance the economic vitality of the community

Social Sustainability Pillar goals:

- Strive for the highest quality of life for all citizens

Cultural Sustainability Pillar goals:


- Embrace our diversity and celebrate our heritage and history
- Support cultural festivals and event that build civic pride, encourage local engagement and attract people to the community

Conclusion

The update of the City's donation policy based on the CRA audit related to the City's "qualified donee" status provides clarity to Council and Staff on the City's ability to issue donation receipts and for what purposes.

Prepared, Submitted and Approved by:

Kristine Douglas, Director Financial Management Services/City Treasurer

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Policy:

The City of St. Catharines will issue official tax receipts for donations that qualify as charitable donations. If requested the City will issue official tax receipts to donors for eligible donations with a minimum \$20 net cash value or net fair market value.

Purpose:

This policy formalizes the charitable donations receipts program, including accounting for donations of cash or in kind made to the City of St. Catharines.

This policy will apply to donations received by the City of St. Catharines including its bona fide Committees of Council, or as a result of the City working with non-municipal groups who are fundraising for municipal programs. In all cases the donation must provide a direct benefit to the City.

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 tax receipts) to donors for income tax purposes.


Scope:

This policy applies to all departments within the City of St. Catharines, to all agreements between the City and organizations and individuals that contribute either financially or in-kind to the City's operations, programs, services or facilities.

References

Under the Income Tax Act, the City of St. Catharines is classified as a "qualified donee" for charitable donation purposes, and is afforded the same privileges as a charitable organization, without the benefit of a registered charity number.

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

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Definitions


For the purpose of this policy, unless otherwise stated, the following definitions shall apply:

- a) **Charitable Donations.** Voluntary transfer of tangible property, including cash. A donation may be in the form of cash or in kind, including securities, tangible capital assets, or real property. Donated services are not eligible for tax receipt under the Income Tax Act.
- b) **Donations in Kind.** Tangible property, other than cash, which are eligible donations including pieces of art.
- c) **Eligible Donations.** Donations that can be acknowledged with official donation receipts for income tax purposes, in accordance with CRA guidelines.
- d) **Fair Market Value (of 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.
- e) **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.
- f) **Non-Qualifying Donation.** Donations that cannot be acknowledged with official donation receipts for income tax purposes, in accordance with CRA guidelines.

Qualifying Donations


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

- Be made payable to the City of St. Catharines
- Be in cash or in kind
- Be voluntary

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- Be supportive of the City of St. Catharines's mandate or beneficial to the community of St. Catharines, including support of Committees authorized by City Council.
- Donations in kind may be accepted only after the following has been assessed:
 - Compliance with City by-laws and/or policies
 - Compliance with the laws, conventions and treaties of the other levels of government
 - Consistency with the City's priorities, mandates and strategic and business plans
 - If a piece of art, must be consistent with the priorities adopted by Culture Services
 - Associated risks (Financial, Political, Health and Safety)
 - Condition of the donation
 - Value of the donation
 - Usefulness of the donation to the City
- Written valuation of donations in-kind 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; and/or
 - Valuation from online auction or shopping website
 - \$1,000 or more:
 - External appraisal of property by and independent appraiser approved by Canada Revenue Agency
 - Costs associated with obtaining a qualified appraisal are the donor's responsibility

All donations and sponsorships received by the City will be acknowledged by a letter of thanks sent immediately following receipt of the donation, or in the case of sponsorship, upon completion of the event or project.

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The City will recognize donations and sponsorships in a manner appropriate to the value of the donation. This may involve inclusion in an annual communication to the public recognizing donors and sponsors, or a more permanent recognition for larger value donations.

In cases where the donor/sponsor does not wish to have public acknowledgement, the City will honour that request, unless legal requirements necessitates disclosure.

Non-Qualifying Donations

Non-Qualifying donations that cannot be acknowledged with an official donation receipts for income tax purposes, in accordance with CRA guidelines are as follows:


- Intangibles such as services, time, skills and effort.
- Donations that are given to the City intended as flow through to a specified recipient who does not have charitable 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 (logo placement or presenting/title sponsorship). The intent of sponsorship is to enhance the image and marketing opportunities of the sponsor in its target market and/or the community. Sponsorships are a reciprocal arrangement benefiting both parties. Usually the sponsorship cost is categorized as a business expense for which a business tax receipt can be issued.

Naming Rights

A naming right arises when a charitable donation is made in exchange for the right to name a program or piece of property belonging to the City, such as the Performing Arts Centre.

CRA has identified that the following needs to be determined in terms of determining whether naming rights constitute an advantage for tax receipting purposes.

“Provided that there is no prospective economic benefit associated with the naming rights, described in the Naming Rights agreement, then there is no advantage for tax purposes.”

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If a corporation wishes to make a donation in exchange for promotion of its business name, an economic benefit will result, and therefore the donation will not be eligible for an income tax receipt.

If a private individual wishes to make a donation in exchange for the use of a family name no economic benefit will result, and the donation will be eligible for a tax receipt.

Naming rights are subject to HST.

Use of Donated Funds

The City must retain active control over the use of donated funds, i.e. it must actively oversee the use of donated funds.

The City may grant funds to organizations over which it exerts significant influence or which are considered municipal service organizations.



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Financial Management Services

Appendix 2

List of Organizations/Fundraising Activities Approved for Issuance of Eligible Donation Income Tax Receipts

The Financial Management Services Department is authorized to issue tax receipts for eligible donations on behalf of the following organizations:

Canadian Henley Rowing Fund
Niagara White Water Park Association
Ridley College Rowing Club Fund
St. Catharines Rowing Club Fund

The department also issues tax receipts for eligible donations for fund-raising activities that are sponsored by Committees authorized by Council. These groups include:

Abandoned Cemeteries Signage Project
Benches-Welland Canal Parkway
Clean City Committee
Friends of the Carousel
Friends of the Malcolmson Park
Friends of Morningstar Mill
Friends of Walker's Creek
Green Plan Committee
Happy Rolph's Animal Sanctuary
Hulse & English Memorial Forest Fund
Johansson Bar (Glendale Avenue Project)
Lakeside Park Community Skating Path Inc. (Rotary Skating Path)
Lions Club of Merritton-Labour Day Parade/Fireworks
Merritton Arena Committee
Merritton Community Group
Paratransit System of St. Catharines
People Advocating Leash-Free Zones (PALZ)
St. Catharines Heritage Committee-Port Dalhousie Area Signage
St. Catharines Heritage Committee-Queen Street Area Signage
St. Catharines Heritage Committee-Yates Street Area Signage
St. Catharines Museum
St. Catharines Sports Hall of Fame
Victoria Lawn Cemetery Veteran's Park Fund
Welland Canal Fallen Workers Memorial