

Business Advisor

"Taxing" issues for Charity Events

by Phil Byrne

In recent years the golf tournament has become a popular way to raise funds for charity. This has occurred for a number of reasons, most notably because governments have reduced funding to charities and more and more people are playing golf.

You may find that those people looking to hold tournaments are asking the course owners and employees for help in understanding what the rules are with respect to income tax issues. Can I issue donation receipts to participants? Can I deduct all my costs? The tax rules relating to the relevant items are sometimes difficult to interpret and can cause confusion. Before your eyes glaze over with the thought of reading about taxes on a beautiful day for golf, I'll avoid a lot of detail and quoting of the tax act!!

A few basics to start. If someone pays a green fee to play golf - whether for business purposes, to support a charity or just for fun, the green fee is NOT tax deductible. That is so, whether the person is self employed, a commission sales person or in any other line of work.

Secondly, if someone purchases a meal that would normally be considered for business purposes, the location of that meal is not important. The club dining room or the restaurant across the street are both acceptable. Note that the cost of the meal is only 50 percent deductible for tax purposes.

Thirdly, there are rules relating to when a charity can issue donation receipts relating to golf tournaments. Now that we understand this. A few examples should help clarify.

Arnold is asked to play in a tournament put on by the 10-Foot Gimme Society of Canada, a registered charity created to help wipe out three putting in Canada. Arnold pays \$150 for a powercart, golf and dinner and is hoping to get a donation receipt as well. The organizers have done their homework and know they can issue a donation receipt for the difference between the \$150 and the fair market value of what Arnold receives. Since the course regularly charges a set fee for what Arnold has received, this value is easily determined so Arnold can get his receipt for the difference.

While on the course, Arnold was surprised to find he had to pay an extra \$5 if he wanted to try and win a new car on the 15th hole in the hole-in-one contest. One of his playing partners Lee, was an accountant who explained to him that if they did not charge separately for the contest, the balance of his entry fee would not be eligible for a donation receipt. He went on to say that if the entry fee was greater than the fair market value of what was received then the excess would be presumed to be the price for participating in a lottery, draw or contest.

Lee is a quiet guy, but once he gets going he is hard to stop. He went on to explain that even if the Society held an auction after dinner with no additional fee, no donation receipt should be issued, unless you could buy a separate ticket for the auction! With all this accounting talk and visions of driving a new Cadillac clouding his mind, Arnold promptly dropped his tee shot on 15 in the lake. On the next tee, Arnold said that although he didn't win the car he might at least get a good prize from the prize table after dinner. Lee commented that he heard the prize table was slim this year because if they had great prizes, they couldn't get a donation receipt. Arnold's knuckles turned white as he gripped his driver on hearing this news. He looked over at Lee who then explained that the prizes given away must be no more than 10% of the amount of the donation receipt. Lee explained that the charity really has two options. It can charge a fee greater than the value of what is received, issue a donation receipt for the difference without offering any significant prizes. Or, it can have big prizes and perhaps charge a higher fee but not provide receipts.

Now that Arnold understood a little bit more, he relaxed and drove his ball down the middle of the fairway. The second example is where Jack decides to have his company, Golden Bear Ltd., sponsor golf tournament for a local charity that helps needy children. Jack thinks he can raise some money for the kids and also get some good publicity for his business.

Jack organizes an excellent tournament and donates all the profits to the charity. Jack decided that Golden Bear Ltd. would pay the cost of the dinner at the club. After speaking to his accountant, Jack knows he can deduct 100% of the cost of the dinner rather than only 50% because the amount relates to a fund raising event, the primary purpose of which is to benefit a registered charity. Jack must be careful though, that his primary intention is not the publicity for his own business.

Note: The above represents a brief overview of the topics addressed. It should not be used in place of individual professional advice.