

Disbursement Quota Reform for Charities

The federal budget released on March 4, 2010 has introduced a reform which will be of significant impact to all churches and that is the elimination of the 80% disbursement quota (DQ). This requirement imposed an obligation on charities to spend in the current year, 80% of the previous year's received revenue plus gifts from other registered Canadian charities.

- Charities (churches) will still be required to disburse a minimum of 3.5% of property held but not used in charitable activity or administration.
- The capital accumulation threshold has been increased from \$25,000 to \$100,000 for charitable organizations.
- The exemption remains at \$25,000 for charitable foundations.

Effective Date of Change

The reformed disbursement quota rules apply to charities (churches) for fiscal years ending on or after March 4, 2010. For example, a charity with a year end of March 31, 2010, will only be required to calculate the 3.5% disbursement quota, if applicable. Whereas, a charity with a year end of December 31, 2009, will still be required to calculate and report the full disbursement quota requirements, including the 80% calculation.

Revised T3010B Form

CRA will plan to redraft T3010B form to reflect the changes, however, for now; churches should continue to use the existing T3010B. CRA will continue to accept these forms until a new form, or portion of a new form, is available.

CRA to Provide Instructional Insert

Charities Directorate will provide insert as instructions on how to calculate the disbursement quota in light of the changes. For example, the insert will direct charities (churches) to now ignore the concept of a specified gift, as specified gifts no longer exist.

Charities (churches) are reminded that the basic rule for spending on charitable activity has not changed. In accordance with the *Income Tax Act*, charities are still required to spend all of their resources on charitable activity. As long as charities adhere to CRA administrative guidance applicable to the activities of each specific charity, charities (churches) will remain in compliance.



Disbursement quota calculation when filing Form T3010B – prior year filed on Form T3010A

Each year, a registered charity is required to spend a minimum calculated amount for its disbursement quota on its own charitable programs or on gifts to qualified donees. The disbursement quota is the sum of the five calculations described below:

1. 80% of the amounts for which official tax receipts were issued in the previous fiscal period **(line 4500)** less any amounts that were tax-receipted for gifts of enduring property; **(line 5640)**;
2. 80% of the fair market value of all enduring property spent in the current fiscal period **(line 5710 in Schedule 6 only)**. This does not include enduring property originally received as a specified gift or a bequest or inheritance received by the charity prior to 1994;
3. 100% of enduring property transferred to qualified donees in the current fiscal period **(line 5060 in Schedule 6 only)**. This does not include enduring property originally received by the charity as a specified gift;

The total of 2 and 3 may be reduced by the amount, if any, that the charity is allowed to claim as a capital gains reduction.

4. **For charitable organizations and public foundation:**

80% of the amounts received from other registered charities in the previous fiscal period **(line 4510)** less any amounts that were received as enduring property **(line 4525)** or as specified gifts **(line 4520)**;

For private foundations:

100% of the amounts received from other registered charities in the previous fiscal period **(line 4510)** less any amounts that were received as enduring property **(line 4525)** or as specified gifts **(line 4520)**;

5. 3.5% of the result of the following calculation:
(this does not apply if the charity completed Section D of the return or if the amount is \$25,000 or less)

The average value of assets owned over the previous 24 months that were not used directly in charitable activities or administration **(line 5900 in Schedule 6 only)**, less:

- o 100% of the amounts for which official donation receipts were issued in the previous fiscal period **(line 4500)**;
- o 100% of enduring property spent in the current fiscal period **(line 5710 in Schedule 6 only)**;
- o 100% of enduring property transferred to qualified donees in the current fiscal period **(line 5060 in Schedule 6 only)**; and
- o 100% of amounts received from other registered charities in the previous fiscal period **(line 4510)**.

References

- T1259, Capital Gains and Disbursement Quota Worksheet
- CSP-D14, Disbursement quota (excess, shortfall)
- CSP-E10, Enduring Property

- CSP-S12, Specified gift

Date Modified: 2010-02-10

