



TaxNewsFlash

Canada

Charities and NPOs — Review Disbursement Quota Rules

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Charities and non-profit organizations (NPO) should determine whether they may be affected by new changes to the disbursement quota that will take effect in 2023. Finance released draft legislation for changes to the disbursement quota on August 9, 2022, including to increase the disbursement quota rate to 5% (from 3.5%) for charities that have fiscal periods beginning on or after January 1, 2023. This measure was originally announced in the 2022 federal budget. Note that another federal budget measure, which allows charities to make certain disbursements to non-qualified donees, was recently enacted.

Registered charities affected by the disbursement quota change should review the proposed legislation and prepare now for these disbursement quota changes, which are scheduled to come into effect in 2023. In particular, affected charities may need to review their policies and procedures to account for this change.

Background

Finance originally announced measures affecting charities in the 2022 federal budget, including changes to the disbursement quota and for disbursements to non-qualified donees. See *TaxNewsFlash-Canada* 2022-24, "[2022 Federal Budget Highlights](#)".

Annual disbursement quota for registered charities

Finance's new draft legislation increases the disbursement quota rate to 5% (from 3.5%) for the portion of property not used in charitable activities or administration that exceeds \$1 million. The proposed legislation also clarifies that expenditures for administration and

management are not considered qualifying expenditures for the purpose of satisfying a charity's disbursement quota. In addition, this legislation grants the CRA the discretion to grant a reduction in a charity's disbursement quota obligation for any particular tax year and allows the CRA to publicly disclose information relating to such a decision. These measures apply to charities for their fiscal periods beginning on or after January 1, 2023.

Finance's draft legislation also no longer provides discretion to the CRA to allow a charity to accumulate property for a specific purpose. However, charities that receive approved property accumulations resulting from applications submitted prior to January 1, 2023 are not subject to this change.

Charitable partnership changes — Now enacted

Charities can now make certain disbursements to non-qualified donees, effective as of June 23, 2022. Specifically, charitable organizations can make these disbursements provided the grantee exclusively uses the funds for charitable activities that further the organization's charitable purposes. To be considered a qualifying disbursement, the charity must maintain documentation to demonstrate that the disbursement qualifies. In addition, these rules state that registered charities cannot accept gifts that are conditional on making gifts to other non-qualified donees.

KPMG observations

Certain charities which are established to raise funds and make gifts to other operating charities may be challenged to meet the new disbursement quota threshold based on the endowment criteria of certain gifts which it received.

We can help

Your KPMG adviser can help you assess the effect of these new developments. For more details, contact your KPMG adviser.

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