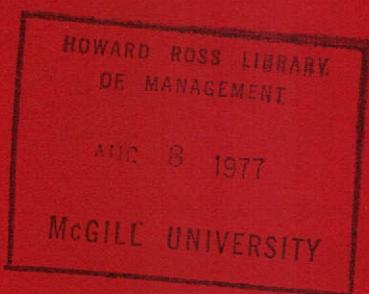


Canadian Tax Foundation

L'Association Canadienne d'Etudes Fiscales

Thirty-First Annual Report

For the year ending December 31, 1976



100 UNIVERSITY AVENUE
TORONTO, CANADA

Thirty-First Annual Report

For the year ending

December 31, 1976

CANADIAN TAX FOUNDATION

L'Association Canadienne d'Etudes Fiscales

THE BOARD OF GOVERNORS

Elected April 12, 1977

J. Merrill Belanger, C.A.	St. John's
* John H. C. Clarry, Q.C.	Toronto
Carman R. Colwell, C.A.	St. John
C. Paul Daniels, Q.C.	Vancouver
David Devine, F.C.A.	Vancouver
Claude Ducharme, Q.C.	Montreal
Keith E. Eaton, Q.C.	Halifax
* Charles E. English, C.A.	Calgary
Donald R. Fenwick, F.C.A.	Toronto
Jacques E. Fortier, C.A.	Quebec
Vernon C. Fowke, C.A.	Regina
* William E. Goodlet, F.C.A.	Toronto
Richard A. Haines, C.A.	Winnipeg
A. J. Irving	Winnipeg
Robert Law, Q.C.	Toronto
W. Merrill Leckie	Vancouver
Peter S. Leggat, C.A.	Montreal
Harold H. MacKay	Regina
Kenneth A. Mader, F.C.A.	Halifax
Jean Marier	Quebec
Leonard A. Martin, Q.C.	Corner Brook
* Eugene J. Mockler	Fredericton
* G. Edward Moul, C.A.	Vancouver
H. Ab Nisker, C.A.	Toronto
James S. Palmer, Q.C.	Calgary
* Jacques Raymond, C.A.	Montreal
Irving L. Rosen, F.C.A.	Toronto
R. M. Sedgewick, Q.C.	Toronto
Jacques St.-Martin, C.A.	Quebec
Arthur J. Stone, Q.C.	Toronto
* George T. Tamaki, Q.C.	Montreal
Bruce Verchere	Montreal

*Executive Committee of the Board of Governors

OFFICERS

Jacques Raymond, C.A., Chairman

George T. Tamaki, Q.C., Vice-Chairman
and Chairman of the Executive Committee

William E. Goodlet, F.C.A., Vice-Chairman

John H. C. Clarry, Q.C., Past Chairman

Douglas J. Sherbaniuk, Director

Douglas P. Cornish, C.A., Treasurer

Martina Vandermeer, Secretary

PAST CHAIRMEN

Molyneaux L. Gordon, K.C. (deceased)
Gordon R. Munnoch, K.C. (deceased)
J. Grant Glassco, F.C.A. (deceased)
W. G. H. Jephcott, F.C.A. (deceased)
Claude S. Richardson, Q.C. (deceased)
Kenneth LeM. Carter, F.C.A. (deceased)
* Lazarus Phillips, Q.C., Montreal
* Thomas A. M. Hutchison, F.C.A., Toronto
* R. deWolfe Mackay, Q.C., Montreal
* John A. Wilson, F.C.A., Toronto
M. Gerald Teed, Q.C. (deceased)
* A. Willard Hamilton, C.A., Montreal
Henry F. White, Q.C. (deceased)
* Campbell W. Leach, C.A., Montreal
* Stuart D. Thom, Q.C., Toronto
* A. J. Little, F.C.A., Toronto
* John deM. Marler, Q.C., Montreal
* Archibald D. Russell, C.A., Vancouver
* Arthur S. Pattillo, Q.C., Toronto
* Lancelot J. Smith, F.C.A., Toronto
* Phillip F. Vineberg, Q.C., Montreal
* H. Marcel Caron, C.A., Montreal
* John M. Godfrey, Q.C., Toronto
* Robert B. Dale-Harris, F.C.A., Toronto
* Roger Letourneau, Q.C., Quebec
* Frank T. Denis, C.A., Montreal
* W. E. P. DeRoche, Q.C., Toronto
* Denham J. Kelsey, F.C.A., Vancouver
* Robert H. E. Walker, Q.C., Montreal
* Kerr Gibson, F.C.A., Toronto
* John H. C. Clarry, Q.C., Toronto

*Advisory Committee of Past Chairmen

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1976

(With comparative figures for 1975)

ASSETS

CURRENT ASSETS	1976	1975
Cash	\$140,729	\$118,474
Investments, at cost (note 2)	500,000	465,000
Accounts receivable and deposit	1,978	1,874
	642,707	585,348

FIXED ASSETS

Furniture and office equipment	40,162	28,214
Leasehold improvements	<u>14,835</u>	<u>14,835</u>
	54,997	43,049
Accumulated depreciation and amortization	<u>30,817</u>	<u>27,062</u>
	24,180	15,987
	666,887	601,335

TRUST FUND

Cash	<u>14,092</u>	<u>13,080</u>
	<u>\$580,979</u>	<u>\$614,395</u>

LIABILITIES AND RESERVE

CURRENT LIABILITIES

Accounts payable	\$ 88,354	\$ 96,462
Deferred revenue	<u>162,245</u>	<u>115,892</u>
	<u>250,599</u>	<u>212,354</u>

RESERVE

Retained for continuation of the Foundation's activities		
Balance, beginning of year	388,981	396,542
Excess of revenue over expense (expense over revenue)	<u>27,307</u>	<u>(7,561)</u>
Balance, end of year	<u>416,288</u>	<u>388,981</u>
	666,887	601,335

TRUST FUND LIABILITY

Taxation and economic growth study fund,
joint project with Queen's University 14,092 13,060

\$580,979 \$614,395

APPROVED ON BEHALF OF THE BOARD OF GOVERNORS

John H. C. Clarry
Chairman

Jacques Raymond
Vice-Chairman

STATEMENT OF REVENUE AND EXPENSE
 FOR THE YEAR ENDED DECEMBER 31, 1976
 (With comparative figures for 1975)

REVENUE	1976	1975
Subscriptions		
Corporate	\$154,632	\$151,962
Individual	<u>189,267</u>	<u>165,743</u>
	343,899	317,705
Investment income	51,035	45,194
Conferences	<u>314,201</u>	<u>220,499</u>
	709,135	583,398
EXPENSE		
Technical Studies		
Research salaries	153,441	125,953
Research consulting	10,000	11,000
Publications	100,582	97,814
Special studies	(7,192)	23,373
Books and periodicals, library	9,542	5,447
Conferences - direct expense	<u>222,261</u>	<u>155,039</u>
	488,634	418,626
ADMINISTRATION		
Salaries	100,510	85,949
Pension and insurance plans	19,515	12,640
Rent	37,224	34,606
Travelling	6,369	7,878
Telephone and telegraph	4,720	4,335
Postage	10,714	9,957
Office printing, stationery and supplies	2,371	5,819
General office expense	8,016	7,558
Depreciation and amortization expense	3,755	2,591
	<u>193,194</u>	<u>172,333</u>
	681,828	590,959
Excess of revenue over expense (expense over revenue)	<u>\$ 27,307</u>	<u>\$ (7,561)</u>

STATEMENT OF TRUST FUND LIABILITY
 FOR THE YEAR ENDED DECEMBER 31, 1976
 (With comparative figures for 1975)

	1976	1975
Balance, beginning of year	\$ 13,060	\$ 12,158
Interest income	1,032	902
Balance, end of year	<u>\$ 14,092</u>	<u>\$ 13,060</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1976

(With comparative figures for 1975)

SOURCE OF WORKING CAPITAL	1976	1975
From operations		
Excess of revenue over expense	\$ 27,307	
Depreciation and amortization not requiring a current outlay of working capital	3,755	
	<hr/>	<hr/>
	31,062	
APPLICATION OF WORKING CAPITAL		
To operations		
Excess of expenses over revenue	\$ 7,561	
Depreciation and amortization not requiring a current outlay of working capital	(2,591)	
	<hr/>	<hr/>
Additions to fixed assets	4,970	
	<hr/>	<hr/>
	11,948	4,912
	<hr/>	<hr/>
	11,948	9,882
INCREASE (DECREASE) IN WORKING CAPITAL	19,114	(9,882)
WORKING CAPITAL, BEGINNING OF YEAR	372,994	382,876
WORKING CAPITAL, END OF YEAR	\$392,108	\$372,994
	<hr/>	<hr/>
COMPONENTS OF WORKING CAPITAL		
Current assets	\$642,707	\$585,348
Current liabilities	250,599	212,354
	<hr/>	<hr/>
	\$392,108	\$372,994
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS

December 31, 1976

(With comparative figures for 1975)

1. Significant accounting policies

(a) Fixed assets

Fixed assets are stated at cost less accumulated depreciation or amortization. Depreciation or amortization are provided for in amounts sufficient to relate the cost of depreciable assets over their estimated useful lives on a straight-line basis at 10% per annum.

(b) Deferred revenue

Subscription revenue applicable to a future period is deferred.

2. Investments

	<u>1976</u>	<u>1975</u>
Guaranteed investment certificates		
8½% to 9% due 1976 to 1979	\$335,000	\$300,000
Kinross Mortgage Corporation		
Debenture 10% due 1980	100,000	100,000
Royal Trust Company, "M" Fund 6,616.188		
units (market value 1976 \$65,633; 1975		
\$63,582).	65,000	65,000
	<u>\$500,000</u>	<u>\$465,000</u>

3. Lease commitments

The Foundation rents office space under a lease expiring in 1982. The basic annual rent is \$32,258 plus an amount representing the escalation of taxes and operating costs since the lease was written.

A U D I T O R S ' R E P O R T

The Board of Governors and the Members,
Canadian Tax Foundation
L'Association Canadienne d'Etudes Fiscales.

We have examined the statement of financial position of the Canadian Tax Foundation/L'Association Canadienne d'Etudes Fiscales as at December 31, 1976 and the statements of revenue and expense, trust fund liability and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Canadian Tax Foundation/L'Association Canadienne d'Etudes Fiscales as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Jarrett, Goold & Elliott
Chartered Accountants

Toronto, Ontario
February 7, 1977

Report of the Chairman
to the Thirty-First Annual Meeting of the
Canadian Tax Foundation
April 12, 1977

One of the formal duties of the Chairman is to report to the members at the conclusion of his term of office on the affairs of the Foundation for the year. In this Thirty-First Annual Report I am pleased to record another year of substantial accomplishment. It is our good fortune that the uncertainty in the general climate of business has not been reflected in our own activities. I shall provide details on some of them, and the Director will deal with others in his report.

MEMBERSHIP AND FINANCE

The Foundation relies today, as it has since its inception, on individual and corporate memberships for the bulk of its revenues. It is encouraging to be able to report continuing growth in both categories in 1976. There was a net addition to the rolls of 20 new corporate subscribers and 175 new individual members. Total membership at December 31, 1976 was made up of 6,242 individual members and 410 corporate members. An additional large group of Canadian companies -- some 300 in all -- are represented in our membership through association subscriptions made in lieu of contributions by individual companies.

The full details of the Foundation's fiscal position and operations for 1976 are set out in the audited financial statement that was sent to members with the notice of this meeting. Accordingly, I shall comment only on the main results of the year which, on the whole, were quite satisfactory. Subscription revenues were up appreciably, from \$165,000 in 1975 to \$189,000, primarily because of the increase from \$30 to \$40 in the individual membership rate, effective from May 1, 1976. Other contributing factors were the receipt

of revenues deferred from 1975 by reason of the postal strike late in the year, the new individual and corporate memberships and, in response to our request, increases in the contributions of 78 of our corporate members between May and December. So far this year, an additional 32 corporate members have increased their subscriptions. The understanding of our needs by these members is very much appreciated. Our conferences, particularly the Annual Conference, generated net revenues of \$92,000 last year compared with \$55,000 in the previous year.

Expenditures rose by about \$90,000, the main increases being for salaries (reflecting in part recent additions to the staff), pensions and group insurance and library purchases. There were increases in some other items, but these were offset by declines in still others. The net result of the year's activities was a favourable balance of \$27,000 compared with a deficit of \$7,500 in the previous year. The deficit of \$14,000 that was anticipated by the Chairman in his report last year did not materialize, due in part to larger conference revenues than had been budgeted for and also to the return to the Foundation by the University of Toronto of funds provided in 1972 and 1973 for a research project that was abandoned last year.

Although we concluded the year with a modest credit balance in the accounts, we have no reason to be sanguine about the state of our finances. Our outlays in 1977 will almost certainly be appreciably higher than last year, for we are no more immune to the effects of inflation on our operations than any other organization. Also, we are adding to the staff two new research associates whom we have long sought. In striking a balanced budget for the year, we are counting on higher conference revenues and continued growth in our membership and will work to that end. A special effort will be made to attract new corporate members, for corporate revenues have not kept pace with the growth in individual membership revenues. Ten years ago, corporate subscriptions accounted for more than two-thirds of total subscription revenues. Last year, they represented about 46%, not because of any falling off of corporate support (for new corporate members

have been added to the rolls each year) but rather because of the burgeoning interest in recent years on the part of lawyers and accountants and other individuals. We believe that once the activities of the Foundation are brought to the attention of corporations which are not presently members, support will be forthcoming.

In the near future, the Governors will consider an increase in the minimum corporate subscription, which has remained at \$150 since 1960. David Perry, our statistical expert, has calculated that, if the minimum subscription had increased as the Gross National Implicit Price Index increased, the 1976 minimum subscription would have been \$327.

CONFERENCES

Public education in the broadest sense is one of the Foundation's primary objectives. It is served not only by our research and publications but also by our conferences. The Annual Conference was held in Vancouver last November and brought together nearly 1300 lawyers, accountants, businessmen, government officials and academics. At plenary and panel sessions a wide variety of issues, several of which arose from the 1976 federal Budget, were analysed and explained by some of the most able experts in Canada. We were gratified to have visitors from abroad and a number of government officials take part in the program. As guest of honour, we were privileged to have the Honourable Donald S. Macdonald, Minister of Finance, whose speech at the banquet was a highlight of the conference.

While the Report will record the full proceedings, it will not show one of the most memorable features of the conference, which was the warm hospitality of the Foundation's friends in Vancouver.

In recent years, the Corporate Management Tax Conferences have focused on various aspects of substantive income tax law, to the virtual exclusion of administrative considerations. Last year's conference was given over entirely to a discussion of current issues of tax administration and compliance, with emphasis on problems and developments that have

followed in the wake of the major tax changes of 1971 and subsequent amendments. We were fortunate to have as a participant the Honourable J.S.G. Cullen, Minister of National Revenue, who dealt with a number of vexing administrative questions in his illuminating luncheon address.

The regional conference program extended literally from coast to coast. In January the first Prairie Provinces Tax Conference was held in Winnipeg under the joint sponsorship of the Foundation and the Continuing Education Division of the University of Manitoba. Speakers from the legal and accounting professions in Manitoba, Saskatchewan and Alberta discussed various aspects of "Tax Treatment of Small Business". The papers were published and distributed to registrants. I should like to take this opportunity to express our gratitude to the Law Societies and the Institutes of Chartered Accountants in the prairie provinces for informing their members of this conference.

Three conferences were held in May: the 12th Banff Tax Seminar, co-sponsored by the Foundation and the Banff School of Management Studies; the UBC Tax Seminar, jointly sponsored by the Faculty of Law at the University of British Columbia and the Foundation, at which a capacity crowd of some 250 was present; and our French language seminar, *Journée d'Etudes Fiscales*, which we sponsor in co-operation with the Centre de Formation et de Perfectionnement en Administration at the Ecole des Hautes Etudes Commerciales in Montreal. For the second year, the papers presented at the *Journée* were published and distributed to registrants. We understand that the Reports have proven useful for teaching purposes at universities in Quebec.

In October a seminar jointly sponsored by the Foundation and the Institute of Public Affairs at Dalhousie University was held in Halifax.

The conference program for the current year is already underway. In January, the two-day Prairie Provinces Tax Conference attracted 350 registrants, a record attendance for a regional conference. The papers are now being edited for publication. Three conferences will again be held in May:

the Banff Tax Seminar, from May 1 to May 4; the Journées d'Etudes Fiscales, which has been expanded to a two-day conference, on May 18 and 19, and the UBC Tax Seminar, which will be held in the new Faculty of Law building, on May 27.

The Corporate Management Tax Conference, which traditionally has been a one-day affair, will be held on June 28 and 29 in Toronto. There will thus be ample time for a thorough discussion for the theme of the conference, "The Income Tax Treatment of Real Estate Transactions".

This fall, the Atlantic provinces tax seminar will be co-sponsored by Saint Mary's University and the Foundation. Details of date and place will be announced later.

Before leaving the subject of conferences, I would remind you that the 1977 Annual Conference will be held in Toronto at the Sheraton Centre on November 21, 22 and 23. I know that the Director will welcome any suggestions that may be put forward by members, either on subjects for discussion or on conference arrangements.

TAX LEGISLATION

For many years it has been the practice of the Foundation to organize a committee of lawyers and chartered accountants to meet with senior officials of the Departments of Finance and National Revenue to review the provisions of the Bill amending the tax legislation after first reading, for the purpose of identifying technical deficiencies. Last year, the Bill was given first reading shortly before Parliament adjourned for the summer and was reintroduced in the fall. There was, therefore, ample opportunity for the Joint Taxation Committee of the Canadian Bar Association and the Canadian Institute of Chartered Accountants, with which the Foundation co-operates, to prepare a detailed brief on technical aspects of the amendments. In these circumstances, there was no need for the Foundation to organize a committee. If the time for scrutiny of the tax changes announced in the Budget of March 31 is short, we shall follow our usual procedure and form a review committee.

We were pleased to receive from the Department of Finance an acknowledgment that the capital cost allowance study prepared by a committee of practitioners organized by the Foundation had been helpful to the Department in arriving at decisions on amendments to the capital cost allowance system. Many of the changes introduced last year reflect the views in the Foundation's study.

TAX SIMPLIFICATION

The Tax Simplification Committee organized under the auspices of the Foundation early in 1976 recently concluded the first of two projects which it has undertaken -- the redrafting of certain sections of the Income Tax Act so as to present the existing law in a simpler, more readily understandable form. The purpose of the committee was not to prepare drafts that would be submitted for enactment as replacements for the current provisions but rather the more modest one of demonstrating that it is possible to express the existing law in simpler statutory language.

The Committee's second project is to examine certain provisions of the Act with a view to determining to what extent their complexity may be attributable to the concepts and policies which underlie them, and also to consider how the provisions might be revised in the interests of simplification. In due course the committee will seek a meeting with departmental officials to discuss the results of its efforts.

THE BUDGET PROCESS

In his Budget Speech last year the Minister of Finance expressed his concern about the adequacy of the present budgetary process. "Two aspects of the budgetary process require particular study", he said, "The first is the strict rule of secrecy which applies to the budget prior to its introduction. The second is the procedure for consideration of the budget proposals following their introduction in Parliament". A committee has been organized by the Foundation for the purpose of preparing a submission on these important issues in the formulation of our tax laws.

The members of the committee are George B. Cruickshank, C.A., R. A. Friesen, C.A., Donald J. Johnston, Professor T.E. McDonnell, Professor John Stewart, and the Director.

REVISION OF THE BY-LAWS

Three amendments to the by-laws will be submitted for your approval at this meeting. The purpose of the first change is to authorize the payment of compensation to the Secretary of the Foundation. Since the beginning of the year, the office of Secretary has been a full-time position for a member of the staff, Martina Vandermeer.

The second amendment alters the size of the Executive Committee from "not less than fourteen or more than eighteen Governors" to "not less than seven or more than eighteen Governors". It is contemplated that a smaller Executive Committee would attend to those matters that could not be left for decision until a meeting of the Board of Governors, but that insofar as feasible significant matters would be dealt with by the Board, which would meet at least twice a year. It is hoped that these changes will make possible an increased level of participation in the affairs of the Foundation on the part of individual Governors from all parts of Canada.

The last amendment relates to the Annual Report. Because of steadily mounting costs of publication of the Report, the decision was taken by the Board of Governors last November that the Annual Report would be made available to members only upon request, rather than being mailed out as a matter of course to all members as had been done in the past. This method of handling the report resulted in a substantial saving to the Foundation last year.

Notice of these three amendments to the by-laws was given with the notice of the Annual Meeting.

CHANGES IN THE BOARD OF GOVERNORS

The members of the Board of Governors who will retire this year -- seven in all -- are:

G. Colin Baird, C.A. - St. John's

H. Lawrence Doane, C.A. - Halifax

Kerr Gibson, F.C.A. - Toronto

R. J. MacBurnie, C.A. - Moncton

Norman J. Munn - Toronto

Neil F. Phillips, Q.C. - Montreal

Benjamin Swirsky, F.C.A. - Toronto

I welcome this opportunity to express to them on your behalf

sincere thanks for their interest, helpful co-operation and strong support of the Foundation during their terms of office. We are indebted to all of them for having contributed in so many ways in advancing the interests of the Foundation, but I should like to express a special word of appreciation to Kerr Gibson, F.C.A., who retires as Past Chairman. During his seven years on the Board, he has always contributed generously of his time and talents in discharging the many duties which invariably he willingly assumed. His views and leadership have been stimulating and creative and we look forward to his continuing interest and help as he joins the ranks of the Foundation's Advisory Committee of past chairmen.

Members of the Foundation have received a list of the nominations which, in accordance with the by-laws, have been made by the Presidents of the Canadian Institute of Chartered Accountants and the Canadian Bar Association. Those nominees not at present Governors are:

J. Merrill Belanger, C.A. - St. John's

Carman R. Colwell, C.A. - Saint John

W. E. Goodlet, F.C.A. - Toronto

R. A. Haines, C.A. - Winnipeg

K. A. Mader, F.C.A. - Halifax

Arthur J. Stone, Q.C. - Toronto

Bruce Verchere - Montreal

Mr. Goodlet is returning for a second tour of duty, having served previously on the Board from 1971 to 1974.

CONCLUSION

The need for non-partisan research and public education in the tax field was the motivating force behind the formation of the Foundation. With the substantial growth of government activity at all levels over the years, that need has increased commensurately. I am confident that the Foundation, as an independent national institution, will continue to make its important contribution to the understanding and resolution of both tax and expenditure problems, which touch the concerns of every citizen in the land.

I have spoken of the reliance on our individual members and corporate subscribers for the financial life-blood of the Foundation. We are also highly dependent upon the valuable contribution of time and skills on the part of many of our members and others who so generously come forward to assist us and contribute their exceptional knowledge and experience in the Foundation's conferences and other activities. On behalf of us all, I would like to thank them for their continuing assistance and support. I especially include among these the members of the Board of Governors and I wish personally to express my appreciation for their support during the past year. I should also like to welcome the new Governors who have been elected today and express the hope that their association with the Foundation will be a gratifying one.

All of us, however, would accomplish little without the very dedicated services to the Foundation of our Director, Douglas Sherbaniuk, and the staff of the Foundation. With small numbers, they handle the great volume of work involved in planning our Annual and other conferences and carrying them through to successful completion and in handling the many publications and other services which are a vital part of the Foundation's activities during the year. I can speak for all Governors in expressing our very warm appreciation to each member of the staff. I would especially like to thank Doug Sherbaniuk for his great help to me during the year and for the remarkable energy and capacity which he devotes to the Foundation and its goals.

I now move, seconded by Jacques Raymond, C.A., the following resolution, namely, that this Report of the Foundation for the fiscal year ending on December 31, 1976 and the financial statements of the Foundation as of the same date as submitted to this meeting be, and they are hereby, approved and adopted.

April 12, 1977

John H.C.Clarry, Q.C.
Chairman

Report of the Director
to the Thirty-First Annual Meeting of the
Canadian Tax Foundation
April 12, 1977

It seems only fitting that the Annual Meeting of the Foundation, whose principal raison d'être is the study of the tax system, should be held in April, when the level of tax consciousness in Canada doubtless reaches its zenith, as a multitude of taxpayers seek to meet the April 30 deadline in the annual reckoning between citizen and state for personal income tax purposes.

The self-assessment system, which has been a part of our law since 1920, is a remarkable phenomenon. It requires millions of taxpayers to make full disclosure of their income (which may be taxed at marginal rates in excess of 65%), compute their tax liability, fill out a return, file it and pay any tax owing. It is doubtful that the bulk of Canadian taxpayers share the view of Justice Oliver Wendell Holmes, who told his law assistant, "I like to pay taxes. With them I buy civilization". Nevertheless, they have assumed a high degree of responsibility in providing government with the revenues to pay for the demands which they have made upon it.

The self-assessment system is the cornerstone of the mechanism for collecting both the personal income tax, which is the beast of burden of the tax system, and the corporate income tax. Its virtues were extolled by a former Minister of National Revenue, the Honourable Robert Stanbury, as follows: "There are advantages of the self-assessment system which cannot be repeated too often. First of all, it is cheap." He went on to say that the cost of tax collection in Canada is "substantially lower than the cost of collection in any country not using the self-assessment system." Not only does it result in a saving of taxpayers' dollars, he said, but it also avoids a build-up of the giant bureaucracy which would be needed to administer another type of system. A second advantage is that it gives taxpayers "the opportunity to perform our most tangible act of citizenship other than voting." There is "important symbolisr

in the individual assuming responsibility for establishing the dues he owes to his
1 /
democratic society."

While the self-assessment system may reduce administrative costs for government, the cost of compliance to the taxpayer may be substantial in terms of time, anxiety and money. With respect to time, a conscientious taxpayer may spend many hours, either alone or aided by an unpaid adviser, in seeking to comply with the law. As regards the second type of cost, a United Kingdom commentator has observed: "Psychic costs -- the worry and anxiety which tax affairs do cause people -- are almost impossible to value, though they may be very real, especially for the retired, for persons with marital problems such as separated and divorced persons, and widows whose husbands have always filled
2 /
in the tax returns."

More tangible costs are incurred by taxpayers who employ paid
3 /
tax advisers. A recent study by Revenue Canada showed that 54% of "respondents" (a representative sample of Canadian taxpayers interviewed by telephone) completed their own return, 26% had their return completed by a professional tax consultant, and 20% had a relative (including a spouse) or friend complete their return. The fee charged by an adviser is related, of course, to the time taken and the complexity of the work. It would appear that the number of taxpayers seeking professional help is increasing. Mr. Stanbury commented three years ago that: "In the United States, I am told, more than 50 per cent of taxpayers employ the services of professional tax preparers in filing their returns. In Canada, we estimate that about 15 per cent of taxpayers rely on such
4 /
assistance."

Last year, according to the Revenue Canada study, 26% of

1 / The Honourable Robert Stanbury, "It's Self-Assessment Time", an address delivered at the Fourth Annual District Director's Institute on Federal Taxation at the Boston University School of Law, and published in Taxes -- the Tax Magazine, March 1974, p.159.

2 / Cedric Sandford, "Tax Compliance Costs Matter: Chancellor Please Note", [1976] British Tax Review 205 at p.207.

3 / "Highlights from the Evaluation of the 1976 Revenue Canada-Taxation Advertising Campaign".

4 / The Honourable Robert Stanbury, op.cit., p. 162.

5 /
Canadians engaged professional consultants.

Since fees paid to have personal tax returns prepared are not deductible in the computation of income, such compliance costs are likely to be resented by
6 /
taxpayers.

Is the Self-Assessment System Deteriorating?

Canadians have shown a remarkable capacity to pay taxes. To be sure, complaints about the heavy burden of taxation have been voiced as a matter of course over the years, and perhaps have grown more strident in recent times. But never in our history have we experienced any conduct even remotely resembling the taxpayer revolts that have taken place in several countries. But can we be complacent about the state of tax compliance in Canada? Are taxpayers fully meeting their obligations under the law or is the extent of non-compliance or evasion a cause for concern? (Let me say here that it is not possible to answer these questions with assurance, for data are not available to measure the tax "gap", a point to which I shall return later.)

In 1967, the Royal Commission on Taxation concluded that "the self-assessment system is working reasonably well in Canada...".
7 / Three years ago, however, the Minister of National Revenue expressed concern about the "cracks that I see appearing in the foundations" of the tax system and about deteriorating public confidence:

...public confidence in the tax system is entering a critical phase. Without a very high degree of public confidence in its integrity, fairness and efficiency, any system of taxation becomes difficult to administer,

5 / In the U.K. on the basis of surveys carried out in 1970 - 1971, "it was concluded that upwards of 8½ per cent of personal taxpayers employed tax advisers and a further 3½ per cent used unpaid advisers." Sandford, *op.cit.*, p.208.

6 / See Blunt v. M.N.R. 56 DTC 73. On the other hand, taxpayers deriving income from business or property may deduct such costs. Interpretation Bulletin IT-99 (April 30, 1973), dealing with "Legal and Accounting Fees", states: "Fees and expenses incurred for advice and assistance in preparing and filing of returns for income tax purposes are deductible in computing income from a business or property where the nature of the taxpayer's business or property is such that it is a normal part of operations of that kind to obtain legal and accounting services."

7 / Report, vol.5, pp.143-44

and a self-assessment system impossible. I believe that our actions and attitudes as tax administrators and practitioners during the next few years may determine whether or not [the United States and Canada] can continue to operate the self-assessment system . 8 /

Last year, the Acting Deputy Minister of National Revenue, S.F. Hobart, informed the Taxation Advisory Committee that, in the Department's view, tax morality is 9 / declining.

Dr. J.S. Hodgson, Deputy Minister of National Revenue, recently confirmed this opinion to me. It is an impressionistic view, he said, rather than one based on elaborate statistics, and is shared by the District Offices. Evasion, it would appear, is on the increase.

At this point, we have a definitional problem. What do we mean by tax "evasion"? The Carter Commission quoted the definition of "evasion" from the Report of the United Kingdom Royal Commission on Profits and Income, which definition, it said, is equally applicable for Canadian tax purposes. According to the British Royal Commission, the term "evasion"

...denotes all those activities which are responsible for a person not paying the tax that the existing law charges upon his income. Ex hypothesi he is in the wrong, though his wrongdoing may range from the making of a deliberately fraudulent return to a mere failure to make his return or to pay his tax at the proper time . 10 /

On the basis of this definition, evasion may consist of (1) failure to file any tax return; (2) filing a fraudulent return; (3) failure to pay tax at the proper time.

The ways of evasion are devious, particularly as regards the second category. A recent release from Revenue Canada states that 54 taxpayers were convicted during July, August and September, 1976 for evading a total of over \$1 million in income tax. The offences included failure of waiters to report tips and gratuities, understatement of inventory, unreported sales, and appropriation of corporate funds by an officer-shareholder. Other schemes involve

8 / The Honourable Robert Stanbury, op.cit., at p.161

9 / See J.G. Smith, "Report of the Taxation Advisory Committee Meeting, September 1976", (1976) 24 Can. Tax J. 670 at p.671.

10 / Royal Commission on the Taxation of Profits and Income, Final Report, Cmd.9474 London: HMSO, 1955, para. 1016. Quoted with approval in the Carter Report, vol.5, p. 538.

11/
conducting business transactions in cash so as to obviate any written records,

kick-backs (payment of an account is made in an inflated amount, the excess

12/
being returned to the payor), the use of fictitious invoices and more elaborate devices to falsify records.

Possible Causes of Evasion

Given the nature of the activity, accurate data as to the motivations of tax cheaters are not easy to compile. I would venture to suggest, however, that the following factors may have some causative effect.

(1) High rates of tax. Tax dodging when the rate is 10% is not nearly as attractive a course of action as when it is 65%.

(2) The growing tax burden on an increasing proportion of the population.

In response to the question, "Why is the self-assessment system going through such a critical phase?" the Minister of National Revenue said:

I think the most important reason is that the average guy is being asked to pay a lot more tax... [R]ising wages have pushed them into higher and higher tax brackets. So now a significant number of citizens are seeing their marginal rates of tax approach 40 per cent and 50 per cent, and they are not entranced with such a degree of sharing of their hard-earned wealth...

[T]here are indications that the average wage earner feels cheated: that the government is overtaxing him rather than socking it to the rich and powerful. Somehow, he feels others must be ripping off the system, and he is being made to pay the price. This kind of attitude is a clear symptom of incipient deterioration of confidence in the taxing system, if not in the system of government itself. 13/

11/ See the Hamilton Spectator, February 24, 1977: "Laundering money is an operation that can involve cash in making purchases -- just to make it extremely difficult for investigators to later trace transactions.

[A Revenue Canada official] said the normal business practice is payment by cheque and recording the transaction. But by using cash, income can be hidden or suppressed and it is often done to evade payment of taxes."

12/ See the Montreal Gazette, February 15, 1977: "Investigation into the invoice-selling scheme which rocked the city's clothing and textile industries last summer has uncovered 48 separate companies which sold false invoices.... More than 275 concerns are known to have bought fictitious invoices from the 48 vendors, which traded under 65 different company names. The practice involved at least \$50 million in false transactions on which income taxes of about \$25 million would normally have been paid, according to a government source."

13/ The Honourable Robert Stanbury, op.cit., pp.161-62.

(3) Use of the tax system for non-revenue purposes. The Income Tax Act is replete with provisions granting incentives, concessions and reliefs to various groups of taxpayers in order to achieve social or economic objectives. Such measures may result in "the alienation of other taxpayers unable to arrange their affairs to benefit from them. Feeling unjustly treated, might not some citizens be tempted to make their own tax concessions? Are we in danger of creating unwittingly a self-concession system?"^{14/}

(4) Inflation. To the many evils to which inflation is said to give rise, one may add -- perhaps with some diffidence -- tax evasion. On the basis of experience in Argentina where, over a protracted period, rates of inflation have soared beyond anything we have known in Canada, it has been suggested that inflation may operate as an incentive to evade. One reason is that policies for the adjustment of tax liabilities in the face of inflation tend to discriminate in favour of some groups of taxpayers, leaving other groups to adjust for inflation by their own means, namely, evasion. Another reason is that without adjustment of tax liabilities there is the impact of the progressivity of the income tax on increased monetary levels of income.^{15/}

(5) An apparent decline in commercial morality. The revelation over a period of several months of the use of kick-backs, slush funds and under-the-table payments by a number of large corporations in several countries may well have a deleterious effect on public morality in general and tax morality in particular. The impression of the public of conduct that is acceptable results not only from their personal experiences but also from what they hear and read about the conduct of others.^{16/}

Anti-Evasion Measures

A variety of measures are used to thwart evasion and encourage

14/ Ibid.

15/ Oscar Oszlak, "Inflation and Fiscal Policy in Argentina: The Income Tax In the Period 1956 - 1965" (Di Tella Institute, Buenos Aires, 1970).

16/ See also D. J. Johnston, "Why tax morality is declining", The Montreal Star News and Review, February 12, 1977.

compliance.

1. A highly effective tax collection procedure is withholding at the source. Employees, who constitute the great majority of taxpayers in Canada, are subject to withholding. On the basis of United States and Canadian data, the compliance score for wages and salaries is over 90%. Withholding does, of course, impose compliance costs on the payor.
2. The use of information returns, which can be matched to the taxpayer's tax return to detect non-reporting. This technique is used in respect of interest and dividends. The Carter Commission urged that "additional information be reported on interest and dividend income by reducing the reporting limit for T 5 returns from \$100 to \$10." ^{17/} This recommendation was adopted in 1968 but recently the reporting limit was raised to \$50, effective for the 1975 taxation year, apparently to lessen the burden of paperwork for financial institutions. It is unlikely that the increase in the reporting limit will lead to more evasion, having regard to the deduction for up to \$1000 of interest and dividends. Withholding on interest and dividends was considered in the United States in 1962 but was rejected by Congress, apparently because of the administrative difficulties attendant thereon.
3. Improving the audit coverage of tax returns. Revenue Canada is making increasing use of computers in assessing and auditing. Last year, second checks of so-called "high risk" taxpayers -- those with the greatest opportunity to cheat on their tax returns -- resulted in reassessments on nearly \$230 million of taxable income. ^{18/}
4. A more aggressive prosecution policy. It is clear from Revenue Canada data that the number of prosecution actions undertaken for various offences in recent years has increased substantially. For example, for failure to file returns, the number of prosecutions increased from 2,552 in 1972 to 6,692 in 1975. For failing to remit employee deductions, the prosecutions increased

17/ Report, vol.5, p.144.

18/ Financial Post, March 12, 1977.

from 1,119 in 1972 to 2,394 in 1975; and for tax evasion, the number of prosecutions increased from 100 in 1972 to 191 in 1975.

It is interesting to note that, last month, apparently for the first time, a publicly-owned corporation was charged with tax evasion. According to a government spokesman, the action against the company "suggests the existence of a 'new philosophy in income-tax enforcement' in Canada... Large corporations will be watched more closely than in the past. The Government has never gone after a big company for tax evasion, so you can draw your own conclusions," he said. The case concerns a wholly-owned subsidiary ^{19/} in Bermuda.

5. Publicity. Revenue Canada encourages publicity for tax evasion prosecutions and periodically publishes statistics of prosecutions, fines and prison terms.

The Auditor General has recommended that the government publicly expose people who flee the country to avoid paying their taxes. In 1973, a total of 161 taxpayers owed \$850,000 that was uncollectable because they had moved out of the country. Publicity naming the taxpayers and the amounts they owe could act as a deterrent, he said.

6. Public education campaigns.

7. Revenue Canada's policy of granting absolution to evaders who make a mis-step and repent in time. No prosecution will be commenced against a taxpayer who, before Revenue Canada begins an investigation, voluntarily discloses that he has wilfully evaded taxes.

Little information is available about the efficacy of most of these measures. A useful step in determining how to cope with evasion would be to learn more about its causes and about the effectiveness of anti-evasion techniques, perhaps through the joint efforts of sociologists, psychologists and tax officials.

Measurement of the tax "gap"

The Carter Commission noted that neither criteria nor statistics existed by which to measure the degree of tax compliance being achieved. They urged that steps be taken to correct this deficiency. Without such information, enforcement of the law is likely to be a hit and miss affair. Although statistics on enforcement programs and prosecutions provide a measure of tax evasion that has been detected, they shed no light on the evasion that has gone undetected.

Comprehensive data on the extent and nature of tax evasion in Canada have not yet been compiled. However, I have been given to understand that Revenue Canada has underway a project to measure the tax "gap" on the basis of controlled statistical samples. Such information should help greatly in the determination of how anti-evasion resources should be deployed, whether anti-evasion measures are effective and, if not, what new measures should be adopted.

Let me now continue with the review of our affairs that was begun by the Chairman.

PUBLICATIONS AND RESEARCH

The publications program is of cardinal importance to the Foundation's operations, constituting as it does the medium through which the results of research conducted or sponsored by the Foundation, and the proceedings of our conferences, are made public.

The Canadian Tax Journal continues to be the centrepiece of our publications, and is widely read and frequently quoted. Its contents include not only articles on a wide variety of subjects in the field of taxation and public expenditures, but also several features: "Current Cases", by T.E. McDonnell; "Estate Planning in Canada", by Sheldon Silver; "International Tax Planning", by R.D. Brown; "Fiscal Figures", by David Perry; "Checklist", by Millie Goodman; and "In the Library", compiled by Marjorie Robinson.

Two new issues were added to our series of Tax Papers during the past year. The first was Canadian Tax Reform and Private Philanthropy, by

R.M. Bird and Meyer Bucovetsky. In this study the authors are concerned with the effects of the income tax and death duties on those who give to support charities. They discuss the dimensions of private philanthropy in Canada, and compare it with the much more important place it holds in the United States. The study examines in some detail the most important tax developments affecting philanthropy over the last decade of tax reform.

The second Tax Paper, Charging for Public Services: A New Look At An Old Idea, by Richard M. Bird, was sent to members earlier this year. Although the imposition of charges for public services is not a new concept in public finance or in the Canadian tax system, Professor Bird breaks new ground by providing, for the first time, a background against which Canadian experience with charging for public services may be appraised. He discusses the extent of charging in Canada and also considers the potential scope for increasing the reliance of the fiscal system on charging rather than on taxing.

The 1976-77 edition of The National Finances proved to be in great demand, so much so that our supply was exhausted before we were able to fill all orders placed by university professors who have come to use it as a handbook in their courses in business and public finance. This is the only publication that presents a succinct and lucid exposition of the federal government's revenue and expenditure programs.

Two issues of the Tax Memo series were published last year: "Provincial Finances, 1976", which analyses the revenues and expenses of provincial governments; and "1975 Tax Developments", which is a compilation of tax developments in Canada as reported in the Journal feature, "Checklist". The purpose was to bring together in one place for convenient reference information about federal and provincial budgets, amendments to regulations, and non-budgetary tax changes. With a view to eliciting the opinions of readers about the compilation and also about "Checklist", a questionnaire was distributed with the Tax Memo. The results were overwhelmingly favourable to both, and convinced us that such a compilation should be issued annually. "1976 Tax Developments" was published as a Tax Memo last month.

In accordance with the practice we have followed for some years, the features on "Estate Planning in Canada" by Sheldon Silver that appeared in the 1976 issues of the Journal have been reprinted as a separate booklet, which is available from the Reprint Department at a nominal charge. The features contained in the 1971 to 1975 Journals are also available as a separate booklet.

A detailed Index of the publications issued by the Foundation from 1945 to 1971 was distributed last spring. A Supplement to the Index, covering all Foundation publications issued from 1972 to 1974, together with items published in 1971 that dealt with Bill C-259, the tax reform Bill, was mailed to members a few days ago. Both the Index and the Supplement contain not only a detailed breakdown of subject matter, but also an author index and an index of cases, and will serve to make the wealth of information contained in our publications considerably more accessible.

No listing of publications would be complete without mentioning our conference Reports. As the Chairman noted a few moments ago, the papers contained in the 1976 Corporate Management Tax Conference Report deal with various aspects of tax compliance and administration. The 1975 Conference Report was distributed last fall. Every effort is being made to expedite publication of the proceedings at the Annual Conference last November. We are looking to publication before the end of next month.

Our research and publications program for 1977 contains several major items. Professor Brian J. Arnold is proceeding with his comparative study of the relationship between income taxation and accounting concepts, particularly in the measurement of business profits. The project involves an examination of the jurisprudence, statutory provisions and administrative practices in Canada, the United Kingdom, and the United States. His efforts have already borne fruit in the form of an article on stock relief in the United Kingdom (a measure similar to LIFO), which was published in the Journal.

In the field of public expenditure, Professor Douglas G. Hartle will

soon complete a revision of his study of the federal budget process. We expect to submit the manuscript to the printer within the next few weeks.

Professor Roger Smith has undertaken a study of so-called "tax expenditures". He will examine various incentives, concessions and preferences granted in the personal and corporate income taxes and attempt to calculate the revenue foregone by the federal government as a result of these measures.

The preparation of Provincial and Municipal Finances, 1977 is underway and, later this spring, work on the next edition of The National Finances will commence.

Finally, another Tax Memo is in preparation. It will provide a summary of the Report of the British Columbia Commission of Enquiry on Property Assessment and Taxation (the McMath Report), which was published recently.

STAFF

This review of our affairs brings me to the subject of the Foundation's staff, who collectively represent the basic asset of our organization. There were two departures from the staff and a number of new appointments in 1976 and the early months of this year.

We were sorry to lose the services of Marie Belanger, who left the Foundation last fall to take a position in industry.

At the end of February, Jack MacLeod retired after nearly ten years of devoted service as Secretary and Treasurer. To him fell the responsibilities of keeping in touch with our subscribers, helping with the administration of our conferences, and providing efficient and prudent management of our financial affairs. He discharged those responsibilities with dedication and enthusiasm. His friends on the staff -- and that includes all of us -- wish him many years of health and happiness.

Because the duties attaching to the offices of Secretary and Treasurer have become considerably more onerous in recent years as a result of the increase in the Foundation's activities and membership, the decision was taken by the Board of Governors last fall to make separate appointments to these offices.

Douglas P. Cornish, C.A., was appointed in February to succeed Mr. MacLeod as Treasurer. He has outstanding credentials for this position, having served for some twenty years in various financial posts with the City of Toronto, most recently in the senior position of Director of Accounting in the Finance Department. Through his employment with the City, he gained considerable knowledge of municipal taxation, a field of growing interest in Canada.

Martina Vandermeer, who came to the Foundation in 1974 as Associate Secretary, was appointed Secretary. In addition to the usual duties of the Secretary, she will look after the administrative side of our extensive conference program and has taken on the added responsibility of supervising the publication of the 1976 Conference Report.

I am happy to report the appointment of Anne McAlonen to the position of secretary to Mr. Cornish and Miss Vandermeer. For over ten years, she served as receptionist and general secretary.

Last April, Catherine Frost joined the staff as editor. She carries the important responsibility of editing and supervising virtually all the material at the stage of publication, and attending to its production with our printers.

Earlier this year, Eric Finnis returned to the research staff as our expert in municipal finance. He served previously in that capacity from 1959 to 1963, and again from 1967 to 1970. He will be working on a part-time basis in Victoria.

Annette Rambissoon joined the staff last May and provides secretarial services in connection with membership and library affairs.

The most recent addition to the staff is Bonny Belfry, who replaces Mrs. McAlonen as receptionist and general secretary.

Let me say here how much we are looking forward to having Professor T.E. McDonnell, of the Faculty of Law at the University of Toronto, join us as Research Associate in June.

I should like now to say a word about those members of the staff whom I have not yet mentioned. With each passing year the value of their contributions to the work of the Foundation increases. David Perry carries major responsibility for all of our studies that involve statistical data, and is the author if the Journal.

feature "Fiscal Figures". Mary Gurney's versatility involves her in both editorial and statistical work, as well as in public relations and conference activity. Millie Goodman keeps the members up to date on current developments in public finance in her Journal feature, "Checklist", and also assists in the preparation of many other publications. The Index and the Supplement to the Index were in large measure the result of her efforts.

An invaluable aid to tax research is, of course, the library.

Our Librarian, Marjorie Robinson, and Nestor Roldan, Assistant Librarian, maintain our growing collection, assist the research staff and meet numerous requests from Foundation members, university students and others who use our facilities in increasing numbers.

To these hard-working members of the staff, together with Thora Harris, my capable and efficient secretary, Evelyn Thompson who attends to the vital matter of membership records, and Roy Wilson, Mr. Cornish's helpful assistant, I should like to express my gratitude for their unfailing co-operation and assistance.

In concluding these remarks I should like to say that it has been a pleasure and a privilege for me to have worked for and with John Clarry, our retiring Chairman, and Kerr Gibson, our retiring Past Chairman and to have enjoyed close association with many of our governors. May I also take this opportunity of welcoming the new Board, and assuring them of my fullest support in the year that lies ahead.

April 12, 1977

Douglas J. Sherbanuk
Director

