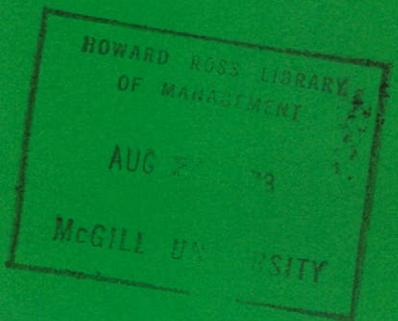


# Canadian Tax Foundation

L'Association Canadienne d'Etudes Fiscales

## *Thirty-Second Annual Report*

For the year ending December 31, 1977



100 UNIVERSITY AVENUE

TORONTO, CANADA



Thirty-Second Annual Report

For the year ending

December 31, 1977

CANADIAN TAX FOUNDATION

L'Association Canadienne d'Etudes Fiscales

THE BOARD OF GOVERNORS

Elected April 11, 1978

J. Merrill Belanger, C.A.	St. John's
James R. Brown, C.A.	Montreal
Patrick J. Cloutier, C.A.	Sherbrooke
Carman R. Colwell, C.A.	Saint John
George B. Cooper	Moncton
Glen E. Cronkwright, F.C.A.	Toronto
J.J.A. Dierker	Saskatoon
Gaëtan Drolez	Quebec
Claude Ducharme, Q.C.	Montreal
* Keith E. Eaton, Q.C.	Halifax
* Stanley E. Edwards, Q.C.	Toronto
* Charles E. English, C.A.	Calgary
Donald R. Fenwick, F.C.A.	Toronto
P. Nicholas Geer, C.A.	Vancouver
* William E. Goodlet, F.C.A.	Toronto
Richard A. Haines, C.A.	Winnipeg
Alan J. Irving	Winnipeg
Robert Law, Q.C.	Toronto
* W. Merrill Leckie	Vancouver
Peter S. Leggat	Montreal
Kenneth A. Mader, F.C.A.	Halifax
Leonard A. Martin, Q.C.	Corner Brook
Gerald E. Noren, C.A.	Moose Jaw
James S. Palmer, Q.C.	Calgary
* Jacques Raymond, C.A.	Montreal
Robert M. Sedgewick, Q.C.	Toronto
John G. Smith	Vancouver
Arthur J. Stone, Q.C.	Toronto
* George T. Tamaki, Q.C.	Montreal
David Y. Timbrell, F.C.A.	Toronto
Bruce Verchere	Montreal
Peter Walton, C.A.	Vancouver

\* Executive Committee of the Board of Governors

## OFFICERS

George T. Tamaki, Q.C. Chairman

William E. Goodlet, F.C.A. Vice-Chairman  
and Chairman of the Executive Committee

Stanley E. Edwards, Q.C. Vice-Chairman

Jacques Raymond, C.A. Past Chairman

Douglas J. Sherbaniuk Director

John W. Buckell, F.C.I.S. 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, 1977

(With comparative figures for 1976)

ASSETS

CURRENT ASSETS	1977	1976
Cash	\$166,308	\$140,729
Investments, at cost (note 2)	675,000	500,000
Accounts receivable and deposit	41,636	1,978
	<u>882,944</u>	<u>642,707</u>

FIXED ASSETS

Furniture and office equipment	47,338	40,162
Leasehold improvements	14,835	14,835
	<u>62,173</u>	<u>54,997</u>
Accumulated depreciation and amortization	34,455	30,817
	<u>27,718</u>	<u>24,180</u>
	<u>\$910,662</u>	<u>\$680,887</u>

TRUST FUND

Cash	9,105	14,092
	<u>\$919,767</u>	<u>\$680,979</u>

LIABILITIES AND RESERVE

CURRENT LIABILITIES	1977	1976
Accounts payable		
Deferred revenue	193,829	162,245
	<u>273,777</u>	<u>250,599</u>

RESERVE

Retained for continuation of the Foundation's activities		
Balance, beginning of year	416,288	386,981
Excess of revenue over expense	<u>220,597</u>	<u>27,307</u>
Balance, end of year	<u>636,885</u>	<u>416,288</u>
	<u>910,662</u>	<u>666,887</u>

TRUST FUND LIABILITY

Taxation and economic growth study fund, joint project with Queen's University	9,105	14,902
	<u>\$919,767</u>	<u>\$680,979</u>

APPROVED ON BEHALF OF THE BOARD OF GOVERNORS

Jacques Raymond  
Chairman

George T. Tamaki  
Vice-Chairman

STATEMENT OF REVENUE AND EXPENSE  
FOR THE YEAR ENDED DECEMBER 31, 1977  
(With comparative figures for 1976)

REVENUE	1977	1976
Subscriptions		
Corporate	\$164,096	\$154,632
Individual	235,946	189,267
	400,042	343,899
Investment income	55,186	51,035
Conferences	547,305	314,201
	1,002,533	709,135
EXPENSE		
Research salaries	189,276	153,441
Research consulting	17,446	10,000
Salaries - membership, clerical and administrative	107,519	100,510
Pension and insurance plans	32,696	19,515
Publications	119,923	100,582
Special studies	(21,366)	(7,192)
Books and periodicals, library	9,770	9,542
Conferences - direct expense	228,097	222,261
Rent	37,740	37,224
Travelling	7,356	6,369
Telephone and telegraph	5,137	4,720
Postage	19,393	10,714
Office printing, stationery and supplies	10,099	2,371
General office expense	14,342	8,016
Depreciation and amortization expense	4,508	3,755
	781,936	681,828
Excess of revenue over expense (expense over revenue)	\$220,597	\$ 27,307

STATEMENT OF TRUST FUND LIABILITY  
FOR THE YEAR ENDED DECEMBER 31, 1977  
(With comparative figures for 1976)

	1977	1976
Balance, beginning of year	\$ 14,092	\$ 13,060
Interest income	913	1,032
	15,005	14,092
Expenses for special study	5,900	-
Balance, end of year	\$ 9,105	\$ 14,092

STATEMENT OF CHANGES IN FINANCIAL POSITION  
 FOR THE YEAR ENDED DECEMBER 31, 1977  
 (With comparative figures for 1976)

SOURCE OF WORKING CAPITAL	1977	1976
From operations		
Excess of revenue over expense	\$220,597	\$ 27,307
Depreciation and amortization not requiring a current outlay of working capital	4,508	3,755
	225,105	31,062
Proceeds of disposal of fixed assets	95	—
	225,200	31,062
APPLICATION OF WORKING CAPITAL		
Additions to fixed assets	8,141	11,948
INCREASE IN WORKING CAPITAL	217,059	19,114
WORKING CAPITAL, BEGINNING OF YEAR	392,108	372,994
WORKING CAPITAL, END OF YEAR	<u>\$609,167</u>	<u>\$392,108</u>
COMPONENTS OF WORKING CAPITAL		
Current assets	\$882,944	\$642,707
Current liabilities	273,777	250,599
	<u>\$609,167</u>	<u>\$392,108</u>

## NOTES TO FINANCIAL STATEMENTS

December 31, 1977

(With comparative figures for 1976)

### 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>1977</u>	<u>1976</u>
Guaranteed investment certificates 73 1/4% to 9 1/2% due 1978 to 1982	\$475,000	\$335,000
Kinross Mortgage Corporation Debentures 10% due 1980	100,000	100,000
Royal Trust Company, 'M' Fund 10,115.348 (1976, 6,616.188) units (Market value \$101,178; 1976, \$65,633)	100,000 <u>\$675,000</u>	65,000 <u>\$500,000</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.

## AUDITOR'S REPORT

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, 1977 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, 1977 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.

Toronto, Ontario  
February 14, 1978

Jarrett, Goold & Elliott  
Chartered Accountants

Report of the Chairman  
to the Thirty-Second Annual Meeting of the  
Canadian Tax Foundation

April 11, 1978

A l'occasion de l'assemblée annuelle, le président présente son rapport sur les principales activités de l'Association Canadienne d'Etudes Fiscales. Dans ce 32e rapport, je suis heureux de signaler des réalisations intéressantes dans presque tous les secteurs, ainsi le nombre de nos membres individuels s'est accru à un rythme sans précédent, l'éventail de nos recherches et de nos publications s'est élargi et sous l'aspect financier l'année s'est soldée par un excédent important des revenus sur les dépenses.

I have just mentioned the substance of the thirty-second annual report of the Canadian Tax Foundation. The details of our activities can best be discussed under their appropriate headings.

#### MEMBERSHIP AND FINANCE

It is gratifying to be able to report that our membership in 1977 showed a substantial increase over the previous year. At December 31, our membership rolls showed 6,865 individual supporters, a net increase of 623 for the year, compared with about 175 in 1976. With a net addition of 450 new members since the beginning of 1978, we now have over 7,000 individual members.

I would like to take this opportunity to express the thanks of the Foundation to Mr. Gordon Cowperthwaite, F.C.A., President of the Canadian Institute of Chartered Accountants, and to Mr. Jacques Viau, Q.C., President of the Canadian Bar Association, who wrote to all members of their respective professions to bring our work to their attention and to encourage their support of the Foundation. As a result of their letters, nearly 900 new individual memberships have been taken out to date.

The corporate subscribers picture is also bright. At December 31 there were 393 corporate members, a net increase of 13 over the previous year. If we add to this some 200 companies represented indirectly through association memberships on their behalf we now have a total of about 600 corporate subscribers.

Members of the Foundation have received the statement of financial position for 1977 with the Notice of the Annual Meeting; therefore I shall comment only on the main results of the year. Compared with the previous year, our revenues increased materially from \$709,000 to \$1 million. The main explanation for this result is in the resounding success of our conference activities, particularly the Annual Conference. If we had had to rely only on our individual and corporate membership revenues and investment income, we would have incurred a deficit of \$100,000. While conference revenues are, of course, most welcome in the financing of our affairs, they can be capricious and cyclical and can hardly be relied on heavily in budgeting for our activities. With a view to seeking ways and means of increasing our subscription

revenues, a committee of the Board of Governors prepared a comprehensive report on the Foundation's membership and finances and made a number of recommendations, some of which have already been implemented.

Other contributing factors to the higher revenues were, of course, the striking growth in individual memberships and increases -- in some cases significant -- in the contributions of 55 of our corporate members. I might add that, so far this year, another 34 corporations have added to their subscriptions. Also, as reported last year by my predecessor, Mr. John Clarry, the minimum corporate subscription was increased from \$150 to \$200, effective from May 1, 1977. Since that was the first such increase since 1960, our corporate members responded most generously to this increase.

On the expenditure side of the accounts, there is an increase of \$100,000 to \$781,000 from \$681,000 in the previous year. A variety of reasons explain this increase, but the greater part is due to higher staff salaries, publication costs and general operating expenses, and also the addition to the staff of a research associate.

The net result is a favourable balance of \$220,000 compared with \$27,000 in the previous year.

For 1978 we anticipate a considerable decline in conference revenues and higher operating expenses, particularly for research projects. A number of studies are well advanced and, when completed, will result in a materially higher publications bill. Also, as the

Director will elaborate, an ambitious research program involving several studies concerned with the financing of Canadian federation will be commenced this year. To help generate higher revenues for the current year, the individual membership fees have been increased, effective January 1, 1978, from \$40 to \$50 and - for students and academics - from \$20 to \$25. Even after taking into account the fee increase, we are budgetting for a deficit in the range of \$10,000.

I would like to point out that the Governors have, over many years, as a matter of prudent financial policy, sought to maintain a reserve fund roughly approximating one year's operating expenses. With the addition of the 1977 net operating balance, this reserve is now sufficient to meet that objective.

#### CONFERENCES

Conferences are a major aspect of Foundation activities and have long been a forum for the presentation of different viewpoints on all manner of tax issues. We believe that by fostering free trade in ideas, we can only serve to enhance the Canadian tax system.

Our extensive program last year was a resounding success by any standards. Virtually all of the seminars and conferences enjoyed a record attendance, of course, due in part to the main topic of discussion -- the numerous and important changes in the income tax announced in the federal budget.

The success of the Annual Conference in Toronto last November is already a matter of record. The attendance of more

than 1,800 registrants made it our largest conference by a good margin, with broad representation from the various interests among our membership. While there was considerable diversity in the range of subjects discussed in the two plenary sessions, the 13 concurrent sessions and the two workshop sessions, the main focus of attention was on the 1977 income tax amendments.

An innovation was the distribution prior to the conference of two background papers for the plenary sessions. The first was a copy of a Report on The Tax Legislative Process, which was prepared by a committee formed under the auspices of the Foundation. It served admirably to introduce registrants to the subject for discussion at the opening session, "The Budget Process and Income Tax Changes". The second paper was on corporate distributions. It was the joint effort of the three panelists who, by reason of the pre-conference distribution, were able to devote the session to discussing major issues and responding to written questions. Shortly after the conference the authors updated their paper to take into account the amendments introduced after their paper had been prepared. Because of the widespread interest in the new tax treatment of corporate distributions, although the entire text of the revised version will be incorporated in the 1977 Conference Report, the paper was made available at nominal cost as a separate volume well in advance of the publication of the Report.

One of the highlights of the Annual Conference was our privilege of welcoming the newly appointed Minister of Finance, the Honourable Jean Chrétien, as guest of honour and banquet speaker.

The 1977 Corporate Management Tax Conference, the fourteenth in this series of meetings designed primarily for representatives of our corporate members and their advisers, was devoted to the "Income Tax Treatment of Real Estate Transactions". The scope and importance of this timely subject warranted the extension of the Conference to two days from the traditional one-day format. Major aspects of the conference theme were dealt with in papers presented by speakers with wide and varied experience in the field of real estate, income tax and finance. Since the publication of the Report, we have received a steady stream of requests for copies from all parts of the country.

As for the regional conference program, the second annual Prairie Provinces Tax Conference was held in Winnipeg in January. The thirteenth Banff Tax Seminar, co-sponsored with the Banff School of Management Studies, and the UBC Tax Seminar, jointly sponsored with the Faculty of Law at the University of British Columbia, were held in May. The Journées d'Etudes Fiscales, sponsored by the Foundation in co-operation with the Centre de Formation et de Perfectnement en Administration de l'Ecole des Hautes Etudes Commerciales, was originally scheduled for May. It was postponed until mid-October in order to enable participants to prepare papers dealing with various aspects of the tax changes announced in both the Quebec and Federal spring budgets. In recent years the papers delivered at the Journées have been published and distributed to all registrants, in the hope that they will constitute a useful addition to Canadian tax literature in the French language. Finally, in late September, the Atlantic Provinces

Tax Seminar was held in Halifax under the joint sponsorship with Saint Mary's University.

Plans already approved for the current year provide once again for an active conference program. The Foundation's first conference in Calgary -- the 1978 Prairie Provinces Tax Conference -- proved to be so popular that we were unable to accommodate all persons who wished to attend. The Banff Tax Seminar will be held on May 7 to 11, the UBC Tax Seminar, on May 26, at the Hotel Vancouver, and the Journées d'Etudes Fiscales on May 29 and 30 at the Hotel Regence Hyatt in Montreal. The national coverage will be rounded out in the fall with the Atlantic Provinces Tax Conference.

The Corporate Management Tax Conference is scheduled for June 21 and 22 at the Royal York Hotel. The tentative themes for discussion are "Tax Planning for Corporate Distributions Before 1979" on the first day and "New Strategies for Corporate Acquisitions" on the second day.

As it has already been announced, the 1978 Annual Conference will be held on November 20 to 22 at the Queen Elizabeth Hotel in Montreal.

#### TAX LEGISLATION

The Foundation's efforts to obtain improvement in the tax laws are not limited to research and conference activities. It has been an annual event for many years for a committee made up of lawyers and accountants, under the auspices of the Foundation, to meet with

senior departmental officials in Ottawa to examine the technical aspects of proposed changes in the law following first reading of the amending Bill. The work of the committee has been regarded as useful in identifying anomalies and technical deficiencies in the proposed changes.

Last year, as in 1976, the Bill was given first reading shortly before Parliament adjourned for the summer and was re-introduced in the fall. There was, therefore, ample time 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, the Foundation did not send its usual delegation to Ottawa. However, the committee will be convened again at the next opportune occasion.

At the request of the Honourable Donald Macdonald, a committee was organized under the auspices of the Foundation in the fall of 1976 for the purpose of enquiring into and reporting on the budget process as it relates to tax changes, a subject about which the Honourable Mr. Macdonald had expressed concern in his Budget Speech in May of that year. Over a period of several months, the committee examined and analyzed the tax legislative process, with respect to both the pre-budget period, when tax changes are formulated, and the post-budget period, when they are considered by Parliament. In November, 1977 it completed its Report and submitted it to the Honourable Jean Chrétien. To what extent the several recommendations in the Report will be implemented remains to be seen.

The members of the committee were George B. Cruickshank,

C.A., Donald J. Johnston, T.E. McDonnell, Professor John Stewart, and our Director, R.A. Friesen, C.A., served on the committee until his appointment as a Special Adviser to the Department of Finance in the summer of 1977.

#### CHANGES IN THE BOARD OF GOVERNORS

Eleven members of the Board will retire this year, they are:

John H.C. Clarry, Q.C. - Toronto  
C. Paul Daniels, Q.C. - Vancouver  
David Devine, F.C.A. - Vancouver  
Jacques E. Fortier, C.A. - Quebec  
Harold H. MacKay - Regina  
Jean Marier - Quebec  
Eugene J. Mackler - Fredericton  
G. Edward Moul, C.A. - Vancouver  
H. Ab Nisker, C.A. - Toronto  
Irving L. Rosen, F.C.A. - Toronto  
Jacques St-Martin, C.A. - Quebec

On behalf of all Foundation members, I acknowledge the valued help we have received from these colleagues and express the thanks of this meeting to them. On the basis of our experience, I feel confident that their retirement from office does not mean that they retire from the Foundation's activities and we look forward to their continued association with our work. I wish to take this opportunity to pay a special tribute to John H.C. Clarry, Q.C., who retires from the Board this year after seven years as Governor, first from 1967 to

1970 and then from 1974 to 1978. I extend to Mr. Clarry no pro forma "thank you", ni un merci superficiel, but rather an expression of deep appreciation for exemplary services rendered in many capacities. If the Foundation is a better organization now, it is because he has participated so actively in its affairs.

In accordance with the By-laws, the following gentlemen have been nominated by the Presidents of the Canadian Bar Association and the Canadian Institute of Chartered Accountants to fill the vacancies occasioned by the above retirements:

J.R. Brown, C.A. - Montreal

Patrick J. Cloutier, C.A. - Sherbrooke

G. E. Cronkwright, F.C.A. - Toronto

George B. Cooper, Q.C. - Moncton

J.J.A. Dierker - Saskatoon

Stanley E. Edwards, Q.C. - Toronto

Gaétan Drolet - Quebec

P.N. Geer, C.A. - Vancouver

G. E. Noren, C.A. - Moose Jaw

John G. Smith - Vancouver

D. Y. Timbrell, F.C.A. - Toronto

P. Walton, C.A. - Vancouver

Mr. Edwards, I might add, is returning to the Board for a second tour of duty, having served as Governor from 1973 to 1976.

The raising and spending of public revenues are today matters of major national interest, with respect to which the

Foundation, through its non-partisan research, conferences and publications, serves as an important agency of constructive and expert criticism. Over the years, its primary raison d'être has been to enhance public understanding of the tax laws and to seek improvement in those laws. We think it has achieved a substantial measure of success in its endeavours; for it was generously acknowledged by the Minister of Finance, the Honourable Jean Chrétien, in his address at the Annual Conference banquet last November:

"(The health of the Canadian tax system) depends in large part on ongoing analysis and discussion of its merits and failures. This is not a simple thing to achieve. Experts in law, accounting, economics and other fields are involved in the issues. Not only must they find ways of discussing them with each other, but they must also communicate them, in uncomplicated form to a wider public. The Canadian Tax Foundation, through its publications, conferences and sponsored research, provides an admirable example of this process in action. I greatly value its work. Our tax system has benefitted enormously from it."

May I express the conviction that, under the guidance and direction of the Governors, and supported generously by its members, the Foundation will continue to make its important contribution in Canadian public affairs.

On a more personal note, I sincerely thank my fellow Officers

and Governors for their help during my term as Chairman. Their warm support and co-operation have made the past year a thoroughly interesting and enjoyable one for me as well as a very gratifying experience. To the new Officers and Governors I extend my best wishes for every success in their endeavours.

Finally, it would not be fair to the staff of the Foundation and more particularly to Miss Vandermeer and Doug Sherbaniuk if I did not express to them my gratitude for their valuable assistance during my term as Chairman. They have facilitated my task with patience and dedication. I thank them whole heartedly.

I now move, seconded by George T. Tamaki, Q.C., the following resolution, namely, that this Report of the Foundation for the fiscal year ending on December 31, 1977 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 11, 1978

Jacques Raymond, C.A.  
Chairman

Report of the Director  
to the Thirty-Second Annual Meeting of the  
Canadian Tax Foundation  
April 11, 1978

The federal system of government in Canada has, since its inception, been a source of endless controversy and tension on all manner of subjects, ranging from language rights and control over communications to the marketing of livestock. Among the most vexing issues to arise from relations between levels of government are those relating to taxation. Over the years, particularly since World War II, the two senior levels of government have worked out an accommodation whereby general uniformity prevails, at least in the major tax fields, where there is overlapping jurisdiction — the personal income tax and the corporate income tax. In recent times, however, commentators on Canadian fiscal affairs have expressed concern about what they perceive to be the disintegration of the national tax system and the numerous deleterious consequences which follow in its wake — higher compliance costs, increased administration expense, interprovincial tax competition, more tax evasion, business uncertainty, greater difficulty in treaty negotiations and others.

It may be useful today to provide a conspectus of recent developments in federal-provincial tax relations in order better to comprehend whether this phenomenon has occurred or is likely to occur.

At the outset it is worth noting that there is an infinite number of possible fiscal arrangements in a federal system, ranging from extreme centralization to a largely decentralized arrangement. Canada's fiscal system has ranged over the entire spectrum, as a brief review of recent fiscal history will attest.

Prior to World War II, tax decision making was highly decentralized, each jurisdiction — federal and provincial — proceeding willy nilly to implement its

own policies with little concern about the implications for other governments or taxpayers.

In short, fiscal confusion -- so eloquently described in the Rowell Sirois Report -- reigned across the land. To illustrate, after extolling the many virtues of the personal income tax, the Report states: <sup>1 /</sup> "It is crippled and seriously distorted by the present division of jurisdiction", and goes on to comment on the "inevitable friction and injustices which have arisen in the competitive scramble for revenues. Rates vary between provinces... to an extent that is startling in the medium and upper brackets of income, and that creates serious inequities, and practical obstacles to freedom of movement." With respect to corporate taxes: "The present complexity is beyond belief", and further, "They have grown up in a completely unplanned and unco-ordinated way, and violate every canon of sound taxation". As for succession duties, the Report states that the multiple duties encouraged tax evasion, immobilized investment and resulted in double taxation. The recommendation of the Royal Commission was that the provinces vacate these three fields and leave them exclusively to the federal government.

The pendulum swung to the other extreme at the commencement of World War II with the signing of the tax rental agreements, whereby the provinces in effect adopted the recommendation of the Rowell Sirois Report and rented to the federal government the fields of personal income tax, corporate income tax and succession duties in return for payments determined under a formula. Highly centralized tax decision making was at its zenith from 1941 to 1947. The tight knot of the tax rental agreements was loosened in 1947, in the first of a series of quinquennial federal-provincial tax agreements which restored a sense of autonomy among the provinces.

<sup>2 /</sup> Subsequent agreements have reflected increasingly flexible intergovernmental relations.

We turn now to a review of the degree of harmonization or standardization of the principal taxes imposed by the federal and provincial governments, using as a frame of reference three aspects of harmonization: (1) harmonization of the tax base;

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1 / Report of the Royal Commission on Dominion-Provincial Relations, Book II, pp. 111 - 17.

2 / For an historical review of federal-provincial tax relations, see E. H. Smith, "Unity in diversity -- for taxes, too!" The Canadian Banker & ICB Review, January/February 1978, p. 16.

(2) harmonization of tax rates, and (3) harmonization of the tax burden on the taxpayer regardless of where in the country he lives.

#### Personal Income Tax

The ten provinces and the federal government levy a personal income tax.

Since 1962 nine of the provinces -- all but Quebec -- have entered into an agreement with the federal government whereby the latter collects the tax on their behalf. A basic tenet of the agreement is that the tax base of the provincial tax must be identical with that of the federal Act. The federal government has demonstrated a measure of flexibility by relaxing the rigidity of this arrangement so as to permit the provinces to pursue certain economic, social and political objectives through the granting of tax credits against the personal income tax. Thus, Ontario, Manitoba, Alberta and British Columbia have granted a property tax credit. Ontario also grants a sales tax credit, a pensioner credit and a political contribution tax credit. The federal government also collects surtaxes imposed by Manitoba (an anti-inflation measure) and Saskatchewan.

Quebec has remained outside the tax collection agreements and, since 1954, has levied and collected its own personal income tax. While the tax base is very similar to the federal base, there are several differences, and the number appears to be increasing. For example, there is a lack of uniformity with respect to certain of the provisions relating to RHOSPs, RRSPs, the \$1,000 interest deduction and employee stock options.

Under the collection agreements, the provinces are free to impose the rate of their choice. At the present time there is a wide disparity in the rates, which range from 38.5% of the basic federal tax in Alberta to 58% in Newfoundland.

The advantage of the agreements to the taxpayer is that he enjoys the convenience of being able to discharge his tax liabilities to two or more jurisdictions simultaneously and thereby reduce compliance costs in terms of time, money and

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<sup>3</sup> / See Guy Dubé, "A New Phase in Quebec: Tax Evolution", (1978) 26 Can. Tax J. 123 for a discussion of the widening gap between the federal and Quebec tax systems.

irritation. The agreements also save provincial administration costs. As the Ontario Provincial Treasurer observed in his 1978 Budget, "...all Ontario taxpayers benefit because federal administration results in about a \$10 million per year saving in administration costs." <sup>4/</sup> At a time when citizens and governments are acutely aware of the need for constraints in public expenditures, it would be injudicious and extravagant for governments to adopt their own tax administration and tax collection system at substantial cost in the absence of compelling reasons for doing so.

#### Corporation Income Tax

Although all ten provinces -- and the federal government -- impose a corporation income tax, since 1962 it has been collected by the federal government on behalf of eight of them under tax collection agreements, one of the requirements of which is that the tax base be the same under the provincial and federal statutes. The advantages, again, are lower administrative costs to the provinces and reduced compliance costs to taxpayers. On the other hand, the agreements do limit to some degree the scope for independent action by the provinces.

Quebec and Ontario have remained aloof from the agreements and collect their own corporate income tax, Quebec having done so since 1947, and Ontario since <sup>5/</sup> 1957.

Differences between the federal and the Ontario corporate income tax bases are significant and slowly growing. For example, the Ontario Act, unlike the federal statute, does not deny a deduction of carrying costs of undeveloped land. Also, different amounts of capital cost allowance may be claimed for Ontario and federal purposes. A recent illustration of the use of corporate income tax for fiscal policy purposes is to be found in the Ontario provisions relating to Venture Investment Corporations. In order to help generate a supply of venture capital, investors in such corporations are given favourable tax treatment.

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4/ Ontario Budget 1978, Budget Paper B, p.17.

5/ The Ontario Committee on Taxation recommended that Ontario should seek a tax collection agreement with the federal government, provided that certain consultative machinery and other safeguards were available. Report, Vol.3, pp. 106 - 07.

Notwithstanding these differences, Ontario adheres to the policy of paralleling the federal Act wherever possible. The Ontario statute was amended in 1977 to provide for the automatic adoption of federal changes unless the Ontario government chooses to differ. "The basic reason for this", said the Minister of Revenue, "is to prevent the growth of a tax jungle, while at the same time providing the Province with the flexibility to operate its own tax policy where needed."

The Quebec tax base similarly differs in material respects from the federal base. To illustrate, like Ontario, Quebec has sought to stimulate the flow of risk capital by providing concessions to investors in venture capital companies (SODEQ's). Last year, it enacted legislation to provide a tax abatement as an incentive to industrial development.

A third province which may pursue an independent course of action in the corporate income tax field is Alberta which, in 1974, served notice on the federal government of its intention to terminate its collection agreement with respect to the tax unless satisfactory amendments could be made which would enable Alberta to provide assistance to small business and encourage industrial expansion. The government's views are spelled out in a position paper, Basic Objectives and Terms of Reference for Alberta Business Taxation and Incentives, which was presented to the Legislature by the Provincial Treasurer in January, 1975. The position paper states that the economic benefits which would accrue from the contemplated incentives would "...offset the cost of administering and collecting our own corporate income tax".

Although the 1978 Alberta Budget is silent on plans for the corporate income tax, one press report about the Budget states: "Alberta is working on a tax scheme of its own, which may be introduced next year, that will have substantial incentives to encourage private business activities, [the Provincial Treasurer] said." 6/

There are significant differentials in the rates of corporate income tax levied by the provinces, ranging from 10% in Prince Edward Island to 15% in Manitoba and British Columbia. Six provinces -- Ontario, Manitoba, B.C., Saskatchewan,

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6/ Globe and Mail, March 18, 1978.

New Brunswick and Newfoundland -- provide reduced rates for small business. That the rate disparities are not greater is likely the result of concern about the consequences of tax competition, as was noted in a position paper on tax harmonization prepared by British Columbia for the recent meeting of First Ministers: "These differentials are perhaps limited by the fears of competition between the provinces and the economic implications of having taxation levels too much out of line with neighbouring regions." <sup>7 /</sup>

#### Succession Duties

To deal with this topic adequately would require another paper. Any comment today can be little more than a footnote to history, for death duties have all but departed the Canadian tax scene.

At the time of the withdrawal of the federal estate tax at the end of 1971, three provinces were imposing succession duties -- British Columbia, Ontario and Quebec. Six of the other seven provinces -- all but Alberta -- enacted death and gift taxes which had a uniform base, as required by a three-year tax collection agreement with the federal government. Then, one by one, they repealed these laws, as did British Columbia, Saskatchewan and Manitoba last year -- apparently because of tax competition considerations -- leaving only Ontario and Quebec in the field. Quebec rates are abated to 20% of nominal rates as part of a program for gradual elimination of this tax. But for the election of the present government, which wishes to give the matter further study, the tax would have been repealed by the end of 1977.

Although Ontario announced in 1971 that it intended to phase out death duties as the capital gains system built up and matured, it now seems committed to their retention. It remains to be seen, however, whether Ontario, and perhaps Quebec, can remain an island of succession duties in a sea which permits the tax-free passage of wealth and investment capital to competing jurisdictions.

#### Taxation of Resource Industries

A bewildering array of highly complex tax and royalty measures were

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<sup>7 /</sup> Towards An Economic Strategy for Canada -- Part II: Tax Harmonization, p.6 (Province of British Columbia, February 1978).

enacted, amended or repealed -- sometimes in rapid succession -- by the two senior levels of government over the past four or five years. The motivation of the provinces was the desire to obtain a larger share of the so-called windfall profits of the resource industries, while the federal government was concerned about the serious erosion of the corporate tax base resulting from the deduction of the higher provincial levies for income tax purposes. The result of this spate of legislation was an excessive tax burden (in some cases more than 100% of profits), business uncertainty and reduced investment in these sectors. The whole episode is reminiscent of the competitive scramble for revenues during the depression years in the late 1930's. Recent changes have ameliorated the difficulties, although there is no uniform tax base or tax rates applicable to these industries. In a recent brief to the federal Cabinet, the Mining Association of Canada requests both as a means for restoring stability to the industry.<sup>8/</sup>

While Canadians may well differ in their views as to the appropriate tax burden which these industries should bear, surely none would applaud the manner in which recent federal and provincial tax policies were formulated and implemented.

#### Sales Tax

All provinces except Alberta levy a retail sales tax on sales of "tangible personal property". The tax bases are not uniform. While some items are exempt under most Acts -- for example, food, prescription drugs, medical appliances and most books -- there are wide variations in the treatment of other commodities, such as prepared meals, alcoholic beverages, and certain services and utilities.

There are significant differentials in the rates, which vary from 0% in Alberta to 11% in Newfoundland (increased from 10% in the 1978 Budget).

#### Tobacco Tax

All provinces now levy a special tax on cigarettes, cigars and tobacco. Again, there are wide disparities in the rates: in 1977 the rate per cigarette varied from 0.32¢ in Alberta to 1.2¢ in Newfoundland.

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<sup>8/</sup> Mining in Canada: Issues and Concerns (The Mining Association of Canada, March 1978)

### Gasoline Tax

Motor fuel is subject to special taxation at the point of sale in all ten provinces, although Alberta announced repeal of its tax in the 1978 Budget.

The rate for gasoline tax varies from 0¢ per gallon in Alberta to 27¢ per gallon in Newfoundland.

### Corporation Capital Tax

Four provinces, Quebec, Manitoba, Ontario and British Columbia, levy a tax on corporate capital. Although the tax bases are not uniform the rates are very close: 3/10 of 1% in Ontario and 1/5 of 1% in the other three provinces.

### Conclusion

The mosaic which emerges from this brief review shows that substantial uniformity obtains in the tax bases of the personal and corporate income taxes, in large measure because of the requirements of the tax collection agreements. The bases of other taxes are less uniform: the retail sales tax, the taxes on the resource industries and the corporate capital taxes.

Wide differentials are to be found in the rates of virtually every tax, with the result that the tax burden varies substantially according to the region in which the taxpayer lives, and in general terms tends to be heavier in the lower-income provinces. It is instructive that the low income relief enacted by the federal government last year has been paralleled in one form or another by all provinces but the Atlantic Provinces which presumably do not have the resources to grant it.

Finally, is there reason to believe that the general uniformity we currently enjoy, particularly as regards tax base harmonization, is in jeopardy? I suggest not. It seems unlikely that the Atlantic Provinces will make any move away from the tax collection agreements, simply because they are not fiscally strong enough to assert greater independence. They must make the best deal they can with Ottawa. However, the wealthier provinces are in a position to use the tax system more aggressively in seeking to attain their economic and social objectives. As the Provincial Treasurer of Alberta noted in his 1978 Budget, "Alberta is in the unique and enviable position of having financial flexibility to reduce taxes, to adjust the distribution of the tax

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burden among our residents, or to alter the mix of taxes." There can be no objection to the exercise of fiscal sovereignty by a province in its own interest, although it is to be hoped that the changes would not be effectuated in complete disregard of fiscal policy co-ordination in Canada.

There is reason to be optimistic that provincial governments will look beyond their own geographical boundaries and that the federal government will take provincial considerations into account. For one thing, the announcement in last night's federal Budget of federal-provincial co-operation in a field in which the federal government has no presence -- the retail sales tax -- to further stabilization policy was appropriately described by the Minister of Finance as a major example of federal-provincial fiscal co-ordination. For another, in his 1978 Budget Speech, the Ontario Provincial Treasurer commented on the progress that has been made in the consultative process for achieving a consensus on a framework on which Canadian economic policy can be developed on a co-ordinated bases: "...the federal and provincial governments have made substantial progress in the consultative process".

Through co-operation and consultation, a co-ordinated tax system which redounds to the long-term interest of all Canadians is the objective to be sought. As Richard A. Musgrave, the eminent economist and student of federalism has put it, "Making the fiscal system work is, after all, a large part of making democracy function."

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

#### PUBLICATIONS AND RESEARCH

Publication is an essential part of the research process. If new information generated through research and analysis is to be of maximum use, it must be widely disseminated -- to policy-makers, practitioners and the general public.

The Canadian Tax Journal continues to be our keystone publication and its pages attract serious writers on a wide variety of tax and fiscal matters. Its contents include not only articles and essays, but also seven features: "Current Cases"

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9 / Budget Address 1978, pp.10 - 11

by T. E. McDonnell, "International Tax Planning" by Robert D. Brown, "Estate Planning in Canada" by Sheldon Silver, "Fiscal Figures" by David B. Perry, "Checklist" by Millie Goodman, and "In the Library" compiled by Marjorie Robinson. We were pleased to add a new feature last year - "Current Reading", which, according to the editor, Professor Richard M. Bird of the Department of Political Economy at the University of Toronto, "... is intended to be a hybrid of conventional book reviews of varying lengths and of more personal notes on current fiscal reading".

The Twenty-Fourth edition of The National Finances, the Foundation's annual analysis of the government's revenues and expenditures, was distributed to members in January. Our biennial companion piece, Provincial and Municipal Finances, which analyzes the revenues and expenditures of provincial and local governments, was published last fall. As the financial operations of all levels of government grow in magnitude and complexity, the difficulty of attempting to provide a compendious, yet accurate, analysis of those operations increases commensurately. Although these publications have appeared for several years and perhaps are taken for granted by members, they hold a unique place among Canadian financial publications and are the product of hundreds of man-hours of labour by the staff.

. Two new issues were added to our series of Tax Papers during the past year. The first was Charging for Public Services: A New Look At An Old Idea, by Richard M. Bird. 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. I might add that, of all our Tax Papers published during the past decade, none has been so well received as this one, judging from the continuous flow of orders we have received from Canada and abroad.

In the field of public expenditures, Professor Douglas G. Hartle prepared a study entitled The Expenditure Budget Process in the Government of Canada, which

was sent to members early this year. The purpose of this volume is not to assess the effectiveness of government programs but rather to shed some light on the ways and means by which federal expenditure decisions are made and to indicate some of the forces which affect the outcome. It is the thesis of the study that one of the important underlying causes of the persistent growth in government expenditures is the nature of the expenditure budgetary process itself.

Other publications distributed to members over the past year include the Report of the Proceedings of the 1976 Annual Conference, the Report of the Proceedings of the 1977 Corporate Management Tax Conference, and two Tax Memos - the first, a digest of the McMath Report, being a Preliminary Report of the Commission of Inquiry on Property Assessment and Taxation to the Government of British Columbia, and the second, "1976 Tax Developments", our annual compilation of tax developments in Canada as reported in the Journal feature, "Checklist".

For the convenience of members who are particularly interested in the field of estate planning, the features on "Estate Planning in Canada" contained in the 1976 and 1977 issues of the Journal have been reprinted as a separate booklet which is available from the Publications Department at a nominal charge. The features contained in the 1971 to 1975 issues are also available as a separate booklet.

As the Chairman mentioned, the paper on "Corporate Distributions and the 1977 Tax Changes", which was delivered at the Annual Conference last November, is similarly available from the Publications Department.

Our research and publications program for 1978 is shaping up to be a very busy one. Four projects currently underway are expected to be completed this year or early in 1979 and six new studies will be undertaken, as finances permit.

Professor Brian 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 the examination of the jurisprudence, statutory provisions and administrative practices in Canada, the United Kingdom and the United States.

Professors Harry Kitchen and Robin Broadway have undertaken a com-

prehensive study of Canadian Tax Policy. The authors will discuss the development of the Canadian tax system and analyze the major taxes imposed by the federal and provincial governments.

Professor Roger Smith is on sabbatical leave at Harvard University, where he is making good progress with his study on Tax Expenditures. The study will examine various incentives, concessions, and preferences granted in the personal and corporate income taxes and attempt to calculate the revenue forgone by the federal government as a result of these measures.

F. H. Finnis's monograph on assessment practices and procedures in Canada, which was published by the Foundation in 1970, is badly out of date. He is preparing a revised edition, which will be a welcome addition to the scanty information available on the subject.

A new study, which will enquire into the vexed question of The Meaning of "Cost" in Canadian Income Taxation, will be undertaken by T. E. McDonnell. He will be concerned with the meaning of "cost" in various contexts, for example, inventory valuation, capital gains and capital cost allowance.

In his report the Chairman referred to "...an ambitious research program involving several studies concerning the financing of Canadian federation [that] will be commenced this year". I should like now to elaborate on those studies.

It was the view of the Research Committee of the Board of Governors, which was endorsed by the Executive Committee, that although the range and number of studies in the fields of taxation and public expenditures that might usefully be undertaken by the Foundation is virtually boundless, no issue is more important in Canada today than the future of Canadian federation and therefore the 1978 research program should give priority to the preparation of a cluster of studies on the fiscal aspects of federation, on which so many of the political debates have focussed. Five such studies will be undertaken, as finances permit, ranging from the preparation of reference material on the historical evolution of the federal fiscal system to a more speculative collection of essays on possible future arrangements of that system.

#### 1. The Financing of Canadian Federation

The first study in this series, The Financing of Canadian Federation, would consist of a major revision of the 1966 Foundation publication of the same title. Long the basic reference work on the historical evolution of federal-provincial fiscal arrangements, this publication is out of date. The revision would bring the story up to date through the important changes of 1977. The principal researcher is David Perry, Research Associate at the Foundation, who has already commenced work on the project.

#### 2. The Federal-Provincial Tax Collection Agreements

An important part of the evolving net of intergovernmental fiscal arrangements in Canada consists in the development over time of the income tax collection agreements. This study, to be undertaken by Ernest H. Smith, until recently a member of the Tax Policy Division of the Department of Finance, would provide a detailed account of the origin of the tax collection agreements in 1962 and their evolution to the more flexible structure of 1978.

#### 3. The Canadian Public Finances

The principal purpose of this study is to provide a broad statistical and descriptive perspective on the growth and composition of government financing in Canada in order to complement the more institutional studies on the federal financial arrangements and the tax collection agreements. The study would display the main quantitative dimensions of government activity in Canada in the post-war period, and include a discussion of the major reasons for the observed trends. The principal researcher is Professor Richard M. Bird.

#### 4. Municipal Fiscal Dilemma

The highly publicized clashes of the federal and provincial governments in the fiscal arena sometimes obscure the nature and importance of the finances of the third level of government in Canada -- the municipalities. The purpose of this study is to remedy this neglect and to bring into clearer focus the major fiscal problems currently facing municipal governments throughout the country.

It would cover both the revenue side -- property taxes, non-tax revenues and provincial transfers to municipalities -- and the basic structural and expenditure function decisions of provincial governments that shape the nature of the municipal fiscal problem. Although there has been a good deal of relevant research on some aspects of this problem, there has never been a thorough Canada-wide examination of the whole area of municipal finance. This study is intended to go a long way towards closing this gap.

#### 5. The Fiscal Dimension of Canadian Federalism

The four studies described above are all primarily factual in character: their purpose is to provide useful background to all participants in the current discussion in Canada as well as to serve as basic reference documents for years to come. The fifth study proposed here is quite different in nature: its purpose is not to assemble facts but to attempt to interpret those facts and consider at least some of the many alternative fiscal futures for Canadian federalism now under consideration. Since no one person possesses final wisdom in such matters, we have concluded that the best way to do this is for the Foundation to organize a conference at which prominent analysts of Canadian federalism would discuss and examine the present and future fiscal dimensions of Canadian federalism.

In total, these studies would constitute a substantial contribution to the current Canadian discussion, and one which the Foundation is uniquely able to make.

#### STAFF

Since the last Annual Meeting there have been several staff changes.

In February, Douglas P. Cornish resigned as Treasurer of the Foundation to take a position with the Audit Department of the City of Toronto. I am pleased to report the appointment of his successor, John W. Buckell, who joined us last week. Mr. Buckell holds the degree of Bachelor of Commerce and is a Fellow of the Chartered Institute of Secretaries and Administrators. For the past seven years he has served as Secretary-Treasurer of J.B. Lippincott Company of Canada Limited.

We were sorry to lose the services of T.E. McDonnell, who resigned at the end of January to enter the private practice of law. However, the separation is far from complete, for Tom will continue to write his popular feature "Current Cases" and, as I mentioned a few moments ago, has agreed to undertake a research project for us.

Last April Professor Richard M. Bird was appointed economic consultant to the Foundation on a part-time basis. He is no stranger to us, having participated in our conferences and written articles for the Journal as well as two major monographs. He will undertake one of the studies on financing Canadian federation.

Last October, Bonny Belfry and Annette Rambissoon left the secretarial staff. In the same month, Joyce Everton joined us as receptionist and secretary.

The mainstay of all our activities is, of course, the staff, who are responsible for the quality of the day to day operations of the Foundation. On our able research team are David Perry, Mary Gurney, Millie Goodman and Eric Finnis. Editorial matters are in the capable hands of Catherine Frost. From my review of our publications, you will appreciate that the past year has been a busy and productive one for all of them. On the equally important administrative side of our operations are Tina Vandermeer, who serves as Secretary of the Foundation, conference administrator and editor of the Annual Conference Report, our Librarian, Marjorie Robinson, who, in addition to her other duties, has undertaken the reorganization of our extensive collection of public finance literature, Nestor Roldan, her assistant, Roy Wilson, who works with the Treasurer, and our three helpful secretaries, Thora Harris, Anne McAlonen and Evelyn Thompson, without whose essential services little would be accomplished. I welcome the opportunity afforded me at the Annual Meeting to express publicly my thanks to all of them for the co-operation and warm support which they have invariably extended to me. The Foundation and its members are very well served indeed by my colleagues.

Finally, on behalf of the staff I wish to thank our members in all parts of the country for their support, encouragement and advice; the many speakers who contributed so much to the success of our conferences; and the Board of Governors,

particularly the Executive Committee, for their active interest and leadership during the past year. May I welcome the Governors who have been elected today and express the hope that their association with the Foundation will be a gratifying one.

April 11, 1978

Douglas J. Sherbaniuk  
Director



