



3.8 Tax Treatment of the Provision of Rent-Free Leases to Charity

Adapted from article by Andrew Valentine, of Miller Thompson Law, Toronto

Charities are occasionally offered the opportunity to use property free of charge. This may include the provision of rent-free office or parking space, or the use of physical resources such as cars or equipment. In some cases, individuals will request that instead of the charity paying them for the use of the rented or loaned property, the charity should simply issue a receipt for the amount of the rent foregone. It is important that charities understand the rules under the *Income Tax Act (the Act)* and CRA policy.

The Act provides that only gifts of *property* can be receipted. For this reason, donations of services or loans of property to a charity do not qualify as gifts because they do not transfer a property interest to the charity. They simply allow the charity to use the property or to benefit from the donor's services, free of charge. It follows from this that providing rent-free accommodation is also not eligible for a receipt, because it does not involve a gift of property.

Because it is not possible for a charity to issue a receipt directly for the value of the rent foregone by the donor, there are two ways the charity can proceed where it receives rent-free accommodation or a rent-free lease and the provider of the rent-free accommodation wants a receipt:

1. The charity and the donor can conduct a "cheque exchange", in which the charity pays for the rental of the property and the landlord donates the payments back. It is crucial to show documentation of two separate transactions: the rent payment by the charity for the lease, and the subsequent voluntary donation of some or all of this rent back to the charity.

OR

2. The landlord/donor can forgive the rental debt owed by the charity. In this case, there would need to be documentation of the lease establishing the rental obligation of the charity as tenant, as well as documentation of the forgiveness of the debt by the landlord. *We (the Synod office) do not suggest this option as it is complicated and could be handled incorrectly.*

In both cases, the landlord would need to include the rental amount in income. Thus, there would be no tax advantage to the landlord by picking one approach over the other.

We (the Synod office) suggest the landlord seek professional advice to determine the tax benefits from the donation.

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