



REGISTERED MAIL

Miftahul-Uloom Canada
928 Danforth Avenue
Toronto ON M4J 1L9

BN: 89101 6248 RR 0001

Mr. Moulana Yusuf Patel, Vice President

May 4, 2007

**Subject: Revocation of Registration
Miftahul-Uloom Canada**

Dear Mr. Patel:

The purpose of this letter is to inform you that on April 28, 2007, the effective date of revocation, a notice revoking the registration of Miftahul-Uloom Canada (the "Organization") was published in the *Canada Gazette*. Effective on that date, the Organization ceased to be a registered charity.

As a result of the revocation of the Organization's registration, the Organization is no longer exempt from tax under Part I of the *Income Tax Act* (the "ITA") pursuant to section 149(1)(f) of the ITA as a registered charity. The consequences of the revocation of the Organization's registration are:

- 1) The loss of the Organization's tax-exempt status as a registered charity. Thus, according to section 150 of the ITA, the Organization must file a return of income with the Minister of National Revenue (hereinafter, the "Minister") that is in prescribed form and that contains prescribed information, without notice or demand for the return, for each taxation year of the Organization.
- 2) The Organization is no longer permitted to issue official donation receipts for income tax purposes. Gifts made to the Organization are not allowable as a tax credit to individual donors as provided by section 118.1(3) of the ITA or as a deduction for corporate donors under section 110.1(1)(a) of the ITA.
- 3) Under section 188 of the ITA, the Organization must, on or before the day in a taxation year that is one year from the date of the Notice of Intention to Revoke the Charity's registration,

- (a) pay a tax under Part V of the ITA for the year; and
- (b) file with the Minister a return, Form T2046 *Tax Return Where Registration of a Charity is Revoked*, (a copy of which is enclosed) in prescribed form and containing prescribed information, without notice or demand therefor.

Section 188(2) of the ITA stipulates that a person (other than a qualified donee) who receives an amount from the Organization is jointly and severally liable with the Organization for the tax payable under section 188 of the ITA by the Organization.

Furthermore, the organization will no longer qualify as a charity for purposes of subsection 123(1) of the *Excise Tax Act* (the "ETA"), effective 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. If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-888-830-7747 (Quebec) or 1-800-959-8287 (rest of Canada).

Should you have any questions regarding these matters, you may contact the undersigned at (613) 957-2212.

Yours sincerely,

Holly Brant
Audit Advisor
Compliance Section
Charities Directorate

Enclosure



JAN 05 2007

BY REGISTERED MAIL

Miftahul-Uloom Canada
928 Danforth Avenue
Toronto ON M4J 1L9

BN: 89101 6248 RR 0001

Attention: Mr. Moulana Yusuf Patel, Vice President

SUBJECT: Notice of Intention to Revoke
Miftahul-Uloom Canada

Dear Mr. Patel:

I am writing further to our letter dated July 12, 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 Miftahul-Uloom Canada (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "ITA"). As of this date, we still have not received any response to our letter.

Consequently, for each of the reasons mentioned in our letter dated July 12, 2006, I wish to advise you that, pursuant to the authority granted to the Minister in subsection 149.1(2) 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 in the *Canada Gazette* of the following notice:

Notice is hereby given, pursuant to paragraphs 168(1)(b), 168(1)(c), 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(2) and 149.1(2)(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
89101 6248 RR 0001	Miftahul-Uloom Canada 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:

.../2

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

Consequences of a Revocation

As of the date of revocation, 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, 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. If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-800-959-8287. For your reference, a copy of the relevant provisions of the ETA that apply to charities (Appendix "B") is also attached for your information.

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



REGISTERED MAIL

July 12, 2006

Miftahul-Uloom Canada
928 Danforth Avenue
Toronto ON M4J 1L9

BN: 891016248RR0001

File #:0990101

Attention: Moulana Yusuf Patel (Vice President)

Dear Mr. Patel:

**Re: Audit of Registered Charity Information Returns
For the years ended 2002/10/31, 2002/12/31 and 2003/12/31**

This letter is further to the audit of the books and records of the Miftahul-Uloom Canada (hereinafter, the "Charity"). The audit related to the operations of the Charity for the fiscal periods indicated above.

The audit has raised serious concerns about the Charity's compliance with certain provisions of the *Income Tax Act* (hereinafter, the "Act") and its Regulations. For a registered charity to retain its registration, it must comply with the provisions of the Act applicable to registered charities. If a particular registered charity does not comply with these provisions, the Minister may revoke that charity's registration in the manner described in section 168 of the Act. The balance of this letter describes how the Canada Revenue Agency (hereinafter, the "CRA") considered that the Charity contravened the Act.

1) Charitable Activities

Registered Objective

The Charity's registered objective is to establish a cultural, religious and educational centre to serve the Muslim Community, particularly in Toronto, and other communities in North America in general as the Academy of Islamic Education. At the time of registration, the Charity intended to purchase a site of approximately 60 to 75 acres to build a building to carry out its activities.

Current Objectives and Activities

The information provided during the audit states, "the primary objective of Miftahul-Uloom Canada is to promote the religion of Islam, its culture and traditions and to help

Canada

Muslims to carry out Islamic activities in pursuance of Islam and Islamic education as a complete way of life." The various activities included radio program, and various fundraising programs and events. Refer to the enclosed copy of the Charity's response to our questionnaire (Appendix "A").

We have not received any response to our query letters of November 9, 2005 and February 8, 2006 in which we requested additional information and documentation regarding the Charity's activities. Based on the information available we cannot determine if the Charity's activities discussed below are charitable and in accordance with its registered objectives.

Radio Programs

In regards to the radio programs, CRA's requests for copies of videos, audiotapes or CD ROMs were unanswered. Therefore, we could not determine if the radio programs carried out pertain to the Charity's registered objectives. Any funds received and expended for the radio programs would not be considered resources devoted to a charitable activity carried on by the Charity itself.

Building Project

The Balance Sheet dated December 31, 2003, indicates the Charity had deposits on hand of \$160,415 for the building. It is our understanding the said property is located at 6508 Winston Churchill Blvd. in Mississauga and in October 2002, the Charity gave \$70,000 as down payment towards this property. The Charity did not provide the pertinent documents requested by CRA therefore, we could not verify if the Charity owned this property or the status of this project. Any funds received and expended for the building project would not be considered resources devoted to a charitable activity carried on by the Charity itself.

Time Shares

It is our understanding that the Charity agreed to accept donations of time-share weeks and issue tax receipts in amounts appraised at the fair market value. These time-share weeks were to be re-marketed and sold, and the cash proceeds were to be used by the Charity for its charitable purpose. From the information available, we could not determine the amounts the Charity received or spent from the sale of the time-share weeks.

Under paragraph 168(1)(b) of the Act, the Minister, may by registered mail give notice to the organization that he proposes to revoke its registration because it ceases to comply with the requirements of the Act related to its registration as such. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

2) Disbursement Quota

Registered charities are required in each year of operation to meet or exceed a disbursement quota. This quota relates to expenditures that must be made during the year and that are of a charitable nature. In the case of a charitable organization, the Act stipulates that this minimum annual disbursement quota is equal to eighty percent of the prior year's officially receipted donations less certain types of gifts received (paragraph 149.1(2)(b) of the Act). When a charitable organization fails to expend its disbursement quota in any taxation year, either on charitable activities carried on by it and by way of gifts made by it to qualified donees, the Minister may, in the manner described in section 168 of the Act, revoke the charitable organization's registration.

A charity is allowed by virtue of 149.1(20) of the Act to offset any shortfalls in its disbursement quota by applying any excesses in its disbursement quota from its immediately preceding taxation year and 5 or less of its immediately subsequent taxation years. In order to do so, however, the charity would have to show unequivocally that all the expenditures claimed in those years were in fact charitable expenditures.

Based on the facts stated above, the expenditures recorded by Miftahul-Uloom Canada are not considered to be expenditures devoted to a charitable activity carried on by Miftahul-Uloom Canada itself as Miftahul-Uloom Canada has engaged in activities which have not been substantiated by documentary evidence or otherwise.

Therefore under paragraph 168(1)(b) of the Act, the Minister, may by registered mail give notice to the charity that he proposes to revoke its registration because it ceases to comply with the requirements of the Act related to its registration as such. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

3) Books and Records

Subsection 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 a charity to accurately provide CRA with the information required by the Act as well as enable the CRA to verify the accuracy of reported information through the conducting of audits.

Subsection 230(4) also states that, "every person required by this section to keep books of account shall retain:

- (a) the records and books of account referred to in this section in respect of which a period is prescribed, together with every account and voucher necessary to verify the information contained therein, for such period as is prescribed; and
- (b) all other records and books of account referred to in this section, together with every account and voucher necessary to verify the information contained therein, until the expiration of six years from the end of the last taxation year to which the records and books of account relate.”

A charity is not meeting its requirement to maintain adequate books and records if it fails to exercise due care with respect to ensuring the accuracy thereof.

The audit indicated the Charity does not maintain proper books and records. The source documents in support of the bank statements, financial statements and the Charitable Information Returns were incomplete. As a result, it appears the internal controls supporting these records are inadequate. The audit indicated the charity maintained records at locations other than the address as recorded with CRA, records were missing and the Charity maintained no segregation of duties. As a result, we have been unable to confirm the accounting of receipts and the charitable nature of expenditures as reported by the Charity.

Under paragraph 168(1)(e) of the Act, the Minister may, by registered mail, give notice to a registered charity that he proposes to revoke its registration if it fails to comply with or contravenes subsection 230(2) of the Act dealing with books and records. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

4) Official Donation Receipts

The law provides various requirements with respect to the issuing of official donation receipts by registered charities. These requirements are contained in Regulations 3500 and 3501 of the Act and are described in some detail in Interpretation Bulletin IT-110R3 *Gifts and Official Donation Receipts*.

The Charity did not provide CRA with copies of all official donation receipts issued for the period November 1, 2001 to December 31, 2003. Therefore, it appears the Charity did not retain all copies of the official donation receipts as required by paragraph 230(2)(b) of the Act. Our review of the official donation receipts provided revealed the following areas of non-compliance with Income Tax Regulation 3501:

- Paragraph 18 of the Interpretation Bulletin IT-110R3 states the charity must control the use of its receipts. From the review of the listings provided, it appears the Charity did not meet this requirement as the receipts were not issued in sequential order, and not all of the receipts were accounted for.

Under paragraph 168(1)(d) of the Act, the Minister may, by registered mail, give notice to a registered charity that he proposes to revoke its registration if it issues an official donation receipt otherwise than in accordance with the Act. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

5) T3010 Information Returns

Pursuant to subsection 149.1(14) of the Act, every registered charity must, within six months from the end of the charity's fiscal period (taxation year), without notice or demand, file a Registered Charity Information Return with the applicable schedules.

It is the responsibility of the Charity to ensure that the information that is provided in its Return, schedules and statements, is factual and complete in every respect. A charity is not meeting its requirement to file an Information Return if it fails to exercise due care with respect to ensuring the accuracy thereof.

Miftahul-Uloom Canada improperly completed the Information Return for the fiscal periods ending 2002/10/31; 2002/12/31 and 2003/12/31 in that many items reported were incorrectly identified or omitted. Specifically:

- Schedules A, B and C of the Information Return for the fiscal years ended 2002/10/31 and 2002/12/31 were incomplete. Schedules A, B and C for the fiscal year ended 2003/12/31 were missing.
- Tax receipted revenue reported on the Returns for the period ending 2002/12/31 was overstated by \$5,112;
- Tax receipted revenue reported on the Returns for the period ending 2003/12/31 was overstated by \$30,496;
- Line 705 and 706 (2002/10/31) did not indicate the fair market value of the time share weeks received as gifts in kind;
- Section C12 and F4 for the period ending 2003/12/31 did not indicate the Charity's receipt of time share weeks received as gifts in kind or the value of the gifts in kinds received;
- Line 5000 (2003) failed to indicate the Charity's expenditures on charitable programs.

As you are aware, registered charities are no longer required to calculate their disbursement quota on the Charity Information Return. The disbursement quota and any excess/shortfall is now calculated by the Charities Directorate based on information in the charity's return and provided to the charity in a Notice of Confirmation. However, calculation of the 2003/12/31 disbursement excess/shortfall would not be possible since the level of expenditure on charitable activities (line 5000) was unknown.

It is a charity's responsibility to ensure that the information that is provided in its Return, schedules and financial statements, are accurate and complete in every respect. Please refer to Schedules A, B, C and a copy of the enclosed taxable receipts issued listing for the period November 1, 2002 to December 31, 2002.

Under subsection 168(1)(c) of the Act, the Minister may revoke the registration of a charity if it fails to comply with the rules relating to reporting and keeping proper records. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

6) Filing of T3010 Information Returns on Time

Subsection 149.1(14) of the Act requires every registered charity to file a Registered Charity Information & Public Information Return, (form T3010A), without notice or demand, within six months from the end of each fiscal period. This Return must be in prescribed form and contain prescribed information. A review of the Charity's filing history indicates:

<u>T3010 Date</u>	<u>Date received</u>	<u>Days of lateness</u>
2003/12/31	2004/12/20	173 days
2002/12/31	2004/04/15	289 days
2002/10/31	2003/07/03	64 days
2001/10/31	2002/08/16	108 days

As of this date the Return for the fiscal period ended 2004/12/31 has not been filed.

It should also be noted that the Charity has previously been informed about the importance of the filing deadline.

Under paragraph 168(1)(c) of the Act, the Minister may, by registered mail, give notice to a registered charity that he proposes to revoke its registration if it fails to file an information return as and when required under the Act or a Regulation. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

Conclusion

For each of the reasons listed above in its own right, it appears that there are grounds to revoke the Miftahul-Uloom Canada status as a registered charity. The consequences to a registered charity losing its registration include:

1. The loss of its tax exempt status as a registered charity which means that the Miftahul-Uloom Canada would become a taxable entity under Part I of the Act provided it does not qualify as a non-profit organization as described in paragraph 149(1)(l) of the Act;
2. Loss of the right to issue official donation receipts for income tax purposes which means gifts made to the Miftahul-Uloom Canada 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;
3. The possibility of a tax payable under Part V, section 188 of the Act; and
4. The loss of Miftahul-Uloom Canada's status as a charity for purposes of subsection 123(1) of the *Excise Tax Act* (hereinafter, the ETA), which means that
 - its supplies will no longer be exempt from the Goods and Services Tax/Harmonized Sales Tax (hereinafter, the "GST/HST") under Part V.1 of Schedule V to the ETA;
 - it may, if not currently, have to register for GST/HST purposes under subsection 240(1) of the ETA;
 - it may no longer calculate its net tax for GST/HST purposes using the calculation method set out under subsection 225.1(2) of the ETA;
 - it will no longer qualify for the public service body rebate under subsection 259(3) of the ETA as a charity; and
 - it may be subject to obligations and entitlements under the ETA that apply to organizations other than charities.

For your reference, we have attached (Appendix "B") a copy of the relevant provisions of the *Income Tax Act* concerning revocation of registration and the tax applicable to revoked charities as well as appeals against revocation. The relevant ETA provisions are also attached (Appendix "C"). If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-800-959-8287.

If you do not agree with the facts outlined above, or if you wish to present reasons why the Minister of National Revenue should not revoke the registration of the Miftahul-Uloom Canada in accordance with subsections 168(1) and 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 Charity's file with the Canada Revenue Agency.

Should you have any questions regarding these matters, you can contact the undersigned at (416) 954-4384.

Yours truly,



Amy Sidhu
Audit Division
1213-443-2-7

CC: Manzur Pirzada



JAN 05 2007

BY REGISTERED MAIL

Miftahul-Uloom Canada
928 Danforth Avenue
Toronto ON M4J 1L9

BN: 89101 6248 RR 0001

Attention: Mr. Moulana Yusuf Patel, Vice President

SUBJECT: Notice of Intention to Revoke
Miftahul-Uloom Canada

Dear Mr. Patel:

I am writing further to our letter dated July 12, 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 Miftahul-Uloom Canada (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "ITA"). As of this date, we still have not received any response to our letter.

Consequently, for each of the reasons mentioned in our letter dated July 12, 2006, I wish to advise you that, pursuant to the authority granted to the Minister in subsection 149.1(2) 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 in the *Canada Gazette* of the following notice:

Notice is hereby given, pursuant to paragraphs 168(1)(b), 168(1)(c), 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(2) and 149.1(2)(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
89101 6248 RR 0001	Miftahul-Uloom Canada 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:

.../2

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

Consequences of a Revocation

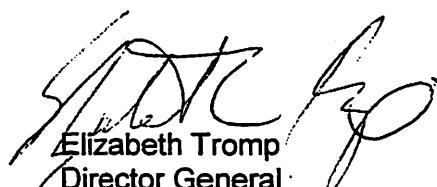
As of the date of revocation, which is the date upon which the above-noted notice is published in the *Canada Gazette*, the Charity will no longer be exempt from Part I Tax as a registered charity and will no longer be permitted to issue official donation receipts.

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, 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. If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-800-959-8287. For your reference, a copy of the relevant provisions of the ETA that apply to charities (Appendix "B") is also attached for your information.

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Yours sincerely,



Elizabeth Tromp
Director General
Charities Directorate

REGISTERED MAIL

July 12, 2006

Miftahul-Uloom Canada
928 Danforth Avenue
Toronto ON M4J 1L9

BN: 891016248RR0001
File #:0990101

Attention: Moulana Yusuf Patel (Vice President)

Dear Mr. Patel:

**Re: Audit of Registered Charity Information Returns
For the years ended 2002/10/31, 2002/12/31 and 2003/12/31**

This letter is further to the audit of the books and records of the Miftahul-Uloom Canada (hereinafter, the "Charity"). The audit related to the operations of the Charity for the fiscal periods indicated above.

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1) Charitable Activities

Registered Objective

The Charity's registered objective is to establish a cultural, religious and educational centre to serve the Muslim Community, particularly in Toronto, and other communities in North America in general as the Academy of Islamic Education. At the time of registration, the Charity intended to purchase a site of approximately 60 to 75 acres to build a building to carry out its activities.

Current Objectives and Activities

The information provided during the audit states, "the primary objective of Miftahul-Uloom Canada is to promote the religion of Islam, its culture and traditions and to help

Muslims to carry out Islamic activities in pursuance of Islam and Islamic education as a complete way of life." The various activities included radio program, and various fundraising programs and events. Refer to the enclosed copy of the Charity's response to our questionnaire (Appendix "A").

We have not received any response to our query letters of November 9, 2005 and February 8, 2006 in which we requested additional information and documentation regarding the Charity's activities. Based on the information available we cannot determine if the Charity's activities discussed below are charitable and in accordance with its registered objectives.

Radio Programs

In regards to the radio programs, CRA's requests for copies of videos, audiotapes or CD ROMs were unanswered. Therefore, we could not determine if the radio programs carried out pertain to the Charity's registered objectives. Any funds received and expended for the radio programs would not be considered resources devoted to a charitable activity carried on the by the Charity itself.

Building Project

The Balance Sheet dated December 31, 2003, indicates the Charity had deposits on hand of \$160,415 for the building. It is our understanding the said property is located at [REDACTED] [REDACTED] Blvd. in Mississauga and in October 2002, the Charity gave \$70,000 as down payment towards this property. The Charity did not provide the pertinent documents requested by CRA therefore, we could not verify if the Charity owned this property or the status of this project. Any funds received and expended for the building project would not be considered resources devoted to a charitable activity carried on the by the Charity itself.

Time Shares

It is our understanding that the Charity agreed to accept donations of time-share weeks and issue tax receipts in amounts appraised at the fair market value. These time-share weeks were to be re-marketed and sold, and the cash proceeds were to be used by the Charity for its charitable purpose. From the information available, we could not determine the amounts the Charity received or spent from the sale of the time-share weeks.

Under paragraph 168(1)(b) of the Act, the Minister, may by registered mail give notice to the organization that he proposes to revoke its registration because it ceases to comply with the requirements of the Act related to its registration as such. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

2) Disbursement Quota

Registered charities are required in each year of operation to meet or exceed a disbursement quota. This quota relates to expenditures that must be made during the year and that are of a charitable nature. In the case of a charitable organization, the Act stipulates that this minimum annual disbursement quota is equal to eighty percent of the prior year's officially received donations less certain types of gifts received (paragraph 149.1(2)(b) of the Act). When a charitable organization fails to expend its disbursement quota in any taxation year, either on charitable activities carried on by it and by way of gifts made by it to qualified donees, the Minister may, in the manner described in section 168 of the Act, revoke the charitable organization's registration.

A charity is allowed by virtue of 149.1(20) of the Act to offset any shortfalls in its disbursement quota by applying any excesses in its disbursement quota from its immediately preceding taxation year and 5 or less of its immediately subsequent taxation years. In order to do so, however, the charity would have to show unequivocally that all the expenditures claimed in those years were in fact charitable expenditures.

Based on the facts stated above, the expenditures recorded by Miftahul-Uloom Canada are not considered to be expenditures devoted to a charitable activity carried on by Miftahul-Uloom Canada itself as Miftahul-Uloom Canada has engaged in activities which have not been substantiated by documentary evidence or otherwise.

Therefore under paragraph 168(1)(b) of the Act, the Minister, may by registered mail give notice to the charity that he proposes to revoke its registration because it ceases to comply with the requirements of the Act related to its registration as such. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

3) Books and Records

Subsection 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 a charity to accurately provide CRA with the information required by the Act as well as enable the CRA to verify the accuracy of reported information through the conducting of audits.

Subsection 230(4) also states that, "every person required by this section to keep books of account shall retain:

- (a) the records and books of account referred to in this section in respect of which a period is prescribed, together with every account and voucher necessary to verify the information contained therein, for such period as is prescribed; and
- (b) all other records and books of account referred to in this section, together with every account and voucher necessary to verify the information contained therein, until the expiration of six years from the end of the last taxation year to which the records and books of account relate."

A charity is not meeting its requirement to maintain adequate books and records if it fails to exercise due care with respect to ensuring the accuracy thereof.

The audit indicated the Charity does not maintain proper books and records. The source documents in support of the bank statements, financial statements and the Charitable Information Returns were incomplete. As a result, it appears the internal controls supporting these records are inadequate. The audit indicated the charity maintained records at locations other than the address as recorded with CRA, records were missing and the Charity maintained no segregation of duties. As a result, we have been unable to confirm the accounting of receipts and the charitable nature of expenditures as reported by the Charity.

Under paragraph 168(1)(e) of the Act, the Minister may, by registered mail, give notice to a registered charity that he proposes to revoke its registration if it fails to comply with or contravenes subsection 230(2) of the Act dealing with books and records. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

4) Official Donation Receipts

The law provides various requirements with respect to the issuing of official donation receipts by registered charities. These requirements are contained in Regulations 3500 and 3501 of the Act and are described in some detail in Interpretation Bulletin IT-110R3 *Gifts and Official Donation Receipts*.

The Charity did not provide CRA with copies of all official donation receipts issued for the period November 1, 2001 to December 31, 2003. Therefore, it appears the Charity did not retain all copies of the official donation receipts as required by paragraph 230(2)(b) of the Act. Our review of the official donation receipts provided revealed the following areas of non-compliance with Income Tax Regulation 3501:

- Paragraph 18 of the Interpretation Bulletin IT-110R3 states the charity must control the use of its receipts. From the review of the listings provided, it appears the Charity did not meet this requirement as the receipts were not issued in sequential order, and not all of the receipts were accounted for.

Under paragraph 168(1)(d) of the Act, the Minister may, by registered mail, give notice to a registered charity that he proposes to revoke its registration if it issues an official donation receipt otherwise than in accordance with the Act. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

5) T3010 Information Returns

Pursuant to subsection 149.1(14) of the Act, every registered charity must, within six months from the end of the charity's fiscal period (taxation year), without notice or demand, file a Registered Charity Information Return with the applicable schedules.

It is the responsibility of the Charity to ensure that the information that is provided in its Return, schedules and statements, is factual and complete in every respect. A charity is not meeting its requirement to file an Information Return if it fails to exercise due care with respect to ensuring the accuracy thereof.

Miftahul-Uloom Canada improperly completed the Information Return for the fiscal periods ending 2002/10/31; 2002/12/31 and 2003/12/31 in that many items reported were incorrectly identified or omitted. Specifically:

- Schedules A, B and C of the Information Return for the fiscal years ended 2002/10/31 and 2002/12/31 were incomplete. Schedules A, B and C for the fiscal year ended 2003/12/31 were missing.
- Tax receipted revenue reported on the Returns for the period ending 2002/12/31 was overstated by \$5,112;
- Tax receipted revenue reported on the Returns for the period ending 2003/12/31 was overstated by \$30,496;
- Line 705 and 706 (2002/10/31) did not indicate the fair market value of the time share weeks received as gifts in kind;
- Section C12 and F4 for the period ending 2003/12/31 did not indicate the Charity's receipt of time share weeks received as gifts in kind or the value of the gifts in kinds received;
- Line 5000 (2003) failed to indicate the Charity's expenditures on charitable programs.

As you are aware, registered charities are no longer required to calculate their disbursement quota on the Charity Information Return. The disbursement quota and any excess/shortfall is now calculated by the Charities Directorate based on information in the charity's return and provided to the charity in a Notice of Confirmation. However, calculation of the 2003/12/31 disbursement excess/shortfall would not be possible since the level of expenditure on charitable activities (line 5000) was unknown.

It is a charity's responsibility to ensure that the information that is provided in its Return, schedules and financial statements, are accurate and complete in every respect. Please refer to Schedules A, B, C and a copy of the enclosed taxable receipts issued listing for the period November 1, 2002 to December 31, 2002.

Under subsection 168(1)(c) of the Act, the Minister may revoke the registration of a charity if it fails to comply with the rules relating to reporting and keeping proper records. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

6) Filing of T3010 Information Returns on Time

Subsection 149.1(14) of the Act requires every registered charity to file a Registered Charity Information & Public Information Return, (form T3010A), without notice or demand, within six months from the end of each fiscal period. This Return must be in prescribed form and contain prescribed information. A review of the Charity's filing history indicates:

<u>T3010 Date</u>	<u>Date received</u>	<u>Days of lateness</u>
2003/12/31	2004/12/20	173 days
2002/12/31	2004/04/15	289 days
2002/10/31	2003/07/03	64 days
2001/10/31	2002/08/16	108 days

As of this date the Return for the fiscal period ended 2004/12/31 has not been filed.

It should also be noted that the Charity has previously been informed about the importance of the filing deadline.

Under paragraph 168(1)(c) of the Act, the Minister may, by registered mail, give notice to a registered charity that he proposes to revoke its registration if it fails to file an information return as and when required under the Act or a Regulation. For this reason, it appears to us that there are grounds for revocation of the charitable status of Miftahul-Uloom Canada.

Conclusion

For each of the reasons listed above in its own right, it appears that there are grounds to revoke the Miftahul-Uloom Canada status as a registered charity. The consequences to a registered charity losing its registration include:

1. The loss of its tax exempt status as a registered charity which means that the Miftahul-Uloom Canada would become a taxable entity under Part I of the Act provided it does not qualify as a non-profit organization as described in paragraph 149(1)(l) of the Act;
2. Loss of the right to issue official donation receipts for income tax purposes which means gifts made to the Miftahul-Uloom Canada 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;
3. The possibility of a tax payable under Part V, section 188 of the Act; and
4. The loss of Miftahul-Uloom Canada's status as a charity for purposes of subsection 123(1) of the *Excise Tax Act* (hereinafter, the ETA), which means that
 - its supplies will no longer be exempt from the Goods and Services Tax/Harmonized Sales Tax (hereinafter, the "GST/HST") under Part V.1 of Schedule V to the ETA;
 - it may, if not currently, have to register for GST/HST purposes under subsection 240(1) of the ETA;
 - it may no longer calculate its net tax for GST/HST purposes using the calculation method set out under subsection 225.1(2) of the ETA;
 - it will no longer qualify for the public service body rebate under subsection 259(3) of the ETA as a charity; and
 - it may be subject to obligations and entitlements under the ETA that apply to organizations other than charities.

For your reference, we have attached (Appendix "B") a copy of the relevant provisions of the *Income Tax Act* concerning revocation of registration and the tax applicable to revoked charities as well as appeals against revocation. The relevant ETA provisions are also attached (Appendix "C"). If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-800-959-8287.

If you do not agree with the facts outlined above, or if you wish to present reasons why the Minister of National Revenue should not revoke the registration of the Miftahul-Uloom Canada in accordance with subsections 168(1) and 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 Charity's file with the Canada Revenue Agency.

Should you have any questions regarding these matters, you can contact the undersigned at (416) 954-4384.

Yours truly,



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Audit Division
1213-443-2-7

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