

FALSE CONFIDENCE

Frequently, witnesses told the Sub-Committee of their surprise when Revenue Canada reassessed them. The Sub-Committee has commented above on the ill-advised practice of a four-year reassessment in certain circumstances and implementation of the recommendations in this regard should minimize both the surprise and financial impact of reassessments.

There is one further measure that is also needed. In the Sub-Committee's opinion, the initial Notice of Assessment sent to all taxpayers subsequent to filing each year is seriously deficient in alerting them to both the nature of the Notice and the extensive powers of the department. The design of the form is a major problem. For example, the name "Assessment" implies that an active check of the return has been completed and the contents generally accepted. In fact, at this stage, the department has conducted only a numerical check and it can proceed with a detailed assessment at any time in the next four years. The words "No balance remains to be paid by you or refunded to you" on some forms or "AS DECLARED" on other forms also lead taxpayers to conclude that they have an acceptable return.

At the bottom of the form in very small, albeit heavy type are the words "Important - See Reverse". Taxpayers who do read the very small print on the back still may not understand the implications of the information contained there because of its indirect and vague wording and not realize that their returns may be audited in the future.

The Sub-Committee has concluded that the Notice of Assessment form should be redesigned, beginning with the name. The form should clearly state that it is merely an initial confirmation or correction of taxpayers' arithmetic and that the department has the statutory right to examine the return in detail for four years, and indefinitely in the case of fraud or misrepresentation. This latter information appears on the form now, but it is oblique. Most important, the form should state this information in clear, emphatic language so that the significance can be immediately understood.

RECOMMENDATION

- 29. That the form currently entitled "Notice of Assessment" be redesigned so that taxpayers will be adequately informed about the nature of the form and the powers of Revenue Canada to assess in detail at a later time.**

DONATIONS

Visual artists told the Sub-Committee that the tax treatment of donations of their own work to charity is unfair and offers them no incentive to donate. They compared their situation to that of collectors. Collectors will receive a charitable receipt for the full market value of the donation allowing them to deduct the full dollar amount in most cases.

On the income side, because the donation is considered capital property, collectors will take into income only half the amount by which the work of art has appreciated in value since the time of purchase. Collectors thus have a tax incentive to contribute to charity: the full fair market value is deductible; only half the capital gain is taxable.