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CANADIAN TAX FOUNDATION

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Seventh Annual Report

FOR THE YEAR ENDING
DECEMBER 31st, 1952

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McGILL UNIVERSITY

CANADIAN TAX FOUNDATION

BOARD OF GOVERNORS ELECTED

MARCH 26th, 1953

F. L. Bastedo, Q.C.	- - - - -	Regina
F. A. Coffey, C.A.	- - - - -	Montreal
E. M. Davison, C.A.	- - - - -	Halifax
H. A. Dyde, Q.C.	- - - - -	Edmonton
A. J. Hamilton, C.A.	- - - - -	Edmonton
T. A. M. Hutchison, F.C.A.	- - - - -	Toronto
Robert Leith, C.A.	- - - - -	St. John's
J. A. MacAulay, Q.C.	- - - - -	Winnipeg
R. de W. MacKay, Q.C.	- - - - -	Montreal
R. W. Manning, C.A.	- - - - -	Charlottetown
J. S. McVicar, C.A.	- - - - -	Vancouver
D. R. Michener, Q.C.	- - - - -	Toronto
William Murphy, Q.C.	- - - - -	Vancouver
B. B. Osler, Q.C.	- - - - -	Toronto
Lazarus Phillips, Q.C.	- - - - -	Montreal
A. E. Pierce, C.A.	- - - - -	Montreal
David Reevey, C.A.	- - - - -	Saint John
C. S. Richardson, Q.C.	- - - - -	Montreal
G. G. Richardson, C.A.	- - - - -	Toronto
L. McC. Ritchie, Q.C.	- - - - -	Saint John
Maurice Samson, C.A.	- - - - -	Quebec
Guy W. Smith, F.C.A.	- - - - -	Toronto
Andre Taschereau, Q.C.	- - - - -	Quebec
Stuart D. Thom	- - - - -	Toronto
J. Ross Tolmie	- - - - -	Ottawa
Jean Valiquette, C.A.	- - - - -	Montreal
Henry F. White	- - - - -	Toronto
John Willis	- - - - -	Halifax
J. A. Wilson, F.C.A.	- - - - -	Toronto
William Young, C.A.	- - - - -	Winnipeg
Chairman	- - - - -	T. A. M. Hutchison, F.C.A.
Vice-Chairman	- - - - -	R. deW. MacKay, Q.C.
Secretary-Treasurer	- - - - -	R. M. Sedgewick, Jr.
Executive Director	- - - - -	Monteath Douglas
Director of Research	- - - - -	J. Harvey Perry

INCOME AND EXPENSE
FOR THE YEARS ENDED 31ST DECEMBER, 1952 and 1951

	31 December 1952	31 December 1951
INCOME:		
Subscriptions received	\$ 79,715.00	\$ 69,715.00
Interest received	782.34	1,010.36
	<hr/>	<hr/>
	\$ 80,497.34	\$ 70,725.36
EXPENSE:		
Salaries	49,016.22	42,291.77
Publications (net)	11,569.25	11,199.03
Special studies	4,961.26	3,133.05
Office rent	2,857.20	2,707.20
General office expense	2,771.67	1,952.32
Travelling expense and entertainment	2,523.20	3,398.10
Conference expense (net)	1,773.96	3,060.88
Printing, stationery and office supplies	1,623.46	1,822.80
Books and periodicals	1,229.70	1,322.56
Postage and excise	1,195.68	1,101.92
Telephone and telegraph	1,026.77	959.46
	<hr/>	<hr/>
	\$ 80,548.37	\$ 72,949.09
Depreciation	555.16	464.21
	<hr/>	<hr/>
	\$ 81,103.53	\$ 73,413.30
EXCESS OF EXPENSE OVER INCOME FOR THE YEAR -	<u>\$ 606.19</u>	<u>\$ 2,687.94</u>

NOTE:

The Foundation has made commitments, as at the 31st December, 1952, amounting to \$3,500.00 in connection with the publication of books on taxation matters.

AUDITOR'S REPORT TO THE MEMBERS

I have made an examination of the books and accounts of the Canadian Tax Foundation for the year ended 31st December, 1952, and have obtained all the information and explanations which I have required. My examination included a general review of the account procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances. I report that, in my opinion,

TORONTO, 5th March, 1953.

**UNEXPENDED INCOME
FOR THE YEARS ENDED 31ST DECEMBER, 1952 and 1951**

	31 December 1952	31 December 1951
UNEXPENDED INCOME AT BEGINNING OF PERIOD	\$ 36,585.39	\$ 44,273.33
Excess of Expense over Income for the year - - -	606.19	2,687.94
Transfer to M. L. Gordon Fellowship Fund - - -	—	5,000.00
	606.19	7,687.94
UNEXPENDED INCOME AT END OF PERIOD		
For continuation and extension of the Foundation's activities - - - - -	\$ 35,979.20	\$ 36,585.39
REPRESENTED BY:		
Cash on hand and in banks - - - - -	\$ 19,566.07	8,497.70
Investment—Crown Trust Company		
Guaranteed Investment Receipt 3½% - - -	15,000.00	25,000.00
Furniture and Office equipment - - -	\$ 5,551.64	
Less: Reserve for depreciation - - -	1,854.13	3,254.17
	\$ 38,263.58	\$ 36,751.87
Less: Accounts payable - - - - -	2,284.38	166.48
	\$ 35,979.20	\$ 36,585.39

**M. L. GORDON FELLOWSHIP FUND
FOR THE YEARS ENDED 31ST DECEMBER, 1952 and 1951**

FELLOWSHIP FUND REPRESENTED BY CASH IN BANK AT BEGINNING OF PERIOD	\$ 5,000.00	—
Transfer from unexpended income - - - - -	—	\$ 5,000.00
Interest received on bank deposit - - - - -	81.15	—
	\$ 5,081.15	\$ 5,000.00
Fellowship Payment - - - - -	500.00	—
FELLOWSHIP FUND REPRESENTED BY CASH IN BANK AT END OF PERIOD	\$ 4,581.15	\$ 5,000.00

the above comparative financial statement is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Foundation as at 31st December, 1952, and the results of its operations for the year ended on that date, according to the best of my information, the explanations given to me, and as shown by the books of the Foundation.

G. Y. ORMSBY,
Chartered Accountant.

Report of the Chairman of the Board of Governors

*to the Seventh Annual General Meeting of
Canadian Tax Foundation
March 26, 1953*

In the Canadian Tax Foundation, as in many other Canadian enterprises, the past year has been a period of growth, expanding activity and forward planning.

It is my privilege to present this report on behalf of a Board of Governors representing every Province, some of whom cannot be here today. I should therefore begin by saying that the progress that we now put on record is the result of a collective effort in which the Foundation's staff here in Toronto, and the Foundation's members in all parts of the country, have worked together to make our joint undertaking more productive. I have no doubt that the coming year will show the same experience. Development from the experimental regime that governed the Foundation's first five years to the status of a full-fledged, permanent organization is well advanced but is still going on.

While the progress of this collective effort is particularly apparent, and particularly necessary, in respect of membership and financial support across the country, I am not thinking only of this aspect of our affairs. It is equally apparent in such matters as the attendance at the annual tax conference, the response of members to requests for help and advice in various phases of the Foundation's work, the interest shown in published material and work in progress, in communications to the Foundation's office, and in the attention that our work is attracting outside Canada.

Any Canadian organization established on a national basis and dependent on voluntary support faces the danger that it may end up in highly centralized formation, with the central office coming to be regarded as the exclusive province of a few officers who are in a position to decide what goes on. The Foundation is not free from this danger and we should always do all we can

to counteract it. Speaking as a Governor from Montreal I can affirm that our colleagues in Toronto have always been consciously determined to prevent it, and to maintain a view of the Foundation's affairs that accords with the national standing of the sponsoring bodies, the Canadian Bar Association and the Canadian Institute of Chartered Accountants.

These considerations speak for themselves when the Foundation's members from all parts of Canada meet at the annual tax conference, but I think they deserve the emphasis of first mention in this report to the Annual General Meeting.

Before I review the Foundation's affairs and activities during the past year, I must pay tribute to the memory of the late Dr. Clifford Clark and his distinguished service as Canada's Deputy Minister of Finance for twenty years. The Foundation had many dealings with Dr. Clark. Whether he agreed or disagreed with us, he never failed to encourage our work, particularly in the earliest stages when it was beginning and before he could know how it would turn out. Dr. Clark's scrupulous appreciation of his responsibilities as a government officer excluded any question of favour towards the Foundation, but his interest was keen and constructive and it communicated his own high standards of public service.

Membership

The Foundation now has 280 corporate subscribers, compared with 133 at the time of last year's Annual Meeting, and 890 individual members, compared with 800. The fact that the number of our corporate subscribers has more than doubled during the year is particularly gratifying because the increase has come from all parts of the country and from all types of enterprise, reflecting a much broader basis of support than we enjoyed a year ago. I shall have something more to say about the Foundation's financial position in a later part of this report, but I wish to acknowledge here our gratitude to Mr. Calvin and the members of his Finance Committee, and to the members of regional sub-com-

mittees who have worked under his leadership during the year, to whom we owe these encouraging results.

At the present time considerably more people are receiving and using the Foundation's material than these figures alone would indicate. Our mailing list today shows over 1,750 individual names. In part this reflects the fact that some of our corporate subscribers are business associations contributing collectively on behalf of their members on the understanding that each receives the privileges of membership. It also reflects our policy of distributing the Foundation's publications on a complimentary basis on request to any organization that can be classified as a government agency or an educational institution, or that is maintained at the public expense. This policy extends to similar organizations outside Canada, from whom we are constantly receiving fresh enquiries. We intend to review this policy after a further year's experience when we shall decide whether the new *Canadian Tax Journal* should continue to be treated as an organ addressed primarily to the Foundation's members or whether it should be put on a basis of public circulation and annual subscription. In the meantime we consider that complimentary distribution on the above basis is consistent with the Foundation's objective of public education, and we are pleased to see this evidence of the increasing interest and utility of our material.

Submissions to Government

Continuing the practice initiated three years ago, the Foundation convened a special committee to meet in Ottawa last May to review the Bill to amend the Income Tax Act as soon as it was introduced, and submitted the committee's observations to the Minister of Finance before second reading, with copies to all our members. Three recommendations were made, one being adopted before the legislation proceeded and the others being acknowledged by the tax authorities for future reference if the provisions in question should prove to be troublesome. We have again made similar arrangements this year, and the corresponding committee

will in fact meet in Ottawa tomorrow to review the Bill that was introduced earlier this week.

In June, following reference of the 1952-53 Estimates to the Senate Standing Committee on Finance, the Foundation was invited to appear as a witness and by request submitted a memorandum on *Distribution of the Tax Burden*, reviewing the combined operation of taxes levied by all governments in Canada, which was reproduced as an appendix to the Senate Committee's Report.

The Committee's request followed mention in the Foundation's Annual Report last year of our consideration of a project to investigate the incidence of taxation in Canada. I should therefore say in this connection now that the very heavy indicated cost of this investigation, coupled with the amount of time that the staff would be obliged to devote to it over a period of possibly two or three years, decided us to postpone any such plans until the Foundation's financial position might allow them to be handled by assignment to a group of outside workers retained on a research fee basis. Our consideration of this proposal also showed that a survey of tax incidence in Canada today would have to include a good deal of guess-work respecting the effect of corporation taxes and consumption taxes, which would limit the results obtainable.

In accordance with the working arrangements now established between the Foundation and the Joint Taxation Committee representing the two sponsoring Associations, the Foundation's staff participated in preparation of the Joint Committee's annual brief on the Income Tax Act which was submitted to the tax authorities last January. This year no conclusions arising out of the preceding tax conference were due for incorporation in the joint brief. But the Foundation's attention during the year had been directed, among other things, to two questions of recognized difficulty that were covered in it, namely, the treatment of bond interest between coupon dates and the disallowance of so-called "reserves", and it is encouraging to note the recent Budget state-

ment that both of these questions are receiving attention in the current amending legislation. When we see the Income Tax Bill we shall know what success has attended other recommendations submitted this year or previously.

Foundation's Working Arrangements with Parent Associations

In view of the references just made, it is perhaps desirable at this point to describe in some detail the division of responsibility between the Foundation and the Joint Taxation Committee of the parent Associations respecting submissions under the Income Tax Act, and the Foundation's wider responsibilities in other respects. I have reason to believe that the position is not entirely clear to all our members, and we can now add another year's experience.

The Joint Taxation Committee is composed of representatives of the Taxation Section of the Canadian Bar Association and the Legislation Committee of the Canadian Institute of Chartered Accountants. Its function is to receive each year the views and recommendations of provincial taxation committees appointed by both professions and to present an annual brief to the tax authorities on their behalf, representing the experience of accountants and lawyers as practitioners under the Income Tax Act. This Committee therefore has the responsibility of speaking on the federal income tax for both professions jointly and directly, and it deals with all matters on which professional experience furnishes conclusive grounds of recommendation.

The Foundation, on the other hand, is not an agency or spokesman of the sponsoring Associations, having its own wider terms of reference, independent status and permanent staff. On income tax problems the Foundation therefore takes responsibility by agreement with the Joint Taxation Committee for work to be done or recommendations to be made on any question that requires treatment from a different angle than professional experience, or more extended study than the Joint Committee is in a position to undertake. On all phases of taxation outside this

specialized field, the Foundation takes full responsibility for studies and recommendations, as well as the concurrent objective of public education.

On this understanding, the Foundation collaborates with the Joint Committee in the preparation of the latter's annual income tax brief, contributing its own observations and findings and supporting it through the annual tax conferences and by arrangements for review of new legislation in the manner already mentioned.

Explanation of this working relationship may sound complicated, but it operates well because it corresponds with the resources available for the work to be done. It has developed in a practical pattern that is appropriate to the internal organization of each profession on the one hand and of the Foundation on the other. It represents a functional division of effort directed to common objectives between people who understand each other and can work together, the members of the Joint Taxation Committee being as a rule members, if not Governors, of the Foundation. It has also developed logically from the circumstances in which the Foundation originated, for it was the Joint Taxation Committee as it was constituted in 1945 that produced the first plans for the Foundation and furnished its first officers.

I am taking this opportunity of reviewing this relationship because six years have now passed since the Foundation started, and it is desirable that working arrangements which have evolved by experience should be clearly understood by our increasing circle of new members and others who may be interested. The possible advantages of consolidating the functions of the Joint Taxation Committee with those of the Foundation in the latter's hands have been considered more than once, but it is the conclusion thus far that it is preferable to maintain distinct functions and identities on the basis here described. As in certain features of the British constitution, if I may use this illustration, precedent and convenience have produced an arrangement that no one deliberately

planned on paper, and one that is well suited to the practical objectives of all concerned.

Perhaps I might sum the matter up in terms which I used when I was invited and privileged to say a few words about the Foundation last week in Washington at a banquet given by the American Institute of Accountants in honour of the new Commissioner of Internal Revenue, their Past President, Mr. Coleman Andrews. I explained that control of the Canadian Tax Foundation by the two sponsoring Associations is not a device of professional representation, but that it came about for less obvious and more interesting reasons, which are, *first* that the experience and public responsibilities of the two professions made them aware of the benefit of this enterprise in the public interest; and *second*, that their national organization and standing enabled them to initiate and establish it in a way that would ensure its competence and independence. Consequently, I added that the Foundation's only duties to the parent bodies are to carry out faithfully the functions entrusted to it, and to promote understanding between lawyers and accountants in taxation matters as opportunities occur. And as regards the Board of Governors, I pointed out that while we are nominated to office as practising members of our professions, we endeavour to conduct the Foundation's affairs primarily as responsible citizens. I am sure my colleagues endorse this account of our undertaking, and I wish that all of them had been able to share its gratifying reception by our American friends.

Other Principal Activities in 1952

Research Studies

The Foundation again engaged the services of Mr. John F. Due, Professor of Economics at the University of Illinois, to undertake a survey and report on *Provincial Retail Sales Taxes*, following his study of the General Manufacturers Sales Tax in 1951. This study was commissioned with a view to the possible future consequences of increasing pressure on provincial revenue sources,

and in order to develop additional information concerning the whole field of indirect taxation in this country about which very little has been known until the Foundation turned its attention to it. Mr. Due travelled across the country during the summer and received friendly and interested assistance from the Provincial authorities. His report was received before the year-end, and is now in process of publication for distribution to the Foundation's members and for sale to the public. We are again grateful to Mr. Due for his prompt and expert work.

This has been the only major study undertaken during the year by an outside expert specially retained by the Foundation. The growth of our own permanent staff has led to an increasing proportion of work done in the Foundation's office. A substantial part of the results has appeared in the *Tax Bulletin* in one form and another. This increased internal capacity is one of the reasons that has led to promotion of the former *Bulletin* to the *Canadian Tax Journal* which, as members have observed from the first issue two months ago, is a much more ambitious publication.

Of the many matters that have engaged the staff's attention during the past year the following deserve special mention. The conclusion of new Tax Agreements between the Federal and Provincial Governments permitted completion of an introductory study of federal-provincial fiscal relations, entitled *Financing Canadian Federation*, which is now being printed and will presently appear under the joint authorship of Mr. Moore and Mr. Perry as No. 6 of the *Canadian Tax Papers* series.

For purposes of the sixth tax conference a series of data papers was distributed to all members, representing the result of studies carried on for several months beforehand to which certain members contributed generously. One of these data papers, as you will recall, dealt with the *Federal Tax Programme* and reviewed the prospective factors which would determine the 1953 Budget. This budget preview was a new departure which attracted wide public

interest and contributed to informed discussion in the press and elsewhere. This study has since been followed by a further data paper reviewing the *1953 Budget*, which reached our members recently and was also sent with the Foundation's compliments to all Members of Parliament. The latter has likewise had an excellent reception, outside requests for several hundred copies already requiring a second printing.

As a separate matter, which I mention because members may not see much direct evidence of it, I should also report that the Foundation's staff has been making a comparative study, which is still going on, of the progress and results of official enquiries undertaken since the war into the operation of the income tax in the United Kingdom and other British Dominions. This is being done primarily as a matter of internal information.

Brief mention of these subjects serves, I think, to illustrate the scope and character of the work in which the Foundation's staff is regularly engaged. A complete review would require detailed reference to all material published during the year, with which I assume our members are already acquainted.

Sixth Tax Conference

Last year's conference, which was again held in Montreal, attracted the largest attendance and some of the most interesting contributions that we have had so far. The printed report was distributed within six weeks. The material relating to taxation and the defence programme appears to have been widely consulted by other organizations in the preparation of their own submissions on government policy, and it was, of course, intended to be so used. Another new departure last year was a plenary session devoted to *Current Tax Highlights* which focused attention on troublesome features and potential developments in the income tax encountered by members in the course of the year. As the tax conference occurs in the fall, midway between the last season and next season of amending legislation, there is much to be said for making this review a regular annual feature. At the conclusion

of the meeting it was announced that the seventh conference will be held next November 23 and 24 in Winnipeg.

Study Groups

The Foundation naturally desires to get the fullest benefit of members' views and advice, particularly through the organization of study groups when the subject matter lends itself to this treatment and does not duplicate or conflict with the activities of taxation committees appointed by the sponsoring Associations on their own account. There are, of course, other limiting factors, one of which is the timing of work to be done according to the requirements of the Foundation's programme, especially during the summer. For these reasons we have fewer opportunities than we would welcome.

Last December, groups were organized in Halifax, Winnipeg and Vancouver to advise on the substance and treatment of a review of *Business Income and Taxable Income* as this question stands under the Income Tax Act today, following the decision to devote the next tax conference to it and to publish preparatory data papers beforehand. These groups have already sent in helpful memoranda, and the Foundation's staff is preparing to start work on this subject now.

May I repeat a standing invitation to members in any part of the country to come forward at any time with proposals regarding possible study group projects that they would be interested to undertake with assistance from the Foundation's office. Whether or not the proposal concerns the Foundation's current programme, the staff will welcome it and will contribute all possible facilities. As regards the Foundation's initiative, the Executive Director and his associates will continue to submit such projects to members on all occasions when they can profitably do so.

Publications

Following the publication of Mr. J. Harvey Perry's *Taxation*

in Canada by the University of Toronto Press under the Foundation's sponsorship last year, Dr. J. R. Petrie's *Taxation of Corporate Income in Canada* has appeared as the second item in this series. The third title in the same series will be *The Meaning of Income*, being a comparative study of the British and Canadian statutes and case law by Dr. F. E. LaBrie, which is now on the point of publication. The fourth title will be Mr. Perry's *History of Canadian Taxation*, which is a sequel to his first book, and the manuscript has been delivered to the publishers. As *Taxation in Canada* was sold out in less than a year, I am glad to add that it will soon be available again in a second edition, revised up to date of the 1953 federal Budget.

Public Education

Public education, in the broadest sense, is one of the Foundation's primary objectives. It is, of course, served directly by publications and reports in the manner already indicated, and by increasing recognition by people in teaching, journalism and public life, that the Foundation is a source of expert and disinterested information available to all comers. In addition to service of this character, which is increasing in scope, and will undoubtedly increase much further with more experience within the Foundation and wider recognition outside, individual members of the staff have undertaken a wide variety of speaking and writing assignments in the course of the year in addition to — or perhaps I should say, as part of — their regular work. Though much of this activity goes unpublicized, it is recognized by the staff as one of the most effective ways of carrying out the Foundation's function in this regard and it is welcomed by them as a responsible obligation.

In this part of my report, it also gives me pleasure to say that the first award of the M. L. Gordon Fellowship was decided last May in favour of Mr. Calvin C. Potter of McGill University who qualified for a Senior Fellowship. He is engaged on a thesis on

Accountancy: A Tool of Economic Policy. Offer of the second award has been communicated for this year to all Canadian universities, and the results will be announced on May 15 next.

Staff

The Foundation's staff is now complete, according to the plans of permanent organization approved last year. Mr. Harvey Perry was appointed Director of Research on July 1. He immediately became such an essential and familiar figure in all our activities, being already well acquainted with many of us, that the time for welcoming him is now long past. But this report should record our satisfaction that he is now with us, and our warm appreciation of the friendly attitude of his former associates in the Department of Finance when one of their most experienced senior officers joined the Foundation's staff with their good wishes. Early this year Mr. Roger Carswell was appointed Statistician and Assistant to the Research Director, following several years service with the Dominion Bureau of Statistics where he was dealing particularly with government accounts. We welcome him, with the same expression of sentiments in his regard. With Mr. Milton Moore, who joined the staff as Research Associate nearly two years ago, the Foundation therefore now has an expert research group of three men, whose combined experience and capacity is, I am sure, unmatched anywhere in Canada.

The staff all told, including the three Stenographers, Librarian, Editorial Assistant, Office Manager and Assistant Treasurer, and Executive Director, now numbers ten people. While we should continue to engage the services of outside experts for special assignments as our programme requires and as funds permit, and to employ part-time workers when we can advantageously do so, this line-up represents a well balanced team exactly suited to the Foundation's requirements in the light of six years experience. As the requirements are exacting it has taken that time to reach this position. Collectively the Foundation's staff represents the

basic working asset of our organization which, as a unit, could not be improvised nor, perhaps, replaced. I emphasize this consideration because it marks the real maturity of our whole undertaking and is, from this standpoint, the most encouraging feature of progress during the past year.

Office Premises

The lease of our former premises at 4 Carlton Street was due to terminate in April of this year, and the Foundation had outgrown them. We are indebted to some of our own members for the opportunity to take over an unexpired lease having three years to run on the new premises at 191 College Street to which the Foundation's office was moved at the year end. For the time being our new office arrangements are satisfactory, but more space may be necessary later.

Finance

Attached as an appendix to this report is a statement entitled *Projected Requirements of Permanent Organization* showing the Foundation's estimated financial requirements *pro forma* on an average year-to-year basis at current levels of costs. This statement was approved by the Executive Committee last July as a guide to our financial plans, having been carefully worked out in the light of experience and considered by the test of maximum utility per dollar of operating cost. As a guide to the future, this statement corresponds today with the initial budget estimates projected six years ago when the Foundation was started within the limits of an experimental trial-run, and that initial estimate is now exactly doubled. It provides, in brief, for:

Permanent staff - - - - -	\$ 64,500
Outside research fees and expenses	12,000
Publications (net) - - - - -	15,000
Operation of office - - - - -	14,500
Travel and Committees - - - - -	7,000
Other functions and contingencies -	<hr/> 7,000
	\$120,000

A large or pretentious organization is not desirable, but the Foundation should be qualified and equipped to meet the tax authorities in any jurisdiction on terms of equal competence and responsibility, and to measure up to the requirements and expectations of the public as a national institution for the study of Canadian fiscal affairs. Our financial calculations are justified by our confidence that the Foundation can make good this claim.

In the current year operating expenses will be at least \$100,000, some of the above items being reducible for the time being. This prospect compares with expenses of \$80,000 last year, almost exactly balanced by income. At the end of the year the accumulated reserve of unexpended income from previous years stood at \$36,000, and this reserve should be increased rather than depleted. I do not intend to trespass on the Treasurer's Report, but in submitting my account of the Foundation's affairs today I would be guilty of complacency if I neglected to state these facts clearly. They mean, in brief, that the Foundation's annual income must be increased by at least \$20,000 this year, and by \$40,000 on a longer view of the future.

Six years ago, generous assurance of support from the founding subscribers established the basis of the Foundation's present position. Today, the recognized standing and record of performance that they made possible enables the Foundation to invite much wider corporate support on grounds of demonstrated benefit to the public interest. The number of new subscribers enrolled last year is an impressive endorsement of our plans for the future, and I wish to thank all our subscribers for their interest and support, which encourage us to proceed with confidence.

Changes on the Board of Governors

The following members of the Board will retire this year:

T. V. Burke, C.A.	- - - - -	Montreal
A. G. Burton, C.A.	- - - - -	Calgary
C. C. Calvin, Q.C.	- - - - -	Toronto
K. LeM. Carter, F.C.A.	- - - - -	Toronto
F. M. Covert, Q.C.	- - - - -	Halifax
J. B. McEvoy, Q.C.	- - - - -	St. John's
D. A. McIntosh, Q.C.	- - - - -	Toronto
G. A. Sharp, C.A.	- - - - -	Montreal
W. G. Smith, F.C.A.	- - - - -	Regina
H. H. Stikeman, Q.C.	- - - - -	Montreal
M. G. Teed, Q.C.	- - - - -	Saint John

On behalf of all the Foundation's members, I acknowledge the valued help that we have received from these gentlemen and express the thanks of this meeting to them. Their retirement from office does not mean that they retire from the Foundation's activities and we look forward to their continued association with our work. The following have been nominated, in accordance with the By-laws, by the President of the Canadian Bar Association and the President of the Canadian Institute of Chartered Accountants, to take their place:

F. L. Bastedo, Q.C.	- - - - -	Regina
F. A. Coffey, C.A.	- - - - -	Montreal
A. J. Hamilton, C.A.	- - - - -	Edmonton
Robert Leith, C.A.	- - - - -	St. John's
B. B. Osler, Q.C.	- - - - -	Toronto
G. G. Richardson, C.A.	- - - - -	Toronto
L. McC. Ritchie, Q.C.	- - - - -	Saint John
Stuart D. Thom	- - - - -	Toronto
Jean Valiquette, C.A.	- - - - -	Montreal
Henry F. White	- - - - -	Toronto
John Willis	- - - - -	Halifax

Acknowledgements

It is now my pleasure to express the appreciation of the Tax Foundation to all members of the staff for their unswerving loyalty and outstanding service. Were it not so we would not be able to report a year of some considerable progress. I may be permitted to express my personal debt to our very able Executive Director, Mr. Monteath Douglas. Without him I would not have been able to fulfil my responsibilities in the past year. I wish also to thank the present Board of Governors for their active support and co-operation, and with them Mr. Henry F. White, who has served the Foundation as Secretary-Treasurer for six years. All of these gentlemen have given much time to the Foundation's business at considerable personal sacrifice. I know they will want me to convey to the incoming Board our very best wishes for the ensuing year.

On behalf of the Board,

LAZARUS PHILLIPS

Chairman.

Appendix to Chairman's Report

**PROJECTED REQUIREMENTS
OF
PERMANENT ORGANIZATION**

PROJECTED REQUIREMENTS OF PERMANENT ORGANIZATION

Pro forma estimates on an average year-to-year basis,
1953 and thereafter, as approved by the
Executive Committee, July 9, 1952

Regular Staff \$64,500

Provision is made at current rates of salary for a minimum regular staff comprising an Executive Director; a Director of Research with two assistants in the research group, one having the position of Research Associate and the other of Assistant and Statistician; an Office Manager having the duties of Assistant Treasurer and Conference Secretary, etc.; and Editorial Assistant having charge of publications; a Librarian; and three Stenographers. The amount shown makes no provision for salary increases, which cannot be estimated in advance. But it includes provision for a Staff Pension Fund, which had no place in the Foundation's first five-year experimental phase but is appropriate to a permanent organization.

Research Fees and Expenses \$12,000

This item combines estimated provision for research fees and expenses of outside workers commissioned to undertake special studies, and for remuneration of part-time workers engaged from universities during summer months or on leave of absence. In the nature of the case these expenditures will vary considerably from year to year. The amount stated represents an assumed average.

Publications (Net) \$15,000

The Foundation publishes on its own account the *Canadian Tax Journal*, *Canadian Tax Papers*, and *Occasional Papers*, which are issued to members and subscribers in consideration of membership privileges and are distributed, subject to change of policy, free of charge on request to educational organizations, government departments, and institutions maintained at the public

expense. Publication of larger studies is arranged through regular commercial channels, with the Foundation's sponsorship and participation in costs of production. This item makes provision in both respects, net after proceeds of sales, and includes the cost of all complimentary distributions.

Operation of Office.....\$14,500

Lease of present office expires December 31, 1955. Present estimates of permanent requirements thereafter assume 2,400 feet, to include board room and library, at \$3.00 per foot. The balance of \$7,300 covers office supplies, postage, telephone, telegraph, etc., and all usual overhead items.

Travel.....\$7,000

This item covers provision for travel by officers and staff, and by members authorized on the Foundation's business. The latter includes expenses of working parties convened by the Foundation in Ottawa or elsewhere on the basis that Governors and members give their services without remuneration but are entitled to reimbursement of expenses incurred on the Foundation's behalf. As a national organization, the scope of the Foundation's interests and activities extends across Canada.

Other Functions.....\$4,700

These comprise the net expense of the annual tax conference, operation of the Foundation's library, and annual provision for grants in aid of research at the rate initiated by the M. L. Gordon Fellowship.

Total of Foregoing Items.....\$117,700

While the above amounts do not represent a firm budget for a given year they show the staff, organization and resources required to carry the Foundation's work effectively and economically. They are closest possible estimates at current costs with no margin or provision for reserves. The total can therefore be stated in round figures:.....\$120,000

Report of the Executive Director

*Submitted to the Seventh Annual General Meeting
of the Canadian Tax Foundation
March 26, 1953*

A year ago the statement that I submitted to the Annual Meeting was an account of the Foundation's progress during its first five years, ending with a ten-point programme for the future. It was a long statement because it marked a turning-point in our organization and looked both backwards and forwards, from successful experiment to permanent operation. This year I will stick to my immediate responsibilities and will make it shorter. The time to check the ten points has not yet come.

As the Chairman's Report covers the past year perhaps I should try to say what is going to happen in the year ahead. But our work cannot be segregated on an annual basis like the profits of a business. I will therefore simply report on the principal matters that are now engaging our attention. It will, of course, be understood that I am speaking subject to decisions of the Board of Governors elected at today's Meeting.

Before talking about our programme, may I revert to a feature of the Foundation's present position already mentioned by the Chairman which affects all our plans. For the first time we now have a self-contained establishment in terms of staff. This means that the progress of the Foundation's work is now less dependent on assignment of special projects to outside experts. We are equipped to handle the greater part of it ourselves. This is true not only as regards the size of the staff—although a group of ten people is not in fact at all large in relation to the Foundation's functions and objectives—but more particularly as regards collective experience and training.

A quick review of all the material that the Foundation has issued so far in one form and another would show a substantial

proportion from the hands of experts outside our organization who have been commissioned to do things for us with more or less assistance on our part. At the same time, the home-grown product, so to speak, has been increasing steadily to the point now marked by the appearance of the *Canadian Tax Journal* and the recent *Budget Supplement*. As the Foundation is not a literary society I cite our publications simply as a visible index of what has been happening. The same thing has been going on in other directions—in preparatory work for the tax conferences, in review of tax legislation, in growing volume of enquiries and information supplied, and so on. It is reflected in our budget by a relative decline in external expenditure. This means also that while our operating costs have gone up they represent an increasing investment in acquired experience by the Foundation's permanent staff. In short, the home-grown product is now our chief stock-in-trade.

I believe it would be a mistake to conclude from this that the Foundation should in future discontinue arrangements with outside experts. On the contrary, the condition just described will enable us to engage their services even more profitably in coordination with our own activities. From the standpoint of some of the things we may want to do, there are certain projects that can only be undertaken as sub-contracts. Investigation of tax incidence in Canada has already been discussed; another example is a survey of provincial-municipal relations by Provinces across the country. From the standpoint of our wider objectives, it is part of the Foundation's business to encourage, and if necessary to initiate, useful research in fiscal affairs by competent authorities at the universities and elsewhere in circumstances where it may not otherwise go on.

Outside studies will thus continue to be an essential element of the Foundation's future programme. My present point is that we are no longer dependent upon them as a condition of immediate results. For the coming year, therefore, when our operating costs will be substantially higher than they were last year, we can if necessary postpone such commitments.

For these reasons I make no further reference to any subject that should be dealt with as an outside study, and confine these remarks to work in progress in the hands of the Foundation's staff, with our members' participation where possible.

Speaking for everyone in the Foundation's office, I also subscribe here to the Chairman's observations about the dangers of too much centralization in our organization, which can lead in turn to the more insidious dangers of the ivory tower. We all realize that the informed and independent judgment that we try to cultivate can only develop by exposure to the experience and criticism of other people in business, the professions and public life.

The points that follow reflect these introductory considerations. They put the weight of the work to be done on the Foundation's staff. They anticipate a bigger role for the *Canadian Tax Journal* as a vehicle for the results of our work than was attached to the former *Tax Bulletin*, or than is ordinarily attached to publications of this character. They allow room for unforeseen developments and new matters of topical interest in the course of the year, because it would be a serious mistake to become completely tied up with preconceived commitments. And I am sure it will be understood that a programme summarized under major headings takes for granted concurrent duties arising out of the average day's business of the unexpected that is part of the life of a progressive enterprise.

Business Income and Taxable Income, and the Seventh Tax Conference.

As already announced, it is proposed that the programme of the Seventh Tax Conference next November will be centred on significant deviations from standard business practice in the rules of accounting required for income tax purposes, and we have already consulted groups of the Foundation's members in three cities regarding preparation and treatment of this large subject. Our present idea is to produce a series of short studies under sep-

arate headings which will be circulated in advance as data papers. We hope that these will interest and provoke opinions from members who cannot go to Winnipeg next November 23 and 24. We also hope that a programme so arranged will meet suggestions that we have received from various quarters that the agenda of the annual tax conference should put members who are not practising lawyers or accountants on a more equal footing of discussion with those who are. It is my own cautious opinion that members outside the two professions have sometimes been too modest on these occasions. Indeed, it has been suggested that we should deal with the subject of business income on the assumption that there are not two views to be reconciled, as between accountants and the Revenue, but three, with the business man's view between the other two, all subject to the impartial illumination of the law.

In preparing this subject we shall try to introduce the experience of other countries as well. We are in communication now with some of the Foundation's friends in the United Kingdom and the United States, and we already have a good deal of documentary material arising from the official income tax enquiries that have been held in other British Dominions since the war.

Depending on the amount of ground that we should try to cover during the next six months, this project may well occupy the main attention of the research staff, and may recommend employment of one or two extra people on a part-time basis during the summer.

General Sales Tax

This is a large matter, but I must deal with it summarily. Our consideration of the General Sales Tax started two years ago with Mr. John Due's study, which was the first comprehensive investigation of the subject ever made in Canada. It was carried forward by one of the sections of last year's tax conference whose report concluded as follows:

"By unanimous vote it was recommended that the Canadian Tax Foundation conduct an investigation to establish the principles upon which codification and administration of the Sales Tax can be based. The principles set out should include provision for constructive manufacturers' prices and should suggest a test of reasonable discount in the determination of such constructive prices."

This recommendation reflected the meeting's conclusive opinion that all the problems that have emerged from examination of the Sales Tax so far reflect the basic lack of clear principles in the legislation itself, so that nothing much can be done to improve it, either by statutory amendment or administrative action, without some fundamental thinking directed to entire re-writing of the Excise Tax Act.

The Foundation is therefore committed to this task by the initiative already taken. I also believe that we are the only organization in the country that is in a position to carry it out, not excluding government departments. For the situation is in complete contrast with the position of the Income War Tax Act in 1945 before work on the new Income Tax Act began. In that instance the experience of the professions and of the Department itself, sharpened by a hundred years of British case law, had produced a well defined sense of things that should be done and principles that should govern. But the Canadian Sales Tax until very recently has resembled a no-man's-land policed by the administration and otherwise unfrequented by tax practitioners. In both the business community and the professions, generally speaking, interest in the subject has not yet penetrated beneath the surface of compliance. The whole matter is still at the stage where experience both on the taxpayer's side and the government's must be elicited and understood before anyone can begin to talk about principles, and it is at this point that constructive work by the Foundation has to begin.

This work has already started with the help of some of our members. It is an interesting but tough assignment in which pro-

gress will be slow for the reasons just stated. It will certainly require much more time than can be given to it this year, and it is likely to take several years to bring to the point of agreed recommendations backed by informed and articulate opinion. As one of our advisers puts it, the important thing now is to keep the matter moving forward on the main issues, and prevent it from degenerating into disorganized pursuit of special enquiries.

Canadian Fiscal Data

At present, data on government finance in Canada has to be extracted from any one of a dozen different sources and many people when they want it don't know where to look for it. As a by-product of the material assembled for our own requirements in the Foundation's office we are therefore proposing to prepare and publish a year book on Canadian Government Finance which can be kept up to date and reproduced annually. This was, in part, Mr. Carswell's special field of work before he joined the Foundation early this year, and he is preparing a plan of lay-out and contents on which a decision to publish can be made.

A recognized source of reference, designed according to our own needs and our experience of enquiries received, will be serviceable and will encourage wider public awareness of essential facts of government which would be better known if they were easier to get hold of. We also believe that it will help to make the Foundation's work better known by exemplifying this side of our function.

These three projects are at a stage where definite reports or previews can be given now. As fresh matters develop the Foundation's members will be kept informed through the "*On the Record*" section of the *Journal*.

Canadian Tax Journal

Besides serving as a vehicle for work done in the Foundation's office, the *Journal* is intended to feature and encourage writing by our members, and contributions from other authorities in

Canada and abroad, which will make it a recognized organ of informed opinion in its field. We are much encouraged by the wide interest already shown.

I recently saw a statement by a distinguished American University President that this is a period of propaganda and publicity in which writers on public affairs know that people can be pleased or put under pressure, but no longer assume that people can think. This may be true in the creation of mass circulation and mass opinion, but as regards the readers to whom the *Canadian Tax Journal* is addressed our editorial policy is based on the opposite assumption. It is also based on the ordinary recognized rules of editorial responsibility. That is to say, we on the Foundation's staff who produce the *Journal* believe we have a duty and a right on occasion to express opinions which do not pretend to represent the agreed opinions of all the Foundation's members and will not be so interpreted.

There are, of course, no politics in the Foundation. Although taxation and fiscal policy are constantly at the centre of political debate, national housekeeping like domestic housekeeping is subject to certain cardinal facts and principles that are unaffected by political considerations. Our concern is with these facts and principles. While editorial opinion appearing on these matters in the *Canadian Tax Journal*, or opinions of individual members of the staff writing or speaking publicly on their own responsibility, will, I believe, be found moderate and judicious, our first rule is always that such opinion is completely disinterested and adheres to the same language and the same standards of judgment without regard to the results or prospects of political elections. The other day we were pleased to see a member of Parliament who was using some of our published material in a speech on the Budget preface his statement with the remark that the Canadian Tax Foundation is certainly a non-political organization. This reputation will not be maintained by silence, nor by attempts to please everybody. On the other hand, if we should lose it we would lose everything.

The Foundation's Responsibilities

In conclusion, may I be permitted to make a personal observation arising out of six years' experience as the Foundation's Executive Director.

The interest, in taxation, of the two professions who control the Foundation and of the business community who support it is naturally centred on income tax matters. This interest has been accentuated during the past six years by extensive revision and amendment of the federal statute, and the process of improvement must go on. The Foundation has taken an active and prominent part in this process and will continue to do so because the personal and corporation income tax together carry over half the federal revenue.

Now my observation is this. The professions and the business community are organized on their own account through various representative agencies to elicit and present agreed views on income tax matters that concern them. These representative agencies would function whether the Foundation existed or not, because, while we want them to benefit by our work, we do not aim to handle their business or to take their place. The Foundation's experience, on the other hand, has emphasized the absence of any responsible source other than itself from which informed and disinterested views can be looked for regarding other tax measures, or regarding wider problems of policy, jurisdiction and effects of taxation. This is well illustrated by the work that needs to be done on the General Sales Tax. As Canada has now reached a situation where taxes at all levels of government are being used for just about all they are worth, I believe that the Foundation has a special responsibility regarding all these matters that do not otherwise command attention. This view underlies the whole of my report today.

Conclusion

I have enjoyed the past year, and wish to take this opportunity

of expressing my sincere thanks to all the people with whom I have had the pleasure of working: to the Foundation's members in all parts of the country; to the Executive Committee and Board of Governors, and particularly Mr. Phillips and Mr. Hutchison, for their leadership, guidance and encouragement; and to all my associates at the Foundation's office who so well understand the work in which we are engaged.

Respectfully submitted,

MONTEATH DOUGLAS,

Executive Director.

THE Canadian Tax Foundation is a non-profit organization, established by the joint action of the Canadian Bar Association and the Canadian Institute of Chartered Accountants to encourage and undertake study in the field of taxation in Canada. Its work is directed towards the improvement and wider public understanding of the Canadian tax system.

The Foundation has no political affiliations and is not an advocate for any class or group of taxpayers. It is supported in the public interest by private donations.