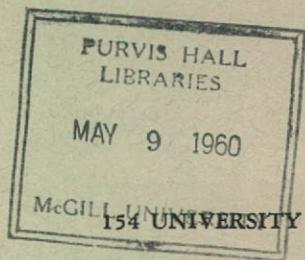


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# CANADIAN TAX FOUNDATION

*Fourteenth Annual Report*

FOR THE YEAR ENDING  
DECEMBER 31st, 1959



McGILL UNIVERSITY  
154 UNIVERSITY AVENUE, TORONTO 1, CANADA



# CANADIAN TAX FOUNDATION

## BOARD OF GOVERNORS

Elected March 29th, 1960

W. Fay Anderson, C.A.	- - - - -	Calgary
Marcel Belanger, C.A.	- - - - -	Quebec
*H. Marcel Caron, C.A.	- - - - -	Montreal
Gordon S. Cowan, Q.C.	- - - - -	Halifax
C. Roberts Davidson, Q.C.	- - - - -	Regina
D. W. K. Dawe, Q.C.	- - - - -	St. John's
Jacques de Billy, Q.C.	- - - - -	Quebec
*Raymond G. Decary	- - - - -	Montreal
L. E. Fingarson, F.C.A.	- - - - -	Regina
Neil V. German	- - - - -	Calgary
*Edwin A. Goodman, Q.C.	- - - - -	Toronto
Horace A. Hanson, Q.C.	- - - - -	Fredericton
*Lawrence F. Heyding, C.A.	- - - - -	Toronto
John Hyslop, C.A.	- - - - -	St. John's
*W. R. Kay, C.A.	- - - - -	Toronto
*John P. Kinghorn, C.A.	- - - - -	Montreal
K. T. N. Lapp, C.A.	- - - - -	Summerside
*Campbell W. Leach, C.A.	- - - - -	Montreal
*A. J. Little, F.C.A.	- - - - -	Toronto
*John deM. Marler, Q.C.	- - - - -	Montreal
D. C. McGavin, Q.C.	- - - - -	Winnipeg
G. Kenneth McKenzie, C.A.	- - - - -	Saint John
*Arthur S. Pattillo, Q.C.	- - - - -	Toronto
A. D. Russell, C.A.	- - - - -	Vancouver
J. C. Scott-Harston	- - - - -	Victoria
*William A. Simonton, F.C.A.	- - - - -	Toronto
Hugh E. Spencer, C.A.	- - - - -	Halifax
*R. Bredin Stapells	- - - - -	Toronto
*Jacques Tetrault	- - - - -	Montreal
*Stuart D. Thom, Q.C.	- - - - -	Toronto
R. H. Tupper, Q.C.	- - - - -	Vancouver
G. Norman Wildgoose, C.A.	- - - - -	Winnipeg

*\*Executive Committee of the Board of Governors*

## OFFICERS

Chairman	- - - - -	Stuart D. Thom, Q.C.
Vice-Chairmen and Co-Chairmen	{	A. J. Little, F.C.A.
of the Executive Committee	}	John deM. Marler, Q.C.
Past Chairman	- - - - -	Campbell W. Leach, C.A.
Director	- - - - -	Harvey Perry
Secretary	- - - - -	Ronald Robertson
Treasurer	- - - - -	James A. Reid

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31st DECEMBER, 1959**  
**(With comparative figures for 1958)**

	1959	1958
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash on hand and on deposit - - - - -	\$ 11,797.88	\$ 14,169.76
Guaranteed investment receipts - - - - -	50,000.00	50,000.00
Deposit with Trans-Canada Airlines - - - - -	425.00	425.00
Account receivable - - - - -	284.00	—
	<hr/>	<hr/>
	\$ 62,506.88	\$ 64,594.76
<b>FURNITURE AND OFFICE EQUIPMENT—at cost</b> - -	\$ 13,553.70	\$ 12,503.95
Less accumulated depreciation - - - - -	7,824.27	6,712.70
	<hr/>	<hr/>
	\$ 5,729.43	\$ 5,791.25
	<hr/>	<hr/>
	<b>\$ 68,236.31</b>	<b>\$ 70,386.01</b>
	<b><hr/></b>	<b><hr/></b>
<b>LIABILITIES AND RESERVE</b>		
<b>LIABILITIES</b> - - - - - - - - - - - - - - - -	Nil	Nil
<b>RESERVE</b>		
Retained for continuation of the		
Foundation's activities - - - - - - - - - -	\$ 68,236.31	\$ 70,386.01
	<hr/>	<hr/>
	<b>\$ 68,236.31</b>	<b>\$ 70,386.01</b>

**STATEMENT OF INCOME AND EXPENSE  
FOR THE YEAR ENDED 31st DECEMBER, 1959  
(With comparative figures for 1958)**

	<u>1959</u>	<u>1958</u>
<b>INCOME:</b>		
Subscriptions—Corporate - - - - -	\$123,135.00	\$113,380.00
—Individual - - - - -	26,655.00	22,565.00
Interest - - - - -	2,236.74	1,895.10
	<u>\$152,026.74</u>	<u>\$137,840.10</u>
<b>EXPENSE:</b>		
Salaries - - - - -	\$ 85,200.09	\$ 76,200.00
Publications (net) - - - - -	29,133.37	17,449.73
Rent - - - - -	10,490.00	10,490.00
Travelling - - - - -	5,509.45	4,877.81
Postage - - - - -	4,834.75	3,767.56
Special Studies - - - - -	4,706.95	4,013.19
Office printing, stationery and supplies - - - - -	3,324.94	3,737.65
Pension plan (net) - - - - -	2,898.80	1,791.22
General office expense - - - - -	2,013.11	1,489.16
Telephone and telegraph - - - - -	1,731.36	1,512.18
Books and periodicals—library - - - - -	1,716.01	1,821.57
Conferences expense (net) - - - - -	1,469.04	3,562.25
	<u>\$153,027.87</u>	<u>\$130,712.32</u>
Provision for depreciation of furniture and office equipment - - - - -	1,148.57	979.73
	<u>\$154,176.44</u>	<u>\$131,692.05</u>
<b>EXCESS OF EXPENSE OVER INCOME FOR 1959</b>		
Deducted from reserve - - - - -	<u>\$ 2,149.70</u>	—
<b>EXCESS OF INCOME OVER EXPENSE FOR 1958</b>		
Transferred to reserve - - - - -	—	<u>\$ 6,148.05</u>

ORMSBY & ORMSBY

CHARTERED ACCOUNTANTS

IMPERIAL LIFE TOWER  
VICTORIA & ADELAIDE STREETS  
TORONTO 1, CANADA

GERALD Y ORMSBY, F.C.A.  
ANTHONY J. ORMSBY, C.A.

TELEPHONE • EMPIRE 3-5405

AUDITORS' REPORT

To:  
The Board of Governors and the  
Members of  
Canadian Tax Foundation,  
154 University Avenue,  
Toronto, Ontario.

We have examined the Statement of Financial Position of the Canadian Tax Foundation at 31st December, 1959, and the Statement of Income and Expense for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying Statement of Financial Position and Statement of Income and Expense present fairly the financial position of the Canadian Tax Foundation as at 31st December, 1959, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Ormsby & Ormsby*

Chartered Accountants.

Toronto,  
March 4th, 1960.

*Report of Chairman*  
*To the Fourteenth Annual Meeting of the*  
*Canadian Tax Foundation,*  
*March 29, 1960*

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Each year as one of his final formal duties the Chairman presents the Annual Report covering the term of his office. In most years this has been a pleasant responsibility, but for me it is particularly so, as will become apparent as the details of our progress unfold. The past year has brought, I am pleased to report, a full measure of growth and increased opportunity for the Foundation.

In presenting the Fourteenth Annual Report I am reminded that the fourteenth year has had a special meaning since as far back as the Middle Ages. On reaching this age a youth then acquired the new status of squire. This brought both increased responsibilities and greater recognition. While the Foundation has already achieved a status in Canada of which we are proud, I am confident that this fourteenth year marks only the beginning of its career. Many challenges lie ahead in the coming years and the Foundation, having passed another landmark, can look forward to even greater stature and opportunity for service.

With further growth and change in the future it will become all the more essential that we hold fast to the basic policies that have guided us in the past. These principles bear stating from time to time and I feel that this occasion is a good opportunity for repeating them once again.

First, the Foundation must, at all cost, maintain its independence. Since it works in a controversial field of government policy, it must not play politics.

In fourteen years this policy has become established and generally appreciated. Occasionally there are still suggestions that the Foundation fight this or that proposal or support this or that cause, but we reject these suggestions and will continue to do so. Only in this way can we retain the high regard in which the Foundation is held by prominent men in government and in all political parties, which is the best evidence of the Foundation's strict adherence to this policy in the past.

Second, despite my earlier reference to squires and the age of chivalry, the Foundation must avoid the stance of a knight in shining armour. We need not be dull, but we must not confuse dramatics with demonstrated accomplishment.

This may not appear as important a consideration as the question of politics. But as our Director once phrased it, a number of earnest and sincere people sometimes think that drum and bugle should be part of the equipment of a research organization. We are not tilting at dragons in tax research; we know that there is no Holy Grail to be discovered that will solve all tax problems for perpetuity, and we know that the people responsible for the imposition of taxes are, by and large, just as concerned as the taxpayers that tax laws should be equitable and rational. The continual improvement of Canada's tax system requires plain hard work by all concerned. One page of facts is worth a thousand flag-wavings.

Third, we must not avoid subjects simply because they are controversial. Indeed it is almost true that by the very nature of taxation we would have very little to say if we avoided its contentious aspects — there are so few that are not bristling with marked differences of opinion.

If the Foundation fails to speak out, or fails to provide the opportunity, through our conferences and publications, for members and other thinking people to canvass all problems of the day in our field the Foundation will fall far short of the high expectations that are held for it.

Finally, there are limits to what we can do, and we must never promise more than we can deliver. For example, it is now well established that the Foundation is not a service organization for individual or corporate taxpayers. As our members know, however, all the information available in our extensive library and in the experience of the staff is available to them. This service, of course, is entirely different from representing any member directly in a tax issue. This the Foundation neither can nor will do.

Even in broad fields of public policy, such as the appropriateness of various kinds of government expenditure, there are definite limits to our ability to achieve results by our own chosen techniques of research. Research can contribute a great deal to the process by which public decisions are made but in some areas the possibilities are very narrow. Other forces — social, political and economic — are the mainspring, and in our type of society must continue to be so.

In summary, as I see it, the proper role of the Foundation is to seek out and make known the facts about tax and fiscal issues and to place them in perspective. To some this may seem a very narrow function and hardly worth the efforts put into it by the Board of

Governors and staff, and hardly worth the support of our corporate and individual members. But with only a little reflection most of us realize that facts are the indispensable ingredients of wise decisions. The facts and related issues we present to our members and governments through our studies, and the opportunities for discussion provided at our conferences, must in the long run have a profound effect on the fiscal life of our country. It is to this proposition that all activities of the Foundation are dedicated.

So much for the basic principles upon which the Foundation has operated during the past fourteen years. I shall now turn to more concrete matters relating to our activities of the past year.

### Conferences

Last year was the Foundation's most active conference year. In all, we held, co-sponsored or participated in some eight conferences. You will recall the two successful conferences on the Estate Tax Act, for which we owe so much to Mr. Ivan Linton, Administrator of Estate Tax, Department of National Revenue, Ottawa. These were followed by our first Business Management Conferences in Montreal and Toronto. The Queen's University Tax Seminar, in which the Foundation has always taken an active interest, again won the acclaim of business men who attended. Last fall the second Atlantic Provinces Tax Conference was held at Halifax in co-sponsorship with Dalhousie University; and in Toronto the first International Tax Conference was held in co-sponsorship with the International Chamber of Commerce.

The success of our Annual Conference in November last year, at Quebec City, is still fresh in the minds of our members, more than 500 of whom were in attendance. The hospitality we enjoyed in the capital city of the Province of Quebec will long be remembered.

More than 1,200 people in total attended these conferences.

Plans already approved for 1960 will widen our conference program to a truly coast-to-coast basis. Starting in Montreal, on May 5th, the Foundation will hold its second annual Business Management Tax Conference. On May 13th, our first Tax Seminar in co-sponsorship with the University of British Columbia will be held in Vancouver. Later in the month of May, from the 25th to the 27th, the Foundation will once again co-operate with Queen's University in Kingston in presenting its annual Income Tax Seminar for Business Executives. And present plans are for rounding out the national coverage in early June when, in co-operation with

St. Mary's University at Halifax, the Foundation will co-sponsor the third Atlantic Provinces Tax Conference.

Plans for one further conference must of necessity remain in suspense at the present time. If the 1960 Income Tax Amendments include changes of importance, a special conference will be called to review them. Unfortunately the date must depend upon the vagaries of the Parliamentary session and no definite plans can be announced until after the amending bill is introduced.

I am sure that the new Chairman will permit a further slight encroachment on his term if I take the liberty of saying that our fall program includes tentative plans for a conference on the municipal business tax and for another international tax conference. And it certainly is not too early in the year to remind you that our 1960 annual conference will be held in Toronto on November 14, 15 and 16.

As you know, these meetings bring together government officials from all levels, frequently from the United States as well as Canada, businessmen, academics from Canadian and American universities, and of course, lawyers and accountants. It is the intention in future years to continue the expansion of the regional conference program so that regional as well as national tax problems in Canada can be discussed and analyzed. There is little doubt but that the Foundation's conference program is equal in importance to any other phase of its operation.

### Publications

Our publication program is the main outlet for our research and is therefore at the heart of our activities. While we are not in the business of breaking records, 1959 was nevertheless a record year for Foundation publications. In all, some three-quarters of a million words were produced and I think that you will agree that the quantity has in no way diminished the quality. Our reliable standby, the *Canadian Tax Journal*, continues to reproduce the work of prominent tax writers and by itself constitutes a major contribution to Canadian tax literature. It would probably be possible even now to produce the *Journal* on a monthly rather than a bi-monthly basis, but we do not plan this step for the foreseeable future.

There were four Canadian Tax Papers in the year, two of them being original works of research produced by outside consultants. These were *Taxation and Development in the Maritimes* by Professor J. N. Wolfe of the University of Toronto, and *The Post-*

*War Taxation of Canadian Co-Operatives* by Professor R. Craig McIvor of McMaster University. Both of these dealt with fundamental problems and are excellent examples of the close co-operation we have developed with the universities. The other two papers are the reports of our Estate Tax conferences and our Corporate Management conferences. Mr. Linton's *Review of the Estate Tax Act* continues, after more than a year, to be a bestseller. More than 1,800 copies have been sold in addition to the original distribution of 3,500 on our regular mailing list. A good part of this demand has come from the Law Schools. Osgoode students, for example, have bought more than 300 in recent weeks.

You will recall the *Guide to Publications* published early in 1959, bringing under one cover for the first time an index covering all Foundation publications. This will be revised and brought up to date periodically.

Our popular *The National Finances*, the only publication in Canada to analyze the entire federal government revenue and expenditure program, was reissued last October after considerable revision and re-arrangement based on the experience gained in previous years. Some 800 copies of *The National Finances* were distributed to Universities for teaching purposes. In the *Tax Memo* series, our annual federal budget outlook was presented, as was a summary of provincial finances for the fiscal year 1959-60. In the *Taxes Abroad* series an issue was brought out on Belgium.

Two new series of publications were started in 1959. One, *Local Finance*, is the direct result of our entry into the municipal tax field last year. Two issues were released in 1959 and the series immediately gained wide acceptance. It has resulted directly in the introduction to membership in the Foundation of more than forty municipal officials across Canada.

The second venture was the *Canadian Fiscal Theses* series. This represents a Foundation contribution to academic endeavour in the study of tax and fiscal subjects. The publication of these studies, in limited numbers, gives circulation to information and opinion that might not otherwise receive any attention. Two theses have so far been issued in the series. This effort, for the time being at least, replaces the expenditure formerly made on the M. L. Gordon Fellowship. There has been no award for the past two years.

The proposed 1960 publication program is equally extensive. There will be the usual number of *Journals*, each with its high quality of content, the 1960-61 version of *The National Finances*,

and several of the *Tax Memo*, *Taxes Abroad* and *Local Finance* series. In this group there has been published already this year the *Tax Memo* on the 1960 federal budget outlook. This study has received very wide acknowledgment and publicity in the press. A box score, comparing the Foundation's predictions with those of the Minister of Finance for recent years, was published in a major business paper. I am happy to say the comparison enhanced the reputation of Foundation statisticians. In a few days you will receive a *Taxes Abroad* study of the United States income tax system. This work by Mr. H. D. McGurran is one of the most difficult and will undoubtedly be one of the most valuable of the series to date.

Four issues of *Local Finance* are planned for 1960 and two have already been distributed. In the Canadian Tax Papers series we have already issued a study of *Personal Corporations* by Gwyneth McGregor. This study has received a great deal of favourable comment and represents a happy blending of research at the Foundation and comments by participants in the 1959 Annual Tax Conference.

We hope that the earlier-than-usual publication of the 1959 *Conference Report* has not escaped the notice of our members. This was mailed in February instead of several months later as in previous years. The improvement was made possible by streamlining our own methods and by confining publication, on the majority of subjects, to prepared conference papers.

We have also continued into 1960 our practice of sending a periodic review of the Foundation's activities to our corporate members in a publication entitled "Corporate News Letter".

One item which deserves mention in the context of both 1959 and 1960 is the series of articles by Mr. McGurran, entitled *Principles of Income Tax*. You will recall that this appeared in serial form in the *Journal* last year. Following numerous requests by students we reprinted the series in an inexpensive pamphlet a few weeks ago and already close to 300 copies have been distributed at cost. Later in the year the petroleum tax study, which has been in preparation during the past two years, will be published.

### Tax Legislation

In the past it has been customary for the Chairman to comment on the Foundation's attention to specific tax legislation. As will be apparent from my earlier remarks on conferences and publications, there has been no let-up in this major aspect of the Foundation's work.

As in past years a committee from the tax sections of the sponsoring professions, under the auspices of the Foundation, examined with departmental officials the changes in the Income Tax Act following the first reading of the 1959 bill. This is now a regular annual event, and, as I indicated earlier, if conditions permit the 1960 amending bill will in addition be the subject of a special conference for members.

The inter-play of efforts of the Foundation and the sponsoring professions has long been of mutual benefit. In 1959, in addition to having the Director participate in the discussion of the Joint Taxation Committee of the Canadian Bar Association and the Canadian Institute of Chartered Accountants, the Foundation prepared background studies for the Committee to assist it in preparing its annual brief to the Minister of Finance. These dealt with personal corporations, foreign business corporations, and the practice in the United States in the areas of advance rulings and corporate amalgamations and reorganizations. It is expected that similar studies will be prepared for the Committee again this year.

Attention through the *Journal* was also given to certain aspects of some provincial tax legislation. Further attention to the provincial sphere will be given in the future.

Not all progress in the improvement of tax legislation can be pin-pointed. The inter-play of many factors and interested people and groups is made possible by the mere existence of the Foundation and its programs. Sometimes years pass before results occur, but in the long run there is substantial improvement. For example, a recurring theme in many Foundation discussions in recent years has been the aggravating problem of designated surplus and related aspects of undistributed income. There is hope that in the not too distant future the attention given to this problem will result in further consideration of the issue at the government level.

### Membership

The growing usefulness and status of the Foundation is nowhere better shown than in its membership figures, which passed the 3,000 mark for the first time in 1959.

We started 1959 with 1,906 individual members. In the course of the year more than one a day were added — 451 in all — for a new net total of 2,267 at the year end. This represents a 19% increase after allowing for lapsed memberships.

I am also most pleased to report that so far in 1960 the rate of increase in our individual membership roll is continuing. To a

recent date 140 new members were added so that today's total is over the 2,400 mark. As I mentioned earlier, a number of our new individual members have joined as the result of our entry into the municipal tax field.

The corporate subscribers picture was also bright. During 1959, 44 new corporate subscribers joined the Foundation, with the result that at the end of the year there were 515 direct corporate subscribers and more than 300 corporations supporting the Foundation through their own associations. Equally encouraging is the fact that in 1959, 77 corporate subscribers increased their contributions.

Our total membership at December 31, 1959, therefore, stood at 3,082.

So far in 1960, 10 more corporations have become subscribers, so that today, only three months into the new year, our total membership is in excess of 3,200, an increase of one-third in the last two years.

The above figures, particularly those for individual memberships in the current year, encourage one to think that the end of our membership growth is by no means in sight, and this is as it should be.

### **Finances**

The report on membership leads naturally into a report on Foundation finances.

In the previous annual report concern was expressed about the size of the anticipated deficit, which was then expected to be \$18,000. We had undertaken to expand in directions which we felt were necessary and desirable, and were confident that the money would be forthcoming to meet the increase in our budget. In this expectation we were not disappointed. As a result of intensive efforts from the office in Toronto, the support of our Governors from coast to coast, the co-operation of our existing subscribers who increased their own subscriptions or recommended membership to other corporations, and the interest of our members who introduced new members, the 1959 deficit was actually only some \$2,150. The full details of the Foundation's financial position are contained in the audited financial report which accompanied the notice of this meeting.

I am happy to report that the prospects for the coming year are much more reassuring. We count on a continued growth in our membership and will work towards that end. We also count on a

substantial increase in revenue arising from the upward adjustment in our minimum corporate subscription from \$100 to \$150. This adjustment has been accepted with good grace by our corporate subscribers and renewals are being made at the new rate. Our outlays for 1960 will be in the neighbourhood of \$165,000; and if our expectations work out we hope to meet all or most of this from current revenues. These expectations contemplate a continued increase in our membership, and this will not come about of its own volition. We must maintain our efforts to attract new members, and in this I appeal to all friends of the Foundation to give their continued help.

### Changes in the Board of Governors

The retiring members of the Board of Governors this year are as follows:

Paul Bruneau, C.A.	Donald McInnes, Q.C.
William M. Carlyle	Hugh J. McLaughlin, Q.C.
G. Fitzpatrick Dunn, F.C.A.	C. K. MacGillivray, F.C.A.
T. E. H. Ellis, Q.C.	David M. Tyerman, Q.C.
E. B. Fairbanks	H. G. Williams, C.A.
Henry F. White, Q.C.	

It is my particular pleasure to thank all these men for their considerable efforts on behalf of the Foundation during their terms of office. As you know, our Governors serve without remuneration, often at considerable sacrifice to themselves and their professional duties. The retiring Governors have generously contributed their time and talents to the business of the Foundation and to the formulation of Foundation policies.

A special word of tribute must go to our retiring Past Chairman, Henry F. White, Q.C. His term of service extends back through the entire history of the Foundation, and in fact pre-dates it, since he was one of the charter members and a signatory to the application for incorporation. He has served the Foundation longer than any other individual — first as Secretary, then as a Governor, and later as Vice-Chairman and Chairman. I am happy to recall that last year Mr. White included in his annual report as Chairman his recollections of the early days of the Foundation. Lest my recounting of his long service should leave the impression that Mr. White is of venerable age, I hasten to add that he is still a young man and we look forward to receiving his valued counsel

and advice for many years to come in his capacity as a member of the Advisory Committee of Past Chairmen.

I greatly regret to report that our Secretary, Mr. William H. Zimmerman, will be unable, because of the pressure of his practice, to act in that capacity for us in the future. He has been our Secretary since 1957 and we are most grateful to him for all he has done.

You will be asked in a few minutes to elect a new Board of Governors. You have received the list of nominations along with the notice of this meeting. In accordance with our by-laws, the nominations have been made by the presidents of the Canadian Bar Association and the Canadian Institute of Chartered Accountants and myself. You will note among the nominees the names of those who are now on the Board and have been re-nominated for another year. Those nominees not at present Governors are as follows:

Marcel Belanger, C.A.	K. T. N. Lapp, C.A.
Gordon S. Cowan, Q.C.	John deM. Marler, Q.C.
C. Roberts Davidson, Q.C.	Arthur S. Pattiilo, Q.C.
Edwin A. Goodman, Q.C.	A. D. Russell, C.A.
L. F. Heyding, C.A.	J. C. Scott-Harston
R. H. Tupper, Q.C.	

#### Staff

Since the last annual meeting there have been two staff changes. The impending departure of Roger Carswell, our Statistician, was announced at the last annual meeting. I am happy to report that Mr. Carswell's successor, Marion Bryden, is carrying forward the excellent work of Mr. Carswell and is adding new scope to our endeavours as a result of her experience prior to joining the Foundation staff. Mrs. Bryden came to us from Simpson-Sears Ltd., where she was engaged in budgeting, statistical reporting and sales forecasting work.

Illness resulted in the retirement last year of our Research Economist, S. G. Cerigo, who had been with the Foundation for approximately two years. During that time Mr. Cerigo carried out much of the preparation for our study of taxation in the petroleum industry and contributed as well to other Foundation publications. It is with sincere regret that I record his resignation. Since Mr. Cerigo has not been replaced, the staff now stands at eleven members.

Ronald Robertson, Executive Assistant, is relieving the Director of an increasing number of his administrative duties and in particular is assuming a large part of the burden of planning and running our various conferences. Mr. Robertson's training as a lawyer has also been increasingly employed, particularly by other members of the staff, in studying the legal aspects of tax problems encountered from day to day.

Our librarian, Gerald E. Hoy, who joined the staff last year, has assumed new responsibilities in addition to his work as librarian. Mr. Hoy now doubles as Assistant Editor, a task for which he is well equipped, having gained editorial experience as an editor in Reuters News Agency in England.

The creation of the post of Assistant Editor has enabled Gwyneth McGregor to do more research and writing and to accept some speaking engagements for the Foundation. Her study of personal corporations is her most recent contribution, and of course her comments on tax cases in the *Journal* have a wide following.

David McGurran, our Research Associate, has distinguished himself for his ability to extract principles from the complications of tax legislation of our own and other countries and to explain them in a remarkably lucid way. This has made his *Taxes Abroad* series and his recent *Principles of Income Tax* among the most valued publications of the Foundation.

While with the Foundation for just a year, Eric Finnis has already made the Foundation's voice authoritative in the area of municipal taxation. The series, *Local Finance*, is the product of his brain and pen and it has successfully launched us upon the troubled waters of the municipal scene.

After so many years of consistent devotion to duty it is difficult to find new words to describe the efforts of the Foundation's senior staff member — our Treasurer, James A. Reid. I can only repeat what has been said in the past, that the orderly state of our finances, membership rolls and the precise management of our conferences are the results of his dedicated and untiring endeavours.

Our three secretaries, Miss Gurney, Mrs. Wilkinson and Mrs. Altan continue to contribute their essential talents which mean so much to any organization and particularly to the Foundation during this period of membership growth and the expansion of conference and publication programs.

The catalyst and focal point of these many talents is, of course, our Director, Harvey Perry, to whom I refer affectionately on some occasions as Pericles. It does not take much imagination

to conceive that in twenty-four centuries "Pericles" may have evolved into "Perry". Lest you be in any doubt that Perry the economist is the reincarnation of Pericles the statesman, I would like to read to you the final paragraph of an article on Pericles which appeared in a well-known publication.

"Of Pericles' personal characteristics we have a peculiarly full and interesting record. He was commonly compared to Olympian Zeus, partly because of his serene and dignified bearing, partly by reason of the eloquence with which he held friend and foe spellbound. The same dignity appeared in the grave beauty of his features, though the abnormal height of his cranium afforded an opportunity for ridicule of which the comedians made full use."

No man is indispensable, but Mr. Perry makes a fair stab at it; he is that wonderful and delightful case of the right man in the right job, and I believe most devoutly and most sincerely that we, as the Canadian Tax Foundation, owe him a great debt of gratitude. Nor should expressions of gratitude be limited to this body; philosophically and in the field of fiscal research we are the people of Canada and the work that is being done by Mr. Perry and his staff will in the fullness of time be of the greatest benefit to all of us.

### The Future

The necessity for tax research continues to increase with the growth of Canada. Many areas still require attention and each new study points the way to still another in this fast-changing world of taxation. The Foundation, I believe, has conducted itself in the tradition of objective and efficient public service developed by its sponsoring bodies, and I know that it will continue to do so. In so doing it will retain the full support of its sponsors and members and will enjoy even greater respect and responsibilities in the future.

### Conclusion

In conclusion I would like to express my appreciation to my fellow officers and Governors for their warm support and co-operation during my term as Chairman, which has been a delightful experience and over all too soon. I know that the new officers and Governors will meet the challenges of the coming year and I wish them every success in their endeavours.

CAMPBELL W. LEACH

*Report of the Director*  
*To the Fourteenth Annual Meeting of the*  
*Canadian Tax Foundation,*  
*Toronto, March 29, 1960*

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I rise to give my annual report in my annual state of confusion as to what the Director can say that has not already been said by the Chairman. The Chairman's script has traced all the main threads of the plot, has given adequate stage directions and has even indulged in some character analysis. With the up-stage action thus completely monopolized, the Director finds himself anxiously examining the distant background scenery for whatever inspiration it might bring. This is a precarious and exacting exercise in which shadow and substance may easily be confused. For what little merit they may have the following are some observations that have emerged from the latest venture in scanning the horizon.

#### General Issues

One of the more fascinating sides of the modern economy is the rapidity with which one earth-shaking development follows another. It was almost with surprise that I discovered that my last annual report had been devoted to the question of inflation. A year ago it was the centre of attention, but today inflation and public concern over it have almost completely disappeared. No doubt the change can be attributed to the salutary influence of a rational budgetary and monetary policy in restoring confidence in the financial community. With the prospect of a balanced budget in the immediate future and the continued expectation of a stable money supply the main fears for inflation originating with the government have been removed. It was an interesting aspect of this change in sentiment that it lagged behind the crucial events by some months and then came very suddenly. It is fortunate that it finally did come, because there was little more that any government could have done to establish a reputation for financial sobriety than the federal government has done in the past year. Any further steps it might have been moved by frustration to take would have been truly drastic.

In any event and whatever the reason, inflation is out of the headlines and we now have a new cause for concern. This may be epitomized as "living beyond our means", and we have been hearing a great deal about it recently from government officials and eminent Canadian economists, including the Governor of

the Bank of Canada. The heart of the matter is the lack of balance in our financial transactions with the rest of the world. For some years we have purchased abroad more goods than we have sold and in addition have sent abroad substantial and increasing amounts of money for payment of dividends and interest, for tourist travel and for other so-called invisible items in the balance of payments. We have been able to continue to do this year after year because of the flow of funds coming into Canada from abroad for investment or for use by our governments or for other purposes. We are being warned that we cannot continue on our present course indefinitely, and that unless steps are taken to bring ourselves back to closer balance with the rest of the world we face an ultimate adjustment that will be serious and protracted. One assumes that this adjustment would take the form of a loss of confidence in Canada abroad, with a resulting flight from the Canadian dollar, which would replace the present premium with a substantial discount. In these circumstances we simply would not be able to continue to borrow abroad and would be forced to live within the reduced means available to us.

An issue of this magnitude naturally evokes wide differences of viewpoint both as to cause and cure. Indeed at the present juncture the confusion of clamours and counsels begs for strong leadership from some quarter if we are to escape frustration between the extremes of Jeremiah and Pollyanna. Our own direct concern with it is marginal, since many other economic issues are involved, but it does have more than a remote connection with fiscal policy. Perhaps the closest and most immediate relationship is the effect on confidence abroad resulting from the general posture of government finance within Canada. I recall an American financier telling me some years ago that nothing would dry up the flow of U.S. funds more quickly than a protracted period of unstable government finance in Canada. We may have been on the verge of such a period in the last couple of years, but by energetic measures we have removed the danger. That these measures were taken in time, and therefore were not so drastic that they blighted the generally favourable tax climate for foreign investment, is another factor that is of direct relevance to the continued flow of funds from abroad. Had they been postponed the results could have been vastly different.

Still another factor that has a bearing is the extent to which governments are forced to borrow funds outside Canada because they are not available here. This has been particularly the case

in the last couple of years when the bond financing required for the substantial federal deficit has forced some provinces and several municipalities into the American market. Both these latter incidentally are side effects of a policy of deficit financing which could not have been anticipated but are of crucial — if conflicting — importance in relation to the balance of payments.

Getting down to more specific cases, it has been said for example that consumer spending on goods imported from abroad is one of the main reasons for the marked rise in our imports. The direct and obvious remedy through the fiscal system would be to raise tariffs on such imported goods. However, we are prevented from taking this step under the GATT agreements and in any event would only invite reprisals from other countries, which in the long run would be to our substantial disadvantage. The fiscal prescription within our competence — and a most disagreeable one — would be general tax increases designed to reduce total consumer spending, along with new and heavy taxes on goods having a high content of foreign origin. It is also said that Canadian savings are insufficient to supply Canadian capital needs, and incentives could be given under the tax system in various ways to encourage saving. Ironically enough it was only a few years ago that concern was being expressed by the Minister of Finance that the tax system already provided too great an incentive for saving. Perhaps a device is needed to give an incentive rather for investment, although here too we have already gone some way with the dividend tax credit. We also hear that it would be desirable to stimulate the processing of raw materials in Canada and thus increase the value of our exports. A considerable stimulus could be given in this direction through acceleration of capital cost allowances for new investment. If it were felt necessary to stem for a period the outflow of dividends and interest this objective could be achieved by a drastic increase in the rate of withholding tax on payments going abroad.

These points by no means exhaust the catalogue of ways in which the tax system could be used for influencing even as apparently so remote an objective as the balance of payments. Two comments on the possibilities come immediately to mind.

The first is that most of these steps have been tried before and most have been found wanting. The serious currency crisis of 1947 was attacked along these lines, even though the main emphasis was placed on quota limitations for imports. I have analyzed this experience elsewhere in *Taxes, Tariffs and Subsi-*

*dies\** and shall have to satisfy myself with this reference because there is not sufficient time today to recount its details. Perhaps it could all be summed up in the observation that the success or failure of any economic program depends to a large extent on public acceptance and understanding of the objectives being sought. The public can sometimes be jolted into acceptance through the psychological impact of a dramatic announcement under conditions generally recognized as an emergency. But the public are far from regarding the present situation as one of crisis and therefore the principal ingredient for the success of a crash program is missing. And the public is only likely to be confused further, as matters now stand, by the wide disagreement among spokesmen as to the nature of the present dilemma. Some of the more positive tax measures I have mentioned might be adopted simply because they would be beneficial for the economy at any time — and it will be interesting to see if any of them appear in the budget speech this week. But the time has not arrived yet for suppressive tax measures — and I would express the hope that it never does. Their use in the past has probably done more than any single aspect of our fiscal history to destroy taxpayer goodwill and public confidence in the reasoning of the tax authorities.

Having reached the edge of space with my first comment I now go into orbit with my second. It seems to me that this is a time in which all of us, either consciously or unconsciously, are engaged in a reappraisal of our economic means and our social objectives. The immediate occasion for this reappraisal in many minds was the speed with which Russia overtook us in our chosen fields of superiority, but it has also been stimulated by increasingly frequent expressions of misgiving over our almost complete preoccupation with the production of material things. The catch-phrase "affluent society" has come to represent the whole complex of issues involved. Behind it lies the thought that our productive efforts are directed too exclusively towards the gadgets of modern civilization to the neglect of those enduring things which train the minds and mould the character of individual human beings.

Obviously this is one of the deepest issues in the philosophical development of western society and no comment I could offer would contribute much to its ultimate resolution. However, I can easily see that at one level it will increasingly put to the test

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our own conceptions of the proper role of the state — and the fiscus — in our daily lives. Acceptance of the thesis that we should devote more of our resources to improving our social capital — that is our educational system, our means of communication, living conditions in our cities, and so on — carries one logical and inevitable conclusion: government expenditures must rise substantially above even their present level. Some of this increase will come about whether or not we consciously plan it, if only because we shall be unwilling to accept a lower standard of living. That would result, for example, if we do not count on a substantial rise in expenditures on education and roads, streets and highways. Otherwise our schools will be choked with children and our streets with cars. And there are many other ways in which our lives could be enriched by the improvement of all our community facilities.

But all things have their price, and the cost would be an increase in taxation. And this is cause for concern. We see enough evidence from day to day of the effect of the present level of taxes to give us reason to be disturbed even with things as they are. The prospect that the personal income tax might have to be made more progressive, that the tax load on corporate profits might go beyond the present level of one-half, and that other levies might be substantially raised is most distasteful. Yet many of us in our hearts probably agree that we must strengthen those agencies which mould the fundamental character of our society and that if these fall within the responsibility of government the money should be made available for their support.

Thus we come again to the modern version of the ancient conundrum of the relation of the individual to society and the state. There have probably been few times in history when the citizen was less subject to regulatory restraint by the state than at present. But he is subject to taxation on an unprecedented scale; and this form of influence — or subjugation if you will — has quietly superseded all others. It has replaced all the old issues of state ownership, socialism, communism, or whatever name you wish to give them, because it is the most effective means ever devised for milking the cow without ever touching a pitchfork. Our interest in taxation therefore places us at the vortex of one of the most profound philosophical issues of the day. Although we may not feel its direct impact from day to day it is indisputable that over the years an organization such as the Foundation is bound to make a contribution to the ultimate end of this conflict.

Thirdly, I would like to introduce another inescapable issue of the day — namely, defence. We continue to spend on defence annually approximately a billion and three-quarter dollars, or almost twice as much as we spend on educating our children. In the last decade the total has been over \$16 billion dollars. We have become accustomed — or perhaps reconciled is a better word — to the continuation of this outlay, and most of us feel that it is the necessary price of freedom. But I am equally as sure that most of us have no idea as to the real substance of either our defence program or our defence problem. We move along from year to year at this level of outlay almost in complete darkness as to whether it is adequate or inadequate to meet the requirements of the strategic role we are expected to play; much less do we ever question whether it may not be a complete waste in terms of the contribution that might be made towards world peace through other uses of the same money.

What little public discussion there is of defence is in terms of new weapon development, as though this were the way in which we spend the bulk of our defence outlay. In fact this is now one of the smallest elements in the total — granted that the development of deterrent weapons may be of crucial importance in defence strategy. The bulk of defence expenditure now goes for the pay, allowances, rationing, training and housing of the 120,000 men in our permanent forces. Where ten years ago more than half the outlay was for equipment, now barely a quarter of the total goes for that purpose. And with a general decline in the value of the dollar accompanied by the rising cost of increasingly complex military machinery that quarter buys us very little.

Unfortunately we have had little guidance from our national government in assessing issues of this magnitude, and the lack is sorely felt. No doubt money is being mis-spent in the operation of the armed forces at present and one assumes that a Canadian Hoover Commission will have something to say on that score. But there are more fundamental questions than efficiency involved in our defence policy today. We might well ask whether we should be spending twice the present amount — or half the present amount. And if we did reduce the total whether the net contribution to peace might not be increased if we were to use the funds for assisting the new and under-developed countries of the world. There are exciting possibilities in the thought of having, say, \$500 million available for foreign aid. These are not easy questions to answer, and speculations such as my own may only be idle and mischievous. Yet I think we are entitled to hope

that there is still room for some imagination in the way in which we spend an amount that represents one-quarter of all the tax revenues of the national government.

Finally one can hardly complete a review of this breadth without allowing an intrusion of the perpetually present fact that we live in a federal system of government and that some of the most vexing issues in taxation arise from relations between levels of government. Many of these issues have been dormant in Canada because we have become accustomed to an almost fixed pattern of taxation under the federal-provincial agreements and have learned to expect only minor revisions with each quinquennial renewal. In this process the Canadian tax system has probably been subjected to a more frequent examination than that of any other country and the benefits are evident in its relative efficiency and simplicity, a fact which is frequently overlooked. But there may be less cause for satisfaction with the past than concern for change in the future. There are signs that the pattern may be breaking up. Nearly all but the Atlantic Provinces are showing an increasing restiveness under the yoke of the present arrangements. Quebec and Ontario have both moved away from the pattern of uniformity in corporate taxation, Quebec with its extra 1% tax for university grants and Ontario with its additional 2% rate for general revenues. In the western provinces prosperity seems to have brought a new outlook and there is now more interest in the possibilities of re-entering long abandoned provincial tax fields. British Columbia has always been an unhappy irreconcilable and might break out of the fold at the earliest opportunity. The ultimate decision will no doubt rest on the attractiveness of the next federal offer for renewal of the tax arrangements. If it does not come up to expectations we may see a definite movement in several provinces to restore their own corporation profits taxes, if nothing else. The Atlantic Provinces alone are not in a position to consider this alternative; lacking their own tax potential they must continue to hope to make the best possible deal with Ottawa.

The tight knot of the tax rental arrangements was designed to give the federal government a close control over the whole national tax system and it is not inconceivable that with a different approach to fiscal policy the present government will make little effort to maintain the existing restraints. Some relaxation may be desirable as a means of restoring a sense of autonomy among the provinces, but we can express the hope that if it

comes it will be carried out with the minimum disruption to the interests of the taxpayer.

So much for the very large issues that catch my eye on the horizon. There are two or three less exalted matters on which I would also like to comment.

First of all may I refer to the present tax position of corporate surpluses. Somewhere along the line in recent years we seem to have gone off the track. Many of the devices that have been adopted have been reasonable, liberal and intelligent, but I would suggest that the difficulties now being encountered have arisen from two causes: one the adoption of a piecemeal approach to new problems as they arose and the other the retention in our midst of that enduring monster, designated surplus. The enactment of the provisions for statutory mergers, while worthy and desirable, tended only to confuse matters further by the faulty handling of problems that arose under this experimental legislation. As far as I am concerned pursuit of the obvious course of development towards a 15% tax in lieu of all further personal income tax on corporate distributions is intellectually an unsatisfactory answer simply because it would have been adopted by drift rather than by conscious decision. If this is the answer — and I have a completely open mind on the subject — at least we should not adopt it until the alternatives have been reviewed. The whole subject needs re-examination, and the proposal of the Joint Taxation Committee that a commission or committee be established for this purpose in my view is the proper answer. It is to be hoped that in the budget speech which comes later this week the Minister of Finance will make some announcement in this regard.

Second, I make so bold as to say I think we are approaching some sort of reconciliation on the question of new ground rules for expense deductions. In the last couple of years there has been a marked advance in our analysis of the issues involved, culminating in the excellent paper prepared by Dr. Eaton for presentation at the Atlantic Provinces Tax Conference and reproduced in the *Canadian Tax Journal*. Of all subjects this one has been beclouded by murky prejudice and unyielding precedent and needed a prophylactic treatment by vigorous and untrammelled minds. This process has now been completed and should soon begin to bear results.

A third broad area in which we are entitled to expect further advance in the near future is that of the federal sales tax. It is now four years since the Carter Committee made its report.

Substantial progress has been made on a piecemeal basis in the extension of the exemptions and in the complete re-drafting of the C-circulars — now ET-circulars — and these steps alone represent marked improvements. However, the main job of introducing a complete revision of the statute is still ahead and I would like to think that if the new Act does not appear at the current session of Parliament it will be introduced for certain at the following session. This is a development which will mark the culmination of nearly ten years of concerted interest on the part of the Foundation.

Finally, it is not raising expectations unduly to count on some further amendments to the Estate Tax Act in the near future. The new legislation has now passed its period of trial run, and although nothing disastrously wrong has been uncovered there are several amendments that would improve its efficiency and equity. The Tax Section of the Canadian Bar Association has drawn these to the attention of the Minister of Finance in a well argued brief which deserves his fullest consideration in the preparation of the 1960 legislative program.

In concluding these remarks, which I hesitate to describe as a report, I should like to express my own satisfaction with the progress of the Foundation in the past year. Our new ventures have gone well, and some of our old have prospered even beyond our expectations. The growth in the financial base will allow us to carry forward the expanded program launched a year ago, but beyond that the increase in both our corporate and individual memberships is the most gratifying recognition we could wish for of the value of our whole enterprise. It is recognition of the care and effort that is put into every day's work by the staff, and it is also recognition of the prestige we derive from our professional sponsorship and of the devoted direction and guidance of our officers and Governors from the professions. Both professions have been moved by the highest sense of responsibility in nominating Governors for the Foundation, and among our illustrious names there are few that will rank higher than those of our retiring Past Chairman, Henry White, and our retiring Chairman, Campbell Leach. I have regarded it as a great privilege to have worked for and with these men and also to have enjoyed close association with many of our Governors.

May I conclude by assuring the new Board, and its officers, that I look forward with confidence to another successful year of the Foundation under their direction and guidance.

HARVEY PERRY.









THE Canadian Tax Foundation was established in 1945 as an independent tax research organization. Its Governors are nominated each year by the Canadian Bar Association and the Canadian Institute of Chartered Accountants, and its work is supported by some thirty three hundred Canadian individuals and corporations.

The purpose of the Foundation is to provide both the tax-paying public and the governments of Canada with the benefit of expert, impartial research into current problems of taxation and government finance. This work is carried on by a well-qualified, permanent staff and by outside experts commissioned for special studies. The Foundation publishes the Canadian Tax Journal and other books and pamphlets, and its activities include holding conferences, providing speakers, granting university scholarships and making submissions to government.

Membership in the Foundation is open to all who are interested in its work.