Highlights of CRA Compliance Requirements

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OVERVIEW

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PART I: BASIC BENEFITS AND REQUIREMENTS OF CHARITABLE STATUS FOR RELIGIOUS INSTITUTES

Preliminary Comments

• Being granted charitable status by the Canada Revenue Agency (CRA) can be beneficial to religious institutes in several ways as outlined below

• Accompanying these benefits are requirements that a religious institute must comply with in order to maintain charitable status
### Basic Benefits of Charitable Status

1. Under the *Income Tax Act* (ITA), once a religious institute is granted charitable status by the CRA it becomes exempt from paying income tax.
2. A religious institute with charitable status is also able to issue official donation receipts for gifts that it receives from donors.
3. The possibility of receiving a rebate on 50% of the GST/HST paid on eligible purchases and expenses is provided to religious institutes with charitable status, as well as certain qualifying non-profit organizations.

### Basic Requirements of Charitable Status

There are several basic requirements that religious institutes with charitable status must ensure they comply with:

1. Maintaining the basic requirements of charitable status.
2. Devoting resources to charitable activities.
3. Avoiding private foundation designation.
4. Ensuring that a public benefit is achieved.
5. Restricting political activities.
6. Filing information returns with CRA.
7. Meeting the 80% disbursement quota requirement for tax receipted gifts.
8. Meeting the 3.5% disbursement quota requirement for capital assets.

### Religious Institutes with Charitable Status

1. Religious institutes with charitable status must maintain the basic requirements of being granted charitable status:
   a) The institute’s purposes must fall within one or more of the following four charitable purpose categories:
      - The relief of poverty.
      - The advancement of education.
      - The advancement of religion.
      - Other purposes that are beneficial to the public as determined by the courts.
b) No amount of the religious institute’s income can be available to its members for their personal, as opposed to charitable purposes. An exception exists for reasonable salaries or the reimbursement of out-of-pocket expenses.

c) The religious institute must be resident in Canada, which means that it must be either a Canadian established:

- Corporation
- Trust, or
- Unincorporated Association

2. To maintain charitable status, the resources of a religious institute must be devoted to charitable activities

- Charitable activities are those activities that further the charitable purpose of a religious institute.
- As such, an activity is not in itself inherently charitable or not.
- An activity is determined to be charitable or not by the purpose that is being pursued by the activity undertaken.

For instance, selling religious literature by a religious institute would be charitable but selling religious literature by a for-profit book store would be non-charitable.

- Under the ITA certain activities are deemed to be charitable activities:
  - Carrying on a ‘related business’ that is either done in furtherance of and subordinate to a charity’s primary charitable objects or is an enterprise which is substantially undertaken by unpaid volunteers (i.e. 90% or more)
  - Transferring charitable resources to ‘qualified donees’, which consists primarily of registered Canadian charities, subject to certain limitations.
3. Religious institutes with charitable status as either a charitable organization or a public foundation must meet the following criteria in order not to be redesignated as a private foundation

- More than 50% of its board of directors must be at “arms length” with each other
- Where a donor (other than a charitable organization or public foundation) has contributed more than 50% of the capital of the religious institute, then the donor cannot directly or indirectly exercise control over the charity and must be in an arms length relationship with 50% or more of the directors or trustees

4. A religious institute with charitable status must have activities and purposes that benefit the public

- A public benefit is presumed where the religious institute’s purpose is advancing religion
- This presumption of a public benefit can be challenged when the contrary is shown, or if the charitable nature of the religious institute is called into question
- Difficulty comes in determining exactly what criteria would be used to identify these circumstances

5. Religious institutes with charitable status cannot have political purposes, and as well cannot pursue political activities with certain exceptions

- Further discussion on this topic will follow

6. Generally, a religious institute with charitable status must file an annual information return with CRA within 6 months of its year end

- The annual information return includes the T3010A form, a basic information sheet, and financial statements of the institute
The public portion of the T3010A return and all of the financial statements will be made available to the public on the CRA website.

However, there exists an exemption where some religious institutes with charitable status may be exempt from the public portion of this requirement.

An exemption from filing public portions of the T3010A is available to a religious institute with charitable status that:
- Was in existence on December 31, 1977
- Has not received a tax receipted gift since December 31, 1977

New religious institutes with charitable status that are logical outgrowths of formerly exempted organizations may also be granted this exemption if they do not and have not issued official donation receipts or received gifts from organizations that issue official donation receipts.

A religious institute with charitable status that has received gifts and issued charitable receipts for those gifts must expend 80% of receipted income in the following taxation year as part of its 'disbursement quota' (DQ) requirement.

A religious institute with charitable status will also be subject to a mandatory 3.5% DQ quota on capital assets not used in charitable activities or administration, such as investments.
This DQ requirement applies now for any religious institute with charitable status registered after March 22, 2004 and to taxation years beginning after 2008 for religious institutes with charitable status registered before March 23, 2004.

Under these rules, religious institutes with charitable status, holding more than $25,000 in investment assets, will be required to expend at least 3.5% of their assets not used in charitable activities each year.

9. Religious institutes with charitable status must also keep, for a period of six years, adequate books and records of the following:
   - T3010As as filed with attachments
   - Financial statements
   - Books and records (general ledger, cash receipt/disbursement journals, working papers)
   - Bank account details
   - Donation receipts for cash or gifts-in-kind
   - Expense source documentation
   - Details of activities
   - Governing documents and details
   - Agency/Consulting agreements

PART II: REPORTING REQUIREMENTS AND THE ANNUAL INFORMATION RETURN
1. General Comments
   - The annual information return required to be filed under the ITA must be filed no later than 6 months after the end of the religious institute’s fiscal period
   - E.g. If the religious institute’s year end fiscal period is March 31st, the annual information return is due by September 30th
– The annual information return includes the following documents:
  - Registered Charity Information Return (Form T3010A)
  - Registered Charity Basic Information sheet (Form TF725)
  - Directors/Trustees Worksheet (Form T1235)
  - Qualified Donees Worksheet (Form T1236)
  - Capital Gains and Disbursement Quota Worksheet (Form T1259), and
  - A copy of the religious institute’s own financial statements

– See the CRA guide on Completing the Registered Charity Information Return (Form T4033) for more details
– The ITA provides for both an “information return” and a “public information return”
– For simplicity, the two distinct concepts of the information return and the public information return have been combined into a single return, the T3010A. As such, the T3010A return has a dual purpose, namely, to provide information to the public and to ensure compliance
– Filing an annual information return will not necessarily result in CRA reviewing its contents until an audit is undertaken

– Religious institutes that are redesignated as a private foundation are subject to new excess business reporting requirements as a result of the March 19, 2007 Federal Budget
  - If the private foundation’s holdings in a company exceed 2% of all of the outstanding shares, the foundation will be required to report to CRA the amount of shares held at the end of the year by the foundation and non-arms’ length persons
  - If the private foundation’s holdings in a company together with that of non-arms’ length persons, exceed 20%, then divestiture requirements will apply
2. Information Available to the Public

- Most of the annual information return, and all of the financial statements filed with it are made available to the public
  - Public portions of the return are available at [www.cra.gc.ca,charities](http://www.cra.gc.ca)
  - This is subject to the previously explained exception for religious institutes in existence on December 31, 1977 and meeting certain criteria
  - The information provided in parts of Section B of the annual information return dealing with personal information about directors/trustees and like officers, as well as the physical location of the charity and the location of its books and records remains confidential

- Confidential information is generally only made available to authorized representatives of a religious institute, but can be released by the CRA in specific circumstances:
  - The ITA enables the CRA to share some confidential information with other government departments and agencies, e.g. new anti-terrorism legislation (Bill C-25) allows the CRA to disclose to the FINTRAC, the RCMP and the CSIS information about charities suspected of being involved in terrorist financing activities

3. Failure to File Information Return

- A religious institute that does not file its return can lose its charitable status and will no longer be able to issue tax receipts for donations
- The religious institute would also be liable to pay a revocation tax equal to the full value of any remaining assets after disbursement on either charitable activities or transfer to “eligible donees”
– If a religious institute’s charitable registration is revoked, CRA policy #CSP-R19 states that it can apply for re-registration by submitting a completed Application to Register a Charity Under the Income Tax Act (Form T2050)

– The charity must also pay a $500 penalty and file all missing information returns

4. Completing Form TF725 – Registered Charity Basic Information

a) General Comments

– The Registered Charity Basic Information sheet (Form TF725) is used to verify and/or update the accuracy of the information held in the CRA records about the religious institute

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b) Information which cannot be revised directly on the basic information sheet includes:

- The name of the religious institute
- The religious institute’s designation, registration date, and BN/registration number
- The fiscal period end date of the religious institute

– In the above cases, an authorized representative of the religious institute can only change the information by sending a letter, signed by an authorized representative of the institute, to the CRA with supporting documentation separate from the information return

– Information which can be revised directly on the basic information sheet includes:

- The address of the religious institute
- The religious institute’s contact information (e.g. telephone number, fax number, email and website address)
- The names that the religious institute is known by other than its registered name
- The religious institute’s primary program areas
b) The Name of the Religious Institute
   – The name indicated on the basic information sheet reflects the name held in the CRA’s records for the religious institute
   – If any changes have been made to this name, the institute must provide the CRA an official copy of the amendment that reflects the changes to the institute’s governing documents, e.g.:
     ▪ Letters patent
     ▪ Certificate of incorporation
     ▪ Trust documents
     ▪ By-laws

c) Designation
   – The CRA designates all registered charities as either:
     ▪ A charitable organization
     ▪ A public foundation
     ▪ A private foundation
   – The religious institute must complete and send Registered Charities: Application for Re-Designation (Form T2095) if it wishes to request a change in designation

d) Program Areas
   – The basic information form contains a section listing the primary areas in which the religious institute carries on programs
   – If the religious institute’s program areas have changed or if the percentage of emphasis has changed, the religious institute is expected to correct the information while ensuring that the program area chosen relates to the actual charitable objects of the charity
5. Completing Form T3010A – Registered Charity Information Return

a) Changes to its Governing Documents (Section A1)
   – If there has been any changes to the religious institute’s governing documents, an official copy of the amended governing documents must be sent to the CRA
   – If charitable objects have changed, approval from CRA must be obtained

b) Directors/Trustees and Like Officials (Section B1)
   – The religious institute must attach a list providing the following information of each director/trustee and like official:
     1. Last name, first name, and initial
     2. Full home address
     3. Position in the charity
     4. Whether or not they were a director/trustee at the end of the fiscal period
     5. Telephone number
     6. If they are at arm’s length from all other members of the governing board
     7. Date of birth

c) How the Religious Institute Carried Out its Charitable Purposes During the Fiscal Period (Section C2)
   – The religious institute must describe any ongoing programs and new programs that are carried on
   – The term “program” refers to all the charitable work the religious institute performs on its own, as well as gifts made to qualified donees
   – The charitable program must fall within the CRA approved charitable objects of the institute

d) Did the Institute Carry on Programs, Directly or Indirectly, Outside Canada? (Section C4)
   – Religious institutes are entitled to carry out their own charitable programs outside Canada provided that it is done in accordance with one of the following
     1. Using employees or volunteers situated in other countries
     2. Retaining an agent or contractor under an agency agreement, contract, joint-venture, or similar arrangement provided that the religious institute exercises control and direction over the programs
     3. Making gifts to other qualified donees
c) Issues Involving Charity Revenue and Expenditures
   - Eligible amount of tax-receipted gifts
   - Amounts received from other registered charities
   - Recording specified gifts
   - Enduring property (receipt and expenditure)
   - Tracking other gifts and revenue
   - Expenditures on charitable programs
   - Calculating the Capital Gains Pool and Capital Gains Reduction on Capital Gains and Disbursement Quota Worksheet (Form T1259)

f) Certification (Section H)
   - The information return must be signed by an authorized director/trustee or like official of the religious institute
   - The person who signs the return is responsible for obtaining the best knowledge possible about the information reported on the return
   - Certification applies to all components of the religious institute's information return listed earlier
   - Board or Council approval is recommended in order to authorize the individual to sign the certification and to verify the information

PART III: FUNDRAISING CONSIDERATIONS
1. General Comments
   - Although charities fall under the constitutional jurisdiction of the provinces, only a few provinces actually have legislation dealing with fundraising by charities
     - Such legislation exists in Alberta, Saskatchewan, Manitoba and PEI
     - Draft uniform fundraising legislation is being considered in all provinces
   - Ontario's Charities Accounting Act provides authority to the Public Guardian and Trustee of Ontario to oversee charitable property but it does not specifically deal with fundraising by a charity
   - Most issues involving fundraising are indirectly dealt with by CRA under the ITA
2. Disbursement Quota Issues and Fundraising Expenditures

- The DQ is a prescribed amount that a registered charity is required under the ITA to disburse each year in order to maintain its charitable registration, i.e. the 80/20 DQ and the 3.5% DQ as described earlier.
- The calculation of the DQ amount is based in part on the amount of receipts issued for donations received by the charity in the previous year and thus it is an important consideration when a religious institute is determining their fundraising plans each year.
- CRA calculates the DQ based on the information provided in a charity’s return, which is then provided to the charity in a Registered Charity Information Return Summary, Form Y1242.

- CRA takes the position that expenditures will qualify in meeting the DQ of a religious institute only if they are disbursed:
  - (i) to qualified donees or
  - (ii) directly on charitable activities.
- Many religious institutes, particularly those which carry on a wide range of activities, may have difficulty in determining what expenditures they undertake that are charitable and therefore qualify meeting their DQ obligation.
- CRA takes the position that no amounts spent on fundraising, overall management or administration of a charity can count towards meeting the DQ.

- Religious institutes should carefully monitor and maintain records of the costs of any fundraising programs, as those costs cannot be used towards meeting their DQ obligations.
- The CRA is reviewing issues involving fundraising expenditures and is expected to issue a policy on fundraising within the next year.
- Some issues the CRA is currently considering include:
  - Are all fundraising costs necessarily non charitable?
  - Should internal fundraising salaries be treated differently from third party fundraising contracts?
  - Could third party fundraising contracts constitute a prohibited undue benefit or private benevolence?
### 4. The Involvement of CRA in Fundraising Issues
- The CRA can become involved in reviewing charitable fundraising activities for several reasons:
  - e.g. When a charity’s activities or purpose become predominately for the purpose of fundraising
  - Where fundraising materials and solicitations are misleading to the donor
  - Where possible tax shelter schemes are being used
  - Where the fundraising activities of Charities become a nuisance to the public
  - Where fundraising costs exceed the permitted amount under the DQ
  - Where the fundraising involves breaches of privacy legislation with respect to donors’ personal information

### PART IV: POLITICAL ACTIVITY
- **Political Purpose**
  - All religious institutions with charitable status are required by law to have exclusively charitable purposes (as determined at common law)
  - An organization established for a political purpose cannot be a charity

- The courts have determined political purposes to be those that seek to:
  - Further the interest of a political party or support a political party or candidate for public office, or
  - Retain, oppose, or change the law, policy or decision of any level of government in Canada or a foreign country
- CRA will look at the stated purpose of a religious institute, as well as its activities to determine whether it has adopted political purposes.
For the purposes of this presentation, activities undertaken by a religious institute can be separated into three categories:

1. **Charitable Activities (permitted without limits)**
   - If an activity is considered by CRA to be charitable, i.e. it is a means to achieving a charitable purpose, then it is permitted without limits.
   - However, neither the ITA nor CRA policies define what a “charitable activity” is.

2. **Political Activities (permitted up to prescribed limits)**

3. **Prohibited Activities (never permitted)**

-- CRA Policy Statement does comment upon when a communication will be a charitable activity:
   - Public awareness campaign about the work of a charity or an issue related to that work, so long as the activity is connected and subordinate to the charity’s purpose.
   - Communicating with an elected representative or public official, provided that such activity is subordinate to the charity’s purpose and all representations.
- Relate to an issue that is connected to the charity’s purpose
- Is well reasoned, and
- Does not contain information that is false, inaccurate or misleading
- Releasing the text to a representative before or after delivering it to the elected representative or public official, provided that the entire text is released and there is no explicit call to political action

- Other examples of charitable activities given in the CRA Policy Statement
  - Distributing the charity’s research, including distributing it to all election candidates
  - Publishing a research report on line
  - Presenting a research report to a Parliamentary Committee
  - Giving an interview about a research report
  - Distributing a research report to all Members of Parliament
  - Participating in an international policy development working group
  - Joining a government advisory panel to discuss policy changes

- Examples of religious institute related activities that would likely be considered to be charitable activities:
  - Sermon on the importance of New Testament teaching to pray for political leaders and emphasizing the unchanging, timeless nature of the Bible’s truths on a particular topic but without calling for political action
  - A priest speaking out on abortion or same sex marriage from a Biblical context but without commenting on how a political party is or should be dealing with the issue
However, religious institutes should also be aware of the circumstances under which statements might constitute hate propaganda under the Criminal Code, especially in relation to issues involving same sex marriage (see Church Law Bulletin #2 at www.churchlaw.ca)

Where possible, a religious institute or charity should try to ensure that an activity is a charitable activity.

As a fall back, a religious institute can expend a limited amount of its resources on political activities as described below.

2. Political Activities (Permitted Up To Prescribed Limits)

What is a Political Activity?

- An activity is presumed to be a political activity if a charity:
  - Explicitly communicates a call to political action
  - Explicitly communicates to the public that the law, policy or decision of any level of government in Canada or a foreign country should be retained, opposed or changed
  - Explicitly indicates in its material that the intention of the activity is to incite, organize or put pressure on governments to retain, oppose or change the law, policy or decision of a government

- A charity may take part in political activities if such activities are:
  - Non-partisan
  - Connected to the charity’s purposes
  - Subordinate to the charity’s purposes
  - Fall within expenditure limits under the ITA
An example of a permitted political activity would be a sermon on the interpretation of the Bible’s truths on any given topic and a call for parish members to contact their respective MPs to pressure them to support or oppose a particular existing or proposed law.

Examples given in the CRA Policy Statement on permitted political activities:

- Buying a newspaper advertisement to pressure the government
- Organizing a march or a rally on Parliament Hill
- Organizing a conference in support of the church’s opinion on a given matter
- Hiring a communications specialist to arrange a media campaign
- Using a mail campaign to urge supporters to contact the government on a particular issue

Limits on Expenditures on Permitted Political Activities

Where a religious institute takes part in political activities, it must devote “substantially all” of its “resources” to charitable activities.

“Resources” is not defined in the ITA but administratively CRA considers “resources” to include the total of a religious institute’s financial assets, as well as everything the religious institute can use to further its purposes, such as its staff, volunteers, directors and its premises and equipment.

“Substantially all” usually means 90% or more.

Therefore, as a general rule, a religious institute that devotes no more than 10% of its total “resources” a year to political activities would be operating within the “substantially all” provision.
- CRA’s administrative discretion concerning the limits on expenditures on political activities has been extended in certain situations by its Policy Statement:
  - A religious institute with annual income of less than $50,000 can devote up to 20% of resources in a given year
  - A religious institute with annual income of between $50,000 and $100,000 can devote up to 15% of resources in a given year
  - A religious institute with annual income of between $100,000 and $200,000 can devote up to 12% of resources in a given year

- In limited circumstances, expenditures on political activities can be averaged over a number of years
- Resources used towards permitted political activities do not count toward meeting a religious institute’s disbursement quota
- A religious institute that is involved in political activities will need to keep careful records in order to demonstrate that substantially all of its resources have been devoted to charitable activities in order to be prepared for an audit

3. Prohibited Activities
- Prohibited activities are activities that are either illegal or involve partisan political activities and therefore are not permitted at all
- The CRA Advisory (June 11, 2004) entitled Political Activities Guidance and Partisan Politics provides as follows:
  - Recognition that charities are confused about what constitutes “partisan political activities” so the Advisory was intended to clarify matters
Advisory explains that this issue is determined by subsections 149.1(6.1) and (6.2) of ITA, which states that

- Partisan political activity involves the “direct or indirect support of, or opposition to, any political party or candidate for public office” and is clearly prohibited.

- A “candidate for public office” is different from an “elected representative”, but support or opposition of an “elected representative” may still be seen as “direct or indirect support of or opposition to, any political party”

An example of a prohibited partisan political activity would be a gift of religious institute monies to fund a political party that supports the church’s views on a given matter - not permitted because it is both a prohibited activity and is not a gift to a “qualified donee”

- Another example of a prohibited partisan political activity would be inviting a Christian MP who is running for re-election to speak at a religious institute without giving an equal opportunity to all other candidates seeking election for the same office position

Other examples of prohibited partisan activities in the CRA Policy Statement includes the following:

- Publishing statements that support a particular electoral candidate in a religious institute’s e-mail distribution list or on the religious institute website

- Distributing leaflets highlighting lack of government support for a religious institute’s position on any given matter

- Preparing a special dinner for campaign organizers of a political party
• Attendence by a representative of a religious institute e.g. priest or council member, in their official capacity at a political fundraising dinner
  – Charging fair market value rent to a political party and allowing usage of religious institute’s facilities is permitted so long as equal access and opportunity is given to all political parties.
  – However, this is a grey area, as prolonged association with one party may lead to conclusion the religious institute favours that party, thereby constituting a prohibited political activity – analysis is fact specific

Implications for Religious Institutes
  – Religious institutes and other charities need to
    • Ensure that activities are either inherently “charitable” or are “permitted political activities”
    • Ensure that any political activities undertaken fall within expenditure limits
    • Remember that any resources expended on permitted political activities cannot be included in amount used to meet a religious institute’s disbursement quota

• Keep careful records of all expenditures with respect to permitted political activities
  • Abstain from prohibited activities
  – If in doubt over whether an activity is permissible, make formal request for direction from CRA before engaging in the activity
  – When filling out charitable income tax return (T3010), churches should pay careful attention to the guidelines provided by CRA which accompany the return
PART V: TRANSFER OF ASSETS BETWEEN REGISTERED CHARITIES

1. General Comments
   - Religious institutes which want to transfer assets to another religious institute or other registered charity must ensure that their governing documents grant them the authority to do so
   - Similarly, the recipient religious institute or other charity must ensure it has the requisite authority to receive and apply those assets
   - Religious institutes should also be cautious of donor restrictions that must be complied with—transferring donor restricted gifts should be documented as a transfer from trustee to trustee with a commitment to comply with donor restrictions

   Whether or not donor restrictions existed originally, the transfer of assets between charities should be evidenced through a deed of gift
   - A deed of gift can ensure that the proper restrictions are placed on a gift, if applicable, and can identify the powers of investment that apply to the transferred funds

2. The Disbursement Quota Rules and Inter-Charity Transfers
   - There are three types of property transfers that can take place between charities: transfers of ordinary gifts, specified gifts and enduring property

   The type of transfer occurring between charities is important for DQ considerations
   - Until March 2004, the transfer of a gift from any registered charity to a charitable organization was not subject to the 80% DQ (100% for private foundations)—only gifts to private and public foundations were subject to this rule
     - i.e. Transfers from any registered charities to charitable organization were previously exempt from the 80% DQ
Now, all transfers of assets from one registered charity to another, including transfers to a charitable organization, is subject to the 80% disbursement obligation,

- i.e. 80% of the gift must be expended in the following taxation year unless specifically exempted as set out below

The transfer of an ordinary gift, i.e. neither specified gifts, nor enduring property

- The transferor religious institute can use the transfer to satisfy its DQ obligations
- The transferee charity will have an obligation to expend the gift in the following year
- If the transferee charity is either a charitable organization or a public foundation, the DQ obligation is 80% of the gift
- If the transferee charity is a private foundation, the DQ obligation is 100% of the gift

The transfer of a specified gift

- For the transferor religious institute, the transfer cannot be used to satisfy the DQ obligation
- For the transferee charity, there is no obligation to expend the specified gift in the following year

The transfer of enduring property not received as a specified gift,

- For the transferor religious institute, there will be a DQ obligation to expend 100% of the enduring property in the year, which is met by the transfer itself
- For the transferee charity, there is no obligation to expend the enduring property in the following year but will be added to the DQ in the year of expenditure
The transfer of enduring property received as a specified gift

- Transferor religious institute cannot use expenditure to satisfy DQ obligation
- Transferee charity would not be obligated to expend specified gift
- There may be limited reason for the transferor religious institute to agree to transfer enduring property as a specified gift because it does not satisfy its DQ, but the gift can be used to satisfy the DQ of the transferee charity’s other DQ obligations in the subsequent year

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