

NEW AGE

New Age International Foundation
c/o J. Norman Macleod, Director
[REDACTED]

69831
P. Robert
Tel. [REDACTED]

Attention: J. Norman Macleod
President

April xx, 1990

Dear Sir:

Re: Charity Tax Audit

A number of months ago, an audit of the books and records of account of New Age International Foundation (the "Foundation") was conducted by a representative of Revenue Canada, Taxation from the Edmonton office of the Audit Services Bureau. The audit related to the operations of the Foundation for its fiscal periods ended February 28, 1987 and 1988.

The audit results indicate that the Foundation may be 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 by a particular registered charity, the Minister of National Revenue may revoke its registration in the manner described in subsection 168(2) of the Act.

Charitable Activities

It appears that the activities undertaken by the Foundation were not pursuant to its objects as accepted when registered as a charitable organization. Information reviewed during the audit indicates that the foundation's purpose is to prepare against the end of civilization and ensure that there will be certain basic necessities available to people at that time. This purpose was considered to not be charitable when the Foundation had originally requested registered status as indicated by the attached Department's letter of November 1, 1984.

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In order for a registered charity to retain its registered status, it is required to comply with the requirements of the Act relative to its registration as such. If it ceases to comply with these requirements, the Minister of National Revenue may give notice to a registered charity that he proposes to revoke its registration as provided by paragraph 168(1)(b) of the Act.

Books and Records

The audit of the Foundation could not be adequately completed by the Audit Services Bureau auditor because the books and records of the account of the Foundation were inadequate for purposes of the Act. The Foundation did not maintain accounting records, bank accounts were not balanced, and negotiated cheques were not available for audit. In addition, no documentation was available to support an official receipt for \$7,000 issued by the President to himself on December 31, 1986. These deficiencies contravene subsection 230(2) of the Act which requires every registered charity to keep proper books and records of account including a duplicate of each receipt containing prescribed information for a donation received by the it at an address in Canada recorded with the Minister or designated by the Minister in such form and containing such information as will enable the donations to it that are deductible under the Act to be verified.

I must remind you that in order for a registered charity to retain its registered status, it is required to comply with 230(2) of the Act. If the registered charity fails to comply with or contravenes any of the sections 230 to 231.5, the Minister may give notice to the registered charity that he proposes to revoke its registration as provided by paragraph 168(1)(e) of the Act.

Official Donation Receipts

Audit evidence indicates that the Foundation issued official donation receipts that were not in compliance with section 3501 of the Income Tax Regulations (the "Regulations"). Section 3501 of the Regulations deals with the content of official donation receipts. The following deficiencies in the content of the Foundation's official receipts were noted:

- a) It appears that the Foundation does not indicate the address of the donor on the official donation receipts. Paragraph 3501(1)(g) of the Regulations requires that every official receipt indicate the name and address of the donor.
- b) It appears that the Foundation does not indicate on the receipt that it is an official receipt for income tax purposes as required by subsection 3501(1) of the Regulations.

Pursuant to paragraph 168(1)(d) of the Act, the Minister may give notice to a registered charity that he proposes to revoke its registration when it issues a receipt for a gift or donation otherwise than in accordance with the Act and Regulations or that contains false information.

Benefits to members

Audit results indicate that part of the Foundation's income was used to pay for the living expenses of the President and Treasurer of the Foundation. Subparagraph 149.1(1)(b)(ii) of the Act defines a charitable organization meaning an organization no part of the income of which is payable to, or otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settlor thereof.

In order for a registered charity to retain its registered status, it is required to comply with the requirements of the Act relative to its registration as such. If it ceases to comply with these requirements, the Minister of National Revenue may give notice to a registered charity that he proposes to revoke its registration as provided by paragraph 168(1)(b) of the Act.

Disbursement Quota

Concurrently, it also appears that the Foundation does not comply with paragraph 149.1(2)(b) of the Act which states that a charitable organization must expend in any taxation year, on charitable activities carried on by itself and by way of gifts to qualified donees, amounts that, in the aggregate, are at least equal to its disbursement quota as described under paragraph 149.1(1)(e)(i) of the Act. The Department does not consider the Foundation's purpose and activities to be charitable and therefor maintains that the Foundation has never met its disbursement quota.

Pursuant to paragraph 149.1(2)(b) of the Act, where a registered charity fails to satisfy its disbursement quota, the Minister may give notice that he proposes to revoke its registration in the manner described under section 168 of the Act.

Conclusion

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

1. the loss of its tax exempt status as a registered charity which means that the Foundation would become a taxable entity under Part I of the Income Tax Act unless, in the opinion of the Director of the applicable District Taxation Office, it qualifies as a non-profit organization as described under paragraph 149(1)(1) of the Act;

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2. loss of the right to issue official donation receipts for income tax purposes which means that gifts made to the Foundation would not be allowable as a tax credit to individual donors as provided by 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,
3. the possibility of tax exigible under Part V, subsection 188(1) of the Act.

Enclosed is a copy of Information Circular No. 80-10R entitled "Registered Charities: Operating a Registered Charity" for your reference. Please note Appendices C and D which describe the provisions of the Income Tax Act concerning revocation of registration, the tax applicable to revoked charities and the appeal provisions from the Minister's issuance of a notice of intention to revoke a registered charity's registration.

If you do not agree with the above, or if you wish to present your reasons as to why the Minister of National Revenue should not revoke the registration of the Foundation in accordance with subsection 168(2) of the Act, you are invited to submit your representations to me by June xx, 1990. Subsequent to this date we intend to determine whether or not to recommend to the Director General, Registration Directorate that she should proceed with the issuance of a notice of intention to revoke the registration of the Foundation in the manner described in subsection 168(1) of the Act.

If you appoint a third party to represent you in this matter, please notify us in writing.

If you have any questions on these matters, please contact Philippe Robert at [REDACTED] or write to 400 Cumberland Street, Room 5004C, Ottawa, Ontario, K1A 0L8.

Yours sincerely,

R.J. Macdonald
Chief
Audit Section
Registration Directorate

Enclosures