



## Factsheet: Understanding your Disbursement Quota

The following fact sheet explains what a Disbursement Quota is. It also highlights the amendments to the Income Tax Act (Canada) (the “ITA”) that came into effect on June 23, 2022. The amendments introduce new “qualifying disbursement” rules. Canada Revenue Agency (“CRA”) issued its draft administrative guidance interpreting the new rules, entitled “Registered charities making grants to non-qualified donees”, on November 30, 2022 (the “Draft Guidance”).

The disbursement quota (the “DQ”) is the minimum amount a registered charity is required to spend each year on its own charitable activities or on qualifying disbursements. The DQ is a requirement imposed on registered charities by the *Income Tax Act* (the “ITA”).

Previously, only the amount spent on a charity’s charitable activities and amounts disbursed to “qualified donees” counted toward the DQ. However, as a result of Federal Budget 2022, the ITA was amended to include the following definition of “qualifying disbursement:” a disbursement by a charity, by way of a gift or otherwise by making resources available (a) ...to a qualified donee, or (b) to a grantee organization, if the disbursement is in furtherance of a charitable purpose...of the charity, the charity ensures that the disbursement is exclusively applied to charitable activities in furtherance of a charitable purpose of the charity, and the charity maintains documentation sufficient to demonstrate the purpose for which the disbursement is made, and that the disbursement is exclusively applied by the grantee organization to charitable activities in furtherance of a charitable purpose of the charity.

The ITA defines a “grantee organization” as including “a person, club, society, association or organization or prescribed entity, but not included a qualified donee.”

Bill C-32, the *Fall Economic Statement Implementation Act, 2022* (“**Bill C-32**”), received Royal Assent on December 15, 2022, and implemented the changes to the ITA. The amendments introduce a new *graduated* DQ rate, as promised by Federal Budget 2022.

The DQ will remain at 3.5% on the portion of property not used in charitable activities and administration up to \$1 million, and will increase to 5% on the portion of such property that exceeds \$1 million. This new DQ applies to fiscal periods starting on or after January 1, 2023.

### ***How to calculate your DQ***

The DQ is calculated as a percentage of the average value of a charity’s property, exceeding a certain threshold (\$25,000 for private foundations; \$100,000 for public foundations and



charitable organizations), that was not used directly in charitable activities or administration during the 24 months before the beginning of the fiscal year. Canada Revenue Agency (“CRA”) provides examples of how to make this calculation in its administrative guidance on Disbursement Quota Calculation.

The amendments to the ITA do not change the way that DQ is calculated, only the DQ rate that applies. The DQ will continue to be calculated based on the average value of applicable property, and it will not be applied on a fund-by-fund basis.

### ***Dealing with administration and management expenditures***

Bill C-32 amended section 149.1(1.1) of the ITA to explicitly state that expenditures on “administration and management expenditures” are not considered qualifying expenditures for the purpose of satisfying a charity’s DQ. Federal Budget 2022 framed this change as a *clarification*, implying that this has always been the Government’s position.

In its current Form T4033, the Guide to Completing the Registered Charity Information Return, CRA acknowledges that “some expenditures can be considered partly charitable and partly management and administration, such as salaries and occupancy costs.” We expect that CRA will be providing more guidance around how expenses should be divided between these categories.

### ***Additional reporting on funds***

In Federal Budget 2022, the government indicated that CRA will improve its collection of information from charities, including information about whether charities are meeting their DQ obligations, and information related to investments and donor-advised funds (“DAFs”) held by charities.

We understand that CRA will make changes to Form T3010, the Registered Charity Information Return, and associated Form T4033 (Guide to Completing the Registered Charity Information Return). CRA may include additional questions related to the reporting of donor advised fund information and endowments on future T3010’s. It does take some time for CRA to amend the annual return and we have no indication as to when this might take place.

*Community Foundations of Canada is grateful for the collaboration of Miller Thomson in creating this factsheet for community foundations. This factsheet was written by Susan Manwaring and Kristina Roberts.*

