



Beware of Donation Fraud

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One of the disadvantages of being charitable is that sometimes unethical people and organizations will take advantage of your giving nature. Therefore, arm yourself with knowledge and be an informed donor.

If you devote as much time to planning your donations as you do to other financial objectives, you are much more likely to have a successful result. Your contributions will be put to good use by worthy organizations and you will maximize the personal satisfaction and tax benefits associated with making the donations.

Be An Informed Donor

1. Start with the Canada Revenue Agency's (CRA's) charities listings at http://www.cra-arc.gc.ca/tx/chrts/nln_lstngs/menu-eng.html. Alternatively, you can call CRA at 1-800-267-2384 (English) or 1-888-892-5667 (bilingual). Only charities registered under the *Income Tax Act* can issue official donation receipts.
2. Research the organizations that you wish to benefit:
 - Request information from the charities themselves (websites, annual reports, literature); and
 - Obtain information from news reports and other external sources about the charities.
3. Be wary of high-pressure tactics used by telephone or door-to-door solicitors. If they are calling from an organization that you do not wish to support at this time, politely, but firmly, say so. No further explanations are required.
4. Watch for organizations disguised as well-known charities. They may have names or logos that sound or look legitimate. If you are at all uneasy, donate to the charity directly by mail or via its official website rather than by responding to a solicitation.

Sometimes even registered charities can be found to be fraudulent. For example, effective August 9, 2008, CRA revoked the registered charity status of International Charity Association Network (ICAN) – see [http://www.cra-](http://www.cra-arc.gc.ca/nwsrm/rlss/2008/m08/nr080811-eng.html)

[arc.gc.ca/nwsrm/rlss/2008/m08/nr080811-eng.html](http://www.cra-arc.gc.ca/nwsrm/rlss/2008/m08/nr080811-eng.html). The Minister of National Revenue stated, and ICAN agrees, that in 2006 ICAN issued charitable donation receipts totalling approximately \$464 million. The Minister alleges that is almost five times the total charitable donation receipts issued by the United Way of Greater Toronto in the same year, although ICAN had only 16 employees in Ontario, compared to 165 full-time and 43 part-time employees of the United Way of Greater Toronto. ICAN failed to provide audit evidence to support this high level of charitable activity.

What Can Go Wrong

The least serious consequence for small cash donations is that you give your money to an undeserving person or entity.

The most serious consequences of participating in a questionable donation scheme are that your donation credits may be significantly reduced or denied and your tax return reassessed. If so, you will be charged additional taxes payable, interest and possibly penalties. Your tax account may also be subject to increased scrutiny in the future.

If It's Too Good To Be True...

It probably is! CRA issued an excellent Taxpayer Alert last modified on December 17, 2007: <http://www.cra-arc.gc.ca/nwsrm/lrts/2007/070813-eng.html>. In it, CRA clearly denounces all tax shelter gifting arrangements and warns that it will audit all such schemes. Every single audit to the date of the Alert resulted in a tax reassessment: 26,000 taxpayers were denied about \$1.4 billion in donations claimed.

Effective December 5, 2003, the value of a tax receipt issued by a charity for gifts of property is limited to the donor's cost of the property where it is donated within three years of acquisition or acquired through a gifting arrangement. This change to the *Income Tax Act* helps to limit potential abuses of donation transactions.

Schemes to Avoid and Their Consequences

1 “Flips” of purchased goods to a registered charity. A tax shelter promoter sells goods at discount prices which can then be donated “in kind”. You pay a modest amount to acquire the goods (although you don’t actually take possession). The goods are appraised at a highly inflated value and donated to a registered charity. A tax receipt is issued for the artificially high appraised value.

Consequences:

- The donation claim will be limited to your actual cost.
- Furthermore, if CRA determines by its own appraisal that the goods are worthless, your donation claim will be denied altogether.

2 Gifting trust arrangements. You make a cash donation to a specified charity. You also become a beneficiary of a trust. You receive property as a distribution from the trust and you donate the property to the charity as well. You receive a donation receipt for the amount of the cash and donated property.

Consequences:

- Your donation claim will be limited to the cash amount of your donation.
- Your claim will be further reduced by the value of the property received from the trust.

3 Leveraged cash donations. You donate cash plus the proceeds from a pre-arranged loan to a specified charity. You are not at risk for the loan amount – that is, you are not required to repay any amount outstanding over and above the cash you already contributed. A donation receipt is issued for the amount of the cash plus loan proceeds.

Consequences:

- Your donation claim will be limited to the cash amount of your donation.
- The tax credit associated with the loan portion of the donation will be reduced or eliminated to the extent that the loan is of limited recourse.

If the registered charities associated with the schemes are found to be fraudulent, all donations made to them will be denied.

Don’t Be a Victim of Donation Fraud

According to Daniele Zanotti, Chief Executive Officer of the United Way of York Region, charitable giving should be treated like an investment. Mr. Zanotti recommends interviewing potential charities and meeting with its staff, volunteers and board members. He also suggests volunteering for a chosen organization.

How do you apply an investment process to charitable giving? Check the charity’s official website and/or ask for a copy of the annual report and financial statements. Also, ask questions, such as:

- What are the mission and goals of the organization?
- Who are the directors/trustees of the charity?
- How will your donation be used?
- What are the administration and fundraising costs? (Mr. Zanotti stated that the average administration/fundraising costs in Canada are 24 cents on a dollar.)
- Who are the major donors?

If you’re not satisfied with the answers you are given, look for another charity to support instead.

If you suspect that an organization may be fraudulent, report it to Phone Busters, the Canadian anti-fraud call centre at 1-888-495-8501 or info@phonebusters.com. Their website is <http://www.phonebusters.com/english/index.html>. However, please be advised that Phone Busters’ role is to gather data for enforcement purposes. Theirs is the first of many steps in a process to convict unscrupulous donation promoters. You are unlikely to recover any money that you may have lost due to donation fraud.

Reputable charities perform valuable services in our local and global communities. Let’s make sure that our donations are used for the purposes intended and not misdirected to unworthy organizations. Please do your homework before you give generously.

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