

ANNUAL SPENDING REQUIREMENT (DISBURSEMENT QUOTA)

A registered charity must spend the minimum amount calculated for its disbursement quota each year on its own charitable activities, or on gifts to [qualified donees](#) (for example, other registered charities).

Checklist

- Has the charity prepared to meet its spending requirement:
- Estimate the charity's annual spending requirement at the start of the fiscal period. Refer to the [Registered Charity Information Return Summary](#) issued for the prior year information return when it is received.
- If applicable, make note of any prior year disbursement quota shortfalls that need to be made up or any excesses that may be applied to meet the current year's spending requirement.
- Separate charitable expenditures from other expenditures such as management and administration, political activity, and fundraising and keep track of these throughout the fiscal period as well as amounts gifted to qualified donees.
- Enter the proper amounts on line 5000 (charitable expenditures) and on line 5050 (gifts to qualified donees) when completing the [T3010A return](#).
- Consider requesting [permission to accumulate funds](#) or a [disbursement quota reduction](#) if appropriate.

Determining the annual spending requirement

The annual spending requirement, or disbursement quota, is the sum of the totals of the following five calculations (line references refer to the T3010A, *Registered Charity Information Return*):

1. 80% of the amounts for which official donation tax receipts were issued in the previous fiscal period (line 4500) less any amounts that were issued for [enduring property](#) (line 5640);
2. 80% of enduring property spent in the current fiscal period (line 5710). This does not include enduring property originally received as a [specified gift](#) or a bequest or inheritance received by the charity prior to 1994;
3. 100% of enduring property transferred to qualified donees in the current fiscal period (line 5060). This does not include enduring property originally received by the charity as a specified gift;

Note The total of 2 and 3 may be reduced by the amount, if any, that the charity is allowed to claim as a [capital gain reduction](#).

4. 80% of the amounts received from other registered charities in the previous fiscal period (line 4510) less any amounts that were received as enduring property (line 4525) or as specified gifts (line 4520). For private foundations, this amount is 100%;

5. 3.5% of the average value of assets owned over the previous 24 months that were not used directly in charitable activities or administration (line 5900) (if the amount is greater than \$25,000), less:
- 100% of the amounts for which official donation receipts were issued in the previous fiscal period (line 4500);
 - 100% of enduring property spent in the current fiscal period (line 5710);
 - 100% of enduring property transferred to qualified donees in the current fiscal period (line 5060); and
 - 100% of amounts received from other registered charities in the previous fiscal period (line 4510).

For charitable organizations registered before March 23, 2004, the 3.5% will only apply for fiscal periods that begin after 2008.

NOTE

CAPITAL GAINS REDUCTION / CAPITAL GAINS POOL

The capital gains reduction is a calculation that allows a registered charity to encroach on capital gains from the disposition of [enduring property](#) to help the charity meet its 3.5% disbursement quota obligation. A capital gain is realized when capital property (such as stocks, units of mutual funds, land buildings and equipment) is sold or considered to have been sold for more than the total of its [adjusted cost base](#) and the outlays and expenses incurred to sell the property. (Capital losses can be ignored for the purpose of the capital gains reduction calculation.)

The encroachment, however, will not increase the charity's disbursement quota with respect to the disposition of enduring property.

The capital gains reduction available to the charity is the lesser of the capital gains pool and 3.5% of the amount on line 5900 (average value of property not used directly in charitable activities or administration) on the T3010A return. If the amount on line 5900 is \$25,000 or less, the 3.5% DQ obligation is deemed to be nil and the capital gains reduction is also deemed to be nil.

While the annual calculation of the capital gains pool is voluntary, the charity should declare capital gains realized on the disposition of enduring property on line 5720. This will allow the charity to claim a reduction in the disbursement quota in a subsequent fiscal period. The charity can choose the amount of capital gains reduction if any that it wishes to claim. Unused capital gains reductions establish a capital gains pool.