

Determining fair market value

What is fair market value (FMV)?

Fair market value is normally the highest price, expressed in dollars, that property would bring in an open and unrestricted market, between a willing buyer and a willing seller who are both knowledgeable, informed, and prudent, and who are acting independently of each other.

Why is it important to understand the fair market value?

If a receipt is being issued for a gift in kind (non-cash gift), it must reflect the fair market value of the gift.

Registered charities must usually deduct the FMV of any [advantages](#) from the FMV of gifts to determine if there is an [eligible amount](#) of a gift for receipting purposes (see [Split receipting](#)).

When the FMV of either a gift in kind or an advantage cannot be determined, an official donation receipt cannot be issued.

The onus is on charities to ensure that the fair market value reflected on official donation receipts is accurate.

How does a registered charity determine the fair market value of a gift in kind?

Generally, if the fair market value of the property is less than \$1,000, a member of the registered charity, or another individual, with sufficient knowledge of the property may determine its value.

The person who determines the fair market value of the item should be competent and qualified to evaluate the particular property being donated.

If the fair market value is expected to be more than \$1,000, we strongly recommend that the property be professionally appraised by a third party (that is, someone who is not associated with either the donor or the charity).

If the property is appraised, the name and address of the appraiser must be included on the official donation receipt.

Important Note: If the property was donated within ten years of acquisition or was acquired through a tax shelter arrangement, the "[deemed fair market value rule](#)" may also apply.

What is an advantage and how does a registered charity determine the fair market value of an advantage?

An advantage is what a donor may receive in return for his or her donation (for example, a meal, tickets to a show), and it must be taken into consideration when determining the eligible amount of a gift for receipting purposes.

Determining the fair market value of an advantage is similar to determining the fair market value of a gift in kind. However, while only donations of property can be receipted as gifts in kind, the fair market value of any type of advantage (for example services, accommodation, meals) must be taken into consideration when determining the eligible amount of a gift for receipting purposes.

If the value of the advantage is 80% or less of the fair market value of the donation, then a receipt may be issued for the difference (see [Split receipting](#)).

If the value of the advantage is greater than 80% of the value of the donation, no gift is deemed to have been made, and a receipt cannot be issued.

If the value of an advantage is the lesser of \$75 and 10% of the value of the donation, it is considered nominal ([de minimis](#)), and it need not be deducted from the eligible amount of the gift for receipting purposes.

If the FMV of the advantage cannot be determined, a receipt cannot be issued.

Example:

An individual donates \$500 to a charity and, in appreciation, the donor receives two theatre tickets worth a combined value of \$90 from the charity. The following calculations are used to determine the eligible amount of the gift for receipting purposes:

- **Nominal threshold:** 10% of \$500 is \$50.
Therefore the advantage must be \$50 or less to be considered de minimis.
- **Advantage threshold:** 80% of \$500 is \$400.
Therefore the advantage must be less than \$400 for a receipt to be issued.

In this example, the advantage is not de minimis, and must be deducted from the value of the gift. However, the value of the advantage does not exceed 80% of the value of the donation, so a receipt can be issued.

The eligible amount for which a receipt can be issued is **\$500 - \$90 = \$410**.

Possible advantages include:

- property (for example, cash, non-cash gifts);
- the use of or enjoyment of property;
- the provision of services; and
- other benefits (for example, assumption of debt by donee, sponsorship)

Gifts of cultural property and ecological gifts:

Special incentives, rules, and procedures apply to gifts of cultural property and to ecological gifts. For detailed information on how to issue receipts for these gifts, please refer to the following publications:

- [Registered Charities Newsletter No. 22 - Spring 2005](#)
- [Registered Charities Newsletter No. 24 - Late Summer 2005](#)
- [P113, Gifts and Income Tax](#)

Environment Canada also has a Web site devoted to the Ecological Gifts Program at:

www.cws-scf.ec.gc.ca/egp-pde/default.asp?lang=En

Deemed fair market value rule

What is deemed fair market value?

The deemed fair market value rule states that, under certain conditions, a receipt issued for a non-cash gift must be issued for the lesser of the gift's [fair market value](#) and its cost to the donor (or in the case of capital property, its adjusted cost base) immediately before the gift is made. The conditions are as follows:

- the gift was donated to the charity after December 5, 2003; **and**
- the gift received by the charity was initially acquired by the donor as part of a tax shelter arrangement; **or**
- the gift was acquired less than three years before the time of donation; **or**
- the gift was acquired less than ten years before the time of donation, with one of the main purposes being to gift the property to a qualified donee (for example, a registered charity).

Example

A donor purchases a work of art for \$300, and six months later donates the work to a registered charity. The registered charity would like to issue the donor an official donation receipt. Prior to gifting the art, the donor has the work appraised at a value of \$1,000.

Because the donor is gifting the art within three years of having purchased it, the charity must issue a receipt for the gift at the lesser of its fair market value and its cost to the donor immediately before the gift was made. In this example the official donation receipt must be made out for \$300.

Note

If a donor makes a gift in kind (non-cash) donation to a charity, for which a receipt is issued, and fails to notify the charity that the gift in kind is subject to the deemed fair market value rule, the value of that donor's gift could be reduced to nil.

Gifts exempt from the deemed fair market value rule (normally assessed at fair market value):

- gifts made as a consequence of a taxpayer's death;
- gifts of inventory;
- gifts of real property situated in Canada;
- gifts of certified cultural property ([special valuation procedures](#) apply); and
- gifts of certain publicly-traded securities.

If the registered charity is not a private foundation, the following property is also exempt:

- ecological gifts (See the [Canadian Ecological Gifts Program](#) for applicable valuation procedures).

References

- [P113, Gifts and Income Tax](#)
- [Registered Charities Newsletter No. 24 - Late Summer 2005](#)