# Fact Sheet: Understanding the Disbursement Quota

***March 1, 2021***

The disbursement quota (DQ) is the minimum calculated amount that a registered charity is required to spend each year on its own charitable programs or on gifts to qualified donees, such as other registered charities. Foundations use the DQ to determine the minimum amount of funds they are required to grant annually.

The disbursement quota calculation is based on the value of a charity's property not used for charitable activities or administration. For public foundations, the DQ is 3.5% of the average value of a registered charity's property not used directly in charitable activities or administration during the 24 months before the beginning of the fiscal year.

The following information was taken from the Canada Revenue Agencies Charities Directorate website as of November 2020.

## How is the average value of property calculated?

The average value of property is based on a specified number of periods (decided by the charity) over a 24-month span. The 24-month span can be divided into two to eight equal, consecutive periods. The number of periods is usually chosen when the charity files its first information return. Once chosen, the charity must get our written permission to change it.
For example, if a charity calculates the value of its property only once a year, it will use two 12-month periods to calculate an average value. If it values its property every six months, then it will use four six-month periods to calculate an average value.

***The disbursement quota calculation is based on the value of a charity's property not used for charitable activities or administration.***

To establish the average value, first determine the value of the charity's property that is not used directly in charitable activities or administration at the end of each period within the 24-months (i.e. cash in the charity's operating account or property or investments used to support operations). Then add all of the values together and divide the total by the number of periods. The result is the charity's average value of property for the purpose of calculating the disbursement quota.

**Example**:

XYZ is a public foundation. It was incorporated in 2019 and received a gift of securities. It was registered effective January 1, 2010. XYZ calculates the value of its property not used directly in charitable activities or administration at the end of each fiscal year (every 12 months). For the return for the fiscal year ending December 31, 2010, it calculates the average value as follows:

**Value of property not used directly in charitable activities or administration**

| Valuation date | Value of shares |
|---|---|
| December 31, 2018 | $0 |
| December 31, 2019 | $100,000 |

The average value of property for the 24 months before the **beginning** of the fiscal year is $50,000 ($0 + $100,000 = $100,000 divided by two valuation periods.) The charity reports $50,000 at **line 5900** on the return.

XYZ's disbursement quota is $1,750 (3.5% of $50,000) for the fiscal year ending December 31, 2010.

# Disbursement Quota Shortfalls and Excesses

**Spending too much**

If a registered charity spends more on its charitable activities or by way of gifts to qualified donees than its disbursement quota for that year, it has a disbursement excess. Disbursement excesses can be carried forward for five years or carried back one year.

**Spending too little**

If a registered charity spends less on its charitable activities or by way of gifts to qualified donees than its disbursement quota for that year, it has a disbursement shortfall.

**Making up a shortfall**

A registered charity can draw on disbursement excesses from the five previous fiscal periods to help it meet a shortfall. If no excesses are available to draw on, the charity can try to spend enough the following year to create an excess that it can carry back to cover the shortfall. *Continuous shortfalls may lead to revocation of a charity's registration.*