



MAY - 3 2007

BY REGISTERED MAIL

Greatwise Charity Fund
333 Wilson Ave, Suite 200
Toronto, ON M3H 1T2

Attention: Mr. Samuel Grosz, Director

BN: 89157 6548 RR 0001

**SUBJECT: Notice of Intention to Revoke
Greatwise Charity Fund**

Dear Mr. Grosz:

I am writing further to our letter dated March 16, 2006 (copy enclosed), in which you were invited to submit representations to us as to why the Minister of National Revenue should not revoke the registration of the Greatwise Charity Fund (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "ITA").

We reviewed your written response of May 15, 2006 (copy attached) from your authorized representative, [REDACTED] Accountants; you will find our comments in Appendix "A" attached.

Conclusion

After careful review of the representations included in the letter of May 15, 2006, it is our conclusion that they do not provide sufficient reasons why the Charity's registered status as a registered charity should not be revoked. Therefore, I wish to advise you that, for each of the reasons outlined in our letter of March 16, 2006 and in Appendix "A" attached, and pursuant to the authority granted to the Minister in subsection 168 (1) of the ITA, and delegated to me, I propose to revoke the registration of the Charity. By virtue of subsection 168(2) of the ITA, the revocation will be effective on the date of publication of the following notice in the *Canada Gazette*:

.../2

Notice is hereby given, pursuant to paragraphs 168(1)(b), 168(1)(d) and 168(1)(e) of the Income Tax Act, that I propose to revoke the registration of the organization listed below under subsection 149.1(4), and paragraph 149.1(4)(b) of the Income Tax Act and that the revocation of registration is effective on the date of publication of this notice.

Business Number	Name
89157 6548 RR0001	Greatwise Charity Fund Toronto, Ontario

Should you wish to appeal this Notice of Intention to Revoke the Charity's registration in accordance with subsection 168(4) of the ITA, you are advised to file a Notice of Objection within 90 days from the mailing of this letter. This notice is a written statement that sets out the reasons for the objection and all the relevant facts. The Notice of Objection should be sent to:

Tax and Charities Appeals Directorate
Appeals Branch
25 Nicholas Street
Ottawa, ON K1A 0L5

Consequences of a Revocation

As of the date of revocation of the registration of the Charity, which is the date upon which the above-noted notice is published in the *Canada Gazette*, the Charity will no longer be exempt from Part I Tax as a registered charity and **will no longer be permitted to issue official donation receipts**.

Additionally, by virtue of section 188 of the ITA, the Charity will be required to pay a tax within one year from the date of the Notice of Intention to Revoke the Charity's registration. This revocation tax is calculated on prescribed form T-2046 "*Tax Return Where Registration of a Charity is Revoked*". The return must be filed and the tax must be paid on or before the day that is one year from the date of the Notice of Intention to Revoke a charity's registration. For your reference, I have attached a copy of the relevant provisions of the ITA in Appendix "A" concerning revocation of registration and the tax applicable to revoked charities as well as appeals against revocation. Form T-2046, along with the related Guide RC-4424, "*Completing the Tax Return Where Registration of a Charity is Revoked*", are also attached for your information.

Also, the Charity will no longer qualify as a charity for purposes of subsection 123(1) of the *Excise Tax Act* (the "ETA"), effective on the date of revocation. As a result, it may be subject to obligations and entitlements under the ETA that apply to

organizations other than charities. The relevant ETA provisions are attached in Appendix "B". If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-800-959-8287.

Furthermore, I wish to advise you that pursuant to subsection 150(1) of the ITA, a return of income for each taxation year in the case of a corporation (other than a corporation that was a registered charity throughout the year) shall without notice or demand therefore, be filed with the Minister in prescribed form containing prescribed information.

Yours sincerely,



Elizabeth Tromp
Director General
Charities Directorate

Attachments

- Canada Revenue Agency's letter dated March 16, 2006
- Appendix "A", Comments on representations of May 15, 2006
- Appendix "B", Relevant Provisions of the *Income Tax Act*;
- Appendix "C", Relevant Provisions of the *Excise Tax Act*;
- Form T-2046, *Tax Return Where Registration of a Charity is Revoked*;
- Guide RC-4424, *Completing the Tax Return Where Registration of a Charity is Revoked*.

Greatwise Charity Fund

**Charity Tax Audit for the fiscal period from
January 1 2003 to December 31, 2004**

COMMENTS ON REPRESENTATIONS OF MAY 15, 2006

Funds Sent Overseas, Gifts to Non-Qualified Donees and Disbursement Quota

The audit conducted by the Canada Revenue Agency (the "Agency") had identified that the Greatwise Charity Fund (the "Charity"), had not maintained adequate documentation to support the disbursement of funds to persons and organizations in Israel and the United States. Funds were provided in the form of loans or gifts however, inadequate documentation was provided to substantiate who received a loan or a gift, the amount of the loan or gift and any repayment terms. The audit was unable to determine how the recipients of the loans and gifts were objects of charity, as the Charity did not maintain any criteria for determining who is eligible for a loan or a gift nor the criteria employed when a loan recipient defaulted and the loan converted to a gift. Due to the absence of documentation, we are of the view that the loans and gifts were not made to qualified donees and are not considered expenditures on charitable activities.

The representations indicate that Mr. Samuel Grosz, a director of the Charity, makes trips to Israel annually and the director's son spends considerable time in Israel each year meeting representatives of fund recipients. These statements contradict the statements made by the Charity throughout the audit as the Charity adamantly denied disbursing funds overseas until presented with the audit findings. The Charity failed to provide any documentation to support the trips made by the director and any documented discussions the director had with recipients.

The representations also state that the Charity will have written agreements supporting all disbursements to other organizations however, the letter does not specify how the agreement will ensure that the Charity maintains full and complete direction as well as control and supervision of the funds disbursed to third parties to carryout the charitable activities of the Charity. The representations indicate that the Charity has some agreements supporting disbursements to other organizations, however no agreements were provided.

The representations fail to specify the criteria necessary to ascertain that loan recipients are objects of charity and fail to indicate the criteria and the enforcement of said criteria by the Charity necessary to maintain control and accountability of the funds expended as well as the documentation that would enable the Charity to demonstrate that they have devoted their resources to charitable activities.

Debts Incurred

The Charity incurred debts which it states in the representation letter were loans obtained for the purpose of poverty relief or as distributions to qualified donees or third parties for the purpose of carrying out charitable activities. Due to inadequate records, we were unable to ascertain that the loans were incurred for use in charitable purposes or how the loans were utilized by the Charity.

Books and Records

The Charity failed to provide the necessary records supporting the loans and donations made outside Canada and failed to comply with section 230 of the *Income Tax Act* (the "ITA") to maintain adequate books and records.

The representations acknowledge that the Charity does not maintain records for its loan activities and indicates that the Charity will maintain complete records for all amounts disbursed immediately. The representations do not specify the specific changes to be made to ensure adequate records are maintained or the records to be maintained. The auditor provided the Charity ample time to prepare and provide the records however, adequate records were not provided.

Official Donation Receipts

We accept the Charity's undertaking to modify the official donation receipts to comply with the *Regulations*.



Canada Customs
and Revenue Agency

Agence des douanes
et du revenu du Canada

March 16, 2006

The Greatwise Charity Fund
333 Wilson Ave, Suite 200
Toronto Ontario M3H 1T2

BN 891576548 RR0001

REG 0926451

Attention: Samuel Grosz

Dear Mr. Grosz:

Re: Audit of the Greatwise Charity Fund

This letter is further to our audit of the books and records of the Greatwise Charity Fund ("the Organization"). The audit related to the operations of the Organization for the fiscal periods ended August 31, 2003 and August 31, 2004.

The results of this audit and review indicate that the Organization is in contravention of certain provisions of the *Income Tax Act* (the "Act"). In order for a registered charity to retain its registration, it is required to comply with the provisions of the *Act* applicable to registered charities. If these provisions are not complied with, the Minister may revoke the Organization's registration in the manner described in section 168 of the *Act*. The balance of this letter describes the Canada Revenue Agency's (CRA's) concerns.

1. Books and Records:

Section 230(2) of the *Act* requires every registered charity to maintain adequate records and books of account at an address in Canada recorded with the Minister. The purpose of this requirement is to enable the charity to accurately provide CRA with the information required by the *Act* as well as enable CRA to verify the accuracy of reported information through the conducting of audits.

The Organization was unable to provide necessary records such as the full name and address of the recipients and supporting documents for the loans and donations to donees outside Canada and failed to comply with section 230 of the *Act* to keep adequate books and records.

2. Official donation receipts:

The audit indicates that the Organization did not comply with the requirements of Section 230 of the *Act*, Regulation 3501 of the *Act* and Interpretation Bulletin IT-110R3 regarding donation receipts as follows.

- (a) Official donation receipts must contain the Organization's name and registration number (894849710RR0001) as recorded with Canada Revenue Agency.

Canada

(b) CRA website address (www.cra-arc.gc.ca/charities) is required on the donation receipt.

Pursuant to paragraph 168(1) of the Act, the Minister may, by registered mail, give notice to the registered Organization that the Minister proposes to revoke its registration if it issues a receipt otherwise than in accordance with the Act and the Regulations.

3. Donations to "non-qualified donees" and Failure to meet "disbursement quota":

Audit evidence indicates that the Charity disbursed most of its funds to people in Israel and US. The organization was unable to provide required information such as the full name and address of the recipients and it appears that the recipients are not registered charities nor they fall within the definition of a "qualified donee" per paragraph 149.1(1)(h) of the *Income Tax Act*. Analysis of the available information revealed that majority of the donations made by the Organization were to non-qualified donees.

The organization does not have any written agreements in place or supporting documentation to validate these expenditures. By not implementing a written agency agreement, the organization's disbursements cannot be classified as their own charitable activities. Thus, these payments are viewed as disbursements to non-qualified donees.

A fundamental aspect of a charitable organization is that all of its resources must be devoted to charitable activities carried on by the organization itself as per subsection 149.1(1) of the Act. It appears that the Organization does not comply with paragraph 149.1(4)(b) of the Act which states that a charitable organization must expend in the taxation year, on charitable activities carried on by itself and by way of gifts to qualified donees, amounts in aggregate, are at least equal to its disbursement quota as described under subparagraph 149.1(1)(e)(f) of the Act.

Pursuant to paragraph 168(1)(b) of the Act, the Minister may, by registered mail, give notice to a registered Organization that the Minister proposes to revoke its registration because it ceases to comply with the requirements of the Act related to its registration as such.

4. Lack of control over the funds sent outside Canada:

The organization did not demonstrate that it retained a reasonable degree of control over the two above-mentioned disbursements outside Canada. The organization did not maintain adequate written agreements in place or supporting documentation to validate these expenditures.

By not implementing a written agency agreement, the organization's disbursements cannot be classified as their own charitable activities. Thus, these payments are viewed as disbursements to non-qualified donees.

The *Act* permits a registered charity to carry out its charitable purposes, both inside and outside Canada, in two ways. First, it can fund other organizations, which are qualified donees as described in the subsection 149.1(1) of the *Act*; second, it can carry on its own charitable activities. In contrast to the relatively passive transfer of money or other resources involved in

making contributions to qualified donees, carrying on one's own activities implies active participation on the part of the organization in a program or project that directly achieves a charitable purpose.

Disbursing funds to third parties who are not qualified donees (as defined by subsection 149.1(1) of the *Act*) is not considered as being a charitable activity. For purposes of the *Act*, when a registered charity merely transfers its resources to another entity (assuming the entity is a non-qualified donee), but fails to maintain effective direction and actual control over those resources, the result is the same as a gift to a non-qualified donee. Allowing a non-qualified donee to take complete control of the resources of a registered charity nullifies the purpose and intent of the *Act*.

The organization is allowed to have another organization or individual act on its behalf. In such a relationship however, the organization must be responsible in a direct, effectual, and constant manner for charitable activities to which its resources are being applied. The fact that the activities being undertaken by another organization may be consistent with the goals and objectives of the registered Canadian Charity is insufficient to meet this operational test.

The registered Canadian Charity can work with other organizations or persons and still meet the "own activities" test provided it employs certain arrangements, which enable it to retain direction and control over its resources. Such can be accomplished through agents, contractors or other intermediaries under structured arrangements set out in written agreements that allow it to retain direction and control of its resources.

The Organization did not demonstrate that it retained a reasonable degree of control over the two above-mentioned disbursements. The Organization does not have any written agreements in place or supporting documentation to validate these expenditures. By not implementing a written agency agreement, the Organization's disbursements cannot be classified as their own charitable activities. Thus, these payments are viewed as disbursements to non-qualified donees.

The *Act* permits a registered charity to carry out its charitable purposes, both inside and outside Canada, in two ways. First, it can fund other organizations, which are qualified donees as described in the subsection 149.1(1) of the *Act*; second, it can carry on its own charitable activities. In contrast to the relatively passive transfer of money or other resources involved in making contributions to qualified donees, carrying on one's own activities implies active participation on the part of the Organization in a program or project that directly achieves a charitable purpose.

Disbursing funds to third parties who are not qualified donees (as defined by subsection 149.1(1) of the *Act*) is not considered as being a charitable activity. For purposes of the *Act*, when a registered charity merely transfers its resources to another entity (assuming the entity is a non-qualified donee), but fails to maintain effective direction and actual control over those resources, the result is the same as a gift to a non-qualified donee. Allowing a non-qualified donee to take complete control of the resources of a registered charity nullifies the purpose and intent of the *Act*.

The Charity is allowed to have another organization or individual act on its behalf. In such a relationship however, the registered Charity must be responsible in a direct, effectual, and constant manner for charitable activities to which its resources are being applied. The fact that the activities being undertaken by another organization may be consistent with the goals and objectives of the registered Canadian Charity is insufficient to meet this operational test.

The registered Canadian Charity can work with other organizations or persons and still meet the "own activities" test provided it employs certain arrangements, which enable it to retain direction and control over its resources. Such can be accomplished through agents, contractors or other intermediaries under structured arrangements set out in written agreements that allow it to retain direction and control of its resources.

The minimum elements in a written agreement are:

- names and addresses of all parties;
- the duration of the agreement;
- a description of the specific activities for which funds have been transferred, in sufficient detail to enable the recipient to determine the extent of his authority;
- provision of written progress reports (or other written documentation from the funding recipient or through an on-site visit, minutes of meetings, etc.) and/or provision for the Canadian Charity to inspect the project on a periodic basis;
- provision of periodic payments on evidence of reasonable progress (Board meetings, letters, reports, visits, etc.) that demonstrates that the funds are being applied to the specific activities outlined in the agreement;
- provision for the Canadian Charity's discretion in withdrawing funds and controlling the use of its funds provided to the agent;
- provision for the maintenance of adequate records in Canada;
- in the case of agency agreements, provision for the Charity's funds to be segregated from those of the agent and for the agent to keep separate books and records; and,
- the signatures/dates of both parties.

By keeping proper books and records, a charity should be able to discharge its evidentiary burden of establishing that its principal-agent relationship existed in fact, and that it maintained effective direction and actual control over its resources at all times. In the final analysis, the true test of whether a charity was responsible in a direct, effectual, and constant manner over its resources and activities is not shown by how well it has crafted an agreement but rather, how well it has

implemented it over time. Therefore, it is incumbent upon the Organization to show that it has properly implemented any agreement it claims is in place.

Where a registered charity chooses to administer one or more of its activities through an appointed agent or representative, it must be able to substantiate, by documentary evidence, that it has arranged for the conduct of certain specific activities on its behalf and not simply made an outright transfer of funds to a non-qualified donee. The Organization must also be able to demonstrate to the CRA's satisfaction that it at all times maintains control and full accountability over the use of its monies transferred to the agent.

In order to meet the definition of a charitable organization under paragraph 149.1(1)(b) of the *Act*, a registered charity must devote all of its resources to charitable activities carried on by it. In order to view an organization as carrying on its own charitable activities, it is necessary that an employee or agent of the organization carry on the charitable activities.

If a charity chooses to administer its work in this fashion, the conditions listed below must be met.

- The Organization should establish some sort of current, formal, written declaration which would state in each case that the organization or individual to be funded in this manner will be carrying out certain stated activities which the Organization wishes to see accomplished on its behalf during the term of the agreement.
- Each organization or individual so funded should provide some system of continuous and comprehensive documented reporting, including expense vouchers to the Organization (on at least a quarterly or semi-annual basis) concerning its ongoing activities, which are carried out on behalf of the Organization. Such written reports should be supplemented at least yearly by a financial report reflecting the use of funds transferred to the agent.
- The Organization's funds should remain apart from those of its representative so that the Organization's role in any particular project or endeavour is separately identifiable as its own charitable activity.
- Financial statements submitted in support of its annual Information Returns should provide a detailed breakdown of expenditures made in respect of its own charitable activities including those performed by its agents, and the names of all qualified donees to which funds have been gifted in the year covered by the Return.

It is the CRA's view that this type of reporting mechanism is necessary for the Charity to clearly demonstrate that it maintains an adequate level of control and accountability over the use of its funds. These reports would have to be kept with the Organization's other records and books of account at the address recorded with the CRA. Our publication RC 4106 entitled, *Registered Charities: Operating Outside Canada*, should be used by the Organization as a general guideline for charitable activities the Charity carries on outside Canada, and is available on our website at www.ccra-adrc.gc.ca/tax/charities.

Pursuant to paragraph 168(1)(b) of the Act, the Minister may, by registered mail, give notice to a registered charity that the Minister proposes to revoke its registration because it ceases to comply with the requirements of the Act related to its registration as such.

5. Debts Incurred by the Organization:

It appears that the organization borrowed funds during the audit period. The Organization is not allowed to incur debts other than debts "incurred for current operating expenses".

Subsection 149.1(4) of the Income Tax Act provides for revocation of registration of private foundation if it incurs debts other than debts for current operating expenses, debts incurred in connection with the purchase and sale of investments and debts incurred in the course of administering charitable activities.

Pursuant to paragraph 168(1)(b) of the Act, the Minister may, by registered mail, give notice to a registered charity that the Minister proposes to revoke its registration because it ceases to comply with the requirements of the Act related to its registration as such.

Conclusion

For each of the reasons indicated above, it appears to us that there are grounds for revocation of the charity's status as a registered charity.

The consequences to a registered charity of losing its registration include:

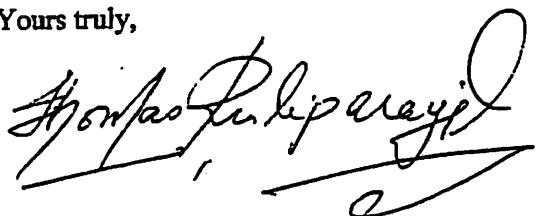
- (i) the loss of its tax exempt status as a registered charity which means that the charity would become a taxable entity under Part I of the *Income Tax Act*;
- (ii) loss of the right to issue official donation receipts for income tax purposes which means that gifts made to the charity would not be allowable as a tax credit to individual donors as provided at subsection 118.1(3) of the *Act* or as a deduction allowable to corporate donors under paragraph 110.1(1)(a) of the *Act*; and
- (iii) the possibility of a tax payable under Part V, subsection 188(1) of the *Act*.

If you do not agree with the facts outlined above, or if you wish to present any reasons why the Minister of National Revenue should not revoke the registration of The Geatwise Charity Fund in accordance with subsection 168(2) of the *Act*, you are invited to submit your representations within 30 days from the date of this letter. Subsequent to this date, the Director General of the Charities Directorate will decide whether or not to proceed with the issuance of a Notice of intention to revoke registration of the charity in the manner described in section 168 of the *Act*.

If you appoint a third party to represent you in this matter, please send us a written authorization naming that individual and explicitly authorizing that individual to discuss the Organization's file with us.

If you require further information, clarification, or assistance, please write to the undersigned
Tony P. Thomas at 166 Frederick Street, Kitchener, Ontario N2G 4N1 or by fax at (519) 585-
2804.

Yours truly,



Tony P. Thomas

Verification and Enforcement Division

Tax Services Office: 15 - Kitchener/Waterloo

Telephone: 519 - 896-3706

Facsimile: 519 - 585-2803

Address: 166 Frederick Street
Kitchener, ON N2G 4N1

Internet: www.cra.gc.ca