

CANADIAN TAX FOUNDATION

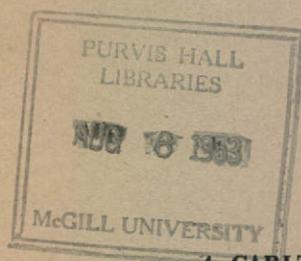
ESTABLISHED BY THE JOINT ACTION
OF THE CANADIAN BAR ASSOCIATION
AND THE DOMINION ASSOCIATION
OF CHARTERED ACCOUNTANTS

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Fourth Annual Report

FOR THE YEAR ENDING
DECEMBER 31st, 1949

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4 CARLTON STREET, TORONTO 2, ONTARIO

CANADIAN TAX FOUNDATION

BOARD OF GOVERNORS ELECTED AT ANNUAL GENERAL MEETING 23rd FEBRUARY 1950

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
F. M. Covert, K.C.	Halifax
Rosaire Courtois, C.A.	Montreal
T. A. M. Hutchison, F.C.A.	Toronto
W. G. H. Jephcott, F.C.A.	Toronto
W. A. G. Kelley, K.C.	Toronto
C. W. Leach, C.A.	Montreal
C. W. Lynde, C.A.	Winnipeg
J. A. MacAulay, K.C.	Winnipeg
R. deW. MacKay, K.C.	Montreal
J. B. McEvoy, K.C.	St. John's
J. E. McIntosh, C.A.	Vancouver
H. L. McMackin, C.A.	Saint John
H. C. F. Mockridge, K.C.	Toronto
W. A. Morrell, F.C.A.	Amherst
W. S. Owen, K.C.	Vancouver
L. Phillips, O.B.E., 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, C.A.	Regina
H. H. Stikeman	Montreal
A. Taschereau, K.C.	Quebec
M. G. Teed	Saint John
J. Ross Tolmie	Ottawa

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

Report of the Chairman of the Board of Governors
Presented to the Members
at the Fourth Annual General Meeting of the
Canadian Tax Foundation

Following the custom now established at our Annual Meetings, it is my duty as the retiring Chairman of the Board of Governors to present the following report of the Foundation's activities during the past year, leaving it to the Director, whose report follows, to review our plans for the future.

Lest this arrangement should suggest some interruption in the continuity of the Foundation's affairs and policy, I wish to remind you that while it is customary for the Chairman and Vice-Chairman to be elected to hold office for one year only, the Board of Governors, whose members are nominated each year by the respective Presidents of the two sponsoring Associations, carries on by an established system of rotation whereby each Governor ordinarily serves for three years. Consequently, the Executive Committee of the Board, which for reasons of geography must carry much of the Board's responsibility, maintains continuity as regards the majority of its members from year to year. This result is further supported by the establishment a year ago of a Standing Advisory Committee, composed ex officio of those who have retired from the Board after serving in the offices of Chairman or Vice-Chairman, whose experience and counsel are thus available to their successors.

I take this opportunity of reviewing these arrangements here because this Meeting marks the third year of the Foundation's operation and they have been developed, wisely in my opinion, by experience. I shall refer later to the question of broadening the representation of the Board of Governors, which has been suggested and considered several times, and as some further discussion of this question may follow, it is desirable that the present position should first be clearly understood.

The principal subject of study by the Foundation during the past year, as announced at the last Annual Meeting, has been the treatment of corporate profits and dividends under the Dominion Income Tax Act, having regard particularly to the problem of "double taxation", the question of undistributed profits, and the difficulties of family-owned and closely-held companies. As a special aspect of this subject, a review has been undertaken, but not yet

completed, of the operation and practical effect of the legislation respecting taxation of co-operative enterprises introduced four years ago following the recommendations of the Royal Commission on this matter. A third subject of investigation, which is closely related to the foregoing, has been the provincial taxation of corporations. This was reported a year ago as already initiated. These are all subjects that have occupied the attention of the Director and his staff at the Foundation's office directly. In addition, the study group on Succession Duties, which was set up after the second tax conference, has carried on its work and will be reporting in due course. Our third tax conference, held last December in Montreal, was the largest and, in some respects, the most successful that we have had so far. Finally, the Foundation has sponsored or commissioned certain studies by outside writers which will appear in book form. I would like to report briefly on the present position of each of these matters in turn. In reviewing the year's activities as a whole, perhaps I should add that the Director paid a month's visit to England during the summer to learn what he could particularly as regards current projects, and to establish useful connections in our field of work, but I understand that he is prepared to cover his own experiences.

Work on the main subject of the Dominion Corporation Tax falls into three parts. But first it was necessary to clear the ground. As all the Foundation's members know, there has been much discussion of this subject particularly since the end of the War, but relatively little close study of it so far as Canada is concerned. On the other hand, English-speaking countries show a wide variety of legislative experience, and in the United States particularly, where the position resembles our own in many respects, the last fifteen years have produced a large volume of professional and academic writing on this question. As a preliminary stage, therefore, it was found advisable to collect and review material from elsewhere as a help to determining the best approach to our problems in Canada. We then adopted the following method. First, we were most fortunate in being able to secure during the summer the services of Dr. J. R. Petrie of the University of New Brunswick, who has had considerable experience in tax research, to undertake an economic analysis of the operation of the corporation tax, and of its effects so far as they could be determined. Second, the Director studied the question independently with a view to organizing systematic discussion of its various aspects at our third tax conference, and to producing a memorandum to serve as a basis of such discussion. Here I wish to acknowledge our thanks to several of the Foundation's members and others who helped this stage of the project through their own study

and discussion, and I would like particularly to mention in this connection the names of Mr. G. K. Daley, Mr. Stuart Thom, Mr. R. W. E. Dilworth, Mr. Courtland Elliott, Mr. Graeme Watson, Mr. R. W. Sharwood and Professor Kenneth Byrd, who, with two of our Governors, contributed much time and trouble to the preparatory work before the conference. In the third place, we have appointed a small advisory committee to assist the Director in drafting a statement of findings and recommendations on the whole question, which will be published as the views of the Foundation, if approved by the Board, based on the report of the conference and Dr. Petrie's study.

We are therefore planning three separate publications under this heading: the conference report, which is in preparation and will be issued in the usual way; an economic analysis, which has now been received from Dr. Petrie and will be published as a book under the Foundation's auspices; and a policy statement by the Foundation, assuming we find general agreement on its recommendations. Completion of these items will discharge our present undertaking on the treatment of corporation profits under the Income Tax Act.

Two further reports, which will be completed before the Foundation engages in fresh projects of a long term character, will deal, as already mentioned, with the experience of the present tax legislation respecting co-operatives, and the concurrent operation of Provincial taxes on corporations. As the Foundation is not yet equipped to proceed with several studies of this kind simultaneously, it was found necessary to give priority to the principal assignment, particularly as these questions have a subsidiary relationship to it. In the matter of co-operatives, we need more first-hand evidence of experience to test or support the conclusions formed from documentary study and from such observations as can be made from Toronto. This means travelling, which the Director's other duties prevented last year. To facilitate the completion of this enquiry, we are setting up a study group in Winnipeg, whom the Director will meet for factual discussion when they have considered the subject sufficiently.

The material for a report on Provincial Corporation Income Tax Acts has been assembled in draft, but requires some amplification and rearrangement to take account of the concurrent application of the Dominion Act, particularly as regards the new procedure respecting depreciation. This report will be completed when the Foundation's findings on the question of "double taxation" and related problems have been issued.

Without anticipating the interim report of the study group on Succession Duties, I can say here that consideration of the subject

has reached the stage where arrangements have been made for a meeting with the appropriate Government officers in order to discuss the conclusions reached thus far as a basis for further work leading to specific recommendations.

I have already referred to Dr. Petrie's study of the Corporation Income Tax which is to be published. In addition, the Foundation is sponsoring the publication of a book on the Canadian Tax System, which is being written by Mr. Harvey Perry of the Department of Finance. Mr. Perry undertook this book last year in a personal capacity at the Foundation's request, and we are hoping that it will be published before the autumn. We were most fortunate to find an author who is so well qualified in all respects to produce such a study. It is a descriptive and historical analysis of the system of taxation as it operates today at each level of government, and we believe that it will supply a need which was apparent as soon as the Foundation was started, both as a source of reference and as a university text book.

Two years ago the Foundation also agreed to sponsor jointly with the Canadian Institute of International Affairs a study of Administration of Tariff Laws, which is a matter of major concern to Canada in our trading relations with other countries. This project, which calls for original research, has been undertaken by Professor Elliot of the University of Toronto who, we understand, plans to finish it during the coming summer.

In reporting on these projected publications, I should emphasize that it is an important function of the Foundation to promote original writing and research of this character, which would not be undertaken without the assistance that we can give, and which must be done for the most part outside the Foundation. In particular, this is one of the most promising ways in which we may be able to encourage advanced studies in public finance at Canadian Universities, where this subject seems to be receiving insufficient attention for a country with Canada's features, and such encouragement has always been one of our objectives. When we look for qualified research workers in the academic field we must be prepared to offer inducements to match the opportunities available in the United States, so that they will be encouraged to stay in Canada and apply themselves to this country's problems.

In the Bulletin to Members, which went out shortly before this Meeting, it was announced that the Foundation is setting up a series of study groups in different cities to review problems arising out of current tax legislation and to draft recommendations to be

submitted to the tax authorities. At the present time, the Executive Committee has invited the formation of seven groups, in addition to the group already mentioned in connection with the study of the legislation respecting co-operatives, to consider the following subjects:

1. The new statutory rules and regulations respecting allowances for depreciation, etc.
2. Depletion,—whether the law as it now stands allows appropriate deductions for timber limits and oil wells, as well as mines.
3. The question of community of income between husband and wife, having regard to experience in the United States.
4. Inventory valuations,—whether the present provisions are satisfactory; and the question of regulations thereunder.
5. Interest charges,—the question of disallowance and limitations.
6. Distribution of corporate surpluses, dealing first with forced distributions under Section 9 (6) and the relative procedure.
7. Appellate procedures under the Income Tax Act.

Organization of these groups marks a logical and necessary extension of activities begun in the Foundation's first year and carried forward at the annual tax conferences. The Foundation's primary function is to undertake and encourage the study of tax legislation in its practical operation, and to make adequately supported recommendations for its improvement. Sponsorship by two professional Associations engaged in tax practice provides the assurance that this can be done objectively, and our membership, being drawn largely from the professions, provides the means of doing it effectively. It has always been understood that for this purpose the Foundation has recourse to the best professional assistance available, and by now we have much encouraging evidence that such assistance is readily forthcoming if the necessary facilities and organization are arranged. Our object, therefore, in setting up study groups in different parts of the country, coordinated and assisted as required from the Foundation's office and reporting back to it, is to establish a continuous system operating on a "grass roots" basis through which the best informed experience can be applied to the purpose stated above, and from which we believe that our members themselves will derive worthwhile returns of interest and satisfaction.

I should say here that these plans need not conflict with the activities of the interested Committees of the two sponsoring Associa-

tions. Each Association appoints its accredited representatives to act in relation to tax legislation, as in other matters, and will no doubt continue to do so. The Foundation is not a representative agency in this sense as it stands on a broader basis. The relationship which exists between the Foundation and the parent bodies both at the operating level and through the Board of Governors is sufficient to ensure consultation and exchange of information as required at all times.

Before concluding, I wish to report on a question to which I referred at the beginning of my remarks. On two or three occasions it has been suggested that the composition of the Board of Governors should be broadened to include representatives of industry. Up to the present it has been the practice that only members of the legal and accounting professions who are engaged in practice are nominated for election. We have considered this question carefully. The advantages of broader representation are certainly apparent, and the principle, if adopted, might well be extended to include representatives of educational, civic and labour organizations, and government bodies as well, in addition to business men. It is the opinion of the Board, however, that the paramount consideration at the present stage of the Foundation's development should be to maintain the visible guarantee of its independence, which is the primary object of the existing arrangements. In reaching this decision we recognize that a different conclusion may be indicated at some future time, when it will probably be advisable to reconsider the whole question.

In pursuance of the established system of rotation, the following seven members of our Board of Governors will retire this year:

A. Irvine Barrow, C.A.....	Halifax
J. R. Church, C.A.....	Vancouver
K. W. Dalglisch, C.A.....	Montreal
F. E. H. Gates, C.A.....	Montreal
Hon. Frederic A. Large, K.C.....	Charlottetown
G. R. Munnoch, K.C.....	Toronto
K. J. Morrison, F.C.A.....	Calgary

It is my pleasure, both on your behalf and my own, to thank each of these gentlemen sincerely for the contribution he has made to the work of the Foundation during his period of service. We shall continue to look for their active interest and support during the years to follow. Mr. Munnoch has served successively as Vice-Chairman and Chairman with outstanding energy, skill and an inspiring sense of leadership. His judgment has proven extremely

sound and his recognition of the opportunities and duty of the Foundation, as one of its originators, has been clear and forceful. We are indeed fortunate that Mr. Munnoch's advice and experience will remain available to the Foundation as a member of its Standing Advisory Committee. The following gentlemen have been nominated to fill the vacancies, occasioned by the above retirements, for 1950:

G. W. Auxier, K.C.	Edmonton
R. I. Balcom, C.A.	Halifax
T. V. Burke, C.A.	Montreal
A. G. Burton, C.A.	Calgary
J. B. McEvoy, K.C.	St. John's Newfoundland
J. E. McIntosh, C.A.	Vancouver
G. A. Sharp, C.A.	Montreal

I wish particularly to acknowledge the splendid contribution to the work of the Foundation made by Mr. Henry F. White, who has acted as Secretary-Treasurer since its inception. The performance of his duties by Mr. White has merited in full measure the sincere appreciation and respect of his fellow members.

In closing, I also wish to thank the Director and his staff for the excellent, loyal, and cheerful manner in which they have discharged their duties during the past year, sometimes under exacting and difficult conditions. It is in large measure owing to their untiring efforts that the Foundation has been able to expand its work to the present proportions.

On behalf of the Board,

W. G. H. JEPHCOTT,
Chairman.

Dated at Toronto, Ontario,
23rd February, 1950.

FINANCIAL STATEMENT AS AT 31st DECEMBER, 1949

INCOME AND EXPENDITURES For the Year Ended 31st December, 1949

INCOME	
Subscriptions received.....	\$46,607.50
Interest received.....	945.41
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EXPENDITURE	
Salaries.....	\$29,917.87
Travelling expenses.....	1,245.11
Entertainment—Annual meeting, etc.....	320.47
Office rent.....	2,707.20
Stationery and office supplies.....	475.11
Telephone and telegraph.....	388.96
Postage and excise.....	381.19
General office expense.....	1,015.98
Books and periodicals.....	1,405.63
Publications.....	2,471.18
Conference expense.....	4,815.98
Special studies.....	6,581.71
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Depreciation.....	\$51,726.39
	270.50
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	51,996.89
Excess of Expenditure over Income for the year ended	
31st December, 1949.....	\$ 4,443.98
Balance brought forward from previous years.....	45,263.95
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Balance of unexpended income at 31st December, 1949 for continuation and extension of the Foundation's activities.....	\$40,819.97
Represented by:	
Cash on hand and in bank.....	\$16,151.31
Investment—Crown Trust Co.—Guaranteed Investment Receipt 3%	25,000.00
Furniture and Office Equipment—at cost.....	\$ 2,705.04
Less: Reserve for depreciation.....	520.74
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	2,184.30
Less: Accounts Payable.....	
	\$43,335.61
	2,515.64
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	\$40,819.97

AUDITOR'S REPORT TO THE MEMBERS

I have examined the accounts of the Canadian Tax Foundation for the year ended 31st December, 1949, 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, 1949 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.

Toronto, January 17, 1950.

(Signed) G. Y. ORMSBY
Chartered Accountant.

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Report of the Director

As the Chairman has suggested, the statement which I have the pleasure to submit to this Meeting is not so much a report as a discussion of our plans for the future. A review of the year behind us should logically be followed by the programme for the year ahead. But it is not realistic to divide the work of an organization such as the Foundation into calendar periods, however closely we try to adhere to a planned schedule. I am therefore not assigning our commitments in this sense. We shall take them as we reach them and make the best progress we can.

Last year's programme could not have been carried forward as far as it has been if the Foundation had not been fortunate in enlisting additional services outside its regular staff. This year, being that much further ahead, I hope that we can secure more outside help of the same quality. The broadening of our activities in the direction already described will certainly mean a larger and more varied volume of work to handle. While this might delay or displace new projects if the staff remained at its present size, I believe that our decision to go to work on difficulties in current tax legislation as they arise, and if possible before they occur, opens an attractively wide front which offers added inducements to employment with the Foundation. From the standpoint of effective capacity and performance, this decision can reasonably be expected to yield increasing returns.

On the strength of these expectations I will outline the plans that I have submitted to the Executive Committee of the Board of Governors, subject to further consideration which the Board elected today may wish to give them, under the two headings of *research projects* and *current legislation*. This presentation is not intended to suggest a distinction between matters requiring the Foundation's attention. The difference is that subjects described as research projects fall to be dealt with mainly at the Foundation's office or by outside workers retained on a specialized or long-term basis, while those described as current tax problems are in the hands of our members across the country, working in local groups or on any other suitable basis with all the assistance that the Foundation's office can give.

In outlining these plans, I also wish to take this opportunity to suggest and invite some stock-taking of the Foundation's position and prospects. Speaking for myself, I can say that three years'

experience as Director has clarified and confirmed certain conclusions in my own mind which, if I may state them at this Meeting, will perhaps help to define an agreed view of the Foundation's potentialities, and which, if everyone shares them, may express an enthusiastic common conviction. In this connection my short visit to England last summer was very useful, and I should report briefly on it as well.

As work already in hand and awaiting completion has been covered by the Chairman's Report, I need add nothing except to say that we shall finish it before we undertake any fresh projects of a long-term character. It has centred on the taxation of business, and particularly of incorporated business. We certainly have not exhausted this field; so far we have broken some ground which will need further cultivation. I have proposed, however, that the Foundation should prepare to turn its attention to several questions concerning the personal income tax. When we submitted a brief in April, 1948, on the draft Bill to amend the Income War Tax Act, the recommendations were confined, in accordance with the purpose of that legislation, to features of a more or less mechanical character. But they were prefaced by a general statement that the Foundation intended to study questions of policy which did not arise at that time, and we listed a series of them divided under the two headings of "Individual Income Tax" and "Taxation of Corporations and other Business." The first item on the business list was the "double taxation" question, and we have taken it up accordingly. It is therefore appropriate now to move into the other list, and it is also timely because present methods of taxing personal income may be an aggravating factor in the rising issue of social security and old age benefits. There is certainly a relationship between both subjects and the character of this relationship is itself a question that needs study and clarification.

It is therefore proposed that as soon as the present programme allows, the Foundation should take up the following inter-related questions:

1. Treatment of retirement benefits, and provision for saving out of earned income.
2. Treatment of the family considered as a taxable unit, with consideration of principles governing exemptions and allowances, and the question of community of income between husband and wife.
3. Treatment of irregular earnings, and delayed peak-earnings as in the medical and other professions.

If time allows, and workers are available, these questions should be extended to include:

4. Examination of the present payroll deduction system, i.e. whether the form of tax and method of collection are suited to each other; and
5. The relationship between personal income tax and social welfare benefits and contributions, and the question of their integration.

The first stage of such a programme is to plan it out in detail, and this may require some re-arrangement and re-definition of these subjects. So far as I know, they have not been investigated very far in Canada. The recent announcement by the Minister of National Health and Welfare of the appointment of a joint House-Senate Committee to examine the effects of existing legislation respecting old age security and possible methods of providing therefor, which presumably includes tax legislation so far as it is relevant to this enquiry, indicates where these matters stand in Canada today, and suggests that the Foundation should be able to make a contribution within its own terms of reference.

The range of questions to be considered here extends right across our field of operations. On the one hand, for example, it touches the question of community of income between husband and wife which has been assigned to one of our working parties; and on the other it leads into fundamental problems which could occupy a year's full time study by a professional economist having some experience of them. I hope that it may be possible to arrange for a study of this kind to be undertaken with the Foundation's sponsorship and assistance, on the lines suggested by the Chairman's comments on pending publications.

I should add that this programme would also cover a recommendation from the Joint Taxation Committee of the parent Associations over a year ago that a study of the tax treatment of retirement benefits should be taken up by the Foundation at a convenient opportunity.

Turning now to the field of current tax legislation, the Chairman's report of steps already taken and the announcement which members will have read in the recent Bulletin cover our present plans, but I shall be glad to amplify them at this Meeting if members wish to raise any questions. Here I would like to discuss their long-term aspect, which concerns the Foundation's opportunities and prospects in a large way.

There is first one point which must be kept in view; that is the resources available to the Foundation for the purpose of constructive criticism. The Foundation's main resources consist in its own membership. A small staff operating on a full time basis can organize and deliver the results, but no feasible staff can substitute for a representative body of experience where evidence of practical difficulties in tax law or administration is concerned, or for expert professional opinion where solutions are required. We shall develop the right combination by experience, and the Foundation's permanent staff must be ready and strong enough to carry its full share of the load, and to initiate and expedite work in progress; but the staff's essential function here is catalytic. Just as we have asked Members to supply a collective stock of information by telling us what they see and think of problems encountered in business or practice, so we shall welcome advice concerning our working arrangements. The organization of working parties is a first step. Experience may suggest other and better methods.

The long-term aspect of these plans has two sides which can be looked at separately, although from our point of view they are not actually separable. The first concerns the advantages that the Foundation itself will gain; the second and more important concerns the public interest, and the problems of the Government itself arising out of the inherent character of present day tax legislation. This side of the matter would challenge attention even if no such body as the Foundation existed.

In the Foundation's interests I am very glad that we have reached the stage at which the function of constructive criticism of current legislation can be carried out systematically in conjunction with research projects on a more selective and long-range basis. I have always believed that this should be a primary function of the Foundation, although I have not been anxious to see it undertaken before we were in a position to do it properly. The two functions go together. No research can get far if it is divorced from expert practical experience. Tax problems have to be reduced to the question: what is wrong with this method, and what are the alternatives? If the experience at the Foundation's disposal supplies a guide to the answer, it will also provide the strongest recommendation. Furthermore, to frame a policy is only half the battle; the real test comes when it is translated into legislation. Therefore, if our recommendations for improvement of tax laws are to reach the mark, they must not only start from a clear perception of what is wrong, but must be carried through to the point of practical application in the system as it stands already. The tax system is a going concern

which has to keep going, and any improvements must fit the position they are designed to occupy.

For these reasons the fullest participation of the Foundation's members in its work is the best guarantee that it can be kept relevant and effective, and the best assurance of their own satisfaction with the results.

So much for the Foundation's interests. The other side of the matter stands out most clearly if we leave the Foundation out of account. The central fact here is the peculiar character of tax legislation today. Starting from the ancient rule of British constitutional procedure that control of taxation is the prerogative of the Commons, tax laws have become so complex, and so dependent upon notional and artificial concepts that have no relation to anything else, that Parliament, while insisting on the principle of the Minister's responsibility, can exercise little or no control over the practical consequences. This seems to be true in all countries, and it implies no reflection either on Members of Parliament, whose qualifications are fortunately broader than those of tax experts, or on the Government's officers in whose hands in these circumstances most of the initiative and responsibility must lie. At the same time, tax legislation under high rates is in a state of constant flux and development, in the interests of equitable treatment as well as of efficient collection.

Here, therefore, is an area of government reaching every person in the country, where constructive criticism of the highest order is imperative. In comprehensive terms, what seems to be needed is a balancing influence systematically operating from the side of the public outside Parliament to compensate the necessary initiative of the government departments. To be effective, this function must be discharged with just as much competence and responsibility as goes into the preparation of tax legislation on the Government's side, and it should receive publicity. It must, of course, be non-partisan and visibly free of any controlling influence identified with political points of view. At the same time there can be no question of privileged status. An organization assuming this responsibility starts on the same footing, *vis-a-vis* the tax authorities, as any honest pressure group in the country, until it can demonstrate its function and purpose to the public as well as to the Government.

A great deal is heard today about the strain on Parliament and the increasing scope of delegated legislation. One remedy is the development of new devices of a specialized character to take their place among the recognized organs of public opinion as agencies of expert criticism. The case for such a device in the field of tax legisla-

tion seems to me to speak for itself, and I would expect the tax authorities themselves to be the first to acknowledge it.

All this would be true, even if the Canadian Tax Foundation were not here to see it. But these views naturally reflect my experience during the past three years, and my own conviction concerning the Foundation's long-term responsibility. If these are the facts of the situation I do not think we should hesitate to set our objectives high enough to cover them, or doubt that the necessary resources, both intellectual and material, will be available for the purpose.

The objectives, stated precisely, are to keep current tax legislation and administrative practice under constant review in order to present evidence of difficulties not recognized by the Government, accompanied as far as possible by acceptable solutions, anticipating fresh legislation when this can be done and intervening with representations before enactment when necessary. Improved understanding between taxpayers and the authorities is also an important long-range consideration.

The reciprocal advantages of integrating tax research with these objectives are self-evident.

In brief, I believe that the Foundation is an instrument exactly suited to the requirements I have suggested; and that if it is faithfully applied and well supported, it should become a permanent and indispensable element in the development of tax legislation, without in any way displacing the normal activities of trade associations and other representative bodies respecting taxation, which indeed it should encourage.

This estimate of the Foundation's opportunities was confirmed, and to some extent exemplified, by what I learned in England during my short visit last summer. The objects of the visit were to find out what work similar to our own is being done and to meet the people who are doing it; to learn what I could about British experience and opinion on some of the subjects of our own programme; and in general to broaden my views and take the opportunity of looking at the Foundation itself from the outside, which is always a useful thing to do. As the Foundation's Director, I was shown most generous help and courtesy, which continue.

Although we have no close counterpart over there, several business and professional bodies have established the recognized practice of submitting recommendations to the Government, and I was impressed both by the quality of their preparation and by the resulting relationship between such bodies and the Inland Revenue.

It is against this background that the Millard Tucker Committee was set up to enquire into the computation of trading profits under the income tax. Whatever the Committee may recommend, some of the submissions of which we have now received copies have a value and interest extending well beyond the British system.

I formed the impression that outside the political arena there is developing a common focus of expert attention directed to the scrutiny and improvement of tax legislation, stemming from several sources outside the ordinary processes of government, but meshing with them, which if it were to stop now would be found to have become indispensable. It was summed up in the observation of a senior civil servant, who had some responsibility in connection with the appointment of the Tucker Committee, that today the Government's business in this field at any rate must be shared by experts whom it does not employ.

The application of this conclusion to Canada is driven home by special circumstances which make it particularly opportune just now. First, the recent revision of the Income Tax Act has started a process of improvement of the statute which is not yet finished and which requires continued testing. The tax authorities cannot know how far they have succeeded or failed unless they hear from well informed outside observers across the country. In the second place, the same thing probably should and will be done, though perhaps with less publicity, to other tax statutes, notably the Dominion Succession Duty Act, not to mention the provincial field where it has already begun in some respects. Thirdly, the virtual elimination of ministerial discretion has changed the legislative character of the income tax and has altered the basis of its administration by putting a much greater burden on rules of law, of which the new system of depreciation is perhaps an extreme example. This has opened a prospect of continuing adjustment, in which the initiative and responsibility for legislation largely remains, for the reasons already observed, in the same hands as the former exercise of discretion. Finally, the procedure of inviting constructive criticism on the draft income tax bill, though the occasion itself has passed, created a new relationship between the authorities and the public which the Foundation has an obligation to both sides to keep open if it can do so.

In following out the plans which have been outlined at this Meeting, can we carry forward the spirit of common purpose which made our first Tax Conference in particular a memorable and exhilarating occasion? All my remarks are intended to establish the belief that we can.

In concluding, I wish to acknowledge my appreciation of the support and guidance that I have received during the year from the Governors of the Foundation, and particularly from Mr. Jephcott and other members of the Executive Committee. To one of them, Mr. Munnoch, who is retiring from the Board, I myself, like the Foundation, owe more than the record will ever show. I can only say here that I am grateful to him for many things. To my fellow members of the Foundation's staff I express my warm thanks for their unfailing help throughout the year.

MONTEATH DOUGLAS
Director.

