

## Receipting: Fair Market Value - The Basics

### *Introduction (Slide 1)*

This module covers basic information on Fair Market Value (FMV). It answers the questions:

- ❖ What is Fair Market Value (FMV) and why is it important?
- ❖ What are the specific rules for determining FMV?
- ❖ How do I receipt for FMV different types of gifts (cash or gifts-in-kind)?
- ❖ What other considerations do I need to take into account when determining FMV?
- ❖ What is Deemed FMV value?

### *Fair Market Value - The Basics (Slide 2)*

In general terms, fair market value (FMV) is what you, as a consumer, would pay for a property if you were buying it in the open market.

The courts have defined FMV as:

- ❖ the highest dollar value you can get for your property
- ❖ in an open and unrestricted market,
- ❖ on the day that it was transferred,
- ❖ between a willing and knowledgeable buyer
- ❖ and a willing and knowledgeable seller
- ❖ who are acting independently of each other.

### *Importance of Fair Market Value (Slide 3)*

The Importance of Fair Market Value (FMV)

- ❖ A tax receipt **cannot** be issued if the FMV cannot be determined.
- ❖ It is the Registered Charity's responsibility to determine the FMV of the gift.
- ❖ The FMV is the value of the gift on the day it was transferred to the Registered Charity.

### *The Specific Rules for Fair Market Value (FMV) (Slide 4)*

There are specific rules about determining the FMV for some gifts-in-kind such as:

- ❖ Publicly Traded Securities [www.charitycentral.ca/site/?q=node/60](http://www.charitycentral.ca/site/?q=node/60)
- ❖ Certified Cultural Property [www.charitycentral.ca/site/?q=node/59](http://www.charitycentral.ca/site/?q=node/59)
- ❖ Ecologically Sensitive Land [www.charitycentral.ca/site/?q=node/61](http://www.charitycentral.ca/site/?q=node/61)

## Fair Market Value and Cash Gifts *(Slide 5)*

With cash gifts, the FMV is the amount of cash or the amount on the cheque, money order or other banking instrument.

## Fair Market Value and Gifts-in-Kind *(Slide 6)*

General rules for determining the FMV of Gifts-in-Kind

- ❖ If the fair market value of the property is expected to be less than \$1,000, a member of your Registered Charity, or another individual with sufficient knowledge of the property, may determine its value.
- ❖ If the fair market value is expected to be more than \$1,000, CRA strongly recommends that the property be appraised by a professional who is not associated with either the donor or the charity. The name and address of the appraiser should be included on the official receipt.
- ❖ Certain gifts-in-kind may require using the deemed fair market value rule.

Note: The fair market value of an item does not include taxes paid on purchasing the item.

## Sample Receipt *(Slide 7)*

Official Donation Receipt for Income Tax Purposes		Receipt #0006
Charity name	Charity's Canadian address	Charity BN/Registration#
Date donation received:	Donated by:	(first name, initial, last name)
Donor address:		
<b>Eligible amount of gift for tax purposes:</b>		(fair market value of property)
Description of property received by charity:		
Appraised by:		
Address of appraiser:		
Date receipt issued:		
Location issued:		
Authorized signature:		
<small>For information on all registered charities in Canada under the Income Tax Act please visit:            Canada Revenue Agency <a href="http://www.cra.gc.ca/charities">www.cra.gc.ca/charities</a></small>		

## *Other Considerations with Fair Market Value (Slide 8)*

- ❖ Replacement value is not the same as FMV.  
**For example**, the replacement value of jewelry stated in an insurance policy is usually higher than the market price if the item were to be sold.
- ❖ FMV is always associated with the date the gift (property) was transferred to the charity.
- ❖ FMV is the value to be put on the donation receipt. It is not the value that the gifted property may be eventually sold for.

## *Deemed Fair Market Value (Slide 9 & 10)*

For gifts-in-kind that are not acquired under a tax shelter arrangement, the deemed FMV rules generally apply to tangible personal property such as art, jewelry, antiques.

The deemed FMV of the gift-in-kind is the **lesser** of:

- ❖ the gift's fair market value  
**or**
- ❖ the cost to the donor  
**or**
- ❖ in the case of capital property, its adjusted cost base, immediately before the gift was made.

A more detailed description of deemed fair market value is available at [www.charitycentral.ca/site/?=node/54](http://www.charitycentral.ca/site/?=node/54)

## *Self-Test (Slides 11-12)*

## *Notice (Slide 13)*

Information in this module is provided for general educational purposes and not as legal or accounting advice. Consult a lawyer or accountant for professional advice.

Information is accurate as of January, 2009.

For changes after this date, consult Canada Revenue Agency.