

Receipting: Mortgaged Property

Introduction (Slide 1)

This module looks at the basic rules that apply to receiving a gift of mortgaged property.

The module answers questions on:

- ❖ How do we determine Fair Market Value for mortgaged property?
- ❖ How do we value mortgaged property?
- ❖ How do we determine if there are advantages?
- ❖ How do we determine the eligible amount for a receipt?

Mortgaged Property - The Basics (Slide 2)

If your Charity receives a gift of real property with a mortgage, assuming that the donor did not receive any benefits other than the usual recognition:

- ❖ Your Charity has to determine the Fair Market Value (FMV) of this mortgaged property.
- ❖ Once determined, the FMV will be the amount on the official donation receipt.

Fair Market Value (Slide 3)

To determine the FMV of mortgaged property, your Charity will have to consider all relevant factors including:

- ❖ market prices
- ❖ the terms and conditions of the mortgage
- ❖ the amount and conditions of any other charges on the property

Valuation (Slide 4)

Accurate valuation of a mortgage may involve:

- ❖ examining the terms and conditions of the arrangement
- and**
- ❖ not just calculating the outstanding principal

Note: Contact a professional to determine the FMV of mortgaged property.

Advantages (Slide 5)

If the donor receives advantages (benefits) from the donation, you will have to apply the rules of split receipting.

More information on split receipting can be found at www.charitycentral.ca/site/?q=node/56

Eligible Amount for Receipt (Slide 6)

Two possible scenarios of donors receiving advantages:

- ❖ The charity pays the donors part of the value of the property.

The eligible amount of the gift will be determined by subtracting the amount paid by the charity to the donor and the value of the mortgage from the fair market value of the property.
- ❖ The charity assumes the mortgage or pays off the mortgage.

The eligible amount for the official donation receipt will be determined by subtracting the value of the mortgage from the fair market value of the property.

Note: You may want to consult a lawyer or tax accountant if you received a gift of mortgaged property.

Self Test (Slides 7&8)

Notice (Slide 9)

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.