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## City of Kelowna MEMORANDUM

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DATE: September 3, 2002  
FILE: 1830-20  
TO: City Manager  
FROM: Deputy Director of Finance  
RE: CHARITABLE DONATION POLICY

Prepared by Financial Accounting and Systems Manager

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### **RECOMMENDATION:**

That Council approve Charitable Donation Policy attached as Schedule 'A' to this report.

### **BACKGROUND:**

Over the past several years the City of Kelowna has been finding new and innovative methods to finance various projects and initiatives. The acceptance of public donations has been successful in raising funds for various projects through both donations of funds and gifts-in-kind solicited from the public and private business owners. Successful fund raising campaigns include the Mission Creek Greenway and Ben Lee Park where a significant portion of the revenue for these projects came from donations of cash and materials.

For cash and gifts-in-kind donations the City may provide an income tax receipt in the amount of the fair market value of the charitable donation, which may be claimed by the donor to offset taxable income. Historically, the City has accepted donations and issued receipts at the department level. Due to the increased activity in this area staff felt it necessary to centralize the receipt issuance function to ensure the City meets federal regulatory reporting and processing requirements. A corporate-wide policy will also provide a procedure for staff in all departments to understand the many requirements under the Income Tax Act and streamline the receipt issuance process.

Finance staff, with support from Parks and Leisure Services and Purchasing, have developed the attached policy to allow for consistent application of the regulations and to allow for efficient processing of donations.

The policy includes some key points as follows:

- A gift is a voluntary transfer of property without consideration. A gift is made in any circumstance where all of the conditions listed below are satisfied:
  - a) Some property, usually cash, is transferred by a donor to the City of Kelowna;

- b) The transfer is voluntary;
  - c) The transfer is made without expectation of return. No benefit of any kind may be provided to the donor or to anyone designated by the donor, except where the benefit is of nominal value.
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- A gift-in-kind is a donation of property in any form other than cash or cheque and normally requires fair market valuation for tax receipt purposes.
  - A donation or gift of service is not recognized under the income tax act for income tax purposes, since the gift must involve property.
  - In order for a gift to qualify, the gift in kind must clearly be in the interest of the City and must provide a benefit within the context of the City's program.
  - The City maintains the right to refuse any gift that it judges not to be in the best interests of the City.

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Paul Macklem

cc: Director of Finance and Corporate Services



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## COUNCIL POLICY MANUAL

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 RESOLUTION #:  
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 DATE OF LAST REVIEW: September 2002

SUBJECT: CHARITABLE DONATIONS AND GIFTS TO THE CITY

Cash and "gifts-in-kind" donations provide an additional source of revenue for the City. The City may provide an income tax receipt in the amount of the fair market value of charitable donations, which may be claimed by the donor to offset taxable income.

### I. POLICY

#### 1. General Rule:

A gift is a voluntary transfer of property without consideration. A gift is made in any circumstance where all of the conditions listed below are satisfied:

- a) Some property, usually cash, is transferred by a donor to the City;
- b) The transfer is voluntary;
- c) The transfer is made without expectation of return. No benefit of any kind may be provided to the donor or to anyone designated by the donor, except where the benefit is of nominal value. The benefit is considered to be of nominal value when the fair market value does not exceed the lessor of \$50.00 or 10% of the amount of the gift.

#### 2. Gift of Cash:

A receipt shall be issued in the amount of the cash donation and dated the day on which the donation was received.

#### 3. Gift-in-Kind:

A gift-in-kind is a donation in any form other than cash or cheque and normally requires fair market valuation for tax receipt purposes.

#### 4. Gift of Service:

A donation or gift of service **is not recognized** under the Income Tax Act for income tax purposes, since the gift must involve property.

However, if a service is purchased in accordance with the City's Purchasing policy and paid for, payment could be made to the donor who may then donate the proceeds.

#### 5. Valuation of Fair Market Value:

Although the term "fair market value" is not defined in the Income Tax Act, Canada Customs and Revenue Agency requires satisfactory evidence of fair market value of the gift. Fair market value shall be interpreted to mean "the price the property would bring in an open market transaction between a willing buyer and a willing seller, acting independently of each other and each having full knowledge of the facts."

An arm's length sale and purchase of the property, at or near the effective date of valuation, is normally considered the best proof of value at the time.



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### 6. Issuance of Donation Receipts:

Official receipts for income tax purposes will be issued to the donor by the Finance Department for items that are contributed and qualify and will be valued as prescribed by the *Income Tax Act* of Canada. Receipts shall be made in the name of the donor and dated the day on which the donation was received.

### 7. Qualifying Gifts:

**For gifts-in-kind**, a receipt shall be issued only after the following conditions are met:

- 7.1 The gift-in-kind must be clearly within the interest of the City and must provide a benefit within the context of the City's program areas, as determined by the receiving Department.
- 7.2 An appraisal shall be commissioned and be at the expense of the donor or the appropriate Department as agreed.
- 7.3 The appraisal must be by a qualified dealer, appraiser or other knowledgeable individual who is familiar with the market for the object or property. The dealer, appraiser or other knowledgeable individual shall not be associated with the donor.
- 7.4 The appraisal shall be in form and content acceptable to the Director of Finance and Corporate Services or his/her designate. At the Director's discretion, any appraisal not sufficient in form and content may be refused, and one or more additional independent appraisals satisfactory to the Director may be required to be produced before any income tax receipt is issued.
- 7.5 The receipt shall be in the amount of the appraised value, or in the case of two or more appraisals, the lowest appraised value. The receipt shall also indicate a description of the object and the name and address of the appraiser, and shall be dated the day in which the City received the gift.

### 8. Non Qualifying Gifts:

- 8.1 The payment of a basic fee for admission to an event or to a program does not qualify as a donation that is eligible for the issuance of a tax receipt. An exception to this rule is available for the purchase of a ticket to a fund-raising dinner, ball, concert, show or like event. In this case, the gift is considered as the difference between the fair market value of the food, entertainment, etc., and the purchase price of the ticket.



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- 8.2 Gifts made in exchange for consideration of a right, privilege, material benefit or advantage such as promotion or advertising for the donor's purposes do not qualify for income tax credits under the Income Tax Act. For example, "sponsorship" contributions are not eligible for an income tax receipt if there is an implied exchange of advertising privileges for the donor's purposes.
- 8.3 Under the *Income Tax Act*, the City cannot issue income tax receipts for funds that it will not itself be responsible for spending.

### 9. Acceptance of Gifts:

- 9.1 The City maintains the right to refuse any gift that it judges not to be in the best interests of the City. The City may accept charitable gifts in the form of cash or cheque, gifts-in-kind, or special deferred gifts. Ownership of all gifts shall vest in the City, whether they are for the benefit of the City in general or for a specific purpose.
- 9.2 Gifts may be accepted if there are no usage restrictions set by the donor(s), or if the restrictions set by the donor(s) allow the gift(s) to be used in a manner consistent with the needs and goals of the City as judged by the Director of Finance and Corporate Services.
- 9.3 Nothing shall be done which might be construed as an acceptance of a gift until the City has made a decision to accept. In considering a gift, the City shall first agree to accept the terms and conditions, including associated costs, upon which the gift has been offered.
- 9.4 The City shall consider the following when considering acceptance of a gift or gift-in-kind:
- potential liabilities, including environmental issues;
  - potential acquisition, installation, usage, storage, or maintenance costs;
  - condition and repair of the item;
  - aesthetic or other value to the City or potential users.
- 9.5 The gift shall be such that it can be retained as a City asset and used in connection with City activities, with discretion as to its use and management, or disposed of for cash or cash equivalent.
- 9.6 The City reserves the right to dispose of capital items received as gifts.



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SUBJECT: CHARITABLE DONATIONS AND GIFTS TO THE CITY

### II. RESPONSIBILITIES:

1. Contributions are accepted by the Department in accordance with the policy.
2. The Director of Finance and Corporate Services or designate shall be responsible for the issuance of all receipts for tax purposes.

### III. PROCEDURES:

1. **Official Donation Receipts:**
  - a) Official receipts for income tax purposes shall be authorized by the Director of Finance and Corporate Services or designate for eligible gifts and gifts-in-kind made to the City.
  - b) Receipts shall be made in the name of the donor only.
2. **For Gifts of Cash:**
  - a) The receipt shall be in the amount of the cash donation and dated the day on which the donation was received.
  - b) Income tax receipts shall be issued for donations of \$10.00 or more, unless specifically requested by the donor.
  - c) Gifts of cash intended for specific purposes of the City shall only be accepted where Council has authorized such specific purpose and the necessary operating program or capital project has been established, or where appropriate, a reserve fund has been created and any necessary bylaws have been enacted.
  - d) Gifts of cash accompanied by a request that the City use such monies to support certain special purposes that are being provided by an organization independent of the City shall only be accepted and an income tax receipt issued where Council has authorized the receipt of such donations, has given direction for the disbursement of such monies to the organization, and has authorized staff to issue an income tax receipt where appropriate.
3. If cash is donated for a specific purpose (e.g., to a Capital Project) where budget is not already approved, a budget amendment will be prepared and submitted for approval to the Financial Planning Section. Upon approval, the donation will be credited as revenue to the appropriate department and the budget amended to reflect the donation.



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4. For **gifts-in-kind**, a receipt shall be issued only after the following conditions are met:
  - a) The gift-in-kind must be clearly within the interest of the City and must provide a benefit within the context of the City's program areas, as determined by the receiving Department.
  - b) The appraisal shall be commissioned and be at the expense of the donor or the appropriate Department as agreed.
  - c) Gifts valued over \$1,000.00 must be appraised by an independent appraiser, and received in writing. The appraisal must be by a qualified dealer, appraiser or other knowledgeable individual who is familiar with the market for the object or property. The dealer, appraiser or other knowledgeable individual shall not be associated with the donor.
  - d) Gifts valued at less than \$1,000.00 may be appraised by a City staff member, provided the staff member is knowledgeable in the field of the gift and qualified to appraise the gift for its fair market value. The appraisal and rationale shall be provided to the Finance Department in writing and retained with a copy of the donation receipt.
  - e) The appraisal shall be in form and content acceptable to the Director of Finance and Corporate Services. At the Director's discretion, any appraisal not sufficient in form and content may be refused, and one or more additional independent appraisals satisfactory to the Director may be required to be produced before any income tax receipt is issued.
  - f) The receipt, issued by the Finance Department, shall be in the amount of the appraised value, or in the case of two or more appraisals, the lowest appraised value. The receipt shall also indicate a description of the object and the name and address of the appraiser, and shall be dated the day in which the City received the gift.
  - g) When the gift is not an acceptable gift for the City or a program area, the appropriate City staff shall advise the donor of such, and where appropriate, may direct the donor to other agencies or organizations where such a gift may be needed.
5. **Process:**
  - a) Upon receipt of the funds being donated, staff shall issue evidence of payment received from the donor and the amount of the donation. No reference to a taxable donation shall be included.
  - b) The evidence of payment shall contain the following information:
    - (i) the name and mailing address of the donor.



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- (ii) the date and amount of the donation, and whether it was by cash, cheque, debit or credit card.
  - (iii) if the donor so requests, the receipt shall indicate the appropriate program area, cost centre, capital project, or specific purpose to which the donation is to be directed to.
- c) A copy of the evidence of payment shall forthwith be sent to the Financial Accounting and Systems Section of the Finance Department.
- d) Upon confirmation of the deposit and review for compliance with this policy, the Financial Accounting and Systems Manager shall cause to be issued an official income tax receipt pursuant to the *Income Tax Act*.
- e) For donations accompanied by a request that the City use such monies to support special purposes of an organization independent of the City, the appropriate program area shall, prior to the deposit of any funds, report to Council for direction in respect of the donation. Council must make the determination that any such special purpose is in the interest of the City. Council must approve the receipt of such donations, the transfer of funds to such organization by way of grant, and the authority to issue an income tax receipt where appropriate.
- f) Where the gift is acceptable to the City or a program area, but is not eligible as a gift-in-kind for income tax purposes under this policy, the appropriate City staff shall advise the donor that the gift is not eligible for an income tax receipt, and shall indicate the same on any evidence of payment issued for the gift.
- g) Gifts of Service are to be deemed as a purchase of service and a subsequent donation. The cheque for payment for the service will be exchanged for the donation.

REASON FOR POLICY: To provide City departments direction with respect to the issuance of income tax receipts for cash donations and gifts-in-kind made to the City.

LEGISLATIVE AUTHORITY: Income Tax Act

PROCEDURE FOR IMPLEMENTATION: As outlined in Policy