http://www.drache.ca/articles/charities/corporate-sponsorships

When charities and not for profits stage high profile events they often view corporate sponsorships as an ideal avenue to help defray the costs and raise funds. And while such sponsorships often can be lucrative for the sponsee, and useful for the corporate sponsor, without a good understanding of the tax aspects of sponsorship it is impossible to measure the true value of the sponsorship. This understanding is complicated by the interaction of several different tax concepts.

The key to evaluating a sponsorship is to understand the business value returned to the donor. As this value is generally created by advertising, it presupposes that the sponsorship is acknowledged in a way which goes beyond simple recognition of a gift and the 'donor' actually receives marketing value for the gift. Sometimes it can be difficult to draw the line between advertising and the recognition that comes with naming a building or other item after a sponsor. While each situation should be examined on its own merits, generally the existence of any type of economic benefit to the sponsor should alert the charity to potential tax issues which require review.

The distinction between sponsorship and gift recognition is important for two reasons. First, the Canada Revenue Agency does not consider gift recognition as a benefit bestowed upon a donor. However, if there is a benefit, the law requires that the amount of the receipt be reduced by the amount of the benefit returned and this requires an accurate measure of the value of the benefit. An improper valuation could lead to the issuance of an inaccurate receipt - and consequences to both the donor and the charity if it is discovered by the CRA.

Of course, valuing something as intangible as advertising requires professional help and there are those in the field who have developed methods for valuing such things as a banner, a print ad, or a website ad. (It would be prudent to use an expert in these matters given the potential consequences of an inaccurate valuation and the CRA's own concern with a valuator's qualifications). The CRA does recommend using an independent valuator when the estimated value is greater than $1000.

Finally, this brings us to the issue of the necessity of the receipt in the first place. Corporations can deduct from their income any expenses incurred to earn income.

So, assuming the corporation can reasonably justify their sponsorship as having been incurred to earn income (say marketing) the amount of the benefit is deductible on these grounds by the corporation. Similarly, charitable donations are also deductions for corporations.

So, if a given payment to a charity (as opposed to a not for profit) is of mixed business and charitable purposes the corporate sponsor could deduct the entire amount - in part as a business expense and in part as a charitable donation. The split of the payment into a business and charitable amount can be useful as it may allow charities to appeal for a total sponsorship paid in part out of the sponsor's marketing budget and part out of its charitable budget.

- Adam Aptowitzer –Partner - Drache Aptowitzer LLP

SNAPSHOT VERSION

The key to evaluating a sponsorship is to understand the business value returned to the investor. It can be difficult on where to draw the line between advertising and the recognition that comes with naming a building or other item after a sponsor.

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