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CANADIAN TAX FOUNDATION

ESTABLISHED BY THE JOINT ACTION
OF THE CANADIAN BAR ASSOCIATION
AND THE DOMINION ASSOCIATION
OF CHARTERED ACCOUNTANTS

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Fifth Annual Report

FOR THE YEAR ENDING
DECEMBER 31st, 1950

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CANADIAN TAX FOUNDATION

BOARD OF GOVERNORS ELECTED AT ANNUAL GENERAL MEETING 21st FEBRUARY 1951.

G. W. Auxier, K.C.	Edmonton
R. I. Balcom, C.A.	Halifax
T. V. Burke, C.A.	Montreal
A. G. Burton, C.A.	Calgary
C. C. Calvin, K.C.	Toronto
K. LeM. Carter, F.C.A.	Toronto
Rosaire Courtois, C.A.	Montreal
F. M. Covert, K.C.	Halifax
T. A. M. Hutchison, F.C.A.	Toronto
S. B. Laing, C.A.	Winnipeg
C. W. Leach, C.A.	Montreal
J. A. MacAulay, K.C.	Winnipeg
R. deW. MacKay, K.C.	Montreal
J. B. McEvoy, K.C.	St. John's
D. A. McIntosh.	Toronto
J. E. McIntosh, C.A.	Vancouver
H. L. McMackin, C.A.	Saint John
R. W. Manning, C.A.	Charlottetown
H. C. F. Mockridge, K.C.	Toronto
W. S. Owen, K.C.	Vancouver
L. Phillips, K.C.	Montreal
C. S. Richardson, K.C.	Montreal
G. A. Sharp, C.A.	Montreal
A. B. Shepard, F.C.A.	Toronto
W. G. Smith, F.C.A.	Regina
H. H. Stikeman.	Montreal
A. Taschereau, K.C.	Quebec
M. G. Teed, K.C.	Saint John
J. Ross Tolmie.	Ottawa
J. A. Wilson, F.C.A.	Toronto

HONORARY CHAIRMAN...M. L. Gordon, K.C.
CHAIRMAN.....K. LeM. Carter, F.C.A.
VICE-CHAIRMAN.....C. C. Calvin, K.C.
SECRETARY-TREASURER.....H. F. White
DIRECTOR.....Monteath Douglas

Report of the Chairman of the Board of Governors

Presented to the Members
at the Fifth Annual General Meeting of the
Canadian Tax Foundation.

This Annual Meeting takes place as the Canadian Tax Foundation is moving into its fifth year and marks an important stage in the progress of its affairs. When the Foundation was put on an active footing with the appointment of the Director on November 1, 1946, the Board of Governors had laid plans for an initial period of five years. It was felt that a shorter period would be insufficient to demonstrate the value of the organization, while a longer period would be beyond the commitments that the original subscribers could reasonably be asked to undertake.

Today, therefore, after I have discharged the Chairman's customary duty of reporting on the affairs of the past year, I propose to review the position which the Foundation has reached and from which we must now make our plans for the future. I shall do so in the confident, but by no means complacent, belief that the undertaking has proved its worth and has justified its name of a "Foundation", on which we can go on building.

Membership is a conventional index of growth. In the Foundation's case it is something more because the scope and value of our work depends directly on the participation of our members and their pooled contribution of professional knowledge and experience. In this respect the past year has been most encouraging. From the end of 1949 to date the roll of individual members has increased by well over fifty percent, from 458 to 756, and of corporate subscribers from 71 to 112. To new members and corporate representatives who are here today I wish to say on behalf of the Board that we welcome you and warmly appreciate your interest and support.

This increase in membership has come mainly from the Provinces of Ontario and Alberta and the Montreal area. The reason is that other members in these parts have been telling the Foundation's story. We hope to see a similar response in other parts of the country this year. No one need wait for an invitation to join the Foundation if he is interested, but most people expect some encouragement in a worthy cause. For this purpose I would commend the next issues of the *Canadian Bar Review* and the *Canadian Chartered Accountant* which by the courtesy of their respective

editors will carry an up-to-date account of what the Foundation has to offer to the public interest, to the Government, and to its own members. This article may also be read as a supplement to the second part of my report today, and off-prints will therefore be sent to all members in due course.

At last year's Annual Meeting the Director outlined an ambitious conception of the Foundation's function and a corresponding plan of operations, based on the experience of the first three years. Stated briefly, these plans envisaged the Foundation as a permanent factor in the process of tax legislation, representing through its membership a focus of professional experience of taxpayers' problems, and functioning as an agency of constructive and independent criticism to put the standpoint of the taxpayer opposite the standpoint of the Revenue. This meant that the Foundation should develop as something more than an organization devoted to tax research, research being indeed an essential element but being mainly directed to these practical objectives. It also meant that the Foundation's members would play an active part on a basis of give and take with the Foundation's staff. And as regards procedure it meant an extension of work through committees and study groups across the country leading to recommendations to the tax authorities, the annual tax conference providing an opportunity for periodic review and discussion of work in progress. At the same time it was recognized that the procedure and working arrangements would have to be developed more or less experimentally.

The Board of Governors approved this plan of operations and decided that the Foundation's primary object during the past year should be to establish it effectively in its main outline. Soon afterwards your Chairman and Vice-Chairman, with the Director, met the Minister of Finance and chief executive officers of the Departments of Finance and National Revenue in order to explain and discuss these intentions. Three points were stressed. First, the objective is a continuous system of review of tax legislation from which the Foundation expects to bring forward practical recommendations at any time in the year as conclusions on separate questions are reached and approved, and not necessarily or only in connection with the annual Budget. Second, the Foundation will be guided as far as possible by evidence received from its members both as regards priority of problems encountered by taxpayers and the suggested remedies for them. Third, no special privileges are expected from the tax authorities. We also made it clear that questions affecting special interests are to be left to the parties concerned

unless the evidence requires them to be taken up as questions of principle. These proposals were approved. Both Departments agreed that the objective was desirable and the function well conceived from their standpoint, and assured us that they would welcome constructive criticism and would co-operate in providing information that was available if the Foundation needed it.

These plans having been approved by the Board and cleared with the tax authorities of the Federal Government, it became the Director's responsibility to carry them out. As the Director's report will follow mine, I shall indicate the progress achieved as briefly as possible under the three headings of study groups, action on the Budget, and the Fourth Tax Conference.

Eleven study groups in all were projected last year. The reports of two were approved for submission to the Government directly; four were taken into the agenda of the Tax Conference, being circulated to members in advance; two more were held over for further study and fuller treatment of the subject matter; two have not submitted their final conclusions; and one did not get started. As this record shows, study groups do not work automatically, and we have learned some of the things that have to be done and some things that should be avoided in order to ensure successful results and, what is equally important, the satisfaction of the people who take part in them. I need not remind this Meeting, although I think that taxpayers should appreciate the fact, that this work is undertaken by experienced members of the two professions associated with the Foundation who serve without remuneration and find the time to do it amid the constant demands of their own practices. Therefore the results that we achieved in this respect last year should be regarded as encouraging, and I take this opportunity of expressing our thanks to all alike who have taken part.

With regard to the Federal Budget, the Foundation last year initiated a practice which we intend to carry on, having regard to the procedure which governs the introduction of new tax legislation under our system of government. A committee of members from Toronto, Montreal and Ottawa was convened to meet in Ottawa the day that the Bill to amend the Income Tax Act came out, in order to study the legislation and submit to the Department of Finance such comments as seemed warranted before it was taken up for second reading in the House early the following week. The action taken was reported to all members in a following issue of the Foundation's Bulletin. I will only say here that it received encourag-

ing acknowledgment, that it was much helped by the courtesy of an officer of the Department who joined the Committee in order to explain the Bill's provisions, and that it can be considered as a constructive precedent from the Government's standpoint as well as the Foundation's. If the legislation could reach our members across the country in time for them to express their views, the value of such submissions would be much increased.

The Fourth Tax Conference was held last December, in the Foundation's home city of Toronto for the first time. Estimated attendance of 300 members, of whom half came from other cities, compared with about 200 for the previous year, speaks for itself as to the now well established character of this annual function which, unlike many conventions, is devoted to the purpose of hard work in which everyone takes part. We were again glad to welcome several distinguished guests from the United States. Members who could not attend received all data papers circulated in advance, representing the work of study groups to which I have already referred as well as of the Foundation's staff, and the report of the proceedings is scheduled for distribution before the end of March. Following the Conference and work done beforehand, a memorandum of recommendations respecting the private companies legislation introduced last year under Part IA of the Income Tax Act was submitted by the Foundation to the Ministers of Finance and National Revenue on February 12. Printed copies of this submission are now being sent to our members, and I understand that some are available at this Meeting in case anyone wishes to see it now.

Following my earlier remarks I should perhaps emphasize that the Foundation's annual tax conference is not primarily intended to produce submissions to the Government, although it should contribute to this result. The primary purpose is to provide for exchange of views which will guide the Foundation in its treatment of tax problems and give members themselves a better understanding of them, and also to give the representatives of the Government Departments who attend a better opportunity to see things from the taxpayers' point of view. In the case of the particular piece of legislation just mentioned, the Foundation's submission follows earlier observation and evidence of its operation to which the discussion at the conference added confirmation and supplied the indicated emphasis. In the same way, the question of a separate submission on the treatment of retirement contributions and benefits is under consideration by the Executive Committee now, following

some study by the Foundation's staff earlier in the year and the points of view expressed at the recent conference, and other matters brought before the conference may be taken up later. While the Foundation should press its recommendations energetically once they are approved, they should never be open to the criticism that they are hastily considered or defective in presentation. The tax conferences represent a necessary and intermediate stage in reaching the desired results.

Judging from comments received afterwards as well as from the attendance, the Fourth Tax Conference set a new high level as an indication of the support of the Foundation's members and subscribers, and as a demonstration of its work and objectives. I am glad to add, following my own request as Chairman on that occasion, that we have also received a few suggestions for improving the proceedings next time. They are a help to the Director and he welcomes them.

Considering these three phases of last year's activities, namely the development of a wider system of study groups, our working relations with the Government Departments, and the tax conference as a focal point in the year's programme, I think that the primary objective of establishing in main outline the pattern of operations previously described has been achieved. But I would emphasize that in making this our objective during the past year we regarded it as no more than a first step and basis of future activities. A great deal remains to be done. In particular, it is clear that the successful operation of local joint groups of lawyers and accountants working on given assignments, on which much depends as regards the Foundation's business with the Government on the one hand and its relations with its own members and the general public on the other, calls for a greater degree of preparation and active assistance by the Foundation's staff than was possible during most of last year, and that it may also require some adjustment of conflicting claims on the time and goodwill of members in both professions. I believe, however, that there are no difficulties here that cannot be solved by patience and hard work.

Turning now to the subjects of research and publications, which can be dealt with together, I must first express our satisfaction that the Foundation was able to secure the services of Dr. J. R. Petrie who joined the staff as Director of Research at the beginning of last September, on leave of absence from his previous duties as Head of the Department of Economics and Political Science, of the University of New Brunswick. Dr. Petrie is one of the very few economists

in Canada, if not the only one outside Government service, who has combined specialized studies in the field of taxation with experience as a tax official. His arrival has relieved the Director of the responsible and necessarily continuous task of preparing special research projects and undertaking or supervising their execution, and of keeping abreast of the work of this character which is being carried on extensively elsewhere, particularly in universities and government agencies of the United States. Dr. Petrie has also assumed for the time being the duties of editor of the Foundation's *Tax Bulletin* which is now appearing in a new format and will come out at intervals of two months.

Your Chairman at last year's Meeting referred to the prospective publication in book form of a descriptive study of the Canadian Tax System undertaken by Mr. J. H. Perry at the Foundation's request, and of Dr. Petrie's study on the Corporation Income Tax. Our arrangement with Mr. Perry was revised during the year, to the advantage of the Foundation and of his subject, in order to permit the publication of two books by him, one on the Tax System Today and the other on Taxation in Canadian History. The text of the first book was delivered by the author last Autumn. We then hoped that it might be published before this Meeting. It is now approaching production in the publisher's hands. The second volume will probably appear about a year later. Dr. Petrie's study of the Corporation Income Tax required extensive revision following the new legislation introduced into the Income Tax Act last year. He was able to complete it after joining the Foundation's staff, and his manuscript also has gone to the publisher. As the Foundation is not in the publishing business, arrangements have been made with the University of Toronto Press, and it is proposed that other titles should be added from time to time in the form of a regular series.

Last summer the Foundation retained the services of Professor John Willis of the Faculty of Law, University of Toronto, to make a study of the "Tax Penalty on Irregular Earned Income under Progressive Rates", reviewing experience and proposals in other countries as well as the provisions of the Canadian Act in this respect. On the basis of this survey the subject was put on the Conference agenda following preparatory review by a study group. The resulting discussion will be covered by the Conference Report. Professor Willis' original study will be issued shortly as the second of the series of "Canadian Tax Papers", which were introduced earlier

this month by a monograph on "Provincial Retail Sales Taxes in Canada" by Professor John F. Due of the University of Illinois.

I should say a word about the proposed character of this series. "Canadian Tax Papers", as we shall call them, will consist of short studies of particular topics issued separately and with no necessary regularity, for the purpose of public education in the broad sense of the word. In certain cases they may be prepared by the Foundation's staff, but generally they will be written by special contributors who will be encouraged to express their own opinions as such. They will thus fill a place somewhere between the Foundation's Tax Bulletin and full dress studies of the kind mentioned earlier. The first requirement in any project of tax reform is an accurate determination of the significant questions and an understanding of their content. This kind of writing performs something of the function of an ice-breaker and we wish to encourage it. The third number of the series at present in view is a short survey of Dominion-Provincial Tax Relations.

It will be apparent from this part of my Report that the Foundation's members and subscribers can now expect to receive considerably more material from the Foundation's office than it has been possible to produce hitherto.

This reference to what the Foundation's members may expect is an appropriate conclusion to my review of the past year because plans for the future belong to the Director's Report which follows. Moreover, everything that I have said and that the Foundation has been doing during the year looks forward to the future. I will now use the remaining time to give reasons why I believe we should look forward with confidence and with a sense of the Foundation's increasing responsibility.

The record of the Foundation's activities since it was established over four years ago is contained in successive annual reports which cannot be summarized here. It might be gratifying to point to particular events and developments for which this organization can claim some credit, but it is more important to see where we stand today.

There are three elements of the Foundation's present position which should be recognized as assets which cannot be acquired at will, but which have to be built up gradually and have been so built up. The *first* is its standing with the Government authorities; the *second* is its contribution to collaboration between the two sponsoring professions, which has become an inherent element of strength on

its own account; and the *third* is the experience of its staff and the possession of facilities developed and adapted to the Foundation's particular purpose.

The Foundation's standing with the Government depends solely on its performance. Speaking relatively, we are still at the beginning. But I would say that success to date has depended, on the one hand, on the avoidance of any suspicion of special pleading, and on the other, on the well-considered character of the Foundation's reports and submissions. There was never any real question on the first point so far as the Foundation's objectives and policy are concerned, and perhaps we can take it for granted here. As to the second point, it is possible that some expectations have been disappointed in the opposite sense. Given an unpopular target, like taxes, public opinion welcomes an enthusiastic display of shooting from the hip. But if the Foundation is to make good its claim to function as an agency of expert and constructive criticism it must take care to prepare its material always at the highest level of competence and responsibility. I am convinced that any concessions to expediency in this direction would be no less prejudicial than in the other. If the Foundation could demonstrate even higher standards of performance in this respect than the tax authorities themselves its influence would be impregnable. At present, we can fairly say that we are doing all right.

As a medium of closer collaboration between the two professions engaged in tax practice, which is itself the basis of the whole operation, the Foundation's example has already attracted the interested attention of the professions in England and in the United States. So far as we know, it represents a unique conception. The benefit of such collaboration in this field is not confined to practitioners themselves, for it contributes to the better handling of clients' affairs and it will be conducive in time to more uniformity of administrative practice.

As to the Foundation's staff and facilities, initial difficulties were inevitable and they have been substantially overcome. It was not easy to find and attract people with the required qualifications, and when found they still had to learn a business that had not been undertaken before. At present the staff is still a nucleus rather than a full establishment. Besides the clerical staff there is the Director, the Director of Research, and the Office Manager. These men know their business, but more are needed to carry out the duties involved in the objectives covered by this Report.

These are tangible and intangible assets which did not exist four years ago. They could not have been built up without two conditions to which we owe them. One I have already acknowledged, namely the active participation of the Foundation's members in its work. The other deserves special acknowledgement at this stage of our affairs. It would have been impossible to launch this undertaking, let alone to carry it forward so far, without the assurance of generous support which was given by a relatively small number of corporate subscribers at the outset who agreed to stand by the Foundation during its five-year trial run period. More especially it has been the stability of this support and the absolute exclusion of any conditions prejudicial to the Foundation's independence that have encouraged the development of the features which I have just mentioned free of any pressure of expediency, which might perhaps have been fatal to the best intentions in other circumstances. In presenting this fifth Annual Report on behalf of the Board today, I speak for all our members as well when I say that none of these things could have been done without this primary condition which we all gratefully recognize.

During the last two years we have been broadening the basis of our financial support and we shall continue to do so. Further effort will be needed, but I anticipate no real difficulty provided that the Foundation adheres to its objectives and carries them out. Canada is now committed to a long-range defence programme which will require greatly increased taxation combined with the highest productivity that is compatible with political freedom. The objects for which the Foundation was established at a time when we looked forward to very different conditions after the last war are immeasurably more important today. If they can be discharged as they should be, the Foundation itself will be playing an indispensable part in the defence of Canadian democracy.

Four members of the Board of Governors will retire this year. They are:

W. G. H. Jephcott, F.C.A.....	Toronto
W. A. G. Kelley, K.C.....	Toronto
C. W. Lynde, C.A.....	Winnipeg
W. A. Morrell, F.C.A.....	Amherst

On your behalf, and for myself as well, I wish to thank each of these gentlemen for his valued service to the Foundation, and his guidance and encouragement in its work. Mr. Jephcott has been a Governor of the Foundation from the beginning, and following his term of office as Chairman last year he has continued to devote

a generous amount of time and attention to the Foundation's interests when he might well have felt that he had earned a respite. As his successor, I am especially indebted to his counsel and experience. As a former officer, he becomes a member of the Standing Advisory Committee where his advice will still be available.

The following gentlemen have been nominated to fill the vacancies so arising:

S. B. Laing, C.A.....	Winnipeg
D. A. McIntosh.....	Toronto
R. W. Manning, C.A.....	Charlottetown
J. A. Wilson, F.C.A.....	Toronto

In extending thanks to all Governors, who have given loyal support to your Chairman, I am particularly grateful to two of them who have been of constant help to me as fellow members of the Executive Committee living in Montreal: to Mr. Campbell Leach who continues to give his excellent leadership as Chairman of the Membership and Finance Committee, to whose members our thanks are also due; and to Mr. deWolfe MacKay, whose counsel was always available.

Actually a large part of the Foundation's day to day affairs have come under the direction of the Chairman of the Executive Committee. Mr. Kenneth Carter has given the Foundation distinguished service in this capacity. The Foundation, and your retiring Chairman, owe him a great debt of gratitude which from his point of view can probably best be repaid by wider recognition of the value of the Foundation in the life of the country. With him I would couple another devoted officer, Mr. Henry White, who has been Secretary-Treasurer of the Foundation from the beginning. He has been diligent and helpful, and I thank him sincerely on your behalf as well as my own.

No institution can function well without harmonious relations between its staff and those charged with the direction of its affairs. Mr. Monteath Douglas has gifts of high order which he has given in abundance as Director. The Foundation has made progress and he can rightly take—as we Governors feel his due—a large share of credit for that progress. He has been ever ready to help and counsel your Chairman and if the year has been one in which we may take some pride much of the satisfaction should rightly be felt by him. I thank him for his constant help and guidance. He has helped to make my year of office a most pleasant one and I want him and you to know of my gratitude. To him, Dr. Petrie, Mr. James Reid and

all members of the staff who are engaged in an unfolding achievement in a pioneer field the Governors and I personally extend our thanks for their loyalty and service in the knowledge that they are fully entitled to share the satisfaction of having made this a truly successful year.

On behalf of the Board,

C. S. RICHARDSON,
Chairman.

Dated at Toronto, Ontario,
21st February, 1951.

FINANCIAL STATEMENT

AS AT 31st DECEMBER, 1950

INCOME AND EXPENDITURE

For the Year Ended 31st December, 1950

INCOME

Subscriptions received.....	\$57,810.00	
Interest received.....	983.03	
		<u>\$58,793.03</u>

EXPENDITURE

Salaries.....	\$34,366.14	
Travelling Expenses.....	1,607.12	
Entertainment—Annual meeting, etc.....	486.00	
Office rent.....	2,707.20	
Printing, Stationery and office supplies.....	1,401.27	
Telephone and telegraph.....	618.00	
Postage and excise.....	783.02	
General Office expense.....	2,180.17	
Books and periodicals.....	1,379.28	
Publications.....	2,342.86	
Conference expense (net).....	4,279.49	
Special studies.....	1,693.60	
Office alterations.....	1,092.50	
	<u>\$54,936.65</u>	
Depreciation.....	403.02	
		<u>\$55,339.67</u>

Excess of Income over Expenditure for the year ended 31st December, 1950.....	\$ 3,453.36
Balance brought forward from previous years.....	40,819.97

Balance of unexpended income at 31st December, 1950 for continuation and extension of the Foundation's activities.....	<u>\$44,273.33</u>
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Represented by:	
Cash on hand and in bank.....	\$16,822.59
Prepaid Salary.....	500.00
Investment—Crown Trust Co.—Guaranteed Investment Receipt 3%.....	25,000.00
Furniture and Office Equipment—at cost.....	\$ 4,030.19
Less: Reserve for depreciation.....	923.76
	<u>3,106.43</u>
	\$45,429.02
Less: Accounts Payable.....	1,155.69
	<u>\$44,273.33</u>

Note: The Foundation has made commitments amounting to \$3,000. in connection with the publication of books on taxation matters.

AUDITOR'S REPORT TO THE MEMBERS

I have examined the accounts of the Canadian Tax Foundation for the year ended 31st December, 1950, and report that, in my opinion, the above Financial Statement has been drawn up so as to exhibit a true and correct view of the affairs of the Foundation as at 31st December, 1950, and of the result of its operations for the period 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.

(Signed) G. Y. ORMSBY
Chartered Accountant.

Toronto, January 29th, 1951.

Report of the Director

The purpose of the following report is to supply fuller details concerning the subjects of the Chairman's Report in regard to the past year, and to comment briefly on the Foundation's activities and future plans from the standpoint of my responsibility as Director. I shall make my report as short as possible because one of our objects in putting our *Tax Bulletin* on a two-monthly basis is to keep you better informed currently, so that you need not depend upon masses of indigestible detail appearing at long intervals.

But first to bring the record up to date, I should review the position of activities and projects mentioned in our Annual Report a year ago or arising during the past year, to the extent that the Chairman has not already covered them. As it will not be possible to say everything that everyone might like to know under each heading, questions afterwards or following this Meeting will be welcome.

A year ago I discussed the subject matter of our programme under the two headings of *research projects* and *current legislation*, intending to convey a distinction between work done mainly in the Foundation's office or by outside authorities retained to make special studies for us, and work in the hands of groups of the Foundation's members organized for the purpose in different parts of the country. I added that the distinction was not clear-cut. As the following record will show, both kinds of treatment may be indicated for the same assignment at different stages, and one of our interesting tasks at the present time is to work out a procedure which will give study groups the fullest advantage of the facilities available at the Foundation's office, and give the staff the fullest benefit of the views of members. At the risk of possible confusion, however, it is convenient to use the same headings for the purpose of this report.

I. RESEARCH PROJECTS

(1) Dominion Corporation Income Tax

A year ago we anticipated three publications under this heading which would conclude our treatment of this subject for the time being: first, an economic analysis; second, the report of the 1949 Tax Conference; and third, a policy statement by the Foundation assuming that recommendations were justified by general agreement. The first has already been mentioned by the Chairman as Dr. Petrie's revised study, now in the publisher's hands. The second was sub-

mitted to the last tax conference as a draft report carried forward from the previous year, together with the Foundation's original memorandum of proposals, and it will now appear incorporated in the proceedings of the Fourth Conference as approved. The third item, the suggested policy statement, became unnecessary in the light of the report just mentioned which had essentially that character in its final form, and in view also of the legislation introduced last year respecting "private companies" which was welcomed and approved by the Foundation as a constructive measure in conjunction with the principle of the dividend-tax-credit. Our views on the present position of the legislation covering the whole matter could perhaps be summed up by saying that practical relief is preferable to theoretical perfection. At the same time, we are prepared to return to the subject at a later stage, particularly if the passage of time and pressure of heavier taxation under the defence programme should disclose fresh difficulties.

(2) Experience of Income Tax provisions respecting Co-operatives

As previously reported, this question was referred to a study group during the year. It is therefore listed below with other study group topics under the heading of Current Legislation.

(3) Provincial Corporation Income Tax Acts

We said in our last Report that an analysis and review of this subject would be published after work in progress on the Dominion legislation had been completed. This report has not yet been published for the reason that your Director has been unable to reserve the time required in order to complete it. I hope that this can be done after we have issued the more general account of Dominion-Provincial Tax Relations mentioned by the Chairman as now in preparation for publication in the series of "Canadian Tax Papers", and in succession to it.

(4) Treatment of retirement contributions and benefits under the Income Tax Act

A short study of this question, done by the Foundation's staff, was issued as one of the preparatory papers for discussion at the recent tax conference. This followed reference of the matter to the Foundation two years ago by the Joint Taxation Committee of the Canadian Bar Association and the Dominion Association of Chartered Accountants, and its inclusion in our agenda last year. The question as we see it is related to broader questions of income tax policy affecting savings and irregular earnings, and a draft memorandum

of recommendations has been prepared for the Executive Committee's consideration, covering these considerations as well. Any approved findings will be issued to members for their information in the usual way.

(5) Treatment of irregular earnings under the Income Tax Act

As already stated by the Chairman, Professor Willis' comprehensive and original study will be published as a "Canadian Tax Paper" in the near future. We asked the author to prepare his report simply for the use and information of the Foundation, and not with a view to formal publication. But we believe that it should be made available now in its existing form as this is a broad problem affecting the taxation of earned income which will be accentuated by any increase in tax rates. I might mention here that we have just received enquiries from a group of tax experts in the United States who are studying the same question. This report will save them some trouble. The Foundation was fortunate to obtain Professor Willis' services and we are grateful to him.

(6) The family as a taxable unit, with particular reference to exemptions and allowances, the treatment of husband and wife, community of income, etc.

The question of community of income was referred to a study group and is reported on under that heading below. It was not possible to take any other part of the larger question under examination during the past year. The latter appears to be suited to one or more additional study group assignments that we have in view. It is a feature of the income tax which has long been subject to conventional rules and which may be due for reconsideration under the prospective regime of much heavier taxation.

(7) Old age pensions

In our Bulletin of last July, written immediately after the appearance of the Report of the Joint Parliamentary Committee on Old Age Security, we advised our members that we proposed to study the taxation aspects of the Committee's proposals during the summer. Later it appeared to us that the outbreak of war in the Pacific followed by the acceleration of defence plans had subordinated this question to much larger and more pressing problems, which were presented for discussion at the tax conference last December in our staff paper on "Taxation for Defence". Following the adoption of the Committee's recommendations in principle at the Dominion-Provincial Conference, it now appears that we should be prepared

to go back and take up the question of the tax measures that they will require. The Committee's views on this aspect of the matter were not conclusive, but they attached importance to the principle that the scheme should be financed by specific contributions which should be distinct from the general tax revenues if the means test were to be discarded. Such contributions will represent additional taxation regardless of their form and will require consideration from the fiscal standpoint.

II. CURRENT LEGISLATION—STUDY GROUPS

The following list covers study groups already in operation, set up, or projected, during the past year, arranged according to the disposition of the results. When I have reviewed them I would like to make one or two comments on our study group programme as a whole.

1. Reports approved and directly submitted in substance to the Government

- (1) Limitations respecting deduction of interest charges.

This report dealt with the effects of the "McCool decision" and suggested a form of appropriate amendment. It was submitted prior to the 1950 Budget, when this feature of the Act was rectified.

- (2) Transfer of "tax-paid undistributed income" between corporations.

Dealing with a mechanical difficulty arising under Part IA of the Income Tax Act, and indicating suggested amendments, the report was forwarded as a separate recommendation, being also consolidated with the Foundation's recent six-point submission respecting this legislation as a whole.

2. Reports circulated as tax conference data papers

- (1) Distribution of corporate surplus under Part IA.
- (2) Capital cost allowance under the Income Tax Act.
- (3) Depletion under the Income Tax Act.
- (4) Tax penalty on irregular earned income.

As these reports have been received by all members no explanatory comment is required here. The resulting discussion at the Conference is now being summarized for publication in the report of the proceedings. In the case of number (1), respecting the Part IA legislation, the salient features were incorporated in the submission already referred to. In the other cases, the material prepared

may lead to future submissions following further study and more evidence of experience.

3. Reports received and held for further consideration of the subject.

- (1) Appeal procedure under the Income Tax Act.
- (2) Community of income between husband and wife.

Reports were received containing a valuable concensus of views which indicated lines of further enquiry rather than conclusive points of recommendation. Both questions have been taken up for study by the Taxation Section of the Canadian Bar Association.

4. Conclusions not yet submitted

- (1) The Dominion Succession Duty Act.
- (2) Experience of income tax provisions respecting co-operatives.

5. Projected but not established

- (1) Inventory valuations under the Income Tax Act.

With respect to the latter our unsuccessful experience suggests that this subject is not yet ripe for study-group treatment, following the introduction of new specific provisions effective in 1949. This is confirmed by the fact that the relatively few questions brought to the Foundation's attention to date reflect the special circumstances or practices of particular taxpayers, rather than common experience of the statutory provisions.

The plans submitted to the Annual Meeting a year ago called for a wide extension of study-group work, and the past year therefore represents our first systematic experience. We have reached several conclusions which I shall mention here because they will guide our future programme in this respect, and because they concern the working arrangements between the staff and the Foundation's members which must be as satisfactory as possible to the latter. I shall be very glad if this part of my report in particular evokes criticisms or suggestions.

First, we appreciate that all our members are busy, and particularly that those who should be asked to convene local groups in order to muster the best available knowledge and experience are often subject to many other demands of a public service nature. This means that we should limit these assignments to matters that can be dealt with conclusively in fairly short order, perhaps within six weeks at the most.

In the next place, it seems from last year's experience that the months of September and October are preferable to any other time of year, though not exclusively. The early months are a particularly busy time for members of the accounting profession, and with the approach of summer most people begin to feel that demands of this kind are against nature. On the other hand, we should be in a position to circulate any reports for consideration at the tax conference much further in advance than we were able to do last year, preferably not later than the end of October.

It is also strongly advisable that when a group of members is asked to study a question for the Foundation they should receive an assignment prepared under clear terms of reference with supporting material, and an indication of the purpose for which the report is intended,—that is to say, whether for direct submission to the tax authorities, or for consideration at the next tax conference, or for guidance of the staff in connection with a long-range research project.

Now none of these things can be done properly without clear and practical comprehension of the subject matter which, as a rule, can only come from some experience of it. The conclusion, and the point which I wish to stress, is the indispensable value of advice, comments or suggestions received by the Foundation from individual members anywhere in the country regarding any phase of tax legislation which is known to be on our programme, or which members themselves would like to see us take up. We may not be able to take it up immediately, but if we can assemble the raw material in our files we can keep our own preparation running ahead of assignments in hand.

Following the meeting of the Chairman, Vice-Chairman and Director last March with the Minister of Finance and his advisers, to which the Chairman referred in his report, I wrote to all members inviting participation in this way, and pointing out that what the Foundation can do here depends on your experience and your ideas. I said that such advice is the real fabric of our undertaking. As Director I would be glad to see much more of it. It will enable us to do a better preparatory job for members whom we ask to undertake study group assignments, it will make their task easier and more interesting, and it will facilitate the objective of a wider and more rapid turnover of clear-cut questions on which the opinions expressed can be made common property through the *Tax Bulletin* and conference discussions. Circulation on these lines will keep the Foundation in good fighting trim.

As regards the future I feel that at the moment it would be unwise to plan a programme of specific projects far ahead, and that we should expect to undertake long-range projects only when we can find and commission competent authorities outside our organization to do them for us.

This conclusion is dictated by experience and by prospective fiscal developments. Our staff is a small one in relation to the work that the Foundation is expected to do, and if we become heavily committed our hands will not be free to turn to fresh questions arising out of the unfolding tax requirements of the defence programme. A month from now we may know more than we do today, but this year's Budget will introduce a regime of fiscal policy for defence which is likely to continue for a long time. The history of taxation everywhere shows that heavy national defence expenditure is invariably a potent influence in the development of tax methods, and often in their improvement. We should therefore be free to use our resources to best advantage at this juncture without too many pre-conceived plans.

Just now the Foundation's staff is fully occupied with items of work in progress already mentioned in the Chairman's Report or mine, of which the early publication of the last conference proceedings is the largest, and this condition will continue at least until the Budget appears. But subject to the reservations just stated, I can at least indicate some questions that we are planning or would like to put on our agenda for early attention.

For consideration by study groups we have in view the following three subjects to start with:

- (1) The equity of existing provisions of the Income Tax Act affecting husband and wife (as distinct from the community of property question).
- (2) The distinction between taxable profits and capital profits.
- (3) Experience of excess profits tax in World War II.

To these will be added other topics in the light of recommendations received from members, which I hope this report will encourage, guided by the advice of the Director's Consulting Committee.

For more extended research, depending on the conditions just mentioned, two subjects appear to deserve high priority:

- (1) Sales taxes—comprising as separate headings:
 - (a) The manufacturers' sales tax and excise taxes, which we have had in view for some time for study when it could be undertaken.

- (b) The possibility of extending federal sales taxation for defence purposes at the retail level in the form of conspicuous direct taxes calculated to deter spending selectively, as recently suggested in our staff paper on "Taxation for Defence".
 - (c) The relationship between federal and provincial jurisdiction in this field.
- (2) Local property and business taxes,—the question of what is happening across the country.

Perhaps I might digress for a minute to answer here a question that we have received from several quarters recently because it also illustrates the Foundation's approach to these matters. The proposal to amend the British North America Act in order to provide limited powers of indirect taxation for the provinces has naturally provoked much strong opposition and raised the question, what is the Foundation doing about it. If this question means what immediate opposition are we making in conjunction with the interested groups, the answer is none, though we are glad to supply any information that we can to anyone who wants it. But if the question means what is our interest in this matter, perhaps the reference just made to sales taxation as a research project gives part of the answer. Our approach to the question must start from two points. One, as already suggested, is the place of this particular proposal in the whole scheme of sales taxation employed as an anti-inflationary weapon, and the alignment of jurisdiction in this respect according to consistent plans. The other is the prospective needs of the Provinces concerned and the alternatives confronting them, which may mean no more than carrying on their present legislation, or may possibly mean reluctance to renew their current agreements to stay out of the income tax field. Although some of us have personal opinions on these questions, the Foundation as such has no considered views just now because it has not yet been able to give them the kind of study they require and we know of no one who has. They come within the projects referred to.

To return in conclusion to the prospect facing the Canadian Tax Foundation today, I am sure that we all regard it as a challenge. For an unknown and probably long period this country is committed to a national policy which will require heavy taxation in conjunction with all possible encouragement of hard work, industrial efficiency, technical and scientific skill, mobility of manpower, and personal saving. In earlier times we might have said that these conditions were hopelessly incompatible. But the last ten years in Canada

demonstrate that this need not be so. So far as the taxation side of the matter is concerned we can see that this country came out of the last war with a much better tax system than it had before, and further improvements have followed. This process can and should continue. I do not think we should look for radical and spectacular changes. It is more a matter of making improvements in the tax structure that we have already wherever it appears that something can be done better. Such improvements may be a small matter considered separately, but it is the cumulative effect of the process and its continued application that counts.

Although the Foundation is the only organization of its kind in Canada, we are not working alone. In the United States and the United Kingdom, where the Foundation has excellent connections, groups of people like ourselves—though without some of the Foundation's advantages—are working on similar problems, and official public enquiries into the operation of income tax legislation are now in progress in the United Kingdom, Australia and South Africa. The same requirements of national defence imposed on substantially similar tax laws and economic conditions in different countries will lead to a wider pooling of common experience and constructive proposals which should come about primarily through the interested professions. The Foundation is in a position to take a leading part on Canada's behalf in this exchange.

On behalf of the staff, I thank all our members and subscribers for their support and encouragement. In particular we are grateful to our Governors for their active interest and guidance in the Foundation's progress. To all those who have been closely associated with our work during the year as members of study groups and as officers and advisers at the tax conferences, to the Membership and Finance Committee, and on my own account especially to the Director's Consulting Committee, I acknowledge sincere appreciation of their help. And I thank my associates in the Foundation's office for their constant loyalty, good humour, and resourceful effort in working towards our ambitions.

Respectfully submitted,

MONTEATH DOUGLAS
Director.

Toronto, Ontario,
21st February, 1951.

