

CANADIAN TAX FOUNDATION

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

Second Annual Report

FOR THE YEAR ENDING
DECEMBER 31st, 1947

PURVIS HALL
LIBRARIES

AUG 6 1953

HEAD OFFICE
603 ROYAL BANK BUILDING
TORONTO, ONTARIO

CANADIAN TAX FOUNDATION

BOARD OF GOVERNORS

ELECTED AT ANNUAL GENERAL MEETING

10th FEBRUARY, 1948

A. Irvine Barrow, C.A.	Halifax
A. E. Beauvais, C.A.	Quebec City
Hon. G. P. Campbell, K.C.	Toronto
K. LeM. Carter, F.C.A.	Toronto
J. R. Church, C.A.	Vancouver
K. W. Dalglish, C.A.	Montreal
L. A. Forsyth, K.C.	Montreal
F. E. H. Gates, C.A.	Montreal
W. J. B. Gentleman, C.A.	Saint John
J. G. Glassco, O.B.E., F.C.A.	Toronto
H. P. Herington, F.C.A.	Toronto
W. G. H. Jephcott, F.C.A.	Toronto
W. A. G. Kelley	Toronto
L. J. Ladner, K.C.	Vancouver
Hon. Fred A. Large	Charlottetown
J. A. MacAulay, K.C.	Winnipeg
H. C. F. Mockridge	Toronto
K. J. Morrison, F.C.A.	Calgary
G. R. Munnoch, K.C.	Toronto
J. McG. Stewart, K.C.	Halifax
H. H. Stikeman	Montreal
J. S. Swinden, C.A.	Winnipeg
Andre Taschereau, K.C.	Quebec City
M. G. Teed	Saint John

CHAIRMAN G. R. Munnoch, K.C.

VICE-CHAIRMAN . . . H. P. Herington, 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 Second Annual General Meeting of the Canadian Tax Foundation

This report marks the close of the Canadian Tax Foundation's first complete year. It has been a year of development which still has some way to go. At our last Annual Meeting we had the urgent problem of finding an office before any real work could be undertaken. With the help of one of our subscribers, for which we are very grateful, we were able in the course of the year to arrange a five-year lease of excellent space in new premises which will soon be available. Here it will be possible to enlarge the staff and develop the Foundation's facilities on a permanent and more serviceable basis. Our present address has meanwhile provided a satisfactory temporary base from which we could deal with matters requiring immediate attention.

The outstanding event during the past year from the Foundation's point of view was the introduction of the new Income Tax Bill last July. When the Minister of Finance presented the Bill to Parliament, he mentioned the Canadian Tax Foundation, together with the two sponsoring Associations of the Bar and the Chartered Accountants, as being qualified to render valuable service to the country by studying the new legislation, and encouraging its consideration by the public. We naturally welcomed this opportunity, coming as it did as soon as we were organized for business, and it has been given first place in the Foundation's endeavours.

Our first step was the publication of a brochure reviewing the Bill's principal features and containing reference material to facilitate its study. Copies were, of course, sent to all subscribers, who are no doubt acquainted with its purpose which is to interest and inform the public. About six thousand copies have accordingly been distributed to Members of Parliament, newspaper editors, trade associations and other interested persons throughout the country. The reception accorded this brochure has been encouraging evidence of the usefulness of this type of publication and we believe it has advanced the Government's objective that the Bill should be widely considered before it is debated in Parliament.

Early in December, immediately following the publication of this brochure, the Foundation convened a Conference on the Bill which was attended by well over a hundred people from all over the country, including a large proportion of lawyers and accountants who had

given the subject some previous study. This meeting was held in Ottawa so that officers of the interested Government Departments might conveniently participate in the discussions. We were particularly glad to welcome them and they contributed greatly to a proper understanding of the administrative point of view on the various questions considered. I need scarcely add that these officers are not to be associated with the conclusions of the meeting or any resulting recommendations.

A report of the opinions expressed and conclusions reached at this Conference has since been prepared in draft form and sent to all our subscribers for their immediate information, as well as to all those who took part. We are having this report printed in order to make it available for the use of any person who wishes to have an expression of representative and disinterested opinion upon the main features of the Bill which it covers.

This report could not have been produced but for the fact that a considerable number of busy men with the highest qualifications for the task were prepared to come to Ottawa at no little sacrifice to themselves and spend two days in the intensive work of the Conference. The spirit in which this task was approached is best evidenced by the fact that no element of special interest obtruded itself at any stage of the discussion.

In the Chairman's Report at the last Annual Meeting it was stated with regard to the revision of the Income War Tax Act, which was then in progress, that the Foundation was prepared to offer its services to the Government by organizing representative groups of expert tax practitioners to consider any questions of difficulty on which the Drafting Committee might wish to have an outside opinion. This offer was accepted, and last spring the Foundation organized two such groups in Toronto and Montreal which considered and reported on a number of questions on which views were requested. While I do not feel at liberty to report more fully on this service, I have been assured that it was appreciated and found to be helpful.

While the Foundation's objectives extend to the whole field of taxation, no part of our tax structure is more important than income taxes. I think our experience during the past year has shown very clearly the readiness of those who are engaged in taxation practice to make their knowledge and experience available for the public weal when opportunity is provided. This opportunity was made possible by the wise policy which the Government adopted in the case of the present income tax revision by inviting discussion and constructive criticism. The Foundation welcomes this policy and will continue

to work wholeheartedly to the end that it may be justified by the results and so become an established procedure in our tax legislation.

In order to strengthen the part that the Foundation can play in this respect, I hope that many members of the Canadian Bar Association and the Dominion Association of Chartered Accountants, by whom the Foundation is sponsored, will give the Foundation their personal support. As the Foundation enters its second year a membership campaign will be inaugurated in both professions. In 1947, twenty personal subscribers were added to our original members. There is every good reason why we should have at least four hundred individual members by the end of the present year. It is also hoped that institutions and corporations will continue to provide the sustaining financial support which is essential to the development of the Foundation's work.

I should like to thank the Director and his staff for their loyal and devoted service during the year. The developments of the year have created a heavy burden of work which has been shouldered, often under trying conditions, with unfailing cheerfulness and effectiveness.

On behalf of the Board,

J. GRANT GLASSCO,
Chairman.

Dated at Toronto, Ontario,
10th February, 1948.

CANADIAN TAX FOUNDATION

BALANCE SHEET AS AT 31st DECEMBER, 1947

ASSETS

Cash on hand and in bank	\$34,987.66
Furniture and office equipment at cost	1,019.61
	<u>\$36,007.27</u>

LIABILITIES AND SURPLUS

Accounts payable	\$ 1,890.40
Surplus:	
At 31st December, 1946	\$20,964.07
For year ended 31st December, 1947	<u>13,152.80</u>
(The Foundation has an additional liability in respect of its undertaking to pay the sum of \$1,500.00 towards the cost of publication of a book on tariffs)	34,116.87
	<u>\$36,007.27</u>

STATEMENT OF REVENUE AND EXPENDITURE

For the Year Ended 31st December, 1947

REVENUE

Subscriptions received	\$40,245.00
Interest received	<u>200.65</u>

\$40,445.65

EXPENDITURES

Salaries	\$18,744.06
Travelling and entertainment expense, general	1,656.81
Office rent	1,350.00
Stationery, office supplies, general printing	522.59
Telephone and telegraph	245.33
Postage and miscellaneous office and other expenses	663.44
Books and periodicals	812.45
Brochure	1,833.18
Conference expense (net)	<u>1,464.99</u>

27,292.85

Surplus for year to Balance Sheet	<u>\$13,152.80</u>
---	--------------------

AUDITOR'S REPORT TO THE MEMBERS

I have examined the accounts of the Canadian Tax Foundation for the year ended 31st December, 1947, and report that in my opinion the above Balance Sheet and related Statement of Revenue and Expenditure have been drawn up so as to exhibit a true and correct view of the affairs of the Foundation as at 31st December, 1947, 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, 24th January, 1948.

Director's Report

As the Chairman's Report covers the past year, you will naturally expect me to discuss our plans for the future. I am particularly glad to do so because in some cases this is our first opportunity of meeting recent new members and subscribers whose interest and support we warmly welcome.

The Foundation exists to serve the whole country, and though our membership is still small relative to our objectives, it already represents all parts of Canada. It was agreed a year ago that the Director should travel across the country at the earliest opportunity to meet the people who are interested in the Foundation's work, or who would be interested if they knew more about it. Unfortunately, this has not been possible in the circumstances of the past year. The delay, however, may be advantageous in that it permits fuller development and discussion of our plans. So far as other business of this meeting allows, I hope that my present remarks will encourage some discussion, and they will therefore be as short as possible.

The objects of the Foundation were summed up by the Chairman at the close of our Conference at Ottawa last December in a statement which should appear on the record of today's proceedings, as it provides a clear frame of reference. These objects are expressed as follows:

"The first object is research in the field of taxation, which involves the study of any piece of tax legislation anywhere in Canada.

"Next, we shall make whatever contribution we can to public understanding of tax matters, both by publishing the results of our own research and by publishing such other material as may be useful.

"We shall also try to provide opportunities for public discussion of our tax problems, bringing together different points of view and trying to resolve difficulties and misunderstandings in this field.

"Finally, we shall be concerned with education along two lines: first, the encouragement of our universities to provide more ample facilities for the study of public finance and graduate studies in taxation; and secondly, the provision of special facilities for the education of persons wishing to enter tax administration as a career."

Perhaps I may deal here with the first two headings only, leaving the other two to be covered by any questions you may ask later. As the following proposals for the coming year will be discussed further

by the Board of Governors, your comments or suggestions at this stage will be particularly helpful.

First, as regards the field of tax legislation in Canada, it is clear that the work the Foundation has been able to do so far in regard to the Dominion income tax is only the beginning of a continuing assignment. It may be noted incidentally that our contribution to date has been concerned with the second and third objectives stated above, and has not yet included independent investigation of any special features of the subject. The new legislation itself has been described by the Minister of Finance as intended to provide a framework, by way of clarification of the existing law, within which further improvements can be made over the course of future years. It therefore anticipates a continuing process of review and improvement which will offer the Foundation unusual opportunities of useful public service.

When the revised statute has been adopted we shall see more clearly how much still remains to be done. Certain questions which the Bill does not touch undoubtedly require further study,—for example, matters concerning the relation of corporate income tax to individual income tax. There will be some experimental innovations which deserve careful observation; the proposed curtailment of the Minister's discretionary powers and consequent extension of regulations by Order-in-Council is perhaps the outstanding example. In addition, existing methods of collection, on which the announcement effect of the income tax largely depend, deserve early consideration in the light of experience to date of the new procedures introduced during the war, in other countries as well as in Canada, which are likely to become permanent features in one form or another. This is typically a matter in which an organization in the Foundation's position, acting in the public interest outside the government departments concerned, should gather evidence with a view to developing improvements.

At the present stage of this legislation it is not advisable to try to determine in advance of its enactment all the matters that should be so treated, or in what order they should be taken up. We shall in any event prepare for future reference, but probably not for publication, a full record of all phases of discussion on the Bill from which our own continuing agenda can be developed later, and to which any interested person can refer in future. We should, of course, deal similarly with any case of major amendment of other tax laws as well. Supplemented by the letters of comment and opinion which we are beginning to receive, such material will enable us to base our work on the broadest possible point of view.

It is owing to outside developments that the income tax revision has been the object of our first attention. As stated above, the Foundation's interests and terms of reference are much wider. The suggestion has been made from many quarters that we undertake a study of the subject of succession duties as soon as we can. I think this should be the next item on our programme. The Dominion Succession Duty Act has replaced the relative Provincial Acts in seven provinces for a period of five years, and sufficient experience has no doubt accumulated to justify a review of its operation and results now, before passage of time brings it up again in relation to the broader question of the division of tax powers between the Dominion and the Provinces. Our attention, however, would not be confined to the Dominion legislation. While succession duties are a minor source of revenue in comparison with other parts of the federal tax system, they create more problems per taxpayer concerned than any other, and more work on all sides per dollar of yield. We may therefore expect to find a wide range of interest in the subject on the part of the legal profession particularly, and I hope we shall have the benefit of their experience in our treatment of it.

The field of provincial corporation tax is in much the same position so far as jurisdiction and novelty of operation are concerned. Although we have received less evidence of general interest or concern, perhaps because the present state of affairs following the wartime agreements has largely eliminated the confusion of miscellaneous levies which characterized this area of taxation before the war, I believe the subject should have our early attention with a view to ascertaining difficulties encountered so far and helping to develop any remedies required, while the existing agreements still have several years to run.

Any one of these three fields of legislation might occupy the Foundation's attention for a full year or more, depending on the degree of treatment in detail. This raises questions of scope and priority which necessarily underlie any programme of tax research. When you consider the scale of study required to produce the recommendations of the Royal Commissions appointed to investigate the taxation of co-operatives, and of annuities and family corporations, to mention only recent examples in Canada, it is clear that the work we are discussing here needs to be guided by an exact appreciation of what is involved in any particular project if the risk of dissipating time and effort in secondary or inconclusive results is to be avoided. In the Foundation's case this difficulty is minimized, by reason of its constitution and sponsorship, by the available experience of the legal and accounting professions.

In our work so far there has been no real problem in this regard, because it has been concerned with public information and the organization of expert discussion, and not with independent investigation on our own part. But the problem has been recognized, because the value of any piece of research, assuming it is competently done, depends upon its relevance and on the application of the questions it is intended to answer.

In order to facilitate the practical lay-out of proposed or alternative projects in this branch of our work, and their consideration by the Board, I am therefore going to recommend that we establish an advisory programme committee representative of both professions, but not necessarily confined to them. This would be a standing committee available for consultation and advice on such questions as the breakdown of major fields of study, the relationship between the various parts, the most advantageous line of approach and the possible results to be obtained. It would also be asked to advise regarding the order and method of treatment of matters proposed to the Foundation for study, whether by outside persons, subscribers or the parent Committees of the Bar Association and Dominion Association of Chartered Accountants. In general, such a committee would strengthen the Foundation's working liaison with both professions, so that their knowledge and experience can be brought to bear to the best advantage. If they can help us to observe the target area, the Foundation will do the shooting without waste of ammunition.

Coming now to our second heading, namely our contribution to public understanding of tax matters, two subjects on which additional information should be available in published form appear to deserve priority. They are related to each other. The first is an analysis of the structure of indirect taxes now in effect, to be undertaken with a view to determining which items it may be most advantageous to discard as an when overall reduction can be made. So far as any reduction of special wartime levies is concerned this group of taxes has taken third place to the personal and corporation income tax, and it was still waiting its turn when the developments of last November complicated the situation further. So far as the average citizen is concerned, it is probably not unfair to say that his attitude in the matter is governed by his own particular interests, variable indignation, and guesswork, in that order. This is not his fault. When raised to the power of the vote, however, this combination lacks the ingredients of sound policy. Any contribution to public understanding would therefore be useful.

This is related, as the part to the whole, to the second subject which is the incidence of the whole tax system. In the Foundation's

first report a year ago it was stated that a study of this subject would be initiated as soon as the necessary staff and facilities made it possible. These conditions have not been available so far. Having had further opportunity to consider possible working plans in the meantime, I am now of the opinion that the magnitude and complexity of the operation, having regard to the separate jurisdictions involved, is beyond the scope of a single organization the size of ours, unless we are prepared to tie ourselves up to it for an indefinite period, and that results of practical value require a cooperative undertaking by a number of outside workers, in which Canadian universities and perhaps certain departments of government as well should take part. Such a project is also relevant to the Foundation's fourth objective as stated at the beginning of this report, and I hope that it will be possible to develop it in that connection, with assistance by way of research grants if necessary.

As a special matter related to this branch of our activities, I should report here that we have agreed at the request of the Canadian Institute of International Affairs to join with them in sponsoring a study of "Administration of Tariff Laws as a Means of Raising or Lowering Tariff Barriers", which is now in progress and will appear as a joint publication in book form.

This review of our plans brings us to the subject of the Foundation's staff. I would like to express to this Meeting my personal appreciation of the assistance which my associates have always given, under circumstances which sometimes needed a larger team. The prospect of a more complete establishment is encouraging to all concerned, and in conclusion I might mention the indicated requirements in this regard very briefly.

In the light of a year's experience, the work to be done appears to fall roughly into three parts, which do not necessarily correspond with three persons, as more will be required. The first is statistical work, which explains itself. The second covers public information and reference material. This involves more than answering enquiries and running a small library. The volume of tax literature produced today in the English language alone is surprisingly large, and it is increasing. For reasons that may be gratifying or the reverse, very little of it has been produced in Canada so far, and presumably not much of it is assimilated here, at least in a general way. As much of this material is of practical interest, and some of it is directly applicable to Canadian problems, the Foundation can perform a most useful service by screening and digesting it for the benefit of a wider public than the original material itself can ever reach. This is a phase

of our publication programme which can develop in several different ways, depending upon the character of the interest shown.

The third part is in some ways the most important. The Foundation does not share the power of attraction which causes witnesses to appear before Royal Commissions with well prepared statements of evidence, but has to go out itself for the information it needs. Only a limited part of this can be got by staying in an office. The Foundation must therefore be in a position to take any necessary initiative in order to meet its witnesses at their own convenience, and obtain the benefit of their evidence directly. It is impossible to do the best work in a field as large as this without spending the necessary time actually in the field. Organization of staff which made no suitable provision in this respect would therefore be defective for our purposes.

A permanent establishment developed on these lines, open to temporary additions for special purposes as required, and backed continuously by the experience and knowledge of the legal and accounting professions, should enable the Foundation to accomplish its objectives successfully.

MONTEATH DOUGLAS,
Director.

